BROADWAY FINANCIAL CORP \DE\
Form 10-K
March 31, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-27464

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.)**

4800 Wilshire Boulevard, Los Angeles, California 90010

(Address of principal executive offices) (Zip Code)

(323) 634-1700

(Registrant s Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share (including attached preferred stock purchase rights)	**The NASDAQ Stock Market, LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (do not check if a smaller reporting company)	Smaller reporting company	x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $11,825,000

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: As of March 23, 2009, 1,742,765 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement for the 2009 annual meeting of shareholders are incorporated by reference in Part III, Items 10 through 14 of this report.

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Forward-Looking Statements

Certain statements herein, including without limitation, matters discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of this Form 10-K, are forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, that reflect our current views with respect to future events and financial performance. Forward-looking statements typically include the words anticipate, believe, estimate, expect, project, plan, foreca intend, and other similar expressions. These forward-looking statements are subject to risks and uncertainties, including those identified below, which could cause actual future results to differ materially from historical results or from those anticipated. Readers should not place undue reliance on these forward-looking statements, which speak only as of their dates, or, if no date is provided, then as of the date of this Form 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following factors, among others, could cause future results to differ materially from historical results or from those anticipated: (1) the level of demand for mortgage loans, which is affected by such external factors as interest rate levels, tax laws, and demographics of our lending markets; (2) the direction of interest rates and the relationship between market interest rates and the yield on our interest-earning assets and the cost of our interest-bearing liabilities; (3) the rate of loan losses incurred by us, the level of our loss reserves and management s judgments regarding the collectibility of loans; (4) federal and state regulation of the lending and deposit operations or other regulatory actions; (5) the actions undertaken by both current and potential new competitors; (6) the possibility of continuing adverse trends in the residential and commercial real estate markets; (7) the effect of changes in economic conditions; (8) the effect of geopolitical uncertainties; and (9) other risks and uncertainties detailed in this Form 10-K, including those described in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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PART I

Item 1. Business

General

Broadway Financial Corporation (the Company) was incorporated under Delaware law in 1995 for the purpose of acquiring and holding all of the outstanding capital stock of Broadway Federal Savings and Loan Association (Broadway Federal or the Bank) as part of the Bank s conversion from a federally chartered mutual savings association to a federally chartered stock savings bank. In connection with the conversion, the Bank s name was changed to Broadway Federal Bank, f.s.b. The conversion was completed, and the Bank became a wholly owned subsidiary of the Company, in January 1996.

We are headquartered in Los Angeles, California and our principal business is the operation of our wholly-owned subsidiary, Broadway Federal. Broadway Federal s principal business consists of attracting retail deposits from the general public in the areas surrounding our branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in one-to-four family mortgage loans, multi-family mortgage loans and commercial real estate loans. In addition, we invest in securities issued by the federal government and agencies, mortgage-backed securities, mortgage-related mutual funds and other investments.

Our primary sources of revenue are interest we earn on our loans and securities. Our principal expenses are interest expense we incur on our interest-bearing liabilities, including deposits and borrowings, together with general and administrative expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly changes in market interest rates and U.S. Treasury yield curves, government policies and actions of regulatory authorities.

The Bank is regulated by the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS). The Bank s deposits are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC. The Bank is also a member of the Federal Home Loan Bank (FHLB) of San Francisco. See Regulation.

At December 31, 2008, the Bank was classified as well-capitalized under applicable OTS and FDIC capital regulations.

Market Area and Competition

Broadway Federal is a community-oriented savings institution offering a variety of financial services to meet the needs of the communities it serves. Our retail banking network includes full service banking offices, automated teller machines and internet banking capabilities. We have four banking offices in Los Angeles, one banking office located in the nearby City of Inglewood and two loan production offices in the Cities of Irvine and Torrance.

The Los Angeles metropolitan area is a highly competitive market in which we face significant competition in making loans and in attracting deposits. Although our offices are primarily located in low and moderate income minority areas that have historically been under-served by other financial institutions, we are facing increasing competition for deposits and residential mortgage lending in our immediate market areas, including direct competition from mortgage banking companies, commercial banks and savings and loan associations. Most of these financial institutions are significantly larger than we are and have greater financial resources, and many have a regional, statewide or national presence.

Lending Activities

General. Our primary lending activity is the origination of loans secured by first mortgages on one- to four-family residential loans, multi-family residential properties and commercial real estate properties, including churches. We also make construction loans, commercial business loans and consumer loans. We emphasize the origination of adjustable-rate loans (ARMs) and hybrid ARM loans (ARM loans having an initial fixed rate period) primarily for retention in our portfolio in order to increase the percentage of loans with more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2008, approximately 93% of our mortgage loans had adjustable rates. To a lesser extent, we also originate fixed rate mortgage loans to meet customer demand but we sell the majority of these loans in the secondary market, primarily to other financial institutions. The decision as to whether the loans will be retained in our portfolio or sold is generally made at the time of loan origination or purchase. At December 31, 2008, we had 32 loans held for sale totaling $24.6 million.

The types of loans that we originate are subject to federal laws and regulations. The interest rates that we charge on loans are affected by the demand for such loans, the supply of money available for lending purposes and the rates offered by competitors. These factors are in turn affected by, among other things, economic conditions, monetary policies of the federal government, including the Federal Reserve Board, and legislative tax policies. Federal savings associations and savings banks are not subject to usury or other interest rate limitations.

Multi-Family and Commercial Real Estate Lending. We primarily focus our lending efforts on the origination of multi-family and commercial real estate loans, including churches. These loans are secured primarily by multi-family dwellings or by properties used for business or religious purposes, such as small office buildings, health care facilities, retail facilities and church buildings located in our primary market area.

Our multi-family loans amounted to $87.7 million and $113.4 million at December 31, 2008 and 2007, respectively. At December 31, 2008, multi-family loans represented 26% of our gross loan portfolio, compared to 37% at December 31, 2007. Of the multi-family residential mortgage loans outstanding at December 31, 2008, 2% were fixed rate loans and 98% were ARMs. Most multi-family loans are originated with maturities of up to 30 years. Our largest multi-family loan at December 31, 2008, had an outstanding balance of $1.5 million and is secured by a 75-unit property located in Van Nuys, California. Our ten largest multi-family loans at December 31, 2008, aggregated $12.4 million.

Our commercial real estate loans amounted to $150.9 million and $130.6 million at December 31, 2008 and 2007, respectively. At December 31, 2008, commercial real estate lending represented 45% of our gross loan portfolio, compared to 43% at December 31, 2007. Of the commercial real estate loans outstanding at December 31, 2008, 8% were fixed rate loans and 92% were ARMs. Most commercial real estate loans are originated with 30 year amortization and due in 15 years. The largest commercial real estate loan in our portfolio at December 31, 2008 had an outstanding balance of $3.9 million and is secured by a church building located in Los Angeles, California. Our ten largest commercial real estate loans at December 31, 2008, aggregated $28.7 million.

The interest rate on ARM loans is based on a variety of indices such as the 6-Month London InterBank Offered Rate Index (6-Month LIBOR), the 1-Year Constant Maturity Treasury Index (1-Yr CMT), the 12-Month Treasury Average Index (12-MTA), the 11th District Cost of Funds Index (COFI), or the Prime Rate. We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

Loan secured by multi-family and commercial real estate properties are granted based on the income producing potential of the property and the financial strength of the borrower. The primary factors considered include, among other things, the net operating income of the mortgaged premises before debt service and depreciation, the debt service coverage ratio (the ratio of net operating income to required principal and interest payments, or debt service), and the ratio of the loan amount to the lower of the selling price or the appraised value.

We believe that the risks associated with multi-family and commercial real estate loans described below are mitigated by our underwriting requirements, which include limitations on loan-to-value ratios and debt service coverage ratios. Under our underwriting policies, loan-to-value ratios on our multi-family and commercial real estate loans usually do not exceed 75% of the lower of the selling price or the appraised value of the underlying property. We also generally require minimum debt service ratios of 115% for multi-family loans and 125% for commercial real estate loans. Properties securing multi-family and commercial real estate loans are appraised by a board-approved independent appraiser and title insurance is required on all loans.

Multi-family and commercial real estate loans are generally viewed as exposing the lender to a greater risk of loss than single-family residential loans and typically involve higher loan principal amounts than loans secured by single-family residential real estate. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or economy, such as we are experiencing with the current economic downturn. Continued adverse economic conditions in our primary lending market area could result in reduced cash flows on multi-family and commercial real estate loans, vacancies and reduced rental rates on such properties. We seek to minimize these risks by originating such loans on a selective basis and generally restrict such loans to our general market area, except for church loans which have been made in various cities throughout the country.

Originating loans secured by church properties is a market niche in which we have been active since our inception. We believe that the importance of church organizations in the social and economic structure of the communities we serve makes church lending an important aspect of our community orientation. We further believe that the importance of churches in the lives of the individual members of the respective congregations encourages donations even in difficult economic times, thereby providing somewhat greater assurance of financial resources to repay such church loans compared to other types of commercial properties. Nonetheless, adverse economic conditions can result in risks to loan repayment that are similar to those encountered in other types of commercial lending, and such church lending is subject to other risks not necessarily directly related to economic factors such as the stability, quality and popularity of church leadership. Church loans included in our commercial real estate portfolio totaled $84.0 million and $70.8 million at December 31, 2008 and 2007, respectively.

The underwriting standards for loans secured by church properties are different than for other commercial real estate properties in that the ratios used in evaluating the loans are based upon the level and history of church member contributions as a repayment source rather than income generated by rents or leases.

One-to Four-Family Mortgage Lending. We also originate ARMs and fixed rate loans secured by one-to four-family (single-family) residences, with maturities up to 30 years. Substantially all of such loans are secured by properties located in Southern California, with most being in our primary market areas of Mid-City and South Los Angeles. Loan originations are generally obtained from our loan representatives, existing or past customers, and referrals from members of churches or other organizations in the local communities where we operate. Single-family loans totaled $68.5 million and $35.3 million at December 31, 2008 and 2007, respectively. At December 31, 2008, single-family loans represented 20% of our gross loan portfolio, compared to 12% at December 31, 2007. Of the one- to four-family residential mortgage loans outstanding at December 31, 2008, 5% were fixed rate loans and 95% were ARMs.

The interest rates for our single-family ARMs are indexed to COFI, 6-Month LIBOR, 12-MTA and 1-Yr. CMT. We currently offer loans with interest rates that adjust monthly, semi-annually, and annually. Borrowers are required to make monthly payments under the terms of such loans.

We qualify our ARM borrowers based upon the fully indexed interest rate (LIBOR or other index plus an applicable margin, rounded to the nearest one-eighth of 1%) provided by the terms of the loan. However, the initial rate paid by the borrower may be discounted to a rate we determine to adjust for market and other competitive factors. The ARMs that we offer have a lifetime adjustment limit that is set at the time the loan is approved. Because of interest rate caps and floors, market rates may exceed and/or go below the respective maximum or minimum rates payable on our ARMs.

Our policy is to originate one- to four-family residential mortgage loans in amounts up to 90% of the lower of the appraised value or the selling price of the property securing the loan. Any loan in excess of 80% of appraised value or selling price of the property securing the loan generally requires private mortgage insurance or the Bank self-insures. Under certain circumstances, we may originate loans up to 97% of the selling price if private mortgage insurance is obtained. We may originate loans based on other parameters for loans that are originated for committed sales to other investors. Properties securing a single-family loan are appraised by an approved independent appraiser and title insurance is required on all loans.

Mortgage loans that we originate generally include due-on-sale clauses, which provide us with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent. Due-on-sale clauses are an important means of adjusting the rates on our fixed rate mortgage loan portfolio.

Commercial Lending. We originate and purchase non-real estate commercial loans that are secured by business assets, the franchise value of the business, if applicable, and individual assets. Most loans are originated with maturities of up to 5 years. Commercial loans amounted to $22.4 million and $22.6 million at December 31, 2008 and 2007, respectively. Commercial loans represented 7% of our gross loan portfolio at December 31, 2008 and 2007. Of the commercial loans outstanding at December 31, 2008, 2% were fixed rate loans and 98% were ARMs. At December 31, 2008, the largest amount of commercial loans outstanding to one borrower was $3.3 million to a radio station.

Since 2007, management and the Board of Directors changed strategies to not originate loans to sports franchises, while continuing to participate in nationally syndicated corporate loan facilities, and focus more on financing opportunities within our market area. The Board of Directors approved a sports finance policy that restricts lending to national professional sports franchises. Sports loans are generally perceived to be risky due to the large amount of intangible value of a professional sports franchise. To offset risk, Broadway Federal s policy imposes the following underwriting requirements: 1) maximum loan to franchise value covenants; 2) operating support agreements that require funding of any potential losses by a credit worthy third party (usually an ultra high net worth member of the sports franchise ownership group); 3) 12 months of interest reserve. The interest rate on sports loans is variable and is based on the three-month LIBOR or the Prime Rate.

We also participate as a direct lender in selected large nationally syndicated credits. These corporate credits are typically rated by a credit rating service and are secured by the assets of the borrowers, primarily real estate and accounts receivable. These nationally syndicated credits are typically floating rate loans based on three-month LIBOR.

Construction Lending. At December 31, 2008 and 2007, we had $5.5 million and $2.0 million in construction loans, representing 2% and 1% of our gross loan portfolio, respectively. We provide loans for construction of single-family, multi-family and commercial real estate projects and for land development. We generally make construction and land loans at variable interest rates based upon the Wall Street Journal Prime Rate. Generally, we require a loan-to-value ratio of 75% to 80% on a purchase and a loan-to-cost ratio of 80% to 90% on a refinance of construction loans.

Construction loans involve risks different from completed project lending because we advance loan funds based upon the security of the completed project under construction. If the borrower defaults on the loan, we may have to advance additional funds to finance the project s completion before the project can be sold. Moreover, construction projects are affected by uncertainties inherent in estimating construction costs, potential delays in construction time, market demand and the accuracy of the value of the completed project. We are not originating construction loans in the current real estate market.

Consumer Lending. Our consumer loans primarily consist of loans secured by savings accounts. At December 31, 2008 and 2007, loans secured by savings accounts totaled $3.0 million and $643 thousand, representing 1% and less than 1%, respectively, of our gross loan portfolio. Loans secured by depositors accounts are generally made up to 90% of the current value of the pledged account, at an interest rate between 2% and 4% above the rate paid on the account, depending on the type of account, and for a term expiring the earlier of one year from origination or upon the maturity of the account.

Loan Approval Procedures and Authority. Our Board of Directors establishes our lending policies. The Loan Committee, which is comprised of the Chief Lending Officer (CLO) and four members of the Board of Directors, one of whom is the Chief Executive Officer (CEO), is primarily responsible for establishing and monitoring our lending policies.

The Board of Directors has authorized the following loan approval limits based upon the amount of our total loans to each borrower: if the total of the borrower s existing loans and the loan under consideration is $500,000 or less, the new loan may be approved by the CEO or the CLO; if the total of the borrower s existing loans and the loan under consideration is from $500,001 to $1,000,000, the new loan must be approved by two Loan Committee members; if the total of the borrower s existing loans and the loan under consideration is from $1,000,001 up to $1,750,000, the new loan must be approved by three Loan Committee members, two of which must be Board appointed non-management Loan Committee members; and if the total of existing loans and the loan under consideration is more than $1.75 million, the new loan must be approved by four Loan Committee members, two of which must be Board appointed non-management Loan Committee members. In the event that the Loan Committee does not have the required four signatures for approval, then the loan may be presented to the Executive Committee of the Board of Directors for approval. In addition, it is our practice that all loans approved only by management be reported the following month to the Loan Committee, and be ratified by the Board of Directors.

For all loans that we originate, upon receipt of a loan application from a prospective borrower, a credit report is ordered and certain other information is verified by an independent credit agency and, if necessary, additional financial information is requested. An appraisal of the real estate intended to secure the proposed loan is required, which appraisal is performed by an independent licensed or certified appraiser designated and approved by us. The Board annually reviews our appraisal policy and the independent appraisers that we use.

It is our policy to obtain title insurance on all real estate loans. Borrowers must also obtain hazard insurance naming Broadway Federal as a loss payee prior to loan closing. If the original loan amount exceeds 80% on a sale or refinance of a first trust deed loan, we may require private mortgage insurance and the borrower is required to make payments to a mortgage impound account from which we make disbursements for private mortgage insurance, taxes and hazard and flood insurance as required.

Delinquencies and Classified Assets. We perform a monthly review of all delinquent loans and reports are made quarterly to the Loan Committee of the Board of Directors. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. The procedures we follow with respect to delinquencies vary depending on the nature of the loan and the period of delinquency. In the case of residential mortgage loans, we generally send the borrower a written notice of nonpayment promptly after the loan becomes past due. In the event payment is not received promptly thereafter, additional letters are sent and telephone calls are made. If the loan is still not brought current and it becomes necessary for us to take legal action, we generally commence foreclosure proceedings against all real property that secures the loan.

We cease to accrue interest on all loans that are 90 days past due, or at an earlier date, if collection of principal or interest is considered doubtful. When a loan first becomes 90 days past due, all previously accrued but unpaid interest is deducted from interest income. In the event a non-accrual loan subsequently becomes current, which would require that the borrower pay all past due payments, late charges and any other delinquent fees owed, all income is recognized and the loan is returned to accrual status.

In the case of commercial real estate loans, we generally contact the borrower by telephone and send a written notice of non-payment upon expiration of the grace period. Decisions as to when to commence foreclosure actions for commercial real estate loans are made on a case-by-case basis. We may consider loan workout arrangements with these types of borrowers in certain circumstances.

If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure by the trustee named in the deed of trust. Property foreclosed upon and not purchased by a third party at the foreclosure sale is held by us as real estate owned through foreclosure (REO) and is carried in our consolidated financial statements at the estimated fair value less the costs estimated to be necessary to sell the property.

Federal regulations and our internal policies require that we utilize an asset classification system as a means of monitoring and reporting problem and potential problem assets. We have incorporated asset classifications as a part of our credit monitoring system and thus classify problem assets and potential problem assets as Substandard, Doubtful or Loss assets. An asset is considered Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all of the weaknesses inherent in those classified 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. Assets classified as Loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets which do not currently expose us to sufficient risk to warrant classification in one of the aforementioned categories, but that are considered to possess some weaknesses, are designated Special Mention.

General valuation allowances represent loss allowances that have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When a federally insured institution classifies one or more assets, or portions thereof, as Loss, it is required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount.

A financial institution s determination as to the classification of its assets and the amount of its valuation allowances is subject to review by banking regulators, which can order the establishment of additional loss allowances. The OTS, in conjunction with the other federal banking agencies, has adopted an interagency policy statement on the allowance for loan and lease losses. The policy statement provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate allowances and guidance for banking agency examiners to use in determining the adequacy of valuation guidelines. Generally, the policy statement recommends that financial institutions have effective systems and controls to identify, monitor and address asset quality problems, that management analyze all significant factors that affect the collectibility of the portfolio in a reasonable manner and that management establish acceptable allowance evaluation processes that meet the objectives set forth in the policy statement. Although we believe we have established adequate loan loss allowances, it is reasonably possible that future credit losses may exceed management s current estimates of incurred credit losses inherent within the loan portfolio. Accordingly, further material additions to the level of loan loss allowances may become necessary. In addition, there can be no assurance that the OTS or the FDIC, in reviewing our loan portfolio in connection with periodic regulatory examinations, will not request us to materially increase our allowance for loan losses based on such agencies evaluation of the facts available to the OTS or the FDIC at that time, thereby negatively affecting our financial condition and earnings.

Non-performing assets, consisting of non-accrual and delinquent loans 90 or more days past due, at December 31, 2008 were $3.5 million, or 0.85% of total assets, compared to $34 thousand, or 0.01% of total assets, at December 31, 2007. At December 31, 2008, 15 loans totaling $15.4 million were designated as Special Mention , 14 loans totaling $11.9 million were classified as Substandard, and four loans totaling $0.3 million were classified as Loss.

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Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, certain certificates of deposit of insured banks and savings institutions, certain bankers acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest in commercial paper, investment grade corporate debt securities and mutual funds whose assets are limited to investments that a federally chartered savings institution is authorized to make directly.

Our investment policy is to provide a source of liquidity for deposit contraction, repayment of borrowings and loan fundings, and to generate a favorable return on investments without incurring undue interest rate and credit risk. Our investment policy generally permits investments in money market instruments such as Federal Funds Sold, certificates of deposit of insured banks and savings institutions, direct obligations of the U. S. Treasury, Federal Agency securities, Agency-issued securities and mortgage-backed securities, mutual funds, municipal obligations, corporate bonds and marketable equity securities. Mortgage-backed securities consist principally of FNMA, FHLMC and GNMA securities backed by 30-year amortizing hybrid ARM loans, structured with a fixed interest rate for a period of three to seven years, after which time the loans convert to a one-year or six-month adjustable rate mortgage. At December 31, 2008, our securities portfolio, consisting primarily of mortgage-backed securities, totaled $27.0 million, or 7% of total assets.

Sources of Funds

General. Deposits are our primary source of funds for supporting our lending and other investment activities and general business purposes. In addition to deposits, we derive funds from principal and interest payments on loans and securities, proceeds from sales of loans and mortgage-backed and investment securities, FHLB advances and other borrowings and cash flows generated from operations.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits principally consist of passbook savings accounts, non-interest bearing checking accounts, NOW and other demand accounts, money market accounts, and fixed-term certificates of deposit. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas in which our branch offices are located. We rely primarily on customer service and long-standing relationships with customers to attract and retain these deposits. We emphasize our retail core deposit relationships, consisting of customers with passbook accounts, checking accounts, non-interest bearing demand accounts and money market accounts, which we believe tend to be more stable and available at a lower cost than other, longer term types of deposits. However, market interest rates, including rates offered by competing financial institutions, significantly affect our ability to attract and retain deposits. We generally have not solicited deposit accounts by increasing the rates of interest paid as quickly as some of our competitors. We have, from time to time, used brokers to obtain wholesale deposits. We also participate in a deposit program called Certificate of Deposit Account Registry Service (CDARS). CDARS is a deposit placement service that allows us to place our customers funds in FDIC-insured certificates of deposits at other banks and, at the same time, receive an equal sum of funds from the customers of other banks in the CDARS Network. The majority of CDARS deposits are gathered within our geographic footprint through established customer relationships. At December 31, 2008, we had approximately $80.5 million in brokered deposits, of which $40.8 million were CDARS.

Borrowings. Besides deposits, we have utilized other sources to fund our loan origination and other business activities, including borrowings from the FHLB of San Francisco. We have also issued junior subordinated debentures as an additional source of funds. Advances from the FHLB are secured primarily by mortgage loans and mortgage-backed securities. Such advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLB will advance to member institutions, including Broadway Federal, for purposes other than meeting withdrawals, changes from time to time in accordance with the policies of the FHLB. At December 31, 2008 and 2007, we had $74.0 million and $96.5 million, respectively, in outstanding advances from the FHLB.

Personnel

At December 31, 2008, we had 91 employees, which consisted of 78 full-time and 13 part-time employees. We believe that we have good relations with our employees and none are represented by a collective bargaining group.

Regulation

General. Broadway Federal Bank is regulated by the OTS and the Company is registered with and subject to examination by the OTS as a savings and loan holding company. The Bank is subject to regulation and examination by the OTS with respect to most of its business activities, including, among other things, capital standards, general investment authority, deposit taking and borrowing authority, mergers, establishment of branch offices, and permitted subsidiary investments and activities. The OTS s operations, including examination activities, are funded by assessments levied on its regulated institutions.

Our customer deposits are insured by the Deposit Insurance Fund of the FDIC to the extent provided by applicable federal law. Insurance on deposits may be terminated by the FDIC if it finds that the Bank has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS as the Bank s primary regulator.

Broadway Federal is a federally chartered savings bank and a member of the FHLB System. We are further subject to the regulations of the Board of Governors of the Federal Reserve System (the Federal Reserve Board) concerning reserves required to be maintained against deposits, transactions with affiliates, Truth in Lending and other consumer protection requirements and certain other matters. The Company is also required to file certain reports with, and otherwise comply with, the rules and regulations of the Securities and Exchange Commission (SEC) under the federal securities laws.

Any change in the applicable laws or regulations of the OTS, the FDIC or other regulatory authorities could have a material adverse impact on the Bank and the Company, their operations, and the Company s shareholders.

Certain of the laws and regulations applicable to the Bank and the Company are summarized below. These summaries do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

Recent Government Actions. The Emergency Economic Stabilization Act of 2008 (EESA), which was signed into law on October 3, 2008 authorizes the U.S. Department of the Treasury (Treasury) to establish the Troubled Asset Relief Program (TARP) to purchase troubled assets from financial institutions, including banks and thrifts institutions and to make capital investments in viable financial institutions to strengthen the capital and liquidity of the nation s banking system generally.

Under the TARP, the Treasury announced its Capital Purchase Program (CPP) on October 14, 2008 pursuant to which qualifying financial institutions are able to sell senior preferred shares to the Treasury that will qualify as Tier 1 capital for regulatory capital purposes. The Treasury also receives warrants to purchase the qualifying financial institutions common stock with an aggregate market price equal to 15% of Treasury s senior preferred investment. In addition, qualifying financial institutions participating in the CPP are required to adopt the Treasury s standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the CPP. On November 14, 2008, the Company sold to Treasury 9,000 shares of the Company s Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a liquidation preference of $1,000 per share, for a total price of $9 million and issued to Treasury a ten-year warrant to purchase 183,175 shares of the Company Common Stock at an exercise price of $7.37 per share.

Deposit Insurance. The FDIC charges an annual assessment for the insurance of deposits based on the risk a particular institution poses to the FDIC s Deposit Insurance Fund. The amount of the assessment paid by an institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors and the FDIC s overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. The Bank also pays assessments towards the retirement of the Financing Corporation bonds (known as FICO Bonds) issued in the 1980s by its former federal deposit insurer, the Federal Savings and Loan Insurance Corporation, to assist in the recovery of the savings and loan industry. These assessments will continue until the FICO Bonds mature in 2017. For the fourth quarter of 2008, this assessment was equal to .0028% of insured deposits.

The EESA temporarily raised the limit on federal deposit insurance coverage provided by the FDIC from $100 thousand to $250 thousand per depositor. On October 14, 2008, the FDIC also implemented its Temporary Liquidity Guarantee Program (the TLGP) to strengthen confidence and encourage liquidity in the financial system. The TLGP includes the Transaction Account Guarantee Program (the TAGP), which provides an unlimited FDIC guarantee for noninterest-bearing transaction accounts held at FDIC-insured depository institutions. The unlimited deposit coverage for noninterest-bearing transaction accounts is optional for eligible institutions and is in addition to the temporary increase in the FDIC deposit insurance coverage limit per account of $250 thousand that was included as part of the EESA. The insured deposit limits are currently scheduled to return to $100 thousand on January 1, 2010, except for certain retirement accounts. The TAGP coverage became effective on October 14, 2008 and is scheduled to continue for participating institutions until December 31, 2009. In addition to the existing risk-based deposit insurance premium assessed on such deposits, TAGP participants will be assessed, on a quarterly basis, an annualized 10 basis point fee on balances in noninterest-bearing transaction accounts that exceed the temporary deposit insurance limit of $250 thousand. Broadway Federal Bank elected to participate in the TAGP.

The FDIC has established a 7 basis point rate increase in its overall premium rate structure for the first quarter 2009 assessment period effective January 1, 2009. The FDIC has also established increased assessment rates to be effective as of April 1, 2009, as well as adjustments to improve differentiation of risk profiles among institutions. The FDIC concurrently proposed an interim rule that would impose a 20 basis point emergency special assessment effective June 30, 2009, to be collected from all insured depository institutions on September 30, 2009, in addition to the imposition of an emergency special assessment of up to 10 basis points at the end of any calendar quarter after June 30, 2009 if the FDIC determines that the ratio of reserves to aggregate insured deposits of the Deposit Insurance Fund will fall to a level that would adversely affect public confidence, among other factors. The proposed changes to differentiate risk profiles will require riskier institutions to pay higher assessment rates based on classification into one of four risk categories. Within each category, the FDIC will be able to assess higher rates to institutions with a significant reliance on secured liabilities, which generally raises the FDIC s loss in the event of failure without providing additional assessment revenue. The proposal also would assess higher rates for institutions with a significant reliance on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth. The proposal also would provide incentives in the form of a reduction in assessment rates for institutions to hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 capital.

Capital Requirements. The Bank must meet regulatory capital standards to be deemed in compliance with the OTS capital requirements. OTS capital regulations require savings institutions to meet three capital standards: (1) tangible capital equal to 1.5% of total adjusted assets; (2) leverage capital, or core capital, generally equal to 4.0% of total adjusted assets; and (3) risk-based capital equal to 8.0% of total risk-based assets. In assessing an institution s capital adequacy, the OTS takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where necessary. At December 31, 2008, the Bank s regulatory capital exceeded all minimum regulatory capital requirements.

The core capital requirement generally requires a savings institution to maintain core capital of not less than 4% (3% for certain highly evaluated institutions not experiencing or anticipating significant growth) of adjusted total assets. Core capital includes common stockholders equity (including retained earnings), non-cumulative perpetual preferred stock and any related surplus and minority interests in the equity accounts of fully consolidated subsidiaries. The amount of an institution s core capital is, in general, calculated in accordance with generally accepted accounting principles (GAAP), with certain exceptions. Intangible assets must be deducted from core capital, with certain exceptions and limitations, including mortgage servicing rights and certain other intangibles, which may be included on a limited basis.

A savings institution is required to maintain tangible capital in an amount not less than 1.5% of adjusted total assets. Tangible capital is defined for this purpose to mean core capital less any intangible assets, plus mortgage servicing rights, subject to certain limitations.

The risk-based capital requirements provide that the capital ratios applicable to various classes of assets are to be adjusted to reflect the degree of risk associated with such classes of assets. In addition, the asset base for computing a savings institution s capital requirement includes off-balance sheet items, including assets sold with recourse. Generally, the Capital Regulations require savings institutions to maintain total capital equal to 8.00% of risk-weighted assets. Total capital for these purposes consists of core capital and supplementary capital. Supplementary capital includes, among other things, certain types of preferred stock and subordinated debt and, subject to certain limitations, loan and lease general valuation allowances. At December 31, 2008 and 2007, the general valuation allowance included in our supplementary capital was $3.0 million and $2.0 million, respectively. A savings institution s supplementary capital may be used to satisfy the risk-based capital requirement only to the extent of that institution s core capital.

Following is a reconciliation of Broadway Federal s equity capital to the minimum OTS regulatory capital requirements as of December 31, 2008 and December 31, 2007:

	As of December 31,					
	2008			2007		
	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital	Tangible Capital	Tier 1 (Core) Capital	Total Risk-Based Capital
	(In thousands)					
Equity capital-Broadway Federal (1)	$ 33,436	$ 33,436	$ 33,436	$ 26,037	$ 26,037	$ 26,037
Additional supplementary capital:						
General valuation allowance	-	-	2,953	-	-	2,015
Regulatory capital balances	33,436	33,436	36,389	26,037	26,037	28,052
Minimum requirement	6,079	16,212	25,435	5,353	14,275	22,413
Excess over requirement	$ 27,357	$ 17,224	$ 10,954	$ 20,684	$ 11,762	$ 5,639

(1) Excluding accumulated other comprehensive income, net of taxes

The Bank is subject to prompt corrective action (PCA) of the OTS and FDIC pursuant to which banks and savings institutions are to be classified into one of five categories based primarily upon capital adequacy, ranging from well capitalized to critically undercapitalized and which require, subject to certain exceptions, the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes undercapitalized and to take additional actions if the institution becomes significantly undercapitalized or critically undercapitalized.

Under the OTS regulations implementing the PCA provisions, an institution is well capitalized if it has a Total Risk-based capital ratio of 10.00% or greater, has a Tier 1 Risk-based capital ratio (Tier 1 capital to total risk-weighted assets) of 6.00% or greater, has a Core capital ratio of 5.00% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level or any capital measure. An institution is adequately capitalized if it has a Total Risk-based capital ratio of 8.00% or greater, has a Tier 1 Risk-based capital ratio of 4.00% or greater and has a Core capital ratio of 4.00% or greater (3.00% for certain highly rated institutions). The OTS also has authority, after an opportunity for a hearing, to downgrade an institution from well capitalized to adequately capitalized, or to subject an adequately capitalized or undercapitalized institution to the supervisory actions applicable to the next lower category, for supervisory concerns. At December 31, 2008, the Bank was considered well capitalized by the OTS, with a Total risk-based capital ratio of 11.45%, Tier 1 risk-based capital ratio of 10.52% and Core capital ratio of 8.25%.

Loans to One Borrower. Savings institutions generally are subject to the lending limits that are applicable to national banks. With certain limited exceptions, the maximum amount that a savings institution may lend to any borrower (including certain related persons or entities of such borrower) is an amount equal to 15% of the savings institution s unimpaired capital and unimpaired surplus, plus an additional 10% for loans fully secured by readily marketable collateral. Real estate is not included within the definition of readily marketable collateral for this purpose. At December 31, 2008, the maximum amount that the Bank could lend to any one borrower (including related persons and entities) under the current loans to one borrower regulatory limit was $5.5 million. Our internal policy limits loans to one borrower to $3.3 million. At December 31, 2008, the largest aggregate amount of loans that we had outstanding to any one borrower was $3.9 million.

Community Reinvestment Act. The Community Reinvestment Act (CRA) requires each savings institution, as well as other lenders, to identify the communities served by the institution s offices and to identify the types of credit the institution is prepared to extend within those communities. The CRA also requires the OTS to assess the performance of the institution in meeting the credit needs of its communities as part of its examination of a savings institution, and to take such assessments into consideration in reviewing applications for mergers, acquisitions and other transactions. An unsatisfactory CRA rating may be the basis for denying an application. Community groups have successfully protested applications on CRA grounds. In connection with the assessment of a savings institution s CRA performance, the OTS assigns ratings of outstanding, satisfactory, needs to improve or substantial noncompliance. The Bank was rated outstanding in its most recent CRA examination.

Qualified Thrift Lender Test. Savings institutions regulated by the OTS are subject to a qualified thrift lender (QTL) test, which in general requires such an institution to maintain on an average basis at least 65% of its portfolio assets (as defined) in qualified thrift investments. Qualified thrift investments include, in general, loans, securities and other investments that are related to housing, shares of stock issued by any Federal Home Loan Bank, loans for educational purposes, loans to small businesses, loans made through credit cards or credit card accounts and certain other permitted thrift investments. A savings institution s failure to remain a QTL may result in conversion of the institution to a bank charter or operation under certain restrictions including limitations on new investments and activities, and the imposition of the restrictions on branching and the payment of dividends that apply to national banks. At December 31, 2008, the Bank was in compliance with the QTL test requirements.

The USA Patriot Act, Bank Secrecy Act (BSA), and Anti-Money Laundering (AML) Requirements. The USA PATRIOT Act (the Act) was enacted after September 11, 2001 to provide the federal government with powers to prevent, detect, and prosecute terrorism and international money laundering, and has resulted in promulgation of several regulations that have a direct impact on savings associations. There are a number of programs that financial institutions must have in place such as: (i) a program to manage BSA/AML risk; (ii) a Customer Identification Program designed to determine the true identity of customers, document and verify the information, and determine whether the customer appears on any federal government list of known or suspected terrorist or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions.

Savings and Loan Holding Company Regulation. As a savings and loan holding company, we are subject to certain restrictions with respect to our activities and investments. Among other things, we are generally

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prohibited, either directly or indirectly, from acquiring more than 5% of the voting shares of any savings association or savings and loan holding company that is not a subsidiary of the Company.

OTS approval must be obtained prior to any person acquiring control of the Company or Broadway Federal. Control is conclusively presumed to exist if, among other things, a person acquires more than 25% of any class of voting stock of the institution or holding company or controls in any manner the election of a majority of the directors of the insured institution or the holding company and may be presumed to exist at lower levels of ownership under certain circumstances.

Restrictions on Dividends and Other Capital Distributions. In general, the prompt corrective action regulations prohibit an OTS-regulated institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person, such as its parent holding company, if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition to the prompt corrective action restriction on paying dividends, OTS regulations limit certain capital distributions by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and cash-out mergers.

Under the OTS capital distribution regulations, a savings association that is a subsidiary of a savings and loan holding company must notify the OTS of an association capital distribution at least 30 days prior to the declaration of the capital distribution. The 30-day period provides the OTS an opportunity to object to the proposed dividend if it believes that the dividend would not be advisable.

An application to the OTS for approval to pay a dividend is required if: (a) the total of all capital distributions made during that calendar year (including the proposed distribution) exceeds the sum of the institution s year-to-date net income and its retained income for the preceding two years; (b) the institution is not entitled under OTS regulations to expedited treatment (which is generally available to institutions the OTS regards as well run and adequately capitalized); (c) the institution would not be at least adequately capitalized following the proposed capital distribution; or (d) the distribution would violate an applicable statute, regulation, agreement, or condition imposed on the institutions by the OTS.

The Bank s ability to pay dividends to the Company is also subject to the restriction that the Bank is not permitted to pay dividends to the Company if its regulatory capital would be reduced below the amount required for the liquidation account established in connection with the conversion of the Bank from the mutual to the stock form of organization.

Tax Matters

Federal Income Taxes

We report our income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with certain exceptions, including particularly the Bank s tax reserve for bad debts. The Bank has qualified under provisions of the Internal Revenue Code (the Code) that in the past allowed qualifying savings institutions to establish reserves for bad debts, and to make additions to such reserves, using certain preferential methodologies. Under the relevant provisions of the Code as currently in effect, a small bank (a bank with $500 million or less of assets) may continue to utilize a reserve method of accounting for bad debts, under which additions to reserves are based on the institution s six-year average loss experience. Broadway Federal qualifies as a small bank and has utilized the reserve method of accounting for bad debts based on its actual loss experience.

California Taxes

As a savings and loan holding company filing California franchise tax returns on a combined basis with its subsidiaries, the Company is subject to California franchise tax at the rate applicable to financial corporations.

The applicable tax rate is the rate for general corporations plus 2%. Under California regulations, bad debt deductions are available in computing California franchise taxes using a three or six year average loss experience method.

Item 2. Properties

We conduct our business through five branch offices and two loan production offices. Our loan service operation is also conducted from one of our branch offices. Our administrative and corporate operations are conducted from our corporate facility located at 4800 Wilshire Boulevard, Los Angeles, which also houses one of our branch offices. There are no mortgages, material liens or encumbrances against any of our owned properties. We believe that all of the properties are adequately covered by insurance, and that our facilities are adequate to meet our present needs.

Location	Leased or Owned	Original Date Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2008 (In thousands)
Administrative/Branch Office/Loan Origination Center:				
4800 Wilshire Blvd Los Angeles, CA	Owned	1997	-	$1,825
Branch Offices:				
4835 West Venice Blvd. Los Angeles, CA	Building Owned on Leased Land	1965	2013	$ 90
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	-	$ 688
4001 South Figueroa Street Los Angeles, CA	Owned	1996	-	$1,971
4371 Crenshaw Blvd., Suite C (1) Los Angeles, CA	Leased	2007	2012	$ 358
Loan Production Offices:				
19800 MacArthur Blvd, Suite 300 Irvine, CA	Leased	2005	2009	$ -
2400 West Carson Street, Suite 215 Torrance, CA	Leased	2007	2009	$ -

Item 3. Legal Proceedings

The Bank is the defendant in Daniel D. Holliday III v. Broadway Federal Bank (Case No. BC 398403), a lawsuit filed in the Superior Court of the State of California for Los Angeles County on September 18, 2008 and amended on March 4, 2009. This legal action arises from a dispute over the priority of the Bank s lien against a deposit account balance in the Bank securing a land development loan. The lawsuit seeks damages of $2.6 million, plus interest, costs and attorneys fees according to proof, as well as a constructive trust on the escrow funds. The plaintiff also seeks injunctive relief to prevent the Bank from asserting a senior security interest on the deposit account and to prevent the Bank from applying the funds in the deposit account to satisfy the amount owing on the loan. The lawsuit is still in the discovery phase and our attorney has not expressed an opinion as to the likely outcome. Management plans to vigorously defend against the lawsuit. No loss has been accrued for this lawsuit, no specific allowance for loan loss allocation has been established for the related loan and the loan is not on nonaccrual status as of December 31, 2008 as management believes the loan and the accrued interest receivable as of December 31, 2008 are fully collectible assuming the deposit account balance securing the loan can be offset against the loan and the accrued interest receivable balances. If the Bank is unsuccessful in

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defending against the lawsuit, the loan and the accrued interest receivable balances may not be fully collectible and a loss may be incurred that could be material to the Company s consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of stockholders during the fourth quarter of 2008.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the Nasdaq Capital Market under the symbol BYFC . The table below shows the high and low sale prices for our common stock during the periods indicated.

2008	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 9.25	$ 8.99	$ 9.35	$ 7.86
Low	$ 7.00	$ 5.90	$ 7.50	$ 3.84

2007	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 11.20	$ 11.20	$ 11.29	$ 10.49
Low	$ 10.25	$ 10.80	$ 8.99	$ 3.50

As of March 23, 2009, we had 401 shareholders of record and 1,742,765 shares of common stock outstanding.

We paid quarterly dividends on our common stock at the rate of $0.05 per share during 2008 and 2007. We may pay dividends out of funds legally available at such times as our Board of Directors determines that dividend payments are appropriate, after considering our net income, capital requirements, financial condition, alternate investment options, prevailing economic conditions, industry practices and other factors deemed to be relevant at the time. In addition, we agreed in connection with our issuance of Senior Preferred Stock to Treasury that we would not pay cash dividends on our common stock at a quarterly rate greater than $0.05 per share, or redeem, purchase or acquire any of our common stock or other equity securities, without the prior approval of Treasury while the Senior Preferred Stock remains outstanding. See Item 1, Business Regulation for a description of the transaction.

Our payment of dividends is dependent, in large part, upon receipt of dividends from Broadway Federal. Broadway Federal is subject to certain restrictions which may limit its ability to pay us dividends. See Item 1, Business Regulation and Note 14 Regulatory Capital Matters of Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplemental Data for an explanation of the impact of regulatory capital requirements on Broadway Federal s ability to pay dividends.

On November 18, 2007, our Board of Directors approved a stock repurchase program under which we may repurchase up to $500 thousand of our common stock. We may make purchases of our common stock on the open market or in privately negotiated transactions at prices we deem appropriate. As of December 31, 2008, we are not currently repurchasing additional shares of our common stock, and can only do so with the prior approval of the Treasury while the Senior Preferred Stock remains outstanding.

The following table provides information about our repurchases of shares during the fourth quarter of 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (In thousands)
October 1 to 31, 2008	5,300	$ 5.33	5,300	
November 1 to 30, 2008	6,654	$ 6.57	6,654	
December 1 to 31, 2008	-	$ -	-	
Total	11,954	$ 6.02	11,954	$ 362

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
The following discussion provides information about our results of operations, financial condition, liquidity, and capital resources. This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements presented elsewhere in this report.

Critical Accounting Policies

We have established various accounting policies that are consistent with generally accepted accounting principles in the United States of America in the preparation of our consolidated financial statements. Our significant accounting policies are described in Note 1 of Notes to Consolidated Financial Statements. Certain of these accounting policies, which we consider to be critical accounting policies, require us to make significant estimates and assumptions which have a material impact on the carrying value of certain assets and liabilities and on our reported results of operations. These policies include our policies for accounting for the allowance for loan losses, which involve significant judgments and assumptions by management as to the value of properties securing our loans, the borrowers ability and willingness to repay their loans and other factors. The estimates and assumptions we use are based on historical experience and other factors, which we believe to be reasonable under the circumstances. Actual results may differ in material respects from these estimates under different assumptions or conditions.

Comparison of Operating Results for the Years Ended December 31, 2008 and 2007

Our most significant source of income is net interest income, which is the difference between our interest income and our interest expense. Generally, interest income is generated from our loans and investments (interest-earning assets) and interest expense is generated from deposits and borrowings (interest-bearing liabilities). Our results of operations are also affected by our provision for loan losses, non-interest income generated from service charges and fees on loan and deposit accounts, gain or loss on the sale of loans and securities, non-interest expenses and income taxes.

Net Earnings. We recorded net earnings of $2.3 million, or $1.18 per diluted common share, for the year ended December 31, 2008, compared to net earnings of $1.5 million, or $0.74 per diluted common share, for the year ended December 31, 2007. Current year net earnings increased by $848 thousand, or 58.36%, primarily due to increases in net interest income before provision for loan losses and non-interest income which were partially offset by increases in our provision for loan losses and non-interest expense.

Net Interest Income. Net interest income before provision for loan losses totaled $14.3 million, up $3.2 million, or 28.85%, from a year ago. This increase reflected a $70.3 million, or 22.78%, increase in our average interest-earning assets and an 18 basis point improvement in our net interest rate margin.

Interest Income. Interest income for 2008 increased $4.2 million primarily due to a $70.3 million increase in our average interest-earning assets which was partially offset by a 16 basis point decrease in our yield on average interest-earning assets. Our net loan portfolio accounted for a substantial portion of the increase in our average interest-earning assets, and averaged $336.6 million in 2008 compared to $264.4 million in 2007. Our loan portfolio yield decreased 20 basis points during 2008 due to a general decline in market interest rates in 2008.

Interest Expense. Interest expense for 2008 increased $1.0 million as a result of a $66.9 million increase in our average interest-bearing liabilities which was partially offset by a 36 basis point decrease in our cost of average interest-bearing liabilities. Deposits averaged $264.5 million in 2008, up $37.7 million from $226.8 million in 2007. FHLB borrowings averaged $89.4 million in 2008, up $28.1 million from $61.3 million in 2007. The decrease in our cost of average interest-bearing liabilities was primarily due to the declining interest rate environment and maturities of higher costing time deposits and FHLB borrowings over the past year.

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Average Balance Sheet and Yield/Rate Analysis. We analyze our earnings performance using, among other measures, the net interest rate spread and effective net interest rate margin. The interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. The net interest rate margin is net interest income expressed as a percentage of average interest-earning assets.

The following table presents for the years indicated the total dollar amount of (1) interest income from average interest-earning assets and the resultant yields; and (2) interest expense on average interest-bearing liabilities and the resultant costs, expressed as annual rates. The table also sets forth our net interest income, net interest rate spread, net interest rate margin and certain additional information. We did not include non-accrual loans in the average interest-earning assets balance. Average balances are derived from average daily balances. The yields and costs include loan prepayment fees and amortization of fees, costs, premiums and discounts which are considered adjustments to interest rates.

	For the Year Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)								
Assets									
Interest-earning assets:									
Interest-earning deposits	$ 3,718	$ 73	1.96%	$ 2,970	$ 138	4.65%	$ 2,954	$ 128	4.33%
Federal Funds sold and other short-term investments	3,032	37	1.22%	1,368	66	4.82%	1,750	87	4.97%
Investment securities	1,079	55	5.10%	2,000	100	5.00%	2,000	82	4.10%
Mortgage-backed securities	29,109	1,371	4.71%	34,709	1,601	4.61%	38,846	1,693	4.36%
Loans receivable (1)(2)	336,619	23,744	7.05%	264,366	19,178	7.25%	230,676	15,335	6.65%
FHLB stock	5,086	204	4.01%	2,980	162	5.44%	2,851	152	5.33%
Total interest-earning assets	378,643	$ 25,484	6.73%	308,393	$ 21,245	6.89%	279,077	$ 17,477	6.26%
Non-interest-earning assets	11,825			10,512			8,424		
Total assets	$ 390,468			$ 318,905			$ 287,501		
Liabilities and Stockholders Equity									
Interest-bearing liabilities:									
Money market deposits	$ 29,035	$ 705	2.43%	$ 20,411	$ 693	3.40%	$ 13,537	$ 369	2.73%
Passbook deposits	39,378	547	1.39%	39,973	536	1.34%	51,981	763	1.47%
NOW and other demand deposits	39,853	303	0.76%	36,281	59	0.16%	32,217	26	0.08%
Certificate accounts	156,228	5,624	3.60%	130,164	5,770	4.43%	112,456	4,294	3.82%
Total deposits	264,494	7,179	2.71%	226,829	7,058	3.11%	210,191	5,452	2.59%
FHLB advances	89,404	3,566	3.99%	61,350	2,590	4.22%	48,932	1,728	3.53%
Junior subordinated debentures and other borrowings	7,192	421	5.85%	6,000	485	8.08%	6,000	463	7.72%
Total interest-bearing liabilities	361,090	$ 11,166	3.09%	294,179	$ 10,133	3.45%	265,123	$ 7,643	2.88%
Non-interest-bearing liabilities	4,954			3,735			3,808		
Stockholders Equity	24,424			20,991			18,570		
Total liabilities and stockholders equity	$ 390,468			$ 318,905			$ 287,501		
Net interest rate spread (3)		$ 14,318	3.64%		$ 11,112	3.44%		$ 9,834	3.38%
Net interest rate margin (4)			3.78%			3.60%			3.52%
Ratio of interest-earning assets to interest-bearing liabilities			104.86%			104.83%			105.26%
Return on average assets			0.59%			0.46%			0.58%

Return on average equity	9.42%	6.92%	8.96%
Average equity to average assets ratio	6.26%	6.58%	6.46%
Dividend payout ratio (5)	16.90%	25.81%	20.80%

(1) Amount is net of deferred loan fees, loan discounts, loans in process and loan loss allowances, and includes loans held for sale.
(2) Amount excludes non-performing loans.

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(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.
(5) Percentage is calculated based on dividends on common stocks divided by net earnings less dividends and accretion on preferred stocks.

Rate/Volume Analysis. Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2008 Compared to Year ended December 31, 2007			Year ended December 31, 2007 Compared to Year ended December 31, 2006		
	Increase (Decrease) in Net Interest Income			Increase (Decrease) in Net Interest Income		
	Due to Volume	Due to Rate	Total	Due to Volume	Due to Rate	Total
			(In thousands)			
Interest-earning assets:						
Interest-earning deposits	$ 29	$ (94)	$ (65)	$ 1	$ 9	$ 10
Federal funds sold and other short term investments	43	(72)	(29)	(18)	(3)	(21)
Investment securities, net	(47)	2	(45)	-	18	18
Loans receivable, net	5,110	(544)	4,566	2,365	1,478	3,843
Mortgage backed securities, net	(263)	33	(230)	(187)	95	(92)
FHLB stock	93	(51)	42	7	3	10
Total interest-earning assets	4,965	(726)	4,239	2,168	1,600	3,768
Interest-bearing liabilities:						
Money market deposits	243	(231)	12	218	106	324
Passbook deposits	(8)	19	11	(165)	(62)	(227)
NOW and other demand deposits	6	238	244	4	29	33
Certificate accounts	1,043	(1,189)	(146)	730	746	1,476
FHLB advances	1,126	(150)	976	487	375	862