BROADWAY FINANCIAL CORP \DE\
Form 10-Q
August 12, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For transition period from__________ to___________

Commission file number 000-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4547287**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5055 Wilshire Boulevard, Suite 500 **Los Angeles, California**	**90036**
(Address of principal executive offices)	(Zip Code)

(323) 634-1700

(Registrant s telephone number, including area code)

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

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

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

Large Accelerated Filer [ ] Accelerated Filer [ ] Non-Accelerated Filer [ ] Smaller Reporting Company [X]

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of August 5, 2016, 21,405,188 shares of the Registrant s voting common stock and 7,671,520 shares of the Registrant s non-voting common stock were outstanding.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Financial Condition

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	$ 7,285	$ 5,104
Federal funds	28,405	62,735
Cash and cash equivalents	35,690	67,839
Securities available-for-sale, at fair value	15,453	14,140
Loans receivable held for investment, net of allowance of $4,545 and $4,828, respectively	341,264	304,171
Accrued interest receivable	1,140	1,077
Federal Home Loan Bank (FHLB) stock	2,573	2,573
Office properties and equipment, net	2,472	2,570
Real estate owned (REO)	-	360
Bank owned life insurance	2,911	2,882
Investment in affordable housing limited partnership	828	925
Deferred tax assets, net	4,527	4,594
Other assets	1,535	1,781
Total assets	**$ 408,393**	**$ 402,912**
Liabilities and stockholders equity		
Liabilities:		
Deposits	$ 279,772	$ 272,614
FHLB advances	70,000	72,000
Junior subordinated debentures	5,100	5,100
Advance payments by borrowers for taxes and insurance	663	663
Accrued expenses and other liabilities	5,634	6,372
Total liabilities	**361,169**	**356,749**
Stockholders Equity:		
Preferred stock, $.01 par value, authorized 1,000,000 shares; none issued or outstanding	-	-
Common stock, $.01 par value, voting, authorized 50,000,000 shares at June 30, 2016 and December 31, 2015; issued 21,509,179 shares at June 30, 2016 and December 31, 2015; outstanding 21,405,188 shares at June 30, 2016 and December 31, 2015	215	215
Common stock, $.01 par value, non-voting, authorized 25,000,000 shares at June 30, 2016 and December 31, 2015; issued and outstanding 7,671,520 shares at June 30, 2016 and December 31, 2015	77	77
Additional paid-in capital	44,682	44,669
Retained earnings	3,485	2,533
Accumulated other comprehensive income (loss)	94	(2)
Treasury stock-at cost, 103,991 shares	(1,329)	(1,329)
Total stockholders equity	**47,224**	**46,163**
Total liabilities and stockholders equity	**$ 408,393**	**$ 402,912**

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(In thousands, except per share)			
Interest income:				
Interest and fees on loans receivable	$ 3,591	$ 3,779	$ 7,020	$ 7,503
Interest on mortgage-backed and other securities	84	90	167	184
Other interest income	98	243	201	330
Total interest income	3,773	4,112	7,388	8,017
Interest expense:				
Interest on deposits	511	435	1,028	850
Interest on borrowings	421	536	848	1,067
Total interest expense	932	971	1,876	1,917
Net interest income before loan loss provision recapture	2,841	3,141	5,512	6,100
Loan loss provision recapture	250	750	550	1,500
Net interest income after loan loss provision recapture	3,091	3,891	6,062	7,600
Non-interest income:				
Service charges	120	102	246	208
Net gain on sale of loans	-	380	-	514
CDFI grant	-	-	265	355
Other	79	24	231	58
Total non-interest income	199	506	742	1,135
Non-interest expense:				
Compensation and benefits	1,709	1,670	3,612	3,438
Occupancy expense	289	287	582	586
Information services	180	245	386	462
Professional services	320	208	447	478
Office services and supplies	72	79	142	160
FDIC assessments	58	95	83	175
Corporate insurance	71	102	142	196
Other	272	552	456	781
Total non-interest expense	2,971	3,238	5,850	6,276
Income before income taxes	319	1,159	954	2,459
Income tax expense	-	6	2	8
Net income	$ 319	$ 1,153	$ 952	$ 2,451
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available-for-sale arising during the period	$ 43	$ (118)	$ 163	$ (61)
Income tax	38	-	67	-
Other comprehensive income (loss), net of tax	5	(118)	96	(61)

Comprehensive income	$ 324	$ 1,035	$ 1,048	$ 2,390
Earnings per common share-basic	$ 0.01	$ 0.04	$ 0.03	$ 0.08
Earnings per common share-diluted	$ 0.01	$ 0.04	$ 0.03	$ 0.08

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 952	$ 2,451
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loan loss provision recapture	(550)	(1,500)
Provision for losses on REOs	-	126
Depreciation	124	117
Net amortization of deferred loan origination costs	92	167
Net amortization of premiums on mortgage-backed securities	23	30
Amortization of investment in affordable housing limited partnership	97	96
Stock-based compensation expense	13	-
Earnings on bank owned life insurance	(29)	(30)
Originations of for-sale loans receivable	-	(31,479)
Proceeds from for-sale loans receivable	-	14,781
Net gain on sale of loans	-	(514)
Net gain on sale of REOs	(22)	-
Net change in accrued interest receivable	(63)	166
Net change in other assets	246	558
Net change in advance payments by borrowers for taxes and insurance	-	(44)
Net change in accrued expenses and other liabilities	(738)	225
Net cash provided by (used in) operating activities	145	(14,850)
Cash flows from investing activities:		
Net change in loans receivable held for investment	(36,635)	(8,204)
Proceeds from sales of loans receivable transferred to held-for-sale	-	44,725
Principal repayments on loans receivable transferred to held-for-sale	-	166
Purchase of available-for-sale securities	(2,505)	-
Prepayments and amortizations on available-for-sale securities	1,332	1,337
Proceeds from sales of REO	382	621
Redemption of FHLB stock	-	1,527
Purchase of FHLB stock	-	(188)
Additions to office properties and equipment	(26)	(48)
Net cash (used in) provided by investing activities	(37,452)	39,936
Cash flows from financing activities:		
Net change in deposits	7,158	14,285
Proceeds from FHLB advances	-	21,000
Repayments of FHLB advances	(2,000)	(29,500)
Net cash provided by financing activities	5,158	5,785
Net change in cash and cash equivalents	(32,149)	30,871
Cash and cash equivalents at beginning of the period	67,839	20,790

Cash and cash equivalents at end of the period	$	35,690	$	51,661
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	1,872	$	1,941
Cash paid for income taxes		8		2
Supplemental disclosures of non-cash investing and financing activities:				
Transfers of loans receivable held for investment to REO	$	-	$	843
Transfers of loans receivable held for investment to loans receivable held for sale	$	-	$	90,183

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

June 30, 2016

NOTE (1) Basis of Financial Statement Presentation

The accompanying unaudited consolidated financial statements include Broadway Financial Corporation (the Company) and its wholly owned subsidiary, Broadway Federal Bank, f.s.b. (the Bank). Also included in the unaudited consolidated financial statements is Broadway Service Corporation, a wholly owned subsidiary of the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. 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-K for the year ended December 31, 2015 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Some items in the consolidated financial statements for the prior period were reclassified to conform to the current presentation. Reclassifications had no effect on prior period consolidated net income or stockholders equity.

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-1, Financial Instruments Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities . ASU 2016-1 (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued are permitted as of the beginning of the fiscal year of adoption. Adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases, as defined) at the commencement date: (i) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting . ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The areas for simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities, ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

NOTE (2) Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings per share of common stock is computed by dividing income available to common stockholders by the weighted average number of shares of common stock outstanding for the period, increased for the dilutive effect of common stock equivalents.

The following table shows how the Company computed basic and diluted earnings per share of common stock for the periods indicated:

	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
	(Dollars in thousands, except per share)			
Basic				
Net income	$ 319	$ 1,153	$ 952	$ 2,451
Weighted average common shares outstanding	29,076,708	29,076,708	29,076,708	29,076,708
Earnings per common share - basic	$ 0.01	$ 0.04	$ 0.03	$ 0.08

Diluted								
Net income	$	319	$	1,153	$	952	$	2,451
Weighted average common shares outstanding		29,076,708		29,076,708		29,076,708		29,076,708
Add: dilutive effects of assumed exercises of stock options		-		-		-		-
Weighted average common shares - fully dilutive		29,076,708		29,076,708		29,076,708		29,076,708
Earnings per common share - diluted	$	0.01	$	0.04	$	0.03	$	0.08

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

Stock options for 540,625 shares of common stock for the three and six months ended June 30, 2016 and for 90,625 shares of common stock for the three and six months ended June 30, 2015 were not considered in computing diluted earnings per common share, because they were anti-dilutive.

NOTE (3) Securities

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios as of the periods indicated and the corresponding amounts of unrealized gains and losses which are recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2016:				
Residential mortgage-backed	$ 12,939	$ 490	$ -	$ 13,429
U.S. Government and federal agency	1,953	71	-	2,024
Total available-for-sale securities	$ 14,892	$ 561	$ -	$ 15,453
December 31, 2015:				
Residential mortgage-backed	$ 11,796	$ 371	$ -	$ 12,167
U.S. Government and federal agency	1,946	27	-	1,973
Total available-for-sale securities	$ 13,742	$ 398	$ -	$ 14,140

At June 30, 2016, the Bank s investment portfolio had an estimated remaining life of 3.8 years. The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity at June 30, 2016. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily residential mortgage-backed securities, are shown separately.

Maturity	Available-for-Sale Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ -	$ -
One to five years	1,953	2,024
Five to ten years	-	-
Beyond ten years	-	-
Residential mortgage-backed	12,939	13,429
Total	$ 14,892	$ 15,453

At June 30, 2016 and December 31, 2015, securities pledged to secure public deposits had a carrying amount of $641 thousand and $719 thousand, respectively. At June 30, 2016 and December 31, 2015, there were no holdings of securities by any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders   equity.

There were no sales of securities during the three and six months ended June 30, 2016 and 2015.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (4) Loans Receivable Held for Investment

Loans receivable held for investment were as follows as of the periods indicated:

	June 30, 2016	December 31, 2015
	(In thousands)	
Real estate:		
Single family (1)	$ 115,388	$ 130,891
Multi-family	173,438	118,616
Commercial real estate	10,733	11,442
Church	44,175	46,390
Construction	320	343
Commercial other	304	270
Consumer	15	4
Gross loans receivable before deferred loan costs and premiums	344,373	307,956
Unamortized net deferred loan costs and premiums	1,436	1,043
Gross loans receivable	345,809	308,999
Allowance for loan losses	(4,545)	(4,828)
Loans receivable, net	$ 341,264	$ 304,171

(1) Includes $89.0 million and $99.5 million of non-impaired purchased loans at June 30, 2016 and December 31, 2015, respectively, which are accounted for under ASC 310-20.

The following tables present the activity in the allowance for loan losses by loan type for the periods indicated:

	Three Months Ended June 30, 2016							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 528	$ 1,866	$ 444	$ 1,676	$ 3	$ 17	$ -	$ 4,534

	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
Provision for (recapture of) loan losses	(87)	381	(452)	(86)	-	(7)	1	(250)
Recoveries	-	-	248	6	-	7	-	261
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 441	$ 2,247	$ 240	$ 1,596	$ 3	$ 17	$ 1	$ 4,545

	Six Months Ended June 30, 2016							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 597	$ 1,658	$ 469	$ 2,083	$ 3	$ 18	$ -	$ 4,828
Provision for (recapture of) loan losses	(156)	589	(477)	(499)	-	(8)	1	(550)
Recoveries	-	-	248	12	-	7	-	267
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 441	$ 2,247	$ 240	$ 1,596	$ 3	$ 17	$ 1	$ 4,545

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

	Three Months Ended June 30, 2015							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
				(In thousands)				
Beginning balance	$ 1,164	$ 2,741	$ 436	$ 3,314	$ 4	$ 11	$ 1	$ 7,671
Provision for (recapture of) loan losses	(11)	(896)	(32)	189	-	1	(1)	(750)
Recoveries	-	-	-	5	-	-	-	5
Loans charged off	(3)	-	-	-	-	-	-	(3)
Ending balance	$ 1,150	$ 1,845	$ 404	$ 3,508	$ 4	$ 12	$ -	$ 6,923

	Six Months Ended June 30, 2015							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
				(In thousands)				
Beginning balance	$ 1,174	$ 2,726	$ 496	$ 4,047	$ 7	$ 12	$ 3	$ 8,465
Provision for (recapture of) loan losses	(21)	(881)	(92)	(500)	(3)	-	(3)	(1,500)
Recoveries	-	-	-	11	-	-	-	11
Loans charged off	(3)	-	-	(50)	-	-	-	(53)
Ending balance	$ 1,150	$ 1,845	$ 404	$ 3,508	$ 4	$ 12	$ -	$ 6,923

The following tables present the balance in the allowance for loan losses and the recorded investment (unpaid contractual principal balance less charge-offs, less interest applied to principal, plus unamortized deferred costs and premiums) by loan type and based on impairment method as of and for the periods indicated:

	June 30, 2016							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
				(In thousands)				
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 129	$ -	$ -	$ 555	$ -	$ 15	$ -	$ 699
Collectively evaluated for impairment	312	2,247	240	1,041	3	2	1	3,846

Total ending allowance balance	$	441	$	2,247	$	240	$	1,596	$	3	$	17	$	1	$	4,545
Loans:																
Loans individually evaluated for impairment	$	915	$	961	$	1,697	$	10,838	$	-	$	66	$	-	$	14,477
Loans collectively evaluated for impairment		115,075		173,926		9,043		32,715		320		238		15		331,332
Total ending loans balance	$	115,990	$	174,887	$	10,740	$	43,553	$	320	$	304	$	15	$	345,809

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

[redacted]

	December 31, 2015							
	Single family	**Multi-family**	**Real Estate Commercial real estate**	**Church**	**Construction**	**Commercial - other**	**Consumer**	**Total**
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								

[redacted]

The following table presents information related to loans individually evaluated for impairment by loan type as of the periods indicated:

	June 30, 2016			December 31, 2015		
	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**
	(In thousands)					
With no related allowance recorded:						
Single family	$ 870	$ 262	$ -	$ 877	$ 302	$ -
Multi-family	1,036	961	-	912	779	-
Commercial real estate	1,697	1,697	-	636	259	-
Church	6,011	3,797	-	5,615	3,542	-
With an allowance recorded:						
Single family	653	653	129	662	661	134
Multi-family	-	-	-	661	661	1
Commercial real estate	-	-	-	1,702	1,665	88
Church	7,424	7,041	555	8,245	7,848	756
Commercial -other	66	66	15	67	67	16
Total	$ 17,757	$ 14,477	$ 699	$ 19,377	$ 15,784	$ 995

The recorded investment in loans excludes accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

The following tables present the monthly average of loans individually evaluated for impairment by loan type and the related interest income for the periods indicated.

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 927	$ 7	$ 939	$ 14
Multi-family	966	11	1,102	52
Commercial real estate	1,746	211	1,825	267
Church	10,915	121	11,061	247
Commercial -other	66	2	67	2
Total	$ 14,620	$ 352	$ 14,994	$ 582

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 1,346	$ 8	$ 1,364	$ 15
Multi-family	1,974	99	2,305	115
Commercial real estate	2,897	55	3,639	161
Church	13,695	144	14,191	286
Commercial -other	82	1	89	3
Total	$ 19,994	$ 307	$ 21,588	$ 580

Cash-basis interest income recognized represents cash received for interest payments on accruing impaired loans. Interest payments collected on non-accrual loans are characterized as payments of principal rather than payments of the outstanding accrued interest on the loans until the remaining principal on the non-accrual loans is considered to be fully collectible.

The following tables present the aging of the recorded investment in past due loans by loan type as of the periods indicated:

June 30, 2016				
30-59 Days	60-89 Days	Greater than 90 Days	Total Past Due	Current

	Past Due	Past Due	Past Due		
			(In thousands)		
Loans receivable held for investment:					
Single family	$ 69	$ -	$ -	$ 69	$ 115,921
Multi-family	310	-	-	310	174,577
Commercial real estate	1,697	-	-	1,697	9,043
Church	-	-	-	-	43,553
Construction	-	-	-	-	320
Commercial - other	-	-	-	-	304
Consumer	-	-	-	-	15
Total	$ 2,076	$ -	$ -	$ 2,076	$ 343,733

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

	December 31, 2015				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
			(In thousands)		
Loans receivable held for investment:					
Single family	$ 103	$ -	$ -	$ 103	$ 131,492
Multi-family	291	-	-	291	119,335
Commercial real estate	-	-	-	-	11,412
Church	595	-	456	1,051	44,698
Construction	-	-	-	-	343
Commercial - other	-	-	-	-	270
Consumer	-	-	-	-	4
Total	$ 989	$ -	$ 456	$ 1,445	$ 307,554

The following table presents the recorded investment in non-accrual loans by loan type as of the periods indicated:

	June 30, 2016	December 31, 2015
	(In thousands)	
Loans receivable held for investment:		
Single family	$ 261	$ 302
Multi-family	310	779
Commercial real estate	-	259
Church	3,147	2,887
Total non-accrual loans	$ 3,718	$ 4,227

There were no loans 90 days or more delinquent that were accruing interest as of June 30, 2016 or December 31, 2015.

Troubled Debt Restructurings

At June 30, 2016, loans classified as troubled debt restructurings (TDRs) totaled $14.0 million, of which $3.3 million were included in non-accrual loans and $10.7 million were on accrual status. At December 31, 2015, loans classified as TDRs totaled $15.3 million, of which $3.8 million were included in non-accrual loans and $11.5 million were on accrual status. The Company has allocated $699 thousand and $995 thousand of specific reserves for accruing TDRs as of June 30, 2016 and December 31, 2015, respectively. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments, as modified. A well-documented credit analysis that supports a return to accrual status based on the borrower s financial condition and prospects for repayment under the revised terms is also required. As of June 30, 2016 and December 31, 2015, the Company had no commitment to lend additional amounts to customers with outstanding loans that are classified as TDRs. No loans were modified during the three and six months ended June 30, 2016 and 2015.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. For single family residential, consumer and other smaller balance homogenous loans, a credit grade is established at inception, and generally only adjusted based on performance. Information about payment status is disclosed elsewhere herein. The Company analyzes all other loans individually by classifying the loans as to credit risk. This analysis is performed at least on a quarterly basis. The Company uses the following definitions for risk ratings:

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§ ***Watch.*** Loans classified as watch exhibit weaknesses that could threaten the current net worth and paying capacity of the obligors. Watch graded loans are generally performing and are not more than 59 days past due. A watch rating is used when a material deficiency exists but correction is anticipated within an acceptable time frame.

§ ***Special Mention.*** Loans classified as special mention have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

§ ***Substandard.*** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

§ ***Doubtful.*** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

§ ***Loss.*** Loans classified as loss are considered uncollectible and of such little value that to continue to carry the loan as an active asset is no longer warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Pass rated loans are generally well protected by the current net worth and paying capacity of the obligor and/or by the value of the underlying collateral. Pass rated loans are not more than 59 days past due and are generally performing in accordance with the loan terms. Based on the most recent analysis performed, the risk categories of loans by loan type as of the periods indicated were as follows:

	June 30, 2016					
	Pass	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**
	(In thousands)					
Single family	$ 115,596	$ -	$ 133	$ 261	$ -	$ -

Multi-family		170,936		490		347		3,114		-		-
Commercial real estate		7,077		-		-		3,663		-		-
Church		34,051		721		832		7,949		-		-
Construction		320		-		-		-		-		-
Commercial - other		238		-		-		66		-		-
Consumer		15		-		-		-		-		-
Total	$	328,233	$	1,211	$	1,312	$	15,053	$	-	$	-

	December 31, 2015											
	Pass		**Watch**		**Special Mention**		**Substandard**		**Doubtful**		**Loss**	
	(In thousands)											
Single family	$	128,736	$	-	$	2,557	$	302	$	-	$	-
Multi-family		117,602		-		352		1,672		-		-
Commercial real estate		7,509		-		-		3,903		-		-
Church		35,013		776		1,431		8,529		-		-
Construction		343		-		-		-		-		-
Commercial - other		203		-		-		67		-		-
Consumer		4		-		-		-		-		-
Total	$	289,410	$	776	$	4,340	$	14,473	$	-	$	-

BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (5) Junior Subordinated Debentures

On March 17, 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures (the Debentures) in a private placement to a trust that was capitalized to purchase subordinated debt and preferred stock of multiple community banks. Interest on the Debentures is payable quarterly at a rate per annum equal to the 3-Month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 3.20% at June 30, 2016. On October 16, 2014, the Company made payments of $900 thousand of principal on Debentures, executed a Supplemental Indenture for the Debentures that extended the maturity of the Debentures to March 17, 2024, and modified the payment terms of the remaining $5.1 million principal amount thereof. The modified terms of the Debentures require quarterly payments of interest only through March 2019 at the original rate of 3-Month LIBOR plus 2.54%. Starting in June 2019, the Company will be required to make quarterly payments of equal amounts of principal, plus interest, until the Debentures are fully amortized on March 17, 2024. The Debentures may be called for redemption at any time by the Company.

NOTE (6) Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans that are collateral dependent is generally based upon the fair value of the collateral, which is obtained from recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets acquired through or by transfer in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated every nine months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent

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appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, an independent third-party licensed appraiser reviews the appraisals for accuracy and reasonableness, reviewing the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics.

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(In thousands)			
Assets:				
Securities available-for-sale - residential mortgage-backed	$ -	$ 13,429	$ -	$ 13,429
Securities available-for-sale - U.S. Government and federal agency	2,024	-	-	2,024

Fair Value Measurements at December 31, 2015