

BROADWAY FINANCIAL CORP \DE\
Form 10-K/A
September 14, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 2

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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)

<p>Delaware (State or other jurisdiction of incorporation or organization)</p> <p>4800 Wilshire Boulevard,</p> <p>Los Angeles, California (Address of principal executive offices)</p>	<p>95-4547287 (I.R.S. Employer Identification No.)</p> <p>90010 (Zip Code)</p> <p>(323) 634-1700 (Registrant's Telephone Number, Including Area Code)</p>
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Securities registered under Section 12(b) of the Act:

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

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

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

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 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.

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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

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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: \$2,993,000

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 9, 2012, 1,744,565 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable

Table of Contents

Explanatory Paragraph

We are filing this Amendment No. 2 (this Filing) to our Annual Report on Form 10-K for the year ended December 31, 2011 originally filed with the Securities and Exchange Commission (SEC) on March 30, 2012 (the Original Filing) in connection with the restatement of our audited consolidated financial statements to correct errors made in our determination of the appropriate provisions for losses and charge-offs during the fourth quarter of 2011. These matters are described in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data. In this Filing, we are amending the financial and statistical information set forth in the following sections of the Original Filing to reflect the restatement of our audited consolidated financial statements for the year ended December 31, 2011: Part 1, Item 1. Business and Part II, Item 7.

Management s Discussion and Analysis of Financial Condition and Results of Operations. We are also amending the disclosure in Part II, Item 9A. Controls and Procedures to reflect the related material weaknesses we discovered in our disclosure controls and procedures and internal controls over financial reporting and have included new certifications by our Chief Executive Officer and our Chief Financial Officer as Exhibits 31.1, 31.2, 32.1 and 32.2. No other changes are being made hereby to the Original Filing.

This Filing speaks as of the filing date of the Original Filing, does not reflect events or changes in circumstances that have occurred after that date, and does not modify or update any disclosures made in the Original Filing except as described above. Among other things, forward looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing (other than with respect to the restatement of our financial statements). Such forward-looking statements should be read in their historical context and in conjunction with our filings with the SEC made after the date of the Original Filing, including any amendments to those filings.

Table of Contents

TABLE OF CONTENTS

PART I

<u>Item 1. Business</u>	1
--------------------------------	---

PART II

<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
---	----

<u>Item 8. Financial Statements and Supplementary Data</u>	38
---	----

<u>Item 9A. Controls and Procedures</u>	38
--	----

<u>Item 9B. Other Information</u>	39
--	----

PART III

<u>Item 15. Exhibits and Financial Statement Schedules</u>	40
---	----

<u>Signatures</u>	41
--------------------------	----

Table of Contents

Forward-Looking Statements

Certain statements herein, including without limitation, certain 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, forecast, 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, except to the extent required by law.

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, market 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 and amount of loan losses incurred and projected to be incurred by us, increases in the amounts of our nonperforming assets, 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 or make other changes in our business operations; (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; (9) continuing difficulties in successfully completing our pending recapitalization efforts described in this report or inability to obtain and retain sufficient operating cash at our holding company level; and (10) 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.

Table of Contents

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.

The Company is currently regulated by the Board of Governors of the Federal Reserve System (FRB). The Bank is currently regulated by the Office of the Comptroller of the Currency (OCC) 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 regulatory system.

Business Overview; Recent Developments

We have experienced elevated levels of loan delinquencies and non-performing assets during the period from 2010 to the present that have resulted in operating losses. Due to these factors and an assessment of our business and assets in the course of a regulatory examination of the Bank in March 2010, the Company and the Bank were designated as being in troubled condition. The Company and the Bank agreed to the issuance of cease and desist orders to them in September 2010, which we refer to collectively as the C&Ds. The C&Ds mandated improvements in enumerated aspects of our business operations and place limitations on us, including prohibition of the payment of dividends by the Bank or the Company, or the incurrence of any new debt or payment on existing debt by the Company, in each case without prior regulatory approval. These and related matters, including our results of operations, loan delinquencies and nonperforming assets, are discussed below in this Item 1, under the caption Regulation Cease and Desist Orders and in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company is pursuing a comprehensive recapitalization plan to improve the Company's capital structure. The principal elements of the recapitalization plan include reaching agreements with the holders of the outstanding series of the Company's preferred stock to convert their respective holdings into Company common stock on negotiated terms and the concurrent sale by the Company of \$5 million or more of additional common stock in private placement transactions. Based on agreements reached with certain of the holders of our preferred stock and discussions with potential common stock investors to date, we anticipate that these transactions would, if completed, result in the issuance of approximately 11.2 million new shares of the Company's common stock, which would constitute approximately 87% of the pro forma outstanding shares of the Company's common stock. The number of shares of common stock that would be required to be issued exceeds the Company's currently authorized and unissued shares of common stock. We plan to seek shareholder approval to increase our authorized number of shares of common stock and such other shareholder approvals as may be required to complete the recapitalization. Our recapitalization plan is discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources.

The Company is in default on a bank loan in the principal amount of \$5 million and has other payment obligations, including interest payments on \$6 million of Floating Rate Junior Subordinated Debentures (which are suspended while the Company's senior debt is in default) and operating expenses that it is not currently able to pay. The Company has initiated discussion with the OCC regarding the possibility of a limited dividend by the Bank to the Company and is exploring other potential means of obtaining cash for the payment of its separate company obligations while it pursues completion of its recapitalization plans.

Table of Contents

These conditions and the Company's operating losses raise substantial doubt about the Company's ability to continue as a going concern. These and related matters, including the potential effects on the Company's financial statements and other financial information included in this report, all of which have been prepared on the basis that the Company will continue as a going concern, are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Notes 11 and 20 of the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

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.

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, 2011, our net loan portfolio totaled \$322.8 million, or 78% 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 maintain a substantial percentage of our loans that have more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2011, approximately 97% 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, 2011, we had 22 loans totaling \$13.0 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 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.

Table of Contents

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.

	2011		2010		December 31, 2009		2008		2007	
	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	\$ 76,682	22.57%	\$ 82,764	20.56%	\$ 90,747	20.03%	\$ 68,478	20.25%	\$ 35,313	11.59%
Five or more units	108,161	31.83%	128,534	31.92%	146,291	32.28%	87,679	25.93%	113,395	37.21%
Commercial real estate	54,259	15.97%	72,770	18.08%	82,276	18.16%	66,861	19.77%	59,797	19.62%
Church	89,099	26.22%	97,634	24.25%	101,007	22.29%	84,041	24.85%	70,793	23.23%
Construction	3,790	1.11%	5,421	1.35%	5,547	1.22%	5,505	1.63%	2,033	0.67%
Commercial	6,896	2.03%	12,178	3.02%	23,166	5.11%	22,357	6.61%	22,630	7.43%
Consumer	929	0.27%	3,288	0.82%	4,110	0.91%	3,246	0.96%	784	0.25%
Gross loans	339,816	100.00%	402,589	100.00%	453,144	100.00%	338,167	100.00%	304,745	100.00%
Plus: Premiums on loans purchased							2		4	
Less:										
Loans in process	202		371		822		1,499		2,356	
Deferred loan fees (costs), net	(473)		(889)		(817)		(213)		258	
Unamortized discounts	18		33		39		51		60	
Allowance for loan losses	17,299		20,458		20,460		3,559		2,051	
Total loans held for investment	\$ 322,770		\$ 382,616		\$ 432,640		\$ 333,273		\$ 300,024	
Loans held for sale	\$ 12,983		\$ 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. These loans are secured primarily by multi-family dwellings or by properties used for business purposes, such as small office buildings, health care facilities and retail facilities located in our primary market area.

Our multi-family loans amounted to \$108.2 million and \$128.5 million at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, multi-family loans represented 32% of our gross loan portfolio. All of the multi-family residential mortgage loans outstanding at December 31, 2011 were ARMs. The vast majority of our multi-family loans amortize over and mature in 30 years. As of December 31, 2011, 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, 2011, the average balance of loans in our multi-family portfolio was approximately \$374 thousand. Our ten largest multi-family loans at December 31, 2011, aggregated \$17.8 million.

Our commercial real estate loans amounted to \$54.3 million and \$72.8 million at December 31, 2011 and 2010, respectively. Commercial real estate loans represented 16% of our gross loan portfolio at December 31, 2011, compared to 18% at December 31, 2010. Of the commercial real estate loans outstanding at December 31, 2011, 6% were fixed rate loans and 94% 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, 2011, our single largest commercial real estate credit had an outstanding principal balance of \$2.7 million, was current and was secured by a commercial building located in Los

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Angeles, California. At December 31, 2011, the average balance of loans in our commercial real estate portfolio was approximately \$533 thousand. Our ten largest commercial real estate loans at December 31, 2011, aggregated \$19.1 million.

Table of Contents

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.

Loans 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 of the collateral.

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 coverage 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. As of December 31, 2011, we had no large out-of-state loans remaining.

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. Our church loans totaled \$89.1 million and \$97.6 million at December 31, 2011 and 2010, 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

Table of Contents

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 \$76.7 million and \$82.8 million at December 31, 2011 and 2010, respectively. Single-family loans represented 23% of our gross loan portfolio at December 31, 2011, compared to 21% at December 31, 2010. Of the single-family residential mortgage loans outstanding at December 31, 2011, 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 \$6.9 million and \$12.2 million at December 31, 2011 and 2010, respectively. At December 31, 2011, commercial loans represented 2% of our gross loan portfolio, compared to 3% at December 31, 2010. Of the commercial loans outstanding at December 31, 2011, 10% were fixed rate loans and 90% were ARMs. As of December 31, 2011, our single largest commercial credit had a total outstanding principal balance of \$2.0 million and is the only remaining loan to a sports franchise. The loan has been modified and termed-out in October 2011. The borrower has been performing per the modified terms.

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.

Construction Lending

At December 31, 2011 and 2010, we had \$3.8 million and \$5.4 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.

Table of Contents

Construction loans involve risks that are different from those for completed project lending because we advance loan funds based upon the security and estimated value at completion of the 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, 2011 and 2010, loans secured by savings accounts totaled \$821 thousand and \$3.3 million, respectively, representing less than 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. We currently are not originating loans secured by savings accounts.

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 Credit 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 years ended December 31, 2011 and 2010.

Table of Contents

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, 2011, we had 22 loans totaling \$13.0 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, 2011 and 2010, we had \$362 thousand and \$487 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, 2011 and 2010, we were servicing \$36.5 million and \$46.5 million, respectively, of loans for others.

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

	2011	2010 (In thousands)	2009
Gross loans:			
Beginning balance	\$ 433,281	\$ 475,078	\$ 363,003
Loans originated:			
One to four-units	619	2,369	35,635
Five or more units	2,986	10,683	41,567
Commercial real estate	364	1,056	26,786
Church		395	19,847
Construction			381
Commercial	1,148	2,817	7,047
Consumer		133	1,619
Total loans originated	5,117	17,453	132,882
Loan purchased:			
Five or more units			21,813
Commercial real estate			
Total loans purchased			21,813
Less:			
Principal repayments	44,236	37,463	34,928
Sales of loans	12,231	11,410	2,892
Loan charge-offs	17,643	5,372	2,728
Transfer of loans receivable to real estate owned	10,815	5,005	2,072
Ending balance (1)	\$ 353,473	\$ 433,281	\$ 475,078

- (1) Includes loans held-for-sale totaling \$13.7 million, \$30.7 million and \$21.9 million at December 31, 2011, 2010 and 2009, respectively, exclusive of a \$674 thousand, \$1.3 million and \$994 thousand valuation allowance at December 31, 2011, 2010 and 2009, respectively.

Table of Contents**Loan Maturity and Repricing**

The following table sets forth the contractual maturities of our gross loans receivable at December 31, 2011 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	\$ 283	\$ 898	\$ 3,129	\$ 3,724	\$ 2,988	\$ 2,050	\$ 846	\$ 13,918
After one year:								
One year to five years	395	19	2,621	797	802	2,396	13	7,043
After five years	76,004	107,244	48,509	84,578		2,450	70	318,855
Total due after one year	76,399	107,263	51,130	85,375	802	4,846	83	325,898
Total	\$ 76,682	\$ 108,161	\$ 54,259	\$ 89,099	\$ 3,790	\$ 6,896	\$ 929	\$ 339,816

The following table sets forth the dollar amount of gross loans receivable, excluding loans held for sale, at December 31, 2011 which are contractually due after December 31, 2012, and whether such loans have fixed interest rates or adjustable interest rates.

	December 31, 2011		Total
	Adjustable	Fixed	
(Dollars in thousands)			
One to four-units	\$ 74,416	\$ 1,983	\$ 76,399
Five or more units	107,263		107,263
Commercial real estate	50,605	525	51,130
Church	85,375		85,375
Construction	500	302	802
Commercial	4,396	450	4,846
Consumer	13	70	83
Total	\$ 322,568	\$ 3,330	\$ 325,898
% of total	98.98%	1.02%	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.

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 are adversely affected by the deterioration in the quality of our loan portfolio. 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 third party loan reviews, and employing active collection and workout processes for delinquent or problem loans.

Table of Contents**Delinquencies**

We perform a monthly review of all delinquent loans and loan delinquency 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 non-payment 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.

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

	December 31, 2011				December 31, 2010				December 31, 2009			
	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
One to four-units	5	\$ 2,464	18	\$ 7,974	3	\$ 71	15	\$ 6,227	8	\$ 4,194	10	\$ 4,756
Five or more units	1	63	10	5,946	4	1,068	4	2,250	5	2,622	4	1,644
Commercial real estate	1	525	14	5,787	1	1,287	14	10,321	4	2,527	6	6,061
Church	3	1,440	33	24,669	7	5,230	23	18,281	7	5,149	20	12,942
Construction	1	264	1	302			1	320				
Commercial							2	3,768			4	7,269
Consumer			1	70			2	2,265			1	2,249
Total	11	\$ 4,756	77	\$ 44,748	15	\$ 7,656	61	\$ 43,432	24	\$ 14,492	45	\$ 34,921
Delinquent loans to total gross loans, including loans held for sale		1.35%		12.66%		1.77%		10.02%		3.05%		7.35%

Non-Performing Assets

Non-performing assets (NPAs) include non-accrual loans and real estate owned through foreclosure or deed in lieu of foreclosure (REO). NPAs at December 31, 2011 were \$51.4 million, or 12.43% of total assets, compared to \$53.3 million, or 12.63% of total assets, at September 30, 2011 and \$46.5 million, or 9.60% of total assets, at December 31, 2010. At December 31, 2011, non-accrual loans were \$44.7 million compared to \$48.0 million at September 30, 2011 and \$43.4 million December 31, 2010. These loans consist of delinquent loans that are 90 days or more past due and troubled debt restructurings (TDRs) that do not qualify for accrual status.

Table of Contents

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

	2011	2010	December 31, 2009	2008	2007
	(Dollars in thousands)				
Non-accrual loans:					
One to four-units	\$ 7,974	\$ 6,227	\$ 4,756	\$	\$
Five or more units	5,946	2,250	1,644	200	
Commercial real estate	5,787	10,321	6,061	541	
Church	24,669	18,281	12,942	2,578	
Construction	302	320			
Commercial		3,768	7,269	110	
Consumer	70	2,265	2,249	34	34
Total non-accrual loans	44,748	43,432	34,921	3,463	34
Loans delinquent 90 days or more and still accruing					
Real estate owned acquired through foreclosure	6,699	3,036	2,072		
Total non-performing assets	\$ 51,447	\$ 46,468	\$ 36,993	\$ 3,463	\$ 34
Non-accrual loans as a percentage of gross loans, including loans held for sale					
	12.66%	10.02%	7.35%	0.95%	0.01%
Non-performing assets as a percentage of total assets					
	12.43%	9.60%	7.10%	0.85%	0.01%

No accruing loans were contractually past due by 90 days or more at December 31, 2011 or 2010. We had no commitments to lend additional funds to borrowers whose loans were on non-accrual status at December 31, 2011.

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 non-accrual status, interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

We may 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 non-accrual 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 non-accrual loans totaled \$19.4 million at December 31, 2011 and \$14.6 million at December 31, 2010. Excluded from non-accrual loans are restructured loans that were not delinquent at the time of modification or 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 \$17.7 million at December 31, 2011 and \$22.5 million at December 31, 2010.

During 2011, gross interest income that would have been recorded on non-accrual loans had they performed in accordance with their original terms, totaled \$3.8 million. Actual interest recognized on non-accrual loans and included in net earnings for the year 2011 was \$1.6 million.

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.

Table of Contents

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, 2011, we had \$6.7 million in REO, which consisted of three one-to-four family residential properties, four commercial real estate properties and six church buildings. We had \$3.0 million in REO at December 31, 2010.

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.

Our Internal Asset Review Department reviews and classifies our assets and independently reports the results of its reviews to the Internal Asset Review Committee of our Board of Directors monthly. The following table provides information regarding our classified assets at the dates indicated.

	December 31, 2011		December 31, 2010	
	Number of loans	Principal balance of loans (Dollars in thousands)	Number of loans	Principal balance of loans
Special Mention	59	\$ 38,776	72	\$ 38,333
Substandard	115	76,241	118	94,054
Doubtful	11	1,692	1	270
Loss			2	16
Total	185	\$ 116,709	193	\$ 132,673

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 are required to maintain an adequate allowance for loan losses in accordance with U.S. generally accepted accounting principles (GAAP). Our allowance for loan losses represents our 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. It is intended to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable. There can be no assurance, however, that actual losses incurred will not exceed the amount of management's estimates.

We have an Internal Asset Review Department that issues reports to the Board of Directors and continually reviews loan quality. This analysis includes a detailed review of the classification and categorization of problem loans, potential problem loans and loans to be charged off, an assessment of the overall quality and collectability of the

Table of Contents

portfolio, and concentration of credit risk. Management then evaluates the allowance, determines its appropriate level and the need for additional provisions, and presents its analysis to the Board of Directors which ultimately reviews and approves management's recommendation.

The allowance for loan losses is increased by the provision for loan losses charged to earnings. The allowance for loan losses is decreased by the amount of charge-offs, net of recoveries. The provision is the expense recognized in the consolidated statements of operations to adjust the allowance to the level deemed appropriate by management, as determined by our allowance methodology that considers a number of quantitative and qualitative factors, including the amount of non-performing loans, our loss experience, conditions in the real estate and housing markets, current economic conditions, particularly increasing levels of unemployment, and changes in the size of the loan portfolio.

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, 2011, impaired loans totaled \$56.3 million and had an aggregate specific allowance allocation of \$3.9 million.

The general component of the allowance for loan losses covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Each month, we prepare an analysis which categorizes the entire loan portfolio by certain risk characteristics such as loan type (one- to four-family, multi-family, commercial real estate, construction, commercial and industrial and consumer) and loan classification (pass, special mention, substandard and doubtful). We assign estimated loss factors to the loan classification categories on the basis of our assessment of the potential risk inherent in each loan type. These factors are periodically reviewed for appropriateness giving consideration to our historical loss experience, 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.

In addition to loss experience and environmental factors, we use qualitative analyses to determine the adequacy of our allowance for loan losses. This analysis includes ratio analysis to evaluate the overall measurement of the allowance for loan losses and comparison of peer group reserve percentages. The qualitative review is used to reassess the overall determination of the allowance for loan losses and to ensure that directional changes in the allowance for loan losses and the provision for loan losses are supported by relevant internal and external data.

Table of Contents

In addition to the requirements of 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 OCC. The OCC, in conjunction with the other federal banking agencies, provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate valuation allowances and guidance for banking agency examiners to use in determining the adequacy of valuation allowances. It is required that all institutions have effective systems and controls to identify, monitor and address asset quality problems, analyze all significant factors that affect the collectability of the portfolio in a reasonable manner and establish acceptable allowance evaluation processes that meet the objectives of the federal regulatory agencies. 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, 2011. In addition, there can be no assurance that the OCC 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.

Based on our evaluation and feedback from our regulators and an independent third party review of our loan portfolio, we determined that an allowance for loan losses of \$17.3 million was required at December 31, 2011, down from \$20.5 million at December 31, 2010.

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

	2011	2010	2009	2008	2007
	(Dollars in thousands)				
Allowance balance at beginning of year	\$ 20,458	\$ 20,460	\$ 3,559	\$ 2,051	\$ 1,730
Charge-offs:					
One-to-four units	(896)	(1,999)	(1,631)		
Five or more units	(438)	(21)	(200)		
Commercial real estate	(4,544)	(210)			
Church	(3,787)		(667)		
Commercial	(3,916)	(1,738)	(156)		
Consumer	(1,843)	(504)	(74)	(3)	
Total charge-offs	(15,424)	(4,472)	(2,728)	(3)	
Recoveries:					
One-to-four units					
Five or more units	2			139	
Commercial real estate	15				
Church	4				
Commercial	67				
Consumer	24	5			
Total recoveries	112	5		139	
Provision charged to earnings	12,153	4,465	19,629	1,372	321
Allowance balance at end of year	\$ 17,299	\$ 20,458	\$ 20,460	\$ 3,559	\$ 2,051
Net charge-offs (recoveries) to average loans, excluding loans held for sale	3.85%	0.97%	0.64%	(0.04%)	0.00%
Allowance for loan losses as a percentage of gross loans, excluding loans held for sale	5.09%	5.08%	4.52%	1.06%	0.68%
Allowance for loan losses as a percentage of total nonaccrual loans	38.66%	47.10%	58.59%	102.77%	6032.35%
Allowance for loan losses as a percentage of total non-performing assets	33.62%	44.03%	55.31%	102.77%	6032.35%

Table of Contents

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.

	2011		2010		December 31, 2009		2008		2007	
	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	\$ 4,855	22.57%	\$ 4,579	20.56%	\$ 4,292	20.03%	\$ 239	20.25%	\$ 89	11.59%
Five or more units	2,972	31.83%	2,469	31.92%	1,650	32.28%	688	25.93%	612	37.21%
Commercial real estate	3,108	15.97%	3,493	18.08%	1,877	18.16%	745	19.77%	644	19.62%
Church	5,742	26.22%	6,909	24.25%	9,257	22.29%	809	24.85%	360	23.23%
Construction	249	1.11%	74	1.35%	87	1.22%	58	1.63%	54	0.67%
Commercial	247	2.03%	1,300	3.02%	2,018	5.11%	621	6.61%	245	7.43%
Consumer	126	0.27%	1,634	0.82%	1,279	0.91%	265	0.96%	47	0.25%
Unallocated							134			
Total allowance for loan losses	\$ 17,299	100.00%	\$ 20,458	100.00%	\$ 20,460	100.00%	\$ 3,559	100.00%	\$ 2,051	100.00%

While the allowance is allocated by loan type above, the allowance is general in nature and is available for the portfolio in its entirety. The lower levels of allowance in 2011 compared to 2010 and 2009 reflect a decrease in the size of our loan portfolio, an increase in the number of non-performing loans that were charged-off and reported at the fair value of the collateral less estimated selling costs and to a lesser extent, a slight improvement in the credit quality of our loan portfolio.

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, 2011, our securities portfolio consisted primarily of residential mortgage-backed securities and totaled \$19.0 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. On December 30, 2011, all of the held-to-maturity securities, which had a total carrying amount of \$10.5 million, were transferred to the available-for-sale portfolio at fair value of \$11.0 million.

Table of Contents

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

	2011		December 31, 2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(In thousands)						
Available-for-sale:						
Residential mortgage-backed securities	\$ 17,884	\$ 17,910	\$ 10,524	\$ 10,524	\$ 14,961	\$ 14,961
U.S. Government and federal agency	1,000	1,069				
Held-to-maturity:						
Residential mortgage-backed securities			11,737	12,162	15,285	15,745
U.S. Government and federal agency			1,000	1,099	1,000	1,093
Total	\$ 18,884	\$ 18,979	\$ 23,261	\$ 23,785	\$ 31,246	\$ 31,799

The table below sets forth certain information regarding the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2011. The table reflects stated final maturities and does not reflect scheduled principal payments.

	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
At December 31, 2011 (Dollars in thousands)										
Available-for-sale:										
Residential mortgage-backed securities	\$	%	\$	%	\$ 3,505	3.92%	\$ 14,379	3.20%	\$ 17,884	3.35%
U.S. Government and federal agency		%	1,000	5.00%		%		%	1,000	5.00%
Total	\$	%	\$ 1,000	5.00%	\$ 3,505	3.92%	\$ 14,379	3.20%	\$ 18,884	3.43%

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.

Table of Contents

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 deposit 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, 2011, we had approximately \$9.2 million in brokered deposits, of which \$384 thousand were obtained through CDARS. This compared to \$18.2 million in brokered deposits at December 31, 2010, of which \$8.9 million were obtained through 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, 2011.

	December 31, 2011	
	Amount	Weighted average rate
	(Dollars in thousands)	
Certificates maturing:		
Less than three months	\$ 9,632	0.92%
Three to six months	46,338	2.23%
Six to twelve months	12,620	1.55%
Over twelve months	59,546	1.84%
Total	\$ 128,136	1.88%

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,								
	2011			2010			2009		
	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	\$ 24,063	7.52%	0.41%	\$ 27,701	7.16%	0.66%	\$ 33,719	9.41%	1.57%
Passbook deposits	38,177	11.93%	0.34%	37,574	9.71%	0.43%	37,763	10.54%	0.82%
NOW and other demand deposits	42,210	13.19%	0.09%	47,077	12.16%	0.22%	64,967	18.13%	1.17%
Certificates of deposit	215,611	67.36%	1.96%	274,641	70.97%	1.99%	221,863	61.92%	2.40%
Total	\$ 320,061	100.00%	1.40%	\$ 386,993	100.00%	1.53%	\$ 358,312	100.00%	1.93%

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, 2011, we had outstanding \$83.0 million in FHLB advances and had the ability to borrow up to an additional \$5.2 million based on available and pledged collateral.

Table of Contents

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

	At or For the Year Ended		
	2011	2010	2009
	(Dollars in thousands)		
FHLB Advances:			
Average balance outstanding during the year	\$ 86,967	\$ 87,897	\$ 76,433
Maximum amount outstanding at any month-end during the year	\$ 87,000	\$ 88,000	\$ 91,600
Balance outstanding at end of year	\$ 83,000	\$ 87,000	\$ 91,600
Weighted average interest rate during the year	3.10%	3.33%	3.70%
Weighted average interest rate at end of year	3.09%	3.24%	3.23%

On March 17, 2004, the Company issued \$6.0 million of Floating Rate Junior Subordinated Debentures in a private placement. The debentures mature in 10 years 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 3.10% at December 31, 2011. In September 2010, the Company stopped paying interest on the debentures and the senior line of credit discussed below. As disclosed below in Regulation Cease and Desist Orders and in Note 16 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 OCC. 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, the Company borrowed an aggregate of \$5.0 million under its \$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 increases by an additional 5% in the event of default. Borrowings under this line of credit are secured by all of the Company's assets. The full amount of this borrowing became due and payable on July 31, 2010. This senior line of credit has not been repaid and the Company is 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 OCC. 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 two banking offices in Los Angeles, one banking office located in the nearby City of Inglewood and a loan production office in the City of Torrance.

The Los Angeles metropolitan area is a highly competitive market in which we face substantial 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, 2011, we had 76 employees, which consisted of 71 full-time and 5 part-time employees. We believe that we have good relations with our employees and none are represented by a collective bargaining group.

Table of Contents

Regulation

General

Broadway Federal is regulated by the OCC, as its primary federal regulator, and by the FDIC, as its deposit insurer. We, as a savings and loan holding company, are regulated, examined and supervised by the FRB. The Bank is subject to regulation and examination by the OCC 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 OCC has primary enforcement responsibility over federally chartered savings associations and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, particularly with respect to its capital requirements. In addition, the FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular federally chartered savings association and, if action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances.

Broadway Federal is a member of the FHLB System. The Bank is subject to the regulations of the 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.

Changes in the applicable laws or regulations of the OCC, the FDIC, the FRB 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 the 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&Ds. The C&Ds, which are now administered by the OCC with respect to the Bank and the FRB with respect to the Company, impose 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 OCC.

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 OCC.

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 OCC.

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 FRB.

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 OCC.

Table of Contents

The C&Ds also required that we develop and implement plans for improvement of various aspects of our business, including a plan for the Company to raise capital sufficient to enable the Bank to maintain a Tier 1 (Core) Capital ratio of at least 8.00% and a Total Risk-Based Capital ratio of at least 12% and plans for the Bank detailing how it will maintain such capital ratios, and how the Bank will address required corrective actions identified by the regulators in the course of their examination of the Bank, reduce the levels of its classified assets and improve the Bank's liquidity and liquidity planning. The Bank was also required by the C&Ds to obtain an independent third party review of its loan portfolio and of its allowance for loan losses to assess whether the Bank's allowance for loan losses methodology is consistent with regulatory requirements and guidance, and to reduce the Bank's concentration of church loans.

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

Increased the Bank's liquid assets to \$50.6 million at December 31, 2011, from \$32.5 million at December 31, 2010 and \$22.4 million at December 31, 2009;

Substantially reduced the Bank's brokered deposits to \$9.2 million at year-end 2011, from \$18.2 million at year end 2010 and \$101.0 million at year-end 2009;

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 (the 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, the OTS, our previous primary federal regulator, was merged into the OCC, which has taken over the regulation of all federal savings associations. The FRB acquired the OTS' authority over all savings and loan holding companies.

The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and certain non-bank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject to. As a result, by July 2015, we will become subject to consolidated capital requirements which we have not been subject to previously.

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 December 31, 2012 for non-interest bearing demand transaction accounts at all insured depository institutions.

The Dodd-Frank Act also provides for the creation of the Bureau of Consumer Financial Protection (CFPB). The CFPB will have the authority to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices.

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.

Table of Contents**Capital Requirements**

The OCC capital regulations require federally chartered savings associations to meet three minimum capital ratios: (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 OCC 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.

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 OCC 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, 2011 and 2010, the general valuation allowance included in our supplementary capital was \$3.9 million and \$4.7 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, 2011, Broadway Federal exceeded each of these capital requirements as shown in the following table:

	2011		As of December 31,		2010	
	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)	\$ 30,997	\$ 30,997	\$ 30,997	\$ 43,166	\$ 43,166	\$ 43,166
Additional supplementary capital:						
General valuation allowance			3,921			4,669
Disallowed mortgage servicing rights assets	(36)	(36)	(36)	(49)	(49)	(49)
Disallowed deferred tax assets				(487)	(487)	(487)
Regulatory capital balances	30,961	30,961	34,882	42,630	42,630	47,299
Minimum requirement	6,396	17,055	24,026	7,252	19,338	29,006
Excess over requirement	\$ 24,565	\$ 13,906	\$ 10,856	\$ 35,378	\$ 23,292	\$ 18,293

(1) Excluding accumulated other comprehensive income, net of taxes.

Table of Contents**Prompt Corrective Action**

The Federal Deposit Insurance Corporation Improvement Act (FDICIA) provides a framework for the regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. Among other things, it requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Generally, a capital restoration plan must be filed with the OCC within 45 days of the date an association receives notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized, and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. Under the OCC regulations, generally, an institution is treated as well capitalized if its Total Risk-based capital ratio is 10% or greater, its Tier 1 Risk-based capital ratio is 6% or greater and its Leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level.

In addition to the generally applicable capital requirements summarized above, the C&D requires the Bank to attain, and thereafter maintain, a Leverage ratio of at least 8% and a Total Risk-based capital ratio of at least 12%, both of which ratios are greater than the respective 5% and 10% levels for such ratios that are generally required under OCC regulations. The Bank did not meet the minimum capital requirements under the cease and desist order at December 31, 2011.

Actual and normally required capital amounts and ratios at December 31, 2011 and December 31, 2010, together with the higher capital requirements that the Bank is required to meet under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
(Dollars in thousands)								
December 31, 2011:								
Tangible Capital to adjusted total assets	\$ 30,961	7.27%	\$ 6,396	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 30,961	7.27%	\$ 17,055	4.00%	\$ 21,319	5.00%	\$ 34,111	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 30,961	10.31%	N/A	N/A	\$ 18,019	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 34,882	11.61%	\$ 24,026	8.00%	\$ 30,032	10.00%	36,039	12.00%
December 31, 2010:								
Tangible Capital to adjusted total assets	\$ 42,630	8.82%	\$ 7,252	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 42,630	8.82%	\$ 19,338	4.00%	\$ 24,172	5.00%	\$ 38,676	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 42,630	11.76%	N/A	N/A	\$ 21,754	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 47,299	13.05%	\$ 29,006	8.00%	\$ 36,257	10.00%	43,508	12.00%

Table of Contents

Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions, up to prescribed statutory limits for each depositor, through its Deposit Insurance Fund (DIF). Pursuant to Dodd-Frank, the maximum deposit insurance amount has been permanently increased to \$250,000 and the full amounts of all noninterest-bearing transaction accounts are insured through December 31, 2012.

The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to the FDIC s Deposit Insurance Fund. The amount of the assessment paid by an institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC s overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. Since the beginning of the financial crisis in 2008, there have been higher levels of bank failures. These failures have dramatically increased the resolution costs of the FDIC and have substantially reduced the available amount of the DIF. On November 12, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

As required by Dodd-Frank, the FDIC adopted a new Deposit Insurance Fund restoration plan which became effective on January 1, 2011. Among other things, the plan increased the minimum designated reserve ratio for the DIF from 1.15% to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that in setting the assessments necessary to meet the new requirement, the FDIC shall offset the effect of this provision on insured depository institutions with total consolidated assets of less than \$10 billion, so that more of the cost of raising the reserve ratio will be borne by the institutions with more than \$10 billion in assets.

On February 7, 2011, as mandated by Dodd-Frank, the FDIC approved a final rule that redefines the deposit insurance premium assessment base to be an institution s average consolidated total assets minus average tangible equity and adopts a new assessment rate schedule, as well as alternative rate schedules that become effective when the reserve ratio reaches certain levels. The final rule also makes conforming changes to the unsecured debt and brokered deposit adjustments to assessment rates, eliminates the secured liability adjustment and creates a new assessment rate adjustment for unsecured debt held that is issued by another insured depository institution. The new rate schedule and other revisions to the assessment rules became effective for the quarter beginning April 1, 2011.

The FDIC may terminate a depository institution s deposit insurance upon a finding that the institution s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank s depositors.

All FDIC-insured institutions are also required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (FICO), an agency of the Federal government established to recapitalize the predecessor to the DIF. The FICO assessment rates are determined quarterly. Beginning April 1, 2011 the assessment rates are based on the level of risk-based assets. Prior to April 2011, the assessment rates were based on deposit levels. As of December 31, 2011, the assessment rate was 0.0066%. These assessments will continue until the FICO bonds mature in 2017.

Guidance on Commercial Real Estate Lending

In October 2009, the federal banking agencies adopted a policy statement supporting commercial real estate (CRE) loan workouts, which is referred to as the CRE Policy Statement. The CRE Policy Statement provides guidance for examiners, and for financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The CRE Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The CRE Policy Statement states that financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The CRE Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing institutions risk-management practices for loan workout activities.

Table of Contents

Loans to One Borrower

Savings institutions generally are subject to the lending limits that are applicable to national banks. With certain limited exceptions, the maximum amount that a savings institution may lend to any borrower (including certain related persons or entities of such borrower) is an amount equal to 15% of the savings institution's unimpaired capital and unimpaired surplus, or \$6.7 million for Broadway Federal at December 31, 2011, plus an additional 10% for loans fully secured by readily marketable collateral. Real estate is not included within the definition of readily marketable collateral for this purpose. We are in compliance with the applicable loans to one borrower limitations. At December 31, 2011, our largest aggregate amount of loans to one borrower totaled \$4.6 million. Both of the loans for the largest borrower were performing in accordance with their terms and the borrower had no affiliation with Broadway Federal.

Community Reinvestment Act

The Community Reinvestment Act (CRA) requires each savings institution, as well as other lenders, to identify the communities served by the institution's offices and to identify the types of credit the institution is prepared to extend within those communities. The CRA also requires the OCC to assess the performance of the institution in meeting the credit needs of its communities as part of its examination of a savings institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of a savings institution's CRA performance, the OCC assigns ratings of outstanding, satisfactory, needs to improve or substantial noncompliance. The Bank was rated outstanding in its most recent CRA examination.

Qualified Thrift Lender Test

The Home Owners Loan Act (HOLA) requires savings institutions to meet a Qualified Thrift Lender (QTL) test. Under the QTL test, a savings association is required to maintain at least 65% of its portfolio assets (total assets less (1) specified liquid assets up to 20% of total assets, (2) intangibles, including goodwill, and (3) the value of property used to conduct business) in certain qualified thrift investments on a monthly basis during at least 9 out of every 12 months. Qualified thrift investments include, in general, loans, securities and other investments that are related to housing, shares of stock issued by any Federal Home Loan Bank, loans for educational purposes, loans to small businesses, loans made through credit cards or credit card accounts and certain other permitted thrift investments. A savings institution's failure to remain a QTL may result in conversion of the institution to a bank charter or operation under certain restrictions including limitations on new investments and activities, and the imposition of the restrictions on branching and the payment of dividends that apply to national banks. At December 31, 2011, the Bank was in compliance with the QTL test requirements.

The USA Patriot Act, Bank Secrecy Act (BSA), and Anti-Money Laundering (AML) Requirements

The USA PATRIOT Act was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on savings associations. Financial institutions must have a number of programs in place to comply with this law, including: (i) a program to manage BSA/AML risk; (ii) a customer identification program designed to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorist or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions.

Table of Contents

Privacy Protection

Broadway Federal is subject to OCC regulations implementing the privacy protection provisions of federal law. These regulations require Broadway Federal to disclose its privacy policy, including identifying with whom it shares nonpublic personal information, to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require Broadway Federal to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, Broadway Federal is required to provide its customers with the ability to opt-out of having Broadway Federal share their nonpublic personal information with unaffiliated third parties.

Broadway Federal is also subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Savings and Loan Holding Company Regulation

As a savings and loan holding company, we are subject to certain restrictions with respect to our activities and investments. Among other things, we are generally prohibited, either directly or indirectly, from acquiring more than 5% of the voting shares of any savings association or savings and loan holding company that is not a subsidiary of the Company.

FRB and OCC approval must be obtained prior to any person acquiring control of the Company or Broadway Federal, respectively. Control is conclusively presumed to exist if, among other things, a person acquires more than 25% of any class of voting stock of the institution or holding company or controls in any manner the election of a majority of the directors of the insured institution or the holding company and may be presumed to exist at lower levels of ownership under certain circumstances.

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit an OCC-regulated savings association from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, OCC regulations limit certain capital distributions by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and payments of cash to stockholders in mergers.

Under the OCC capital distribution regulations, a savings association that is a subsidiary of a savings and loan holding company must notify the OCC at least 30 days prior to the declaration of any capital distribution by its savings association subsidiary. The 30-day period provides the OCC an opportunity to object to the proposed dividend if it believes that the dividend would not be advisable.

An application to the OCC for approval to pay a dividend is required if: (a) the total of all capital distributions made during that calendar year (including the proposed distribution) exceeds the sum of the institution's year-to-date net income and its retained income for the preceding two years; (b) the institution is not entitled under OCC regulations to expedited treatment (which is generally available to institutions the OCC regards as well run and adequately capitalized); (c) the institution would not be at least adequately capitalized following the proposed capital distribution; or (d) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institution by the OCC.

As previously noted, the C&D issued by the OTS, which are now administered by the OCC with respect to the Bank and the FRB with respect to the Company, prohibits the Bank and Company from declaring or paying any dividends or

Table of Contents

making any other capital distributions without the prior written approval of the OCC and the FRB, respectively. The Bank's ability to pay dividends to the Company is also subject to the restriction that the Bank is not permitted to pay dividends to the Company if its regulatory capital would be reduced below the amount required for the liquidation account established in connection with the conversion of the Bank from the mutual to the stock form of organization.

See Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" and Note 16 "Regulatory Capital Matters and Capital Purchase Program" of the Notes to Consolidated Financial Statements for a further description of dividend and other capital distribution limitations to which the Company and the Bank are subject.

Tax Matters

Federal Income Taxes

We report our income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with certain exceptions, including particularly the Bank's tax reserve for bad debts. The Bank has qualified under provisions of the Internal Revenue Code (the "Code") that in the past allowed qualifying savings institutions to establish reserves for bad debts, and to make additions to such reserves, using certain preferential methodologies. Under the relevant provisions of the Code as currently in effect, a small bank (a bank with \$500 million or less of assets) may continue to utilize a reserve method of accounting for bad debts, under which additions to reserves are based on the institution's six-year average loss experience. Broadway Federal qualifies as a small bank and has utilized the reserve method of accounting for bad debts based on its actual loss experience.

California Taxes

As a savings and loan holding company filing California franchise tax returns on a combined basis with its subsidiaries, the Company is subject to California franchise tax at the rate applicable to financial corporations. The applicable tax rate is the rate for general corporations plus 2%. Under California regulations, bad debt deductions are available in computing California franchise taxes using a three or six year average loss experience method.

Table of Contents**PART II****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and other factors that have affected our reported results of operations and financial condition or may affect our future results or financial condition. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

The following discussion of our financial condition and results of operations has been revised from that contained in our Annual Report on Form 10-K for the year ended December 31, 2011 that we filed with the SEC on March 30, 2012 to reflect the restatement of our audited consolidated financial statements for that year. The restatement related to corrections of errors made in our determination of the appropriate provisions for losses and charge-offs during the fourth quarter of 2011. The errors resulted from failure in connection with preparation of our financial statements to obtain and take into account certain appraisals of the values of properties securing impaired loans that had been ordered and received by the Bank prior to the issuance date of our financial statements and failure to follow appropriate methods for calculating expected future payments on loans in connection with our discounted cash flow analysis for measuring impairment of loans deemed to be troubled debt restructurings. In addition, certain appraisals received after year-end 2011 indicated that impairment losses that had been determined using values based on broker provided opinions of value (BPOs) understated the losses inherent in those loans. The cumulative effect of these corrections is an increase in net losses of \$4.7 million. Following is a summary of the effects of these corrections on the Company's consolidated balance sheet as of December 31, 2011 and the Company's consolidated statement of operations for fiscal the year ended December 31, 2011:

	As Originally Filed December 31, 2011	Adjustments	As Restated December 31, 2011
		(In thousands, except per share)	
BALANCE SHEET			
Loans receivable held for sale, net	\$ 13,857	\$ (874)	\$ 12,983
Loans receivable, net	\$ 326,323	\$ (3,553)	\$ 322,770
Real estate owned (REO)	\$ 7,010	\$ (311)	\$ 6,699
Stockholders' Equity	\$ 23,013	\$ (4,737)	\$ 18,276
STATEMENT OF OPERATIONS			
Provision for loan losses	\$ 8,600	\$ 3,553	\$ 12,153
Provision for losses on loans held for sale	\$ 738	\$ 874	\$ 1,612
Provision for losses on REO	\$ 2,343	\$ 311	\$ 2,654
Net loss	\$ 9,517	\$ 4,738	\$ 14,255
Comprehensive loss	\$ 9,209	\$ 4,738	\$ 13,947
Earnings (loss) per common share-basic	\$ (6.10)	\$ (2.71)	\$ (8.81)
Earnings (loss) per common share-diluted	\$ (6.10)	\$ (2.71)	\$ (8.81)

Table of Contents

Overview

The economic conditions in which we operate continued to be challenging through 2011. While there has been moderate job growth during 2011 and the national unemployment rate declined to 8.5% for December 2011, compared to 9.4% for December 2010, the unemployment rate remains substantially higher in Southern California where we operate and softness in the housing and real estate markets persists, consumer confidence remains less than strong and interest rates remain at historic lows. In addition to the economic environment, the regulation and oversight of our business changed during 2011. As described in more detail in Item 1 Regulation, certain aspects of the Dodd-Frank Act have had and will continue to have an impact on us, including the combination on July 21, 2011 of our former primary banking regulator, the OTS, with the OCC, and transfer of the OTS's responsibilities as regulator of savings and loan holding companies to the FRB, the imposition of consolidated holding company capital requirements and changes to deposit insurance assessments.

Total assets decreased during the year 2011 primarily due to a decrease in our loan portfolio. The decrease in loans primarily reflects reduced levels of loan originations and purchases as well as elevated levels of loan repayments during 2011 as a result of continued low market interest rates. The decline in assets also reflects our strategy throughout 2011 to maintain our capital ratios above the required regulatory thresholds and strengthen our liquidity and deposit base, in part by reducing both potential problem loans and non-performing assets.

Total deposits decreased during 2011, as we continued to allow maturing certificates of deposit and brokered deposits, including deposits obtained through the CDARS reciprocal deposit referral system, to run off as total assets declined. Since the end of 2010, FHLB borrowings decreased by \$4.0 million while subordinated debentures and other borrowings remained unchanged.

Our net losses for the year ended December 31, 2011 were (\$14.3) million, compared to net earnings of \$1.9 million for the same period a year ago. The net loss was primarily due to higher provision for losses, lower net interest income, lower non-interest income and higher income tax provision expense, which resulted from tax provision true-ups and an increase in the valuation allowance against our federal and state deferred tax assets.

Analysis of Net Interest Income

Net interest income is the difference between income on interest-earning assets and the expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. The following table sets forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred loan fees, and discounts and premiums that are amortized or accreted to interest income or expense. We do not accrue interest on loans on non-accrual status; however, the balance of these loans is included in the total average balance, which has the effect of reducing average loan yields.

Table of Contents

	For the Year Ended December 31,								
	2011			2010			2009		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets									
Interest-earning assets:									
Interest-earning deposits	\$ 6,271	\$ 14	0.22%	\$ 4,224	\$ 10	0.24%	\$ 8,051	\$ 83	1.03%
Federal Funds sold and other short-term investments	17,881	14	0.08%	20,968	23	0.11%	1,281	2	0.16%
Investment securities	1,000	50	5.00%	1,000	50	5.00%	1,000	50	5.00%
Residential mortgage-backed securities	19,388	650	3.35%	25,761	914	3.55%	26,795	1,158	4.32%
Loans receivable (1)(2)	397,402	24,376	6.13%	462,800	29,047	6.28%	429,040	27,669	6.54%
FHLB stock	4,089	11	0.27%	4,336	19	0.44%	4,140	9	0.22%
Total interest-earning assets	446,031	\$ 25,115	5.63%	519,089	\$ 30,063	5.79%	470,307	\$ 28,971	6.24%
Non-interest-earning assets	6,629			4,424			9,325		
Total assets	\$ 452,660			\$ 523,513			\$ 479,632		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Money market deposits	\$ 24,063	\$ 98	0.41%	\$ 27,701	\$ 182	0.66%	\$ 33,719	\$ 530	1.57%
Passbook deposits	38,176	129	0.34%	37,574	163	0.43%	37,763	311	0.82%
NOW and other demand deposits	42,210	40	0.09%	47,077	104	0.22%	64,967	763	1.17%
Certificate accounts	215,611	4,226	1.96%	274,641	5,461	1.99%	221,863	5,318	2.40%
Total deposits	320,060	4,493	1.40%	386,993	5,910	1.53%	358,312	6,922	1.93%
FHLB advances	86,967	2,699	3.10%	87,897	2,930	3.33%	76,433	2,830	3.70%
Junior subordinated debentures and other borrowings	11,000	859	7.81%	10,231	433	4.23%	6,385	236	3.70%
Total interest-bearing liabilities	418,027	\$ 8,051	1.93%	485,121	\$ 9,273	1.91%	441,130	\$ 9,988	2.26%
Non-interest-bearing liabilities	5,519			5,631			5,328		
Stockholders Equity	29,114			32,761			33,174		
Total liabilities and stockholders equity	\$ 452,660			\$ 523,513			\$ 479,632		
Net interest rate spread (3)		\$ 17,064	3.70%		\$ 20,790	3.88%		\$ 18,680	3.97%
Net interest rate margin (4)			3.83%			4.01%			4.09%
Ratio of interest-earning assets to interest-bearing liabilities			106.70%			107.00%			106.61%
Return on average assets			(3.15%)			0.37%			(1.35%)
Return on average equity			(48.96%)			5.85%			(19.47%)

Average equity to average assets ratio	6.43%	6.26%	6.92%
Dividend payout ratio (5)			

- (1) Amount is net of deferred loan fees, loan discounts, and loans in process, and includes loans held for sale.
- (2) Amount excludes interest on non-performing loans.
- (3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
- (4) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.
- (5) Percentage is calculated based on dividends on common stock divided by net earnings (loss) less dividends and accretion on preferred stock.

Table of Contents

Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2011			Year ended December 31, 2010		
	Compared to			Compared to		
	Year ended December 31, 2010			Year ended December 31, 2009		
	Increase (Decrease) in Net Interest Income			Increase (Decrease) in Net Interest Income		
	Due to Volume	Due to Rate	Total	Due to Volume	Due to Rate	Total
	(In thousands)					
Interest-earning assets:						
Interest-earning deposits	\$ 5	\$ (1)	\$ 4	\$ (28)	\$ (45)	\$ (73)
Federal funds sold and other short term investments	(3)	(6)	(9)	22	(1)	21
Investment securities, net						
Mortgage backed securities, net	(216)	(48)	(264)	(43)	(201)	(244)
Loans receivable, net	(4,024)	(647)	(4,671)	2,525	(1,147)	1,378
FHLB stock	(1)	(7)	(8)		10	10
Total interest-earning assets	(4,239)	(709)	(4,948)	2,476	(1,384)	1,092
Interest-bearing liabilities:						
Money market deposits	(22)	(62)	(84)	(82)	(266)	(348)
Passbook deposits	3	(37)	(34)	(2)	(146)	(148)
NOW and other demand deposits	(10)	(54)	(64)	(167)	(492)	(659)
Certificate accounts	(1,158)	(77)	(1,235)	1,139	(996)	143
FHLB advances	(31)	(200)	(231)	399	(299)	100
Junior subordinated debentures		(2)	(2)		(38)	(38)
Other borrowings	54	374	428	235	0	235
Total interest-bearing liabilities	(1,164)	(58)	(1,222)	1,522	(2,237)	(715)
Change in net interest income	\$ (3,075)	\$ (651)	\$ (3,726)	\$ 954	\$ 853	\$ 1,807

Comparison of Operating Results for the Years Ended December 31, 2011 and 2010**General**

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from our loans and investments (interest-earning assets) and interest expense is generated from deposits and borrowings (interest-bearing liabilities). Our results of operations are also affected by our provision for losses, non-interest income generated from service charges and fees on loan and deposit accounts, gain or loss on the sale of loans and securities, non-interest expenses and income taxes.

Net Earnings (Loss)

We recorded a net loss of (\$14.3) million, or (\$8.81) per diluted common share, for the year ended December 31, 2011, compared to net earnings of \$1.9 million, or \$0.44 per diluted common share, for the year ended December 31, 2010. The decrease from net earnings to net loss primarily reflected higher provisions for losses, lower net interest income, lower non-interest income, higher non-interest expense and higher income tax provision expense.

Table of Contents***Net Interest Income***

For the year ended December 31, 2011, net interest income before provision for loan losses totaled \$17.1 million, down \$3.7 million, or 18%, from \$20.8 million of net interest income before provision for loan losses for the year ended December 31, 2010. The \$3.7 million decrease in net interest income primarily resulted from a \$73.1 million decrease in average interest-earning assets and an 18 basis point decrease in net interest margin.

Average interest-earning assets for the year 2011 decreased \$73.1 million to \$446.0 million from \$519.1 million for the year 2010, which resulted in a \$4.2 million reduction in interest income. The decline in average interest-earning assets reflects our strategy throughout 2011 to maintain our capital ratios above the required regulatory thresholds and strengthen our liquidity and deposit base, in part by shrinking total assets and reducing both potential problem loans and non-performing assets. Our net loan portfolio accounted for a substantial portion of the decrease in our average interest-earning assets. In 2011, average loans outstanding decreased by \$65.4 million, or 14%. The yield on our average interest-earning assets decreased 16 basis points to 5.63% for the year 2011 from 5.79% for the same period a year ago. The 16 basis point decrease in the yield on our average interest-earning assets lowered interest income by \$709 thousand in 2011. The decrease in yield was primarily the result of a 15 basis point decrease in the yield on loans to 6.13%, which was primarily due to higher levels of non-accrual loans.

Average interest-bearing liabilities for the year 2011 decreased \$67.1 million to \$418.0 million from \$485.1 million for the year 2010. The decrease in average interest-bearing liabilities resulted in a \$1.2 million reduction in interest expense. The cost of our average interest-bearing liabilities increased 2 basis points to 1.93% for the year 2011 from 1.91% for the same period a year ago.

Provision for Loan Losses

We record a provision for loan losses as a charge to earnings when necessary in order to maintain the allowance for loan losses at a level sufficient, in management's judgment, to absorb losses inherent in the loan portfolio. At least quarterly, we conduct an assessment of the overall quality of the loan portfolio and general economic trends in the local market. The determination of the appropriate level for the allowance is based on that review, considering such factors as historical loss experience for each type of loan, the size and composition of our loan portfolio, the levels and composition of our loan delinquencies, non-performing loans and net loan charge-offs, the value of underlying collateral on problem loans, regulatory policies, general economic conditions, and other factors related to the collectability of loans in the portfolio.

For the year 2011, the provision for loan losses totaled \$12.2 million, up \$7.7 million, from a year ago. The increase in the provision for loan losses for the year 2011 was due primarily to the increase in net loan charge-offs. This factor was tempered by the decrease in the size of the loan portfolio.

At December 31, 2011 our allowance for loan losses was \$17.3 million, or 5.09% of our gross loans receivable, compared to \$20.5 million, or 5.08% of our gross loans, at year-end 2010. The ratio of the allowance for loan losses to NPLs, excluding loans held for sale, decreased to 44.20% at December 31, 2011, compared to 54.53% at year-end 2010. Despite the decrease in the allowance ratio, management believes that the remaining loss potential has been reduced as certain losses inherent in our NPLs have been recognized as charge-offs which resulted in a lower ratio of the allowance for loan losses to NPLs. As of December 31, 2011, 70% of our NPLs had already been written down to their adjusted fair value less estimated selling costs, by establishing specific reserves or charged-off as necessary.

Net loan charge-offs during 2011 were \$15.3 million, or 3.85% of average loans, compared to \$4.5 million, or 0.97% of average loans, during 2010. Of the \$15.4 million gross charge-offs during 2011, \$3.9 million were specifically reserved for at year-end 2010. Charge-offs in commercial real estate loans totaled \$4.5 million and represented 29% of charge-offs during 2011. Charge-offs in church loans totaled \$3.8 million and represented 25% of charge-offs during 2011. Charge-offs in commercial loans totaled \$3.9 million and represented 25% of charge-offs during 2011. Charge-offs in consumer loans totaled \$1.8 million and represented 12% of charge-offs during 2011. Charge-offs in multi-family and one-to-four family residential real estate loans totaled \$1.3 million and represented the remaining 9% of charge-offs during 2011.

Table of Contents

Impaired loans at December 31, 2011 were \$56.3 million compared to \$58.0 million at December 31, 2010. Specific reserves for impaired loans were \$3.9 million, or 7.00% of the aggregate impaired loan amount at December 31, 2011, compared to \$6.0 million, or 10.39%, at December 31, 2010. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) was 4.71% at December 31, 2011, compared to 4.19% at December 31, 2010.

We performed an impairment analysis for all non-performing and restructured loans, and established specific loss allocations for impaired loans of \$3.9 million at December 31, 2011. Of the \$3.9 million specific loss allocations at December 31, 2011, \$1.3 million were related to \$6.1 million of loans that are non-performing and with respect to which the recent valuation of the underlying collateral reflected a decrease in values. Additionally, we recorded \$2.6 million of specific loss allocations for impairment related to \$16.7 million of accruing loans that were modified in troubled debt restructurings. On \$14.9 million of impaired loans, the fair value of collateral less estimated selling costs exceeded the recorded investment in the loan and did not require a specific loss allocation. The remaining \$18.6 million of impaired loans had been written down to fair value after charge-offs of \$13.3 million

Management believes that the allowance for loan losses is adequate to cover probable incurred losses in the loan portfolio as of December 31, 2011, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the OCC and the FDIC periodically review the allowance for loan losses as an integral part of their examination process. These agencies may require an increase in the allowance for loan losses based on their judgments of the information available to them at the time of their examinations.

Non-Interest Income

Non-interest income for the year ended December 31, 2011 totaled \$713 thousand, compared to \$2.4 million for the same period a year ago. The \$1.7 million decrease in 2011 was primarily due to \$1.5 million in grants received from the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, which were included in other non-interest income for 2010. Also contributing to lower non-interest income in 2011 were lower service charges for loan-related fees and retail banking fees.

Non-Interest Expense

For the year ended December 31, 2011, non-interest expense totaled \$18.0 million compared to \$15.5 million for the same period a year ago. The \$2.5 million increase in non-interest expense during 2011 primarily reflected higher provision for losses on loans held for sale and REO and higher other expenses, primarily due to increases in investment amortization expense, REO expenses and appraisal expenses related to delinquent loans. Partially offsetting these increases was a decrease in professional services expense.

Income Taxes

Income tax expense totaled \$1.8 million for 2011 and \$1.3 million for 2010. The Company recorded a tax expense in 2011 despite having a pre-tax loss, whereas in 2010 the Company reported income tax expense equal to an effective tax rate of 41.19%. The tax expense in 2011 reflected the impact of tax provision true-ups and an increase in the valuation allowance related to the projected utilization of its federal and state deferred tax assets. The increase in the valuation allowance against our federal and state deferred tax assets was due to current year losses and the Company's inability to project sufficient future taxable income. See Note 1 Summary of Significant Accounting Principles and Note 13 Income Taxes of the Notes to Consolidated Financial Statements for a further discussion of income taxes and a reconciliation of income tax at the federal statutory tax rate to actual tax expense (benefit).

Table of Contents

Comparison of Financial Condition at December 31, 2011 and 2010

Total Assets

Total assets were \$413.7 million at December 31, 2011, which represented a decrease of \$70.2 million, or 14%, from December 31, 2010. During 2011, net loans decreased by \$59.8 million, loans held for sale decreased by \$16.4 million, securities decreased by \$4.3 million, and deferred tax assets decreased by \$4.5 million, while cash and cash equivalents increased by \$9.6 million, REO increased by \$3.7 million and other assets (primarily income tax receivable) increased by \$2.8 million.

The C&Ds issued to us by the OTS effective September 9, 2010, which are now administered by the OCC with respect to the Bank, limit the increase in the Bank's total assets during any quarter to 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 OCC.

Loans Receivable

Our gross loan portfolio decreased by \$62.8 million to \$339.8 million at December 31, 2011 from \$402.6 million at December 31, 2010, as loan repayments, foreclosures and charge-offs exceeded loan originations during 2011. The decrease in our loan portfolio consisted of a \$20.4 million decrease in our multi-family residential real estate loan portfolio, a \$18.5 million decrease in our commercial real estate loan portfolio, a \$8.5 million decrease in our church loan portfolio, a \$6.1 million decrease in our one-to-four family residential real estate loan portfolio, a \$5.3 million decrease in our commercial loan portfolio, a \$2.4 million decrease in our consumer loan portfolio, and a \$1.6 million decrease in our construction loan portfolio.

Loan originations for the year ended December 31, 2011 totaled \$5.1 million compared to \$17.5 million for the year ended December 31, 2010. Loan repayments for the year ended December 31, 2011 totaled \$40.6 million compared to \$35.3 million for the comparable period in 2010. Loans transferred to REO during 2011 totaled \$9.3 million, compared to \$4.7 million during 2010. Loans transferred to loans held for sale during 2011 totaled \$2.5 million, compared to \$24.0 million during 2010.

Loans held for sale decreased from \$29.4 million at December 31, 2010 to \$13.0 million at December 31, 2011. The \$16.4 million decrease during 2011 was primarily due to performing loan sales of \$10.9 million, which were sold at par, non-performing loan sales of \$1.3 million and loan repayments of \$3.6 million. Held for sale loans that were transferred to REO totaled \$1.5 million for the year ended December 31, 2011.

Deposits

Deposits totaled \$294.7 million at December 31, 2011, down \$53.8 million, or 15%, from year-end 2010. During 2011, core deposits (NOW, demand, money market and passbook accounts) decreased by \$12.1 million and represented 33% of total deposits at December 31, 2011, compared to 32% of total deposits at December 31, 2010. Our certificates of deposit (CDs) decreased by \$41.7 million during 2011 and represented 67% of total deposits at December 31, 2011, compared to 68% of total deposits at December 31, 2010. The \$41.7 million decrease in CDs was primarily due to maturities of \$20.0 million of State of California CDs and a reduction of \$9.0 million in brokered deposits. Brokered deposits represented 3% of total deposits at December 31, 2011, compared to 5% at December 31, 2010.

The C&D issued to us by the OTS effective September 9, 2010, which are now administered by the OCC with respect to the Bank, prohibits the Bank from increasing 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 OCC.

Table of Contents

Borrowings

At December 31, 2011, borrowings consisted of advances from the FHLB of \$83.0 million, junior subordinated debentures of \$6.0 million and other borrowings of \$5.0 million. During 2011, FHLB borrowings decreased by \$4.0 million, primarily due to lower loan growth financing needs. At December 31, 2011 and 2010, FHLB advances were 20% and 18%, respectively, of total assets, and the weighted average cost of advances at those dates was 3.09% and 3.24%, respectively.

Stockholders' Equity

Stockholders' equity was \$18.3 million, or 4.42% of the Company's total assets, at December 31, 2011, compared to \$32.9 million, or 6.79% of the Company's total assets, at December 31, 2010. The \$14.6 million decrease in stockholders' equity was primarily due to a net loss of \$14.3 million for the year. At December 31, 2011, the Bank's Total Risk-Based Capital ratio was 11.61%, its Tier 1 Risk-Based Capital ratio was 10.31%, and its Core Capital and Tangible Capital ratios were 7.27%. The Company is currently pursuing a Recapitalization Plan, described under "Capital Resources" below to increase equity capital and reduce debt and senior securities, including a sale of common stock and exchanges of preferred stock for common stock at a discount to the liquidation amount, to further strengthen the Company's capital ratios, and position the Bank for future growth.

Capital Resources

Our principal subsidiary, Broadway Federal, must comply with capital standards established by the OCC in the conduct of its business and failure to comply with such capital requirements may result in significant limitations on its business or other sanctions. We are not currently subject to separate holding company capital requirements, but Dodd-Frank Act will, among other things, impose specific capital requirements on us as a savings and loan holding company as well. These requirements must be no less than those to which insured depository institutions are currently subject to. As a result, by July 2015, we will become subject to consolidated capital requirements which we have not been subject to previously. The current regulatory capital requirements and possible consequences of failure to maintain compliance are described in Part I, Item 1 "Business-Regulation" and in Note 16 "Regulatory Capital Matters and Capital Purchase Program" of the Notes to Consolidated Financial Statements. The warrant was subsequently forgiven because of our status as a Certified Community Development Financial Institution.

On November 14, 2008, the Company issued 9,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a liquidation preference of \$1,000 per share, together with a ten-year warrant to purchase 183,175 shares of Company common stock at \$7.37 per share, to the U.S. Treasury Department for gross proceeds of \$9.0 million. The sale of the Series D Preferred Stock was made pursuant to the U.S. Treasury Department's TARP Capital Purchase Program.

On December 8, 2009, the Company issued 6,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of \$1,000 per share, to the U.S. Treasury Department for gross proceeds of \$6.0 million. The sale of the Series E Preferred Stock was made pursuant to the U.S. Treasury Department's TARP Capital Purchase Program.

We are pursuing our comprehensive recapitalization plan to improve the Company's capital structure. To date, we:

- Have obtained the agreement of the U.S. Treasury Department to exchange the shares of our Series D and E Fixed Rate Cumulative Perpetual Preferred Stock held by it for our common stock at a discount of 50% of the liquidation amount, plus an undiscounted exchange of the accumulated but unpaid dividends on such preferred stock for common stock;

- Have obtained the agreement of the holder of our Series A Perpetual Preferred Stock to exchange its holdings for common stock at a discount of 50% of the liquidation amount, subject to documentation and certain terms and conditions and are in discussions with the holder of our Series B Perpetual Preferred Stock regarding exchange of its holdings for common stock on a similar basis;

- Are in discussions with our senior bank lender regarding exchange of a portion of the \$5 million outstanding amount borrowed under our line of credit, which is currently in default, for common stock at 100% of the

Table of Contents

face amount to be exchanged; forgiveness of the accrued interest on the entire amount of the line of credit to the date of the exchange; and entering into a new credit agreement for the remainder of the facility that would be outstanding after the exchange. The conditions to each of the above proposed exchanges include, or are expected to include, requirements that the holder of our outstanding Series C Noncumulative Perpetual Convertible Preferred Stock concurrently exchange such preferred stock for our common stock on similar terms and that we concurrently complete private placements or other sales of our new shares of common stock aggregating \$5 million or more in gross proceeds. Based on the agreements in principle that we have reached, we anticipate that these exchanges and placements and sales of common stock would, if completed, result in the issuance of approximately 11.2 million new shares of the Company's common stock, which would constitute approximately 87% of the pro forma outstanding shares of the Company's common stock. The 11.2 million new shares of common stock exceed the Company's current unissued and authorized shares. We plan to seek existing shareholders approval to increase the Company's authorized shares, and issue the shares in the recapitalization.

There can be no assurance our recapitalization plan will be achieved on the currently contemplated terms, or at all. If we are unable to raise capital, we plan to continue to shrink assets, sell our headquarters building, work to decrease NPAs and implement strategies to increase earnings. Failure to maintain capital sufficient to meet the higher capital requirements could result in further regulatory action, which could include the appointment of a conservator or receiver for the Bank.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet other obligations on a timely and cost-effective basis. The Bank's sources of funds include deposits, advances from the FHLB and other borrowings, proceeds from the sale of loans, mortgage-backed and investment securities, and principal and interest payments from loans and mortgage-backed and other investment securities. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of mortgage-backed and other investment securities, and payment of operating expenses.

Net cash inflows from operating activities totaled \$6.3 million and \$10.9 million during 2011 and 2010, respectively. Net cash inflows from operating activities for 2011 were primarily attributable to payments of interest on loans and securities.

Net cash inflows from investing activities totaled \$60.5 million and \$40.9 million during 2011 and 2010, respectively. Net cash inflows from investing activities for 2011 were attributable primarily to principal repayments on loans and securities and proceeds from sales and repayments of loans held for sale.

Net cash outflows from financing activities totaled \$57.2 million and \$37.3 million during 2011 and 2010, respectively. Net cash outflows from financing activities for 2011 were attributable primarily to net decreases in deposits and FHLB advances.

When the Bank has more funds than required for reserve requirements or short-term liquidity needs, the Bank sells federal funds to other financial institutions. Conversely, when the Bank has fewer funds than required, the Bank may borrow funds from the FHLB. The Bank is currently approved by the FHLB to borrow up to \$100.0 million to the extent the Bank provides qualifying collateral and hold sufficient FHLB stock. That approved limit and collateral requirement would have permitted the Bank, as of year-end 2011, to borrow an additional \$5.2 million.

At times we maintain a portion of our liquid assets in interest-bearing cash deposits with other banks, in overnight federal funds sold to other banks, and in securities available-for-sale that are not pledged. The Bank's liquid assets at December 31, 2011 consisted of \$31.6 million in cash and cash equivalents and \$17.4 million in securities available-for-sale that are not pledged, compared to \$22.0 million in cash and cash equivalents and \$10.5 million in securities available-for-sale that are not pledged at December 31, 2010.

Our ability to service our debt obligations and pay dividends and holding company expenses is dependent primarily on the recapitalization plan discussed in Capital Resources. Holding company debt obligations, which are included in other borrowings, are described below.

Table of Contents

On March 17, 2004, the Company issued \$6.0 million of Floating Rate Junior Subordinated Debentures in a private placement. The debentures mature in 10 years 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 3.10% at December 31, 2011. The Company stopped paying interest on the debentures and the senior line of credit discussed below in September 2010. As disclosed previously, 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 FRB. 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, the Company borrowed an aggregate of \$5.0 million under its \$5.0 million line of credit with another financial institution, and invested all of the proceeds in the equity capital of the Bank. Borrowings under this line of credit are secured by the Company's assets. The interest rate on the line of credit adjusts annually, subject to a minimum of 6.00%, and increases by an additional 5% in the event of default. The full amount of this borrowing became due and payable on July 31, 2010. The Company does not have sufficient cash available to repay the borrowing at this time and would require approval of the FRB to make any payment on this senior line of credit or to obtain a dividend from the Bank for such purpose. This senior line of credit has not been repaid and the Company is now in default under the line of credit agreement. On April 7, 2011, the lender agreed to forbear from exercising its rights (other than increasing the interest rate by the default rate margin) pursuant to the line of credit agreement until January 1, 2012 subject to certain conditions. The lender has informed the Company that it does not intend to extend the forbearance agreement. Further information regarding this borrowing is included in Note 11 Other Borrowings and Management's Capital Plan of the Notes to Consolidated Financial Statements.

Additionally, the Company has a tax sharing liability to the Bank which exceeds operating cash at the Company level. The liability will be settled pursuant to the terms of the Tax Allocation Agreement between the Bank and the Company on or before April 2, 2012 and the Company will run out of operating cash.

Due to the current regulatory order that is in effect, the Bank is not allowed to make distributions to the Company without regulatory approval, and such approval is not likely to be given. In that event, the Company would not be able to meet its payment obligations within the foreseeable future unless the Company is able to secure new capital and/or obtain requisite forbearances from its lender.

These conditions and the Company's operating losses raise substantial doubt about the Company's ability to continue as a going concern. These and related matters are discussed in Item 7. Management's discussion and Analysis of Financial Condition and Results of Operations under the captions Capital Resources and Liquidity, and in Notes 11 and 20 of the Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data.

Off-Balance-Sheet Arrangements and Contractual Obligations

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business primarily in order to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments and lease commitments as described below.

Lending commitments include commitments to originate loans and to fund lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate creditworthiness on a case-by-case basis. Our maximum exposure to credit risk is represented by the contractual amount of the instruments.

Table of Contents

In addition to our lending commitments, we have contractual obligations related to operating lease commitments. Operating lease commitments are obligations under various non-cancelable operating leases on buildings and land used for office space and banking purposes.

The following table details our contractual obligations at December 31, 2011.

	Less than one year	More than one year to three years	More than three years to five years	More than five years	Total
(Dollars in thousands)					
Certificates of deposit	\$ 117,297	\$ 71,570	\$ 7,517	\$ 131	\$ 196,515
FHLB advances	13,000	45,500	13,500	11,000	83,000
Junior subordinated debentures		6,000			6,000
Other borrowings	5,000				5,000
Commitments to originate loans	300				300
Commitments to fund unused lines of credit	1,281	3,164		338	4,783
Operating lease obligations	166	72			238
Total contractual obligations	\$ 137,044	\$ 126,306	\$ 21,017	\$ 11,469	\$ 295,836

Impact of Inflation and Changing Prices

Our consolidated financial statements including notes have been prepared in accordance with GAAP which require the measurement of financial position and operating results primarily in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. We consider the following to be critical accounting policies:

Allowance for Loan Losses

The determination of the allowance for loan losses is considered critical due to the high degree of judgment involved, the subjectivity of the underlying assumptions used, and the potential for changes in the economic environment that could result in material changes in the amount of the allowance for loan losses considered necessary. The allowance is evaluated on a regular basis by management and the Board of Directors and is based on a periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and feedback from regulatory examinations. See Item 1, Business Asset Quality Allowance for Loan Losses for a full discussion of the allowance for loan losses.

Real Estate Owned (REO)

REO includes property acquired through foreclosure or deed in lieu of foreclosure and is recorded at the fair value, less estimated costs to sell, at the time of acquisition. The excess, if any, of the loan balance over the fair value of the property at the time of transfer from loans to REO is charged to the allowance for loan losses. Subsequent to the transfer to REO, if the fair value of the property less estimated selling costs is less than the carrying value of the

Table of Contents

property, the deficiency is charged to income and a valuation allowance is established. Operating costs after acquisition are expensed. Due to changing market conditions, there are inherent uncertainties in the assumptions made with respect to the estimated fair value of REO. Therefore, the amount ultimately realized may differ from the amounts reflected in the accompanying consolidated financial statements.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that a valuation allowance of \$6.3 million was required as of December 31, 2011. The remaining net deferred tax asset of \$850 thousand is supported by a near term tax planning strategy of selling the Company's headquarters building at a gain. This sale is expected to close in second quarter. See Note 13 Income Taxes of the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

This discussion has highlighted those accounting policies that management considers critical; however, all accounting policies are important, and therefore you are encouraged to review each of the policies included in Note 1 Summary of Significant Accounting Principles of the Notes to Consolidated Financial Statements beginning at page F-6 to gain a better understanding of how our financial performance is measured and reported.

Impact of Recent Accounting Standards

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, updated to amend previous guidance with respect to troubled debt restructurings. This updated guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. In particular, additional guidance has been added to help creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 addresses convergence between U.S. GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive

Table of Contents

Income, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The guidance in ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The guidance in ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted. Since the provisions of ASU 2011-05 are presentation related only, the Company does not expect the adoption of ASU 2011-05 to have a material effect on its consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of December 31, 2011, 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, due to the material weaknesses identified below, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2011.

Management's annual report on internal control over financial reporting

The management of Broadway Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and which is effected by the Company's board of directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting. Based on this evaluation and because of the restatement, management determined that the Company's system of internal control over financial reporting had material weaknesses and was not effective as of December 31, 2011.

The Company's external auditors identified certain material misstatements in the course of their audit of our consolidated financial statements for the year ended December 31, 2011 and appropriate adjustments to the consolidated financial statements, resulting in an additional net loss of \$677 thousand, were made prior to their issuance. The adjustments included corrections of errors in the determination of specific allowances for impaired loans, errors in the calculation of the amortization of our investment in low-income housing projects and errors in the calculation of our income tax provision and the determination of the valuation allowance on our deferred tax assets.

Table of Contents

Subsequent to the issuance of our 2011 consolidated financial statements and the filing of our Annual Report on Form 10-K on March 30, 2012, management became aware of certain additional errors in the preparation of our 2011 consolidated financial statements. The errors included failure in connection with preparation of our financial statements to obtain and take into account certain appraisals of the values of properties securing impaired loans that had been ordered and received by the Bank prior to the issuance date of our financial statements and failure to follow appropriate methods for calculating expected future payments on loans in connection with our discounted cash flow analysis for measuring impairment of loans deemed to be troubled debt restructurings. In addition, certain appraisals received after year-end 2011 indicated that impairment losses that had been determined using values based on broker provided opinions of value (BPOs) understated the losses inherent in those loans. We have determined that these additional errors also constituted material weaknesses in our system of internal controls over financial reporting.

Management, with the oversight of the Audit Committee, has taken and intends to take actions to address the material weaknesses discovered in our internal control over financial reporting. These include implementation of changes in our accounting policies and procedures to assure that appropriate methods are used in determining the values of collateral dependent loans and that all appraisals that have been ordered by the Bank to determine the values of properties securing our loans and REO are obtained and appropriately considered by accounting personnel in connection with preparation of our financial statements. In addition, we have discontinued our former practice of obtaining and relying upon BPOs in connection with valuing properties securing our loans. Management further intends to consult with subject matter experts when appropriate to determine appropriate loan valuation procedures or related accounting and regulatory requirements in situations not previously encountered by Bank accounting personnel and to institute second review procedures over financial reporting. The Audit Committee will also increase its oversight of the financial reporting process.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in internal control over financial reporting

There were no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation of internal control over financial reporting that occurred during the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Wayne-Kent A. Bradshaw
Wayne-Kent A. Bradshaw
Chief Executive Officer

Los Angeles, CA
September 14, 2012

/s/ Samuel Sarpong
Samuel Sarpong
Chief Financial Officer

Los Angeles, CA
September 14, 2012

ITEM 9B. OTHER INFORMATION

None

Table of Contents

PART III

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. See Index to Consolidated Financial Statements.

2. Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes included under Item 8, Financial Statements and Supplementary Data.

(b) List of Exhibits

Exhibit	
Number*	
23.1	Consent of Crowe Horwath LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **

** Pursuant to SEC rules, these interactive data file exhibits shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act or Section 18 of the Exchange Act or otherwise subject to the liability of those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

By: /s/ Wayne-Kent A. Bradshaw
Wayne-Kent A. Bradshaw
Chief Executive Officer

Date: September 14, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Wayne-Kent A. Bradshaw
Wayne-Kent A. Bradshaw
Chief Executive Officer and President
(Principal Executive Officer)

Date: September 12, 2012

/s/ Samuel Sarpong
Samuel Sarpong
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Date: September 12, 2012

/s/ Paul C. Hudson
Paul C. Hudson
Chairman of the Board

Date: September 12, 2012

/s/ Kellogg Chan
Kellogg Chan
Director

Date: September 12, 2012

/s/ Robert C. Davidson, Jr.
Robert C. Davidson, Jr.
Director

Date: September 12, 2012

/s/ Javier Leon
Javier Leon
Director

Date: September 12, 2012

/s/ Albert Odell Maddox
Albert Odell Maddox
Director

Date: September 12, 2012

/s/ Daniel A. Medina
Daniel A. Medina
Director

Date: September 12, 2012

/s/ Virgil P. Roberts
Virgil P. Roberts
Director

Date: September 12, 2012

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets</u>	F-2
<u>Consolidated Statements of Operations and Comprehensive Earnings (Loss)</u>	F-3
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	F-4
<u>Consolidated Statements of Cash Flows</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Broadway Financial Corporation

We have audited the accompanying consolidated balance sheets of Broadway Financial Corporation and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of operations and comprehensive earnings (loss), changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Broadway Financial Corporation and subsidiaries as of December 31, 2011 and 2010 and the results of their operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 20, the Company has a tax sharing liability to its consolidated subsidiary that exceeds its available cash. The liability will be settled pursuant to the tax sharing agreement on or before April 2, 2012, at which point the Company will run out of operating cash. In addition, the Company is in default under the terms of a \$5 million line of credit with another financial institution lender. Finally, the Company has sustained recurring operating losses mainly caused by elevated levels of loan losses, and as discussed in Note 16, the Company and its Bank subsidiary, Broadway Federal Bank (the "Bank") are both under formal regulatory agreements. These events raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are described in Note 11 and Note 20. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2, the 2011 financial statements have been restated to correct a misstatement.

Crowe Horwath LLP

Costa Mesa, California

March 30, 2012, except for Note 2, as to which the date is September 14, 2012

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

	December 31, 2011 (Restated) (In thousands, except share and per share)	December 31, 2010
Assets		
Cash	\$ 12,127	\$ 8,203
Federal funds sold	19,470	13,775
Cash and cash equivalents	31,597	21,978
Securities available-for-sale, at fair value	18,979	10,524
Securities held-to-maturity (fair value of \$13,261 at December 31, 2010)		12,737
Loans receivable held for sale, net	12,983	29,411
Loans receivable, net of allowance of \$17,299 and \$20,458	322,770	382,616
Accrued interest receivable	1,698	2,216
Federal Home Loan Bank (FHLB) stock, at cost	4,089	4,089
Office properties and equipment, net	4,626	5,094
Real estate owned	6,699	3,036
Bank owned life insurance	2,609	2,522
Investment in affordable housing limited partnership	1,675	2,000
Deferred tax assets	850	5,369
Other assets	5,162	2,338
Total assets	\$ 413,737	\$ 483,930
Liabilities and stockholders equity		
Deposits	\$ 294,686	\$ 348,445
Federal Home Loan Bank advances	83,000	87,000
Junior subordinated debentures	6,000	6,000
Other borrowings	5,000	5,000
Advance payments by borrowers for taxes and insurance	813	272
Other liabilities	5,962	4,353
Total liabilities	395,461	451,070
Commitments and Contingencies (Note 17)		
Stockholders Equity:		
Senior preferred cumulative and non-voting stock, \$.01 par value, authorized, issued and outstanding 9,000 shares of Series D at December 31, 2011 and 2010; liquidation preference of \$9,731 at December 31, 2011 and \$9,281 at December 31, 2010	8,963	8,963
Senior preferred cumulative and non-voting stock, \$.01 par value, authorized, issued and outstanding 6,000 shares of Series E at December 31, 2011 and 2010; liquidation preference of \$6,488 at December 31, 2011 and \$6,188 at December 31, 2010	5,974	5,974
Preferred non-cumulative and non-voting stock, \$.01 par value, authorized 985,000 shares; issued and outstanding 55,199 shares of Series A, 100,000 shares of Series B and 76,950 shares of Series C at December 31, 2011 and 2010; liquidation preference of \$552 for Series A, \$1,000 for Series B and \$1,000 for Series C at December 31, 2011 and 2010	3,657	3,657
Preferred stock discount	(994)	(1,380)
Common stock, \$.01 par value, authorized 8,000,000 shares at December 31, 2011 and 3,000,000 shares at December 31, 2010; issued 2,013,942 shares at December 31, 2011 and 2010; outstanding 1,744,565 shares at December 31, 2011 and 1,743,965 shares at December 31, 2010	20	20

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Additional paid-in capital	10,824	10,740
(Accumulated deficit) / Retained earnings	(7,295)	8,074
Accumulated other comprehensive income, net of taxes of \$400 at December 31, 2011 and \$176 at December 31, 2010	571	263
Treasury stock-at cost, 269,377 shares at December 31, 2011 and 269,977 shares at December 31, 2010	(3,444)	(3,451)
Total stockholders' equity	18,276	32,860
Total liabilities and stockholders' equity	\$ 413,737	\$ 483,930

See accompanying notes to consolidated financial statements.

F-2

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

	Year Ended December 31, 2011	
	(Restated)	2010
	(In thousands, except per share)	
Interest and fees on loans receivable	\$ 24,376	\$ 29,047
Interest on mortgage-backed securities and other securities	700	964
Other interest income	39	52
Total interest income	25,115	30,063
Interest on deposits	4,493	5,910
Interest on borrowings	3,558	3,363
Total interest expense	8,051	9,273
Net interest income before provision for loan losses	17,064	20,790
Provision for loan losses	12,153	4,465
Net interest income after provision for loan losses	4,911	16,325
Non-interest income:		
Service charges	709	881
Net gains (losses) on mortgage banking activities	(75)	46
Net losses on sales of REO	(35)	(88)
Other	114	1,593
Total non-interest income	713	2,432
Non-interest expense:		
Compensation and benefits	6,541	6,657
Occupancy expense, net	1,436	1,429
Information services	868	807
Professional services	962	1,167
Provision for losses on loans held for sale	1,612	1,188
Provision for losses on REO	2,654	1,102
FDIC insurance	1,017	1,043
Office services and supplies	539	548
Other	2,408	1,560
Total non-interest expense	18,037	15,501
Earnings (loss) before income taxes	(12,413)	3,256
Income tax expense	1,842	1,341
Net earnings (loss)	\$ (14,255)	\$ 1,915
Other comprehensive (loss) income, net of tax:		
Unrealized gain on securities available-for-sale	\$ 532	\$ 145
Income tax effect	(224)	(58)

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Other comprehensive (loss) income, net of tax	308	87
Comprehensive earnings (loss)	\$ (13,947)	\$ 2,002
Net earnings (loss)	\$ (14,255)	\$ 1,915
Dividends and discount accretion on preferred stock	(1,114)	(1,145)
Earnings (loss) available to common stockholders	\$ (15,369)	\$ 770
Earnings (loss) per common share-basic	\$ (8.81)	\$ 0.44
Earnings (loss) per common share-diluted	\$ (8.81)	\$ 0.44

See accompanying notes to consolidated financial statements.

F-3

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity**

(In thousands, except per share)

	Preferred Stock	Preferred Stock Discount	Common Stock	Additional Paid-in Capital	(Accumulated Deficit) / Retained Earnings (Restated)	Accumulated Other Comprehensive Income, Net	Treasury Stock	Total Stockholders Equity (Restated)
Balance at January 1, 2010	\$ 18,594	\$ (1,756)	\$ 20	\$ 10,618	\$ 7,322	\$ 176	\$ (3,459)	\$ 31,515
Net earnings for the year ended December 31, 2010					1,915			1,915
Unrealized gain on securities available-for-sale, net of tax						87		87
Treasury stock used for vested stock awards				(2)			8	6
Cash dividends declared (\$0.01 per common share)					(18)			(18)
Cash dividends declared (\$0.125 per preferred share of Series A and Series B)					(19)			(19)
Cash dividends accrued (\$50 per senior preferred share of Series D)					(450)			(450)
Cash dividends accrued (\$50 per senior preferred share of Series E)					(300)			(300)
Stock-based compensation expense				124				124
Accretion of preferred stock discount		376			(376)			
Balance, at December 31, 2010	18,594	(1,380)	20	10,740	8,074	263	(3,451)	32,860
Net loss for the year ended December 31, 2011					(14,255)			(14,255)
Unrealized gain on securities available-for-sale, net of tax						308		308
Treasury stock used for vested stock awards				(2)			7	5
Cash dividends accrued (\$50 per senior preferred share of Series D)					(431)			(431)
Cash dividends accrued (\$50 per senior preferred share of Series E)					(297)			(297)
Stock-based compensation expense				86				86
Accretion of preferred stock discount		386			(386)			
Balance, at December 31, 2011	\$ 18,594	\$ (994)	\$ 20	\$ 10,824	\$ (7,295)	\$ 571	\$ (3,444)	\$ 18,276

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31	
	2011 (Restated)	2010
	(In thousands)	
Cash flows from operating activities:		
Net earnings (loss)	\$ (14,255)	\$ 1,915
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Provision for loan losses	12,153	4,465
Provision for losses on loans held for sale	1,612	1,188
Provision for losses on REO	2,654	1,102
Depreciation	501	425
Net amortization of deferred loan origination (fees) costs	45	24
Net amortization of premiums on mortgage-backed securities	96	192
Amortization of investment in affordable housing limited partnership	325	
Stock-based compensation expense	86	124
Earnings on bank owned life insurance	(87)	(104)
Net losses on sales of REO	35	88
Net losses on sales of loans	88	22
Net change in:		
Accrued interest receivable	518	203
Deferred tax assets	4,295	(441)
Other assets	(3,176)	2,879
Other liabilities	1,417	(1,178)
Net cash provided by operating activities	6,307	10,904
Cash flows from investing activities:		
Net change in loans receivable	35,904	18,186
Proceeds from sales and principal repayments of loans receivable held-for-sale	15,746	12,663
Available-for-sale securities:		
Maturities, prepayments and calls	2,511	4,400
Held-to-maturity securities:		
Maturities, prepayments and calls	2,207	3,538
Proceeds from sales of REO	4,727	2,883
Investment in affordable housing limited partnership	(537)	(832)
Net redemption of Federal Home Loan Bank stock		216
Additions to office properties and equipment	(33)	(156)
Net cash provided by investing activities	60,525	40,898
Cash flows from financing activities:		
Net change in deposits	(53,759)	(37,043)
Proceeds from Federal Home Loan Bank advances	9,500	3,500
Repayments on Federal Home Loan Bank advances	(13,500)	(8,100)
Net increase in other borrowings		5,000
Cash dividends paid		(527)
Reissuance of treasury stock	5	6
Net change in advance payments by borrowers for taxes and insurance	541	(100)
Net cash used in financing activities	(57,213)	(37,264)

Net change in cash and cash equivalents	9,619	14,538
Cash and cash equivalents at beginning of the year	21,978	7,440
Cash and cash equivalents at end of the year	\$ 31,597	\$ 21,978
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 7,299	\$ 9,216
Cash paid for income taxes	980	620
Supplemental disclosures of non-cash investing and financing activities:		
Transfers of loans receivable to REO	\$ 9,289	\$ 4,661
Transfers of loans receivable held for sale to REO	1,526	344
Transfers of loans receivable from loans receivable, net to loans receivable held-for-sale, net	2,544	22,688
Transfers of securities from held-to-maturity securities to available-for-sale securities	10,525	

See accompanying notes to consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

Note 1 Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Broadway Financial Corporation (the Company) is a Delaware corporation primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). The Bank'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 commercial real estate located in Southern California. At December 31, 2011, the Bank operated three retail-banking offices and one loan production office in Southern California. The Bank is subject to significant competition from other financial institutions, and is also subject to regulation by certain federal agencies and undergoes periodic examinations by those regulatory authorities.

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

Use of Estimates

To prepare consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP), management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance and provision for loan losses, impaired loans, fair value of loans held for sale, classification of investment securities, fair value of real estate owned, deferred tax asset valuation allowance, disallowed deferred tax assets for regulatory capital, and fair values of investment securities and other financial instruments are particularly subject to change.

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, accrued interest receivable, other assets, deferred income taxes, other liabilities, and advance payments by borrowers for taxes and insurance.

Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and the intent and ability of management to retain its investment in the issuer for a period of

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing rights. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold. When loans held for sale are sold, existing deferred loan fees or costs are an adjustment of the gain or loss on sale.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of allowance for loan losses, loans in process, deferred loan fees and costs and unamortized premiums and discounts. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs are deferred, and recognized in income using the level-yield method without anticipating prepayments.

Interest income on all loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Concentration of Credit Risk

Most of the Company's business activity, excluding loans made to churches throughout the country, is with customers located within Southern California. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the Southern California area.

Loans Purchased

The Bank purchases or participates in loans originated by other institutions. The determination to purchase loans is based upon the Bank's investment needs and market opportunities. Subject to regulatory restrictions applicable to savings institutions, the Bank's current loan policies allow all loan types to be purchased. The determination to purchase specific loans or pools of loans is subject to the Bank's underwriting policies, which require consideration of the financial condition of the borrower and the appraised value of the property, among other factors. Premiums or discounts incurred upon the purchase of loans are recognized in income using the interest method over the estimated life of the loans, adjusted for prepayments.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

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

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, 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 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 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.

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.

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 10 quarters. 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.

The following portfolio segments have been identified: one to four units, five or more units, commercial real estate, church, construction, commercial loans, and consumer loans. One to four units, five or more units, commercial real estate, church and construction loans each consist of a single class. Classes within our commercial loan portfolio consist of sports and other loans. Classes within our consumer loan portfolio consist of loan on savings and other loans.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

One to Four Units Subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers' ability to maintain payments in the event of incremental rate increases on adjustable rate mortgages.

Five or More Units Subject to adverse various market conditions that cause a decrease in market value or lease rates; change in personal funding sources for tenants; oversupply of units in a specific region; a shift in population; reputational risks.

Commercial Real Estate Subject to adverse conditions in the local economy which may lead to reduced cash flows due to vacancies and reduced rental rates; decreases in the value of underlying collateral.

Church Subject to adverse economic and employment conditions leading to reduced cash flows from members' donations and offerings; the stability, quality and popularity of church leadership.

Construction Subject to adverse conditions in the local economy which may lead to reduced demand for new commercial, multi-family or single-family buildings or reduced lease or sale opportunities once the building is complete.

Commercial Subject to industry conditions including decreases in product demand; intangible value of a professional sports franchise.

Consumer Subject to adverse employment conditions in the local economy which may lead to higher default rate.

Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Under the fair value measurement method, the Company measures servicing rights at fair value at each reporting date and reports changes in fair value of servicing assets in earnings in the period in which the changes occur, and are included with net gains (losses) on mortgage banking activities on the consolidated income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses. Mortgage servicing rights assets totaled \$363 thousand and \$487 thousand at December 31, 2011 and 2010 and were included in other assets on the consolidated balance sheets.

Servicing fee income, which is included with net gains (losses) on mortgage banking activities on the consolidated income statement, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. Servicing fees totaled \$12 thousand and \$68 thousand for the years ended December 31, 2011 and 2010. Late fees and ancillary fees related to loan servicing are not material.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

Office Properties and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 10 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lease term or the estimated useful life of the asset whichever is shorter.

Federal Home Loan Bank (FHLB) stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance

The Bank has purchased life insurance policies on a key executive. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Investment in Affordable Housing Limited Partnership

The Bank owns a less than 5% interest in an affordable housing limited partnership. The investment is recorded using the cost method and is being amortized over the life of the related tax credits. The tax credits are being recognized in the consolidated financial statements to the extent they are utilized on the Company's income tax returns. The investment is reviewed for impairment on an annual basis or on an interim basis if an event occurs that would trigger potential impairment.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

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.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans

Employee 401(k) expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service. The cost of shares issued to the Employee Stock Ownership Plan (ESOP) but not yet allocated to participants is shown as a reduction of stockholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings or increase accumulated deficit; dividends on unearned ESOP shares reduce debt and accrued interest, if any.

Preferred Stock

The Series A and Series B preferred stock are non-convertible, non-cumulative, non-redeemable and non-voting perpetual preferred stock, with a par value of \$0.01 per share and a liquidation preference of \$10.00 per share. The Series C perpetual convertible preferred stock is non-voting and non-cumulative, with a par value of \$0.01 per share and a liquidation preference of \$13.00 per share. The Series C preferred stock is convertible at a conversion price of \$13.00 per share, subject to certain anti-dilution adjustment provisions. The Series A, B and C preferred stocks have non-cumulative annual dividend rates of 5% of their liquidation preference. Dividends are accrued when declared.

The Series D and Series E preferred stock are cumulative and non-voting perpetual preferred stock with a par value of \$0.01 per share and a liquidation preference of \$1 thousand per share. Series D and E preferred stocks accrue cumulative dividends at the rate of 5% of their liquidation preference per year for the first five years after issuance and 9% per year thereafter.

Earnings Per Common Share

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) consists of net earnings (loss) and other comprehensive income or loss. Other comprehensive income or loss includes unrealized gains and losses on securities available-for-sale, net of tax, which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are any such matters that will have a material effect on the consolidated financial statements.

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by a bank to its holding company or by the holding company to its stockholders. (See Note 16 for more specific disclosure.)

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year consolidated net earnings or stockholders' equity.

New Accounting Standards

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, updated to amend previous guidance with respect to troubled debt restructurings. This updated guidance is designed to assist creditors with determining whether or not a restructuring constitutes a troubled debt restructuring. In particular, additional guidance has been added to help creditors determine whether a concession has been granted and whether a debtor is experiencing financial difficulties. Both of these conditions are required to be met for a restructuring to constitute a troubled debt restructuring. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 addresses convergence between U.S. GAAP and International Financial Reporting Standards (IFRS) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. The amendments in ASU 2011-04 are effective during interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material effect on its consolidated financial statements.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders equity. The guidance in ASU 2011-05 does not change the items which must be reported in other comprehensive income, how such items are measured, or when they must be reclassified to net income. The guidance in ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, and should be applied retrospectively. Early adoption is permitted. Since the provisions of ASU 2011-05 are presentation related only, the Company does not expect the adoption of ASU 2011-05 to have a material effect on its consolidated financial statements.

On July 1, 2011, the Company adopted the guidance in ASU, 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring which clarifies the guidance on a creditor's evaluation of whether it has granted a concession in a debt restructuring and whether the debtor is experiencing financial difficulties in evaluating whether the debt restructuring constitutes a troubled debt restructuring. The guidance in ASU 2011-02 was effective for the first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. As a result of applying this guidance, the Company did not identify receivables that were newly considered impaired.

Note 2 Restatement of Financial Statements

Subsequent to the issuance of our 2011 consolidated financial statements and the filing of our Annual Report on Form 10-K on March 30, 2012, management became aware of certain errors in the preparation of the Company's 2011 consolidated financial statements. The errors included failure in connection with preparation of our financial statements to obtain and take into account certain appraisals of the values of properties securing impaired loans that had been ordered and received by the Bank prior to the issuance date of the Company's consolidated financial statements and failure to follow appropriate methods for calculating expected future payments on loans in connection with the discounted cash flow analysis for measuring impairment of loans deemed to be troubled debt restructurings. In addition, certain appraisals received after year-end 2011 indicated that impairment losses that had been determined using values based on broker provided opinions of value (BPOs) understated the losses inherent in those loans. As a result, the Company corrected these errors and restated its consolidated financial statements for the year ended December 31, 2011 in this Report. The cumulative effect of these corrections is an increase in net losses of \$4.7 million. Following is a summary of the effects of these corrections on the Company's consolidated balance sheet as of December 31, 2011 and the Company's consolidated statement of operations for fiscal the year ended December 31, 2011:

	As Originally Filed December 31, 2011	Adjustments	As Restated December 31, 2011
		(In thousands, except per share)	
BALANCE SHEET			
Loans receivable held for sale, net	\$ 13,857	\$ (874)	\$ 12,983
Loans receivable, net	\$ 326,323	\$ (3,553)	\$ 322,770
Real estate owned (REO)	\$ 7,010	\$ (311)	\$ 6,699
Stockholders' Equity	\$ 23,013	\$ (4,737)	\$ 18,276
STATEMENT OF OPERATIONS			
Provision for loan losses	\$ 8,600	\$ 3,553	\$ 12,153
Provision for losses on loans held for sale	\$ 738	\$ 874	\$ 1,612
Provision for losses on REO	\$ 2,343	\$ 311	\$ 2,654
Net loss	\$ 9,517	\$ 4,738	\$ 14,255
Comprehensive loss	\$ 9,209	\$ 4,738	\$ 13,947

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Earnings (loss) per common share-basic	\$ (6.10)	\$ (2.71)	\$ (8.81)
Earnings (loss) per common share-diluted	\$ (6.10)	\$ (2.71)	\$ (8.81)

Some of the notes to the consolidated financial statements had been revised to correct the errors.

F-13

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 3 Securities**

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolios at December 31, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains:

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses (In thousands)	Fair Value
December 31, 2011:				
Available-for-sale				
Residential mortgage-backed	\$ 17,008	\$ 902	\$	\$ 17,910
U.S. Government and federal agency	1,000	69		1,069
Total available-for-sale	\$ 18,008	\$ 971	\$	\$ 18,979

	Amortized Cost	Gross Unrealized Gains (In thousands)	Gross Unrealized Losses (In thousands)	Fair Value
December 31, 2010:				
Available-for-sale				
Residential mortgage-backed	\$ 10,085	\$ 439	\$	\$ 10,524
Total available-for-sale	\$ 10,085	\$ 439	\$	\$ 10,524
Held-to-maturity				
Residential mortgage-backed	\$ 11,737	\$ 425	\$	\$ 12,162
U.S. Government and federal agency	1,000	99		1,099
Total held-to-maturity	\$ 12,737	\$ 524	\$	\$ 13,261

On December 30, 2011, all of the held-to-maturity securities, which had a total carrying amount of \$10.5 million, were transferred to the available-for-sale portfolio at fair value of \$11.0 million.

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at December 31, 2011. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily residential mortgage-backed securities, are shown separately.

Maturity (In thousands)	Available-for-Sale	
	Amortized Cost	Fair Value

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Within one year	\$	\$
One to five years	1,000	1,069
Five to ten years		
Beyond ten years		
Residential mortgage-backed	17,008	17,910
Total	\$ 18,008	\$ 18,979

F-14

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Securities pledged at year-end 2011 and 2010 had a carrying amount of \$1.5 million and \$12.7 million and were pledged to secure public deposits and FHLB advances. At year-end 2011 and 2010, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity. There were no sales of securities during the years ended December 31, 2011 and 2010.

There were no securities with unrealized losses at December 31, 2011 and December 31, 2010. We evaluate securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, we consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Note 4 Loans Receivable Held-for-Sale, Net

Loans receivable held-for-sale at December 31, 2011 and 2010 were as follows:

	December 31,	
	2011	2010
	(Restated)	
	(In thousands)	
Multi-family residential	\$ 6,395	\$ 16,217
Commercial real estate	1,712	5,067
Church	5,550	9,408
Valuation allowance for unrealized losses	(674)	(1,281)
Loans receivable, held for sale, net	\$ 12,983	\$ 29,411

Loans receivable held-for-sale, net, consisted of multi-family, commercial real estate and church loans originated for sale and multi-family loans transferred from our loan portfolio. Non-performing loans receivable held-for-sale included in loans receivable held-for-sale, net, totaled \$5.2 million, net of charge-offs of \$953 thousand and a \$382 thousand valuation allowance, as of December 31, 2011 and totaled \$5.1 million, net of charge-offs of \$414 thousand and a \$769 thousand valuation allowance, at December 31, 2010. Restructured loans receivable held-for-sale that have complied with the terms of their restructured agreements for a satisfactory period of time and certain performing loans receivable held-for-sale with delinquency or other weaknesses totaled \$2.2 million, net of a \$292 thousand valuation allowance, as of December 31, 2011 and totaled \$8.0 million, net of a \$512 thousand valuation allowance, as of December 31, 2010. During 2011, two loans receivable held-for-sale secured by church buildings, which had carrying amount of \$1.5 million, net of charge-offs of \$1.7 million, were transferred to REO. A loan receivable held-for-sale secured by a church building, which had a carrying amount of \$344 thousand, net of charge-offs of \$486 thousand, was transferred to REO during 2010.

Net lower of cost or market write-downs on non-performing loans receivable held-for-sale totaled \$1.6 million for the year ended December 31, 2011, compared to \$902 thousand for the same period in 2010. Additionally, during 2011 and 2010, we increased our valuation allowance by \$48 thousand and \$286 thousand, respectively, on some of our loans held for sale that are still considered performing loans.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 5 Loans Receivable**

Loans at year-end were as follows:

	December 31,	
	2011	2010
	(Restated)	
	(In thousands)	
Real estate:		
One to four units	\$ 76,682	\$ 82,764
Five or more units	108,161	128,534
Commercial real estate	54,259	72,770
Church	89,099	97,634
Construction	3,790	5,421
Commercial:		
Sports	1,996	5,768
Other	4,900	6,410
Consumer:		
Loan on savings	821	3,259
Other	108	29
Total gross loans receivable	339,816	402,589
Less:		
Loans in process	202	371
Net deferred loan fees (costs)	(473)	(889)
Unamortized discounts	18	33
Allowance for loan losses	17,299	20,458
Loans receivable, net	\$ 322,270	\$ 382,616

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2011:

**For the year ended December 31, 2011
(Restated)**

	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Beginning balance	\$ 4,579	\$ 2,469	\$ 3,493	\$ 6,909	\$ 74	\$ 1,300	\$ 1,634	\$ 20,458
Provision for loan losses	1,172	939	4,144	2,616	175	2,796	311	12,153
Recoveries		2	15	4		67	24	112
Loans charged off	(896)	(438)	(4,544)	(3,787)		(3,916)	(1,843)	(15,424)

Ending balance	\$ 4,855	\$ 2,972	\$ 3,108	\$ 5,742	\$ 249	\$ 247	\$ 126	\$ 17,299
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F-16

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Activity in the allowance for loan losses for the year ended December 31, 2010 was as follows:

	2010
Beginning balance	\$ 20,460
Provision for loan losses	4,465
Recoveries	5
Loans charged off	(4,472)
Ending balance	\$ 20,458

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2011 and 2010:

	December 31, 2011 (Restated)							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 1,678	\$ 161	\$ 255	\$ 1,683	\$ 97	\$	\$ 70	\$ 3,944
Collectively evaluated for impairment	3,177	2,811	2,853	4,059	152	247	56	13,355
Total ending allowance balance	\$ 4,855	\$ 2,972	\$ 3,108	\$ 5,742	\$ 249	\$ 247	\$ 126	\$ 17,299
Loans:								
Loans individually evaluated for impairment	\$ 13,246	\$ 3,837	\$ 7,396	\$ 31,494	\$ 302	\$	\$ 70	\$ 56,345
Loans collectively evaluated for impairment	63,436	104,324	46,863	57,605	3,488	6,896	859	283,471
Total ending loans balance	\$ 76,682	\$ 108,161	\$ 54,259	\$ 89,099	\$ 3,790	\$ 6,896	\$ 929	\$ 339,816

	December 31, 2010							
	One to four units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Total

(In thousands)

Allowance for loan losses:

Ending allowance balance attributable to loans:									
Individually evaluated for impairment	\$ 423	\$ 69	\$ 935	\$ 2,118	\$	\$ 942	\$ 1,541	\$ 6,028	
Collectively evaluated for impairment	4,156	2,400	2,558	4,791	74	358	93	14,430	
Total ending allowance balance	\$ 4,579	\$ 2,469	\$ 3,493	\$ 6,909	\$ 74	\$ 1,300	\$ 1,634	\$ 20,458	

Loans:

Loans individually evaluated for impairment	\$ 9,962	\$ 2,260	\$ 13,206	\$ 26,251	\$ 320	\$ 3,768	\$ 2,265	\$ 58,032	
Loans collectively evaluated for impairment	72,802	126,274	59,564	71,383	5,101	8,410	1,023	344,557	
Total ending loans balance	\$ 82,764	\$ 128,534	\$ 72,770	\$ 97,634	\$ 5,421	\$ 12,178	\$ 3,288	\$ 402,589	

F-17

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The following table presents information related to impaired loans by class of loans as of and for year ended December 31, 2011:

	December 31, 2011 (Restated)				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated (In thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
One to four units	\$ 6,904	\$ 4,636	\$	\$ 5,329	\$ 79
Five or more units	2,946	2,871		2,405	89
Commercial real estate	9,105	5,449		9,724	386
Church	24,680	20,560		20,757	740
Commercial:					
Sports	4,000			2,566	
Other	285			243	10
Consumer:					
Loan on savings				796	
With an allowance recorded:					
One to four units	8,610	8,610	1,678	5,507	407
Five or more units	966	966	161	794	64
Commercial real estate	1,947	1,947	255	1,963	97
Church	10,934	10,934	1,683	9,391	705
Construction	302	302	97	314	23
Commercial:					
Other	70	70	70	54	6
Total	\$ 70,749	\$ 56,345	\$ 3,944	\$ 59,843	\$ 2,606

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs. Interest income that would have been recognized for the year ended December 31, 2011 had loans performed in accordance with their original terms was \$5.1 million.

The following table presents information related to impaired loans by class of loans as of December 31, 2010:

	December 31, 2010		
	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance for Loan Losses Allocated
With no related allowance recorded:			
One to four units	\$ 7,953	\$ 5,991	\$
Five or more units	600	586	
Commercial real estate	8,409	8,133	

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Church	11,782	11,161	
Construction	320	320	
With an allowance recorded:			
One to four units	4,129	3,971	423
Five or more units	1,674	1,674	69
Commercial real estate	5,072	5,073	935
Church	15,183	15,090	2,118
Commercial:			
Sports	4,000	3,768	942
Consumer:			
Loan on savings	2,249	2,249	1,525
Other	16	16	16
Total	\$ 61,387	\$ 58,032	\$ 6,028

F-18

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The average recorded investment in impaired loans for the year ended December 31, 2010 was \$49.2 million. Interest income recognized on impaired loans for the year ended December 31, 2010 was \$2.2 million.

The following table presents the recorded investment in non-accrual loans by class of loans as of December 31, 2011 and 2010:

	December 31,	
	2011	2010
	(Restated)	
	(In thousands)	
Loans receivable, held for sale:		
Five or more units	\$ 2,496	\$ 385
Commercial real estate	338	
Church	2,778	5,533
Loans receivable, net:		
One to four-units	7,974	6,227
Five or more units	3,450	1,865
Commercial real estate	5,449	10,321
Church	21,891	12,748
Construction	302	320
Commercial:		
Sports		3,768
Other		
Consumer:		
Loan on Savings		2,249
Other	70	16
Total nonaccrual loans	\$ 44,748	\$ 43,432

There were no loans 90 days or more delinquent that were accruing interest as of December 31, 2011 and 2010.

The following tables present the aging of the recorded investment in past due loans, including loans held for sale, as of December 31, 2011 and 2010 by class of loans:

	December 31, 2011				
	(Restated)				
	30-59	60-89	Greater than	Total	Total Loans
	Days	Days	90 Days	Past Due	Not Past
	Past Due	Past Due	Past Due	Past Due	Due
	(In thousands)				
Loans receivable, held for sale:					
Five or more units	\$	\$	\$ 2,496	\$ 2,496	\$ 3,899
Commercial real estate			338	338	1,374
Church			2,778	2,778	2,772

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Loans receivable, net:					
One to four units	921	2,464	7,974	11,359	65,323
Five or more units	1,324	63	3,450	4,837	103,324
Commercial real estate	2,247	525	5,449	8,221	46,038
Church	2,647	1,440	21,891	25,978	63,121
Construction		264	302	566	3,224
Commercial:					
Sports					1,996
Other	125			125	4,775
Consumer:					
Loan on savings					821
Other			70	70	38
Total	\$ 7,264	\$ 4,756	\$ 44,748	\$ 56,768	\$ 296,705

F-19

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

	December 31, 2010				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due (In thousands)	Total Past Due	Total Loans Not Past Due
Loans receivable, held for sale:					
Five or more units	\$ 1,209	\$	\$ 385	\$ 1,594	\$ 14,623
Commercial real estate					5,067
Church			5,533	5,533	3,875
Loans receivable, net:					
One to four units	\$ 2,716	\$ 71	\$ 6,227	\$ 9,014	\$ 73,750
Five or more units	805	1,068	1,865	3,738	124,796
Commercial real estate	769	1,287	10,321	12,377	60,393
Church	12,914	5,230	12,748	30,892	66,742
Construction	898		320	1,218	4,203
Commercial:					
Sports			3,768	3,768	2,000
Other	325			325	6,085
Consumer:					
Loan on savings			2,249	2,249	1,010
Other			16	16	13
Total	\$ 19,636	\$ 7,656	\$ 43,432	\$ 70,724	\$ 362,557

Troubled Debt Restructurings

The Company has allocated \$2.6 million and \$1.6 million of specific reserves for loans the terms of which have been modified in troubled debt restructurings and were performing as of December 31, 2011 and 2010. At December 31, 2011, loans classified as a TDR totaled \$37.1 million, of which \$19.4 million were included in non-accrual loans and \$17.7 million were on accrual status. At December 31, 2010, loans classified as a TDR totaled \$37.1 million, of which \$14.6 million were included in non-accrual loans and \$22.5 million were on accrual status. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time, and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments as modified. As of December 31, 2011 and December 31, 2010, the Company has no commitment to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended December 31, 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 18 months to 10 years. Modifications involving an extension of the maturity date were for periods ranging from 10 years to 14 years.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment (Restated) (Dollars in thousands)	Post-Modification Outstanding Recorded Investment
One to four units	9	\$ 7,711	\$ 7,745
Five or more units	1	494	459
Church	12	9,211	8,681
Other	1	70	70
Total	23	\$ 17,486	\$ 16,955

The troubled debt restructurings described above increased the allowance for loan losses by \$2.5 million and resulted in charge offs of \$928 thousand during the year ended December 31, 2011.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ended December 31, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment (Dollars in thousands)
Commercial real estate	1	\$ 418
Total	1	\$ 418

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The troubled debt restructuring that subsequently defaulted described above resulted in a charge off of \$207 thousand during the year ended December 31, 2011.

The terms of certain other loans were modified during the year ended December 31, 2011 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011 of \$7.2 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010*****Credit Quality Indicators***

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For one-to-four family residential, consumer and other smaller balance homogenous loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere. The Company analyzes all other loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as 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.

Loss. Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2011 and December 31, 2010 is as follows:

	December 31, 2011				
	(Restated)				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
One to four units	\$ 63,483	\$ 3,044	\$ 9,846	\$ 309	\$
Five or more units	95,621	7,450	4,939	151	
Commercial real estate	36,098	6,721	11,364	76	
Church	37,532	13,100	37,873	594	
Construction	500	2,988	302		
Commercial:					
Sports		1,996			
Other	2,363	2,369	168		

Consumer:						
Loan on savings		821				
Other		108				
Total		\$ 236,526	\$ 37,668	\$ 64,492	\$ 1,130	\$

F-22

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

	Pass	December 31, 2010			Doubtful	Loss
		Special Mention	Substandard	(In thousands)		
One to four units	\$ 71,846	\$ 2,440	\$ 8,478	\$	\$	
Five or more units	118,490	6,412	3,632			
Commercial real estate	46,692	5,281	20,797			
Church	42,931	14,229	40,204	270		
Construction	4,203	320	898			
Commercial:						
Sports		2,000	3,768			
Other	925	4,870	615			
Consumer:						
Loan on savings	1,010		2,249			
Other	13		0		16	
Total	\$ 286,110	\$ 35,552	\$ 80,641	\$ 270	\$ 16	

Note 6 Real Estate Owned

Activity in the valuation allowance was as follows:

	2011	2010
	(Restated)	(In thousands)
Beginning valuation allowance	\$ 54	\$
Additions charged to expense	2,654	1,102
Direct write-downs	(2,361)	(1,048)
Ending valuation allowance	\$ 347	\$ 54

Expenses related to foreclosed assets include:

	2011	2010
	(Restated)	(In thousands)
Net losses on sales	\$ 35	\$ 88
Provision for unrealized losses	2,654	1,102
Operating expenses	499	231
Total	\$ 3,188	\$ 1,421

Note 7 Fair Value

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Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

F-24

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of non-performing loans receivable held-for-sale is generally based upon the fair value of the collateral which is obtained from recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Impaired loans, other than performing TDRs, are generally collateral dependent and, as such, are carried at the estimated fair value of the collateral less estimated selling costs. Fair values are estimated through current appraisals, broker opinions or automated valuation models and adjusted as necessary, by management, to reflect current market conditions and, as such, are classified as Level 3.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as real estate owned (REO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated future net servicing income (Level 3 inputs).

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Carrying Value	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
Assets at December 31, 2011:				
Securities available-for-sale residential mortgage-backed	\$ 17,910	\$	\$ 17,910	\$
Securities available-for-sale U.S. government and federal agency	1,069		1,069	
Mortgage servicing rights	363			363
Assets at December 31, 2010:				

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Securities available-for-sale residential mortgage-backed	\$ 10,524	\$	\$ 10,524	\$
Mortgage servicing rights	487			487

F-24

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The table below presents a reconciliation of the mortgage servicing rights asset which is measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31:

	2011	2010
	(In thousands)	
Balance at January 1,	\$ 487	\$ 450
Additions		79
Other changes in fair value	(124)	(42)
Balance at December 31,	\$ 363	\$ 487

Assets Measured on a Non- Recurring Basis

The following table provides information regarding the carrying values of our assets measured at fair value on a non-recurring basis at the dates indicated. The fair value measurement for all of these assets falls within Level 3 of the fair value hierarchy.

	December 31,	
	2011	2010
	(Restated)	
	(In thousands)	
Assets:		
Non-performing loans receivable held-for-sale, net:		
Five or more units	\$ 2,114	\$ 366
Commercial real estate	338	
Church	2,778	4,783
Impaired loans carried at fair value of collateral:		
One to four units	6,201	3,775
Five or more units	874	1,606
Commercial real estate	2,869	2,542
Church	13,153	5,591
Construction	205	
Commercial		2,826
Consumer		749
Real estate owned:		
One to four units	718	1,086
Five or more units		260
Commercial real estate	3,126	568
Church	2,855	1,122

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The following table provides information regarding our assets measured at fair value on a non-recurring basis at December 31, 2011 and 2010, and the losses recognized on these assets for the years ended December 31, 2011 and 2010.

	Principal Amount at December 31, 2011	Valuation Allowance at December 31, 2011 (Restated)	Losses for the year ended December 31, 2011
(In thousands)			
Non-performing loans receivable held-for-sale, net (1)	\$ 5,612	\$ 382	\$ 1,563
Impaired loans carried at fair value of collateral (2)	24,669	1,367	11,548
Real estate owned (3)	7,046	347	2,654
Total	\$ 37,327	\$ 2,096	\$ 15,765

- (1) Losses are charged to provision for losses on loans receivable held-for-sale.
- (2) Losses are charged against the allowance for loan losses. Includes \$18.6 million of loans that were carried at cost as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.
- (3) Losses are charged against the allowance for loan losses in the case of a write-down upon the transfer of a loan to REO. Losses subsequent to the transfer of a loan to REO are charged to provision for losses on REO.

	Principal Amount at December 31, 2010	Valuation Allowance at December 31, 2010 (In thousands)	Losses for the year ended December 31, 2010
Non-performing loans receivable held-for-sale, net (1)	\$ 5,918	\$ 769	\$ 902
Impaired loans carried at fair value of collateral (2)	21,509	4,420	4,829
Real estate owned (3)	3,090	54	1,102
Total	\$ 30,517	\$ 5,243	\$ 6,833

- (1) Losses are charged to provision for losses on loans receivable held-for-sale.
- (2) Losses are charged against the allowance for loan losses. Includes \$5.4 million of loans that were carried at cost as the fair value of the collateral on these loans exceeded the book value as a result of charge-offs.
- (3) Losses are charged against the allowance for loan losses in the case of a write-down upon the transfer of a loan to REO. Losses subsequent to the transfer of a loan to REO are charged to provision for losses on REO.

Fair Values of Financial Instruments

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The carrying amounts and estimated fair values of financial instruments, at December 31, 2011 and December 31, 2010 were as follows:

	December 31, 2011 (Restated)		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)				
Financial Assets:				
Cash and cash equivalents	\$ 31,597	\$ 31,597	\$ 21,978	\$ 21,978
Securities available-for-sale	18,979	18,979	10,524	10,524
Securities held-to-maturity			12,737	13,261
Loans receivable held for sale, net	12,983	12,983	29,411	29,411
Loans receivable, net	322,770	323,090	382,616	384,274
Federal Home Loan Bank stock	4,089	N/A	4,089	N/A
Accrued interest receivable	1,698	1,698	2,216	2,216
Financial Liabilities:				
Deposits	\$ (294,686)	\$ (294,313)	\$ (348,445)	\$ (347,373)
Federal Home Loan Bank advances	(83,000)	(88,911)	(87,000)	(91,615)
Junior subordinated debentures	(6,000)	(5,319)	(6,000)	(4,609)
Other borrowings	(5,000)	(4,434)	(5,000)	(4,979)
Advance payments by borrowers for taxes and insurance	(813)	(813)	(272)	(272)
Accrued interest payable	(1,302)	(1,302)	(550)	(550)

F-26

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short term debt, advance payments by borrowers for taxes and insurance, and variable rate loans, deposits and borrowings that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans and deposits and for variable rate loans and deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk without consideration of widening credit spreads due to market illiquidity. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair values of off-balance-sheet items are not considered material (or are based on the current fees or cost that would be charged to enter into or terminate such arrangements) and, as such, they are not presented herein.

Note 8 Office Properties and Equipment, net

Year-end office properties and equipment were as follows:

	2011	2010
	(In thousands)	
Land	\$ 1,723	\$ 1,723
Office buildings and improvements	5,051	5,041
Furniture, fixtures and equipment	2,120	2,141
	8,894	8,905
Less accumulated depreciation	(4,268)	(3,811)
Office properties and equipment, net	\$ 4,626	\$ 5,094

Depreciation expense was \$501 thousand and \$425 thousand for 2011 and 2010. At December 31, 2011, the main office building, which had a carrying amount of \$1.7 million, was classified as held-for-sale.

At December 31, 2011, the Company was obligated through 2013 under various non-cancelable operating leases on buildings and land used for office space and banking purposes. These operating leases contain escalation clauses which provide for increased rental expense, based primarily on increases in real estate taxes and cost-of-living-indices. The Company also leases certain office equipment. Rent expense under the operating leases was \$252 thousand for 2011 and \$285 thousand for 2010.

Rent commitments, before considering renewal options that generally are present, were as follows:

	Premises	Equipment	Total
	(In thousands)		
Year ending December 31:			
2012	\$ 82	\$ 84	\$ 166
2013	44	28	72
Total	\$ 126	\$ 112	\$ 238

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 9 Deposits**

Deposits are summarized as follows:

	December 31,	
	2011	2010
	(In thousands)	
NOW account and other demand deposits	\$ 21,474	\$ 23,780
Non-interest bearing demand deposits	17,741	22,610
Money market deposits	21,872	23,499
Passbook	37,084	40,373
Certificates of deposit	196,515	238,183
Total	\$ 294,686	\$ 348,445

At December 31, 2011 and 2010, brokered deposits totaled \$9.2 million and \$18.2 million, respectively. As disclosed in Note 16, the Bank is not permitted to increase the amount of its brokered deposits beyond the amount of interest credited without prior notice of non-objection from the OCC.

Certificates of deposit of \$100 thousand or more were \$128.1 million and \$160.0 million at year end 2011 and 2010.

Scheduled maturities of certificates of deposit for the next five years were as follows:

Maturity	Amount
	(In thousands)
2012	\$ 117,297
2013	56,779
2014	14,791
2015	2,225
2016	5,292
Thereafter	131
	\$ 196,515

Note 10 Federal Home Loan Bank Advances

At year-end, advances from the Federal Home Loan Bank were as follows:

Amount
(In thousands)

December 31, 2011

Maturities September 2012 to February 2018, fixed rates at rates from 0.91% to 4.81%, averaging 3.09%	\$ 83,000
---	-----------

December 31, 2010

Maturities January 2011 to February 2018, fixed rates at rates from 1.34% to 4.81%, averaging 3.24%	\$ 87,000
---	-----------

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$205.8 million of first mortgage loans at year-end 2011 and \$243.0 million of first mortgage loans and \$11.1 million of residential mortgage-backed securities at year-end 2010 under a blanket lien arrangement. Based on this collateral, the Company's holdings of FHLB stock and a general borrowing limit of \$100.0 million, the Company is eligible to borrow up to an additional \$5.2 million at year-end 2011.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Required payments over the next five years are as follows:

	Amount (In thousands)
2012	\$ 13,000
2013	3,500
2014	42,000
2015	8,500
2016	5,000
Thereafter	11,000
	\$ 83,000

Note 11 Other Borrowings and Management's Capital Plan

On March 17, 2004, the Company issued \$6.0 million of Floating Rate Junior Subordinated Debentures in a private placement. The debentures mature in 10 years 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 3.10% at December 31, 2011. The Company stopped paying interest on the debentures and the senior line of credit discussed below in September 2010. As disclosed previously, 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 Board of Governors of the Federal Reserve System, acting through the Federal Reserve Bank of San Francisco, (the "FRB"). 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, the Company borrowed an aggregate of \$5.0 million under its \$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 increases by an additional 5% in the event of default. Borrowings under this line of credit are secured by the Company's assets. The full amount of this borrowing became due and payable on July 31, 2010. This senior line of credit has not been repaid and the Company is now in default under the line of credit agreement. On April 7, 2011, the lender agreed to forbear from exercising its rights (other than increasing the interest rate by the default rate margin) pursuant to the line of credit agreement until January 1, 2012 subject to certain conditions. The lender has informed the Company that it does not intend to extend the forbearance agreement.

The Company is pursuing a comprehensive recapitalization plan to improve the Company's capital structure. To date, the Company has obtained the written consent of the U.S. Treasury to exchange the Company's Series D and Series E Fixed Rate Cumulative Perpetual Preferred Stock for common stock at a discount of 50% of the liquidation amount, plus an undiscounted exchange of the accumulated but unpaid dividends on such preferred stock for common stock. In addition, the Company has obtained the agreement of the holder of Series A Perpetual Preferred Stock to exchange its holdings for common stock at a discount of 50% of the liquidation amount, subject to documentation and certain terms and conditions and are in discussions with the holders of Series B Perpetual Preferred Stock and Series C Noncumulative Perpetual Convertible Preferred Stock to exchange their holdings for common stock at a discount of 50% of the liquidation amount. The Company has also proposed to the line of credit lender that it exchange a portion of the line of credit, which is currently in default, for common stock at 100% of the face amount to be exchanged; to forgive the accrued interest on the entire amount of the line of credit to the date of the exchange; and enter into a new credit agreement for the remainder of the facility that would be outstanding after the exchange.

As a condition to consummating these exchanges, the Company plans to concurrently complete private placements or other sales of the Company's common stock aggregating \$5 million or more in gross proceeds. The Company

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

anticipates that these exchanges and placements and sales of common stock would, if completed, result in the issuance of approximately 11.2 million new shares of the Company's common stock, which would constitute approximately 87% of the pro forma outstanding shares of the Company's common stock. The 11.2 million new shares of common stock exceed the Company's current unissued and authorized shares. The Company plans to seek existing shareholders approval to increase the Company's authorized shares, and issue the shares in the recapitalization.

There can be no assurance that management's capital plan will be achieved. If the Company is unable to raise capital, management plans to continue to shrink assets, sell the headquarters building, decrease nonperforming assets and implement strategies to increase earnings. Failure to maintain capital sufficient to meet the higher capital requirements could result in further regulatory action, which could include the appointment of a conservator or receiver for the Bank. For further information relating to the cash position and requirements of the Company, see Note 20 Going Concern.

Note 12 Employee Benefit Plans

Broadway Federal 401(k) Plan

A 401(k) benefit plan allows employee contributions for substantially all employees up to 15% of their compensation, which are matched at a rate equal to 50% of the first 6% of the compensation contributed. Expense totaled \$91 thousand and \$86 thousand for 2011 and 2010.

ESOP Plan

Employees participate in an Employee Stock Ownership Plan (ESOP) after attaining certain age and service requirements. At the end of employment, participants will receive cash or shares at their election for their vested balance. Vesting occurs over seven years. Shares held by the ESOP and allocated to participants were 87,505 at December 31, 2011 and 2010. There are no shares unallocated as of December 31, 2011 and 2010. Dividends on allocated shares increase participant accounts. In addition to shares allocated, the Bank makes discretionary cash contributions to participant accounts. Cash contributions totaled \$58 thousand for the year ended December 31, 2011 and \$56 thousand for the year ended December 31, 2010. Compensation expense related to the ESOP was \$53 thousand for 2011 and \$56 thousand for 2010.

Deferred Compensation Plan

The Bank has a deferred compensation agreement with its Chief Executive Officer (CEO) whereby a stipulated amount will be paid to the CEO over a period of 15 years upon his retirement. The amount accrued under this agreement was \$764 thousand at December 31, 2011 and \$614 thousand at December 31, 2010, and is accrued over the period of active employment. Compensation expense was \$150 thousand for 2011 and \$142 thousand for 2010.

Note 13 Income Taxes

The Company and its subsidiaries are subject to U.S. federal and state income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Income tax expense (benefit) was as follows:

	2011 (Restated)	2010
	(In thousands)	
Current		
Federal	\$ (2,261)	\$ 1,502
State	(192)	280
Deferred		
Federal	(1,732)	(443)
State	(1,694)	(299)
Change in valuation allowance	7,721	301
Total	\$ 1,842	\$ 1,341

Effective tax rates differ from the federal statutory rate of 34% applied to earnings before income taxes due to the following:

	2011 (Restated)	2010
	(In thousands)	
Federal statutory rate times financial statement income (loss)	\$ (4,221)	\$ 1,107
Effect of:		
State taxes, net of federal benefit	(885)	233
Enterprise zone net interest deduction	(428)	(283)
Earnings from bank owned life insurance	(36)	(43)
Low income housing credits	(388)	
Change in valuation allowance	7,721	301
Other, net	79	26
Total	\$ 1,842	\$ 1,341

Year-end deferred tax assets and liabilities were due to the following:

	2011 (Restated)	2010
	(In thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 5,633	\$ 6,397
Accrued liabilities	181	171
Lower of cost or market adjustment		6
State income taxes	39	105
Deferred compensation	339	266

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Stock compensation	218	182
Real estate owned		141
Unrealized gain/loss on loans held for sale	183	527
Net operating loss carryforward	4,847	119
Nonaccrual loan interest	637	717
Basis difference on fixed assets	101	
Partnership investment	10	
General business credit	332	
Alternative minimum tax credit	119	
Other	2	4
Total deferred tax assets	12,641	8,635

F-31

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Deferred tax liabilities:		
Deferred loan fees/costs	(1,878)	(1,743)
Real estate owned	(465)	
Net unrealized appreciation on available-for-sale securities	(400)	(176)
FHLB stock dividends	(644)	(581)
Mortgage servicing rights	(149)	(201)
Basis difference on fixed assets		(28)
Prepaid expenses	(27)	(30)
Total deferred tax liabilities	(3,563)	(2,759)
Valuation allowance	(8,228)	(507)
Net deferred tax assets	\$ 850	\$ 5,369

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that a valuation allowance of \$8.2 million was required as of December 31, 2011. The Company had recorded a valuation allowance of \$507 thousand as of December 31, 2010. The increase in the valuation allowance against its federal and state deferred tax assets was due to current year losses and the Company's inability to project sufficient future taxable income. The remaining net deferred tax asset of \$850 thousand at December 31, 2011 is supported by a near term tax planning strategy of selling the Company's headquarters building at a gain. This sale is expected to close in second quarter.

Federal income tax laws previously allowed the Company additional bad debt deductions based on the reserve method of computing the federal bad debt deduction. This method of computing the Company's federal bad debt deduction was permitted to be used by the Company until the end of 1987. As of December 31, 1987, the tax bad debt reserve balance totaled \$3.0 million. Accounting standards do not require a deferred tax liability to be recorded on this amount, which otherwise would total \$1.0 million at year end 2011 and 2010. If the Bank were liquidated, or otherwise ceases to be a bank, or if tax laws were to change, this amount would be expensed.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2011	2010
	(In thousands)	
Balance at beginning of year	\$ 214	\$ 91
Additions based on tax positions related to the current year	108	107
Additions for tax positions of prior year	1	107
Reductions for tax positions of prior years		(4)
Settlements		(87)
Balance at end of year	\$ 323	\$ 214

Of this total, \$323 thousand represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the income tax provision in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During 2011, \$3 thousand was accrued for potential interest related to these unrecognized tax benefits. There was no accrual for

potential interest related to unrecognized tax benefits in 2010.

F-32

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

Federal tax years 2008 through 2011 remain open for the assessment of Federal income tax. California tax years 2007 through 2011 remain open for the assessment of California income tax.

Note 14 Related Party Transactions

Loans to principal officers, directors, and their affiliates during 2011 were as follows:

	Amount (In thousands)
Beginning balance	\$ 453
Repayments	(14)
Ending balance	\$ 439

Deposits from principal officers, directors, and their affiliates at year-end 2011 and 2010 were \$1.8 million and \$3.8 million.

Note 15 Stock-Based Compensation

The Company has two share based compensation plans as described below. Total compensation cost that has been charged against income for those plans was \$88 thousand and \$132 thousand for 2011 and 2010.

Stock Option Plans

In 2008, we adopted the 2008 Long-Term Incentive Plan (2008 LTIP), which is shareholder approved. The 2008 LTIP replaced the Company's 1996 Long-Term Incentive Plan (1996 LTIP) and 1996 Stock Option Plan (Stock Option Plan), which have expired and are no longer effective except as to outstanding awards. The 2008 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards to the Company's non-employee directors and certain officers and employees for up to 351,718 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards have vesting periods ranging from immediate vesting to 5 years and have 10-year contractual terms. The Company has a policy of using shares held as treasury stock to satisfy share option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy expected share option exercises.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

There were no options granted during 2011 and 8,750 options were granted during 2010. The fair value of options granted was determined using the following weighted average assumptions as of the grant date.

	2010
Risk free interest rate	3.68%
Expected term	10 years
Expected stock price volatility	102.91%
Dividend yield	3.33%

F-33

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

A summary of the activity in the plans for 2011 follows:

	1996 and 2008 LTIP		Stock Option Plan		Total	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at January 1, 2011	222,793	\$ 6.57	4,282	\$ 9.91	227,075	\$ 6.63
Granted						
Forfeited or expired						
Outstanding at December 31, 2011	222,793	\$ 6.57	4,282	\$ 9.91	227,075	\$ 6.63
Vested or expected to vest	222,793	\$ 6.57	4,282	\$ 9.91	227,075	\$ 6.63
Exercisable at December 31, 2011	155,793	\$ 7.11	4,282	\$ 9.91	160,075	\$ 7.19

At December 31, 2011, options outstanding and options exercisable had a weighted average remaining contractual term of 5.49 years and 6.49 years, respectively. Options outstanding and options exercisable had no intrinsic value at December 31, 2011.

There were no options exercised during 2011 and 2010. Unrecognized compensation cost related to nonvested stock options granted under the plans totaled \$164 thousand as of December 31, 2011. The cost is expected to be recognized over a weighted average period of 2.0 years.

Share Award Plans

With the adoption of the 2008 LTIP, the Recognition and Retention Plan (RRP) and the Performance Equity Program (PEP), which provided for the issuance of shares to non-employee directors and certain officers and employees, were terminated and no further grants were made pursuant to the plans.

A summary of changes in the Company's nonvested PEP shares for the year follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2011	600	\$ 10.25
Vested	(600)	10.25
Nonvested at December 31, 2011		\$

As of December 31, 2011, there was no unrecognized compensation cost related to nonvested shares granted under the PEP Plan. The total fair value of shares vested for the PEP Plan during the years ended December 31, 2011 and 2010 was \$6 thousand, respectively.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 16 Regulatory Capital Matters and Capital Purchase Program****Regulatory Capital Matters**

The Bank is subject to regulatory capital requirements now administered by the Office of the Comptroller of the Currency, or OCC, which is the statutory successor under the Dodd-Frank Act to the former Office of Thrift Supervision, or OTS. The capital requirements, which remain the same as when administered by the OTS, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OCC. Failure to meet capital requirements can result in regulatory action.

Prompt corrective action regulations also administered by the OCC provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

The Company and the Bank consented to the issuance to them of cease and desist orders by the OTS effective September 9, 2010 requiring, among other things, that the Company and the Bank take remedial actions to improve the Bank's loan underwriting and internal asset review procedures, to reduce the amount of its non-performing assets and to improve 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. The cease and desist orders, which are now administered by the OCC with respect to the Bank and the FRB with respect to the Company, require the Bank to attain, and thereafter maintain, a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 8% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 12%, both of which ratios are greater than the respective 6% and 10% levels for such ratios that are generally required under OTS (now OCC) regulations. The cease and desist orders also prohibit the Bank from paying dividends to the Company, and prohibit the Company from paying dividends to its stockholders, without the prior written approval of the OCC and the FRB, respectively. In addition, the Company is not permitted to 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 FRB.

The Bank did not meet the minimum capital requirements under the cease and desist order at December 31, 2011. Actual and normally required capital amounts and ratios at December 31, 2011 and December 31, 2010, together with the higher capital requirements that the Bank is required to meet under the cease and desist order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations		Capital Requirements under Cease and Desist Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratios	Amount	Ratios
(Dollars in thousands)								
December 31, 2011: (Restated)								
Tangible Capital to adjusted total assets	\$ 30,961	7.27%	\$ 6,396	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 30,961	7.27%	\$ 17,055	4.00%	\$ 21,319	5.00%	\$ 34,111	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 30,961	10.31%	N/A	N/A	\$ 18,019	6.00%	N/A	N/A
Total Capital to risk weighted assets	\$ 34,882	11.61%	\$ 24,026	8.00%	\$ 30,032	10.00%	36,039	12.00%
December 31, 2010 :								
Tangible Capital to adjusted total assets	\$ 42,630	8.82%	\$ 7,252	1.50%	N/A	N/A	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	\$ 42,630	8.82%	\$ 19,338	4.00%	\$ 24,172	5.00%	\$ 38,676	8.00%
Tier 1(Core) Capital to risk weighted assets	\$ 42,630	11.76%	N/A	N/A	\$ 21,754	6.00%	N/A	N/A

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Total Capital to risk weighted assets	\$ 47,299	13.05%	\$ 29,006	8.00%	\$ 36,257	10.00%	43,508	12.00%
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F-35

Table of Contents

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2011 and 2010

The Company's principal source of funds for the payment of operating expenses, as well as for the declaration and payment of dividends, is dividends received from the Bank. OCC regulations limit the amount of dividends that may be paid by the Bank without prior approval of the OCC. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. Based on the above limitation, the Bank may not declare dividends during the year 2012 without OCC approval. There are additional dividend restrictions related to the Company's preferred stock purchase agreements with the U.S. Treasury as discussed below under Capital Purchase Program. Additionally, the cease and desist orders issued by the OTS effective September 09, 2010 have imposed certain limitations on the Company and the Bank. These limitations include 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 OCC.

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 OCC.

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 OCC.

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 FRB.

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 OCC.

Capital Purchase Program

On November 14, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company entered into a Letter Agreement and Securities Purchase Agreement (collectively, the Purchase Agreement) with the United States Department of the Treasury (the U.S. Treasury). Under the Purchase Agreement, the Company agreed to sell 9,000 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series D, par value \$.01 per share and liquidation preference of \$1 thousand per share (the Series D Preferred Stock), for a total price of \$9.0 million. Cumulative dividends accrue on the Series D Preferred Stock at the rate of 5% per year for the first five years and 9% per year thereafter. The shares may be redeemed by the Company at any time, subject to regulatory approval.

On December 4, 2009, the Company entered into another Purchase Agreement with the U.S. Treasury, pursuant to which the Company sold 6,000 shares of newly authorized Fixed Rate Cumulative Perpetual Preferred Stock, Series E, par value \$.01 per share and liquidation preference of \$1 thousand per share (the Series E Preferred Stock), for a

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010**

total price of \$6.0 million. Cumulative dividends accrue on the Series E Preferred Stock at the rate of 5% per year for the first five years and 9% per year thereafter. The shares may be redeemed by the Company at any time, subject to regulatory approval.

The Company has stopped paying dividends to the U.S. Treasury since June 15, 2010. At December 31, 2011, deferred dividends totaled \$1.2 million.

Pursuant to the terms of the Purchase Agreements, the ability of the Company to declare or pay dividends or other distributions on, or purchase, redeem or otherwise acquire for consideration, shares of its Common Stock is subject to restrictions, including a restriction against increasing dividends from the last quarterly cash dividend per share (\$0.05) declared on the Common Stock prior to November 14, 2008. The redemption, purchase or other acquisition of trust preferred securities of the Company or its affiliates also are restricted. These restrictions will terminate on the earlier of (a) the third anniversary of the date of issuance of the Preferred Stock or (b) the date on which the Preferred Stock has been redeemed in whole or the U.S. Treasury has transferred all of the Preferred Stock to third parties, except that, after the third anniversary of the date of issuance of the Preferred Stock, if the Preferred Stock remains outstanding at such time, the Company may not increase its common dividends per share without obtaining the consent of the U.S. Treasury.

The Purchase Agreement also subjects the Company to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA). In this connection, as a condition to the closing of the transaction, the Company's Senior Executive Officers (as defined in the Purchase Agreement) (the Senior Executive Officers), (i) voluntarily waived any claim against the U.S. Treasury or the Company for any changes to such officer's compensation or benefits that are required to comply with the regulation issued by the U.S. Treasury under the TARP Capital Purchase Program and acknowledged that the regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements and policies and agreements as they relate to the period the U.S. Treasury owns the Preferred Stock of the Company; and (ii) entered into a letter agreement with the Company amending the Benefit Plans with respect to such Senior Executive Officers as may be necessary, during the period that the U.S. Treasury owns the Preferred Stock of the Company, as necessary to comply with Section 111(b) of the EESA.

Note 17 Loan Commitments and Other Related Activities

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2011	2010
	(In thousands)	
Commitments to make loans	\$ 300	\$ 382
Unused lines of credit	4,783	8,810

Commitments to make loans are generally made for periods of 60 days or less. At year-end 2011, loan commitments consisted of one multi-family residential loan with an interest rate of 4.25%.

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 18 Parent Company Only Condensed Financial Information**

Condensed financial information of Broadway Financial Corporation follows:

Condensed Balance Sheet**December 31,**

	2011	2010
	(Restated)	
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 641	\$ 376
Investment in bank subsidiary	31,568	43,429
Other assets	227	835
Total assets	\$ 32,436	\$ 44,640
Liabilities and stockholders equity		
Junior subordinated debentures	\$ 6,000	\$ 6,000
Other borrowings	5,000	5,000
Dividends payable	1,219	490
Due to bank subsidiary	674	
Other liabilities	1,267	290
Stockholders equity	18,276	32,860
Total liabilities and stockholders equity	\$ 32,436	\$ 44,640

Condensed Statements of Operations**Years ended December 31,**

	2011	2010
	(Restated)	
	(In thousands)	
Interest income	\$ 1	\$ 2
Interest expense	858	433
Other expense	548	609
Loss before income tax and undistributed subsidiary income (loss)	(1,405)	(1,040)
Income taxes benefit (expense)	(594)	427
Equity in undistributed subsidiary income (loss)	(12,256)	2,528

Net earnings (loss)	\$ (14,255)	\$ 1,915
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F-38

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Condensed Statements of Cash Flows****Years ended December 31,**

	2011	2010
	(Restated)	
	(In thousands)	
Cash flows from operating activities		
Net earnings (loss)	\$ (14,255)	\$ 1,915
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:		
Equity in undistributed subsidiary (income) loss	12,256	(2,528)
Change in other assets	608	(520)
Change in other liabilities	977	198
Net cash used in operating activities	(414)	(935)
Cash flows from investing activities		
Investment in bank subsidiary		(5,000)
Net cash used in investing activities		(5,000)
Cash flows from financing activities		
Net increase in other borrowings		5000
Due to bank subsidiary	674	
Reissuance of treasury stock	5	6
Cash dividends paid		(527)
Net cash provided by financing activities	679	4,479
Net change in cash and cash equivalents	265	(1,456)
Beginning cash and cash equivalents	376	1,832
Ending cash and cash equivalents	\$ 641	\$ 376

F-39

Table of Contents**BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (continued)****December 31, 2011 and 2010****Note 19 Earnings (Loss) Per Common Share**

The factors used in the earnings (loss) per common share computation follow:

	2011 (Restated)	2010
	(Dollars in thousands, except share and per share)	
Basic		
Net earnings (loss)	\$ (14,255)	\$ 1,915
Less: Preferred stock dividends and accretion	(1,114)	(1,145)
Earnings (loss) available to common stockholders	\$ (15,369)	\$ 770
Weighted average common shares outstanding	1,744,330	1,743,728
Basic earnings (loss) per common share	\$ (8.81)	\$ 0.44
Diluted		
Net earnings (loss)	\$ (14,255)	\$ 1,915
Less: Preferred stock dividends and accretion	(1,114)	(1,145)
Earnings (loss) available to common stockholders	\$ (15,369)	\$ 770
Weighted average common shares outstanding for basic earnings per common share	1,744,330	1,743,728
Add: dilutive effects of assumed exercises of stock options		831
Average shares and dilutive potential common shares	1,744,330	1,744,559
Diluted earnings (loss) per common share	\$ (8.81)	\$ 0.44

Stock options for 227,075 shares of common stock were not considered in computing diluted earnings per common share for 2011 and 2010 because they were anti-dilutive.

Note 20 Going Concern

The Company's financial statements have been prepared assuming that the Company will continue as a going-concern, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, the Company has a tax sharing liability to the Bank which exceeds operating cash at the Company level. The liability will be settled pursuant to the terms of the Tax Allocation Agreement between the Bank and the Company on or before April 2, 2012 and the Company will run out of operating cash. Additionally, the Company is in default under the terms of a \$5.0 million line of credit with another financial institution lender (see Note 11).

Due to the current regulatory order that is in effect, the Bank is not allowed to make distributions to the Company without regulatory approval, and such approval is not likely to be given. In that event, the Company would not be able to meet its payment obligations within the foreseeable

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future unless the Company is able to secure new capital and/or obtain requisite forbearances from its lender. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Management's plan to address the conditions described above is to raise additional equity capital for the Company. The Company's ability to continue as a going concern is dependent on the timely implementation and success of this plan. There can be no assurance that management's plan will be achieved.

F-40