BROADWAY FINANCIAL CORP \DE\
Form 10-Q
November 13, 2014
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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 September 30, 2014

[ ] 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 November 5, 2014, 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 SUBSIDIARIES

Consolidated Statements of Financial Condition

(In thousands, except share and per share amounts)

		September 30, 2014 (Unaudited)		December 31, 2013
Assets				
Cash and due from banks	$	6,341	$	8,241
Federal funds		14,855		49,955
Cash and cash equivalents		21,196		58,196
Securities available-for-sale, at fair value		17,862		9,397
Loans receivable held for investment, net of allowance of $9,067 and $10,146		281,530		247,847
Accrued interest receivable		1,173		1,107
Federal Home Loan Bank (FHLB) stock		3,737		3,737
Office properties and equipment, net		2,758		2,725
Real estate owned (REO)		2,500		2,084
Bank owned life insurance		2,805		2,756
Investment in affordable housing limited partnership		1,165		1,309
Other assets		3,267		3,323
Total assets	**$**	**337,993**	**$**	**332,481**
Liabilities and stockholders equity				
Liabilities:				
Deposits	$	217,092	$	214,405
FHLB advances		79,500		79,500
Senior debt		2,812		2,923
Junior subordinated debentures		6,000		6,000
Accrued interest payable		834		718
Advance payments by borrowers for taxes and insurance		1,305		776
Other liabilities		3,008		2,569
Total liabilities		**310,551**		**306,891**
Stockholders Equity:				
Preferred Stock, $.01 par value, authorized 1,000,000 shares		-		-
Common stock, $.01 par value, voting, authorized 50,000,000 shares at September 30, 2014 and December 31, 2013; issued 19,652,950 shares at September 30, 2014 and 19,630,473 shares at December 31, 2013; outstanding 19,548,959 shares at September 30, 2014 and 19,526,482 shares at December 31, 2013		196		196
Common stock, $.01 par value, non-voting, authorized 25,000,000 shares at September 30, 2014 and 5,000,000 shares at December 31, 2013; issued and outstanding 698,200 shares at September 30, 2014 and December 31, 2013		7		7
Additional paid-in capital		35,740		35,704
Accumulated deficit		(7,255)		(9,068)
Accumulated other comprehensive income		83		80
Treasury stock-at cost, 103,991 shares at September 30, 2014 and December 31, 2013		(1,329)		(1,329)
Total stockholders equity		**27,442**		**25,590**
Total liabilities and stockholders equity	**$**	**337,993**	**$**	**332,481**

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
	(In thousands, except per share)			
Interest income:				
Interest and fees on loans receivable	$ 3,681	$ 3,637	$ 10,996	$ 11,420
Interest on mortgage-backed and other securities	103	71	271	240
Other interest income	91	103	279	237
Total interest income	3,875	3,811	11,546	11,897
Interest expense:				
Interest on deposits	421	522	1,309	1,728
Interest on borrowings	538	651	1,608	2,075
Total interest expense	959	1,173	2,917	3,803
Net interest income before provision for (recapture of) loan losses	2,916	2,638	8,629	8,094
Provision for (recapture of) loan losses	(950)	414	(2,532)	414
Net interest income after provision for (recapture of) loan losses	3,866	2,224	11,161	7,680
Non-interest income:				
Service charges	103	132	333	403
Loan servicing fees, net	(9)	8	(34)	18
Net gains on sales of loans	-	-	-	97
Net gains (losses) on sales of REO	52	(8)	2	(10)
Gain on restructuring of debt	-	1,221	-	1,221
Other	19	14	261	113
Total non-interest income	165	1,367	562	1,842
Non-interest expense:				
Compensation and benefits	1,829	1,479	5,024	4,428
Occupancy expense, net	321	269	901	932
Information services	203	213	640	636
Professional services	135	225	798	558
Provision for (recapture of) losses on loans held for sale	-	(315)	-	153
Provision for losses on REO	54	321	394	544
FDIC insurance	177	181	527	573
Office services and supplies	96	91	292	312
Other	451	543	1,331	1,640
Total non-interest expense	3,266	3,007	9,907	9,776
Income (loss) before income taxes	765	584	1,816	(254)
Income tax expense	-	-	3	6
Net income (loss)	$ 765	$ 584	$ 1,813	$ (260)
Other comprehensive income (loss), net of tax:				
Change in unrealized gains on securities available for sale	$ (70)	$ (76)	$ 3	$ (222)
Income tax effect	-	-	-	-
Other comprehensive income (loss), net of tax	(70)	(76)	3	(222)
Comprehensive income (loss)	$ 695	$ 508	$ 1,816	$ (482)

Net income (loss)	$	765	$	584	$	1,813	$	(260)
Dividends and discount accretion on preferred stock		-		(127)		-		(779)
Income (loss) available to common stockholders	$	765	$	457	$	1,813	$	(1,039)
Earnings (loss) per common share-basic	$	0.04	$	0.05	$	0.09	$	(0.23)
Earnings (loss) per common share-diluted	$	0.04	$	0.05	$	0.09	$	(0.23)
Dividends declared per share-common stock	$	0.00	$	0.00	$	0.00	$	0.00

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 1,813	$ (260)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for (recapture of) loan losses	(2,532)	414
Provision for losses on loans held for sale	-	153
Provision for losses on REO	394	544
Depreciation	180	161
Net amortization of deferred loan origination costs	171	149
Net amortization of premiums on mortgage-backed securities	41	28
Amortization of investment in affordable housing limited partnership	144	164
Stock-based compensation expense	11	33
Earnings on bank owned life insurance	(49)	(51)
Net (gains) losses on sales of REO	(2)	10
Net gains on sales of loans	-	(97)
Gain on restructuring of debt	-	(1,221)
Amortization of deferred gain on restructuring of debt	(111)	-
Stock-based compensation non-employee	25	-
Net change in accrued interest receivable	(66)	134
Net change in other assets	56	955
Net change in accrued interest payable	116	489
Net change in other liabilities	439	(9)
Net cash provided by operating activities	630	1,596
Cash flows from investing activities:		
Net change in loans receivable held for investment	(34,635)	(2,041)
Proceeds from sales of loans receivable held for sale	-	15,502
Principal repayments on loans receivable held for sale	-	1,520
Available-for-sale securities:		
Purchases	(10,463)	-
Maturities, prepayments and calls	1,960	2,980
Proceeds from sales of REO	2,505	3,583
Redemption of FHLB stock	-	164
Purchase of FHLB stock	-	(376)
Additions to office properties and equipment	(213)	(232)
Net cash provided by (used in) investing activities	(40,846)	21,100
Cash flows from financing activities:		
Net change in deposits	2,687	(38,502)
Repayments on FHLB advances	(8,000)	(28,000)
Proceeds from FHLB advances	8,000)	36,000
Net proceeds from issuance of common stock	-	3,347
Net change in advance payments by borrowers for taxes and insurance	529	323
Net cash provided by (used in) financing activities	3,216	(26,832)
Net change in cash and cash equivalents	(37,000)	(4,136)
Cash and cash equivalents at beginning of period	58,196	64,360
Cash and cash equivalents at end of period	$ 21,196	$ 60,224
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 2,801	$ 3,314

Cash paid for income taxes	$	3	$	4
Supplemental disclosures of non-cash investing and financing activities:				
Transfers of loans receivable held for investment to REO	$	3,313	$	1,832
Transfers of loans receivable held for sale to REO	$	-	$	753
Transfers of loans receivable from held for investment to held for sale	$	-	$	7,259
Transfers of loans receivable from held for sale to held for investment	$	-	$	7,394
Exchange of other borrowings for common stock	$	-	$	2,575
Exchange of dividends payable for common stock	$	-	$	2,646
Transfer of accrued interest to senior debt	$	-	$	535
Issuance of common stock for services	$	25	$	-

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements

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, 2013 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 nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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 loss or stockholders equity.

Recent Accounting Pronouncements

In July 2013, the FASB amended ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists . These amendments provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except that to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. These amendments are effective for interim and annual reporting periods beginning after December 15, 2013. Adopting this standard did not have a material effect on the Company s operating results or financial condition.

In January 2014, the FASB issued ASU 2014-01, Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. ASU 2014-01 permits a reporting entity to make an accounting policy election to account for its investments in affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense or benefit. ASU 2014-01 becomes effective for interim and annual periods beginning on or after December 15, 2014, with early adoption permitted. The provisions of ASU 2014-01 must be applied retrospectively to all periods presented. The Company is assessing the impact of the new guidance on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors. ASU 2014-04 requires entities to reclassify consumer mortgage loans collateralized by residential real estate to REO when either (1) the creditor obtains legal title to the residential real estate property or (2) the borrower conveys all interest in the property to the creditor to satisfy the loan by completing a deed in lieu of foreclosure or similar agreement. A reporting entity is required to make interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in process of foreclosure. ASU 2014-04 becomes effective for interim and annual periods beginning on or after December 15, 2014. Adoption of ASU 2014-04 is not expected to have a material impact on the Company s consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (2) Earnings (Loss) Per Share of Common Stock

Basic earnings (loss) per share of common stock is computed by dividing income (loss) available to common stockholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings (loss) per share of common stock is computed by dividing income (loss) 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, except for the Company s formerly outstanding Series F Non-cumulative Voting Preferred Stock and Series G Non-Voting Preferred Stock, which are both included as participating securities in the table below. The participating securities are entitled to share in common stock dividends on an as-converted basis. There were no participating securities in 2014.

The following table shows how the Company computed basic and diluted earnings (loss) per share of common stock for the three and nine months ended September 30, 2014 and 2013:

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share)			
Basic				
Net income (loss)	$ 765	$ 584	$ 1,813	$ (260)
Less: Preferred stock dividends and accretion	-	(127)	-	(779)
Less: Net (income) loss attributable to participating securities	-	(283)	-	465
Income (loss) available to common stockholders	$ 765	$ 174	$ 1,813	$ (574)
Weighted average common shares outstanding	20,247,159	3,755,695	20,238,679	2,536,913
Earnings (loss) per common share - basic	$ 0.04	$ 0.05	$ 0.09	$ (0.23)
Diluted				
Net income (loss)	$ 765	$ 584	$ 1,813	$ (260)
Less: Preferred stock dividends and accretion	-	(127)	-	(779)
Less: Net (income) loss attributable to participating securities	-	(283)	-	465
Income (loss) available to common stockholders	$ 765	$ 174	$ 1,813	$ (574)
Weighted average common shares outstanding	20,247,159	3,755,695	20,238,679	2,536,913
Add: dilutive effects of assumed exercises of stock options	-	-	-	-
Weighted average common shares - fully dilutive	20,247,159	3,755,695	20,238,679	2,536,913
Earnings (loss) per common share - diluted	$ 0.04	$ 0.05	$ 0.09	$ (0.23)

Stock options for 93,750 shares of common stock for the three and nine months ended September 30, 2014 and 148,750 shares of common stock for the three and nine months ended September 30, 2013 were not considered in computing diluted earnings (loss) per common share because they were anti-dilutive.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (3) Securities

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolios at September 30, 2014 and December 31, 2013 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
September 30, 2014:		(In thousands)		
Residential mortgage-backed	$ 15,450	$ 469	$ -	$ 15,919
U.S. Government and federal agency	1,929	14	-	1,943
Total available-for-sale securities	$ 17,379	$ 483	$ -	$ 17,862
December 31, 2013:				
Residential mortgage-backed	$ 8,917	$ 480	$ -	$ 9,397
Total available-for-sale securities	$ 8,917	$ 480	$ -	$ 9,397

The amortized cost and fair value of the investment securities portfolios are shown by contractual maturity at September 30, 2014. 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.

	Available-for-Sale	
Maturity	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ -	$ -
One to five years	-	-
Five to ten years	1,929	1,943
Beyond ten years	-	-
Residential mortgage-backed	15,450	15,919
Total	$ 17,379	$ 17,862

At September 30, 2014 and December 31, 2013, securities pledged to secure public deposits and FHLB advances had a carrying amount of $1.2 million and $9.4 million, respectively. At September 30, 2014 and December 31, 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

During the first quarter of 2014, $8.6 million of residential mortgage-backed securities and $1.9 million of U.S. Government and federal agency securities were purchased and were classified as available-for-sale. There were no sales of securities during the three and nine months ended

September 30, 2014 and 2013.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (4) Loans Receivable Held for Investment

Loans at September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	December 31, 2013
	(In thousands)	
Real estate:		
Single family (one-to-four units)	$ 41,659	$ 46,459
Multi-family (five or more units)	167,653	113,218
Commercial real estate	21,589	26,697
Church	56,992	67,934
Construction	394	424
Commercial other	532	2,067
Consumer	6	38
Total gross loans receivable	288,825	256,837
Unamortized net deferred loan costs and premium	1,772	1,156
Allowance for loan losses	(9,067)	(10,146)
Loans receivable, net	$ 281,530	$ 247,847

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 1,849	$ 2,304	$ 1,081	$ 4,112	$ 7	$ 19	$ 4	$ 9,376
Provision for (recapture of) loan losses	(465)	327	(96)	(724)	-	10	(2)	(950)
Recoveries	-	-	-	682	-	-	-	682
Loans charged off	(40)	-	-	(1)	-	-	-	(41)
Ending balance	$ 1,344	$ 2,631	$ 985	$ 4,069	$ 7	$ 29	$ 2	$ 9,067

	Nine Months Ended September 30, 2014							
	Single	Multi-	Real Estate Commercial	Church	Construction	Commercial	Consumer	Total

	family	family	real estate			- other		
				(In thousands)				
Beginning balance	$ 1,930	$ 1,726	$ 1,473	$ 4,949	$ 7	$ 55	$ 6	$ 10,146
Provision for (recapture of) loan losses	(455)	905	(479)	(1,408)	-	(1,091)	(4)	(2,532)
Recoveries	2	-	-	851	-	1,083	-	1,936
Loans charged off	(133)	-	(9)	(323)	-	(18)	-	(483)
Ending balance	$ 1,344	$ 2,631	$ 985	$ 4,069	$ 7	$ 29	$ 2	$ 9,067

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

	Three Months Ended September 30, 2013							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 2,445	$ 1,169	$ 1,674	$ 5,060	$ 8	$ 213	$ 10	$ 10,579
Provision for loan losses	(315)	351	72	523	(1)	(213)	(3)	414
Recoveries	-	-	16	5	-	59	-	80
Loans charged off	(51)	(3)	(190)	(490)	-	-	-	(734)
Ending balance	$ 2,079	$ 1,517	$ 1,572	$ 5,098	$ 7	$ 59	$ 7	$ 10,339

	Nine Months Ended September 30, 2013							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 2,060	$ 2,122	$ 2,685	$ 4,818	$ 8	$ 167	$ 9	$ 11,869
Provision for loan losses	(150)	56	(96)	929	(1)	(322)	(2)	414
Recoveries	259	-	117	18	-	214	-	608
Loans charged off	(90)	(661)	(1,134)	(667)	-	-	-	(2,552)
Ending balance	$ 2,079	$ 1,517	$ 1,572	$ 5,098	$ 7	$ 59	$ 7	$ 10,339

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2014 and December 31, 2013:

	September 30, 2014							
	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	$ 137	$ 124	$ 185	$ 1060	$ -	$ 22	$ -	$ 1,528
Collectively evaluated for impairment	1,207	2,507	800	3,009	7	7	2	7,539
Total ending allowance balance	$ 1,344	$ 2,631	$ 985	$ 4,069	$ 7	$ 29	$ 2	$ 9,067
Loans:								

Loans individually evaluated for impairment	$ 1,436	$ 3,141	$ 4,692	$ 15,595	$ -	$ 110	$ -	$ 24,974
Loans collectively evaluated for impairment	40,223	164,512	16,897	41,397	394	422	6	263,851
Total ending loans balance	$ 41,659	$ 167,653	$ 21,589	$ 56,992	$ 394	$ 532	$ 6	$ 288,825

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

	December 31, 2013							
			Real Estate					
	Single family	Multi-family	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	$ 382	$ 143	$ 206	$ 1,444	$ -	$ 12	$ -	$ 2,187
Collectively evaluated for impairment	1,548	1,583	1,267	3,505	7	43	6	7,959
Total ending allowance balance	$ 1,930	$ 1,726	$ 1,473	$ 4,949	$ 7	$ 55	$ 6	$ 10,146
Loans:								
Loans individually evaluated for impairment	$ 3,053	$ 4,163	$ 4,894	$ 21,243	$ -	$ 150	$ -	$ 33,503
Loans collectively evaluated for impairment	43,406	109,055	21,803	46,691	424	1,917	38	223,334
Total ending loans balance	$ 46,459	$ 113,218	$ 26,697	$ 67,934	$ 424	$ 2,067	$ 38	$ 256,837

The following table presents information related to loans individually evaluated for impairment by type of loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014			December 31, 2013		
	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	$ 1,453	$ 754	$ -	$ 2,114	$ 1,441	$ -
Multi-family	1,768	1,623	-	2,690	2,598	-
Commercial real estate	4,841	1,210	-	4,867	1,391	-
Church	7,894	5,635	-	11,806	8,446	-
Commercial - other	-	-	-	3,850	-	-
With an allowance recorded:						
Single family	682	682	137	1,612	1,612	382
Multi-family	1,551	1,518	124	1,578	1,565	143
Commercial real estate	3,482	3,482	185	3,503	3,503	206
Church	10,196	9,960	1,060	12,862	12,797	1,444
Commercial -other	110	110	22	150	150	12
Total	$ 31,977	$ 24,974	$ 1,528	$ 45,032	$ 33,503	$ 2,187

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net 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 SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

The following tables present the monthly average of loans individually evaluated for impairment by type of loans and the related interest income for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 2,038	$ 25	$ 2,601	$ 60
Multi-family	3,250	20	3,554	66
Commercial real estate	4,716	106	4,792	295
Church	16,419	158	17,882	491
Commercial- other	117	3	130	8
Total	$ 26,540	$ 312	$ 28,959	$ 920

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 3,699	$ 30	$ 3,822	$ 91
Multi-family	3,347	15	3,215	55
Commercial real estate	6,986	182	7,778	405
Church	22,472	131	23,027	407
Construction	-	-	81	5
Commercial - other	165	2	156	8
Total	$ 36,669	$ 360	$ 38,079	$ 971

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. Foregone interest income that would have been recognized had loans performed in accordance with their original terms amounted to $337 thousand and $668 thousand for the three months ended September 30, 2014 and 2013, respectively, and $1.2 million and $1.5 million for the nine months ended September 30, 2014 and 2013, respectively, and were not included in the consolidated results of operations.

The following tables present the aging of the recorded investment in past due loans as of September 30, 2014 and December 31, 2013 by type of loans:

	September 30, 2014				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
	(In thousands)				
Single family	$ 885	$ -	$ -	$ 885	$ 40,774
Multi-family	-	-	-	-	167,653
Commercial real estate	-	-	-	-	21,589
Church	-	-	898	898	56,094
Construction	-	-	-	-	394
Commercial - other	-	-	-	-	532
Consumer	-	-	-	-	6
Total	$ 885	$ -	$ 898	$ 1,783	$ 287,042

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

	December 31, 2013				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
			(In thousands)		
Single family	$ 802	$ -	$ 585	$ 1,387	$ 45,072
Multi-family	-	-	545	545	112,673
Commercial real estate	346	-	1,016	1,362	25,335
Church	2,557	323	4,877	7,757	60,177
Construction	-	-	-	-	424
Commercial - other	82	-	-	82	1,985
Consumer	-	-	-	-	38
Total	$ 3,787	$ 323	$ 7,023	$ 11,133	$ 245,704

The following table presents the recorded investment in non-accrual loans by type of loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
	(In thousands)	
Single family	$ 769	$ 1,441
Multi-family	1,991	2,985
Commercial real estate	1,207	1,391
Church	5,786	11,735
Commercial - other	110	150
Total non-accrual loans	$ 9,863	$ 17,702

There were no loans 90 days or more delinquent that were accruing interest as of September 30, 2014 or December 31, 2013.

Troubled Debt Restructurings

At September 30, 2014, loans classified as troubled debt restructurings (TDRs) totaled $22.0 million, of which $6.9 million were included in non-accrual loans and $15.1 million were on accrual status. At December 31, 2013, loans classified as TDRs totaled $27.3 million, of which $11.5 million were included in non-accrual loans and $15.8 million were on accrual status. The Company has allocated $1.4 million and $1.9 million of specific reserves for accruing TDRs as of September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013, 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 months ended September 30, 2014 and 2013 and the nine months ended September 30, 2014. The terms of certain loans were modified as TDRs during the nine months ended September 30, 2013. The modification of the terms of such loans included payments of delinquent property taxes, which the borrower would be required to repay over a period greater than six months.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

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The following table presents loans by type modified as troubled debt restructurings during the nine months ended September 30, 2013:

	Nine Months Ended September 30, 2013		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars in thousands)	
Single family	5	$ 739	$ 789
Commercial real estate	1	1,456	1,497
Total	6	$ 2,195	$ 2,286

The troubled debt restructurings described above increased the allowance for loan losses by $57 thousand and resulted in charge-offs of $23 thousand during the nine months ended September 30, 2013.

At September 30, 2014 and 2013, none of the loans modified as troubled debt restructurings within the previous 12 months experienced a payment default. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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:

- ***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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

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 or by the value of the underlying collateral. Pass rated assets 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 category of loans by type of loans as of September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
Single family	$ 37,447	$ 3,453	$ 759	$ -	$ -
Multi-family	162,192	612	4,849	-	-
Commercial real estate	15,714	524	5,351	-	-
Church	36,950	7,875	12,167	-	-
Construction	394	-	-	-	-
Commercial - other	422	-	110	-	-
Consumer	6	-	-	-	-
Total	$ 253,125	$ 12,464	$ 23,236	$ -	$ -

	December 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Loss
	(In thousands)				
Single family	$ 41,481	$ 3,537	$ 1,441	$ -	$ -
Multi-family	105,377	2,305	5,536	-	-
Commercial real estate	18,154	529	8,014	-	-
Church	34,367	17,657	15,910	-	-
Construction	424	-	-	-	-
Commercial - other	490	1,427	150	-	-
Consumer	38	-	-	-	-
Total	$ 200,331	$ 25,455	$ 31,051	$ -	$ -

NOTE (5) Junior Subordinated Debentures and Senior Debt

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 2.77% at September 30, 2014. The Company stopped paying interest on the Debentures in September 2010 and was not able to pay the principal or accrued interest on the Debentures at their March 17, 2014 maturity date. The accrued interest on the Debentures was $797 thousand as of September 30, 2014. Under the Cease and Desist Order applicable to the Company, the Company is not permitted to make payments on its debt without prior notice to and receipt of written notice of non-objection from the Board of Governors of the Federal Reserve System (FRB). In addition, under the terms of the Debentures, the Company is not allowed to make payments on the Debentures if the Company is in default on any of its senior indebtedness, which term includes the senior debt described below. In January 2014, the Company submitted a proposal to the trustee for the trust that holds the Debentures to extend the maturity of the Debentures to March 17, 2024 in return for paying all accrued interest on the Debentures and $900 thousand, or 15%, of the principal amount of the Debentures at face value, subject to satisfaction of certain conditions. The Company subsequently satisfied the conditions to implementation of this proposal, including, among others, obtaining the requisite Debenture holder approval of the final terms of the transaction, obtaining written confirmation of non-objection to the proposal and related transactions from the FRB, securing approval by the Company s senior lender, and raising at least $6.0 million of additional common equity capital. The Company completed the modification of the Debentures and related transactions on October 16, 2014, on which date the Company concurrently consummated private placements of 8,829,549 shares of common stock, including 6,973,320 shares of non-voting common stock, for gross proceeds of $9.7 million, made the required payments of principal and accrued interest 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 and repaid the outstanding defaulted senior bank debt of $2.4 million, together with all accrued interest thereon. The modified terms of the Debentures require quarterly payments of interest only for the next five years 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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

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 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 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.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

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 September 30, 2014			
	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	$ -	$ 15,919	$ -	$ 15,919
Securities available-for-sale - U.S. Government and federal agency	-	1,943	-	1,943

	Fair Value Measurements at December 31, 2013			
	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	$ -	$ 9,397	$ -	$ 9,397

There were no transfers between Level 1, Level 2, or Level 3 during the three and nine months ended September 30, 2014 and 2013.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

Assets Measured on a Non-Recurring Basis

The following table provides information regarding the carrying values of our assets measured at fair value on a non-recurring basis at the dates indicated. The fair value measurement for all of these assets falls within Level 3 of the fair value hierarchy.

	September 30, 2014	December 31, 2013
	(In thousands)	
Assets:		
Impaired loans carried at fair value of collateral:		
Single family	$ 577	$ 1,245
Multi-family	331	900
Commercial real estate	1,210	1,391
Church	4,121	9,024
Real estate owned:		
Commercial real estate	-	151
Church	2,500	1,933

The following table provides information regarding (gains) losses recognized on assets measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Non-performing loans receivable held-for-sale	$ -	$ -	$ -	$ 471
Impaired loans carried at fair value of collateral	90	671	388	1,071
Real estate owned	54	321	394	544
Total	$ 144	$ 992	$ 782	$ 2,086

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

The following tables present quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2014 and December 31, 2013:

		September 30, 2014		
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
		(Dollars in thousands)		
Impaired loans single family	$ 577	Sales comparison approach	Adjustment for differences between the comparable sales	-9% to -1% (-4%)
Impaired loans multi-family	331	Sales comparison approach	Adjustment for differences between the comparable sales	-18%
		Income approach	Capitalization rate	7%
Impaired loans commercial real estate	1,210	Sales comparison approach	Adjustment for differences between the comparable sales	0% to 1% (0%)
		Income approach	Capitalization rate	5% to 7.25% (6.63%)
Impaired loans church	4,121	Sales comparison approach	Adjustment for differences between the comparable sales	-12% to 18% (6%)
		Income approach	Capitalization rate	7%
Real estate owned church	2,500	Sales comparison approach	Adjustment for differences between the comparable sales	-2% to 2% (0%)

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		December 31, 2013		
	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
		(Dollars in thousands)		
Impaired loans single family	$ 1,245	Sales comparison approach	Adjustment for differences between the comparable sales	-6% to 6% (-1%)
Impaired loans multi-family	900	Sales comparison approach	Adjustment for differences between the comparable sales	-15% to 1% (-9%)
		Income approach	Capitalization rate	8% to 9% (8.59%)
Impaired loans commercial real estate	1,391	Sales comparison approach	Adjustment for differences between the comparable sales	-1% to 0% (-1%)
		Income approach	Capitalization rate	4.5% to 8% (7.06%)
Impaired loans church	9,024	Sales comparison approach	Adjustment for differences between the comparable sales	-21% to 9% (-1%)
		Income approach	Capitalization rate	6.75%
Real estate owned commercial real estate	151	Sales comparison approach	Adjustment for differences between the comparable sales	3% (3%)
		Income approach	Capitalization rate	10%
Real estate owned church	1,933	Sales comparison approach	Adjustment for differences between the comparable sales	-7% to 7% (0%)

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments, at September 30, 2014 and December 31, 2013 were as follows:

	Carrying Value	Fair Value Measurements at September 30, 2014 Level 1	Level 2 (In thousands)	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 21,196	$ 21,196	$ -	$ -	$ 21,196
Securities available-for-sale	17,862	-	17,862	-	17,862
Loans receivable held for investment	281,530	-	-	281,830	281,830
Federal Home Loan Bank stock	3,737	-	-	-	N/A
Accrued interest receivable	1,173	-	54	1,119	1,173
Financial Liabilities:					
Deposits	$ (217,092)	$ -	$ (207,784)	$ -	$ (207,784)
Federal Home Loan Bank advances	(79,500)	-	(81,907)	-	(81,907)
Junior subordinated debentures	(6,000)	-	-	(2,335)	(2,335)
Senior debt	(2,812)	-	-	(2,812)	(2,812)
Accrued interest payable	(834)	-	(37)	(797)	(834)
Advance payments by borrowers for taxes and insurance	(1,305)	-	(1,305)	-	(1,305)

	Carrying Value	Fair Value Measurements at December 31, 2013 Level 1	Level 2 (In thousands)	Level 3	Total
Financial Assets:					
Cash and cash equivalents	$ 58,196	$ 58,196	$ -	$ -	$ 58,196
Securities available-for-sale	9,397	-	9,397	-	9,397
Loans receivable held for investment	247,847	-	-	248,167	248,167
Federal Home Loan Bank stock	3,737	-	-	-	N/A
Accrued interest receivable	1,107	-	27	1,080	1,107
Financial Liabilities:					
Deposits	$ (214,405)	$ -	$ (209,656)	$ -	$ (209,656)
Federal Home Loan Bank advances	(79,500)	-	(82,840)	-	(82,840)
Junior subordinated debentures	(6,000)	-	-	(2,167)	(2,167)
Senior debt	(2,923)	-	-	(1,429)	(1,429)
Accrued interest payable	(718)	-	(63)	(608)	(671)
Advance payments by borrowers for taxes and insurance	(776)	-	(776)	-	(776)

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Unaudited Consolidated Financial Statements (continued)

(b) Loans receivable held for investment

Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(c) FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(d) Deposits and Advance Payments by Borrowers for Taxes and Insurance

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using discounted cash flow calculations that apply interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(e) Federal Home Loan Bank Advances

The fair values of the Federal Home Loan Bank advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(g) Junior Subordinated Debentures and Senior Debt

The fair values of the Company s Debentures and senior debt are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

(h) Accrued Interest Receivable

The carrying amounts of accrued interest receivable approximate their fair value and are classified the same as the related asset.

(i) Accrued Interest Payable

The carrying amounts of accrued interest on deposits and Federal Home Loan Bank advances approximate their fair value. The carrying amounts of accrued interest on Debentures and senior debt are estimated by applying a discount similar to the related debt. The fair values of accrued interest are classified the same as the related liability.

NOTE (7) Stock-based Compensation

In 2008, we adopted the 2008 Long-Term Incentive Plan (2008 LTIP), which was approved by the stockholders. The 2008 LTIP permits the grant of non-qualified and incentive stock options, stock appreciation rights, full value awards and cash incentive awards to the Company s non-employee directors and certain officers and employees for up to 2,000,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Company s common stock at the date of grant; the option awards have vesting periods ranging from immediate vesting to 5 years and have 10-year contractual terms.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

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No options were granted during the three and nine months ended September 30, 2014 and 2013. The Company recorded $0 and $11 thousand of stock-based compensation expense during the three and nine months ended September 30, 2014 and $11 thousand and $33 thousand of stock-based compensation expense during the three and nine months ended September 30, 2013.

NOTE (8) Regulatory Matters

Effective September 9, 2010, the Company and the Bank agreed to the issuance of cease and desist orders (the Orders) by the Office of Thrift Supervision, which was the regulatory predecessor of the Office of the Comptroller of the Currency (OCC). The Order applicable to the Company prohibits the Company from paying dividends to its stockholders without the prior written approval of the FRB, which is now the federal regulator for savings and loan holding companies. In addition, the Company is not permitted to incur, issue, renew, repurchase, make payments on or increase any debt or redeem any capital stock without prior notice to and receipt of written notice of non-objection from the FRB.

Effective October 30, 2013, the Bank entered into a Consent Order with the OCC, which superseded the Order applicable to the Bank. The Bank s capital requirements are administered by the OCC and involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the OCC. Failure to meet capital requirements can result in regulatory action.

As part of the Consent Order, the Bank is required to maintain a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 9% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 13%, both of which ratios are greater than the respective 4% and 8% levels for such ratios that are generally required under OCC regulations.

The Bank met the minimum capital requirements under the Consent Order at September 30, 2014 and December 31, 2013. Actual and required capital amounts and ratios at September 30, 2014 and December 31, 2013, together with the higher capital requirements that the Bank is required to meet under the Consent Order applicable to it, are presented below.

	Actual		Required for Capital Adequacy Purposes		Capital Requirements under Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
September 30, 2014:						
Tangible Capital to adjusted total assets	$ 36,606	10.84%	$ 5,066	1.50%	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 36,606	10.84%	$ 13,510	4.00%	$ 30,398	9.00%
Total Capital to risk weighted assets	$ 39,614	16.89%	$ 18,764	8.00%	$ 30,492	13.00%

December 31, 2013:									
Tangible Capital to adjusted total assets	$	34,035	10.24%	$	4,986	1.50%		N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$	34,035	10.24%	$	13,295	4.00%	$	29,914	9.00%
Total Capital to risk weighted assets	$	36,845	16.95%	$	17,394	8.00%	$	28,286	13.00%

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NOTE (9) Income Taxes

The Company and its subsidiaries are subject to U.S. federal and state income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, the forecasts of future income and tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that a valuation allowance of $10.3 million was required as of September 30, 2014, resulting in $0 net deferred tax assets. The Company had recorded a valuation allowance of $9.7 million and $0 net deferred tax assets as of December 31, 2013.

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