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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 2

(Mark one)

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

For the fiscal year ended December 31, 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)

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

(323) 634-1700

(Registrant s Telephone Number, Including Area Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $2,993,000

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

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, f 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.

	December 31,									
	2011		2010		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

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.

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	2009
		(In thousands)	
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		
	Adjustable	Fixed	Total
		(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
	(Dollars in thousands)											
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.

	December 31, 2011	2010	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	Number of loans	Principal balance of loans
	(Dollars in thousands)			
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 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.

	December 31,									
	2011		2010		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.

	December 31, 2011 Carrying amount	2011 Fair value	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 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.

	At December 31, 2011 One Year or less Carrying amount	One Year or less Weighted average yield	More than one year to five years Carrying amount	More than one year to five years Weighted average yield	More than five years to ten years Carrying amount	More than five years to ten years Weighted average yield	More than ten years Carrying amount	More than ten years Weighted average yield	Total Carrying amount	Total Weighted average yield
	(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.

16

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.

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-Franck 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:

	As of December 31,					
	2011			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.

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%

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.

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 Compared to Year ended December 31, 2010 Increase (Decrease) in Net Interest Income			Year ended December 31, 2010 Compared to Year ended December 31, 2009 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

33

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 in 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

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	/s/ Samuel Sarpong
Wayne-Kent A. Bradshaw	Samuel Sarpong
Chief Executive Officer	*Chief Financial Officer*
Los Angeles, CA	Los Angeles, CA
September 14, 2012	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

41

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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)	December 31, 2010
	(In thousands, except share and per share)	
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

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)

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)								