BROADWAY FINANCIAL CORP \DE\
Form 10-K
March 31, 2014

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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, 2013

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: $1,088,000

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, 2014, 19,526,482 shares of the Registrant's common stock and 698,200 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 2014 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 Developments

On August 22, 2013, the Company completed a series of transactions to recapitalize its balance sheet (the "Recapitalization"), which resulted in an increase of $25.7 million in the Company's total equity attributable to common stock as of that date. Additionally, total equity was increased by $1.2 million from the gain recognized on the interest forgiven on the senior debt. As part of the Recapitalization, all of the Company's five formerly outstanding series of preferred stock, including the Series D and E Fixed Rate Cumulative Perpetual Preferred Stock that the Company had issued to the United States Department of the Treasury (the "U.S. Treasury") and the associated accumulated, but unpaid dividends thereon, were exchanged for Series F Common Stock Equivalents (the "Preferred Stock Exchanges"). The Preferred Stock Exchanges were completed at 50% of the aggregate liquidation preferences of the preferred stock, which totaled $17.6 million as of August 22, 2013, and 100% of the accumulated dividends thereon, which totaled $2.6 million as of the same date.

Also as part of the Recapitalization, the Company exchanged a portion of its senior debt for Series F Common Stock Equivalents and Series G Non-Voting Preferred Stock having an aggregate value of $2.6 million. The Company's senior debt was thereby reduced by $2.6 million, from $5.0 million to $2.4 million.

The Company entered into a modified loan agreement for the remaining senior debt that provides for quarterly payments of interest only for the next 18 months and monthly payments of principal and interest to final maturity in February 2019. In addition, the senior lender forgave $1.8 million in accrued but unpaid interest on the entire amount of the original loan, which resulted in a pre-tax gain of $1.2 million in the Company's third quarter of 2013. The remaining $535 thousand of the accrued interest that was forgiven was deferred as a liability on the Company's balance sheet and is being amortized over the remaining life of the loan.

The Series F Common Stock Equivalents and Series G Non-Voting Preferred Stock issued in the Recapitalization were converted into 13,299,000 shares of common stock and 698,200 shares of non-voting Common Stock on December 5, 2013 after the stockholders of the Company approved amendments of the

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Company's certificate of incorporation authorizing additional shares of common stock and a new class of non-voting common stock at the Company's annual stockholders, meeting on November 27, 2013.

As part of the Recapitalization the Company also raised $4.2 million of new common stock at a purchase price of $1.00 per share through sales to institutional investors (the "Private Placement"), led by an entity affiliated with Gapstow Capital Partners. The other investors included both new and existing stockholders. This capital is in addition to an aggregate of $200 thousand of common stock sold to directors and officers in July and November 2012.

The combination of the Preferred Stock Exchanges, the transactions related to the Company's senior debt, and the Private Placement increased the book value of the Company's common equity by $26.9 million, and increased the number of outstanding shares of common stock, including the newly authorized non-voting common stock, by an aggregate of 18.2 million shares, which represented 90.1% of the total number of shares of common stock and non-voting common stock as of December 31, 2013.

The Company contributed $1.2 million of the proceeds from the Private Placement to the Bank as additional capital and also repaid all of the inter-company payables due to the Bank by the Company.

Business Overview

The Recapitalization 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 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. As part of the Consent Order, among other things, the Bank is required to maintain a Tier 1 (Core) Capital to Adjusted Total Assets ratio of at least 9% and a Total Risk-Based Capital to Risk-Weighted Assets ratio of at least 13%, both of which ratios are greater than the respective 4% and 8% levels for such ratios that are generally required under OCC regulations. We are in compliance with the required capital ratios as of December 31, 2013 with a Tier 1 Capital Ratio of 10.24% and a Risk-based Capital Ratio of 16.95%.

Management's plans to address the matters identified in the Orders and the Consent Order have consisted of multiple initiatives, including taking steps to reduce problem assets, such as selling nonperforming loans and REO, and implementing new procedures to manage delinquencies (See Delinquencies below); improving processes and controls related to loan underwriting, administration and internal asset review; changing internal reporting by management to the Board of Directors; enhancing liquidity of the Bank; and strengthening and simplifying the balance sheet of the Company. The Company's plans for strengthening its balance sheet have consisted of completing the Recapitalization and then concurrently raising additional equity capital and negotiating an extension of the maturity of the Company's $6 million aggregate principal amount of Floating Rate Junior Subordinated Debentures (the "Debentures"). The Company completed the Recapitalization on August 22, 2013 which improved the Company's liquidity and capital structure, and enhanced the Bank's capital ratios. The Company's future plans include raising more capital and extending the maturity of the Debentures in the near future. On February 28, 2014 we were notified by the trustee of the trust which holds the Debentures that our proposal to extend the maturity of the Debentures, in return for a partial redemption of up to $900 thousand aggregate principal amount of the Debentures at face value and payment of all interest accrued on the Debentures to the date of such redemption, had been accepted by the requisite percentage of the holders of the trust's senior securities, subject to certain conditions including approval by our regulators and senior lender, raising a minimum of $6 million of additional equity capital and completing an appropriate supplemental indenture and other required documentation. We are proceeding with plans to raise the additional capital, obtain the regulatory and other approvals that are conditions to the extension of the maturity of the Debentures and complete the required documentation. There can be no assurance that management's plan will be achieved. These and related matters are discussed below and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Notes 2 and 11 of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

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 retail deposits from the general public in the areas surrounding our branch offices and investing those deposits, together with funds generated from operations and borrowings, primarily in multi-family mortgage loans, commercial real estate loans and one-to-four 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 one-to-four family residential properties. The remainder of the loan portfolio consists of commercial business loans, construction loans, consumer loans and other loans. At December 31, 2013, our net loan portfolio totaled $247.8 million, or 75% 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, 2013, 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. Federal savings associations and savings banks are not subject to usury or other interest rate limitations.

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

	December 31,									
	2013		2012		2011		2010		2009	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
	(Dollars in thousands)									
One-to-four units	$ 46,459	18.09%	$ 57,733	21.94%	$ 76,682	22.57%	$ 82,764	20.56%	$ 90,747	20.03%
Five or more units	113,268	44.09%	83,350	31.68%	108,161	31.83%	128,534	31.92%	146,291	32.28%
Commercial real estate	26,697	10.39%	41,124	15.63%	54,259	15.97%	72,770	18.08%	82,276	18.16%
Church	67,934	26.45%	76,254	28.98%	89,099	26.22%	97,634	24.25%	101,007	22.29%
Construction	424	0.17%	735	0.28%	3,790	1.11%	5,421	1.35%	5,547	1.22%
Commercial	2,067	0.80%	3,895	1.48%	6,896	2.03%	12,178	3.02%	23,166	5.11%
Consumer	38	0.01%	35	0.01%	929	0.27%	3,288	0.82%	4,110	0.91%
Gross loans	256,887	100.00%	263,126	100.00%	339,816	100.00%	402,589	100.00%	453,144	100.00%
Plus: Premiums on loans purchased	272		-		-		-		-	
Less:										
Loans in process	50		74		202		371		822	
Deferred loan fees (costs), net	(901)		(557)		(473)		(889)		(817)	
Unamortized discounts	17		17		18		33		39	
Allowance for loan losses	10,146		11,869		17,299		20,458		20,460	
Total loans held for investment	$ 247,847		$ 251,723		$ 322,770		$ 382,616		$ 432,640	

Multi-Family and Commercial Real Estate Lending

Our primary lending emphasis has been on the origination of multi-family 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 $113.3 million and $83.4 million at December 31, 2013 and 2012, respectively. Multi-family loans represented 44% of our gross loan portfolio at December 31, 2013 compared to 32% of our gross loan portfolio at December 31, 2012. All of the multi-family residential mortgage loans outstanding at December 31, 2013 were ARMs. The vast majority of our multi-family loans amortize over 30 years. As of December 31, 2013, our single largest multi-family credit had an outstanding balance of $3.9 million, was current and was secured by a 26-unit apartment complex in Burbank, California. At December 31, 2013, the average balance of a loan in our multi-family portfolio was $453 thousand.

Our commercial real estate loans amounted to $26.7 million and $41.1 million at December 31, 2013 and 2012, respectively. Commercial real estate loans represented 10% of our gross loan portfolio at December 31, 2013 compared to 16% of our gross loan portfolio at December 31, 2012. All except one commercial real estate loan outstanding at December 31, 2013 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, 2013, our single largest commercial real estate credit had an outstanding principal balance of $2.7 million, was current and was secured by a commercial building located in Los Angeles, California. At December 31, 2013, the average balance of a loan in our commercial real estate portfolio was $592 thousand.

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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 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, such as we have been experiencing with the current economic downturn over the past several years. Continued adverse economic conditions in our primary lending market area could result in reduced cash flows on multi-family and commercial real estate loans, vacancies and reduced rental rates on such properties. We seek to 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, 2013, our out-of-state loans totaled $4.5 million and our single largest out-of-state credit had an outstanding principal balance of $693 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 pursuing the origination of additional church loans. Additionally, the Order issued to Broadway Federal by the OTS, described below under the caption "Regulation", prohibited us from originating church loans. As a result, we suspended the origination of church loans in 2010. At December 31, 2013, the average balance of a loan in our church loan portfolio was $631 thousand. Our church loans totaled $67.9 million and $76.3 million at December 31, 2013 and 2012, respectively.

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

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One-to-Four 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 one-to-four family ("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 $46.5 million and $57.7 million at December 31, 2013 and 2012, respectively. Of the $46.5 million single-family loans at December 31, 2013, $26.7 million are secured by investor-owned properties. Single-family loans represented 18% of our gross loan portfolio at December 31, 2013, compared to 22% at December 31, 2012. Of the single-family residential mortgage loans outstanding at December 31, 2013, 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.

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

Mortgage loans that we originate generally include due-on-sale clauses, which provide us with the contractual right to declare the loan immediately due and payable in the event the borrower transfers ownership of the property.

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 $2.1 million and $3.9 million at December 31, 2013 and 2012, respectively. Commercial loans represented 1% of our gross loan portfolio at December 31, 2013 and 2012. Of the commercial loans outstanding at December 31, 2013, 3% were fixed rate loans and 97% were variable rate loans. As of December 31, 2013, our single largest commercial credit had a total outstanding principal balance of $1.4 million and is the only remaining loan to a sports franchise. The loan was modified and converted into a term loan in October

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2011. The borrower had been performing in accordance with the modified terms before paying off the loan in the first quarter of 2014.

In 2007, management and the Board of Directors terminated lending to sports franchises and reduced our participation in nationally syndicated corporate loan facilities in order to focus on financing opportunities within our market area.

Construction Lending

Construction loans totaled $424 thousand and $735 thousand at December 31, 2013 and 2012, 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 risks given the current economic conditions. Consequently, we are not originating construction loans at this time.

Loan Originations, Purchases and Sales

Loan originations are derived from 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 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 disbursements to pay private mortgage insurance premiums, property taxes and hazard and flood insurance as required.

Our Board of Directors has authorized the following loan approval limits: if the total of the borrower's existing loans and the loan under consideration is $500,000 or less, the new loan may be approved by a Senior Underwriter plus the Chief Executive Officer and Chief Credit Officer; if the total of the borrower's existing loans and the loan under consideration is from $500,001 to $1,750,000, the new loan must be

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approved by three 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 $1.75 million, the new loan must be approved by four Loan Committee members, three of whom must be Board appointed non-management committee members or by the Executive Committee of the Board of Directors. In addition, it is our practice that all loans approved only by management be reported to the Loan Committee no later than the month following their approval, and be ratified by the Board of Directors.

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. During 2013, we purchased $10.6 million of loans secured by multi-family residential units. We did not purchase any loans during the year ended December 31, 2012.

The Bank no longer originates loans for sale. During 2013, we sold $16.5 million of loans, primarily in a bulk sale consummated in the second quarter of 2013. During 2013, we also 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. At December 31, 2013, we had no loans held for sale.

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, 2013 and 2012, we were servicing $12.1 million and $14.7 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, 2013 and 2012, we had $121 thousand and $141 thousand, respectively, in mortgage servicing rights.

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The following table sets forth loan originations, purchases, sales and principal repayments for the periods indicated, including loans held for sale.

	2013	2012	2011
		(In thousands)	
Gross loans:			
Beginning balance	$ 282,495	$ 353,473	$ 433,281
Loans originated:			
One-to-four units	1,040	3,084	619
Five or more units	37,354	17,092	2,986
Commercial real estate	-	180	364
Church	-	-	-
Construction	-	-	-
Commercial	103	169	1,148
Consumer	-	2	-
Total loans originated	38,497	20,527	5,117
Loans purchased:			
Five or more units	10,610	-	-
Total loans purchased	10,610	-	-
Less:			
Principal repayments	51,882	71,041	44,236
Sales of loans	16,490	2,901	12,231
Loan charge-offs	3,302	7,412	17,643
Transfer of loans to real estate owned	3,041	10,151	10,815
Ending balance (1)	$ 256,887	$ 282,495	$ 353,473

(1) Includes loans held for sale totaling $19.4 million and $13.7 million at December 31, 2012 and 2011, respectively, exclusive of a $318 thousand and $674 thousand valuation allowance at December 31, 2012 and 2011, respectively. We did not have any loans held for sale at the end of 2013.

Loan Maturity and Repricing

The following table sets forth the contractual maturities of the loans in our loans held for investment at December 31, 2013 and does not reflect the effect of prepayments or scheduled principal amortization.

	One-to-four Units	Five or more units	Commercial real estate	Church	Construction	Commercial	Consumer	Gross loans receivable

(In thousands)

Amounts Due:								
One year or less	$ 4	$ -	$ 458	$ 192	$ -	$ 19	$ 38	$ 711
After one year:								
One year to five years	403	12	1,560	634	424	82	-	3,115
After five years	46,052	113,256	24,679	67,108	-	1,966	-	253,061
Total due after one year	46,455	113,268	26,239	67,742	424	2,048	-	256,176
Total	$ 46,459	$ 113,268	$ 26,697	$ 67,934	$ 424	$ 2,067	$ 38	$ 256,887

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The following table sets forth the dollar amount of gross loans receivable at December 31, 2013 which are contractually due after December 31, 2014, and whether such loans have fixed interest rates or adjustable interest rates.

	Adjustable	Fixed	Total
	(Dollars in thousands)		
One-to-four units	$ 45,603	$ 852	$ 46,455
Five or more units	113,268	-	113,268
Commercial real estate	25,982	257	26,239
Church	67,742	-	67,742
Construction	424	-	424
Commercial	1,979	69	2,048
Consumer	-	-	-
Total	$ 254,998	$ 1,178	$ 256,176
% of total	99.54%	0.46%	100.00%

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 one to four-family mortgage 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.

Although we believe our underwriting and loan review procedures are appropriate for the various kinds of loans we originate or purchase, our results of operations and financial condition have been adversely affected by weakness in the local economy and the resulting deterioration in the quality of our loan portfolio. Therefore, one of our most important operating objectives has been to improve asset quality. We have been using 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

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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, 2013				December 31, 2012				December 31, 2011			
	60-89 Days		Non-accrual loans and loans delinquent 90 days or more		60-89 Days		Non-accrual loans and loans delinquent 90 days or more		60-89 Days		Non-accrual loans and loans delinquent 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)											
One-to-four units	-	$ -	10	$ 1,441	5	$ 871	28	$ 8,145	5	$ 2,464	18	$ 7,974
Five or more units	-	-	6	2,985	1	554	10	4,268	1	63	10	5,946
Commercial real estate	-	-	2	1,391	-	-	11	7,090	1	525	14	5,787
Church	-	-	17	11,735	-	-	29	17,245	3	1,440	33	24,669
Construction	-	-	-	-	-	-	1	273	1	264	1	302
Commercial	-	-	2	150 -	-	-	1	69	-	-	1	70
Consumer	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	$ -	37	$ 17,702	6	$ 1,425	80	$ 37,090	11	$ 4,756	77	$ 44,748
Delinquent loans to total gross loans, including loans held for sale		-		6.89%		0.50%		13.13%		1.35%		12.66%

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, 2013 decreased to $19.8 million, or 5.95% of total assets, from $45.3 million, or 12.11% of total assets, at December 31, 2012.

Non-accrual loans decreased $19.4 million to $17.7 million at December 31, 2013, from $37.1 million at December 31, 2012. 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. The $19.4 million decrease in non-accrual loans was primarily due to the sale of $15.5 million of non-accrual loans, the payoff of $2.1 million of non-accrual loans and the transfer of $2.6 million of such loans to REO.

REO decreased $6.1 million to $2.1 million at December 31, 2013, from $8.2 million at December 31, 2012. During 2013, six church loans totaling $2.6 million were foreclosed and the properties securing the loans became REO. As part of our efforts to reduce non-performing assets, fourteen REO properties were sold during 2013 for net proceeds of $8.6 million and a net gain of $112 thousand.

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

	December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands)				
Non-accrual loans:					
One-to-four units	$ 1,441	$ 8,145	$ 7,974	$ 6,227	$ 4,756
Five or more units	2,985	4,268	5,946	2,250	1,644
Commercial real estate	1,391	7,090	5,787	10,321	6,061
Church	11,735	17,245	24,669	18,281	12,942
Construction	-	273	302	320	-
Commercial	150	69	70	3,768	7,269
Consumer	-	-	-	2,265	2,249
Total non-accrual loans	17,702	37,090	44,748	43,432	34,921
Loans delinquent 90 days or more and still accruing	-	-	-	-	-
Real estate owned acquired through foreclosure	2,084	8,163	6,699	3,036	2,072
Total non-performing assets	$ 19,786	$ 45,253	$ 51,447	$ 46,468	$ 36,993
Non-accrual loans as a percentage of gross loans, including loans held for sale	6.89%	13.13%	12.66%	10.02%	7.35%
Non-performing assets as a percentage of total assets	5.95%	12.11%	12.43%	9.60%	7.10%

There were no accrual loans that were contractually past due by 90 days or more at December 31, 2013 or 2012. We had no commitments to lend additional funds to borrowers whose loans were on non-accrual status at December 31, 2013.

We discontinue accruing interest on loans when the loans become 90 days delinquent as to their payment due date (missed three payments), unless the timing of collections is reasonably estimable and collection is probable. 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 accounted for on the cash-basis or cost recovery method, 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.

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 troubled debt restructuring. Non-accrual loans modified in a troubled debt restructuring 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 troubled debt restructuring which are included in non-accrual loans totaled $11.5 million at December 31, 2013 and $22.8 million at December 31, 2012. 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 $15.8 million at December 31, 2013 and $18.3 million at December 31, 2012.

During 2013, gross interest income that would have been recorded on non-accrual loans had they performed in accordance with their original terms, totaled $1.9 million. Actual interest recognized on non-accrual loans and included in net income for the year 2013 was $222 thousand.

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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 one-to-four 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 extend 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, 2013, we had $2.1 million in REO, which consisted of one commercial real estate property and four church buildings. We had $8.2 million in REO at December 31, 2012.

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 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, 2013		December 31, 2012	
	Number	Principal balance	Number	Principal balance
	(Dollars in thousands)			
Special Mention	37	$ 25,455	45	$ 31,769
Substandard	57	33,135	123	62,087
Doubtful	-	-	1	57
Total	94	$ 58,590	169	$ 93,913

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Classified assets decreased $29.0 million to $33.1 million at December 31, 2013, from $62.1 million at December 31, 2012, primarily due to $16.5 million of loan sales, $8.5 million of REO sales and $2.1 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.

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 troubled debt restructurings ("TDR") 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.

Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment. For other loans that show some signs of weakness, we measure impairment on a loan-by-loan basis. 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. Troubled debt restructurings 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 troubled debt restructuring 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 troubled debt restructurings that subsequently default, the Company determines the amount of any necessary additional charge-off based on internal analyses and appraisals of the underlying collateral securing these loans. At December 31, 2013, impaired loans totaled $33.5 million and had an aggregate specific allowance allocation of $2.2 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 (one-to-four family, multi-family, commercial real estate, construction, commercial and industrial and consumer) and loan classification (pass, special mention, substandard and doubtful). We 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.

During 2012, we refined our historical loss rate calculation with the use of a migration to loss analysis, and re-assessed the application of the qualitative factors noted above for purposes of allocating the ALLL by loan category. As a result of our updated loss analyses, we modified certain general reserve rate percentages at December 31, 2012 to reflect our current estimates of the amount of probable incurred losses in our loan portfolio in determining our general valuation allowances. 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 $10.1 million, or 3.95% of loans held for investment was appropriate at December 31, 2013, compared to $11.9 million, or 4.51% of loans held for investment at December 31, 2012. The provision for loan losses related to loans held for investment totaled $414 thousand for the year ended 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 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

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which we based our estimates at December 31, 2013. 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,									
	2013		2012		2011		2010		2009	
	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)									
One-to-four units	$ 1,930	18.09%	$ 2,060	21.94%	$ 4,855	22.57%	$ 4,579	20.56%	$ 4,292	20.03%
Five or more units	1,726	44.09%	2,122	31.68%	2,972	31.83%	2,469	31.92%	1,650	32.28%
Commercial real estate	1,473	10.39%	2,685	15.63%	3,108	15.97%	3,493	18.08%	1,877	18.16%
Church	4,949	26.45%	4,818	28.98%	5,742	26.22%	6,909	24.25%	9,257	22.29%
Construction	7	0.17%	8	0.28%	249	1.11%	74	1.35%	87	1.22%
Commercial	55	0.80%	167	1.48%	247	2.03%	1,300	3.02%	2,018	5.11%
Consumer	6	0.01%	9	0.01%	126	0.27%	1,634	0.82%	1,279	0.91%
Total allowance for loan losses	$ 10,146	100.00%	$ 11,869	100.00%	$ 17,299	100.00%	$ 20,458	100.00%	$ 20,460	100.00%

The lower levels of allowance in 2013 and 2012 compared to 2011, 2010 and 2009 reflect a decrease in the size of our loan portfolio, lower levels of non-performing loans, and an improvement in the credit quality of our loan portfolio.

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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.

	2013	2012	2011	2010	2009
			(Dollars in thousands)		
Allowance balance at beginning of year	$ 11,869	$ 17,299	$ 20,458	$ 20,460	$ 3,559
Charge-offs:					
One-to-four units	(220)	(5,138)	(896)	(1,999)	(1,631)
Five or more units	(661)	(104)	(438)	(21)	(200)
Commercial real estate	(1,180)	(544)	(4,544)	(210)	-
Church	(770)	(1,354)	(3,787)	-	(667)
Commercial	-	-	(3,916)	(1,738)	(156)
Consumer	-	-	(1,843)	(504)	(74)
Total charge-offs	(2,831)	(7,140)	(15,424)	(4,472)	(2,728)
Recoveries:					
One-to-four units	300	25	-	-	-
Five or more units	-	1	2	-	-
Commercial real estate	116	60	15	-	-
Church	25	15	4	-	-
Commercial	253	412	67	-	-
Consumer	-	7	24	5	-
Total recoveries	694	520	112	5	-
Provision charged to earnings	414	1,190	12,153	4,465	19,629
Allowance balance at end of year	$ 10,146	$ 11,869	$ 17,299	$ 20,458	$ 20,460
Net charge-offs (recoveries) to average loans, excluding loans held for sale	0.82%	2.04%	3.85%	0.97%	0.64%
ALLL as a percentage of gross loans, excluding loans held for sale	3.95%	4.51%	5.09%	5.08%	4.52%
ALLL as a percentage of total non-accrual loans	57.32%	32.00%	38.66%	47.10%	58.59%
ALLL as a percentage of total non-performing assets	51.28%	26.23%	33.62%	44.03%	55.31%

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, 2013, our securities portfolio consisted of residential mortgage-backed securities and totaled $9.4 million, or 3% 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 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 or trading securities.

There were no sales of securities during 2013. During 2012, we sold $1.0 million of U.S. federal agency bonds and recognized a gain of $50 thousand.

The table below sets forth certain information regarding the carrying amount, weighted average yields and contractual maturities of our securities as of December 31, 2013. The table reflects stated final maturities and does not reflect scheduled principal payments or expected payoffs.

	At December 31, 2013									
	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	$ -	-%	$ -	-%	$ 3,152	3.35%	$ 6,245	2.66%	$ 9,397	2.89%
Total	$ -	-%	$ -	-%	$ 3,152	3.35%	$ 6,245	2.66%	$ 9,397	2.89%

At December 31, 2013, the mortgage- backed securities in our portfolio have an estimated remaining life of 4.5 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 with a range of interest rates and terms. Our deposits principally consist of passbook savings accounts, non-interest bearing checking accounts, NOW and other demand accounts, money market accounts, and fixed-term certificates of deposit. The 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 negotiate the rate on these instruments commensurate with the size of the deposit. We rely primarily on customer service and long-standing relationships with customers to attract and retain deposits. We seek to maintain and increase our retail "core" deposit relationships, consisting of customers with passbook accounts, checking accounts, non-interest bearing demand accounts and money market accounts, which we believe tend to be more stable and available at a lower cost than other, longer term types of deposits. However, market interest rates, including rates offered by competing financial institutions, 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 in the United States through the Internet and deposit listing services. Deposits from the Internet and deposit listing services totaled $13.4 million and $37.1 million, respectively, at December 31, 2013 compared to $14.5 million and $68.9 million, respectively, at December 31, 2012. 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 CDARS deposits. At December 31, 2013, we had $1.5 million in brokered deposits, none of which were obtained through CDARS. This compared to $2.9 million in brokered deposits at December 31, 2012, of which $100 thousand were obtained through CDARS.

Under the Order issued to the Bank in September of 2010, 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, 2013.

	December 31, 2013	
	Amount	**Weighted average rate**
	(Dollars in thousands)	
Certificates maturing:		
Less than three months	$ 11,732	1.52%
Three to six months	20,307	1.33%
Six to twelve months	13,997	1.34%
Over twelve months	45,940	1.45%
Total	$ 91,976	1.42%

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,								
	2013			**2012**			**2011**		
	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	$ 16,585	7.12%	0.39%	$ 18,980	6.90%	0.43%	$ 24,063	7.52%	0.41%
Passbook deposits	37,376	16.05%	0.32%	36,530	13.28%	0.32%	38,177	11.93%	0.34%
NOW and other demand deposits	33,600	14.42%	0.08%	37,814	13.74%	0.07%	42,210	13.19%	0.09%
Certificates of deposit	145,366	62.41%	1.40%	181,849	66.08%	1.66%	215,611	67.36%	1.96%
Total	$ 232,927	100.00%	0.96%	$ 275,173	100.00%	1.18%	$ 320,061	100.00%	1.40%

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, 2013, we had $79.5 million in FHLB advances and had the ability to borrow up to an additional $20.5 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		
	2013	2012	2011
	(Dollars in thousands)		
FHLB Advances:			
Average balance outstanding during the year	$ 79,544	$ 82,694	$ 86,967
Maximum amount outstanding at any month-end during the year	$ 87,500	$ 83,000	$ 87,000
Balance outstanding at end of year	$ 79,500	$ 79,500	$ 83,000
Weighted average interest rate at end of year	1.53%	2.31%	3.09%
Average cost of advances during the year	2.60%	2.95%	3.10%

On March 17, 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures (the "Debentures") in a private placement to a trust that was capitalized to purchase subordinated debt and preferred stock of multiple community banks. The Debentures matured on March 17, 2014 and interest 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, 2013. The Company stopped paying interest on the Debentures in September 2010 and the accrued interest on the Debentures was $656 thousand as of December 31, 2013. As disclosed below in "Regulation   Consent Order" and in Note 2 "Restructuring of the Company's Capital Structure and Regulatory Matters" of the Notes to Consolidated Financial Statements, the Company is not permitted to make payments on its debt without prior notice to and receipt of written notice of non-objection from the FRB. In addition, under the terms of the Debentures, the Company is not allowed to make payments on the Debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below. Subsequent to the end of 2013, the Company submitted to the trustee for the trust which holds the Debentures a proposal to extend the maturity of the Debentures to March 17, 2024 in return for a partial redemption of up to $900 thousand aggregate principal amount of the Debentures at face value and payment of all interest accrued on the Debentures to the date of such redemption. This proposal is conditioned upon several matters, including regulatory approval, approval by the holder of the Company's senior debt, raising additional equity capital that will be used in part to make the proposed payments of accrued interest and principal and preparation of a suitable supplemental indenture providing for the modifications to the terms of the Debentures and other applicable documentation. On February 28, 2014, the Company was informed by the trustee for the trust which holds the Debentures that the Company's proposal was acceptable to the requisite percentage of the holders of the trust's senior securities, subject to satisfaction of the conditions to the proposal. As a result, the Company is proceeding with plans to raise additional capital to fund the proposal, prepare documentation for a supplemental indenture to reflect the proposal and seek regulatory and other required approvals. There is no assurance that the Company will be successful in raising the necessary additional capital, obtaining regulatory and other approvals and satisfying the other conditions to completion of the proposal.

On February 28, 2010, the Company borrowed an aggregate of $5.0 million under its $5.0 million line of credit with another financial institution, and invested all of the proceeds in the equity capital of the Bank. Pursuant to a directive from the FRB and subsequently the Order applicable to the Company discussed in Note 2 of the Notes to Consolidated Financial Statements, the Company had not been permitted to make principal or interest payments on this senior debt since June 2010. The line of credit matured at the end of July 2010, but was not repaid and remains in default. The Company restructured the $5.0 million senior line of credit as part of the Company's Recapitalization that closed on August 22, 2013. Pursuant to that restructuring, the Company exchanged $2.6 million of Series F Common Stock Equivalents and Series G Non-Voting Preferred Stock for $2.6 million principal amount of the line of credit and the lender forgave all of the $1.8 million of accrued interest on the entire amount of the line of credit as of the closing of the Recapitalization. Additionally, the remaining senior loan was modified to extend the final maturity to

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February 2019 and eliminate the default rate of interest. Under the modified terms, the Company is required to make quarterly payments of interest only for 18 months and then monthly equal payments of principal and accrued interest thereon over the ensuing 48 months. Despite the restructuring, the Company must obtain approval from the FRB before making principal or interest payments on the remaining $2.4 million principal amount of the modified senior loan. The Company made the interest payments due in November 2013 and February 2014. See Note 11 "Junior Subordinated Debentures and Senior Debt" of the Notes to Consolidated Financial Statements for more information regarding the Debentures and the senior loan.

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 and moderate income minority areas that have historically been under-served by other financial institutions, we are facing increasing competition for deposits and residential mortgage lending in our immediate market areas, including direct competition from mortgage banking companies, commercial banks and savings and loan associations. Most of these financial institutions are significantly larger than we are and have greater financial resources, and many have a regional, statewide or national presence.

Personnel

At December 31, 2013, we had 68 employees, which consisted of 65 full-time and 3 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

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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 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, 2013.

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 are 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.

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The Bank submitted a Strategic Plan and Capital Plan to the OCC in January 2014, and has created a Compliance Committee and implemented other operating changes to conform to the provisions of the Consent Order. Management submitted updated policies and procedures to the OCC in November of 2013 with respect to determining and maintaining an appropriate level of 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. 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 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, we will become subject to consolidated capital requirements to which we have not been previously subject to.

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

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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.

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.

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

The risk-based capital requirements provide that the capital ratios applicable to various classes of assets are to be adjusted to reflect the degree of risk associated with such 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, 2013 and 2012, the general valuation allowance included in our supplementary capital was $2.8 million and $3.2 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, 2013, Broadway Federal exceeded each of these capital requirements as shown in the following table:

	As of December 31,					
	2013			2012		
	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)	$ 34,047	$ 34,047	$ 34,047	$ 32,950	$ 32,950	$ 32,950
Additional supplementary capital:						
General valuation allowance	-	-	2,810	-	-	3,247
Disallowed mortgage servicing rights assets	(12)	(12)	(12)	(14)	(14)	(14)
Disallowed deferred tax assets	-	-	-	-	-	-
Regulatory capital balances	34,035	34,035	36,845	32,936	32,936	36,183
Minimum requirement	4,986	13,295	17,394	5,603	14,940	20,090
Excess over minimum requirement	$ 29,049	$ 20,740	$ 19,451	$ 27,333	$ 17,996	$ 16,093

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

The current risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision, an international committee of central banks and bank supervisors and regulators. In December 2010, the Basel Committee published an agreement among its member country bank regulatory authorities to establish a new set of capital and other standards for major banking institutions, commonly referred to as Basel III. The United States federal banking authorities issued final regulations in July 2013 that are based on the Basel III standards, but with significant modifications, and also implement changes in capital requirements mandated by the Dodd-Frank Act. These new capital regulations generally apply to most federally insured savings associations and their holding companies. Under the new regulations, the current United States capital standards have been revised to require compliance by January 1, 2015 with four minimum capital ratios: (1) Common Equity Tier 1 capital to risk-weighted assets of 4.5%, (2) a Tier 1 capital to risk-weighted assets of 6.0%, (3) a total capital to risk-weighted assets of 8.0% and (4) a "leverage ratio" of Tier 1 capital (with certain deductions) to average consolidated assets of 4.0%. For this purpose, Common Equity Tier 1 capital will consist of common stock and related surplus minus regulatory adjustments relating to goodwill and certain other intangible assets, deferred tax assets and other items. Total Tier 1 capital will include non-cumulative perpetual preferred stock. In addition to these minimum required ratios, a "capital conservation buffer" requirement of Common Equity Tier 1 capital equal to 2.5% above the foregoing minimum Common Equity Tier 1, Tier 1 Capital and Total Capital ratios will be phased in over the period from 2016 through 2019, beginning with a buffer requirement of 0.625% in 2016, These capital buffers will not be mandatory capital requirements, but failure to maintain them will result in limitations on a banking organization's ability to declare dividends and pay bonuses to persons serving in specified senior management positions, which limitations will increase in increments to a complete prohibition on such payments to the extent of the banking organization's capital buffer shortfall.

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"

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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, 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, 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 to them 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, 2013 and under the prior Order at December 31, 2012. Actual required capital amounts and ratios at December 31, 2013 and December 31, 2012, together with the higher capital requirements that the Bank is required to meet under the Consent Order and the former cease and desist order applicable to it, are presented below.

	Actual		**Required for Capital Adequacy Purposes**		**Capital Requirements under Consent Order**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratios**
			(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	$ 36,845	16.95%	$ 17,394	8.00%	$ 28,286	13.00%

	Actual		**Required for Capital Adequacy Purposes**		**Capital Requirements under Cease and Desist Order**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratios**
			(Dollars in thousands)			
December 31, 2012:						
Tangible Capital to adjusted total assets	$ 32,936	8.82%	$ 5,603	1.50%	N/A	N/A
Tier 1(Core) Capital to adjusted total assets	$ 32,936	8.82%	$ 14,940	4.00%	$ 29,881	8.00%
Tier 1(Core) Capital to risk weighted assets	$ 32,936	13.12%	N/A	N/A	N/A	N/A
Total Capital to risk weighted assets	$ 36,183	14.41%	$ 20,090	8.00%	$ 30,135	12.00%

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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.

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 $6.6 million for Broadway Federal at December 31, 2013, 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, 2013, 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 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, 2013, 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

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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.

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

Restrictions on Dividends and Other Capital Distributions

In general, the prompt corrective action regulations prohibit an 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.

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 Notes 2 and 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 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.

Location	Leased or Owned	Original Date Leased or Acquired	Date of Lease Expiration	Net Book Value of Property or Leasehold Improvements at December 31, 2013 (In thousands)
Administrative/Loan Origination Center:				
5055 Wilshire Blvd, Suite 500 Los Angeles, CA	Leased	2013	April 2021	$ 84
Branch Offices:				
5055 Wilshire Blvd, Suite 100 Los Angeles, CA	Leased	2013	April 2021	$ 15
170 N. Market Street Inglewood, CA (Branch Office/Loan Service Center)	Owned	1996	-	$ 571
4001 South Figueroa Street Los Angeles, CA	Owned	1996	-	$ 1,709

ITEM 3. LEGAL PROCEEDINGS

OTS Investigation

In 2010, the OTS notified us that it had initiated a formal investigation of the activities of a former loan officer of the Bank whose employment was terminated in March 2010. In connection with the investigation, the OTS issued subpoenas to the former chief lending officer and former chief executive officer requesting documents relating to this former loan officer and loans he originated while employed by the Bank. The subpoenas also contemplate taking oral testimony from the former officers. While the OTS did not inform us of the scope of its investigation, we believe the investigation includes, but may not be limited to, inquiry into whether documentation submitted in connection with loan applications for loans originated by the loan officer contained inaccurate or deliberately falsified information and whether the loan officer received unauthorized direct or indirect benefits from payments made by the borrowers on such loans to loan brokers or other persons associated with the lending process. All of the loans originated by the former loan officer have been reviewed by us and by the independent loan review firm we engaged to perform a general review of our loan portfolio pursuant to the Orders issued to us by the OTS. We have taken the results of these loan reviews into account, along with all other relevant information known to us, in determining the amounts of our loan loss provisions and the level of our ALLL as of December 31, 2013.

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.

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

2012	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	$ 1.73	$ 1.50	$ 3.20	$ 2.56
Low	$ 1.24	$ 1.25	$ 0.91	$ 0.63

The closing sale price for our common stock on the Nasdaq Capital Market on March 11, 2014 was $1.08 per share. As of March 11, 2014, we had 379 stockholders of record and 19,526,482 shares of common stock outstanding. At that date, we also had 698,200 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 Notes 2 and 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, 2013.

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

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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

During the third quarter of 2013, we completed a recapitalization of the Company's balance sheet that 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 sheets 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.

During 2013, we continued to take aggressive actions to reduce our classified assets, including loan sales, foreclosures on properties securing defaulted loans, and sales of REO. Also, during the latter part of 2013, we began to pursue prudent growth in our loan portfolio to increase interest income. Our focus on loan growth is targeted on selective niches within the multi-family and investor-owned single family residential loan markets, which are markets that our current senior management has successfully served at other institutions in the past and which are consistent with the Company's focus on low-to-moderate income communities in Southern California.

Total assets decreased by $41.2 million during 2013, primarily due to a $25.6 million decrease in our loan portfolio as we focused on divesting problem assets. The decrease in our loan portfolio, including loans held for sale, consisted of a decrease of $19.2 million in our one-to-four family residential real estate loan portfolio, a decrease of $15.8 million in our commercial real estate loan portfolio, a decrease of $12.6 million in our church loan portfolio, a decrease of $311 thousand in our construction loan portfolio and a decrease of $1.8 million in our commercial loan portfolio. These decreases were partially offset by an increase of $24.1 million in our multi-family residential real estate loan portfolio.

Corresponding to the decrease in assets during 2013, we decreased our total deposits by $42.7 million, primarily by decreasing certificates of deposit ("CDs"), in particular CDs with higher interest costs that were obtained through deposit listing services, and 36-month CDs. FHLB borrowings remained the same during 2013 while senior debt, including the deferred gain resulting from interest forgiveness on our senior loan, decreased by $2.1 million because of the debt exchange that was part of the Recapitalization.

We recorded a net loss of $301 thousand for the year ended December 31, 2013, compared to net income of $588 thousand for the year ended December 31, 2012. Results during 2012 included a gain of $2.5 million from the sale of our former headquarters building during the second quarter of 2012, whereas results for 2013 included a gain of $1.2 million from the forgiveness of interest that was part of the Recapitalization completed during the third quarter of 2013. During 2013 we generated lower net interest income before provision for loan losses compared to 2012 as the average balance of our loan portfolio decreased by $65.3 million. The decrease in net interest income was partially offset by decreases in the provision for loan losses and non-interest expense.

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Regulatory Matters

During the first nine months of 2013, the Orders issued to us effective September 9, 2010 limited the increase in the Bank's total assets during any quarter to an amount equal to the net interest credited on deposit liabilities during the prior quarter without the prior written notice to and receipt of notice of non-objection from the OCC. This specific growth restriction was eliminated on October 30, 2013 when the Bank entered into a Consent Order with the OCC, which superseded the Order that was applicable to the Bank. The Bank is subject to the requirements of the new Consent Order, which includes requirements that the Bank develop a Strategic Plan and a Capital Plan and that the Bank not begin to implement those plans, or any diversions from those plans, until it has submitted the plans, or any proposed diversions, to the OCC for a written statement that the OCC has no supervisory objection thereto. The Bank submitted a Strategic Plan and a Capital Plan to the OCC in late January 2014.

Comparison of Operating Results for the Years Ended December 31, 2013 and 2012

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). Our results of operations are also affected by our provision for 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, 2013, we recorded a net loss of $301 thousand and a loss allocable to common stockholders of $1.1 million, or $0.13 loss per diluted common share. For the year ended December 31, 2012, we recorded net income of $588 thousand and a loss allocable to common stockholders of $693 thousand, or $0.38 loss per diluted common share.

The change from net income for the year 2012 to a net loss for the year 2013 was primarily due to a gain of $2.5 million on the sale of our former headquarters building in the second quarter of 2012, which was partially offset by a gain of $1.2 million on our senior debt restructuring in the third quarter of 2013. In addition, the decrease during 2013 was attributable to lower net interest income before provision for loan losses, which was partially offset by a lower provision for loan losses and lower non-interest expenses for the year ended December 31, 2013 as compared to 2012. Also, earnings per share were significantly impacted during 2013 because we issued a combined total of 18.2 million shares of common stock, representing over 90% of our total shares of common stock then outstanding, in connection with the Recapitalization that closed on August 22, 2013.

Net Interest Income

For the year ended December 31, 2013, net interest income before provision for loan losses totaled $11.1 million, down $2.4 million, or 18%, from $13.5 million of net interest income before provision for loan losses for the same period a year ago. The decrease of $2.4 million in net interest income primarily resulted from a decrease of $53.2 million in average interest-earning assets and a decrease of 15 basis points in net interest margin.

Interest income decreased $3.9 million, or 20%, to $16.0 million for the year 2013 from $19.9 million for the year 2012. The decrease in interest income was primarily due to a decrease of $53.2 million in average

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interest-earning assets, primarily reflecting a decrease of $65.3 million in the average balance of loans receivable, and a decrease of $4.7 million in the average balance of securities, offset by an increase of $18.7 million in the average balance of federal funds sold. The decrease of $65.3 million in average loans receivable from $325.0 million for the year 2012 to $259.7 million for the year 2013 resulted in a reduction of $3.9 million in interest income. The average yield on loans decreased from 5.93% for the year 2012 to 5.90% for the year 2013 primarily due to payoffs of loans which carried a higher average yield than the average yield of loans receivable and lower yields on loan originations as a result of the low interest rate environment. The average yield on total interest-earning assets decreased from 5.13% for the year 2012 to 4.77% for the year 2013, as our loan yield decreased and a higher percentage of our total interest-earning assets were invested in lower yielding federal funds sold. The reduction in the average size of the loan portfolio during 2013 reflected the Company's strategy to improve the quality of its assets, in part through asset sales and loan payoffs of certain categories of loans, such as loans secured by church properties. During 2013, we sold $15.5 million of non-accrual loans and $4.6 million of non-accrual loans were paid off or returned to accrual status. Also, in the second half of 2013, we began to refocus on originating loans, primarily loans secured by multi-family properties, and rebuilding our loan portfolio to improve the yield on interest-earning assets and grow total interest income. The combination of the improvement in the quality of our loan portfolio and refocus on loan originations allowed us to increase the average yield on our loans and our interest rate margin during the fourth quarter of 2013. During the fourth quarter, the average yield on our loans increased to 5.99% from 5.75% in the fourth quarter of 2012 and our interest rate margin increased to 3.73% from 3.29% during the same period. We intend to finance loan growth in the near term by using excess federal funds sold.

Interest expense decreased $1.5 million, or 24%, to $4.9 million for the year 2013 from $6.4 million for the year 2012. The decrease in interest expense was primarily attributable to a decrease of $42.3 million in the average balance of deposits from $275.2 million for the year 2012 to $232.9 million for the year 2013, which resulted in a reduction of $562 thousand in interest expense. Additionally, the average cost of deposits decreased 22 basis points from 1.18% for the year 2012 to 0.96% for the year 2013, which resulted in a reduction of $445 thousand in interest expense. The decreases in the average balance and average cost of deposits reflect the maturities of certificates of deposit bearing higher rates. Also contributing to the decrease in interest expense during 2013 was a lower average balance and average cost of FHLB advances. The average balance of FHLB advances decreased $3.2 million, from $82.7 million for the year 2012 to $79.5 million for the year 2013, which resulted in a decrease of $90 thousand in interest expense. The average cost of FHLB advances decreased 35 basis points, from 2.95% for the year 2012 to 2.60% for the year 2013, which resulted in a decrease of $280 thousand in interest expense. The decrease in the average cost of FHLB advances was primarily due to the refinancing of $20.0 million of higher costing FHLB advances in the second and fourth quarters of 2012 and another $28 million in the second quarter of 2013.

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 balance sheets, 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

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expense. We 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,					
	2013			2012		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets						
Interest-earning assets:						
Interest-earning deposits	$ 4,832	$ 21	0.43%	$ 6,559	$ 22	0.34%
Federal Funds sold and other short-term investments	55,375	120	0.22%	36,723	38	0.10%
Investment securities	-	-	-	481	24	4.99%
Residential mortgage-backed securities	10,707	306	2.86%	14,946	467	3.12%
Loans receivable (1)	259,747	15,331	5.90%	325,029	19,279	5.93%
FHLB stock	3,822	188	4.92%	3,939	61	1.55%
Total interest-earning assets	334,483	$ 15,966	4.77%	387,677	$ 19,891	5.13%
Non-interest-earning assets	15,330			6,738		
Total assets	$ 349,813			$ 394,415		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Money market deposits	$ 16,585	$ 64	0.39%	$ 18,980	$ 82	0.43%
Passbook deposits	37,376	120	0.32%	36,530	118	0.32%
NOW and other demand deposits	33,600	27	0.08%	37,814	27	0.07%
Certificate accounts	145,366	2,028	1.40%	181,849	3,019	1.66%
Total deposits	232,927	2,239	0.96%	275,173	3,246	1.18%
FHLB advances	79,544	2,067	2.60%	82,694	2,437	2.95%
Junior subordinated debentures (2)	6,000	203	3.38%	6,000	183	3.05%
Senior debt (3)	4,127	355	8.60%	5,000	560	11.20%
Total interest-bearing liabilities	322,598	$ 4,864	1.51%	368,867	$ 6,426	1.74%
Non-interest-bearing liabilities	6,782			6,776		
Stockholders' Equity	20,433			18,772		
Total liabilities and stockholders' equity	$ 349,813			$ 394,415		
Net interest rate spread (4)		$ 11,102	3.26%		$ 13,465	3.39%

Net interest rate margin (5)	3.32%	3.47%
Ratio of interest-earning assets to interest-bearing liabilities	103.68%	105.10%
Return on average assets	(0.09%)	0.15%
Return on average equity	(1.47%)	3.13%
Average equity to average assets ratio	5.84%	4.76%
Dividend payout ratio (6)	-	-

(1) Amount is net of deferred loan fees, loan discounts, and loans in process, and includes loans held for sale.

(2) Includes compounding on past due interest.

(3) Includes default rate margin that was in effect to August 22, 2013. No interest expense was recognized on the senior debt post restructuring because the floating interest rate on the remaining modified loan did not exceed the floor rate of 6% during the remainder of 2013.

(4) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(5) Net interest rate margin represents net interest income as a percentage of average interest-earning assets.

(6) Percentage is calculated based on dividends paid on common stocks divided by net income (loss) less dividends and accretion on preferred stocks.

Changes in our net interest income are a function of changes in both rates and volumes of interest-earning assets and interest-bearing liabilities. The following table sets forth information regarding changes in our interest income and expense for the years indicated. Information is provided in each category with respect

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to (i) changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the total change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

	Year ended December 31, 2013 Compared to Year ended December 31, 2012 Increase (Decrease) in Net Interest Income			Year ended December 31, 2012 Compared to Year ended December 31, 2011 Increase (Decrease) in Net Interest Income		
	Due to Volume	Due to Rate	Total	Due to Volume	Due to Rate	Total
	(In thousands)					
Interest-earning assets:						
Interest-earning deposits	$ (7)	$ 6	$ (1)	$ 1	$ 7	$ 8
Federal funds sold and other short term investments	26	56	82	18	6	24
Investment securities, net	(24)	-	(24)	(26)	-	(26)
Mortgage backed securities, net	(124)	(37)	(161)	(141)	(42)	(183)
Loans receivable, net	(3,854)	(94)	(3,948)	(4,147)	(950)	(5,097)
FHLB stock	(2)	129	127	-	50	50
Total interest-earning assets	(3,985)	60	(3,925)	(4,295)	(929)	(5,224)
Interest-bearing liabilities:						
Money market deposits	(10)	(8)	(18)	(22)	6	(16)
Passbook deposits	3	(1)	2	(5)	(6)	(11)
NOW and other demand deposits	(3)	3	-	(4)	(9)	(13)
Certificate accounts	(552)	(439)	(991)	(611)	(596)	(1,207)
Total deposits	(562)	(445)	(1,007)	(642)	(605)	(1,247)
FHLB advances	(90)	(280)	(370)	(129)	(133)	(262)
Junior subordinated debentures	-	20	20	-	12	12
Senior debt	(88)	(117)	(205)	-	(128)	(128)
Total interest-bearing liabilities	(740)	(822)	(1,562)	(771)	(854)	(1,625)
Change in net interest income	$ (3,245)	$ 882	$ (2,363)	$ (3,524)	$ (75)	$ (3,599)

Provision and Allowance for Loan Losses

We record a provision for loan losses as a charge to earnings when necessary in order to maintain the ALLL at a level sufficient, in management's judgment, to absorb probable incurred losses in the loan portfolio. At least quarterly we conduct an assessment of the overall quality of the loan portfolio and general economic trends in the local market. The determination of the appropriate level for the allowance is based on that review, considering such factors as historical loss experience for each type of loan, the size and composition of our loan portfolio, the levels and composition of our loan delinquencies, non-performing loans and net loan charge-offs, the value of underlying collateral on problem loans, regulatory policies, general economic conditions, and other factors related to the collectability of loans in the portfolio.

Our ALLL decreased by $1.8 million from $11.9 million, or 4.51% of our loans receivable held for investment, at December 31, 2012, to $10.1 million, or 3.95% of our loans receivable held for investment, at December 31, 2013. For the year ended 2013, our provision for loan losses totaled $414 thousand and net loan charge-offs totaled $2.1 million, compared to $1.2 million of provision for loan losses and

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$6.6 million of net loan charge-offs for the year ended 2012. The decrease in the ALLL and loan loss provision during 2013 primarily reflected the improvement in our asset quality as evident in lower loan delinquencies and lower loan charge-offs in 2013, as well as a decrease of $6.2 million in our gross loan portfolio from one year ago, and lower historical loss reserve factors because periods with higher loan losses are beginning to be replaced with periods with lower loan losses as part of our rolling three-year look back analysis.

The ratio of the ALLL to non-performing loans increased to 57.32% at December 31, 2013 from 32.00% at December 31, 2012, primarily due to the sale of $15.5 million of non-accrual loans and, to a lesser extent, $2.9 million of loan repayments and reinstatements. When reviewing the adequacy of the ALLL as a percentage of non-performing loans, we consider the impact of charge-offs. Also, we update our estimates of collateral values on non-performing loans at least every nine months. If the estimated fair value of the loan collateral less estimated selling costs is less than the recorded investment in the loan, a charge-off for the difference is recorded to reduce the loan to its estimated fair value, less estimated selling costs. Therefore certain losses inherent in our total non-performing loans have already been recognized periodically through charge-offs. The impact of updating these estimates of collateral value and recognizing any required charge-offs is to increase charge-offs and reduce the ALLL required on these loans. As of December 31, 2013, 69.6% of our non-performing loans, or $9.2 million after charge-offs of $10.3 million in prior years, had already been written down to their estimated fair value less estimated selling costs. The remaining 30.4% of our non-performing loans, or $8.5 million, at year-end had specific reserves or were reported at cost because the fair value of collateral less estimated selling costs exceeded the recorded investment in the loan. Also, in connection with our review of the adequacy of our ALLL, we track the amount and percentage of our non-performing loans that are paying currently, but nonetheless must be classified as non-performing loans for reasons unrelated to payments. As of December 31, 2013, $8.2 million of our total non-performing loans of $17.7 million were current in their payments.

Loan charge-offs during 2013 were $2.8 million, or 1.09% of average loans, compared to $7.1 million, or 2.20% of average loans, during 2012. Of the $2.8 million in charge-offs, $1.5 million of the charge-offs resulted from the bulk sale of certain classified loans secured by multi-family and commercial real estate properties in April 2013 and the sales of certain non-performing church loans during 2013. The loans were reclassified from loans held for investment to loans receivable held for sale at the lower of cost or fair value, less estimated selling costs. The remaining $1.3 million of charge-offs were related to losses on other impaired loans. Charge-offs on commercial real estate loans totaled $1.2 million and represented 42% of charge-offs during 2013. Of the $1.2 million of charge-offs in commercial real estate loans, $697 thousand of the charge-offs resulted from write-downs of loans to fair value upon the transfer of such loans to loans held for sale. Charge-offs on church loans totaled $770 thousand and represented 27% of charge-offs during 2013. Of the $770 thousand of charge-offs in church loans, $193 thousand of the charge-offs resulted from write-downs of loans to fair value upon the transfer of such loans to loans held for sale. Charge-offs on multi-family residential real estate loans totaled $661 thousand and represented 23% of charge-offs during 2013. Of the $661 thousand of charge-offs in multi-family loans, $638 thousand of the charge-offs resulted from write-downs of loans to fair value upon the transfer of such loans to loans held for sale. Charge-offs on one-to-four family residential real estate loans totaled $220 thousand and represented 8% of charge-offs during 2013.

Impaired loans at December 31, 2013 were $33.5 million, compared to $44.4 million at December 31, 2012. Specific reserves for impaired loans were $2.2 million, or 6.53% of the aggregate impaired loan amount at December 31, 2013, compared to $2.7 million, or 6.16%, at December 31, 2012. Excluding specific reserves for impaired loans, our coverage ratio (general allowance as a percentage of total non-impaired loans) was 3.56% at December 31, 2013, compared to 4.18% at December 31, 2012. The decrease in our coverage ratio during 2013 was primarily due to the $29.9 million increase in our multi-family loan portfolio, which has the lowest historical loss reserve factors. Of the $33.5 million impaired loans, $19.6 million had specific reserves recorded as of December 31, 2013. Of the $19.6 million of impaired loans with specific reserves, $3.7 million were collateral dependent loans measured at fair value with a valuation allowance of $321 thousand and $15.9 million were evaluated based on the loans' present value of expected cash flows with a valuation allowance of $1.9 million. On $4.7 million of impaired loans, the fair value of collateral less estimated selling costs exceeded the recorded investment in the loan and did not require a specific reserve or charge-off. The remaining $9.2 million of impaired loans had been written down to fair value after charge-offs of $10.3 million in prior years.

Management believes that the ALLL is adequate to cover probable incurred losses in the loan portfolio as of December 31, 2013, but there can be no assurance that actual losses will not exceed the estimated amounts. In addition, the OCC and the FDIC periodically review the ALLL as an integral part of their examination process. These agencies may require an increase in the ALLL based on their judgments of the information available to them at the time of their examinations.

Non-Interest Income

Non-interest income for the year 2013 decreased $1.0 million from $3.1 million for the year 2012 to $2.1 million for the year 2013. The decrease in non-interest income during 2013 primarily reflected the gain on the sale of our headquarters building in the year 2012, which was partially offset by the gain on the restructuring of senior debt in August 2013. The gain on debt restructuring represents a portion of the accrued interest expense of $1.8 million that was forgiven on the senior debt as part of the Recapitalization. The balance of the interest forgiven, $535 thousand, was added to the amount of the obligation reported on the Company's balance sheet in accordance with Accounting Standards Codification ("ASC") 470-60 Troubled Debt Restructurings by Debtors, and is being amortized to interest expense over the remaining life of the restructured senior loan. Also contributing to lower non-interest income in 2013 was a reduction of $180 thousand in net gains on sales of REO compared to 2012. The decreases in non-interest income were partially offset by an increase of $363 thousand in net gains on sales of loans, which improved from a net loss of $253 thousand in 2012 to a net gain of $110 thousand in 2013.

Non-Interest Expense

Non-interest expense for the year 2013 decreased $884 thousand from $14.0 million for the year 2012 to $13.1 million for the year 2013. The decrease in non-interest expense during 2013 was primarily due to a decrease of $628 thousand in the provision for losses on REO as fewer loans were added to REO during 2013 and the property values of our REO properties stabilized or depreciated at a slower rate than in 2012. Other significant decreases in non-interest expense include a decrease of $393 thousand in compensation and benefits expense primarily reflecting fewer full-time equivalent employees in 2013, a decrease of $109 thousand in FDIC insurance premium expense primarily reflecting a decrease of $42.7 million in deposits during 2013 and a decrease of $45 thousand in occupancy expense. These decreases in non-interest expense were partially offset by an increase of $237 thousand in the provision for losses on loans held for sale primarily reflecting the fair value write downs on the sale of non-performing loans held for sale and an increase of $169 thousand in professional services expense primarily reflecting higher legal and consulting fees related to the Recapitalization of the Company. During 2013, we charged $135 thousand to professional services expense for legal and consulting fees related to the Recapitalization and other activities associated with executing our capital plan.

Income Taxes

The Company's income tax expense was $4 thousand for the year ended December 31, 2013 compared to $829 thousand for the year ended December 31, 2012. The tax expense for the year 2013 primarily reflected the statutory minimum taxes paid to the state of California. Income tax expense for the year 2012 was primarily related to the gain on the sale of our former headquarters building in the second quarter of 2012. For the year 2012, the Company reported income tax expense equal to an effective tax rate of 58.50%, due to an increase in the valuation allowance related to the projected utilization of the Company's federal and state deferred tax assets. The increase in the valuation allowance against our federal and state deferred tax assets during 2012 was due to the Company's inability to project sufficient future taxable income. As of December 31, 2013 we had net deferred tax assets of $9.7 million that were fully reserved, and federal net operating loss carryforwards of $13.3 million, expiring beginning in 2031 through 2033 and California net operating loss carryforwards of $31.1 million, expiring beginning in 2029 through 2033. See Note 1 "Summary of Significant Accounting Policies" and Note 13 "Income Taxes" of the Notes to Consolidated Financial Statements for a further discussion of income taxes and a reconciliation of income tax at the federal statutory tax rate to actual tax expense (benefit).

Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize net operating loss carryovers, tax credit carryovers and other income tax attributes when there is an ownership change. Generally, the rules provide that an ownership change is deemed to have occurred when the cumulative increase of each 5% or more stockholder and certain groups of stockholder's treated as 5% or more shareholders, as determined under Section 382, exceeds 50% over a specified "testing" period, generally equal to three years. Section 382 applies rules regarding the treatment of new groups of stockholders treated as 5% shareholders due to issuances of stock and other equity transactions, which may cause a change of control to occur. The Company has performed an analysis of the potential impact of Section 382 related to the recapitalization occurred on August 22, 2013, and has determined that the Company did not undergo an ownership change and any potential limitations imposed under Section 382 do not apply.

Comparison of Financial Condition at December 31, 2013 and 2012

Total Assets

Total assets were $332.5 million at December 31, 2013, which represented a decrease of $41.2 million, or 11%, from December 31, 2012. During 2013, cash and cash equivalents decreased by $6.2 million, securities decreased by $4.0 million, loans held for sale decreased by $19.1 million, net loans held for investment decreased by $3.9 million, REO decreased by $6.1 million and other assets decreased by $1.7 million.

Loans Receivable Held for Investment

Our gross loan portfolio decreased by $6.2 million to $256.9 million at December 31, 2013 from $263.1 million at December 31, 2012. The decrease of $6.2 million in our loan portfolio since the end of 2012 consisted of a decrease of $11.3 million in our one-to-four family residential real estate loan portfolio, a decrease of $14.4 million in our commercial real estate loan portfolio, a decrease of $8.3 million in our church loan portfolio, a decrease of $311 thousand in our construction loan portfolio and a decrease of $1.8 million in our commercial loan portfolio. These decreases were partially offset by an increase of $29.9 million in our multi-family residential real estate loan portfolio.

Loan originations, including loan purchases of $10.6 million, totaled $49.1 million for the year ended December 31, 2013, compared to $20.5 million for the year ended December 31, 2012. Loan repayments for the year ended December 31, 2013 totaled $50.4 million, compared to $70.6 million for the year ended December 31, 2012. Loan charge-offs during the 2013 totaled $2.8 million, compared to charge-offs of $7.1 million during 2012. Loans transferred to REO during 2013 totaled $2.3 million, compared to $9.8 million during 2012. Loans transferred to loans held for sale during 2013 totaled $7.3 million, which

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primarily consisted of multi-family and commercial real estate loans that we sold in a bulk sale consummated in the second quarter. Loans transferred to loans held for sale during 2012 totaled $9.7 million, which primarily consisted of one-to-four family residential real estate loans that we sold in the first quarter of 2013.

During the third quarter of 2013, $7.4 million of loans held for sale were transferred to held for investment as these loans are no longer to be marketed for sale. All of these transferred loans were performing loans.

Loans Receivable Held for Sale

We had no loans held for sale at December 31, 2013 compared to $19.1 million of loans held for sale at December 31, 2012. The $19.1 million decrease during 2013 was primarily due to sales of loans totaling $16.5 million, which included $15.5 million of non-accrual loans. In addition, we transferred $7.4 million of performing loans held for sale to held for investment, transferred $753 thousand of loans to REO and received repayments of $1.5 million. During the first quarter of 2013, we transferred $7.3 million of non-performing multi-family and commercial real estate loans from the held for investment loan portfolio to the held for sale portfolio in connection with a bulk sale consummated in the second quarter of 2013.

Real Estate Owned

During 2013, we decreased REO by $6.1 million to $2.1 million at December 31, 2013, from $8.2 million at December 31, 2012. At December 31, 2013 the Bank's REO consisted of five commercial real estate properties, four of which are church buildings. During 2013, six church loans totaling $2.6 million were foreclosed and the properties securing the loans became REO. As part of our efforts to reduce non-performing assets, fourteen REO properties were sold during 2013 for net proceeds of $8.6 million and a net gain of $112 thousand.

Deposits

Deposits totaled $214.4 million at December 31, 2013, down $42.7 million, or 17%, from December 31, 2012. This reflects our efforts to improve our net interest margin by reducing higher costing certificates of deposit and lower yielding cash and cash equivalents. During 2013, CDs decreased by $39.9 million and represented 61% of total deposits at December 31, 2013, compared to 66% of total deposits at December 31, 2012. Of the $39.9 million decrease in CDs during 2013, $31.8 million represented higher rate deposits from deposit listing services, and $1.4 million were from brokered deposits. Additionally, core deposits (NOW, demand, money market and passbook accounts) decreased by $2.8 million during 2013 and represented 39% of total deposits at December 31, 2013, compared to 34% of total deposits at December 31, 2012. Brokered deposits represented 1% of total deposits at December 31, 2013 and 2012.

Borrowings

At December 31, 2013, borrowings consisted of advances from the FHLB of $79.5 million, Debentures of $6.0 million and our modified senior debt of $2.9 million, which balance includes the unamortized deferred gain on restructuring of $498 thousand. At December 31, 2012, borrowings consisted of advances from the FHLB of $79.5 million, Debentures of $6.0 million and our senior line of credit of $5.0 million. At December 31, 2013 and 2012, FHLB advances were 24% and 21%, respectively, of total assets. The weighted average cost of advances decreased 18 basis points from 2.67% at December 31, 2012 to 2.49% at December 31, 2013 primarily because we refinanced $28.0 million of advances in June 2013.

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On February 28, 2014 we were notified by the trustee for the trust which holds the Debentures that the requisite percentage of the holders of the trust's senior securities had indicated their approval of our proposal to extend the maturity until March 17, 2024, in return for a partial redemption of up to $900 thousand aggregate principal amount of the Debentures at face value and payment of all interest accrued on the Debentures to the date of such redemption, subject to certain conditions, including requirements to raise at least $6 million of equity capital, obtain approvals from our regulators and senior lender and prepare an appropriate supplemental indenture and other required documentation. No assurance can be given that we will be successful in raising the additional equity, obtaining the necessary approvals or satisfying the other conditions to the proposal. As of December 31, 2013 the accrued interest on the Debentures was $656 thousand. The Company is not permitted to make payments on any debt without prior notice to and receipt of written notice of non-objection from the FRB. In addition, under the terms of the Debentures, the Company is not allowed to make payments on the Debentures if the Company is in default on any of its senior indebtedness, which term includes the senior line of credit described below.

Senior debt decreased by $2.1 million in connection with the restructuring of the indebtedness outstanding under our senior line of credit during the third quarter of 2013, net of the deferral of a portion of the gain from interest forgiveness included in the restructuring. Pursuant to the terms of the restructuring, we initially exchanged Series F Common Stock Equivalents and Series G Non-Voting Preferred Stock with an agreed upon aggregate value of $2.6 million for $2.6 million of loan principal and modified the terms of the remaining $2.4 million of principal. In addition, the lender forgave the accrued interest, totaling $1.8 million, on the entire $5 million loan to the date of the closing of the Recapitalization. The modified terms for the remaining loan included, among others items, an extension of the maturity of the loan to February 22, 2019 and a repayment schedule that specifies six quarterly payments of interest only beginning three months following the closing of the Recapitalization, followed by 48 fully amortizing equal monthly payments of principal, together with accrued interest on the loan beginning 19 months after the closing of the Recapitalization; provided, that each payment on the loan must receive prior approval from the FRB. Failure to make such any payment due to an inability to obtain such approval despite the exercise by the Company of required efforts to obtain such approval will not constitute an event of default under the revised loan terms. In addition the interest rate on the remaining loan has been increased to the Wall Street Journal Prime Rate plus 2%, with a floor (minimum) rate of 6%, from the original loan interest rate of the Wall Street Journal Prime Rate plus 1%, with a floor rate of 6%. As part of the modification, the Default Rate Margin of 5% has been forgiven. In accordance with Accounting Standards Codification ("ASC") 470-60 Troubled Debt Restructurings by Debtors, we have reported $1.2 million of the forgiven interest as a gain on restructuring during the third quarter and added the remaining $535 thousand balance of the forgiven interest to the principal balance of the bank loan that remains outstanding. The Company made the interest payments due in November 2013 and February 2014. As of December 31, 2013, the remaining unamortized gain on restructuring was $498 thousand.

Information regarding the Debentures and senior loan is included in Note 11 "Junior Subordinated Debentures and Senior Debt" of the Notes to Consolidated Financial Statements.

Stockholders' Equity

Stockholders' equity was $25.6 million, or 7.70% of the Company's total assets, at December 31, 2013, compared to $18.0 million, or 4.82% of the Company's total assets, at December 31, 2012. The increase in stockholders' equity during 2013 was due to the completion of the Recapitalization. At December 31, 2013, the Bank's Total Risk-Based Capital ratio was 16.95%, its Tier 1 Risk-Based Capital ratio was 15.65%, and its Core Capital and Tangible Capital ratios were 10.24%.

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Capital Resources

Our principal subsidiary, Broadway Federal, must comply with capital standards established by the OCC in the conduct of its business. Failure to comply with such capital requirements may result in significant limitations on its business or other sanctions. We are not currently subject to separate holding company capital requirements, but by July 2015 the Dodd-Frank Act will, among other things, impose specific capital requirements on us as a savings and loan holding company as well. These requirements must be no less than those to which federally insured depository institutions are currently subject. The current regulatory capital requirements and possible consequences of failure to maintain compliance are described in Part I, Item 1 "Business Regulation" and in Notes 2 and 15 of the Notes to Consolidated Financial Statements.

On November 14, 2008, the Company issued 9,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series D, having a liquidation preference of $1,000 per share, together with a ten-year warrant to purchase 183,175 shares of Company common stock at $7.37 per share, to the U.S. Treasury for gross proceeds of $9.0 million. The warrant was subsequently retired without cost because of our status as a Certified Community Development Financial Institution. The sale of the Series D Preferred Stock was made pursuant to the U.S. Treasury's TARP Capital Purchase Program.

On December 8, 2009, the Company issued 6,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of $1,000 per share, to the U.S. Treasury for gross proceeds of $6.0 million. The sale of the Series E Preferred Stock was made pursuant to the U.S. Treasury's TARP Capital Purchase Program.

The Company completed a Recapitalization on August 22, 2013, which strengthened and simplified the Company's capital structure through completion of the following transactions:

(1) The issuance of 8,776 shares of Series F Common Stock Equivalents, which were shares of a new series of non-cumulative perpetual voting preferred stock, in exchange for the five series of the Company's formerly outstanding preferred stock with an aggregate liquidation value or preference of $17.6 million, including the TARP Preferred Stock that was issued to the U.S. Treasury pursuant to the Capital Purchase Program component of the U.S. Treasury's Troubled Asset Relief Program, which the parties agreed to value at $8.8 million based on the price at which shares of the Common Stock were sold in the Subscription Offering referred to below;

(2) The issuance of 2,646 shares of Series F Common Stock Equivalents in exchange for all of the accumulated dividends on the TARP Preferred Stock, totaling $2.6 million as of the date of the exchange;

(3) The issuance of 2,575 shares of Series F Common Stock Equivalents in exchange for $2.6 million principal amount of the Company's bank debt (the "Debt Exchange");

(4) The modification of the terms of the remaining $2.4 million principal amount of the senior line of credit to, among other matters, extend the maturity and eliminate the default rate;

(5) The forgiveness of the $1.8 million of accrued interest on the entire amount of the Company's bank debt as of the date of the exchange;

(6) The exchange of 698 shares of Series F Common Stock Equivalents issued in the Debt Exchange for 6,982 shares of a new Series G Non-Voting Preferred Stock ("Series G Preferred"); and

(7) The issuance of 4,235,500 shares of Common Stock in private sales (the "Subscription Offering") at a price of $1.00 per share, yielding $4.2 million in gross proceeds. Of the $4.2 million in gross proceeds, $1.2 million was used to invest additional capital into the Bank and $1.0 million was used to repay all of the inter-company payables due to the Bank from the Company.

Subsequent to the closing of the Recapitalization, the Company's stockholders approved all of the proposals presented at the Annual Meeting on November 27, 2013, including the proposals to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock to 50,000,000 shares and authorize the Company to issue up to 5,000,000 shares of a new class of non-voting Common Stock. As a result, on December 5, 2013 the Company's 13,299 outstanding shares of Series F Common Stock Equivalents automatically converted into 13,299,000 shares of Common Stock, representing 65.8% of the Company's total equity at year-end, and its 6,982 shares of Series G Preferred automatically converted into 698,200 shares of non-voting Common Stock, representing 3.5% of the Company's total equity at year-end. Effective with these automatic conversions, the Company no longer has any outstanding series of preferred stock, and all of its equity capital consists of Common Stock or non-voting Common Stock.

Liquidity

The objective of liquidity management is to ensure that we have the continuing ability to fund operations and meet other obligations on a timely and cost-effective basis. The Bank's sources of funds include deposits, advances from the FHLB and other borrowings, proceeds from the sale of loans, REO, and investment securities, and payments of principal and interest on loans and investment securities. Primary uses of funds include withdrawal of and interest payments on deposits, originations of loans, purchases of investment securities, and payment of operating expenses.

Currently, we believe that the Bank has sufficient liquidity to support growth over the foreseeable future. We do not expect, however, that the Bank will be able to pay dividends to the Company for at least the next several quarters or such longer period as may be required to achieve profitable operations. As a result, our immediate priority for enhancing liquidity is to raise additional equity capital for the Company, which has limited liquidity to pay operating expenses over an extended period of time and will need to raise additional capital within the next 18 to 24 months to continue paying its operating expenses, including allocations of shared expenses from the Bank, on a timely basis. As discussed above under " Borrowing", we have been notified by the trustee for the trust which holds the Debentures that the requisite percentage of the holders of the trust's senior securities have indicated their approval of our proposal to extend the maturity of the Company's Debentures, which matured on March 17, 2014, in return for a partial redemption of up to $900 thousand aggregate principal amount of the Debentures at face value and payment of all interest accrued on the Debentures to the date of such redemption. This approval is subject to various conditions, including raising at least $6 million of additional equity capital and approvals from our regulators and senior lender. However, we believe that this approval will significantly improve our ability to raise the necessary capital. These and related matters are discussed in Note 2 "Restructuring of the Company's Capital Structure and Regulatory Matters" of the Notes to Consolidated Financial Statements. We intend to use any additional capital raised by the Company to reduce the Company's senior debt, make the negotiated payments of interest and principal on the Company's Debentures, increase the Bank's capital, and enhance the Company's liquidity.

The Company's consolidated net cash inflows from operating activities totaled $1.7 million and $2.9 million during 2013 and 2012, respectively. Net cash inflows from operating activities for 2013 were primarily attributable to interest payments received on loans and securities.

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The Company's consolidated net cash inflows from investing activities totaled $31.4 million and $70.8 million during 2013 and 2012, respectively. Net cash inflows from investing activities for 2013 were attributable primarily to proceeds from sales of loans receivable held for sale, proceeds from sales of REOs and principal repayments on loans and securities.

The Company's consolidated net cash outflows from financing activities totaled $39.2 million and $41.0 million during 2013 and 2012, respectively. Net cash outflows from financing activities for 2013 were attributable primarily to the net decrease in deposits which was partially offset by the net proceeds from issuance of common stock as part of the Recapitalization.

When the Bank has more funds than required for reserve requirements or short-term liquidity needs, the Bank sells federal funds to the Federal Reserve Bank or other financial institutions and maintains a portion of its liquid assets in interest-bearing cash deposits with other banks and in securities available-for-sale that are not pledged. The Bank's liquid assets at December 31, 2013 consisted of $58.2 million in cash and cash equivalents, compared to liquid assets of $64.4 million in cash and cash equivalents and $11.9 million in securities available-for-sale that were not pledged at December 31, 2012.

Additionally, the Bank is currently approved by the FHLB to borrow up to $100.0 million to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. That approved limit and collateral requirement would have permitted the Bank, as of December 31, 2013, to borrow an additional $20.5 million.

Off-Balance-Sheet Arrangements and Contractual Obligations

We are a party to financial instruments with off-balance-sheet risk in the normal course of our business primarily in order to meet the financing needs of our customers. These instruments involve, to varying degrees, elements of credit, interest rate and liquidity risk. In accordance with GAAP, these instruments are either not recorded in the consolidated financial statements or are recorded in amounts that differ from the notional amounts. Such instruments primarily include lending commitments and lease commitments as described below.

Lending commitments include commitments to originate loans and to fund lines of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate creditworthiness on a case-by-case basis. Our maximum exposure to credit risk is represented by the contractual amount of the instruments.

In addition to our lending commitments, we have contractual obligations related to operating lease commitments. Operating lease commitments are obligations under various non-cancelable operating leases on buildings and land used for office space and banking purposes.

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The following table details our contractual obligations at December 31, 2013.

	Less than one year	More than one year to three years	More than three years to five years	More than five years	Total
			(Dollars in thousands)		
Certificates of deposit	$ 74,608	$ 47,755	$ 7,688	$ 3	$ 130,054
FHLB advances	2,500	40,500	36,500	-	79,500
Subordinated debentures (1)	6,000	-	-	-	6,000
Senior debt	-	1,039	1,273	113	2,425
Commitments to originate loans	850	-	-	-	850
Commitments to fund unused lines of credit	-	-	-	255	255
Operating lease obligations	374	850	919	1,122	3,265
Total contractual obligations	$ 84,332	$ 90,144	$ 46,380	$ 1,493	$ 222,349

(1) On February 28, 2014, the Company obtained conditional approval to extend the maturity of the subordinated debentures until March 17, 2024, with requirements for quarterly interest only payments until March 17, 2019, followed by quarterly payments of principal and interest commencing June 2019 until fully amortized in March 2024. There is no assurance that the Company will be able to satisfy the conditions to the proposed extension of maturity.

Impact of Inflation and Changing Prices

Our consolidated financial statements including notes have been prepared in accordance with GAAP which require the measurement of financial position and operating results primarily in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. We consider the following to be critical accounting policies:

Allowance for Loan Losses

The determination of the allowance for loan losses is considered critical due to the high degree of judgment involved, the subjectivity of the underlying assumptions used, and the potential for changes in the economic environment that could result in material changes in the amount of the allowance for loan losses considered necessary. The allowance is evaluated on a regular basis by management and the Board of Directors and is based on a periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect borrowers' ability to repay, the estimated value of any underlying collateral, prevailing economic conditions and feedback from regulatory examinations. See Item 1, "Business Asset Quality Allowance for Loan Losses" for a full discussion of the allowance for loan losses.

Real Estate Owned ("REO")

REO consists of property acquired through foreclosure or deed in lieu of foreclosure and is recorded at the fair value, less estimated costs to sell, at the time of acquisition. The excess, if any, of the loan balance

over the fair value of the property at the time of transfer from loans to REO is charged to the allowance for loan losses. Subsequent to the transfer to REO, if the fair value of the property less estimated selling costs declines to an amount less than the carrying value of the property, the deficiency is charged to income as a provision expense and a valuation allowance is established. Operating costs after acquisition are expensed as incurred. Due to changing market conditions, there are inherent uncertainties in the assumptions made with respect to the estimated fair value of REO. Therefore, the amount ultimately realized may differ from the amounts reflected in the accompanying consolidated financial statements.

Income Taxes

Deferred tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is established against deferred tax assets when, based upon the available evidence including historical and projected taxable income, it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the amount of taxes paid in available carry-back years, forecasts of future income and available tax planning strategies. This analysis is updated quarterly. Based on this analysis, the Company determined that a valuation allowance of $9.7 million was required as of December 31, 2013, resulting in $0 net deferred tax assets. The Company had recorded a valuation allowance of $9.0 million and net deferred tax assets of $0 as of December 31, 2012. The full valuation allowance against our net deferred tax assets at December 31, 2013 and 2012 was due to the Company's inability to project future taxable income against which it could apply its net deferred tax assets. See Note 13 "Income Taxes" of the Notes to Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data."

This discussion has highlighted those accounting policies that management considers critical. All accounting policies are important, however, and therefore you are encouraged to review each of the policies included in Note 1 "Summary of Significant Accounting Principles" of the Notes to Consolidated Financial Statements beginning at page F-8 to gain a better understanding of how our financial performance is measured and reported.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements of Broadway Financial Corporation and Subsidiaries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of December 31, 2013, an evaluation was performed under the supervision of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

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Management's annual report on internal control over financial reporting

The management of Broadway Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for the Company as defined in Rule 13a-15(f) under the Exchange Act. This system, which management has chosen to base on the framework set forth in *Internal Control-Integrated Framework*, published by the 1992 Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and which is effected by the Company's board of directors, management and other personnel, is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time.

With the participation of the Company's Chief Executive Officer and Chief Financial Officer, management has conducted an evaluation of the effectiveness of the Company's system of internal control over financial reporting. Based on this evaluation, management determined that the Company's system of internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in internal control over financial reporting

There were no significant changes in the Company's internal control over financial reporting identified in connection with the evaluation of internal control over financial reporting that occurred during the fourth quarter of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

/s/ Wayne-Kent A. Bradshaw	/s/ Brenda J. Battey
Wayne-Kent A. Bradshaw	Brenda J. Battey
Chief Executive Officer	*Chief Financial Officer*
Los Angeles, CA	Los Angeles, CA
March 31, 2014	March 31, 2014

ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement, under the captions "Election of Directors", "Executive Officers", "Code of Ethics" and "Section 16(a) Beneficial Ownership Reporting Compliance", to be filed with the Securities and Exchange Commission in connection with the Company's 2014 Annual Meeting of Stockholders (the "Company's Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Executive Compensation" and "Director Compensation".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners and Management".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Certain Relationships and Related Transactions" and "Election of Directors".

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the Company's Proxy Statement, under the caption "Ratification of the Appointment of the Independent Registered Public Accounting Firm".

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)

1. See Index to Consolidated Financial Statements.

2. Financial Statement Schedules have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes included under Item 8, "Financial Statements and Supplementary Data."

(b)

List of Exhibits

Exhibit Number*	
3.1	Certificate of Incorporation of Registrant and amendments thereto (Exhibit 3.1 to Form 10-Q filed by the Registrant on November 14, 2013)
3.2	Bylaws of Registrant (Exhibit 3.2 to Form 10-Q filed by the Registrant on November 14, 2013)

Exhibit Number*	
4.1	Certificate of Designation for Series A Preferred Stock (Exhibit 4.3 to Form 10-Q filed by the Registrant on November 14, 2013)
4.2	Certificate of Designation for Series B Preferred Stock (Exhibit 4.5 to Form 10-Q filed by the Registrant on November 14, 2013)
4.3	Certificate of Designation for Series C Preferred Stock (Exhibit 4.7 to Form 10-Q filed by the Registrant on November 14, 2013)
4.4	Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series D (Exhibit 3.3 to Form 8-K filed by the Registrant on November 19, 2008)
4.5	Certificate of Designation for Fixed Rate Cumulative Perpetual Preferred Stock Series E (Exhibit 4.1 to Form 8-K filed by the Registrant on December 9, 2009)
4.6	Certificate of Designations of Series F Common Stock Equivalents (Exhibit 4.13 to Form 10-Q filed by the Registrant on November 14, 2013)
4.7	Certificate of Designations of Series G Non-Voting Preferred Stock (Exhibit 4.14 to Form 10-Q filed by the Registrant on November 14, 2013)
10.1	Broadway Federal Bank Employee Stock Ownership Plan (Exhibit 4.1 to Registration Statement on Form S-1, No. 33-96814, filed by the Registrant on September 12, 1995)
10.2	Broadway Financial Corporation 2008 Long Term Incentive Plan (Exhibit A to Proxy Statement filed by Registrant on Schedule 14A on November 17, 2009)
10.3	Deferred Compensation Plan (Exhibit 10.14 to Registration Statement on Form S-1 filed by the Registrant on November 20, 2013)
10.4	Salary Continuation Agreement Between Broadway Federal Bank and former Chief Executive Officer Paul C. Hudson (Exhibit 10.15 to Registration Statement on Form S-1 filed by the Registrant on November 20, 2013)
10.5	Securities Purchase Agreement Between Broadway Financial Corporation and United States Department of the Treasury (Exhibit 10.16 to Form 8-K filed by the Registrant on November 19, 2008)
10.6	Letter Agreement, dated December 4, 2009, which includes the Securities Purchase Agreement Between Broadway Financial Corporation and United States Department of the Treasury (Exhibit 10.1 to Form 8-K filed by the Registrant on December 9, 2009)
10.7	Business Loan Agreement between Broadway Financial Corporation and Nara Bank, dated July 31, 2009 (Exhibit 10.18 to Form 10-K filed by the Registrant for the fiscal year ended December 31, 2009)
10.8.1	Exchange Agreement by and between Broadway Financial Corporation and The United States Department of the Treasury (Exhibit 10.19 to Form 10-K filed by the Registrant on April 1, 2013)
10.8.2	Amendment No. 1 to Exchange Agreement by and between the Registrant and The United States Department of the Treasury (Exhibit 10.19.2 to Registration Statement on Form S-1 filed by the Registrant on November 20, 2013)
10.9	Exchange Agreement by and among Broadway Financial Corporation, the Insurance Exchange of the Automobile Club and the Automobile Club of Southern California (Exhibit 10.20 to Form 10-K filed by the Registrant on April 1, 2013)

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Exhibit Number*	
10.10.1	Exchange Agreement by and between the Registrant and BBCN Bancorp, Inc. (Exhibit 10.21.1 to Form 10-Q filed by the Registrant on November 14, 2013)
10.10.2	Investor Rights Letter by and between the Registrant and BBCN Bancorp, Inc. (Exhibit 10.21.2 to Form 10-Q filed by the Registrant on November 14, 2013)
10.11.1	Exchange Agreement by and between the Registrant and National Community Investment Fund (Series C for Series F Preferred Stock) (Exhibit 10.22.1 to Form 10-Q filed by the Registrant on November 14, 2013)
10.11.2	Investor Rights Letter by and between the Registrant and National Community Investment Fund (Exhibit 10.22.2 to Form 10-Q filed by the Registrant on November 14, 2013)
10.11.3	Exchange Agreement by and between the Registrant and National Community Investment Fund (Series F for Series G Preferred Stock) (Exhibit 10.22.3 to Form 10-Q filed by the Registrant on November 14, 2013)
10.12	Registration Rights Agreement between the Registrant, CJA Private Equity Financial Restructuring Master Fund I LP, National Community Investment Fund and BBCN Bancorp, Inc. (Exhibit 10.23 to Form 10-Q filed by the Registrant on November 14, 2013)
10.13	Form of Subscription Agreements entered into by the Registrant with various purchasers of the Registrant's common stock (Exhibit 10.24 to Form 10-Q filed by the Registrant on November 14, 2013)
10.14.1	Subscription Agreement between the Registrant and CJA Private Equity Financial Restructuring Master Fund I LP (Exhibit 10.25.1 to Form 10-Q filed by the Registrant on November 14, 2013)
10.14.2	Investor Rights Letter between the Registrant and CJA Private Equity Financial Restructuring Master Fund I LP (Exhibit 10.25.2 to Form 10-Q filed by the Registrant on November 14, 2013)
10.15.1	Subscription Agreement between the Registrant and Valley Economic Development Center, Inc. (Exhibit 10.26.1 to Form 10-Q filed by the Registrant on November 14, 2013)
10.15.2	Investor Rights Letter between the Registrant and Valley Economic Development Center, Inc. (Exhibit 10.26.2 to Form 10-Q filed by the Registrant on November 14, 2013)
10.16	Agreement for Partial Satisfaction of Debt Previously Contracted by and between BBCN Bank and the Registrant (Exhibit 10.27 to Form 10-Q filed by the Registrant on November 14, 2013)
21.1	List of Subsidiaries (Exhibit 21.1 to Registration Statement on Form S-1 filed by the Registrant on November 20, 2013)
23.1	Consent of Crowe Horwath LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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Exhibit Number*	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Order to Cease and Desist, issued by Office of Thrift Supervision to Broadway Financial Corporation, Order No.: WN-10-026, effective September 9, 2010 (Exhibit 99.1 to Form 8-K filed by the Registrant on September 16, 2010)
99.2	Order to Cease and Desist, issued by Office of Thrift Supervision to Broadway Federal Bank, f.s.b., Order No.: WN-10-025, effective September 9, 2010 (Exhibit 99.2 to Form 8-K filed by the Registrant on September 16, 2010)
99.3	Consent Order, issued by Office of Comptroller of the Currency to Broadway Federal Bank, f.s.b., Order No.: AA-EC-2013-XX, effective October 30, 2013 (Exhibit 99.1 to Form 8-K filed by the Registrant on November 5, 2013)
99.4	Certification of Chief Executive Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30
99.5	Certification of Chief Financial Officer pursuant to Interim Final Rule TARP Standards for Compensation and Corporate Governance at 31 CFR Part 30
101.INS	XBRL Instance Document **
101.SCH	XBRL Taxonomy Extension Schema Document **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document **
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document **

* Exhibits followed by a parenthetical reference are incorporated by reference herein from the document filed by the Registrant with the SEC described therein. Except as otherwise indicated, the SEC File No. for each incorporated document is 000-27464.

** Pursuant to SEC rules, these interactive data file exhibits shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act or Section 18 of the Exchange Act or otherwise subject to the liability of those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BROADWAY FINANCIAL CORPORATION

By:	/s/ Wayne-Kent A. Bradshaw Wayne-Kent A. Bradshaw Chief Executive Officer
Date:	March 31, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Wayne-Kent A. Bradshaw Wayne-Kent A. Bradshaw Chief Executive Officer and President (Principal Executive Officer)	Date: March 31, 2014
/s/ Brenda J. Battey Brenda J. Battey Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: March 31, 2014
/s/ Virgil P. Roberts Virgil P. Roberts Chairman of the Board	Date: March 26, 2014
/s/ Kellogg Chan Kellogg Chan Director	Date: March 26, 2014
/s/ Robert C. Davidson, Jr. Robert C. Davidson, Jr. Director	Date: March 26, 2014
/s/ Javier Leon Javier Leon Director	Date: March 27, 2014
/s/ Albert Odell Maddox Albert Odell Maddox Director	Date: March 27, 2014
/s/ Daniel A. Medina Daniel A. Medina Director	Date: March 28, 2014
/s/ Paul C. Hudson Paul C. Hudson Director	Date: March 26, 2014

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Index to Consolidated Financial Statements

Years ended December 31, 2013 and 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Broadway Financial Corporation

We have audited the accompanying consolidated statements of financial condition of Broadway Financial Corporation and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 and Note 11 to the consolidated financial statements, the junior subordinated debentures issued by the Company matured on March 17, 2014. The Company did not have sufficient capital to repay the debentures when they matured, and the debentures are in default as to both principal and interest. A proposal to extend the maturity date of the debentures was approved by the requisite holders of senior securities of the trust that is the holder of the debentures on February 28, 2014, subject to several conditions including approval from the Company's regulators and senior lender and raising at least $6 million of additional equity capital that will be used in part to make certain proposed payments of accrued interest and principal on the debentures. The debentures will continue to be considered in default until the conditions of the extension are met. Also, as discussed in Note 2 and Note 15 to the financial statements, the Company and its subsidiary bank, Broadway Federal Bank, f.s.b. (the "Bank"), are both under formal regulatory agreements. Both the Company and the Bank are not in compliance with these agreements as of December 31, 2013. Management's plans in regard to these items are also described in Note 2.

/s/ Crowe Horwath LLP

Costa Mesa, California
March 31, 2014

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Financial Condition

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 8,241	$ 13,420
Federal funds sold	49,955	50,940
Cash and cash equivalents	58,196	64,360
Securities available-for-sale, at fair value	9,397	13,378
Loans receivable held for sale, at lower of cost or fair value	-	19,051
Loans receivable held for investment, net of allowance of $10,146 and $11,869	247,847	251,723
Accrued interest receivable	1,107	1,250
Federal Home Loan Bank (FHLB) stock	3,737	3,901
Office properties and equipment, net	2,725	2,617
Real estate owned (REO)	2,084	8,163
Bank owned life insurance	2,756	2,688
Investment in affordable housing limited partnership	1,309	1,528
Other assets	3,323	5,034
Total assets	**$ 332,481**	**$ 373,693**
Liabilities and stockholders' equity		
Liabilities:		
Deposits	$ 214,405	$ 257,071
FHLB advances	79,500	79,500
Junior subordinated debentures	6,000	6,000
Senior debt	2,923	5,000
Accrued interest payable	718	1,941
Dividends payable	-	2,104
Advance payments by borrowers for taxes and insurance	776	711
Other liabilities	2,569	3,359
Total liabilities	**306,891**	**355,686**
Commitments and Contingencies (Notes 8 and 16)		
Stockholders' Equity:		
Preferred Stock, $.01 par value, authorized 1,000,000 shares:		
Preferred non-cumulative and non-voting stock, no shares issued and outstanding at December 31, 2013 and 55,199 shares of Series A, 100,000 shares of Series B and 76,950 shares of Series C issued and outstanding at December 31, 2012	-	2,457
Senior preferred cumulative and non-voting stock, Series D, no shares issued and outstanding at December 31, 2013 and 9,000 shares issued and outstanding at December 31, 2012	-	8,963
Senior preferred cumulative and non-voting stock, Series E, no shares issued and outstanding at December 31, 2013 and 6,000 shares issued and outstanding at December 31, 2012	-	5,974
Preferred stock discount	-	(598)
	196	20

Common stock, $.01 par value, voting, authorized 50,000,000 shares at December 31, 2013 and 8,000,000 shares at December 31, 2012; issued 19,630,473 shares at December 31, 2013 and 2,013,942 shares at December 31, 2012; outstanding 19,526,482 shares at December 31, 2013 and 1,917,422 shares at December 31, 2012				
Common stock, $.01 par value, non-voting, authorized 5,000,000 shares at December 31, 2013 and 0 shares at December 31, 2012; issued and outstanding 698,200 shares at December 31, 2013 and 0 shares at December 31, 2012		7		-
Additional paid-in capital		35,704		10,095
Accumulated deficit		(9,068)		(7,988)
Accumulated other comprehensive income, net of taxes of $400 at December 31, 2013 and December 31, 2012		80		318
Treasury stock-at cost, 103,991 shares at December 31, 2013 and 96,520 shares at December 31, 2012		(1,329)		(1,234)
Total stockholders' equity		**25,590**		**18,007**
Total liabilities and stockholders' equity	**$**	**332,481**	**$**	**373,693**

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)

	Year Ended December 31, 2013	2012
	(In thousands, except per share)	
Interest Income:		
Interest and fees on loans receivable	$ 15,331	$ 19,279
Interest on mortgage-backed securities and other securities	306	491
Other interest income	329	121
Total interest income	15,966	19,891
Interest Expense:		
Interest on deposits	2,239	3,246
Interest on borrowings	2,625	3,180
Total interest expense	4,864	6,426
Net interest income before provision for loan losses	11,102	13,465
Provision for loan losses	414	1,190
Net interest income after provision for loan losses	10,688	12,275
Non-Interest Income:		
Service charges	536	593
Loan servicing fees, net	18	(175)
Net gains (losses) on sale of loans	110	(253)
Net gains on sales of REO	112	292
Gain (loss) on sale/disposal of office properties and equipment	(19)	2,523
Gain on sale of securities	-	50
Gain on restructuring of debt	1,221	-
Other	144	103
Total non-interest income	2,122	3,133
Non-Interest Expense:		
Compensation and benefits	5,846	6,239
Occupancy expense, net	1,243	1,288
Information services	845	882
Professional services	861	692

Provision for (recapture of) losses on loans held for sale	153	(84)
Provision for losses on REO	590	1,218
FDIC insurance	751	860
Office services and supplies	408	447
Other	2,410	2,449
Total non-interest expense	13,107	13,991
Income (loss) before income taxes	(297)	1,417
Income tax expense	4	829
Net income (loss)	$ (301)	$ 588
Other comprehensive loss, net of tax:		
Change in unrealized gains on securities available for sale	$ (238)	$ (203)
Reclassification of net gains included in net income	-	(50)
Other comprehensive loss, net of tax	(238)	(253)
Comprehensive income (loss)	$ (539)	$ 335
Net income (loss)	$ (301)	$ 588
Dividends and discount accretion on preferred stock	(779)	(1,281)
Loss allocable to common stockholders	$ (1,080)	$ (693)
Loss per common share basic	$ (0.13)	$ (0.38)
Loss per common share diluted	$ (0.13)	$ (0.38)

See accompanying notes to consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity
(In thousands, except per share)

Preferred Stock	Preferred Stock Discount	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income, Net	Treasury Stock	Total Stockholders' Equity