BROADWAY FINANCIAL CORP \DE\
Form 10-K
April 14, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4547287**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4800 Wilshire Boulevard, Los Angeles, California	**90010**
(Address of principal executive offices)	**(Zip Code)**

(323) 634-1700

(Registrant s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share (including attached preferred stock purchase rights)	**The NASDAQ Stock Market, LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $2,684,000

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: As of March 31, 2011, 1,743,965 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Forward-Looking Statements

Certain statements herein, including without limitation, matters discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K, are forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, that reflect our current views with respect to future events and financial performance. Forward-looking statements typically include the words anticipate, believe, estimate, expect, project, plan, foreca intend, and other similar expressions. These forward-looking statements are subject to risks and uncertainties, including those identified below, which could cause actual future results to differ materially from historical results or from those anticipated or implied by such statements. Readers should not place undue reliance on these forward-looking statements, which speak only as of their dates or, if no date is provided, then as of the date of this Form 10-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following factors, among others, could cause future results to differ materially from historical results or from those anticipated by forward-looking statements included in this Form 10-K: (1) the level of demand for mortgage loans, which is affected by such external factors as general economic conditions, interest rate levels, tax laws, and the demographics of our lending markets; (2) the direction and magnitude of changes in interest rates and the relationship between market interest rates and the yield on our interest-earning assets and the cost of our interest-bearing liabilities; (3) the rate of loan losses incurred and projected to be incurred by us, the level of our loss reserves and management s judgments regarding the collectability of loans; (4) changes in the regulation of lending and deposit operations or other regulatory actions, whether industry wide or focused on our operations, including increases in capital requirements or directives to increase loan loss allowances; (5) actions undertaken by both current and potential new competitors; (6) the possibility of continuing adverse trends in property values or economic trends in the residential and commercial real estate markets in which we compete; (7) the effect of changes in economic conditions; (8) the effect of geopolitical uncertainties; and (9) other risks and uncertainties detailed in this Form 10-K, including those described in Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

PART I

ITEM 1. BUSINESS

General

Broadway Financial Corporation (the Company) was incorporated under Delaware law in 1995 for the purpose of acquiring and holding all of the outstanding capital stock of Broadway Federal Savings and Loan Association (Broadway Federal or the Bank) as part of the Bank s conversion from a federally chartered mutual savings association to a federally chartered stock savings bank. In connection with the conversion, the Bank s name was changed to Broadway Federal Bank, f.s.b. The conversion was completed, and the Bank became a wholly owned subsidiary of the Company, in January 1996.

We are headquartered in Los Angeles, California and our principal business is the operation of our wholly-owned subsidiary, Broadway Federal. Broadway Federal s principal business consists of attracting retail deposits from the general public in the areas surrounding our branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in multi-family mortgage loans, commercial real estate loans and one to four-family mortgage loans. In addition, we invest in securities issued by the federal government and federal agencies, residential mortgage-backed securities and other investments.

Our primary sources of revenue are interest income we earn on our loans and securities. Our principal expenses are interest expense we incur on our interest-bearing liabilities, including deposits and borrowings, together with general and administrative expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

The Bank is currently regulated by the Office of Thrift Supervision (OTS) and the Federal Deposit Insurance Corporation (FDIC). The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. The Bank is also a member of the Federal Home Loan Bank (FHLB) of San Francisco. See Regulation for further descriptions of the existing regulatory system and of pending changes to that system.

Lending Activities

General

Our loan portfolio is comprised primarily of mortgage loans which are secured by multi-family properties, commercial real estate, including churches, and one to four-family properties. The remainder of the loan portfolio consists of commercial business loans, construction loans and consumer and other loans. At December 31, 2010, our net loan portfolio totaled $382.6 million, or 79% of total assets.

We emphasize the origination of adjustable-rate loans (ARMs) and hybrid ARM loans (ARM loans having an initial fixed rate period) primarily for retention in our portfolio. We retain these loans in order to increase the percentage of our loans that have more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2010, approximately 96% of our mortgage loans had adjustable rates. To a lesser extent, we also originate fixed rate mortgage loans to meet customer demand but we sell the majority of these loans in the secondary market, primarily to other financial institutions. The decision as to whether the loans will be retained in our portfolio or sold is generally made at the time of loan origination or purchase. At December 31, 2010, we had 38 loans totaling $29.4 million held for sale.

The types of loans that we originate are subject to federal laws and regulations. The interest rates that we charge on loans are affected by the demand for such loans, the supply of money available for lending purposes and the rates offered by competitors. These factors are in turn affected by, among other things, economic

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conditions, monetary policies of the federal government, including the Federal Reserve Board, and legislative tax policies. Federal savings associations and savings banks are not subject to usury or other interest rate limitations.

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the total loan portfolio (including loans held for investment and loans held for sale) by loan type at the dates indicated.

	December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
	(Dollars in thousands)									
One to four-units	$ 82,764	20.56%	$ 90,747	20.03%	$ 68,478	20.25%	$ 35,313	11.59%	$ 25,233	10.08%
Five or more units	128,534	31.92%	146,291	32.28%	87,679	25.93%	113,395	37.21%	131,305	52.42%
Commercial real estate	72,770	18.08%	82,276	18.16%	66,861	19.77%	59,797	19.62%	60,401	24.11%
Church	97,634	24.25%	101,007	22.29%	84,041	24.85%	70,793	23.23%	17,671	7.06%
Construction	5,421	1.35%	5,547	1.22%	5,505	1.63%	2,033	0.67%	2,090	0.83%
Commercial	12,178	3.02%	23,166	5.11%	22,357	6.61%	22,630	7.43%	12,247	4.89%
Consumer	3,288	0.82%	4,110	0.91%	3,246	0.96%	784	0.25%	1,530	0.61%
Gross loans	402,589	100.00%	453,144	100.00%	338,167	100.00%	304,745	100.00%	250,477	100.00%
Plus: Premiums on loans purchased	-		-		2		4		12	
Less:										
Loans in process	371		822		1,499		2,356		872	
Deferred loan fees (costs), net	(889)		(817)		(213)		258		162	
Unamortized discounts	33		39		51		60		68	
Allowance for loan losses	20,458		20,460		3,559		2,051		1,730	
Total loans held for investment	$ 382,616		$ 432,640		$ 333,273		$ 300,024		$ 247,657	
Loans held for sale	$ 29,411		$ 20,940		$ 24,576		$ 3,554		$ -	

Multi-Family and Commercial Real Estate Lending

Our primary lending emphasis has been on the origination of multi-family and commercial real estate loans, including loans secured by church properties. These loans are secured primarily by multi-family dwellings or by properties used for business or religious purposes, such as small office buildings, health care facilities and retail facilities located in our primary market area and church buildings located in various communities throughout the United States. We suspended our lending to churches in 2010 as further described below.

Our multi-family loans amounted to $128.5 million and $146.3 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, multi-family loans represented 32% of our gross loan portfolio. All of the multi-family residential mortgage loans outstanding at December 31, 2010 were ARMs. The vast majority of our multi-family loans amortize over and mature in 30 years. As of December 31, 2010, our single largest multi-family credit had an outstanding balance of $3.2 million, was current and was secured by a 38-unit apartment complex in Montebello, California. At December 31, 2010, the average balance of loans in our multi-family portfolio was approximately $370 thousand. Our ten largest multi-family loans at December 31, 2010, aggregated $18.0 million.

Our commercial real estate loans amounted to $170.4 million and $183.3 million at December 31, 2010 and 2009, respectively. At December 31, 2010, commercial real estate lending represented 42% of our gross loan portfolio, compared to 40% at December 31, 2009. Of the commercial real estate loans outstanding at

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December 31, 2010, 4% were fixed rate loans and 96% were ARMs. Most commercial real estate loans are originated with principal repayments on a 30 year amortization schedule but are due in 15 years. As of December 31, 2010, our single largest commercial real estate credit had an outstanding principal balance of $3.8 million, was current and was secured by a church building located in Los Angeles, California. At December 31, 2010, the average balance of loans in our commercial real estate portfolio was approximately $598 thousand. Our ten largest commercial real estate loans at December 31, 2010, aggregated $29.5 million.

The interest rates on multi-family and commercial ARM loans are based on a variety of indices, including the 6-Month London InterBank Offered Rate Index (6-Month LIBOR), the 1-Year Constant Maturity Treasury Index (1-Yr CMT), the 12-Month Treasury Average Index (12-MTA), the 11th District Cost of Funds Index (COFI), and the Wall Street Journal Prime Rate (Prime Rate). We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

Loan secured by multi-family and commercial real properties are granted based on the income producing potential of the property and the financial strength of the borrower. The primary factors considered include, among other things, the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to required principal and interest payments, or debt service), and the ratio of the loan amount to the lower of the selling price or the appraised value.

We seek to mitigate the risks associated with multi-family and commercial real estate loans described below by applying appropriate underwriting requirements, which include limitations on loan-to-value ratios and debt service coverage ratios. Under our underwriting policies, loan-to-value ratios on our multi-family and commercial real estate loans usually do not exceed 75% of the lower of the selling price or the appraised value of the underlying property. We also generally require minimum debt service ratios of 115% for multi-family loans and 125% for commercial real estate loans. Properties securing multi-family and commercial real estate loans are appraised by a management-approved independent appraiser and title insurance is required on all loans.

Multi-family and commercial real estate loans are generally viewed as exposing the lender to a greater risk of loss than single-family residential loans and typically involve higher loan principal amounts than loans secured by single-family residential real estate. Because payments on loans secured by multi-family and commercial real properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or general economy, such as we are experiencing with the current economic downturn. Continued adverse economic conditions in our primary lending market area could result in reduced cash flows on multi-family and commercial real estate loans, vacancies and reduced rental rates on such properties. We seek to reduce these risks by originating such loans on a selective basis and generally restrict such loans to our general market area. In 2008, we ceased out-of-state lending for all types of lending.

Originating loans secured by church properties is a market niche in which we have been active since our inception. We believe that the importance of church organizations in the social and economic structure of the communities we serve makes church lending an important aspect of our community orientation. We further believe that the importance of churches in the lives of the individual members of the respective congregations encourages donations even in difficult economic times, thereby providing somewhat greater assurance of financial resources to repay such church loans compared to other types of commercial properties. Nonetheless, adverse economic conditions can result in risks to loan repayment that are similar to those encountered in other types of commercial lending, and such church lending is subject to other risks not necessarily directly related to economic factors such as the stability, quality and popularity of church leadership. Because of these factors, we do not believe the current real estate market and economic environment support pursuing the origination of additional church loans. Additionally, the cease and desist order issued to Broadway Federal by the OTS, described below under the caption Regulation , restricts us from originating church loans. As a result, we

have suspended the origination of church loans. We intend to resume church lending when economic conditions improve and regulatory limitations are removed. Church loans included in our commercial real estate portfolio totaled $97.6 million and $101.0 million at December 31, 2010 and 2009, respectively.

The underwriting standards for loans secured by church properties are different than for other commercial real estate properties in that the ratios used in evaluating the loans are based upon the level and history of church member contributions as a repayment source rather than income generated by rents or leases.

One to Four-Family Mortgage Lending

While we are primarily a multi-family and commercial real estate lender, we also originate ARMs and fixed rate loans secured by one to four-family (single-family) residences, with maturities of up to 30 years. Substantially all of our single-family loans are secured by properties located in Southern California, with most being in our primary market areas of Mid-City and South Los Angeles. Loan originations are generally obtained from our loan representatives or third party brokers, existing or past customers, and referrals from members of churches or other organizations in the local communities where we operate. Single-family loans totaled $82.8 million and $90.7 million at December 31, 2010 and 2009, respectively. Single-family loans represented 21% of our gross loan portfolio at December 31, 2010, compared to 20% at December 31, 2009. Of the single-family residential mortgage loans outstanding at December 31, 2010, 3% were fixed rate loans and 97% were ARMs.

The interest rates for our single-family ARMs are indexed to COFI, 6-Month LIBOR, 12-MTA and 1-Yr. CMT. We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

We qualify our ARM borrowers based upon the fully indexed interest rate (LIBOR or other index plus an applicable margin, rounded to the nearest one-eighth of 1%) provided by the terms of the loan. However, the initial rate paid by the borrower may be discounted to a rate we determine to adjust for market and other competitive factors. The ARMs that we offer have a lifetime adjustment limit that is set at the time the loan is approved. In addition, because of interest rate caps and floors, market rates may exceed or go below the respective maximum or minimum rates payable on our ARMs.

Our policy is to originate one to four-family residential mortgage loans in amounts of up to 90% of the lower of the appraised value or the selling price of the property securing the loan. Any loan in excess of 80% of the appraised value or selling price of the property securing the loan generally requires private mortgage insurance or the Bank charges a higher interest rate to cover the additional risk associated with making a loan with a loan to value ratio higher than 80%. Under certain circumstances, we may originate loans of up to 97% of the selling price if private mortgage insurance is obtained. We may originate loans based on other parameters for loans that are originated for committed sales to other investors. Properties securing a single-family loan are appraised by an approved independent appraiser and title insurance is required on all such loans.

Mortgage loans that we originate generally include due-on-sale clauses, which provide us with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property. Due-on-sale clauses are an important means of adjusting the rates on our fixed rate mortgage loan portfolio.

Commercial Lending

We originate and purchase non-real estate commercial loans that are secured by business assets, the franchise value of the business, if applicable, and individual assets such as deposit accounts, securities and automobiles. Most of these loans are originated with maturities of up to 5 years. Commercial loans amounted to $12.2 million and $23.2 million at December 31, 2010 and 2009, respectively. At December 31, 2010,

commercial loans represented 3% of our gross loan portfolio, compared to 5% at December 31, 2009. Of the commercial loans outstanding at December 31, 2010, 8% were fixed rate loans and 92% were ARMs. As of December 31, 2010, our single largest commercial credit had a total outstanding principal balance of $3.7 million.

In 2007, management and the Board of Directors decided to terminate the Bank s prior strategy of lending to sports franchises and reduced its participation in nationally syndicated corporate loan facilities in order to focus on financing opportunities within our market area. The Board of Directors approved a sports finance policy that restricts lending to national professional sports franchises. Sports loans are generally perceived to be risky due to the large amount of intangible value of a professional sports franchise. To offset risk, Broadway Federal s policy imposes the following underwriting requirements: (1) maximum loan to franchise value maintenance covenants; (2) operating support agreements that require funding of any potential losses by a credit worthy third party (usually a high net worth member of the sports franchise ownership group); and (3) 12 months of interest reserve. The interest rate on sports loans is variable and is based on the three-month LIBOR or the Prime Rate.

We also participate to a limited degree as a direct lender in selected large nationally syndicated credits. The Bank is one of several lenders that lend relatively small amounts that in aggregate create one large loan to a major borrower. These corporate credits are typically rated by a credit rating service and are secured by the assets of the borrowers, primarily real estate and accounts receivable. These nationally syndicated credits are typically floating interest rate loans based on three-month LIBOR.

Construction Lending

At December 31, 2010 and 2009, we had $5.4 million and $5.5 million in construction loans, representing 1% of our gross loan portfolio. We provide loans for construction of single-family, multi-family and commercial real estate projects and for land development. We generally make construction and land loans at variable interest rates based upon the Prime Rate. Generally, we require a loan-to-value ratio not exceeding 75% to 80% on a purchase and a loan-to-cost ratio of 80% to 90% on a refinance of construction loans.

Construction loans involve risks that are different from those for completed project lending because we advance loan funds based upon the security of the completed project under construction. If the borrower defaults on the loan, we may have to advance additional funds to finance the project s completion before the project can be sold. Moreover, construction projects are affected by uncertainties inherent in estimating construction costs, potential delays in construction schedules, market demand and the accuracy of estimates of the value of the completed project considered in the loan approval process. In addition, construction projects can be risky as they transition to completion and lease-up. Tenants who may have been interested in leasing a unit or apartment may not be able to afford the space when the building is completed, or may fail to lease the space for other reasons such as more attractive terms offered by competing lessors, making it difficult for the building to generate enough cash flow for the owner to obtain permanent financing. Many construction project owners are faced with these risks given the current economic downturn. Consequently, we are not originating construction loans at this time.

Consumer Lending

Our consumer loans primarily consist of loans secured by savings accounts. At December 31, 2010 and 2009, loans secured by savings accounts totaled $3.3 million and $4.0 million, respectively, representing 1% of our gross loan portfolio. Loans secured by depositors accounts are generally made up to 90% of the current value of the pledged account, at an interest rate between 2% and 4% above the rate paid on the deposit account, depending on the type of account, and for a term expiring upon the earlier of one year from origination or the maturity of the deposit account.

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Loan Originations, Purchases and Sales

We source loan originations from our loan personnel, local mortgage brokers, advertising and referrals from customers. For all loans that we originate, upon receipt of a loan application from a prospective borrower, a credit report is ordered and certain other information is verified by an independent credit agency and, if necessary, additional financial information is requested. An appraisal of the real estate intended to secure the proposed loan is required, which appraisal is performed by an independent licensed or certified appraiser designated and approved by us. The Board annually reviews our appraisal policy. Management reviews annually the qualifications and performance of independent appraisers that we use.

It is our policy to obtain title insurance on all real estate loans. Borrowers must also obtain hazard insurance naming Broadway Federal as a loss payee prior to loan closing. If the original loan amount exceeds 80% on a sale or refinance of a first trust deed loan, we may require private mortgage insurance and the borrower is required to make payments to a mortgage impound account from which we make disbursements to pay private mortgage insurance premiums, property taxes and hazard and flood insurance as required.

Our Board of Directors has authorized the following loan approval limits: if the total of the borrower s existing loans and the loan under consideration is $500,000 or less, the new loan may be approved by the Chief Operating Officer or the Chief Lending Officer; if the total of the borrower s existing loans and the loan under consideration is from $500,001 to $1,000,000, the new loan must be approved by two Loan Committee members; if the total of the borrower s existing loans and the loan under consideration is from $1,000,001 up to $1,750,000, the new loan must be approved by three Loan Committee members, two of whom must be non-management Loan Committee members; and if the total of existing loans and the loan under consideration is more than $1.75 million, the new loan must be approved by four Loan Committee members, two of whom must be non-management Loan Committee members or by the Executive Committee of the Board of Directors. In addition, it is our practice that all loans approved only by management be reported to the Loan Committee by the following month, and be ratified by the Board of Directors.

From time to time, we purchase loans originated by other institutions based upon our investment needs and market opportunities. The determination to purchase specific loans or pools of loans is subject to our underwriting policies, which consider, among other factors, the financial condition of the borrower, the location of the underlying collateral property and the appraised value of the collateral property. We did not purchase any loans during the year ended December 31, 2010, compared to $21.8 million of loans purchased during the year ended December 31, 2009.

We originate and purchase loans for investment and for sale. Loan sales are made from the loans held for sale portfolio and from loans originated during the period that are designated as held for sale. It is our current practice to sell most single-family conforming fixed rate mortgage loans that we originate, retaining a limited amount in our portfolio. Conforming loans are loans that qualify in terms of maximum loan size and other criteria for purchase by FNMA and FHLMC. We also may sell commercial real estate and multi-family ARMs that we originate based upon our investment and liquidity needs and market opportunities. At December 31, 2010, we had 38 loans totaling $29.4 million held for sale. We typically retain the servicing rights associated with loans that are sold. The servicing rights are recorded and carried as assets based upon their fair values. At December 31, 2010 and 2009, we had $487 thousand and $450 thousand, respectively, in mortgage servicing rights.

We receive monthly loan servicing fees on loans sold and serviced for others, primarily insured financial institutions, that are payable by the loan purchaser out of loan collections in an amount equal to an agreed percentage of the monthly loan installments collected, plus late charges and certain other fees paid by the borrowers. Loan servicing activities include monthly loan payment collection, monitoring of insurance and tax payment status, responses to borrower information requests and dealing with loan delinquencies and defaults, including conducting loan foreclosures. At December 31, 2010 and 2009, we were servicing $46.5 million and $43.1 million, respectively, of loans for others.

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The following table sets forth our loan originations, purchases, sales and principal repayments for the periods indicated, including loans held for sale.

	2010	2009	2008
		(In thousands)	
Gross loans:			
Beginning balance	$ 475,078	$ 363,003	$ 308,299
Loans originated:			
One to four-units	2,369	35,635	38,656
Five or more units	10,683	41,567	9,702
Commercial real estate	1,056	26,786	28,456
Church	395	19,847	37,038
Construction	-	381	553
Commercial	2,817	7,047	13,009
Consumer	133	1,619	3,118
Total loans originated	17,453	132,882	129,572
Loan purchased:			
Five or more units	-	21,813	-
Commercial real estate	-	-	984
Total loans purchased	-	21,813	984
Less:			
Principal repayments	37,463	34,928	50,112
Sales of loans	11,410	2,892	25,737
Loan charge-offs	5,372	2,728	3
Transfer of loans receivable to real estate owned	5,005	2,072	-
Ending balance (1)	$ 433,281	$ 475,078	$ 363,003

(1) Includes loans held-for-sale totaling $30.7 million, $21.9 million and $24.8 million at December 31, 2010, 2009 and 2008, respectively, exclusive of a $1.3 million, $994 thousand and $260 thousand valuation allowance at December 31, 2010, 2009 and 2008, respectively.

Loan Maturity and Repricing

The following table sets forth the contractual maturities of our gross loans receivable at December 31, 2010 and does not reflect the effect of prepayments or scheduled principal amortization.

	One to four-units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Gross loans receivable
				(In thousands)				
Amounts Due:								
One year or less	$ 491	$ 1,186	$ 4,567	$ 1,222	$ 2,450	$ 8,900	$ 3,275	$ 22,091
After one year:								
One year to five years	281	1,163	5,819	4,817	2,971	3,182	13	18,246
After five years	81,992	126,185	62,384	91,595	-	96	-	362,252

Total due after one year	82,273	127,348	68,203	96,412	2,971	3,278	13	380,498
Total	$ 82,764	$ 128,534	$ 72,770	$ 97,634	$ 5,421	$ 12,178	$ 3,288	$ 402,589

The following table sets forth the dollar amount of gross loans receivable, excluding loans held for sale, at December 31, 2010 which are contractually due after December 31, 2011, and whether such loans have fixed interest rates or adjustable interest rates.

	December 31, 2010		
	Adjustable	Fixed	Total
		(Dollars in thousands)	
One to four-units	$ 79,967	$ 2,306	$ 82,273
Five or more units	127,348	-	127,348
Commercial real estate	64,704	3,498	68,202
Church	96,413	-	96,413
Construction	138	2,833	2,971
Commercial	2,252	1,026	3,278
Consumer	13	-	13
Total	$ 370,835	$ 9,663	$ 380,498
% of total	97.46%	2.54%	100.00%

Asset Quality

General

The underlying credit quality of our loan portfolio is dependent primarily on each borrower s ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral securing the loan, if any. A borrower s ability to pay typically is dependent, in the case of one to four-family mortgage loans and consumer loans, primarily on employment and other sources of income, and in the case of multi-family and commercial real estate loans, on the cash flow generated by the property, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower s ability to make loan payments. Collateral values, particularly real estate values, are also impacted by a variety of factors including general economic conditions, demographics, property maintenance and collection or foreclosure delays.

Delinquencies

We perform a monthly review of all delinquent loans and reports are made monthly to the Internal Asset Review Committee of the Board of Directors. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. The procedures we follow with respect to delinquencies vary depending on the nature of the loan and the period of delinquency. In the case of residential mortgage loans, we generally send the borrower a written notice of nonpayment promptly after the loan becomes past due. In the event payment is not received promptly thereafter, additional letters are sent and telephone calls are made. If the loan is still not brought current and it becomes necessary for us to take legal action, we generally commence foreclosure proceedings against all real property that secures the loan. In the case of commercial real estate loans, we generally contact the borrower by telephone and send a written notice of non-payment upon expiration of the applicable grace period. Decisions as to when to commence foreclosure actions for commercial real estate loans are made on a case-by-case basis. We may consider loan workout arrangements with these types of borrowers in certain circumstances.

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The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	December 31, 2010				December 31, 2009				December 31, 2008			
	60-89 Days		90 Days or more		60-89 Days		90 Days or more		60-89 Days		90 Days or more	
	Number of loans	Principal balance Of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans
	(Dollars in thousands)											
One to four-units	3	$ 71	15	$ 6,227	8	$ 4,194	10	$ 4,756	2	$ 196	-	$ -
Five or more units	4	1,068	4	2,250	5	2,622	4	1,644	1	450	1	200
Commercial real estate	1	1,287	14	10,321	4	2,527	6	6,061	-	-	2	541
Church	7	5,230	23	18,281	7	5,149	20	12,942	-	-	3	2,578
Construction	-	-	1	320	-	-	-	-	-	-	-	-
Commercial	-	-	2	3,768	-	-	4	7,269	1	591	2	110
Consumer	-	-	2	2,265	-	-	1	2,249	-	-	1	34
Total	15	$ 7,656	61	$ 43,432	24	$ 14,492	45	$ 34,921	4	$ 1,237	9	$ 3,463
Delinquent loans to total gross loans, including loans held for sale		1.77%		10.02%		3.05%		7.35%		0.34%		0.95%

Non-Performing Assets

Non-performing assets, consisting of nonaccrual loans (delinquent loans 90 days or more past due and troubled debt restructurings that do not qualify for accrual status) and real estate owned (REO), at December 31, 2010 were $46.5 million, or 9.60% of total assets, compared to $37.0 million or 7.10% of total assets, at December 31, 2009. Nonaccrual loans, the most significant component of non-performing assets, increased by $8.5 million to $43.4 million at December 31, 2010, from $34.9 million at December 31, 2009. This increase was due to the continued weakness in the housing and real estate markets and overall economy which resulted in continued elevated levels of delinquencies and non-performing loans during the year ended December 31, 2010.

The following table provides information regarding our non-performing assets at the dates indicated.

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Nonaccrual loans:					
One to four-units	$ 6,227	$ 4,756	$ -	$ -	$ -
Five or more units	2,250	1,644	200	-	-
Commercial real estate	10,321	6,061	541	-	-
Church	18,281	12,942	2,578	-	-
Construction	320	-	-	-	-
Commercial	3,768	7,269	110	-	-
Consumer	2,265	2,249	34	34	34
Total nonaccrual loans	43,432	34,921	3,463	34	34
Loans delinquent 90 days or more and still accruing	-	-	-	-	-
Real estate owned acquired through foreclosure	3,036	2,072	-	-	-
Total non-performing assets	$ 46,468	$ 36,993	$ 3,463	$ 34	$ 34

Nonaccrual loans as a percentage of gross loans, including loans held for sale	10.02%	7.35%	0.95%	0.01%	0.01%
Non-performing assets as a percentage of total assets	9.60%	7.10%	0.85%	0.01%	0.01%

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We discontinue accruing interest on loans when the loans become 90 days delinquent as to their payment due date (missed three payments), unless the timing of collections are reasonably estimable and collection is probable. In addition, we reverse all previously accrued and uncollected interest through a charge to interest income. While loans are in nonaccrual status, interest due is monitored and income is recognized only to the extent cash is received until a return to accrual status is warranted. Interest income of $1.1 million for the year ended December 31, 2010 was recognized on nonaccrual loans, whereas interest income of $2.9 million would have been recognized under their original loan terms. We had no commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2010. No accruing loans were contractually past due by 90 days or more at December 31, 2010 or 2009.

From time to time, we agree to modify the contractual terms of a borrower s loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Loans modified in a troubled debt restructuring are placed on nonaccrual status until we determine that future collection of principal and interest is reasonably assured, which requires that the borrower demonstrate performance according to the restructured terms generally for a period of at least six months. Loans modified in a troubled debt restructuring which are included in nonaccrual loans totaled $14.6 million at December 31, 2010 and $11.0 million at December 31, 2009. Excluded from nonaccrual loans are restructured loans that have complied with the terms of their restructured agreement for six months or such longer period as management deems appropriate for particular loans, and have therefore, been returned to accruing status. Restructured accruing loans totaled $22.5 million at December 31, 2010 and $21.5 million at December 31, 2009.

We update our estimates of collateral value for non-performing loans which are 90 days or more delinquent, at least annually, and for certain other loans when the Internal Asset Review Committee believes repayment of such loans may be dependent on the value of the underlying collateral. For one to four-family mortgage loans, updated estimates of collateral value are obtained through appraisals, automated valuation models and broker price opinions. For multi-family and commercial real estate properties, we estimate collateral value through appraisals, broker price opinions, or internal cash flow analyses when current financial information is available, coupled with, in most cases, an inspection of the property. When the collateral value is less than the recorded investment in the loan, we establish a valuation allowance equal to the amount of the deficiency. See Allowance for Loan Losses for full discussion of the allowance for loan losses.

REO is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Any excess of carrying value over fair value at the time of acquisition is charged to the allowance for loan losses. Thereafter, we maintain an allowance for losses representing decreases in the properties estimated fair value through provisions which are charged to income along with any additional property maintenance and protection expenses incurred as a result of owning the property. At December 31, 2010, we had $3.0 million in REO which consisted of three one to four-family residential properties, three multi-family residential properties and five commercial real estate properties, three of which were secured by church buildings. We had $2.1 million in REO at December 31, 2009.

If recent trends in the housing and commercial real estate markets continue, loan delinquencies and credit losses may also continue. Although we believe our underwriting and loan review procedures are appropriate for the various kinds of loans we originate or purchase, our results of operations and financial condition will be adversely affected in the event the quality of our loan portfolio continues to deteriorate. Therefore, one of our most important operating objectives is to improve asset quality. Management is using a number of strategies to achieve this goal, including maintaining what we believe to be sound credit standards in loan originations, monitoring the loan portfolio through independent internal loan reviews, and employing active collection and workout processes for delinquent or problem loans.

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Classification of Assets

Federal regulations and our internal policies require that we utilize an asset classification system as a means of monitoring and reporting problem and potential problem assets. We have incorporated asset classifications as a part of our credit monitoring system and thus classify problem assets and potential problem assets as Substandard, Doubtful or Loss assets. An asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all of the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but that are considered to possess some weaknesses, are designated Special Mention.

The following table provides information regarding our classified assets at the dates indicated.

	December 31, 2010		December 31, 2009	
	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans
	(Dollars in thousands)			
Special Mention	72	$ 38,333	13	$ 7,720
Substandard	118	94,054	68	53,985
Doubtful	1	270	2	4,000
Loss	2	16	12	4,431
Total	193	$ 132,673	95	$ 70,136

Allowance for Loan Losses

In originating loans, we recognize that losses will be experienced on loans and that the risk of loss may vary as a result of many factors, including the type of loan being made, the creditworthiness of the borrower, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. We maintain an allowance for loan losses to absorb losses inherent in our loan portfolio. This allowance represents management s best estimate of the probable incurred and inherent credit losses in our loan portfolio as of the date of the consolidated financial statements.

The allowance for loan losses is evaluated on a monthly basis by management and the Board of Directors and is based upon management s periodic review of the collectability of the loans in light of historical loss experience, portfolio volume and mix, geographic concentrations, estimated credit losses based on internal and external portfolio reviews for a select segment of our loan portfolio, adverse situations that may affect the borrower s ability to repay, the estimated value of the underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as circumstances change or as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual

terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDR) and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis. If a loan is impaired, a portion of the allowance is allocated to the loan so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. At December 31, 2010, impaired loans totaled $58.0 million and had an aggregate specific allowance allocation of $6.0 million.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 18 months. We believe that using the loss experience for the most recent 18 months is reflective of the current economic downturn and weakness in the real estate market. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Based on our evaluation of the continued weakness in the housing and real estate markets and overall economy, in particular, the continued high unemployment rate in the communities we serve and the increase in and composition of our delinquencies, non-performing loans and net loan charge-offs and feedback from OTS and FDIC examination and an independent third party review of our loan portfolio, we determined that an allowance for loan losses of $20.5 million was required at December 31, 2010, unchanged from $20.5 million at December 31, 2009.

In addition to the requirements of U.S. generally accepted accounting principles (GAAP) related to loss contingencies, a federally chartered savings association s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS. While we believe that the allowance for loan losses has been established and maintained at adequate levels, future adjustments may be necessary if economic or other conditions differ materially from the conditions on which we based our estimates at December 31, 2010. In addition, there can be no assurance that the OTS or other regulators, as a result of reviewing our loan portfolio and/or allowance, will not require us to materially increase our allowance for loan losses, thereby affecting our financial condition and earnings.

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The following table sets forth the activity in our allowance for loan losses for the years indicated.

	2010	2009	2008	2007	2006
			(Dollars in thousands)		
Allowance balance at beginning of year	$ 20,460	$ 3,559	$ 2,051	$ 1,730	$ 1,455
Charge-offs	(4,472)	(2,728)	(3)	-	(5)
Recoveries	5	-	139	-	-
Provision charged to earnings	4,465	19,629	1,372	321	280
Allowance balance at end of year	$ 20,458	$ 20,460	$ 3,559	$ 2,051	$ 1,730
Net charge-offs (recoveries) to average loans, excluding loans held for sale	0.97%	0.64%	(0.04%)	0.00%	0.00%
Allowance for loan losses as a percentage of gross loans, excluding loans held for sale	5.08%	4.52%	1.06%	0.68%	0.69%
Allowance for loan losses as a percentage of total nonaccrual loans	47.10%	58.59%	102.77%	6,032.35%	5,088.24%
Allowance for loan losses as a percentage of total non-performing assets	44.03%	55.31%	102.77%	6,032.35%	5,088.24%

The following table sets forth our allocation of the allowance for loan losses to the various categories of loans and the percentage of loans in each category to total loans at the dates indicated. The allocations are for management s analytical purposes only. The entire allowance is available for losses on any type of loan.

	December 31,									
	2010		2009		2008		2007		2006	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
					(Dollars in thousands)					
One to four-units	$ 3,619	20.56%	$ 4,292	20.03%	$ 239	20.25%	$ 89	11.59%	$ 71	10.08%
Five or more units	1,728	31.92%	1,650	32.28%	688	25.93%	612	37.21%	709	52.42%
Commercial real estate	3,257	18.08%	1,877	18.16%	745	19.77%	644	19.62%	663	24.11%
Church	8,662	24.25%	9,257	22.29%	809	24.85%	360	23.23%	87	7.06%
Construction	168	1.35%	87	1.22%	58	1.63%	54	0.67%	23	0.83%
Commercial	1,373	3.02%	2,018	5.11%	621	6.61%	245	7.43%	132	4.89%
Consumer	1,651	0.82%	1,279	0.91%	265	0.96%	47	0.25%	45	0.61%
Unallocated	-	-	-	-	134	-	-	-	-	-
Total allowance for loan losses	$ 20,458	100.00%	$ 20,460	100.00%	$ 3,559	100.00%	$ 2,051	100.00%	$ 1,730	100.00%

Investment Activities

The main objectives of our investment strategy are to provide a source of liquidity for deposit outflows, repayment of borrowings and loan fundings, and to generate a favorable return on investments without incurring undue interest rate or credit risk. Subject to various restrictions, our investment policy generally permits investments in money market instruments such as Federal Funds Sold, certificates of deposit of insured banks and savings institutions, direct obligations of the U. S. Treasury, Federal Agency securities, Agency-issued securities and mortgage-backed securities, mutual funds, municipal obligations, corporate bonds and marketable equity securities. Mortgage-backed securities consist principally of FNMA, FHLMC and GNMA securities backed by 30-year amortizing hybrid ARM loans, structured with fixed interest

rates for periods of three to seven

years, after which time the loans convert to one-year or six-month adjustable rate mortgage loans. At December 31, 2010, our securities portfolio consisted primarily of residential mortgage-backed securities and totaled $23.2 million, or 5% of total assets.

We classify investments as held-to-maturity or available-for-sale at the date of purchase based on our assessment of our internal liquidity requirements. Securities in the held-to-maturity category consist of securities purchased for long-term investment in order to enhance our ongoing stream of net interest income. Securities deemed held-to-maturity are classified as such because we have both the intent and ability to hold these securities to maturity. Securities purchased to meet investment-related objectives such as liquidity management or interest rate risk and which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. Held-to-maturity securities are reported at cost, adjusted for amortization of premium and accretion of discount. Available-for-sale securities are reported at fair market value. We currently have no securities classified as trading securities.

The following table sets forth information regarding the carrying amount and fair values of our securities at the dates indicated.

	December 31,					
	2010		2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	(In thousands)					
Held-to-maturity:						
Residential mortgage-backed securities	$ 11,737	$ 12,162	$ 15,285	$ 15,745	$ 21,792	$ 21,701
U.S. Government and federal agency	1,000	1,099	1,000	1,093	1,000	1,104
Available-for-sale:						
Residential mortgage-backed securities	10,524	10,524	14,961	14,961	4,222	4,222
Total	$ 23,261	$ 23,785	$ 31,246	$ 31,799	$ 27,014	$ 27,027

The table below sets forth certain information regarding the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2010. The table reflects stated final maturities and does not reflect scheduled principal payments.

	At December 31, 2010									
	One Year or less		More than one year to five years		More than five years to ten years		More than ten years		Total	
	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield
	(Dollars in thousands)									
Held-to-maturity:										
Residential mortgage-backed securities	$ -	-%	$ -	-%	$ -	-%	$ 11,737	2.38%	$ 11,737	2.38%
U.S. Government and federal agency	-	-%	1,000	5.00%	-	-%	-	-%	1,000	5.00%
Available-for-sale:										
Residential mortgage-backed securities	$ -	-%	$ -	-%	$ 4,786	3.49%	$ 5,738	5.09%	$ 10,524	4.36%
Total	$ -	-%	$ 1,000	5.00%	$ 4,786	3.49%	$ 17,475	3.27%	$ 23,261	3.39%

Sources of Funds

General

Deposits are our primary source of funds for supporting our lending and other investment activities and general business purposes. In addition to deposits, we obtain funds from the amortization and prepayment of loans and residential mortgage-backed securities, sales of loans and residential mortgage-backed securities, advances from the FHLB, and cash flows generated by operations.

Deposits

We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits principally consist of passbook savings accounts, non-interest bearing checking accounts, NOW and other demand accounts, money market accounts, and fixed-term certificates of deposit. The maturities of term certificates generally range from one month to five years. We accept deposits from customers within our market area based primarily on posted rates but from time to time negotiate the rate on these instruments commensurate with the size of the deposit. We rely primarily on customer service and long-standing relationships with customers to attract and retain deposits. We seek to maintain and increase our retail core deposit relationships, consisting of customers with passbook accounts, checking accounts, non-interest bearing demand accounts and money market accounts, which we believe tend to be more stable and available at a lower cost than other, longer term types of deposits. However, market interest rates, including rates offered by competing financial institutions, the availability of other investment alternatives, and general economic conditions significantly affect our ability to attract and retain deposits.

In late 2008, we began to open deposit accounts through the internet for customers in the United States. We also generate term certificates through the use of brokers and internet-based network deposits. We participate in a deposit program called Certificate of Deposit Account Registry Service (CDARS). CDARS is a deposit placement service that allows us to place our customers funds in FDIC-insured certificates of deposits at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. The majority of CDARS deposits are gathered within our geographic footprint through established customer relationships. At December 31, 2010, we had approximately $18.2 million in brokered deposits, of which $8.9 million were CDARS. This compared to $101.0 million in brokered deposits at December 31, 2009, of which $71.2 million were CDARS.

In March 2010, the OTS directed that the Bank not increase the dollar amount of its brokered deposits above the amount that it had as of March 1, 2010 without the prior written non-objection of the OTS Regional Director. Under applicable regulations, the term brokered deposits includes both deposits acquired through third party brokers and deposits that an institution solicits by offering rates of interest that are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions in the institution s normal market area.

The following table sets forth the maturity periods of our certificates of deposit in amounts of $100 thousand or more at December 31, 2010.

	December 31, 2010	
	Amount	**Weighted average rate**
	(Dollars in thousands)	
Certificates maturing:		
Less than three months	$ 40,087	0.87%
Three to six months	15,450	1.40%
Six to twelve months	32,376	2.43%
Over twelve months	72,134	2.62%
Total	$ 160,047	2.02%

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The following table sets forth the distribution of our average deposits for the years indicated and the weighted average interest rates during the year for each category of deposits presented.

	For the Year Ended December 31,								
	2010			2009			2008		
	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate
	(Dollars in thousands)								
Money market deposits	$ 27,701	7.16%	0.66%	$ 33,719	9.41%	1.57%	$ 29,035	10.98%	2.43%
Passbook deposits	37,574	9.71%	0.43%	37,763	10.54%	0.82%	39,378	14.89%	1.39%
NOW and other demand deposits	47,077	12.16%	0.22%	64,967	18.13%	1.17%	39,853	15.07%	0.76%
Certificates of deposits	274,641	70.97%	1.99%	221,863	61.92%	2.40%	156,228	59.06%	3.60%
Total	$ 386,993	100.00%	1.53%	$ 358,312	100.00%	1.93%	$ 264,494	100.00%	2.71%

Borrowings

We utilize short-term and long-term advances from the FHLB of San Francisco as an alternative to retail deposits as a funding source for asset growth. FHLB advances are generally secured by mortgage loans and mortgage-backed securities. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions fluctuates from time to time in accordance with the policies of the FHLB. At December 31, 2010, we had outstanding $87.0 million in FHLB advances and had the ability to borrow up to an additional $35.4 million based on available and pledged collateral. However, on February 18, 2011, the Company s general borrowing limit was reduced to $100.0 million, which decreased our remaining borrowing capacity to $13.0 million as of February 18, 2011.

The following table sets forth information concerning our FHLB advances at or for the periods indicated.

	At or For the Year Ended		
	2010	2009	2008
	(Dollars in thousands)		
FHLB Advances:			
Average balance outstanding during the year	$ 87,897	$ 76,433	$ 89,404
Maximum amount outstanding at any month-end during the year	$ 88,000	$ 91,600	$ 114,000
Balance outstanding at end of year	$ 87,000	$ 91,600	$ 74,000
Weighted average interest rate during the year	3.33%	3.70%	3.99%
Weighted average interest rate at end of year	3.24%	3.23%	3.74%

In March 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures, in a private placement which, subject to limitations, are includable as secondary capital for certain regulatory capital measures. The debentures mature 10 years from the issue date and interest is payable quarterly at a rate per annum equal to the 3-month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 2.84% at December 31, 2010. The Company has not paid interest on the debentures since September 2010. As disclosed in Note 15 Regulatory Capital Matters and Capital Purchase Program of the Notes to Consolidated Financial Statements, the Company is not permitted to make payments on any debts without prior notice to and receipt of written notice of non-objection from the OTS Regional Director. In addition, under the terms of the subordinated debentures, the Company is not allowed to make payments on the subordinated debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below.

On February 28, 2010, we borrowed an aggregate of $5.0 million under our $5.0 million line of credit with another financial institution and invested all of the proceeds in the equity capital of the Bank. The interest rate on

the line of credit adjusts annually, subject to a minimum of 6.00% and to an increase by the addition of 5% on default. Borrowings under the line of credit are secured by the Company s assets. This senior line of credit became due and payable on July 31, 2010 and has not been repaid and we are now in default under the line of credit agreement. Under the terms of the cease and desist order issued to us and the Bank by the OTS, we are not permitted to make any payments on this senior line of credit, or to obtain dividends from the Bank for that purpose or any other purpose without the prior approval of the OTS. See Item 7 Management s Discussion and Analysis Liquidity in Part II of this Report for further information.

Market Area and Competition

Broadway Federal is a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. Our retail banking network includes full service banking offices, automated teller machines and internet banking capabilities. We have four banking offices in Los Angeles, one banking office located in the nearby City of Inglewood and two loan production offices in the Cities of Irvine and Torrance.

The Los Angeles metropolitan area is a highly competitive market in which we face significant competition in making loans and in attracting deposits. Although our offices are primarily located in low and moderate income minority areas that have historically been under-served by other financial institutions, we are facing increasing competition for deposits and residential mortgage lending in our immediate market areas, including direct competition from mortgage banking companies, commercial banks and savings and loan associations. Most of these financial institutions are significantly larger than we are and have greater financial resources, and many have a regional, statewide or national presence.

Personnel

At December 31, 2010, we had 81 employees, which consisted of 71 full-time and 10 part-time employees. We believe that we have good relations with our employees and none are represented by a collective bargaining group.

Regulation

General

Broadway Federal Bank is regulated by the OTS and the Company is registered with and subject to examination by the OTS as a savings and loan holding company. The Bank is subject to regulation and examination by the OTS with respect to most of its business activities, including, among other things, capital standards, general investment authority, deposit taking and borrowing authority, mergers and other business combination transactions, establishment of branch offices, and permitted subsidiary investments and activities. The OTS s operations, including examination activities, are funded by assessments levied on its regulated institutions.

Our customer deposits are insured by the Deposit Insurance Fund (DIF) of the FDIC to the extent provided by applicable federal law. Insurance on deposits may be terminated by the FDIC if it finds that the Bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS as the Bank s primary regulator.

Broadway Federal is a federally chartered savings bank and a member of the FHLB System. We are further subject to the regulations of the Board of Governors of the Federal Reserve System (FRB) concerning reserves required to be maintained against deposits, transactions with affiliates, Truth in Lending and other consumer protection requirements and certain other matters. The Company is also required to file certain reports with and otherwise comply with the rules and regulations of the Securities and Exchange Commission (SEC) under the federal securities laws.

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Changes in the applicable laws or regulations of the OTS, the FDIC or other regulatory authorities could have a material adverse impact on the Bank and the Company, their operations, and the value of the Company s debt and equity securities.

The following paragraphs summarize certain of the laws and regulations that apply to us and to the Bank. These descriptions of statutes and regulations and their possible effects do not purport to be complete descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that may apply to us.

Cease and Desist Orders

In March 2010, based on information obtained during a regulatory examination of the Bank, the Company and Bank were determined to be in troubled condition and agreed to the issuance of cease and desist orders to them by the OTS effective September 09, 2010. We refer to these orders collectively as the C&D. The C&D imposes limitations on the Company and the Bank, including the following, among others:

- The Bank may not increase its total assets during any quarter in excess of an amount equal to the net interest credited on deposit liabilities during the prior quarter without the prior written notice to and receipt of notice of non-objection from the OTS Regional Director.
- Neither the Company nor the Bank may declare or pay any dividends or make any other capital distributions without the prior written approval of the OTS Regional Director.
- Neither the Company nor the Bank may make any changes in its directors or senior executive officers without prior notice to and receipt of notice of non-objection from the OTS.
- The Company and the Bank are subject to limitations on severance and indemnification payments and on entering into or amending employment agreements and compensation arrangements, and on the payment of bonuses to Bank directors and officers.
- The Company may not incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the OTS Regional Director.
- The Bank is not permitted to increase the amount of its brokered deposits beyond the amount of interest credited without prior notice to and receipt of notice of non-objection from the OTS Regional Director.

Consistent with the C&D, we have taken actions to address the concerns expressed by the OTS, including the following:

- Improved our regulatory capital so the our capital now exceeds the required Core Capital ratio of 8.00% and Total Risk Based Capital ratio of 12.00%; the Bank s Core Capital ratio was 8.82% and its Total Risk Based Capital ratio was 13.05% at December 31, 2010, compared to 6.69% and 10.19%, respectively, at December 31, 2009;
- Increased liquidity by $10.1 million, from $22.4 million at December 31, 2009 to $32.5 million at December 31, 2010, and increased liquid assets to 179% of brokered deposits at December 31, 2010 from 22% at December 31, 2009;
- Substantially reduced brokered deposits, by $82.8 million, to $18.2 million at year end;

Completed a comprehensive external review of our loan portfolio Over 76% of the dollar amount of the gross loan portfolio was reviewed by an independent loan review firm in the fourth quarter, including 100% of our church loan portfolio;

Substantially revised the Bank s loan underwriting and internal asset review procedures and other aspects of the Bank s business, as well as the Company s management of its business and the oversight of the Company s business by the Board;

Developed and are pursuing a capital plan for increasing our common equity base, as described under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

Recent Regulatory Reform Legislation

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises.

As a result of the Dodd-Frank Act, on July 21, 2011, or a date within six months thereafter selected by the Secretary of the Treasury, the OTS will be eliminated and the Office of the Comptroller of the Currency (OCC), will become the regulator of all federal savings associations, such as Broadway Federal. The FRB will acquire the OTS s regulatory authority over all savings and loan holding companies, such as Broadway Financial Corporation. As a result, we will become subject to regulation, supervision and examination by the OCC and the FRB, rather than the OTS as is currently the case.

The Dodd-Frank Act also provides for the creation of the Bureau of Consumer Financial Protection (CFPB). The CFPB will have the authority to implement and enforce a variety of existing consumer protection statutes and to issue new regulations.

The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for depository institution holding companies in addition to those for insured depository institutions. These requirements must be no less than those to which insured depository institutions are currently subject to. As a result, in July 2015 we will become subject for the first time to consolidated capital requirements of the types to which bank holding companies have been subject.

The Dodd-Frank Act also includes provision that will change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital and make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions.

The Dodd-Frank Act also includes other provisions, subject to further rulemaking by the federal bank regulatory agencies that may affect our future operations. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

Capital Requirements

The Bank must meet regulatory capital standards to be deemed in compliance with the OTS capital requirements: (1) tangible capital must equal at least 1.5% of total adjusted assets; (2) core capital must generally equal at least 4.0% of total adjusted assets (this ratio is referred to as the leverage ratio); and (3) risk-based capital must equal at least 8.0% of total risk-based assets. In assessing an institution s capital adequacy, the OTS takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions to the extent it considers necessary.

The core capital requirement generally requires a savings institution to maintain a ratio of core capital to adjusted total assets of not less than 4% (3% for certain highly evaluated institutions not experiencing or anticipating significant growth). Core capital includes common stockholders equity (including retained earnings), non-cumulative perpetual preferred stock and any related surplus and minority interests in the equity accounts of fully consolidated subsidiaries. The amount of an institution s core capital is, in general, calculated in accordance GAAP, with certain exceptions. Intangible assets must be deducted from core capital, with certain exceptions and limitations for mortgage servicing rights and certain other intangibles, which may be included on a limited basis.

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A savings institution is required to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. Tangible capital is defined for this purpose to mean core capital less any intangible assets, plus mortgage servicing rights, subject to certain limitations.

The risk-based capital requirements provide that the capital ratios applicable to various classes of assets are to be adjusted to reflect the degree of risk associated with such assets. In addition, the asset base for computing a savings institution s capital requirement includes off-balance sheet items, including assets sold with recourse. Generally, the OTS capital regulations require savings institutions to maintain total capital equal to 8.00% of risk-weighted assets. Total capital for these purposes consists of core capital and supplementary capital. Supplementary capital includes, among other things, certain types of preferred stock and subordinated debt, subject to limitations, and, subject to certain limitations, loan and lease general valuation allowances. At December 31, 2010 and 2009, the general valuation allowance included in our supplementary capital was $4.7 million and $5.0 million, respectively. A savings institution s supplementary capital may be used to satisfy the risk-based capital requirement only to the extent of that institution s core capital.

At December 31, 2010, Broadway Federal exceeded each of these capital requirements as shown in the following table:

	As of December 31,					
	2010			2009		
	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital
	(In thousands)					
Equity capital-Broadway Federal (1)	$ 43,166	$ 43,166	$ 43,166	$ 35,514	$ 35,514	$ 35,514
Additional supplementary capital:						
General valuation allowance	-	-	4,669	-	-	5,009
Disallowed mortgage servicing rights assets	(49)	(49)	(49)	(45)	(45)	(45)
Disallowed deferred tax assets	(487)	(487)	(487)	(672)	(672)	(672)
Regulatory capital balances	42,630	42,630	47,299	34,797	34,797	39,806
Minimum requirement	7,252	19,338	29,006	7,803	20,809	31,257
Excess over requirement	$ 35,378	$ 23,292				