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BROADWAY FINANCIAL CORP \DE\
Form 10QSB
May 15, 2002

U.S. 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 March 31, 2002

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

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: 910,538 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding as of April 19, 2002.

Transitional Small Business Disclosure Format (Check one):

Yes No

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March 31,
2002

Assets:

Cash	\$	5,701	\$
Fed funds sold		5,000	
Interest bearing deposits		5,028	
Investment securities held to maturity		1,000	
Investment securities available for sale		4,595	
Mortgage-backed securities held to maturity		12,631	
Loans receivable, net		132,792	
Loans receivable held for sale, at lower of cost or fair value		5,934	
Accrued interest receivable		942	
Real estate acquired through foreclosure, net		108	
Investments in capital stock of Federal Home Loan Bank, at cost		1,420	
Office properties and equipment, net		5,951	
Other assets		884	
Total assets	\$	181,986	\$

Liabilities and stockholders' equity

Deposits	\$	153,210	\$
Advances from Federal Home Loan Bank		9,500	
Advance payments by borrowers for taxes and insurance		41	
Deferred income taxes		552	
Other liabilities		3,767	
Total liabilities		167,070	
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 March 31, 2002 and December 31, 2001		1	
Common stock, \$.01 par value, authorized 3,000,000 shares; issued and outstanding 910,538 shares at March 31, 2002 and December 31, 2001		10	
Additional paid-in capital		9,486	
Accumulated other comprehensive gain (loss), net of taxes		(3)	
Retained earnings-substantially restricted		6,078	
Treasury stock-51,197 shares, at cost at March 31, 2002 and December 31, 2001		(469)	
Unearned Employee Stock Ownership Plan shares		(187)	
Total stockholders' equity		14,916	
Total liabilities and stockholders' equity	\$	181,986	\$

See accompanying 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	
	2002	

Interest on loans receivable	\$ 2,823	\$
Interest on investment securities held to maturity	5	
Interest on investment securities available for sale	40	
Interest on mortgage-backed securities	202	
Other interest income	89	
Total interest income	3,159	
Interest on deposits	1,047	
Interest on borrowings	129	
Total interest expense	1,176	
Net interest income before provision for loan losses	1,983	
Provision for loan losses	--	
Net interest income after provision for loan losses	1,983	
Non-interest income:		
Service charges	221	
Gain (loss) on loans receivable held for sale	(1)	
Other	15	
Total non-interest income	235	
Non-interest expense:		
Compensation and benefits	928	
Occupancy expense, net	302	
Advertising and promotional expense	20	
Professional services	93	
Contracted security services	40	
Telephone and postage	45	
Stationary, printing and supplies	31	
Other	205	
Total non-interest expense	1,664	
Earnings before income taxes	554	
Income taxes	228	
Net earnings	326	
Other comprehensive income (loss):		
Unrealized income (loss) on securities available for sale	(5)	
Income tax benefits	2	
Other comprehensive income (loss)	(3)	

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Comprehensive earnings	\$	323	\$
Net earnings	\$	326	\$
Dividends paid on preferred stock		(7)	
Earnings available to common shareholders	\$	319	\$
Earnings per share-basic	\$	0.36	\$
Earnings per share-diluted	\$	0.35	\$
Dividend declared per share-common stock	\$	0.05	\$

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

		Three months ended	
		2002	

Cash flows from operating activities			
Net earnings	\$	326	\$
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Depreciation		33	
Amortization of premiums and discounts on loans purchased		(44)	
Amortization of net deferred loan origination fees		(102)	
Amortization of discounts and premiums on investment securities		40	
Amortization of deferred compensation		22	
Loss (gain) on sale of loans receivable held for sale		1	
Loss on disposal of fixed assets		46	
Provision for loan losses		-	
Loans originated for sale, net of refinances		(376)	
Proceeds from sale of loans receivable held for sale		613	
Changes in operating assets and liabilities:			
Accrued interest receivable		1	
Other assets		(427)	
Deferred income taxes		(4)	
Other liabilities		2,395	
Total adjustments		2,198	
Net cash provided by operating activities		2,524	
Cash flows from investing activities			
Loans originated, net of refinances		(4,658)	
Principal repayment on loans		7,066	

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Purchases of investment securities held-to-maturity	(1,000)	
Proceeds from maturities of investment securities held-to-maturity	-	
Proceeds from maturities of mortgage-backed securities held-to-maturity	1,260	
Purchase of Federal Home Loan stock	(21)	
Capital expenditures for office properties and equipment	(29)	
Net cash provided by investing activities	2,618	
Cash flows from financing activities		
Net increase in deposits	2,054	
Decrease in advances from Federal Home Loan Bank	(1,500)	
Dividends paid	(51)	
Increase in advances by borrowers for taxes and insurance	(183)	
Net cash provided by financing activities	320	
Net increase in cash and cash equivalents	5,462	
Cash and cash equivalents at beginning of period	5,239	
Cash and cash equivalents at end of period	\$ 10,701	\$
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,245	\$
Cash paid for income taxes	-	
Supplemental disclosure of non-cash investing and financing activities		
Transfers of real estate acquired through foreclosure	\$ 73	\$

See accompanying notes to unaudited consolidated financial statements.

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 2002

1. The unaudited consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of 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 Broadway Financial Corporation and subsidiaries at March 31, 2002 and the results of their operations and their cash flows for the three months ended March 31, 2002 and 2001. These 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, 2001 and, accordingly, should be read in conjunction with such audited statements. The results of

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operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

2. Basic earnings per share were computed by dividing net earnings available to common shareholders by the weighted average number of shares of Common Stock outstanding for the period (891,165 and 874,718 shares for the three months ended March 31, 2002 and 2001, respectively). Diluted earnings per share additionally include the dilutive effect of Common Stock equivalents (900,194 and 874,718 shares for the three months ended March 31, 2002 and 2001, respectively).
3. Certain reclassifications have been made in the prior year financial statements to conform to the current year's presentation. Certain prior year average balances and ratios have been changed to conform to the current year's method of determining average asset or liability balances and resulting ratios. Prior year average balances were based on month-end balances. Current year average balances are based on daily balances.

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

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 Central 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

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deposits, together with borrowings and other funds, to make mortgage loans secured principally by residential real estate located in Southern California. At March 31, 2002, Broadway Federal operated four retail-banking offices in Mid City and South Central 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 its 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 and occupancy expenses. More generally, the results of

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operations of thrift and banking institutions are also affected by prevailing economic conditions, competition, and the monetary and fiscal policies of governmental agencies.

Comparison of Operating Results for the Three Months Ended March 31, 2002 and March 30, 2001

General

The Company recorded net earnings of \$326,000, or \$0.35 per diluted common share, for the three months ended March 31, 2002, as compared to net earnings of \$181,000, or \$0.20 per diluted common share, for the three months ended March 31, 2001. The increase in net earnings for three months ended March 31, 2002 compared to the same period in the prior year resulted primarily from higher net interest income after provision for loan losses, offset by higher non-interest expense.

Net Interest Income Before Provision for Loan Losses

Net interest income before provision for loan losses for the quarter ended March 31, 2002 amounted to \$2.0 million compared to \$1.6 million for the same period a year ago. The increase of \$380,000 was primarily attributable to the effect of 1) an increase in the net interest rate spread from 3.42% for the three months ended March 31, 2001 to 4.31% for the three months ended March 31, 2002, an 89 basis point increase; and 2) a lower provision for loan losses.

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The 89 basis point increase in the net interest rate spread was primarily attributable to the rapid decline in deposit cost of funds, and a slower decline in yield on the loan portfolio. The weighted average rate paid on deposits decreased from 4.26% for first quarter 2001 to 2.88% for first quarter 2002, a 138 basis point decrease. The weighted average rate paid on borrowings also decreased from 6.60% to 5.41% for the same periods, a 119 basis point decrease, however the amount of average borrowings were significantly less than the amount of average deposits, and therefore did not have as much of an impact on the cost of funds.

The yield on the loan portfolio decreased from 8.65% for first quarter 2001 to 8.09% for first quarter 2002, a 56 basis point decrease. This decrease was the primary reason for a 49 basis point decrease in the yield on interest-earning assets from 7.84% during first quarter 2001 to 7.35% during first quarter 2002.

Provision for Loan Losses

There was no provision for loan losses for the three months ended March 31, 2002 as compared to a \$30,000 provision for loan losses for the same period in 2001.

Total non-performing assets, consisting of non-accrual loans and real estate acquired through foreclosure ("REO"), decreased by \$193,000 from \$538,000 at March 31, 2001 to \$345,000 at March 31, 2002. The decrease resulted from a decrease in non-accrual loans of \$301,000 offset by an increase in REO of \$108,000. As a percentage of total assets, non-performing assets were 0.19% at March 31, 2002, compared to 0.30% and 0.26% at March 31, 2001 and December 31,

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2001, respectively. Since December 2001, non-accrual loans decreased by \$231,000 to \$237,000. There was one REO for \$108,000 at March 31, 2002 and no REO at December 31, 2001. Non-accrual loans at March 31, 2002 included three loans totaling \$94,000 secured by one- to four-unit properties and three unsecured loans totaling \$143,000.

As of March 31, 2002, the Company's allowance for loan losses totaled \$1.6 million, unchanged from the balance at December 31, 2001. The allowance for loan losses represents 1.12% of gross loans at March 31, 2002 compared to 1.10% at December 31, 2001. The allowance for loan losses was 662.87% of non-accrual loans at March 31, 2002, compared to 335.68% at December 31, 2001.

The provision for loan losses for the quarter ended March 31, 2002 results from management's ongoing assessment of the Company's level of credit risk inherent in the portfolio and changes within the loan categories resulting from various factors, including new loan originations, loan repayments, prepayments and changes in asset classifications.

Management believes that the allowance for loan losses is adequate to cover inherent losses in its loan portfolio as of March 31, 2002, but, there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation periodically review the Company's allowance for loan losses as an integral part of their examination process. These agencies may require the Company to increase the allowance for loan losses based on their judgments of the information available to them at the time of the examination.

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Non-interest Income

Non-interest income increased by \$45,000 to \$235,000 for the three months ended March 31, 2002 as compared to the same period in 2001. Service charges increased \$60,000 to \$221,000, for the three months ended March 31, 2002 from \$161,000 for the same period in the prior year. The increases primarily resulted from higher fees earned from customers on deposit accounts.

Non-interest Expense

Non-interest expense increased by \$216,000 during the three-month period ended March 31, 2002, as compared to the same period in 2001. The increase in non-interest expense primarily resulted from increases in compensation and benefits, occupancy expense, professional services and other expense offset by a decrease in advertising and promotional expense and telephone and postage.

Compensation and benefits expense increased by \$97,000 for three months ended March 31, 2002 as compared to the same period in 2001. The increase was principally due to a higher accrual of vested stock grants and bonuses, and higher employees' compensation expense due to the addition of new management personnel.

Occupancy expense increased by \$48,000 for three months ended March 31, 2002, as compared to the same period in 2001. The increase was primarily due to a non-recurring reversal of \$51,000 in equipment lease termination cost for SmartCopy, a discontinued business in 2001.

Professional services increased by \$52,000 for the three months ended March 31, 2002, as compared to the same period in 2001. The increase principally resulted

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from a \$17,000 increase in legal fees, and a \$30,000 increase in operational consulting fees.

Other non-interest expense increased by \$53,000 for the three-month period ended March 31, 2002, as compared to the same period during 2001. The increase in other expense was primarily due to the write off of obsolete furniture, fixtures and equipment, and an increase in item processing fees, offset by decreases in savings losses, loan expense, FDIC premiums and courier service expense.

Advertising and promotional expense decreased by \$30,000 for three months ended March 31, 2002 as compared to the same period in 2001 because of a reduction in promotions and customer give-aways in 2002.

Income Taxes

The Company's estimated effective tax rate was approximately 41.15% for the three months ended March 31, 2002, compared to approximately 42.54% for the same period in the prior year. Broadway Federal computes income taxes by applying the statutory federal income tax rate of 34% and California income tax rate of 10.84% to taxable earnings before income taxes.

Comparison of Financial Condition at March 31, 2002 and December 31, 2001

Total assets at March 31, 2002 were \$182.0 million compared to \$178.9 million at December 31, 2001, representing an increase of \$3.1 million. Net loans receivable (excluding loans held for sale) decreased from \$133.9 million at December 31, 2001 to \$132.8 million at March 31, 2002 as a result of \$4.7 million in new loan originations, offset by \$5.8 million in principal repayments. Historically, the Bank has experienced lower loan origination volumes in the first quarter, and this trend, coupled with the higher level of loan pay-offs that occurred during first quarter 2002, caused a decrease in loans receivable, net compared to the balance at December 31, 2001.

Loans held for sale at March 31, 2002 were \$5.9 million as compared to \$7.4 million at December 31, 2001. During the period, single-family fixed rate loans originated that were classified as held-for-sale amounted to \$376,000 and the principal amount of such type of loans sold totaled \$614,000.

Total liabilities at March 31, 2002 were \$167.1 million compared to \$164.3 million at December 31, 2001. The \$2.8 million increase was primarily attributable to the increase in deposits and other liabilities, offset by decreases in advances from the Federal Home Loan Bank ("FHLB") and advance payments by borrowers for taxes and insurance.

Since December 31, 2001, deposits have increased by \$2.0 million. The increase is attributable to an increase in core deposits (NOW, Demand, Money Market and Passbook) of \$5.9 million, and a decrease in CD accounts (principally Jumbo CDs) of \$3.9 million.

FHLB advances decreased by \$1.5 million since December 31, 2001 as a result of pay-offs of short-term borrowings.

Total capital at March 31, 2002 was \$14.9 million compared to \$14.6 million at December 31, 2001. The \$288,000 increase was primarily due to net earnings for

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the period and the allocation of ESOP shares, offset by cash dividends declared.

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 borrowings, such as securities sold under agreements to repurchase. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

The Bank's primary sources of funds are customer deposits, principal and interest payments on loans and, to a lesser extent, principal repayments on mortgage-backed securities, proceeds from the sale of loans and advances from the FHLB. While maturities and scheduled amortization of Bank loans are relatively predictable sources of funds, deposit flows and mortgage prepayments

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are greatly influenced by general interest rates, economic conditions, and competition. Broadway Federal's short-term liquid assets (cash, Federal funds sold, interest bearing deposits, and investment securities available for sale) amounted to \$20.3 million at March 31, 2002, as compared to \$14.9 million at December 31, 2001. The increase is primarily due to the increase in cash provided from operations of \$2.5 million and net cash provided from investing activities of \$2.6 million.

FHLB advances are the Bank's principal source of liquidity in the event that a need for additional funds arises. At March 31, 2002 and December 31, 2001, FHLB advances totaled \$9.5 million and \$11.0 million, respectively. The Bank's borrowing capacity with the FHLB of San Francisco, based on collateral held by the FHLB, was \$17.5 million at March 31, 2002.

Since December 31, 2001 there has been no material change in the Company's interest rate sensitivity as of March 31, 2002. For a discussion on the Company's interest rate sensitivity and market risk, see the Company's annual report for the year ended December 31, 2001 and the notes thereto.

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 March 31, 2002, and meets 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

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1991 (FDICIA).

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

Regulatory Capital Ratios for Broadway Federal	OTS Minimum Requirement	FDICIA "Well-capitalized" Requirement
-----	-----	-----
Tangible capital	1.50%	N/A
Core capital	4.00%	5.00%
Risk-based capital	8.00%	10.00%
Tier 1 Risk-based capital	N/A	6.00%

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 thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

Date: May 15, 2002

By: /s/ PAUL C. HUDSON

Paul C. Hudson
President and Chief Executive Officer

By: /s/ ALVIN D. KANG

Alvin D. Kang
Chief Financial Officer

