

BROADWAY FINANCIAL CORP \DE\  
Form 10QSB  
November 09, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**  
**FORM 10-QSB**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2007

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27464

**BROADWAY FINANCIAL CORPORATION**

(Exact name of small business issuer as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**95-4547287**

(I.R.S. Employer Identification No.)

**4800 Wilshire Boulevard, Los Angeles, California 90010**

(Address of principal executive offices)

**(323) 634-1700**

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,762,278 shares of the Company's Common Stock, par value \$0.01 per share, were outstanding as of November 7, 2007.

Transitional Small Business Disclosure Format (Check one): Yes  No

---

---

**Table of Contents****INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of September 30, 2007 (unaudited) and December 31, 2006</u>	1
<u>Consolidated Statements of Operations and Comprehensive Earnings (unaudited) for the three and nine months ended September 30, 2007 and 2006</u>	2
<u>Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2007 and 2006</u>	3
<u>Notes to Unaudited Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis or Plan of Operations</u>	5
Item 3. <u>Controls and Procedures</u>	9
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	10
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	10
Item 3. <u>Defaults Upon Senior Securities</u>	10
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	10
Item 5. <u>Other Information</u>	10
Item 6. <u>Exhibits</u>	10
<u>Signatures</u>	11

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets**

	September 30, 2007 (Unaudited) <i>(Dollars in thousands)</i>	December 31, 2006
<b>Assets</b>		
Cash	\$ 4,563	\$ 5,310
Federal funds sold	4,000	
Cash and cash equivalents	8,563	5,310
Securities available for sale	4,772	
Securities held to maturity (fair value of \$30,403 at September 30, 2007 and \$35,174 at December 31, 2006)	30,723	35,793
Loans receivable held for sale, at lower of cost or fair value	2,735	
Loans receivable, net of allowance of \$1,924 and \$1,730	272,912	247,657
Accrued interest receivable	1,772	1,476
Federal Home Loan Bank (FHLB) stock, at cost	3,375	2,490
Office properties and equipment, net	5,350	5,263
Bank owned life insurance	2,212	2,138
Other assets	778	868
Total assets	\$ 333,192	\$ 300,995
<b>Liabilities and stockholders equity</b>		
Deposits	\$ 229,359	\$ 221,467
Federal Home Loan Bank advances	71,800	49,985
Junior subordinated debentures	6,000	6,000
Advance payments by borrowers for taxes and insurance	834	588
Deferred income taxes	828	855
Other liabilities	2,714	2,075
Total liabilities	311,535	280,970
<b>Stockholders Equity:</b>		
Preferred, non-cumulative, and non-voting stock, \$.01 par value, authorized 1,000,000 shares; issued and outstanding 55,199 shares of Series A, 100,000 shares of Series B and 76,950 shares of Series C at September 30, 2007 and December 31, 2006; liquidation preference of \$552 for Series A and \$1,000 for Series B and C at September 30, 2007 and December 31, 2006	2	2
Common stock, \$.01 par value, authorized 3,000,000 shares; issued 2,013,942 shares at September 30, 2007 and December 31, 2006; outstanding 1,762,117 shares at September 30, 2007 and 1,637,415 shares at December 31, 2006	20	20
Additional paid-in capital	12,207	12,829
Accumulated other comprehensive loss, net of taxes	(41)	
Retained earnings-substantially restricted	12,810	12,169
Treasury stock-at cost, 251,825 shares at September 30, 2007 and 376,527 shares at December 31, 2006	(3,341)	(4,995)
Total stockholders equity	21,657	20,025
Total liabilities and stockholders equity	\$ 333,192	\$ 300,995

*See accompanying notes to unaudited consolidated financial statements.*



**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Operations and Comprehensive Earnings****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>(Dollars in thousands, except per share amounts)</i>			
Interest and fees on loans receivable	\$ 4,934	\$ 3,851	\$ 13,909	\$ 11,142
Interest on mortgage-backed securities	398	410	1,215	1,306
Interest on investment securities	25	22	75	58
Other interest income	86	101	248	292
<b>Total interest income</b>	<b>5,443</b>	<b>4,384</b>	<b>15,447</b>	<b>12,798</b>
Interest on deposits	1,836	1,427	5,174	3,901
Interest on borrowings	847	516	2,084	1,621
<b>Total interest expense</b>	<b>2,683</b>	<b>1,943</b>	<b>7,258</b>	<b>5,522</b>
Net interest income before provision for loan losses	2,760	2,441	8,189	7,276
Provision for loan losses	10	21	194	70
<b>Net interest income after provision for loan losses</b>	<b>2,750</b>	<b>2,420</b>	<b>7,995</b>	<b>7,206</b>
Non-interest income:				
Service charges	289	273	848	732
Gain on sale of loans held for sale	9		24	
Gain (loss) on sale of securities			(1)	12
Other	37	11	104	86
<b>Total non-interest income</b>	<b>335</b>	<b>284</b>	<b>975</b>	<b>830</b>
Non-interest expense:				
Compensation and benefits	1,647	1,218	4,466	3,655
Occupancy expense, net	291	291	827	910
Information services	170	181	504	485
Professional services	159	100	475	325
Office services and supplies	117	105	371	331
Other	243	205	785	508
<b>Total non-interest expense</b>	<b>2,627</b>	<b>2,100</b>	<b>7,428</b>	<b>6,214</b>
Earnings before income taxes	458	604	1,542	1,822
Income taxes	165	242	563	728
<b>Net earnings</b>	<b>\$ 293</b>	<b>\$ 362</b>	<b>\$ 979</b>	<b>\$ 1,094</b>
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on securities available for sale	\$ 46	\$	\$ (69)	\$
Income tax effect	(18)		28	

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Other comprehensive income (loss), net of tax	28		(41)	
Comprehensive earnings	\$ 321	\$ 362	\$ 938	\$ 1,094
Net earnings	\$ 293	\$ 362	\$ 979	\$ 1,094
Dividends paid on preferred stock	(19)	(35)	(83)	(83)
Earnings available to common shareholders	\$ 274	\$ 327	\$ 896	\$ 1,011
Earnings per share-basic	\$ 0.16	\$ 0.20	\$ 0.54	\$ 0.64
Earnings per share-diluted	\$ 0.15	\$ 0.19	\$ 0.50	\$ 0.60
Dividends declared per share-common stock	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

*See accompanying notes to unaudited consolidated financial statements.*

**Table of Contents****BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>2006</b>
	<b>2007</b>	<b>2006</b>
	<i>(Dollars in thousands)</i>	
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 979	\$ 1,094
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Depreciation	205	250
Net amortization (accretion) of premiums (discounts) on loans purchased	1	16
Net amortization of deferred loan origination costs (fees)	49	51
Net amortization of premiums on mortgage-backed securities	48	98
Stock-based compensation expense	65	71
(Gain) loss on sale of securities	1	(12)
Gain on sale of loans held for sale	(24)	
Net increase in cash surrender value of bank owned life insurance	(74)	
FHLB stock dividends	(108)	(117)
Provision for loan losses	194	70
Loans receivable originated for sale	(7,489)	
Proceeds from sale of loans receivable held for sale	4,778	
Changes in operating assets and liabilities:		
Accrued interest receivable	(296)	(96)
Other assets	90	(353)
Deferred income taxes		(169)
Other liabilities	639	731
<b>Net cash (used in) provided by operating activities</b>	<b>(942)</b>	<b>1,634</b>
<b>Cash flows from investing activities:</b>		
Net change in loans receivable	(25,498)	5,546
Purchase of loans receivable		(9,537)
Purchases of mortgage-backed securities available for sale	(5,161)	
Proceeds from sale of mortgage-backed securities held-to-maturity	344	451
Principal repayments on mortgage-backed securities available for sale	320	
Principal repayments on mortgage-backed securities held-to-maturity	4,677	6,542
Purchase of Federal Home Loan Bank stock	(777)	
Proceeds from redemption of Federal Home Loan Bank stock		785
Capital expenditures for office properties and equipment	(292)	(114)
<b>Net cash (used in) provided by investing activities</b>	<b>(26,387)</b>	<b>3,673</b>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	7,892	924
Advances from the Federal Home Loan Bank	35,800	19,800
Principal repayments on advances from the Federal Home Loan Bank	(13,985)	(32,650)
Preferred stock issued		905
Common stock issued		1,644
Common and Preferred dividends paid	(338)	(324)



Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Reissuance of treasury stock	24	19
Purchases of treasury stock		(929)
Stock options exercised, net of tax benefits	943	68
Change in advance payments by borrowers for taxes and insurance	246	354
Net cash provided by (used in) financing activities	30,582	(10,189)
Net increase (decrease) in cash	3,253	(4,882)
Cash at beginning of period	5,310	9,786
Cash at end of period	\$ 8,563	\$ 4,904
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 7,032	\$ 5,470
Cash paid for income taxes	\$ 918	\$ 992

*See accompanying notes to unaudited consolidated financial statements.*

---

**Table of Contents**

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements**

**September 30, 2007**

**NOTE (1) Basis of Financial Statement Presentation**

The unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the instructions for Form 10-QSB and the rules and regulations of the Securities and Exchange Commission. In the opinion of the management of Broadway Financial Corporation (the Company), the preceding unaudited consolidated financial statements contain all material adjustments, consisting solely of normal recurring entries, necessary to present fairly the consolidated financial position of the Company and its subsidiaries at September 30, 2007 and December 31, 2006, the results of their operations and comprehensive earnings for the three and nine months ended September 30, 2007 and 2006 and their cash flows for the nine months ended September 30, 2007 and 2006. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its annual report on Form 10-KSB for the year ended December 31, 2006 and, accordingly, should be read in conjunction with such audited consolidated financial statements. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

**NOTE (2) - Earnings Per Share**

Basic earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period (1,710,622 and 1,620,451 shares for the three months ended September 30, 2007 and 2006, and 1,667,631 and 1,579,010 shares for the nine months ended September 30, 2007 and 2006, respectively). Diluted earnings per common share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period, adjusted for the dilutive effect of Common Stock equivalents (1,811,216 and 1,762,859 shares for the three months ended September 30, 2007 and 2006, and 1,791,602 and 1,698,640 shares for the nine months ended September 30, 2007 and 2006, respectively).

**NOTE (3) - Recent Accounting Pronouncements**

**SFAS No. 157** - In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting standards, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not completed its evaluation of the impact of the adoption of SFAS 157.

**SFAS No. 159** - In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect of the company's choice to use fair value on its earnings. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157. This Statement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Company has not completed its evaluation of the impact of the adoption of SFAS 159.

**Table of Contents**

**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES**

**Notes to Unaudited Consolidated Financial Statements (continued)**

**September 30, 2007**

**NOTE (4) Income Taxes**

The Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ), on January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. No cumulative effect of a change in accounting principle or adjustment to the liability for unrecognized tax benefit was recognized as a result of the adoption of FIN 48.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of California. The Company is no longer subject to examination by federal taxing authorities for years before 2004 and by state taxing authorities for years before 2002. The Company does not expect the total amount of unrecognized tax benefits to materially change in the next twelve months.

The Company recognizes interest and penalties related to income tax matters in income tax expense. The Company has accrued \$56,000 including \$8,000 for potential interest and penalties as of September 30, 2007 and December 31, 2006 for uncertainties related to income taxes related to the California loan enterprise zone loan interest deduction taken in prior years. Of this total, \$56,000 represents the amount of unrecognized tax benefits at September 30, 2007 and December 31, 2006 that if recognized would favorably affect the Company's effective tax rate.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

**Forward-Looking Statements**

Certain matters discussed in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, and statements regarding strategic objectives. These forward-looking statements are based upon current management expectations, and involve risks and uncertainties. Actual results or performance may differ materially from those suggested, expressed, or implied by forward-looking statements due to a wide range of factors including, but not limited to, the general business environment, the real estate market, competitive conditions in the business and geographic areas in which the Company conducts its business, regulatory actions or changes and other risks detailed in the Company's reports filed with the Securities and Exchange Commission, including the Company's Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB.

**General**

Broadway Financial Corporation (the Company) is primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. ( Broadway Federal or the Bank ). Broadway Federal is a community-oriented savings institution dedicated to serving the African-American, Hispanic and other communities of Mid-City and South Los Angeles, California. Broadway Federal's business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential and non-residential real estate located in Southern California. At September 30, 2007, Broadway Federal operated four retail-banking offices in Mid-City and South Los Angeles and two loan production offices in Irvine and Torrance. Broadway Federal is subject to significant competition from other financial institutions, and is also subject to regulation by federal agencies and undergoes periodic examinations by those regulatory agencies.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Broadway Federal Bank and Broadway Service Corporation. All significant inter-company balances and transactions have been eliminated in consolidation.

---

**Table of Contents**

The Company's principal business is serving as a holding company for Broadway Federal. The Company's results of operations are dependent primarily on Broadway Federal's net interest income, which is the difference between the interest income earned on its interest-earning assets, such as loans and investments, and the interest expense paid on its interest-bearing liabilities, such as deposits and borrowings. Broadway Federal also generates recurring non-interest income, such as transactional fees on its loan and deposit portfolios. The Company's operating results are affected by the amount of provisions for loan losses and the Bank's non-interest expenses, which consist principally of employee compensation and benefits, occupancy expenses, and technology and communication costs. More generally, the results of operations of thrift and banking institutions are also affected by prevailing economic conditions, competition, and the monetary and fiscal policies of governmental agencies.

**Results of Operations***Net Earnings*

Net earnings for the third quarter of 2007 were \$293,000, or \$0.15 per diluted share, down \$69,000, or 19.06%, when compared with net earnings of \$362,000, or \$0.19 per diluted share, in the third quarter of 2006. The decrease in net earnings was the result of a substantial increase in our non-interest expense, partially offset by increases in net interest income before provision for loan losses and non-interest income.

For the nine months ended September 30, 2007, net earnings totaled \$979,000, or \$0.50 per diluted share, down \$115,000, or 10.51%, when compared with net earnings of \$1,094,000, or \$0.60 per diluted share, for the same period in 2006.

*Net Interest Income*

Net interest income before provision for loan losses of \$2.8 million in the third quarter of 2007 was up \$319,000, or 13.07%, from the third quarter a year ago. The increase reflected a higher level of average interest-earning assets. Interest-earning assets averaged \$312.5 million in the current quarter, up \$37.4 million, or 13.59%, from the same period a year ago. Annualized net interest rate margin decreased 2 basis points to 3.53% in the current quarter from 3.55% a year ago. The annualized net interest rate spread decreased 1 basis point to 3.37% in the current quarter from 3.38% a year ago. The annualized yield on average interest-earning assets increased 60 basis points to 6.97% in the current quarter from 6.37% a year ago, primarily as a result of the origination and purchase of higher yielding loans and the upward repricing of adjustable rate mortgage loans. The annualized yield on average loans improved 56 basis points to 7.33% in the third quarter of 2007 from 6.77% for the same period in 2006.

The cost of average interest-bearing liabilities increased 61 basis points to 3.60% as our deposit mix shifted toward higher costing time deposits and FHLB borrowings. The annualized weighted average cost of deposits increased 51 basis points to 3.24% in the third quarter of 2007 from 2.73% for the same period in 2006. The annualized weighted average cost of FHLB borrowings increased 89 basis points to 4.43% in the third quarter of 2007 from 3.54% for the same period in 2006.

For the nine months ended September 30, 2007, net interest income before provision for loan losses totaled \$8.2 million, up \$913,000, or 12.55%, from a year ago, as a result of increased average interest-earning assets and higher net interest rate margin.

*Provision for Loan Losses*

During the third quarter of 2007, the provision for loan losses amounted to \$10,000 compared to \$21,000 a year ago. Despite increased loan originations/volume, the provision for loan losses decreased in the third quarter of 2007 as compared to third quarter 2006 primarily due to the lack of any charge-offs and a change in the mix of our loan portfolio resulting from increased church loan originations and reclassification of some loans from commercial to church.

For the nine months ended September 30, 2007, the provision for loan losses totaled \$194,000 compared to \$70,000 of provision in the year-ago period. The increase in loan loss provision was primarily due to higher loan originations/volume as there have been no net charge-offs during the first nine months of 2007.

## **Table of Contents**

### *Non-interest Income*

Non-interest income totaled \$335,000 in the third quarter of 2007, up \$51,000, or 17.96%, from the third quarter a year ago. The increase was primarily due to higher loan related fees in the third quarter of 2007 compared to the same quarter in 2006.

For the nine months ended September 30, 2007, non-interest income totaled \$975,000, up \$145,000, or 17.47%, from a year ago. The increase primarily reflected higher service charge income and gain on sale of loans.

### *Non-interest Expense*

Non-interest expense totaled \$2.6 million in the third quarter of 2007, up \$527,000, or 25.10%, from the third quarter a year ago. A large portion of the increase was in compensation and benefits expense, which increased \$429,000, in the third quarter of 2007 compared to the same quarter in 2006. The increase in compensation and benefits expense was primarily due to annual pay increases, staff addition, accrual for the director emeritus liability, increased health insurance cost and a \$185,000 severance payment. Other significant increases in non-interest expense include a \$59,000 increase in professional services expense, of which \$44,000 was due to higher legal expenses, and a \$38,000 increase in other expense, primarily due to increases in donations, sponsorships, shareholder reporting and printing expenses.

For the nine months ended September 30, 2007, non-interest expense totaled \$7.4 million, up \$1.2 million, or 19.54%, from a year ago, primarily reflecting higher compensation and benefits expense, professional services expense and other expense, which included \$125,000 of expense recognized during the second quarter to settle a personnel matter. Non-interest expense is projected to decrease as certain severance and settlement expenses incurred during the three and nine months ended September 30, 2007 are not expected during future periods.

### **Income Taxes**

The Company's effective tax rate was 36.03% for the third quarter 2007 compared to 40.07% for the third quarter 2006. For the nine months ended September 30, 2007, the Company's effective tax rate was 36.51% compared to 39.96% for the same period in 2006. The reduction in the effective tax rate is attributable to tax exempt income from life insurance investments in 2007 and increased state tax credits in 2007 as compared to 2006. Income taxes are computed by applying the statutory federal income tax rate of 34.00% and the California income tax rate of 10.84% to earnings before income taxes.

### **Financial Condition**

#### *Assets, Loan Originations, Deposits and FHLB Advances*

At September 30, 2007, assets totaled \$333.2 million, up \$32.2 million, or 10.70%, from year-end 2006. During the first nine months of 2007, net loans, including loans held for sale, increased \$28.0 million, securities available for sale increased \$4.8 million, and cash and cash equivalents increased \$3.3 million, while securities held to maturity decreased \$5.1 million.

Loan originations, including purchases, for the nine months ended September 30, 2007 totaled \$80.2 million, up \$34.0 million, or 73.59%, from \$46.2 million a year ago. Loan repayments, including loan sales amounted to \$51.6 million for the nine months ended September 30, 2007 compared to \$42.3 million for the same period a year ago.

Deposits totaled \$229.4 million at September 30, 2007, up \$7.9 million, or 3.56%, from year-end 2006. During the first nine months of 2007, our certificates of deposit increased \$14.0 million while our core deposits (NOW, demand, money market and passbook accounts) decreased \$6.1 million. A substantial portion of the increase in certificates of deposit was from State of California and Certificate of Deposit Account Registry Service (CDARS). At September 30, 2007, core deposits represented 40.91% of total deposits compared to 45.11% at December 31, 2006 and 46.48% at September 30, 2006.

---

## **Table of Contents**

Since the end of 2006, FHLB borrowings increased \$21.8 million, or 43.64%, to \$71.8 million at September 30, 2007 from \$50.0 million at December 31, 2006, primarily due to strong loan growth financing needs, which exceeded our increase in deposits.

### *Allowance for Loan Losses*

At September 30, 2007, the allowance for loan losses was \$1.9 million, or 0.70% of total gross loans receivable, compared to \$1.7 million, or 0.69% of total gross loans receivable, at year-end 2006.

Management believes that the allowance for loan losses is adequate to cover probable incurred losses in Broadway Federal's loan portfolio as of September 30, 2007, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation periodically review Broadway Federal's allowance for loan losses as an integral part of their examination process. These agencies may require Broadway Federal to increase the allowance for loan losses based on their judgments of the information available to them at the time of their examination.

### *Non-Performing Assets*

Non-performing assets, consisting of non-accrual and delinquent loans 90 or more days past due, remained unchanged at \$34,000, or 0.01% of total assets, at September 30, 2007 and December 31, 2006. Non-accrual loans at September 30, 2007 consisted of an unsecured consumer loan. At September 30, 2007 and December 31, 2006, the Bank had no loans in foreclosure or REO (real estate owned) properties.

### *Performance Ratios*

For the quarter ended September 30, 2007, the Company's annualized return on average equity decreased to 5.52% compared to 7.50% for the same period in 2006. The annualized return on average assets decreased to 0.36% for the third quarter of 2007 compared to 0.51% for the same period in 2006. The efficiency ratio increased to 84.88% for the third quarter of 2007 compared to 77.06% for the same period in 2006. The annualized returns on average equity and average assets and the efficiency ratio were negatively impacted by the substantial increase in our non-interest expense for the third quarter of 2007 compared to the same period in 2006.

## **Liquidity, Capital Resources and Market Risk**

Sources of liquidity and capital for the Company on a stand-alone basis include distributions from the Bank and the issuance of equity and debt securities, such as the preferred stock issued in 2002 and in the second quarter of 2006, the junior subordinated debentures issued during the first quarter of 2004 and the sale of 70,000 shares of common stock to Cathay General Bancorp during the second quarter of 2004 and 145,000 shares of common stock during the second quarter of 2006. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

The Bank's primary sources of funds are deposits, principal and interest payments on loans and securities, Federal Home Loan Bank advances, and to a lesser extent, proceeds from the sale of loans and securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan and security prepayments are greatly influenced by the general level of interest rates, economic conditions and competition.

Since December 31, 2006, there has been no material change in the Company's interest rate sensitivity. For a discussion on the Company's interest rate sensitivity and market risk, see the Company's annual report on Form 10-KSB for the year ended December 31, 2006, including the Company's audited consolidated financial statements and the notes thereto.

## **Regulatory Capital**

The OTS capital regulations include three separate minimum capital requirements for savings institutions that are subject to OTS supervision. First, the tangible capital requirement mandates that the Bank's stockholder's equity, less intangible assets, be at least 1.50% of adjusted total assets as defined in the capital regulations. Second, the core capital requirement currently mandates that core capital (tangible capital plus certain qualifying intangible assets) be at least 4.00% of adjusted total assets as defined in the capital regulations. Third, the risk-based capital requirement presently mandates that core capital plus supplemental



**Table of Contents**

capital (as defined by the OTS) be at least 8.00% of risk-weighted assets as prescribed in the capital regulations. The capital regulations assign specific risk weightings to all assets and off-balance-sheet items for this purpose.

Broadway Federal was in compliance with all capital requirements in effect at September 30, 2007, and met all standards necessary to be considered well-capitalized under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ).

The following table reflects the required and actual regulatory capital ratios of Broadway Federal at the date indicated:

Regulatory Capital Ratios	OTS	FDICIA	
	Minimum	Well-capitalized	Actual at
For Broadway Federal	Requirement	Requirement	September 30, 2007
Tangible ratio	1.50%	N/A	7.62%
Leverage ratio	4.00%	5.00%	7.62%
Tier 1 Risk-based ratio	4.00%	6.00%	9.86%
Total Risk-based ratio	8.00%	10.00%	10.59%

**ITEM 3. CONTROLS AND PROCEDURES**

As of September 30, 2007, an evaluation was performed under the supervision of the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2007. There were no significant changes in the Company's internal controls over financial reporting or in other factors during the Company's last fiscal quarter that could significantly affect these controls subsequent to September 30, 2007.



**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**  
None

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**  
None

**Item 3. DEFAULTS UPON SENIOR SECURITIES**  
None

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**  
None

**Item 5. OTHER INFORMATION**  
None

**Item 6. EXHIBITS**

- |              |  |
|--------------|--|
| Exhibit 31.1 | CEO Certification pursuant to Rules 13a-14 or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 31.2 | CFO Certification pursuant to Rules 13a-14 or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 32   | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

**Table of Contents**

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 9, 2007

By: /s/ Paul C. Hudson  
Paul C. Hudson  
Chief Executive Officer  
Broadway Financial Corporation

Date: November 9, 2007

By: /s/ Samuel Sarpong  
Samuel Sarpong  
Chief Financial Officer  
Broadway Financial Corporation