

BROADWAY FINANCIAL CORP \DE\
Form 8-K
August 13, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 13, 2003

Broadway Financial Corporation
(Exact name of registrant as specified in its charter)

Delaware 95-4547287
(State of Incorporation) (IRS Employer Identification No.)

4800 Wilshire Boulevard, Los Angeles, California 90010
(Address of Principal Executive Offices)

(323) 634-1700
(Issuer's Telephone Number, Including Area Code)

NOT APPLICABLE
(Former name or former address, if changed since last report)

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Item 7. Exhibits

(c) Exhibit 99.1

Copy of Press Release on earnings for the quarter ended June 30, 2003.

Item 12. Results of Operations and Financial Condition

On July 29, 2003, Broadway Financial Corporation issued a Press Release on earnings for the quarter ended June 30, 2003. A copy of the Press Release is attached as Exhibit 99.1.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

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BROADWAY FINANCIAL CORPORATION
(Registrant)

Date: August 13, 2003

/s/ Alvin D. Kang

(Signature)

Name: Alvin D. Kang
Chief Financial Officer

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EXHIBIT INDEX

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News Release

FOR IMMEDIATE RELEASE

Contact: Paul C. Hudson
President/CEO
Alvin D. Kang, CFO
(323) 634-1700
www.broadwayfed.com

Broadway Financial Corporation Reports 11% Increase in Net Earnings

LOS ANGELES, CA - (BUSINESS WIRE) - July 29, 2003 - Broadway Financial Corporation (the "Company") (NASDAQ Small-Cap: BYFC), the holding company of Broadway Federal Bank, f.s.b. (the "Bank"), today reported net earnings of \$356,000 and \$720,000 or \$0.18 and \$0.36 per diluted share for the three and six months ended June 30, 2003, compared to \$322,000 and \$648,000, or \$0.18 and \$0.35 per diluted share, respectively for the three and six months ended June 30, 2002. Compared to 2002, second quarter earnings increased 10.56% and net earnings for the six months increased 11.11%.

President Paul C. Hudson stated, "We improved net interest income by increasing interest-earning assets, which offset margin compression and accelerated loan prepayments. Going forward management continues to be focused on growing net loan originations."

Net Earnings

The increase in net earnings in 2003 over 2002 was primarily attributable to the

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increase in net interest income and non-interest income, offset by an increase in non-interest expense. Net interest income after provision for loan losses increased \$92,000 and \$163,000, or 4.59% and 4.09%, respectively, for the three and six months ended June 30, 2003 compared to the same periods in 2002. Non-interest income increased \$125,000 and \$178,000, or 56.56% and 38.95%, respectively, for the three and six months ended June 30, 2003 compared to the same periods in 2002. Non-interest expense increased \$168,000 and \$251,000, or 9.92% and 7.47%, respectively, for the three and six months ended June 30, 2003 compared to the same periods in 2002.

Net Interest Income

Net interest income after provision for loan losses increased to \$2,097,000 and \$4,152,000 for the three and six months ended June 30, 2003, from \$2,005,000 and \$3,989,000 for the same periods in 2002. A six month rate/volume analysis indicates that the \$163,000 increase in net interest income in 2003 over 2002 was primarily attributable to the impact of the growth in average interest-earning assets of \$33.8 million, or 19.71%, and interest-bearing liabilities of \$30.9 million, or 19.08%, which resulted in an increase in net interest income of \$731,000 (volume impact), offset by the impact of a decrease in the net interest rate spread of 58 basis points, which resulted in a decrease in net interest income of \$568,000 (rate impact).

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Loan originations were \$6.6 million and \$19.0 million for the three and six months ended June 30, 2003 compared to \$8.3 million and \$13.4 million for the same periods in 2002. Loan purchases totaled \$14.2 million in the first quarter of 2003. No loans were purchased in the 2002 periods or in the second quarter of 2003. Mortgage-backed securities ("MBS") purchases were \$10.0 million and \$12.0 million for the three and six months ended June 30, 2003 compared to \$4.0 million for the second quarter of 2002. Loan prepayments amounted to \$14.4 million and \$23.1 million for the three and six months ended June 30, 2003 compared to \$8.0 million and \$15.0 million for the same periods in 2002. Management anticipates that prepayments will continue at a comparable rate in the current low rate environment, and is focused on increasing lending volume and continuing purchases of loans and MBSs.

Interest-bearing liabilities increased \$900,000 during the second quarter of 2003 and such increase was primarily attributable to the net effect of a decrease in deposits of \$6.0 million and an increase in FHLB advances of \$6.9 million. For the six months ended June 30, 2003, interest-bearing liabilities increased \$10.8 million, resulting from a \$7.4 million increase in deposits and a \$3.4 million increase in FHLB advances.

The net interest rate spread for the three and six months ended June 30, 2003 was 3.88% and 3.93%, respectively, compared to 4.52% and 4.51%, respectively, for the same periods in 2002. The 64 and 58 basis point decrease in spread was attributable to the fact that the weighted average yield on the loan portfolio declined more than the weighted average cost of funds on interest-bearing liabilities. The yield on interest-earning assets declined 139 and 135 basis points to 5.81% and 5.95%, respectively, for the three and six months ended June 30, 2003 from 7.20% and 7.30%, respectively, for first the same periods in 2002. The weighted average cost of funds declined to 1.93% and 2.02%, respectively, for the three and six months ended June 30, 2003 compared to 2.68% and 2.80% for the same periods in 2002. The primary spread (weighted average interest rate on loans minus weighted average interest rate on deposits) at June 30, 2003 was 4.88% compared to 5.36% at June 30, 2002.

Non-interest Income

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Total non-interest income increased to \$346,000 and \$635,000 for the three and six months ended June 30, 2003, from \$221,000 and \$457,000 for the same periods in 2002. The \$125,000 increase for the second quarter was primarily attributable to an increase in service charges.

Non-interest Expense

Total non-interest expense increased to \$1,861,000 and \$3,610,000 for the three and six months ended June 30, 2003, from \$1,693,000 and \$3,359,000 for the same periods in 2002. The \$168,000 increase in the second quarter from 2002 to 2003 was primarily attributable to an increase in compensation and benefits costs.

Loans Receivable, Net

Loans receivable, net increased \$12.8 million, or 9.2%, to \$152.9 million at June 30, 2003 from \$140.1 million at December 31, 2002. During February 2003, the Bank purchased \$14.2 million of adjustable rate mortgage loans having an initial fixed rate period ("hybrid ARMs"). This purchase of hybrid ARMs, along with loan originations, offset the combined negative effect of a decline in the yield on the loan portfolio and the continuing high level of loan prepayments.

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The allowance for loan losses as a percentage of total loans was 0.90% at June 30, 2003 compared to 0.98% at December 31, 2002 and 1.11% at June 30, 2002. The Bank's non-performing assets to total assets ratio improved to 0.04 % at June 30, 2003 compared to 0.07% at December 31, 2002 and 0.53% at June 30, 2002. At June 30, 2003, the Bank had no loans in foreclosure or REO (real estate owned) properties.

Deposits

Total deposits increased \$7.4 million, or 4.73%, to \$163.5 million from \$156.1 million at December 31, 2002. Core deposits (NOW, demand, money market and passbook accounts) increased by \$2.1 million during the second quarter of 2003. At June 30, 2003 core deposits represented 44.6% of total deposits, compared to 40.4% at December 31, 2002, and 40.0% at June 30, 2002.

Performance Ratios

For the three months ended June 30, 2003, the Company's return on average equity declined slightly to 8.03% compared to 8.51% for the same period in 2002. The return on average assets also declined slightly to 0.65% for the three months ended June 30, 2003 compared to 0.72% for the same period in 2002. The ratio of non-interest expense to average assets improved to 3.41% for the three months ended June 30, 2003 compared to 3.76% for the same period in 2002. The efficiency ratio (total non-interest expense divided by the sum of net interest income before provision for loan losses and non-interest income) also increased slightly to 76.18% in second quarter 2003 compared to 76.06% in second quarter 2002.

Forward Looking Statements

Certain matters discussed in this news release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, and

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statements regarding strategic objectives. These forward-looking statements are based upon current management expectations, and involve risks and uncertainties. Actual results of performance may differ materially from those suggested, expressed, or implied by the forward-looking statements due to a wide range of factors including, but not limited to, the general business environment, the real estate market, competitive conditions in the business and geographic areas in which the Company conducts its business, regulatory actions or changes and other risks detailed in the Company's reports filed with the Securities Exchange Commission, including the Company's Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB.

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About us

Broadway Federal Bank, f.s.b. is a community-oriented savings bank, which primarily originates residential mortgage loans and conducts funds acquisition in the geographic areas known as Mid-City and South Los Angeles. The Bank operates four full service branches, three in the city of Los Angeles, and one located in the nearby city of Inglewood, California. At June 30, 2003, the Bank met the capital requirements necessary to be deemed "well capitalized" for regulatory capital purposes.

Shareholders, analysts and others seeking information about the Company are invited to write to: Broadway Financial Corporation, Investor Relations, 4800 Wilshire Blvd., Los Angeles, CA 90010, or visit our website at www.broadwayfed.com.

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)
(Unaudited)

| | June 30, 2003 | December 31, 2002 |
|--|------------------|----------------------|
| Assets: | | |
| Cash | \$ 3,516 | \$ 3,859 |
| Fed funds sold | 1,600 | 1,500 |
| Interest bearing deposits | - | 1,028 |
| Investment securities held to maturity | 2,000 | 2,000 |
| Investment securities available for sale | 2,000 | 5,007 |
| Mortgage-backed securities held to maturity | 8,446 | 10,843 |
| Mortgage-backed securities available for sale | 36,276 | 27,697 |
| Loans receivable, net | 152,911 | 140,085 |
| Loans receivable held for sale, at lower of cost or fair value | 142 | 3,770 |
| Accrued interest receivable | 1,408 | 995 |
| Investments in capital stock of Federal Home Loan Bank, at cost | 1,657 | 1,561 |

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| | | |
|--|------------|------------|
| Office properties and equipment, net | 5,751 | 5,811 |
| Other assets | 786 | 750 |
| Total assets | \$ 216,493 | \$ 204,906 |
| Liabilities and stockholders' equity | | |
| Deposits | \$ 163,532 | \$ 156,148 |
| Advances from Federal Home Loan Bank | 32,130 | 28,724 |
| Advance payments by borrowers for taxes and insurance | 244 | 311 |
| Deferred income taxes | 1,085 | 931 |
| Other liabilities | 1,697 | 1,871 |
| Total liabilities | 198,688 | 187,985 |
| Stockholders' Equity: | | |
| Preferred non-convertible, non-cumulative, and non-voting stock, \$.01 par value, authorized 1,000,000 shares; issued and outstanding 55,199 shares at June 30, 2003 and December 31, 2002 | 2 | 2 |
| Common stock, \$.01 par value, authorized 3,000,000 shares; issued and outstanding 1,819,934 shares at June 30, 2003 and 1,815,294 shares at December 31, 2002 | 10 | 10 |
| Additional paid-in capital | 10,528 | 10,512 |
| Accumulated other comprehensive gain, net of taxes | 307 | 57 |
| Retained earnings-substantially restricted | 7,552 | 7,005 |
| Treasury stock-at cost, 49,008 shares at June 30, 2003 and 53,648 shares at December 31, 2002 | (475) | (520) |
| Unearned Employee Stock Ownership Plan shares | (119) | (145) |
| Total stockholders' equity | 17,805 | 16,921 |
| Total liabilities and stockholders' equity | \$ 216,493 | \$ 204,906 |

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended June 30, 2003 | | Six Months June 30, |
|--|-------------------------------------|---------|------------------------|
| | 2003 | 2002 | 2003 |
| Interest on loans receivable | \$2,569 | \$2,752 | \$5,113 |
| Interest on investment securities held to maturity | | 40 | 58 |
| Interest on investment securities available for sale | | 50 | 45 |
| Interest on mortgage-backed securities | | 202 | 808 |
| Other interest income | 37 | 49 | 75 |
| Total interest income | 3,047 | 3,093 | 6,099 |

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| | | | |
|--|-----------|-----------|-----------|
| Interest on deposits | 764 | 966 | 1,585 |
| Interest on borrowings | 186 | 122 | 362 |
| Total interest expense | 950 | 1,088 | 1,947 |
| Net interest income before provision for loan losses | | 2,005 | 4,152 |
| Provision for loan losses | - | - | - |
| Net interest income after provision for loan losses | | 2,005 | 4,152 |
| Non-interest income: | | | |
| Service charges | 331 | 206 | 601 |
| Gain on loans receivable held for sale | | 1 | 18 |
| Other | 10 | 14 | 16 |
| Total non-interest income | 346 | 221 | 635 |
| Non-interest expense: | | | |
| Compensation and benefits | 1,020 | 876 | 1,934 |
| Occupancy expense, net | 251 | 272 | 509 |
| Information services | 126 | 145 | 256 |
| Professional services | 107 | 106 | 268 |
| Office services and supplies | 108 | 94 | 210 |
| Other | 249 | 200 | 433 |
| Total non-interest expense | 1,861 | 1,693 | 3,610 |
| Earnings before income taxes | 582 | 533 | 1,177 |
| Income taxes | 226 | 211 | 457 |
| Net earnings | \$ 356 | \$ 322 | \$ 720 |
| Other comprehensive income: | | | |
| Unrealized gain on securities available for sale | \$ 387 | \$ 47 | \$ 404 |
| Income tax expense | (153) | (20) | (154) |
| Other comprehensive income | 234 | 27 | 250 |
| Comprehensive earnings | \$ 590 | \$ 349 | \$ 970 |
| Net earnings | \$ 356 | \$ 322 | \$ 720 |
| Dividends paid on preferred stock | (19) | (7) | (38) |
| earnings available to common shareholders | \$ 337 | \$ 315 | \$ 682 |
| Earnings per share-basic | \$ 0.19 | \$ 0.18 | \$ 0.38 |
| Earnings per share-diluted | \$ 0.18 | \$ 0.18 | \$ 0.36 |
| Dividend declared per share-common stock | \$ 0.04 | \$ 0.03 | \$ 0.08 |
| Basic weighted average shares outstanding | 1,794,153 | 1,780,568 | 1,790,925 |
| Diluted weighted average shares outstanding | 1,889,539 | 1,805,716 | 1,884,063 |

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(Dollars in thousands)

| | As of June 30, | | Well-Capitalized |
|---|----------------|--------|------------------|
| | 2003 | 2002 | Requirement |
| Broadway Federal Bank, f.s.b. Regulatory Capital Ratios: | | | |
| Tangible capital | 7.52% | 7.52% | 5.00% |
| Core capital | 7.52% | 7.52% | 6.00% |
| Total Risk-Based Capital | 14.02% | 12.68% | 10.00% |

Asset Quality Ratios and Data:

| | | |
|---|----------|---------|
| Non-performing loans as a percentage of total gross loans | 0.05% | 0.59% |
| Non-performing assets as a percentage of total assets | 0.04% | 0.53% |
| Allowance for loan losses as a percentage of total gross loans | 0.92% | 1.11% |
| Allowance for loan losses as a percentage of non-performing loans | 1786.25% | 187.02% |
| Allowance for losses as a percentage of non-performing assets | 1786.25% | 165.89% |

Non-performing assets:

| | | |
|--|-------|--------|
| Non-accrual loans | \$ 80 | \$ 840 |
| Real estate acquired through foreclosure | - | 107 |
| Total non-performing assets | \$ 80 | \$ 947 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2003 | 2002 | 2003 | 2002 |
| Performance Ratios: | | | | |
| Return on average assets | 0.65% | 0.72% | 0.67% | 0.67% |
| Return on average equity | 8.03% | 8.51% | 8.31% | 8.31% |
| Average equity to average assets | 8.12% | 8.41% | 8.12% | 8.12% |
| Non-interest expense to average assets | 3.41% | 3.76% | 3.38% | 3.38% |
| Efficiency ratio | 76.18% | 76.06% | 75.41% | 75.41% |
| Net interest rate spread (1) | 3.88% | 4.52% | 3.93% | 4.05% |
| Effective net interest rate spread (2) | 4.00% | 4.67% | 4.05% | 4.05% |

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of interest-bearing liabilities before provision for loan losses.

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- (2) Effective net interest rate spread represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Selected Data
(Dollars in thousands)

| | Three Months Ended | | Six Months Ended | |
|--------------------------------------|--------------------|------------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2003 | 2002 | 2003 | 2002 |
| Average assets | \$ 218,376 | \$ 180,025 | \$ 213,434 | \$ 179,52 |
| Average loans | \$ 154,259 | \$ 139,379 | \$ 150,470 | \$ 139,46 |
| Average equity | \$ 17,741 | \$ 15,139 | \$ 17,334 | \$ 15,03 |
| Average interest-earning assets | \$ 209,901 | \$ 171,852 | \$ 205,016 | \$ 171,25 |
| Average interest-bearing liabilities | \$ 196,910 | \$ 162,271 | \$ 192,763 | \$ 161,88 |
| Non-accrual loans | \$ 80 | \$ 840 | \$ 80 | \$ 84 |
| REO, net | \$ - | \$ 107 | \$ - | \$ 10 |
| ALLL | \$ 1,429 | \$ 1,571 | \$ 1,429 | \$ 1,57 |
| REO-Allowance | \$ - | \$ - | \$ - | \$ - |

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