

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

BROADWAY FINANCIAL CORP \DE\
Form 10QSB
November 14, 2002

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, 2002

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 (IRS Employer Identification No.)
organization)

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: 1,814,414 shares of the Company's Common Stock, par value \$0.01 per share, were issued and outstanding as of October 31, 2002.

Transitional Small Business Disclosure Format (Check one):

Yes No

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Item 1. Financial Statements	
Consolidated Balance Sheets (unaudited) as of September 30, 2002 and December 31, 2001	3
Consolidated Statements of Operations and Comprehensive Earnings (unaudited) for the three months and nine months ended September 30, 2002 and September 30, 2001	4
Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2002 and September 30, 2001	5
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Disclosure Controls and Procedures	15
PART II. OTHER INFORMATION - NONE	15
SIGNATURES	16
SECTION 302 CERTIFICATIONS	17
SECTION 906 CERTIFICATIONS	19

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

	September 30, 2002	De 2
Assets:		
Cash	\$ 2,843	\$
Fed funds sold	2,800	
Interest bearing deposits	1,028	

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Investment securities held to maturity	2,000	
Investment securities available for sale	21,225	
Mortgage-backed securities held to maturity	12,423	
Loans receivable, net	136,047	
Loans receivable held for sale, at lower of cost or fair value	3,316	
Accrued interest receivable	936	
Real estate acquired through foreclosure, net	107	
Investments in capital stock of Federal Home Loan Bank, at cost	1,459	
Office properties and equipment, net	5,855	
Other assets	708	
Total assets	\$ 190,747	\$

Liabilities and stockholders' equity

Deposits	\$ 156,215	\$
Advances from Federal Home Loan Bank	15,750	
Advance payments by borrowers for taxes and insurance	553	
Deferred income taxes	562	
Other liabilities	2,089	
Total liabilities	175,169	

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 September 30, 2002 and December 31, 2001	1	
Common stock, \$.01 par value, authorized 6,000,000 shares; issued and outstanding 1,814,414 shares at September 30, 2002 and 1,821,076 shares at December 31, 2001	10	
Additional paid-in capital	9,505	
Accumulated other comprehensive gain (loss), net of taxes	10	
Retained earnings-substantially restricted	6,740	
Treasury stock-at cost, 109,056 shares at September 30, 2002 and 102,394 shares at December 31, 2001	(529)	
Unearned Employee Stock Ownership Plan shares	(159)	
Total stockholders' equity	15,578	
Total liabilities and stockholders' equity	\$ 190,747	\$

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

	Three Months ended Septe		
	Nine Months ended Septe		
	2002	2001	
Interest on loans receivable	\$ 2,644	\$ 2,957	\$
Interest on investment securities held to maturity	21	13	
Interest on investment securities available for sale	86	58	
Interest on mortgage-backed securities	208	194	
Other interest income	61	50	
Total interest income	3,020	3,272	
Interest on deposits	887	1,418	
Interest on borrowings	135	138	
Total interest expense	1,022	1,556	
Net interest income before provision for loan losses	1,998	1,716	
Provision for loan losses	-	30	
Net interest income after provision for loan losses	1,998	1,686	
Non-interest income:			
Service charges	214	169	
Gain on loans receivable held for sale	-	(1)	
Other	51	25	
Total non-interest income	265	193	
Non-interest expense:			
Compensation and benefits	920	796	
Occupancy expense, net	309	315	
Advertising and promotional expense	32	35	
Professional services	123	56	
Real estate operations, net	1	-	
Contracted security services	45	41	
Telephone and postage	21	46	
Stationary, printing and supplies	32	36	
Other	151	147	
Total non-interest expense	1,634	1,472	
Earnings before income taxes	629	407	
Income taxes	189	167	
Net earnings	\$ 440	\$ 240	
Other comprehensive income (loss):			
Unrealized income (loss) on securities available for sale	(24)	\$ 10	
Income tax (expense) benefit	10	(4)	
Other comprehensive income (loss)	(14)	6	
Comprehensive earnings	\$ 426	\$ 246	\$
Net earnings	\$ 440	240	\$
Dividends paid on preferred stock	(7)	(7)	
Earnings available to common shareholders	\$ 433	\$ 233	\$

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Earnings per share-basic	\$0.25	\$0.13	
Earnings per share-diluted	\$0.24	\$0.13	
Dividend declared per share-common stock	\$0.03	\$0.03	
Basic weighted average shares outstanding	1,776,008	1,770,738	1,
Diluted weighted average shares outstanding	1,813,192	1,783,040	1,

4

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

	Nine months ended Septe	2002	2001
Cash flows from operating activities			
Net earnings	\$ 1,088		\$ 5
Adjustments to reconcile net earnings to net cash provided by used in (used in) operating activities:			
Depreciation	304		2
Amortization of premiums and discounts on loans purchased	(145)		
Amortization of net deferred loan origination fees	(221)		(
Amortization of discounts and premium on investment securities and mortgage-backed securities	132		(1
Amortization of deferred compensation	64		
Gain on sale of securities available for sale	(24)		
Loss (gain) on disposal of fixed assets	53		(
Provision for loan losses	-		1
Loans originated for sale	(679)		(2
Proceeds from sale of loans receivable held for sale	795		3
Purchases of loans held for sale	-		(8,0
Principal repayment on loans held for sale	3,930		1,1
Changes in operating assets and liabilities:			
Accrued interest receivable	8		
Other assets	(251)		
Accrual for branch closure	-		
Deferred income taxes	-		
Other liabilities	752		(5
Total adjustments	4,718		(6,9
Net cash provided by (used in) operating activities	5,806		(6,3
Cash flows from investing activities			
Loans originated	(18,855)		(17,8
Principal repayment on loans	17,824		12,8
Purchase of loans	(820)		
Purchases of investment securities held-to-maturity	(2,000)		(5,0
Purchases of mortgage-backed securities held to maturity	(2,093)		(5,3
Purchases of securities held for sale	(27,128)		(4,6

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Proceeds from maturities of interest bearing deposits	4,000	
Proceeds from maturities of investment securities held-to-maturity	-	11,6
Proceeds from maturities of mortgage-backed securities held-to-maturity	3,471	2,2
Proceeds from sale of securities available for sale	10,544	
Purchase of Federal Home Loan stock	(60)	(
Proceeds from sale of fixed assets	10	2
Capital expenditures for office properties and equipment	(221)	(1
Net cash used in investing activities	(15,328)	(6,1

5

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

	Nine months ended Sept 2002	Sept 20
Cash flows from financing activities		
Net increase in deposits	5,059	15,
Increase (decrease) in advances from Federal Home Loan Bank	4,750	(1,
Dividends paid	(153)	(
Purchases of treasury stock	(83)	
Exercises of stock options	24	
Increase in advances by borrowers for taxes and insurance	- 329	
Net cash provided by financing activities	9,926	13,
Net increase in cash and cash equivalents	404	1,
Cash and cash equivalents at beginning of period	5,239	10,
Cash and cash equivalents at end of period	\$ 5,643	\$11,
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,453	\$ 4,
Cash paid for income taxes	568	
Supplemental disclosure of non-cash investing and financing activities		
Transfers of loans to real estate acquired through foreclosure	\$ 107	\$

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2002

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, 2002 and the results of their operations and comprehensive earnings for the three months and nine months ended September 30, 2002 and 2001, and their cash flows for the nine months ended September 30, 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 operations for the three months and nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the full year.

NOTE (2) - Earnings Per Share (adjusted for stock split)

On November 5, 2002 the Company announced a two-for-one stock split in the form of a dividend of one new common share on each outstanding share of its common stock. The dividend will be payable on November 30, 2002 to stockholders of record as of November 15, 2002. The number of shares and earnings per share computations have been adjusted to reflect the stock split for all periods presented. The par value of the additional shares of common stock to be issued in connection with the stock split will be credited to common stock and a like amount charged to additional paid in capital in the fourth quarter of 2002.

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 (1,776,008 and 1,770,738 shares for the three months ended September 30, 2002 and 2001, and 1,779,612 and 1,753,604 shares for the nine months ended September 30, 2002 and 2001, respectively). Diluted earnings per shares reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted earnings per share additionally included the dilutive effect of Common Stock equivalents (1,813,192 and 1,783,040 shares for the three months ended September 30, 2002 and 2001 and 1,805,718 and 1,758,106 shares for the nine months ended September 30, 2002 and 2001, respectively). The number of shares reflected above have been adjusted for the stock split.

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 fed funds sold.

NOTE (4) - Current Accounting Issues

In April 2002, the FASB issued SFAS No. 145. Statement of Financial Accounting Standards No. 145, "Rescission of SFAS Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections" ("SFAS 145"), updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt." SFAS 145 amends SFAS No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of SFAS 145 related to SFAS No. 4 and SFAS No. 13 are effective for fiscal years beginning and transactions occurring after May 15, 2002, respectively. Management anticipates the adoption of SFAS 145 will not have a material impact on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146. Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146") which requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS 146 replaces Emerging Issues Task Force ("EITF") Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." The provisions of SFAS 146 are to be applied prospectively to exit or disposal activities initiated after December 31, 2002. Management anticipates the adoption of SFAS 146 will not have a material impact on the Company's consolidated financial statements.

In October, 2002 the FASB issued Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9" ("SFAS 147"), which addresses the financial accounting and reporting for the acquisition of all or part of a financial institution, except for a transaction between two or more mutual enterprises. SFAS 147 removes acquisitions of financial institutions, other than transactions between two or more mutual enterprises, from the scope of Statement of Financial Accounting Standards No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," ("SFAS 72"), and Financial Accounting Standards Board Interpretation No. 9, "Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method," and requires that those transactions be accounted for in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and SFAS 142. Thus, the requirement in SFAS 72 to recognize, and subsequently amortize, any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to acquisitions within the scope of SFAS 147. Management anticipates the adoption of SFAS 147 will not have a material impact on the Company's consolidated financial statements.

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

NOTE (5) - Critical Accounting Policy

Accounting for the allowance for loan losses involves significant judgments and assumptions by management, which has a material impact on the carrying value of net loans. 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 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, 2001.

9

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 might cause such a difference include, but are not limited to, economic conditions, competition in the geographic and business areas in which we conduct our operations, 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 Central Los Angeles, California. Broadway Federal's business is that of a financial intermediary and consists primarily of accepting 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, 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 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, occupancy expenses, 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.

10

Comparison of Operating Results for the Three Months and Nine Months Ended September 30, 2002 and September 30, 2001

General

The Company recorded net earnings of \$440,000 and \$1,088,000, or \$0.24 and \$0.59 per diluted common share, respectively, for the three months and nine months ended September 30, 2002, compared to \$240,000 and \$577,000, or \$0.13 and \$0.32 per diluted common share, respectively, for the three months and nine months ended September 30, 2001. Compared to 2001, third quarter net earnings increased 83.33% and for the nine months net earnings increased 88.56%.

The increase in net earnings from 2001 to 2002 resulted primarily from higher net interest income and non-interest income offset by higher non-interest expense.

Net Interest Income

Net interest income after provision for loan losses increased from \$1.7 million and \$4.9 million for the three months and nine months ended September 30, 2001, respectively, to \$2.0 million and \$6.0 million for the same periods in 2002. The increase was attributable primarily to 1) increases in the net interest rate spread of 54 basis points and 64 basis points, respectively, 2) increases in average interest-earning assets of \$6.2 million and \$7.2 million, respectively, and 3) lower provisions for loan losses, for the three months and nine months ended September 30, 2002 compared to the same periods in 2001.

The net interest rate spreads for the three months and nine months ended September 30, 2002 were 4.39% and 4.47%, respectively, compared to 3.85% and 3.83%, respectively, for the same periods in 2001. The increase in spread was attributable to deposit cost of funds declining faster than the yield on the loan portfolio in the current low interest rate environment

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

Non-interest Income

Non-interest income increased by \$72,000 and \$165,000, or 37.31% and 29.20%, respectively, from \$193,000 and \$565,000 for the three months and nine months ended September 30, 2001, to \$265,000 and \$730,000, respectively, for the same periods in 2002. The increase in non-interest income was primarily attributable to an increase in NOW monthly service fees, prepayment fees on loans and higher dividend income from FHLB stock.

Non-interest Expense

Total non-interest expense increased from \$1.5 million and \$4.5 million for the three months and nine months ended September 30, 2001, respectively, to \$1.6 and \$5.0 million for the same periods in 2002. The increase was primarily attributable to increases in compensation costs of \$124,000 for third quarter 2002 compared to third quarter 2001, and \$290,000 for the nine months ended

11

September 30, 2002 compared to the nine month ended September 30, 2001. The increase in compensation costs was due to an increase in incentive compensation resulting from improved profitability. In addition, several needed management personnel were added at the beginning of the year. An increase in professional service fees of \$67,000 for the third quarter 2002 compared to third quarter 2001, and \$153,000 for the nine months ended September 30, 2002 compared to the 2001 period also accounted for higher non-interest expense. Management believes the effective use of consultants has helped to improve operations.

Provision for Loan Losses

The provision for loan losses decreased by \$30,000 and \$105,000, respectively, for the three months and nine months ended September 30, 2002 compared to the same periods in 2001.

As of September 30, 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 1.10% of gross loans at both September 30, 2002 and at December 31, 2001. The allowance for loan losses was 660.08% of non-performing loans at September 30, 2002, compared to 335.68% of such loans at December 31, 2001.

Total non-performing assets, consisting of non-accrual loans and real estate acquired through foreclosure ("REO"), decreased from \$468,000 at December 31, 2001 to \$238,000 at September 30, 2002 as a result of payments received on non-accrual loans reducing the balance of such non-accrual loans. At September 30, 2002 non-performing assets as a percentage of total assets was 0.18% compared to 0.26% at December 31, 2001 and 0.58% at September 30, 2001. At September 30, 2002, the Bank had one foreclosed real property with a carrying value of \$107,000. The property was sold in October 2002 at a nominal profit.

For the three months and nine months ended September 30, 2002 no provision for loan losses was considered necessary based upon 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, and prepayments, and changes in asset classifications. Management will continue to monitor the allowance for loan

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

losses and adjust the Company's provision for loan losses based on the risks inherent in the loan portfolio.

Management believes that the allowance for loan losses is adequate to cover inherent losses in its loan portfolio as of September 30, 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.

12

Income Taxes

The Company's effective tax rate was approximately 30.05% and 36.60% for the three months and nine months ended September 30, 2002, compared to 41.03% and 41.00% for the same period in the prior year. The Company computed income taxes by applying the statutory federal income tax rate of 34.00% and California income tax rate of 10.84% to earnings before income taxes. The effective tax rate in 2002 was lower than in 2001 principally due to higher California Enterprise Zone tax incentives received in 2002.

Comparison of Financial Condition at September 30, 2002 and December 31, 2001

Total assets at September 30, 2002 were \$190.7 million, compared to \$178.9 million at December 31, 2001, representing an increase of \$11.8 million. Net loans receivable (excluding loans held for sale) increased from \$133.9 million at December 31, 2001 to \$136.0 million at September 30, 2002 as a result of \$19.7 million in new loan originations and \$0.6 million in loans purchases, and a decrease in discounts and deferred loan fees of \$0.4 million, offset by \$17.8 million in principal repayments and payoffs.

Loans held for sale at September 30, 2002 were \$3.3 million, as compared to \$7.4 million at December 31, 2001. During the period, loans originated that were classified as held-for-sale totaled \$0.6 million, principal repayments totaled \$3.9 million and loans sold totaled \$0.8 million.

Total liabilities at September 30, 2002 and December 31, 2001 amounted to \$175.2 and \$164.3 million. Deposits increased \$5.0 million, or 3.31%, from \$151.2 million at December 31, 2001 to \$156.2 million at September 30, 2002. The Bank has targeted, and has succeeded in increasing, core deposits (NOW, Demand, Money Market, and Passbook accounts) by \$7.2 million, while managing rates paid on CD accounts, including Jumbo CDs, resulting in a decline in CD accounts of \$2.2 million. Core deposits amounted to 39.41% of total deposits at September 30, 2002, compared to 35.95% at December 31, 2001 and 36.07% at September 30, 2001.

FHLB advances have increased by \$4.8 million since December 31, 2001 as part of the Bank's program to fund increases in interest earning assets.

Total capital at September 30, 2002 was \$15.6 million, compared to \$14.6 million at December 31, 2001. The \$950,000 increase was primarily due to net earnings for 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 primarily include distributions from the Bank. 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 FHLB. While maturities and scheduled amortization of the Bank's loan portfolio are relatively predictable sources of funds, deposit flows and mortgage prepayments are influenced by changes in interest rates, economic conditions and competitions. FHLB advances are the Bank's principal source of liquidity in the event that other sources of liquidity are not available. At September 30, 2002 and December 31, 2001, FHLB advances totaled \$15.8 million and \$11.0 million, respectively.

Between December 31, 2001 and September 30, 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-K for the year ended December 31, 2001, including the Company's audited financial statements and the notes thereto included therein.

Stock Split and Cash Dividend Increase

The Company has announced a two-for-one stock split in the form of a stock dividend of one new common share on each outstanding share of its common stock. The dividend will be payable on November 30, 2002 to stockholders of record as of November 15, 2002.

The Company has also announced its intention to increase the quarterly cash dividend on its common stock from \$0.05 per share to \$0.075 per share based on shares outstanding prior to the announced stock split. Accordingly, on a post-split basis the cash dividend would increase from \$0.025 to \$0.0375 per common share. The record date and the payment date for the next quarterly dividend have not been determined and the amounts of any future dividends will depend on the Board of Directors' assessment of the Company's financial condition, capital requirements, projected results of operations and other relevant considerations.

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)

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

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.

14

Broadway Federal was in compliance with all capital requirements in effect at September 30, 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 1991 (FDICIA). The following table reflects the required and actual regulatory capital ratios of Broadway Federal at the date indicated:

Regulatory Capital Ratios for Broadway Federal -----	Regulatory Minimum Requirement -----	FDICIA "Well-capitalized" Requirement -----	Actual At September 30, 2002 -----
Tangible capital	1.50%	N/A	7.31%
Core capital	4.00%	5.00%	7.31%
Risk-based capital	8.00%	10.00%	13.37%
Tier 1 Risk-based capital	N/A	6.00%	12.13%

Item 3. DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2002, 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, 2002. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2002.

PART II. OTHER INFORMATION

None.

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 14, 2002

By: /s/ PAUL C. HUDSON

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

Date: November 14, 2002

/s/ ALVIN D. KANG

Alvin D. Kang
Chief Financial Officer
Broadway Financial Corporation

Section 302 Certification

I, Paul C. Hudson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Broadway Financial Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including the consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/Paul C. Hudson
Paul C. Hudson
President and Chief Executive Officer
Broadway Financial Corporation

17

Section 302 Certification

I, Alvin D. Kang, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Broadway Financial Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including the consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

Edgar Filing: BROADWAY FINANCIAL CORP \DE\ - Form 10QSB

- a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The Registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/Alvin D. Kang
Alvin D. Kang
Chief Financial Officer
Broadway Financial Corporation

18

Section 906 Certification

The following statement is 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, and shall not be deemed filed pursuant to any provision of the Exchange Act of 1934 or any other securities law.

Each of the undersigned certifies that the foregoing Report on Form 10-QSB fully complies with the requirements of Section 13(a) 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 as of and for the three and nine months ended September 30, 2002.

Date: November 14, 2002

By: /s/Paul C. Hudson
Paul C. Hudson
President and Chief Executive Officer
Broadway Financial Corporation

By: /s/Alvin D. Kang
Alvin D. Kang

Chief Financial Officer
Broadway Financial Corporation