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BROADWAY FINANCIAL CORP \DE\
Form 10QSB
November 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

For transition period from _____ to _____

Commission file number 0-27464

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

Delaware

95-4547287

(State or other jurisdiction
of incorporation or organization)

(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)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 1,831,161 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding as of October 31, 2003.

Transitional Small Business Disclosure Format (Check one):

Yes No

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PART I. FINANCIAL INFORMATION

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As of September 30, 2003 and December 31, 2002

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

| | September 30, 2003 | D |
|--|-----------------------|----|
| Assets: | | |
| Cash | \$ 4,264 | \$ |
| Federal funds sold | 6,900 | |
| Interest bearing deposits | - | |
| Investment securities held to maturity | 2,996 | |
| Investment securities available for sale | - | |
| Mortgage-backed securities held to maturity | 7,327 | |
| Mortgage-backed securities available for sale | 20,843 | |
| Loans receivable, net | 160,585 | |
| Loans receivable held for sale, at lower of cost or fair value | 1,852 | |
| Accrued interest receivable | 932 | |
| Investment in capital stock of the Federal Home Loan Bank, at cost | 1,771 | |
| Office properties and equipment, net | 5,664 | |
| Other assets | 8,579 | |

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| | | |
|--|------------|----|
| Total assets | \$ 221,713 | \$ |
| Liabilities and stockholders' equity | | |
| Deposits | \$ 167,285 | \$ |
| Advances from the Federal Home Loan Bank | 31,071 | |
| Advance payments by borrowers for taxes and insurance | 533 | |
| Deferred income taxes | 906 | |
| Other liabilities | 4,004 | |
| Total liabilities | 203,799 | |
| Stockholders' Equity: | | |
| Preferred non-convertible, non-cumulative, and non-voting stock, \$.01 par value, authorized 1,000,000 shares; issued and outstanding 155,199 shares at September 30, 2003 and December 31, 2002 | 2 | |
| Common stock, \$.01 par value, authorized 3,000,000 shares; issued and outstanding 1,831,485 shares at September 30, 2003 and 1,815,294 shares at December 31, 2002 | 10 | |
| Additional paid-in capital | 10,501 | |
| Accumulated other comprehensive gain, net of taxes | 26 | |
| Retained earnings-substantially restricted | 7,844 | |
| Treasury stock-at cost, 37,457 shares at September 30, 2003 and 53,648 shares at December 31, 2002 | (363) | |
| Unearned Employee Stock Ownership Plan shares | (106) | |
| Total stockholders' equity | 17,914 | |
| Total liabilities and stockholders' equity | \$ 221,713 | \$ |

See Notes to Unaudited Consolidated Financial Statements.

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

| | Three Months Ended September 30, | |
|--|-------------------------------------|----------|
| | 2003 | 2002 |
| Interest on loans receivable | \$ 2,556 | \$ 2,644 |
| Interest on investment securities held to maturity | 26 | 40 |
| Interest on investment securities available for sale | 7 | 92 |
| Interest on mortgage-backed securities | 345 | 208 |
| Other interest income | 27 | 36 |
| Total interest income | 2,961 | 3,020 |
| Interest on deposits | 730 | 887 |
| Interest on borrowings | 194 | 135 |
| Total interest expense | 924 | 1,022 |

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| | | |
|--|-----------|-----------|
| Net interest income before provision for loan losses | 2,037 | 1,998 |
| Provision for loan losses | - | - |
| Net interest income after provision for loan losses | 2,037 | 1,998 |
| Noninterest income: | | |
| Service charges | 255 | 186 |
| Gain on loans receivable held for sale | - | - |
| Other | 102 | 38 |
| Total noninterest income | 357 | 224 |
| Noninterest expense: | | |
| Compensation and benefits | 1,038 | 898 |
| Occupancy expense, net | 152 | 108 |
| Information services | 267 | 282 |
| Professional services | 104 | 123 |
| Office services and supplies | 103 | 100 |
| Other | 129 | 82 |
| Total noninterest expense | 1,793 | 1,593 |
| Earnings before income taxes | 601 | 629 |
| Income taxes | 222 | 189 |
| Net earnings | \$ 379 | \$ 440 |
| Other comprehensive income (loss): | | |
| Unrealized income (loss) on securities available for sale | \$ (545) | \$ (43) |
| Less: reclassification of realized net gains included in net earnings | 85 | 19 |
| Income tax benefit (expense) | 179 | 10 |
| Other comprehensive income (loss) | (281) | (14) |
| Comprehensive earnings | \$ 98 | \$ 426 |
| Net earnings | 379 | 440 |
| Dividends paid on preferred stock | (19) | (7) |
| Earnings available to common shareholders | \$ 360 | \$ 433 |
| Earnings per share-basic | \$ 0.20 | \$ 0.24 |
| Earnings per share-diluted | \$ 0.19 | \$ 0.24 |
| Dividend declared per share-common stock | \$ 0.04 | \$ 0.03 |
| Basic weighted average shares outstanding | 1,802,204 | 1,776,008 |
| Diluted weighted average shares outstanding | 1,908,887 | 1,813,192 |

See Notes to Unaudited Consolidated Financial Statements.

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Nine months ended September
2003 2002

| | | |
|--|----------|---------|
| Cash flows from operating activities | | |
| Net earnings | \$ 1,099 | \$ 1,08 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 273 | 30 |
| Amortization of premiums and (accretion) of discounts on loans purchased | 89 | (14) |
| Amortization of net deferred loan origination fees | (69) | (22) |
| Amortization of discounts and premiums on investment securities and mortgage-backed securities | 312 | 13 |
| Amortization of deferred compensation | 97 | 6 |
| Gain on sale of securities available for sale | (85) | (2) |
| Gain on sale of loans receivable held for sale | (18) | |
| (Gain) Loss on disposal of fixed assets | (1) | 5 |
| Loans originated for sale | (2,732) | (67) |
| Proceeds from sale of loans receivable held for sale | 1,481 | 79 |
| Changes in operating assets and liabilities: | | |
| Accrued interest receivable | 63 | |
| Other assets | (7,829) | (25) |
| Other liabilities | 2,133 | 75 |
| Net cash provided by (used in) operating activities | (5,187) | 1,87 |
| Cash flows from investing activities | | |
| Loans originated, net of refinances | (35,362) | (18,85) |
| Principal repayment on loans | 36,038 | 21,75 |
| Purchase of loans | (18,009) | (82) |
| Purchases of investment securities held to maturity | (996) | (2,00) |
| Purchases of investment securities available for sale | (23,000) | (27,12) |
| Purchases of mortgage-backed securities held to maturity | - | (2,09) |
| Purchases of mortgage-backed securities available for sale | (17,373) | |
| Proceeds from maturities of interest bearing deposits | 1,028 | 4,00 |
| Proceeds from maturities of mortgage-backed securities held to maturity | 3,389 | 3,47 |
| Proceeds from sale of securities available for sale | 27,990 | 10,54 |
| Proceeds from sale of mortgage-backed securities available for sale | 14,467 | |
| Principal repayments on mortgage-backed securities available for sale | 9,621 | |
| Purchase of Federal Home Loan Bank stock | (210) | (6) |
| Proceeds from sale of fixed assets | 35 | 1 |
| Capital expenditures for office properties and equipment | (160) | (22) |
| Net cash used in investing activities | (2,542) | (11,39) |

See accompanying notes to unaudited consolidated financial statements.

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| | Nine months ended Septemb | |
|---|---------------------------|----------|
| | 2003 | 2002 |
| Cash flows from financing activities | | |
| Net increase in deposits | 11,137 | 5,050 |
| Increase in advances from Federal Home Loan Bank | 2,347 | 4,750 |
| Dividends paid | (260) | (150) |
| Purchases of treasury stock | - | (80) |
| Stock options exercised | 88 | 200 |
| Increase in advances by borrowers for taxes and insurance | 222 | 320 |
| Net cash provided by financing activities | 13,534 | 9,920 |
| Net increase in cash and cash equivalents | 5,805 | 4,400 |
| Cash and cash equivalents at beginning of period | 5,359 | 5,230 |
| Cash and cash equivalents at end of period | \$ 11,164 | \$ 5,640 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | \$ 2,854 | \$ 3,450 |
| Cash paid for income taxes | \$ 582 | \$ 560 |
| Supplemental disclosure of noncash investing and financing activities | | |
| Transfers of loans to real estate acquired through foreclosure | \$ - | \$ 100 |
| Transfers of loans from held for sale to held for investment | \$ 3,184 | \$ - |

See accompanying notes to unaudited consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003

NOTE (1) - Basis of Financial Statement Presentation

The unaudited consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and pursuant to the instructions for Form 10-QSB and the rules and regulations of the Securities and Exchange Commission. In the opinion of the management of Broadway Financial Corporation (the "Company"), the preceding unaudited consolidated financial statements contain all material adjustments, consisting solely of normal recurring accruals, necessary to present fairly the consolidated financial position of the Company and its subsidiaries at September 30, 2003 and December 31, 2002, the results of their operations and comprehensive earnings for the three and nine months ended September 30, 2003 and 2002 and their cash flows for the nine months ended September 30, 2003 and 2002. These unaudited consolidated financial statements do not include all disclosures associated with the Company's consolidated annual financial statements included in its annual report on Form 10-KSB for the year ended December 31, 2002 and, accordingly, should be read in conjunction with such audited financial statements. The results of operations for the three and nine months ended September 30, 2003 are not

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necessarily indicative of the results to be expected for the full year.

NOTE (2) - Earnings Per Share

Basic earnings per share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period (1,802,204 and 1,776,008 shares for the three months ended September 30, 2003 and 2002, and 1,794,726 and 1,779,612 for the nine months ended September 30, 2003 and 2002, respectively). Diluted earnings per share is determined by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period, adjusted for the dilutive effect of Common Stock equivalents, (1,908,887 and 1,813,192 shares for the three months ended September 30, 2003 and 2002, and 1,894,614 and 1,805,718 for the nine months ended September 30, 2003 and 2002, respectively).

NOTE (3) - Cash and Cash Equivalents

For purposes of reporting cash flows in the "Consolidated Statements of Cash Flows", cash and cash equivalents include cash and federal funds sold.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL
STATEMENTS -CONTINUED
SEPTEMBER 30, 2003

NOTE (4) - Current Accounting Pronouncements

In April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. In particular, SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. Management anticipates the adoption of SFAS 149 will have no impact on the Company's consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150") which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity that have been presented either entirely as equity or between the liabilities section and equity section of the statement of financial position. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Management anticipates the adoption of SFAS 150 will have no impact on the Company's consolidated financial statements.

Financial Accounting Standards Board Interpretation 46, provides guidance to improve financial reporting for SPEs, Off-Balance Sheet Structures and Similar Entities" ("FIN 46"), and requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. Prior to FIN 46, a company included

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another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The FASB deferred the effective date for applying the provision of FIN 46 for interests held by public entities in variable interest entities or potential variable interest entities created before February 1, 2003 until the end of the first interim or annual period after December 15, 2003. Certain disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has no business interests that require consolidation or deconsolidation as a result of applying the provisions of FIN 46.

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NOTE (5) - Stock-based Compensation Plans

The Company has stock-based compensation plans (the "Plans"), which provide for the granting of stock options, stock appreciation rights and restricted stock to employees and directors. The Plans authorize 428,050 shares (adjusted for stock dividends and splits) of Common Stock to be available for issuance under the Plans. Stock options granted under the Plans are exercisable over vesting periods specified in each Plan and, unless exercised, the options terminate ten years from the date of the grant. The option price must be no less than the fair market value of the underlying shares on the date the options are granted. At September 30, 2003, the Company had 37,457 shares of treasury stock that may be issued on the exercise of options or for payment of other awards.

The Company measures its employee stock-based compensation arrangements under the provisions of Accounting Principles Board Option No. 25, "Accounting for Stock Issued to Employees ("APB 25)". Accordingly, no compensation expense has been recognized for the Plans, as stock options were granted at fair value at the date of grant. Had compensation expense for the Plans been determined based on the fair value method provision of the Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" for previous awards, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated for the quarters below:

| | Three months ended September 30, ----- | | Nine months ended September 30, ----- | |
|---|--|--------------------|---|----------------------|
| | 2003 ---- | 2002 ---- | 2003 ---- | 2002 ---- |
| Net Earnings: | | | | |
| As reported | \$379,000 | \$440,000 | \$1,099,000 | \$1,088,000 |
| Deduct: | | | | |
| Stock-based compensation expense, net of tax | 14,000 ----- | 17,000 ----- | 42,000 ----- | 38,000 ----- |
| Pro forma | \$365,000 ===== | \$423,000 ===== | \$1,057,000 ===== | \$1,050,000 ===== |
| Earnings per share - Basic: | | | | |
| As reported | \$0.20 | \$0.24 | \$0.58 | \$0.60 |

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| | | | | |
|-------------------------------|--------|--------|--------|--------|
| Pro forma | \$0.19 | \$0.23 | \$0.56 | \$0.58 |
| Earnings per share - Diluted: | | | | |
| As reported | \$0.19 | \$0.24 | \$0.55 | \$0.59 |
| Pro forma | \$0.18 | \$0.23 | \$0.53 | \$0.57 |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements under this caption may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995, which involve risks and uncertainties. Actual results may differ significantly from the results discussed in such forward-looking statements. Factors that may cause such a difference include, but are not limited to, economic conditions, competition in the geographic and business areas in which operations are conducted, fluctuations in the interest rates, credit quality and government regulation.

General

Broadway Financial Corporation (the "Company") is primarily engaged in the savings and loan business through its wholly owned subsidiary, Broadway Federal Bank, f.s.b. ("Broadway Federal" or "the Bank"). Broadway Federal is a community-oriented savings institution dedicated to serving the African-American, Hispanic and other communities of Mid-City and South Los Angeles, California. Broadway Federal's business is that of a financial intermediary and consists primarily of attracting deposits from the general public and using such deposits, together with borrowings and other funds, to make mortgage loans secured by residential real estate located in Southern California. At September 30, 2003, Broadway Federal operated four retail-banking offices in Mid-City and South Los Angeles. Broadway Federal is subject to significant competition from other financial institutions, and is also subject to regulation by federal agencies and undergoes periodic examinations by those regulatory agencies.

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Broadway Federal and BankSmart, Inc. (a dormant company). All significant inter-company balances and transactions have been eliminated in consolidation.

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

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Critical Accounting Policy

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which have a material impact on the carrying value of net loans receivable. Management considers this accounting policy to be a critical accounting policy. The judgments and assumptions used by management are based on historical experience, current economic trends, the Company's assessment of the borrowers' ability to repay and repayment performance, and other factors, which are believed to be reasonable under the circumstances as described under the heading "Loans Receivable and the Allowance for Loan Losses" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002.

Comparison of Operating Results for the Three Months and Nine Months ended September 30, 2003 and September 30, 2002

General

The Company recorded net earnings of \$379,000 and \$1,099,000, or \$0.19 and \$0.55 per diluted share, respectively, for the three and nine months ended September 30, 2003, compared to \$440,000 and \$1,088,000, or \$0.24 and \$0.59 per diluted share, respectively, for the three and nine months ended September 30, 2002. Compared to 2002, third quarter net earnings decreased 13.86% and net earnings for the nine months increased 1.01%.

Net Earnings

The change in net earnings in 2003 over 2002 was primarily attributable to the 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 \$39,000 and \$201,000, or 1.95% and 3.36%, respectively, for the three and nine months ended September 30, 2003 compared to the same periods in 2002. Non-interest income increased \$133,000 and \$267,000, or 59.38% and 41.98%, respectively, for the three and nine months ended September 30, 2003 compared to the same periods in 2002. Non-interest expense increased \$200,000 and \$405,000, or 12.55% and 8.25%, respectively, for the three and nine months ended September 30, 2003 compared to the same periods in 2002.

Net Interest Income

Net interest income after provision for loan losses increased to \$2,037,000 and \$6,189,000 for the three and nine months ended September 30, 2003, from \$1,998,000 and \$5,988,000 for the same periods in 2002. A nine month rate/volume analysis indicates that the \$201,000 increase was primarily attributable to the impact of the growth in average interest-earning assets of \$32.9 million, or 19.02%, and interest-bearing liabilities of \$30.8 million, or 18.85%, which resulted in an increase in net interest income of \$1,080,000 (volume impact), offset by the impact of a decrease in the net interest rate spread of 57 basis points, which resulted in a decrease in net interest income of \$879,000 (rate impact).

Loan originations were \$18.8 million and \$37.8 million for the three and nine months ended September 30, 2003 compared to \$7.0 million and \$20.4 million for the same periods in 2002. Loan purchases totaled \$3.8 million and \$17.8 million for the three and nine months ended September 30, 2003, compared to \$820,000 and \$820,000 for the same periods in 2002. Mortgage-backed securities ("MBS") purchases were \$3.4 million and \$15.4 million for the three and nine months

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ended September 30, 2003 compared to \$5.0 million and \$9.0 million for the same periods in 2002. Loan prepayments amounted to \$12.9 million and \$36.0 million for the three and nine months ended September 30, 2003 compared to \$6.8 million and \$21.8 million for the same periods in 2002. In the current low interest rate environment, prepayments are not expected to abate until interest rates rise significantly, and therefore management is focusing on increasing loan volume through originations and purchases. Loans receivable, net grew \$20.5 million since December 31, 2002, and reflects the improvements made by management in the Bank's loan product offerings as well as in its efficiency in service to new loan customers.

Interest-bearing liabilities increased \$2.7 million during the third quarter of 2003. The increase was primarily attributable to the net effect of an increase in deposits of \$3.8 million and a decrease in Federal Home Loan Bank ("FHLB") advances of \$1.1 million. For the nine months ended September 30, 2003, interest-bearing liabilities increased \$13.5 million, comprised of an \$11.1 million increase in deposits and a \$2.4 million increase in FHLB advances.

The net interest rate spread for the three and nine months ended September 30, 2003 was 3.78% and 3.90%, respectively, compared to 4.39% and 4.47%, respectively, for the same periods in 2002. The 61 and 57 basis point decrease in spread was attributable to the larger decline in the weighted average yield on the loan portfolio compared to the decline in the weighted average cost of funds on interest-bearing liabilities. The yield on interest-earning assets declined 120 and 128 basis points to 5.65% and 5.87%, respectively, for the three and nine months ended September 30, 2003 from 6.85% and 7.15%, respectively, for the same periods in 2002. The weighted average cost of funds declined to 1.88% and 1.97%, respectively, for the three and nine months ended September 30, 2003 compared to 2.46% and 2.68% for the same periods in 2002. The primary spread (weighted average interest rate on loans minus weighted average interest rate on deposits) at September 30, 2003 was 4.62% compared to 4.76% at September 30, 2002, a decline of 14 basis points.

Provision for Loan Losses

As of September 30, 2003, the Company's allowance for loan losses totaled \$1.4 million, unchanged from the balance at December 31, 2002. The allowance for loan losses represents 0.87% of gross loans at September 30, 2003, compared to 0.98% at December 31, 2002.

Total non-performing assets, consisting of non-accrual loans and real estate acquired through foreclosure ("REO"), decreased by \$55,000, to \$80,000 at September 30, 2003 from \$135,000 at December 31, 2002. Non-accrual loans at September 30, 2003 consisted of one loan totaling \$80,000 secured by a single-family dwelling. There was no REO as of September 30, 2003 and December 31, 2002. As a percentage of total assets, non-performing assets were 0.04% at September 30, 2003, compared to 0.07% at December 31, 2002.

Management believes that the allowance for loan losses is adequate to cover inherent losses in Broadway Federal's loan portfolio as of September 30, 2003, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation periodically review Broadway Federal's allowance for loan losses as an integral part of their examination process. These agencies may require Broadway Federal to increase the allowance for loan losses based on their judgments of the information available to them at the time of their examination.

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Non-interest Income

Total non-interest income increased to \$357,000 and \$903,000 for the three and nine months ended September 30, 2003, from \$224,000 and \$636,000 for the same periods in 2002. The \$133,000 increase for the third quarter was primarily attributable to an increase in loan fees and service charges, and net gains on sale of investments and MBS available for sale.

Non-interest Expense

Total non-interest expense increased to \$1,793,000 and \$5,313,000 for the three and nine months ended September 30, 2003, from \$1,593,000 and \$4,908,000 for the same periods in 2002. The \$200,000 increase in the third quarter from 2002 to 2003 was primarily attributable to an increase in compensation and benefits costs and occupancy expenses.

Loans Receivable, Net

Loans receivable, net increased \$20.5 million, or 14.6%, to \$160.6 million at September 30, 2003 from \$140.1 million at December 31, 2002. During the nine months ended September 30, 2003, the Bank purchased \$17.8 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.

Deposits

Total deposits increased \$11.1 million, or 7.11%, to \$167.2 million from \$156.1 million at December 31, 2002. Core deposits (NOW, demand, money market and passbook accounts) increased by \$1.2 million during the third quarter of 2003. At September 30, 2003 core deposits represented 44.6% of total deposits, compared to 40.4% at December 31, 2002, and 39.4% at September 30, 2002. Management has focused on increasing core deposit customers and closely managing the cost of deposits. Management expects deposit growth to be the primary source of funds for loan growth and plans to aggressively market deposit products to targeted customers.

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Capital

Total capital at September 30, 2003 was \$17.9 million, compared to \$16.9 million at December 31, 2002. The increase was primarily due to net earnings for the period.

Performance Ratios

For the three months ended September 30, 2003, the Company's return on average equity declined to 8.49% compared to 11.39% for the same period in 2002. The return on average assets also declined to 0.69% for the three months ended September 30, 2003 compared to 0.95% for the same period in 2002. The ratio of non-interest expense to average assets improved to 3.28% for the three months ended September 30, 2003 compared to 3.46% 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) increased to 74.90% in third quarter 2003 compared to 71.69% in third quarter 2002.

Income Taxes

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The Company's effective tax rate was approximately 37% and 38% for the three months and nine months ended September 30, 2003, compared to 30% and 37% for the same periods in the prior year. Income taxes are computed by applying the statutory federal income tax rate of 34% and the California income tax rate of 10.84% to earnings before income taxes. California income taxes are reduced by tax credits relating to the California Enterprise Zone Incentive, which were substantially higher in 2002.

Liquidity, Capital Resources and Market Risk

Sources of liquidity and capital for the Company on a stand-alone basis include distributions from the Bank and the issuance of equity securities such as the preferred stock issued in 2002. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

The Bank's primary sources of funds are deposits, principal and interest payments on loans, mortgage-backed securities and investments, and advances from the Federal Home Loan Bank of San Francisco. Other sources of liquidity include principal repayments on mortgage-backed securities and other investments, and contributions of capital by the Company. During the first quarter of 2003, the Company contributed \$1 million to the Bank, which was raised from the issuance of preferred stock to Fannie Mae.

Since December 31, 2002, there has been no material change in the Company's interest rate sensitivity. For a discussion on the Company's interest rate sensitivity and market risk, see the Company's annual report on Form 10-KSB for the year ended December 31, 2002, including the Company's audited financial statements and the notes thereto.

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Regulatory Capital

The OTS capital regulations include three separate minimum capital requirements for savings institutions that are subject to OTS supervision. First, the tangible capital requirement mandates that the Bank's stockholder's equity, less intangible assets, be at least 1.50% of adjusted total assets as defined in the capital regulations. Second, the core capital requirement currently mandates that core capital (tangible capital plus certain qualifying intangible assets) be at least 4.00% of adjusted total assets as defined in the capital regulations. Third, the risk-based capital requirement presently mandates that core capital plus supplemental capital (as defined by the OTS) be at least 8.00% of risk-weighted assets as prescribed in the capital regulations. The capital regulations assign specific risk weightings to all assets and off-balance sheet items.

Broadway Federal was in compliance with all capital requirements in effect at September 30, 2003, and met all standards necessary to be considered "well-capitalized" under the prompt corrective action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA").

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

| | FIRREA | FDICIA | Actual |
|---|------------------------|-----------------------------------|--------------------------|
| Regulatory Capital Ratios for Broadway Federal | Minimum Requirement | "Well-capitalized" Requirement | At September 30, 2003 |

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| | | | |
|---------------------------|-------|--------|--------|
| Tangible capital | 1.50% | N/A | 7.53% |
| Core capital | 4.00% | 5.00% | 7.53% |
| Total risk-based capital | 8.00% | 10.00% | 13.19% |
| Tier 1 risk-based capital | N/A | 6.00% | 12.14% |

ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2003, an evaluation was performed under the supervision of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of September 30, 2003. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to September 30, 2003.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 31 - Certifications pursuant to Rules 13a-14 or 15d-14 of the Securities Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32 - Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Reports on Form 8-K

On October 29, 2003, the Company filed a current report on Form 8-K, pursuant to which it furnished to the Securities and Exchange Commission a copy of the Company's press release regarding financial results for the third fiscal quarter of 2003.

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SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized

Date: November 13, 2003 By: /s/ PAUL C. HUDSON
Paul C. Hudson
President and Chief Executive Officer
Broadway Financial Corporation

Date: November 13, 2003 By: /s/ ALVIN D. KANG
Alvin D. Kang
Chief Financial Officer
Broadway Financial Corporation

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Exhibit 31

SECTION 302 CERTIFICATION

I, Paul C. Hudson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Broadway Financial Corporation (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Broadway Financial Corporation as of, and for, the periods presented in this report.
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Company and have:

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- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - c) Disclosed in this report any changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 13, 2003

/s/ Paul C. Hudson
Signature

Paul C. Hudson
Chief Executive Officer
Broadway Financial Corporation

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SECTION 302 CERTIFICATION

I, Alvin D. Kang, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Broadway Financial Corporation (the "Company").
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Broadway Financial Corporation as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
 - c) Disclosed in this report any changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: November 13, 2003

/s/ Alvin D. Kang
Signature

Alvin D. Kang
Chief Financial Officer
Broadway Financial Corporation

Section 906 Certification

Broadway Financial Corporation is furnishing to the Securities and Exchange Commission pursuant to the requirements of Form 10-QSB the following Certification provided by the undersigned to accompany the foregoing Report on Form 10-QSB pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

Each of the undersigned certifies that the foregoing Report on Form 10-QSB fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m) and that the information contained in the Form 10-QSB fairly presents, in all material respects, the financial condition and results of operations of Broadway Financial Corporation.

Date: November 13, 2003

/s/ Paul C. Hudson

Paul C. Hudson
President and Chief Executive Officer
Broadway Financial Corporation

Date: November 13, 2003

/s/ Alvin D. Kang

Alvin D. Kang
Chief Financial Officer
Broadway Financial Corporation