BROADWAY FINANCIAL CORP \DE\
Form 10-K
March 27, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2014

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

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 o No ý

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 ý No o

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ý

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ý

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

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: $26,831,000

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 11, 2015, 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.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2015 annual meeting of stockholders 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, certain 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," "forecast," "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 or implied by such statements. 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 update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law.

The following factors, among others, could cause future results to differ materially from historical results or from those anticipated by forward-looking statements included in this Form 10-K: (1) the level of demand for mortgage loans, which is affected by such external factors as general economic conditions, market interest rate levels, tax laws and the demographics of our lending markets; (2) the direction and magnitude of changes in 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 and amount of loan losses incurred and projected to be incurred by us, increases in the amounts of our nonperforming assets, the level of our loss reserves and management's judgments regarding the collectability of loans; (4) changes in the regulation of lending and deposit operations or other regulatory actions, whether industry wide or focused on our operations, including increases in capital requirements or directives to increase loan loss allowances or make other changes in our business operations; (5) actions undertaken by both current and potential new competitors; (6) the possibility of continuing adverse trends in property values or economic trends in the residential and commercial real estate markets in which we compete; (7) the effect of changes in economic conditions; (8) the effect of geopolitical uncertainties; (9) an inability to obtain and retain sufficient operating cash at our holding company level; and (10) other risks and uncertainties detailed in this Form 10-K, including those described in Part II, Item 7 "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.

The Company is currently regulated by the Board of Governors of the Federal Reserve System ("FRB"). The Bank is currently regulated by the Office of the Comptroller of the Currency ("OCC") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured up to applicable limits by the FDIC. The Bank is also a member of the Federal Home Loan Bank ("FHLB") of San Francisco. See "Regulation" for further descriptions of the regulatory system to which the Company and the Bank are subject.

Recent Transactions

On October 16, 2014, after receiving the requisite approvals from the trust that holds the Floating Rate Junior Subordinated Debentures (the "Debentures"), we completed a modification of the terms of our Debentures in which we extended the maturity of the Debentures to March 17, 2024 in exchange for payment of $900 thousand of the principal of the Debentures at face value and payment of all accrued interest on the Debentures through the effective date of the extension.

On October 16, 2014, we 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 remaining $5.1 million principal amount of the Debentures to March 17, 2024 and modified the payment terms thereof; and repaid the outstanding principal amount of the defaulted senior 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, we will be required to make quarterly payments of equal amounts of principal, plus interest, until the Debentures are fully amortized on March 17, 2024. We have the right to call the Debentures for redemption at any time.

In August 2013, we completed a series of transactions to recapitalize the Company's balance sheet (the "Recapitalization"). The transactions that comprised the Recapitalization included: a private placement of new common stock; exchanges of common equity capital for preferred stock, associated accumulated dividends, and senior debt; and a modification of the terms of the remaining senior debt. Collectively, these transactions have strengthened the balance sheet of the Company and the Bank, significantly simplified the capital structure of the Company, reduced the Company's annual requirements for servicing debt and preferred stock by $1.2 million, eliminated all cumulative dividends on preferred stock and improved the capital and liquidity of both the Company and the Bank. See "Capital Resources" for more information on these transactions and their effects.

Regulatory Cease and Desist Orders

The Recapitalization described above was part of our overall plan to address operating losses and elevated levels of loan delinquencies and non-performing assets that the Bank experienced since the latter part of 2008. Also due to these factors and an assessment of our business and assets in the course of a regulatory examination of the Bank in March 2010, the Company and the Bank were designated as being "in troubled

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condition." The Company and the Bank agreed to the issuance of cease and desist orders to them in September 2010, which we refer to collectively as the "Orders." The Orders mandated improvements in enumerated aspects of our business operations and placed limitations on us, including prohibition of the payment of dividends by the Bank or the Company, or the incurrence of any new debt or payment on existing debt by the Company, in each case without prior regulatory approval. Effective October 30, 2013, the Order for the Bank was superseded by a Consent Order entered into by the Bank with the OCC (the "Consent Order"). The Consent Order requires the Bank 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's capital exceeded both of these higher capital ratio requirements at the end of each quarter of 2014 and 2013.

The Consent Order imposed new requirements on the Bank, including the following among others:

- The Bank was required to create a Compliance Committee consisting of at least three independent directors to monitor compliance with the Consent Order.

- The Board of the Bank was required to prepare and submit a strategic plan, and a capital plan that is consistent with the strategic plan, for approval by the OCC. The capital plan requirement includes requirements regarding targeted capital ratios and prior approval requirements for the payment of dividends, both as mentioned above.

- The Bank must implement an enhanced set of lending, other business and corporate governance procedures, and must develop and adhere to a written commercial real estate loan concentration risk management program and a written program to reduce the level of assets considered doubtful, substandard or special mention. This latter program requirement includes requirements to monitor the levels of such assets on an on-going basis and to prepare and implement corrective actions as deemed necessary.

- The Bank must also implement an independent on-going loan review system and adopt new policies with respect to maintaining an adequate allowance for loan and lease losses.

The Consent Order does not include certain explicit restrictions on the Bank that had been imposed by the prior Order issued to the Bank, such as the specific limitation on the Bank's ability to increase its assets during any quarter or certain limitations on employment agreements and compensation arrangements. The strategic plan required by the Consent Order, however, must include the Bank's plans regarding growth and compliance with regulatory loan concentration limits. The Bank will not be permitted to commence any new business strategies, or any variation from the strategic plan, prior to receiving an OCC statement of no supervisory objection thereto. The Bank submitted its revised strategic plan and capital plan to the OCC in August 2014, and has created a Compliance Committee and implemented other operating changes to conform to the provisions of the Consent Order. The Bank has received a written statement of non-objection from the OCC with respect to the capital plan, but not with respect to the strategic plan.

The Order issued to the Company, which has been administered by the FRB since July 2012, remains in effect. This Order imposes the following restrictions, among other limitations and requirements:

- The Company may not declare or pay any dividends or make any other capital distributions without the prior written approval of the FRB.

- The Company may not make any changes in its directors or senior executive officers without prior notice to and receipt of notice of non-objection from the FRB.

- The Company is subject to limitations on severance and indemnification payments and on entering into or amending employment agreements and compensation arrangements, and on the payment of bonuses to directors and officers.

The Company may not 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.

On October 9, 2014, the Company received acknowledgement from the FRB that the revised business plan and capital plan submitted to the FRB by the Company in August 2014 are acceptable and that the plans include all items required by the Order. Management believes the Company is in compliance with all aspects of the FRB order.

Business Overview

We are headquartered in Los Angeles, California and our principal business is the operation of our wholly-owned subsidiary, Broadway Federal, which has two offices in Los Angeles and one in the nearby city of Inglewood, California. Broadway Federal's principal business consists of attracting 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 five or more unit ("multi-family") mortgage loans, commercial real estate loans and one-to-four unit ("single family") mortgage loans. In addition, we invest in securities issued by the federal government and federal agencies, residential mortgage-backed securities and other investments.

Our revenue is derived primarily from interest income on loans and investments. Our principal costs are interest expenses that we incur on deposits and borrowings, together with general and administrative expenses. Our earnings are significantly affected by general economic and competitive conditions, particularly monetary trends and conditions, including changes in market interest rates and the differences in market interests rates for the interest bearing deposits and borrowings that are our principal funding sources and the interest yielding assets in which we invest, which include loans, U.S. Treasury securities and other debt instruments, as well as government policies and actions of regulatory authorities.

Lending Activities

General

Our loan portfolio is comprised primarily of mortgage loans which are secured by multi-family properties, commercial real estate, including churches, and single family residential properties. The remainder of the loan portfolio consists of commercial business loans, construction loans, consumer loans and other loans. At December 31, 2014, our net loan portfolio totaled $276.6 million, or 79% of total assets.

We emphasize the origination of adjustable-rate mortgage loans ("ARMs") and hybrid ARM loans (ARM loans having an initial fixed rate period) for our portfolio of loans held for investment. We originate these loans in order to maintain a high percentage of loans that are subject to more frequent repricing, thereby reducing our exposure to interest rate risk. At December 31, 2014, more than 99% of our mortgage loans had adjustable rates.

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.

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The following table sets forth the composition of our portfolio of loans held for investment by type, dollar amount and percentage of loan portfolio at the dates indicated.

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
	(Dollars in thousands)									
Single family	$ 39,792	14.03%	$ 46,459	18.09%	$ 57,733	21.95%	$ 76,671	22.58%	$ 82,753	20.57%
Multi-family	171,792	60.58%	113,218	44.09%	83,305	31.67%	108,075	31.82%	128,279	31.89%
Commercial real estate	16,722	5.90%	26,697	10.39%	41,124	15.63%	54,259	15.98%	72,770	18.09%
Church	54,599	19.26%	67,934	26.45%	76,225	28.98%	88,994	26.20%	97,529	24.25%
Construction	387	0.14%	424	0.17%	735	0.28%	3,790	1.12%	5,421	1.35%
Commercial	262	0.09%	2,067	0.80%	3,895	1.48%	6,896	2.03%	12,178	3.03%
Consumer	9	0.00%	38	0.01%	35	0.01%	929	0.27%	3,288	0.82%
Gross loans	283,563	100.00%	256,837	100.00%	263,052	100.00%	339,614	100.00%	402,218	100.00%
Plus:										
Premiums on loans purchased	228		272							
Deferred loan costs, net	1,333		901		557		473		889	
Less:										
Unamortized discounts	16		17		17		18		33	
Allowance for loan losses	8,465		10,146		11,869		17,299		20,458	
Total loans held for investment	$ 276,643		$ 247,847		$ 251,723		$ 322,770		$ 382,616	

Multi-Family and Commercial Real Estate Lending

Our primary lending emphasis has been on the origination of multi-family loans and, to a lesser extent, commercial real estate loans. These loans are secured primarily by apartment buildings or by properties used for business purposes, such as small office buildings, health care facilities and retail facilities located in our primary market area. However, since 2012, we have primarily focused our efforts on the origination of multi-family loans.

Our multi-family loans amounted to $171.8 million and $113.2 million at December 31, 2014 and 2013, respectively. Multi-family loans represented 61% of our gross loan portfolio at December 31, 2014 compared to 44% of our gross loan portfolio at December 31, 2013. All of the multi-family residential mortgage loans outstanding at December 31, 2014 were ARMs. The vast majority of our multi-family loans amortize over 30 years. As of December 31, 2014, our single largest multi-family credit had an outstanding balance of $3.8 million, was current and was secured by a 26-unit apartment complex in Burbank, California. At December 31, 2014, the average balance of a loan in our multi-family portfolio was $579 thousand.

Our commercial real estate loans amounted to $16.7 million and $26.7 million at December 31, 2014 and 2013, respectively. Commercial real estate loans represented 6% of our gross loan portfolio at December 31, 2014 compared to 10% of our gross loan portfolio at December 31, 2013. All except one commercial real estate loan outstanding at December 31, 2014 were ARMs. Most commercial real estate loans are originated with principal repayments on a 30 year amortization schedule, but are due in 15 years. As of December 31, 2014, our single largest commercial real estate credit had an outstanding principal balance of $1.7 million, was current and was secured by a gasoline station located in Los Angeles, California. At December 31, 2014, the average balance of a loan in our commercial real estate portfolio was $484 thousand.

The interest rates on multi-family and commercial ARM loans are based on a variety of indices, including the 6-Month London InterBank Offered Rate Index ("6-Month LIBOR"), the 1-Year Constant Maturity

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Treasury Index ("1-Yr CMT"), the 12-Month Treasury Average Index ("12-MTA"), the 11th District Cost of Funds Index ("COFI"), and the Wall Street Journal Prime Rate ("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.

Loans secured by multi-family and commercial real 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 of the collateral.

We seek to mitigate the risks associated with multi-family and commercial real estate loans by applying appropriate 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 coverage 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 management-approved independent appraisers. 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 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 general economy. 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 reduce these risks by originating such loans on a selective basis and generally restrict such loans to our general market area. In 2008, we ceased out-of-state lending for all types of lending. As of December 31, 2014, our out-of-state loans totaled $3.9 million and our single largest out-of-state credit had an outstanding principal balance of $684 thousand, was current and was secured by a church building located in Chandler, Arizona.

Originating loans secured by church properties is a market niche in which we had been active since our inception. Adverse economic conditions have resulted in increased delinquencies and foreclosures on church loans. In addition to the risks encountered in other types of commercial lending, church lending is subject to additional risks not necessarily related to economic factors such as the stability, quality and popularity of church leadership. Because of these factors, we do not believe the current real estate market and economic environment support the origination of additional church loans. Additionally, the Order issued to Broadway Federal in September 2010 prohibited us from originating church loans. As a result, we suspended the origination of church loans in 2010. At December 31, 2014, the average balance of a loan in our church loan portfolio was $610 thousand. Our church loans totaled $54.6 million and $67.9 million at December 31, 2014 and 2013, respectively. Church loans represented 19% of our gross loan portfolio at December 31, 2014 compared to 26% of our gross loan portfolio at December 31, 2013.

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.

Single Family Mortgage Lending

While we are primarily a multi-family and commercial real estate lender, we also originate ARMs and fixed rate loans secured by single family residences, including investor-owned properties, with maturities of up to 30 years. Substantially all of our single family 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 or third party brokers, existing or past customers, and referrals from members of churches or other organizations in the local communities where we operate. Single family loans totaled $39.8 million and $46.5 million at December 31, 2014 and 2013, respectively. Of the $39.8 million single family loans at December 31, 2014, $24.0 million are secured by investor-owned properties. Single family loans represented 14% of our gross loan portfolio at December 31, 2014, compared to 18% at December 31, 2013. Of the single family residential mortgage loans outstanding at December 31, 2014, 2% were fixed rate loans and 98% 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. In addition, because of interest rate caps and floors, market rates may exceed or go below the respective maximum or minimum rates payable on our ARMs.

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.

Commercial Lending

We originate non-real estate commercial loans that are secured by business assets, the franchise value of the business, if applicable, and individual assets such as deposit accounts, securities and automobiles. Most of these loans are originated with maturities of up to 5 years. Commercial loans amounted to $262 thousand and $2.1 million at December 31, 2014 and 2013, respectively. Commercial loans represented less than 1% of our gross loan portfolio at December 31, 2014 and 2013.

Construction Lending

Construction loans totaled $387 thousand and $424 thousand at December 31, 2014 and 2013, respectively, representing less than 1% of our gross loan portfolio. 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 Prime Rate. Generally, we require a loan-to-value ratio not exceeding 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 that are different from those for completed project lending because we advance loan funds based upon the security and estimated value at completion of the 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 schedules, market demand and the accuracy of estimates of the value of the completed project considered in the loan approval process. In addition, construction projects can be risky as they transition to completion and lease-up. Tenants who may have been interested in leasing a unit or apartment may not be able to afford the space when the building is completed, or may fail to lease the space for other reasons such as more attractive terms offered by competing lessors, making it difficult for the building to generate enough cash flow for the owner to obtain permanent financing. Many construction project owners are faced with these

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risks given the current economic conditions. Consequently, we are not originating construction loans at this time.

Loan Originations, Purchases and Sales

The following table sets forth loan originations, purchases, sales and principal repayments for the periods indicated:

	2014	2013	2012
		(In thousands)	
Gross loans (including loans held for sale):			
Beginning balance	$ 256,837	$ 282,421	$ 353,271
Loans originated:			
Single family		1,040	3,095
Multi-family	95,495	37,349	17,133
Commercial real estate			180
Church			
Construction			
Commercial	56	103	169
Consumer			2
Total loans originated	95,551	38,492	20,579
Loans purchased:			
Multi-family		10,610	
Total loans purchased		10,610	
Less:			
Principal repayments	42,900	51,853	70,965
Sales of loans	3,291	16,490	2,901
Loan charge-offs	693	3,302	7,412
Transfer of loans to real estate owned	2,648	3,041	10,151
Ending balance (1)	$ 302,856	$ 256,837	$ 282,421

(1) Includes loans receivable held for sale totaling $19.3 million and $19.4 million at December 31, 2014 and 2012, respectively, exclusive of $188 thousand in deferred origination costs at December 31, 2014 and a $318 thousand valuation allowance at December 31, 2012. We did not have any loans receivable held for sale at the end of 2013.

Loan originations are derived from various sources including our loan personnel, local mortgage brokers, advertising and referrals from customers. 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 of Directors (the "Board") annually reviews our appraisal policy. Management reviews annually the qualifications and performance of 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

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disbursements to pay private mortgage insurance premiums, property taxes and hazard and flood insurance as required.

The Board has authorized the following loan approval limits: if the total of the borrower's existing loans and the loan under consideration is $1,000,000 or less, the new loan may be approved by a Senior Underwriter plus the Chief Executive Officer or Chief Credit Officer; if the total of the borrower's existing loans and the loan under consideration is from $1,000,001 to $2,000,000, the new loan must be approved by three Loan Committee members, one of whom must be Board-appointed non-management committee members; if the total of the borrower's existing loans and the loan under consideration is from $2,000,001 to $3,000,000, the new loan must be approved by four Loan Committee members, two of whom must be Board-appointed non-management committee members; and if the total of existing loans and the loan under consideration is more than $3,000,000, the new loan must be approved by four Loan Committee members, three of whom must be non-management committee members appointed by the Board or by the Executive Committee of the Board. In addition, it is our practice that all loans approved be reported to the Loan Committee no later than the month following their approval, and be ratified by the Board.

From time to time, we purchase loans originated by other institutions based upon our investment needs and market opportunities. The determination to purchase specific loans or pools of loans is subject to our underwriting policies, which consider, among other factors, the financial condition of the borrower, the location of the underlying collateral property and the appraised value of the collateral property. We did not purchase any loans during the year ended December 31, 2014. During 2013, we purchased $10.6 million of loans secured by multi-family residential units.

We originate loans for investment and for sale. Loan sales are made from the loans receivable held for sale portfolio and from loans originated during the period that are designated as held for sale. In 2013, the Bank reclassified $7.4 million in performing loans that were previously held for sale to held for investment as management determined that such loans were no longer to be marketed for sale. During the fourth quarter of 2014, in order to comply with regulatory loan concentration limits, we transferred $22.8 million of loans receivable held for investment, primarily multi-family loans, to held for sale and have begun marketing these loans for sale. We sold $2.2 million in performing multi-family loans and $1.1 million in non-performing multi-family and church loans during the fourth quarter of 2014. At December 31, 2014, we had 25 loans totaling $19.5 million in our held for sale portfolio.

We receive monthly loan servicing fees on loans sold and serviced for others, primarily insured financial institutions. Generally, we collect these fees by retaining a portion of the loan collections in an amount equal to an agreed percentage of the monthly loan installments, plus late charges and certain other fees paid by the borrowers. Loan servicing activities include monthly loan payment collection, monitoring of insurance and tax payment status, responses to borrower information requests and dealing with loan delinquencies and defaults, including conducting loan foreclosures. At December 31, 2014 and 2013, we were servicing $7.5 million and $12.1 million, respectively, of loans for others. The servicing rights associated with sold loans are recorded as assets based upon their fair values. At December 31, 2014 and 2013, we had $63 thousand and $121 thousand, respectively, in mortgage servicing rights.

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Loan Maturity and Repricing

The following table sets forth the contractual maturities of loans in our portfolio of loans held for investment at December 31, 2014, and does not reflect the effect of prepayments or scheduled principal amortization.

	Single family	Multi-family	Commercial real estate	Church	Construction	Commercial	Consumer	Gross loans receivable
				(In thousands)				
Amounts Due:								
One year or less	$ 6	$	$	$ 206	$	$ 59	$ 9	$ 280
After one year:								
One year to five years	304	627	1,803	411	387			3,532
After five years	39,482	171,165	14,919	53,982		203		279,751
Total due after one year	39,786	171,792	16,722	54,393	387	203		283,283
Total	$ 39,792	$ 171,792	$ 16,722	$ 54,599	$ 387	$ 262	$ 9	$ 283,563

The following table sets forth the dollar amount of gross loans receivable at December 31, 2014 that are contractually due after December 31, 2015, and whether such loans have fixed interest rates or adjustable interest rates.

	Adjustable	Fixed	Total
		(Dollars in thousands)	
Single family	$ 39,060	$ 726	$ 39,786
Multi-family	171,792		171,792
Commercial real estate	16,554	168	16,722
Church	54,393		54,393
Construction	387		387
Commercial	135	68	203
Total	$ 282,321	$ 962	$ 283,283
% of total	99.66%	0.34%	100.00%

Some of our adjustable rate loans behave like fixed rate loans because the loans may still be in their initial fixed rate period or may be subject to interest rate floors.

Asset Quality

General

The underlying credit quality of our loan portfolio is dependent primarily on each borrower's ability to continue to make required loan payments and, in the event a borrower is unable to continue to do so, the value of the collateral securing the loan, if any. A borrower's ability to pay typically is dependent, in the case of single family residential loans and consumer loans, primarily on employment and other sources of income, and in the case of multi-family and commercial real estate loans, on the cash flow generated by the property, which in turn is impacted by general economic conditions. Other factors, such as unanticipated expenditures or changes in the financial markets, may also impact a borrower's ability to make loan payments. Collateral values, particularly real estate values, are also impacted by a variety of factors, including general economic conditions, demographics, property maintenance and collection or foreclosure delays.

We believe our underwriting and loan review procedures are appropriate for the various kinds of loans we originate or purchase; however, our results of operations and financial condition were adversely affected by weakness in the local economy and the resulting deterioration in the quality of our loan portfolio. Therefore, during the past three years, one of our most important operating objectives has been to improve asset quality. We have used a number of strategies to achieve this goal, including maintaining sound credit standards in loan originations, regular, recurring monitoring of the loan portfolio, including through independent third party loan reviews, and employing active collection and workout processes for delinquent or problem loans.

Delinquencies

We perform a weekly review of all delinquent loans and loan delinquency reports are made monthly to the Internal Asset Review 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 type of loan, the type of property securing the loan, and the period of delinquency. In the case of residential mortgage loans, we generally send the borrower a written notice of non-payment 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 on all real property securing the loan. In the case of commercial real estate loans, we generally contact the borrower by telephone and send a written notice of intent to foreclose upon expiration of the applicable grace period. Decisions not to commence foreclosure upon expiration of the notice of intent to foreclose 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.

The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	December 31, 2014				December 31, 2013				December 31, 2012			
	Loans delinquent				Loans delinquent				Loans delinquent			
	60-89 Days		90 days or more		60-89 Days		90 days or more		60-89 Days		90 days or more	
	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans	Number of loans	Principal balance of loans
	(Dollars in thousands)											
Single family		$		$		$	2	$ 585	8	$ 1,376	8	$ 2,047
Multi-family							1	545	1	554	1	253
Commercial real estate							1	1,016	2	1,256	2	568
Church	1	180	2	987	1	323	5	4,877	3	1,701	12	7,484
Construction												
Commercial												
Consumer												
Total	1	$ 180	2	$ 987	1	$ 323	9	$ 7,023	14	$ 4,887	23	$ 10,352
Delinquent loans to gross loans, including loans receivable held for sale		0.06%		0.33%		0.13%		2.73%		1.73%		3.66%

Non-Performing Assets

Non-performing assets ("NPAs") include non-accrual loans and real estate owned through foreclosure or deed in lieu of foreclosure ("REO"). NPAs at December 31, 2014 decreased to $10.9 million, or 3.12% of total assets, from $19.8 million, or 5.95% of total assets, at December 31, 2013.

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Non-accrual loans decreased $8.8 million to $8.9 million at December 31, 2014, from $17.7 million at December 31, 2013. These loans consist of delinquent loans that are 90 days or more past due and other loans, including troubled debt restructurings ("TDRs") that do not qualify for accrual status. As of December 31, 2014, $6.8 million, or 77% of our non-accrual loans, were current in their payments, but were treated as non-accruals primarily because of deficiencies in non-payment matters related to the borrowers, such as lack of current financial information and an insufficient period of satisfactory performance. The $8.8 million decrease in non-accrual loans was primarily due to payoffs of $4.4 million, transfers to REO of $2.6 million, sales of $1.1 million, return to accrual status of $1.3 million, repayments of $930 thousand and charge-offs of $693 thousand, which were partially offset by the placement of five church loans totaling $2.1 million to non-accrual status.

REO decreased slightly during 2014 but remained essentially flat at $2.1 million at the end of both 2014 and 2013. During 2014, one multi-family and three church loans totaling $2.6 million were foreclosed and the properties securing the loans with total fair values of $3.3 million became REO. As part of our efforts to reduce non-performing assets, seven REO properties were sold during 2014 for net proceeds of $2.9 million and a net gain of $12 thousand. At December 31, 2014, the Bank's REO consisted of two church buildings.

The following table provides information regarding our non-performing assets at the dates indicated.

	December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
	(Dollars in thousands)				
Non-accrual loans:					
Single family	$ 736	$ 1,441	$ 8,145	$ 7,974	$ 6,227
Multi-family	1,618	2,985	4,268	5,946	2,250
Commercial real estate	1,174	1,391	7,090	5,787	10,321
Church	5,232	11,735	17,245	24,669	18,281
Construction			273	302	320
Commercial	102	150	69	70	3,768
Consumer					2,265
Total non-accrual loans	8,862	17,702	37,090	44,748	43,432
Loans delinquent 90 days or more and still accruing					
Real estate owned acquired through foreclosure	2,082	2,084	8,163	6,699	3,036
Total non-performing assets	$ 10,944	$ 19,786	$ 45,253	$ 51,447	$ 46,468
Non-accrual loans as a percentage of gross loans, including loans receivable held for sale	2.93%	6.89%	13.13%	12.66%	10.02%
Non-performing assets as a percentage of total assets	3.12%	5.95%	12.11%	12.43%	9.60%

There were no accrual loans that were contractually past due by 90 days or more at December 31, 2014 or 2013. We had no commitments to lend additional funds to borrowers whose loans were on non-accrual status at December 31, 2014.

We discontinue accruing interest on loans when the loans become 90 days delinquent as to their payment due date (missed three payments). In addition, we reverse all previously accrued and uncollected interest through a charge to interest income. While loans are in non-accrual status, interest received on such loans is credited to principal, until the loans qualify for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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We may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a TDR. Non-accrual loans modified in a TDR remain on non-accrual status until we determine that future collection of principal and interest is reasonably assured, which requires that the borrower demonstrate performance according to the restructured terms, generally for a period of at least six months. Loans modified in a TDR which are included in non-accrual loans totaled $5.5 million at December 31, 2014 and $11.5 million at December 31, 2013. Excluded from non-accrual loans are restructured loans that were not delinquent at the time of modification or loans that have complied with the terms of their restructured agreement for six months or such longer period as management deems appropriate for particular loans, and have therefore been returned to accruing status. Restructured accruing loans totaled $15.0 million at December 31, 2014 and $15.8 million at December 31, 2013.

During 2014, gross interest income that would have been recorded on non-accrual loans had they performed in accordance with their original terms, totaled $1.4 million. Actual interest recognized on non-accrual loans and included in net income for the year 2014 was $260 thousand.

We update our estimates of collateral value on loans when they become 90 days past due and to the extent the loans remain delinquent, every nine months thereafter. We obtain updated estimates of collateral value earlier than at 90 days past due for loans to borrowers who have filed for bankruptcy or for certain other loans when our Internal Asset Review Committee believes repayment of such loans may be dependent on the value of the underlying collateral. For single family mortgage loans, updated estimates of collateral value are obtained through appraisals and automated valuation models. For multi-family and commercial real estate properties, we estimate collateral value through appraisals or internal cash flow analyses when current financial information is available, coupled with, in most cases, an inspection of the property. Our policy is to make a charge against our allowance for loan losses, and correspondingly reduce the book value of a loan, to the extent that the collateral value of the property securing a loan is less than our recorded investment in the loan. See "Allowance for Loan Losses" for full discussion of the allowance for loan losses.

REO is real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of cost or fair value less estimated selling costs. Any excess of carrying value over fair value at the time of acquisition is charged to the allowance for loan losses at the time of foreclosure. Thereafter, we charge non-interest expense for the property maintenance and protection expenses incurred as a result of owning the property. Any decreases in the property's estimated fair value after foreclosure are recorded in a separate allowance for losses on REO. At December 31, 2014, we had $2.1 million in REO, which consisted of two church buildings. We had $2.1 million in REO at December 31, 2013, which consisted of one commercial building and four church buildings.

Classification of Assets

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 potential problem assets as "Special Mention," and problem assets as "Substandard," "Doubtful" or "Loss" assets. An asset is considered "Special Mention" if the loan is current but there are some potential weaknesses that deserve management's close attention. 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

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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."

Our Internal Asset Review Department reviews and classifies our assets and independently reports the results of its reviews to the Internal Asset Review Committee of our Board of Directors monthly. The following table provides information regarding our criticized and classified assets at the dates indicated.

	December 31, 2014		December 31, 2013	
	Number	Principal balance	Number	Principal balance
	(Dollars in thousands)			
Special Mention	26	$ 6,612	37	$ 25,455
Substandard	41	18,750	57	33,135
Doubtful				
Total	67	$ 25,362	94	$ 58,590

Classified assets decreased $14.3 million to $18.8 million at December 31, 2014, from $33.1 million at December 31, 2013, primarily due to $11.1 million of payoffs, $2.9 million of REO sales, $2.5 million of classification upgrades, $1.1 million of loan sales and $693 thousand of charge-offs, which were partially offset by $4.0 million of classification downgrades. Criticized assets decreased $18.9 million to $6.6 million at December 31, 2014, from $25.5 million at December 31, 2013, primarily due to $14.1 million of classification upgrades and $4.7 million of payoffs.

Allowance for Loan Losses

In originating loans, we recognize that losses will be experienced on loans and that the risk of loss may vary as a result of many factors, including the type of loan being made, the creditworthiness of the borrower, general economic conditions and, in the case of a secured loan, the quality of the collateral for the loan. We are required to maintain an adequate allowance for loan losses ("ALLL") in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). Our ALLL represents our management's best estimate of the probable incurred credit losses in our loan portfolio as of the date of the consolidated financial statements. It is intended to cover specifically identifiable loan losses, as well as estimated losses inherent in our portfolio for which certain losses are probable, but not specifically identifiable. There can be no assurance, however, that actual losses incurred will not exceed the amount of management's estimates.

Our Internal Asset Review Department issues reports to the Board of Directors and continually reviews loan quality. This analysis includes a detailed review of the classification and categorization of problem loans, potential problem loans and loans to be charged off, an assessment of the overall quality and collectability of the portfolio, and concentration of credit risk. Management then evaluates the allowance, determines its appropriate level and the need for additional provisions, and presents its analysis to the Board of Directors which ultimately reviews management's recommendation and, if deemed appropriate, then approves such recommendation.

The ALLL is increased by provisions for loan losses which are charged to earnings and is decreased by the amount of charge-offs, net of recoveries. Provisions are recorded to increase the ALLL to the level deemed appropriate by management. The Bank utilizes an allowance methodology that considers a number of quantitative and qualitative factors, including the amount of non-performing loans, our loss experience, conditions in the real estate and housing markets, current economic conditions and trends, particularly levels of unemployment, and changes in the size of the loan portfolio.

The ALLL consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

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A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans for which the terms have been modified, and for which the borrower is experiencing financial difficulties are considered TDRs and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated to the loan so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. TDRs are separately identified for impairment and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less estimated selling costs. For TDRs that subsequently default, we determine the amount of any necessary additional charge-off based on internal analyses and appraisals of the underlying collateral securing these loans. At December 31, 2014, impaired loans totaled $23.8 million and had an aggregate specific allowance allocation of $1.5 million.

The general component of the ALLL covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Each month, we prepare an analysis which categorizes the entire loan portfolio by certain risk characteristics such as loan type (single family, multi-family, commercial real estate, construction, commercial and industrial and consumer) and loan classification (pass, special mention, substandard and doubtful). With the use of a migration to loss analysis, we calculate our historical loss rate and assign estimated loss factors to the loan classification categories on the basis of our assessment of the potential risk inherent in each loan type. These factors are periodically reviewed for appropriateness giving consideration to our historical loss experience, levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In addition to loss experience and environmental factors, we use qualitative analyses to determine the adequacy of our ALLL. This analysis includes ratio analysis to evaluate the overall measurement of the ALLL and comparison of peer group reserve percentages. The qualitative review is used to reassess the overall determination of the ALLL and to ensure that directional changes in the ALLL and the provision for loan losses are supported by relevant internal and external data.

Based on our evaluation of the housing and real estate markets and overall economy, including the unemployment rate, the levels and composition of our loan delinquencies and non-performing loans, our loss history and the size and composition of our loan portfolio, we determined that an ALLL of $8.5 million, or 2.99% of loans held for investment was appropriate at December 31, 2014, compared to $10.1 million, or 3.95% of loans held for investment at December 31, 2013.

A federally chartered savings association's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OCC. The OCC, in conjunction with the other federal banking agencies, provides guidance for financial institutions on both the responsibilities of management for the assessment and establishment of adequate valuation allowances and guidance for banking agency examiners to use in determining the adequacy of valuation allowances. It is required that

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all institutions have effective systems and controls to identify, monitor and address asset quality problems, analyze all significant factors that affect the collectability of the portfolio in a reasonable manner and establish acceptable allowance evaluation processes that meet the objectives of the federal regulatory agencies. While we believe that the ALLL has been established and maintained at adequate levels, future adjustments may be necessary if economic or other conditions differ materially from the conditions on which we based our estimates at December 31, 2014. In addition, there can be no assurance that the OCC or other regulators, as a result of reviewing our loan portfolio and/or allowance, will not require us to materially increase our ALLL, thereby affecting our financial condition and earnings.

The following table sets forth our allocation of the ALLL to the various categories of loans held for investment and the percentage of loans in each category to total loans at the dates indicated.

	December 31,									
	2014		2013		2012		2011		2010	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
	(Dollars in thousands)									
Single family	$ 1,174	14.03%	$ 1,930	18.09%	$ 2,060	21.95%	$ 4,855	22.58%	$ 4,579	20.57%
Multi-family	2,726	60.58%	1,726	44.09%	2,122	31.67%	2,972	31.82%	2,469	31.89%
Commercial real estate	496	5.90%	1,473	10.39%	2,685	15.63%	3,108	15.98%	3,493	18.09%
Church	4,047	19.26%	4,949	26.45%	4,818	28.98%	5,742	26.20%	6,909	24.25%
Construction	7	0.14%	7	0.17%	8	0.28%	249	1.12%	74	1.35%
Commercial	12	0.09%	55	0.80%	167	1.48%	247	2.03%	1,300	3.03%
Consumer	3	0.00%	6	0.01%	9	0.01%	126	0.27%	1,634	0.82%
Total allowance for loan losses	$ 8,465	100.00%	$ 10,146	100.00%	$ 11,869	100.00%	$ 17,299	100.00%	$ 20,458	100.00%

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The following table sets forth the activity in our ALLL related to our loans held for investment for the years indicated.

	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Allowance balance at beginning of year	$ 10,146	$ 11,869	$ 17,299	$ 20,458	$ 20,460
Charge-offs:					
Single family	(133)	(220)	(5,138)	(896)	(1,999)
Multi-family		(661)	(104)	(438)	(21)
Commercial real estate	(8)	(1,180)	(544)	(4,544)	(210)
Church	(533)	(770)	(1,354)	(3,787)	
Commercial	(19)			(3,916)	(1,738)
Consumer				(1,843)	(504)
Total charge-offs	(693)	(2,831)	(7,140)	(15,424)	(4,472)
Recoveries:					
Single family	2	300	25		
Multi-family			1	2	
Commercial real estate		116	60	15	
Church	859	25	15	4	
Commercial	1,083	253	412	67	
Consumer			7	24	5
Total recoveries	1,944	694	520	112	5
Provision (recapture) charged to earnings	(2,932)	414	1,190	12,153	4,465
Allowance balance at end of year	$ 8,465	$ 10,146	$ 11,869	$ 17,299	$ 20,458
Net charge-offs (recoveries) to average loans, excluding loans receivable held for sale	(0.46%)	0.84%	2.12%	4.04%	1.01%
ALLL as a percentage of gross loans, excluding loans receivable held for sale	2.99%	3.95%	4.51%	5.09%	5.08%
ALLL as a percentage of total non-accrual loans	95.52%	57.32%	32.00%	38.66%	47.10%
ALLL as a percentage of total non-performing assets	77.35%	51.28%	26.23%	33.62%	44.03%

Investment Activities

The main objectives of our investment strategy are to provide a source of liquidity for deposit outflows, repayment of borrowings and loan fundings, and to generate a favorable return on investments without incurring undue interest rate or credit risk. Subject to various restrictions, 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 fixed interest rates for periods of three to seven years, after which time the loans convert to one-year or six-month adjustable rate mortgage loans. At December 31, 2014, our securities portfolio, consisting primarily of residential mortgage-backed securities and one U.S federal agency bond, totaled $17.1 million, or 5% of total assets.

We classify investments as held-to-maturity or available-for-sale at the date of purchase based on our assessment of our internal liquidity requirements. Securities in the held-to-maturity category consist of securities purchased for long-term investment in order to enhance our ongoing stream of net interest income. Securities deemed held-to-maturity are classified as such because we have both the intent and

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ability to hold these securities to maturity. Securities purchased to meet investment-related objectives such as liquidity management or interest rate risk and which may be sold as necessary to implement management strategies, are designated as available-for-sale at the time of purchase. Held-to-maturity securities are reported at cost, adjusted for amortization of premium and accretion of discount. Available-for-sale securities are reported at fair value. We currently have no securities classified as held-to-maturity securities.

There were no sales of securities during 2014 and 2013. During 2014, we purchased $8.6 million of residential mortgage-backed securities and $1.9 million of U.S. government and federal agency securities and classified these securities as available-for-sale.

The table below sets forth certain information regarding the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2014. The table reflects stated final maturities and does not reflect scheduled principal payments or expected payoffs.

	At December 31, 2014									
	One Year or less		More than one year to five years		More than five years to ten years		More than ten years		Total	
	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield	Carrying amount	Weighted average yield
	(Dollars in thousands)									
Available-for-sale:										
Residential mortgage-backed securities	$	%	$ 468	4.40%	$ 11,220	2.36%	$ 3,430	2.98%	$ 15,118	2.56%
U.S. Government and federal agency		%	1,957	2.00%		%		%	1,957	2.00%
Total	$	%	$ 2,425	2.46%	$ 11,220	2.36%	$ 3,430	2.98%	$ 17,075	2.50%

At December 31, 2014, the mortgage- backed securities in our portfolio have an estimated remaining life of 4.3 years.

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 obtain funds from the amortization and prepayment of loans and residential mortgage-backed securities, sales of loans and residential mortgage-backed securities, advances from the FHLB, and cash flows generated by operations.

Deposits

We offer a variety of deposit accounts featuring a range of interest rates and terms. Our deposits principally consist of passbook savings accounts, checking accounts, NOW accounts, money market accounts, and fixed-term certificates of deposit. The maturities of term certificates generally range from one month to five years. We accept deposits from customers within our market area based primarily on posted rates, but from time to time we will negotiate the rate based on the amount of the deposit. We primarily rely on customer service and long-standing customer relationships to attract and retain deposits. We seek to maintain and increase our retail "core" deposit relationships, consisting of passbook accounts, checking accounts and money market accounts; these deposit accounts tend to be a stable funding source and are available at a lower cost than term deposits. However, market interest rates, including rates offered by competing financial institutions, the availability of other investment alternatives, and general economic conditions significantly affect our ability to attract and retain deposits.

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We also open deposit accounts for customers throughout the United States through the Internet and deposit listing services. Deposits from the Internet and deposit listing services totaled $8.1 million and $55.0 million, respectively, at December 31, 2014 compared to $13.4 million and $37.1 million, respectively, at December 31, 2013. During 2011 and prior, we generated term certificates through the use of brokers and Internet-based network deposits. We also participated in a deposit program called Certificate of Deposit Account Registry Service ("CDARS"), which is a deposit placement service that allows us to place our customers' funds in FDIC-insured certificates of deposit 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 Bank no longer accepts brokered deposits or CDARS deposits. At December 31, 2014, we had no brokered deposits or deposits obtained through CDARS.

Pursuant to the Order, we can no longer accept brokered deposits. Under applicable regulations, the term "brokered deposits" includes both deposits acquired through third party brokers and deposits that an institution solicits by offering rates of interest that are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions in the institution's normal market area.

The following table sets forth the maturity periods of our certificates of deposit in amounts of $100 thousand or more at December 31, 2014.

	December 31, 2014	
	Amount	Weighted average rate
	(Dollars in thousands)	
Certificates maturing:		
Less than three months	$ 12,331	0.88%
Three to six months	44,362	0.95%
Six to twelve months	20,687	0.95%
Over twelve months	26,031	1.59%
Total	$ 103,411	1.11%

The following table sets forth the distribution of our average deposits for the years indicated and the weighted average interest rates during the year for each category of deposits presented.

	For the Year Ended December 31,								
	2014			2013			2012		
	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate	Average balance	Percent of total	Weighted average rate
	(Dollars in thousands)								
Money market deposits	$ 15,669	7.33%	0.38%	$ 16,585	7.12%	0.39%	$ 18,980	6.90%	0.43%
Passbook deposits	36,752	17.20%	0.32%	37,376	16.05%	0.32%	36,530	13.28%	0.32%
NOW and other demand deposits	30,684	14.36%	0.08%	33,600	14.42%	0.08%	37,814	13.74%	0.07%
Certificates of deposit	130,593	61.11%	1.16%	145,366	62.41%	1.40%	181,849	66.08%	1.66%
Total	$ 213,698	100.00%	0.81%	$ 232,927	100.00%	0.96%	$ 275,173	100.00%	1.18%

Borrowings

We utilize short-term and long-term advances from the FHLB of San Francisco as an alternative to retail deposits as a funding source for asset growth. FHLB advances are generally secured 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 fluctuates from time to time in accordance with the policies of the FHLB. At December 31, 2014, we had $86.0 million in FHLB advances and had the ability to borrow up to an additional $14.0 million based on available and pledged collateral.

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The following table sets forth information concerning our FHLB advances at or for the periods indicated.

	At or For the Year Ended		
	2014	2013	2012
	(Dollars in thousands)		
FHLB Advances:			
Average balance outstanding during the year	$ 80,345	$ 79,544	$ 82,694
Maximum amount outstanding at any month-end during the year	$ 86,000	$ 87,500	$ 83,000
Balance outstanding at end of year	$ 86,000	$ 79,500	$ 79,500
Weighted average interest rate at end of year	2.31%	2.49%	2.67%
Average cost of advances during the year	2.44%	2.60%	2.95%
Weighted average maturity (in months)	23	32	40

On March 17, 2004, we issued $6.0 million of 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 2.78% at December 31, 2014. We stopped paying interest on the Debentures in September 2010 and were not able to pay the principal or accrued interest on the Debentures at their March 17, 2014 maturity date. Pursuant to the Order, we are not permitted to make payments on our debt without prior notice to and receipt of written notice of non-objection from the FRB. In addition, under the terms of the Debentures, we are not allowed to make payments on the Debentures if we are in default on any of our senior indebtedness, which term includes the senior debt described below.

In January 2014, we 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. We subsequently satisfied the conditions 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 our senior lender, and raising at least $6.0 million of additional common equity capital. We completed the modification of the Debentures and related transactions on October 16, 2014, on which date we 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 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, we 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.

As part of the Recapitalization that we completed on August 22, 2013, we exchanged shares of common stock in settlement of $2.6 million of the principal amount of our $5.0 million senior debt. The modified terms for the remaining $2.4 million principal amount of the senior debt included, among others items, an extension of the maturity of the senior debt to February 22, 2019, an adjustment to the formula for calculating the interest rate, and a change to the payment schedule for the senior debt. We obtained approval from the FRB and paid the interest payments due in November 2013, February 2014, May 2014 and August 2014, and in October 2014, we repaid the full amount of the outstanding senior debt and related accrued interest using proceeds from the private placement described above. As a result, the Company's only debt outstanding at December 31, 2014 is the $5.1 million of remaining principal amount of the Debentures.

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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 two banking offices in Los Angeles and one banking office located in the nearby City of Inglewood.

The Los Angeles metropolitan area is a highly competitive market in which we face substantial competition in making loans and in attracting deposits. Although our offices are primarily located in low to 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.

Personnel

At December 31, 2014, we had 71 employees, which consisted of 66 full-time and 5 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 is regulated by the OCC, as its primary federal regulator, and by the FDIC, as its deposit insurer. We, as a savings and loan holding company, are regulated, examined and supervised by the FRB. The Bank is subject to regulation and examination by the OCC with respect to most of its business activities, including, among other things, capital standards, general investment authority, deposit taking and borrowing authority, mergers and other business combination transactions, establishment of branch offices, and permitted subsidiary investments and activities. The OCC has primary enforcement responsibility over federally chartered savings associations and has substantial discretion to impose enforcement action on an institution that fails to comply with applicable regulatory requirements, including with respect to capital requirements. In addition, the FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular federally chartered savings association and, if action is not taken by the OCC, the FDIC has authority to take such action under certain circumstances.

Broadway Federal is a member of the FHLB System. The Bank is also subject to the regulations of the FRB 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.

Changes in the applicable laws or regulations of the OCC, the FDIC, the FRB or other regulatory authorities could have a material adverse impact on the Bank and the Company, their operations, and the value of the Company's debt and equity securities. The Company and its stock are also subject to rules and regulations issued by The NASDAQ Stock Market, LLC ("NASDAQ"), the principal exchange on which the Company's common stock is traded. Changes in the rules and regulations published by NASDAQ, or failure of the Company to conform to NASDAQ's rules and regulations, could have an adverse impact on the Company and the value of the Company's equity securities.

The following paragraphs summarize certain of the laws and regulations that apply to us and to the Bank. These descriptions of statutes and regulations and their possible effects do not purport to be complete

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descriptions of all of the provisions of those statutes and regulations and their possible effects on us, nor do they purport to identify every statute and regulation that may apply to us.

Regulatory Orders

As a result of significant deficiencies in the Company's and the Bank's operations noted in a regulatory examination in early 2010, the Company and the Bank were declared to be in "troubled condition" and agreed to the issuance of the Orders by the OCC's regulatory predecessor effective September 9, 2010, requiring, among other things, that the Company and the Bank take remedial actions to improve the Bank's loan underwriting and internal asset review procedures, to reduce the amount of its non-performing assets and to improve other aspects of the Bank's business, as well as the Company's management of its business and the oversight of the Company's business by the Board of Directors.

Effective October 30, 2013, the Order for the Bank was superseded by a Consent Order entered into by the Bank with the OCC. As part of the Consent Order, the Bank is required to attain, and thereafter 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 is in compliance with these ratios as of December 31, 2014.

Additionally, the Consent Order issued by the OCC imposes certain other requirements on the Bank. These requirements include the following, among others:

- The Bank must create a Compliance Committee consisting of at least three independent Directors to monitor compliance with the Consent Order, among other matters.

- The Board of the Bank must prepare and submit a Strategic Plan and a Capital Plan that is consistent with the Strategic Plan. The Capital Plan requirement includes requirements regarding targeted capital ratios and prior approval requirements for the payment of dividends.

- The Bank must implement an enhanced set of business operational and corporate governance processes, as well as create a commercial real estate concentration risk management program and a written program to reduce the level of assets considered doubtful, substandard or special mention. This latter program requirement includes requirements to monitor the levels of such assets on an ongoing basis and to prepare and implement corrective actions as deemed necessary.

- The Bank must also implement an independent ongoing loan review system and adopt new policies with respect to maintaining an adequate ALLL.

The Consent Order does not include certain restrictions on the Bank that had been imposed by the Order, such as the specific limitation on the Bank's ability to increase its assets during any quarter or certain limitations on employment agreements and compensation arrangements. The strategic plan required by the Consent Order, however, must include the Bank's plans regarding growth. The Bank will not be permitted to commence any new business strategies, or any variation from the strategic plan, prior to receiving an OCC statement of no supervisory objection thereto.

In November 2013, management submitted updated policies and procedures to the OCC with respect to determining and maintaining an appropriate level of ALLL. In December 2013, the Board established a Consent Order Compliance Committee to oversee the operating changes implemented by the Bank to comply with the Consent Order. In January 2014, the Bank submitted its strategic plan and capital plan to the OCC for approval and in August 2014 submitted revised forms of the plans. In November 2014, the Bank received a written statement of non-objection from the OCC with respect to the capital plan, but not with respect to the strategic plan requirements.

We believe that the Bank is in compliance with all aspects of the Consent Order, other than the Consent Order's strategic plan and loan concentration risk management plan requirements.

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We are amending the strategic plan to incorporate the provisions of a revised loan concentration risk management plan that is intended to reduce the Bank's concentration limit established for multi-family loans.

Based on the Bank's current capital levels, we anticipate that the Bank will find it necessary to sell more multi-family loans than previously planned in order to comply with the reduced concentration limit for multi-family loans set by the OCC, which we expect will result in lower levels of net interest income and higher gains on the sale of loans. During the fourth quarter of 2014, in order to comply with regulatory loan concentration limits, we transferred $22.8 million of loans receivable held for investment, primarily consisting of multi-family loans, to held for sale, and have begun marketing these loans for sale. Also, during the fourth quarter of 2014, we sold $2.2 million in performing multi-family loans and $1.1 million in non-performing multi-family and church loans. At December 31, 2014, we had 25 loans totaling $19.5 million in our held for sale portfolio.

Management believes that the cost of implementing further reductions in criticized assets will not have a material impact on the Bank's financial condition. The costs of complying with other aspects of the Consent Order are included in several expense categories in the Bank's results of operations and are difficult to separately quantify.

Management believes that the Order issued to the Company, which has been administered by the FRB since July 2012, remains in effect. This Order imposes limitations and restrictions on several aspects of our business, including the following:

- The Company may not declare or pay any dividends or make any other capital distributions without the prior written approval of the FRB.

- The Company may not make any changes in its directors or senior executive officers without prior notice to and receipt of notice of non-objection from the FRB.

- The Company is subject to limitations on severance and indemnification payments and on entering into or amending employment agreements and compensation arrangements, and on the payment of bonuses to Bank directors and officers.

- The Company may not 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.

Recent Regulatory Reform Legislation

In July 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises.

As a result of the Dodd-Frank Act, on July 21, 2011, the Office of Thrift Supervision ("OTS"), our previous primary federal regulator, was merged into the OCC, which has taken over the regulation of all federal savings associations. The FRB acquired the OTS' authority over all savings and loan holding companies.

The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and certain non-bank financial companies. These requirements must be no less than those to which federally insured depository institutions have been previously subject. As a result, by July 2015, the Company will become subject to consolidated capital requirements to which it had not been previously subject to.

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The Dodd-Frank Act also includes provisions changing the assessment base for federal deposit insurance from the amount of insured deposits to the amount of consolidated assets less tangible capital, and making permanent the $250,000 limit for federal deposit insurance that had initially been established on a temporary basis in reaction to the economic downturn in 2008.

The Dodd-Frank Act also provided for the creation of the Bureau of Consumer Financial Protection ("CFPB"). The CFPB has authority to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB's supervisory authority does not generally extend to insured depository institutions having less than $10 billion in assets.

The Dodd-Frank Act also includes other provisions, subject to further rulemaking by the federal bank regulatory agencies, which may affect our future operations. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

Capital Requirements

The current OCC capital regulations require federally chartered savings associations to meet three minimum capital ratios: (1) tangible capital must equal at least 1.5% of total adjusted assets; (2) "core capital" must generally equal at least 4.0% of total adjusted assets (this ratio is referred to as the "leverage ratio"); and (3) risk-based capital must equal at least 8.0% of total risk-based assets. In assessing an institution's capital adequacy, the OCC 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 to the extent it considers necessary.

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 core capital requirement generally requires a savings institution to maintain a ratio of core capital to adjusted total assets of not less than 4% (3% for certain highly evaluated institutions not experiencing or anticipating significant growth). "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 GAAP, with certain exceptions. Intangible assets must be deducted from core capital, with certain exceptions and limitations for mortgage servicing rights and certain other intangibles, which may be included on a limited basis.

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 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 OCC 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, subject to limitations, and, subject to certain limitations, loan and lease general valuation allowances. At December 31, 2014 and 2013, the general valuation allowance included in our supplementary capital was $3.1 million and $2.8 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.

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At December 31, 2014 and 2013, Broadway Federal exceeded each of these capital requirements as shown in the following table, and the higher capital requirements under the Consent Order:

	As of December 31,					
	2014			2013		
	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)	$ 39,779	$ 39,779	$ 39,779	$ 34,047	$ 34,047	$ 34,047
Additional supplementary capital:						
General valuation allowance			3,097			2,810
Disallowed mortgage servicing rights assets	(6)	(6)	(6)	(12)	(12)	(12)
Disallowed deferred tax assets						
Regulatory capital balances	39,773	39,773	42,870	34,035	34,035	36,845
Minimum requirement	5,260	14,028	19,390	4,986	13,295	17,394
Excess over minimum requirement	$ 34,513	$ 25,745	$ 23,480	$ 29,049	$ 20,740	$ 19,451

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

In July 2013, the OCC and the other federal bank regulatory agencies issued a final rule to revise their capital requirements and their method for calculating risk-weighted assets. Among other things, the final rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-weighted assets requirement (from 4% to 6% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due and to certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The final rule became effective for us on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. We have estimated our capital ratios as of December 31, 2014 using the new standards and the pro forma ratios already exceed the requirements of the fully implemented capital rules.

Prompt Corrective Action

Federal banking laws requires the relevant federal banking regulator, which is the OCC in the case of the Bank, to take "prompt corrective action" with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Generally, a capital restoration plan must be filed with the OCC within 45 days after the date an association receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. Under the OCC regulations, generally, an institution is treated as well capitalized if its Total Risk-based capital ratio is 10% or greater, its Tier 1 Risk-based capital ratio is 6% or greater and its Leverage ratio is 5% or greater, and it is not subject to any order or directive by the OCC to meet a specific capital level. The United States banking agencies' new capital regulations described above also change the capital standards set forth in these capital category definitions to refer to the new capital ratios requirements and generally increase the levels of capital required to be considered "well capitalized" under those regulations. Effective January 1, 2015,

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the minimum capital ratios required to be considered "well capitalized" will be: (1) total capital to risk-weighted assets of 10%, (2) Tier 1 capital to risk-weighted assets of 8%, (3) Common Equity Tier 1 capital to risk-weighted assets of 6.5% and (4) a leverage ratio (Tier 1 capital to average assets) of 5%.

The Bank was in compliance with all capital requirements in effect at December 31, 2014 and 2013, and met the generally applicable capital ratio standards necessary to be considered "well-capitalized" under the current prompt corrective action regulations adopted pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991. However, in March 2010, the Company and the Bank were determined to be "in troubled condition" by the OTS and they consented to the issuance of the Orders by the OTS effective September 9, 2010. On October 30, 2013, the Bank entered into a Consent Order with the OCC that superseded the cease and desist order applicable to the Bank. The Consent Order raised the Bank's minimum capital requirements to 9% for Tier 1 (Core) Capital and 13% for Total Capital to risk weighted assets. The Bank met the minimum capital requirements under the Consent Order at December 31, 2014 and 2013. Actual required capital amounts and ratios at December 31, 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)			
December 31, 2014:						
Tangible Capital to adjusted total assets	$ 39,773	11.34%	$ 5,260	1.50%	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 39,773	11.34%	$ 14,028	4.00%	$ 31,562	9.00%
Tier 1(Core) Capital to risk weighted assets	$ 39,773	16.41%	N/A	N/A	N/A	N/A
Total Capital to risk weighted assets	$ 42,870	17.69%	$ 19,390	8.00%	$ 31,508	13.00%

	Actual		Required for Capital Adequacy Purposes		Capital Requirements under Consent Order	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
			(Dollars in thousands)			
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%
Tier 1(Core) Capital to risk weighted assets	$ 34,035	15.65%	N/A	N/A	N/A	N/A
Total Capital to risk weighted assets	$ 36,846	16.95%	$ 17,394	8.00%	$ 28,286	13.00%

Deposit Insurance

The FDIC is an independent federal agency that insures deposits of federally insured banks and savings institutions, up to prescribed statutory limits for each depositor. Pursuant to the Dodd-Frank Act, the maximum deposit insurance amount has been permanently increased to $250,000.

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 ("DIF"). 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. The FDIC's overall premium rate structure is subject to change from time to time to reflect its actual and anticipated loss experience. The financial crisis that began in 2008 resulted in substantially higher levels of bank failures than had occurred in the immediately preceding years. These failures dramatically increased the resolution costs of the FDIC and substantially reduced the available amount of the DIF.

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As required by the Dodd-Frank Act, the FDIC adopted a new Deposit Insurance Fund restoration plan which became effective on January 1, 2011. Among other things, the plan increased the minimum designated deposit insurance reserve ratio from 1.15% to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that in setting the assessments necessary to meet the new requirement, the FDIC is required to offset the effect of this provision on insured depository institutions with total consolidated assets of less than $10 billion, so that more of the cost of raising the reserve ratio will be borne by the institutions with more than $10 billion in assets.

On February 7, 2011, as mandated by the Dodd-Frank Act, the FDIC approved a final rule that redefines the deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity and adopts a new assessment rate schedule, as well as alternative rate schedules that become effective when the reserve ratio reaches certain levels.

The FDIC may terminate a depository institution's deposit insurance upon a finding that the institution's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank's depositors.

Guidance on Commercial Real Estate Lending

In October 2009, the federal banking agencies adopted a policy statement supporting workouts of commercial real estate ("CRE") loans, which is referred to as the CRE Policy Statement. The CRE Policy Statement provides guidance for examiners, and for financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. The CRE Policy Statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision-making within the framework of financial accuracy, transparency, and timely loss recognition. The CRE Policy Statement states that financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers' financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications. In addition, performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined. The CRE Policy Statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing institutions' risk-management practices for loan workout activities.

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, or $7.2 million for Broadway Federal at December 31, 2014, 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. We are in compliance with the limits that are applicable to loans to any one borrower. At December 31, 2014, our largest aggregate amount of loans to one borrower totaled $4.4 million. Both of the loans for the largest borrower were performing in accordance with their terms and the borrower had no affiliation with Broadway Federal.

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 OCC to assess the

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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 OCC assigns ratings of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank's "outstanding" rating was reaffirmed in its most recent CRA examination.

Qualified Thrift Lender Test

The Home Owners Loan Act ("HOLA") requires savings institutions to meet a Qualified Thrift Lender ("QTL") test. Under the QTL test, a savings association is required to maintain at least 65% of its portfolio assets (total assets less (1) specified liquid assets up to 20% of total assets, (2) intangibles, including goodwill, and (3) the value of property used to conduct business) in certain "qualified thrift investments" on a monthly basis during at least 9 out of every 12 months. 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 required conversion of the institution to a bank charter, which would change the savings association's permitted business activities in various respects, 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, 2014, 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 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. Financial institutions must have a number of programs in place to comply with this law, including: (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 terrorists or terrorist organizations; and (iii) a program for monitoring for the timely detection and reporting of suspicious activity and reportable transactions. Failure to comply with these requirements may result in regulatory action, including the issuance of cease and desist orders, impositions of civil money penalties and adverse changes in an institution's regulatory ratings, which could adversely affect its ability to obtain regulatory approvals for business combinations or other desired business objectives.

Privacy Protection

Broadway Federal is subject to OCC regulations implementing the privacy protection provisions of federal law. These regulations require Broadway Federal to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information," to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require Broadway Federal to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, Broadway Federal is required to provide its customers with the ability to "opt-out" of having Broadway Federal share their nonpublic personal information with unaffiliated third parties.

Broadway Federal is also subject to regulatory guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

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 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.

The Change in Bank Control Act prohibits a person or group of persons acting in concert from acquiring control of a savings and loan holding company unless the FRB has been given 60 days prior written notice of such proposed acquisition and within that time period the FRB has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. The term "control" is defined for this purpose to include ownership or control of, or holding with power to vote, 25% or more of any class of a savings and loan holding company's voting securities. Under a rebuttable presumption contained in the regulations of the FRB, ownership or control of, or holding with power to vote, 10% or more of any class of voting securities of a savings and loan holding company having a class of securities registered under Section 12 of the Exchange Act would also be deemed to constitute the acquisition of control. In addition, any company would be required to obtain the approval of the FRB under the Home Owners' Loan Act before acquiring control of a savings and loan holding company. For this purpose, a company is deemed to have control of a savings and loan holding company if the company owns, controls, holds with power to vote, or holds proxies representing, 25% or more of any class of voting shares of the savings and loan holding company or controls in any manner the election of a majority of the holding company's directors, and may also be deemed to acquire control of a savings and loan holding company based on a consideration of all relevant facts by the FRB.

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit an OCC-regulated savings association 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, OCC regulations limit certain "capital distributions" by savings associations. Capital distributions are defined to include, among other things, dividends and payments for stock repurchases and payments of cash to stockholders in mergers.

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

An application to the OCC 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 OCC regulations to "expedited treatment" (which is generally available to institutions the OCC 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 institution by the OCC.

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As previously noted, the Order issued by the OTS, which is now administered by the FRB with respect to the Company, prohibits the Company from declaring or paying any dividends or making any other capital distributions without the prior written approval of the FRB. The Bank's ability to pay dividends to the Company is also subject to restrictions imposed by the Consent Order and 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.

See Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" and Note 15 of the Notes to Consolidated Financial Statements for a further description of dividend and other capital distribution limitations to which the Company and the Bank are subject.

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.

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 statutory tax rate is 10.84%.

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ITEM 2. PROPERTIES

We conduct our business through three branch offices and a corporate office. 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 5055 Wilshire Boulevard, Suite 500, Los Angeles. 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.

As of December 31, 2014, the net book value of our investment in premises, equipment and fixtures, excluding computer equipment, was $2.3 million. Total occupancy expense, inclusive of rental payments and furniture and equipment expense, for the year ended December 31, 2014 was $1.2 million. Total annual rental expense (exclusive of operating charges and real property taxes) was approximately $478 thousand during 2014.

Location	Leased or Owned	Original Date Leased or Acquired	Date of Lease Expiration
Administrative/Loan Origination Center:			
5055 Wilshire Blvd, Suite 500 Los Angeles, CA	Leased	2013	April 2021
Branch Offices:			
5055 Wilshire Blvd, Suite 100 Los Angeles, CA	Leased	2013	April 2021
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	
4001 South Figueroa Street Los Angeles, CA	Owned	1996	

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of business, we are defendants in various litigation matters from time to time. In our opinion, the disposition of any of the litigation matters currently pending against us would not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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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.

2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$1.39	$1.80	$2.95	$1.75
Low	$0.96	$1.08	$1.31	$1.25

2013	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$1.49	$0.95	$1.50	$1.31
Low	$0.66	$0.68	$0.52	$0.83

The closing sale price for our common stock on the Nasdaq Capital Market on March 11, 2015 was $1.30 per share. As of March 11, 2015, we had 346 stockholders of record and 21,405,188 shares of voting common stock outstanding. At that date, we also had 7,671,520 shares of non-voting common stock outstanding. Our non-voting common stock is not listed for trading on the Nasdaq Capital Market, but is convertible into our voting common stock in connection with certain sale or other transfer transactions.

In general, we may pay dividends out of funds legally available for that purpose 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. We suspended our prior policy of paying regular cash dividends in May 2010 in order to retain capital for reinvestment in the Company's business. In addition, pursuant to the Order issued to the Company in September 2010, the Company may not declare or pay dividends or make other capital distributions, which term includes repurchases of stock, without receipt of prior written notice of non-objection to such capital distribution from the FRB.

Our financial ability to pay permitted dividends is primarily dependent upon receipt of dividends from Broadway Federal. Broadway Federal is subject to certain requirements which may limit its ability to pay dividends or make other capital distributions. See Item 1 "Business Regulation" and Note 15 of the Notes to Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data" for an explanation of the impact of regulatory capital requirements on Broadway Federal's ability to pay dividends.

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Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued under equity compensation plans as of December 31, 2014.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2008 Long Term Incentive Plan	93,750	$ 4.94	1,906,250
Equity compensation plans not approved by security holders:			
None			
Total	93,750	$ 4.94	1,906,250

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and other factors that have affected our reported results of operations and financial condition or may affect our future results or financial condition. Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

Overview

In order to generate growth in net interest income, we continued to rebuild our loan portfolio by originating $95.5 million in multi-family loans during the year ended December 31, 2014. In addition, during 2014 we further reduced our non-performing assets, primarily through payoffs and sales of loans and sales of REOs. As part of the reductions in non-performing assets over the past three years, we lowered the Bank's delinquent loans to less than $2.5 million at the end of 2014; consequently, we can now focus on removing the regulatory orders that are currently in effect and growing interest earning assets and income for the future.

During the fourth quarter of 2014, we completed the modification of our Debentures, paid off the Company's senior debt and issued additional common stock in private placement transactions. As part of the private placement of common stock, which we consummated on October 16, 2014, the Company sold 8,829,549 shares of common stock, including 6,973,320 shares of new non-voting common stock, for gross proceeds of $9.7 million. The proceeds were used to make payments of $900 thousand of principal amount and approximately $805 thousand of accrued interest on the Debentures, and to repay the outstanding defaulted senior bank debt of $2.4 million, together with all accrued interest thereon, in full. 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, we 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.

Total assets increased by $18.4 million during the year ended December 31, 2014, primarily reflecting an increase of $28.8 million in our net loan portfolio, an increase of $19.5 million in loans receivable held for sale, an increase of $7.7 million in our securities portfolio and a decrease of $37.4 million in cash and cash equivalents as we invested our excess liquidity into mortgage-backed securities and multi-family loans in order to improve the yield on interest-earning assets and grow total interest income.

Consistent with the increase in assets during 2014, we increased our total deposits by $3.5 million and FHLB advances by $6.5 million. During 2014, senior debt and related deferred restructuring gain decreased by $2.9 million and the balance of the Company's Debentures decreased by $900 thousand as a result of the transactions described above.

We recorded net income of $2.5 million for the year ended December 31, 2014, compared to a net loss of $301 thousand for the year ended December 31, 2013. Results during 2014 included a recapture of loan losses of $2.9 million whereas in 2013, we recorded a $414 thousand provision for loan losses. During 2014, we generated higher net interest income before recapture of loan losses, lower non-interest income and higher non-interest expense compared to 2013. Results for 2013 included a gain of $1.2 million on the restructuring of the Company's senior debt as part of the Recapitalization, as compared to a gain of $365 thousand in 2014; these gains were included in non-interest income.

Comparison of Operating Results for the Years Ended December 31, 2014 and 2013

General

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 incurred from deposits and borrowings (interest-bearing liabilities). Typically, our results of operations are also affected by our provision for (recapture of) loan losses, non-interest income generated from service charges and fees on loan and deposit accounts, gains or losses on the sale of loans, REO and securities, non-interest expenses and income taxes.

Net Income (Loss)

For the year ended December 31, 2014, we recorded net income of $2.5 million, or $0.11 earnings per diluted common share, compared to a net loss of $301 thousand, or $0.13 loss per diluted common share. The increase in net income was primarily due to a recapture of loan losses of $2.9 million during the year ended December 31, 2014, compared to a provision for loan losses of $414 thousand during the year ended December 31, 2013.

In addition, during 2014 we increased net interest income before recapture of loan losses by $759 thousand, or 7%, over the amount generated in 2013, and received a grant of $200 thousand from the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. Offsetting most of these increases was a decrease in the amount of recognized gain on debt restructuring that was included in non-interest income; in 2013 we reported $1.2 million of gain on the restructuring of the Company's senior debt as part of the Recapitalization but only recognized $365 thousand of such gain in 2014. Also, we incurred higher non-interest expense during 2014 compared to 2013.

Net Interest Income

For the year ended December 31, 2014, net interest income before recapture of loan losses totaled $11.9 million, up $759 thousand, or 7%, from $11.1 million of net interest income before provision for loan losses for the same period a year ago. The increase of $759 thousand in net interest income primarily resulted from a decrease of $513 thousand in interest expense on deposits, a decrease of $483 thousand in interest expense on borrowings and an increase of $100 thousand in interest income on securities and other sources, which were partially offset by a decrease of $337 thousand in interest income on loans.

Total interest income decreased $237 thousand, or 1%, to $15.7 million for the year 2014 from $16.0 million for the year 2013. The decrease in interest income was primarily due to a $337 thousand

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decrease in interest income on loans. The average yield on loans decreased 47 basis points from 5.90% for the year 2013 to 5.43% for the year 2014, which decreased interest income by $1.3 million. The lower average loan yield on loans for the year 2014 was primarily due to payoffs of loans which carried a higher average yield than the average yield on total loans, and lower yields on loan originations as a result of the low interest rate environment. The decrease in loan yield was partially offset by an increase of $920 thousand in interest income resulting from an increase of $16.2 million in the average balance of loans receivable. During 2014, we originated $95.5 million in multi-family loans with an average interest rate of 3.70%. To supplement interest income, we purchased $8.6 million of mortgaged-backed securities and $1.9 million of U.S. government and federal agency securities in March 2014 with an average yield of 2.23%, which resulted in a net increase in interest income attributable to securities of $64 thousand.

Total interest expense decreased $996 thousand, or 20%, to $3.9 million for the year 2014 from $4.9 million for the year 2013. Interest expense on deposits decreased $513 thousand primarily due to a 15 basis point decrease in the cost of deposits and a $19.2 million decline in the average balance of deposits. The decreases in the average balance and average cost of deposits reflected the maturities of certificates of deposit bearing higher rates. Interest expense on FHLB advances decreased $105 thousand primarily due to a decrease of 16 basis points in the average cost of FHLB advances. The decrease in the average cost of FHLB advances was due to the maturities of $10.5 million of FHLB advances with an average interest rate of 3.54% which were replaced by $17.0 million of new advances with an average interest rate of $1.26%.

No interest expense was recognized on the senior debt during 2014, compared to $355 thousand of interest expense recognized during 2013. As a result of the modification of the senior debt in August 2013, which was accounted for as a troubled debt restructuring, the carrying amount of the senior debt exceeded total expected cash payments due under the modified agreement, including accrued and future interest payable, resulting in a gain on debt restructuring. A portion, related to the future interest, of this gain was deferred and was being recognized as we made interest payments on the modified senior debt. As a result, no interest expense has been recorded with respect to this modified senior debt since the completion of the debt restructuring in August 2013. The entire balance of the senior debt was repaid in October 2014. Accordingly, the remaining deferred gain on debt restructuring of $365 thousand was taken into income in the fourth quarter of 2014.

Analysis of Net Interest Income

Net interest income is the difference between income on interest-earning assets and the expense on interest-bearing liabilities. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. The yields set forth below include the effect of deferred loan fees, and discounts and premiums that are amortized or accreted to interest income or expense. We

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do not accrue interest on loans on non-accrual status; however, the balance of these loans is included in the total average balance, which has the effect of reducing average loan yields.

	For the year ended December 31,					
	2014			2013		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets						
Interest-earning assets:						
Interest-earning deposits	$ 2,975	$ 13	0.44%	$ 4,832	$ 21	0.43%
Federal Funds sold and other short-term investments	29,386	69	0.23%	55,375	120	0.22%
Securities	15,493	370	2.39%	10,707	306	2.86%
Loans receivable (1)	275,905	14,994	5.43%	259,747	15,331	5.90%
FHLB stock	3,778	283	7.49%	3,822	188	4.92%
Total interest-earning assets	327,537	$ 15,729	4.80%	334,483	$ 15,966	4.77%