BROADWAY FINANCIAL CORP \DE\
Form 10-Q
November 14, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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

For transition period from__________ to___________

Commission file number 000-27464

BROADWAY FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**95-4547287**

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

(323) 634-1700

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated, a smaller reporting company, or an emerging growth company. See the definition of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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	x
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: As of November 3, 2017, 18,694,823 shares of the Registrant s voting common stock and 8,756,396 shares of the Registrant s non-voting common stock were outstanding.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Financial Condition

(In thousands, except share and per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$ 2,166	$ 1,516
Interest-bearing deposits in other banks	66,179	16,914
Cash and cash equivalents	68,345	18,430
Securities available-for-sale, at fair value	11,474	13,202
Loans receivable held for sale, at lower of cost or fair value	22,521	-
Loans receivable held for investment, net of allowance of $4,213 and $4,603, respectively	320,522	379,454
Accrued interest receivable	1,113	1,178
Federal Home Loan Bank (FHLB) stock	2,916	2,573
Office properties and equipment, net	2,462	2,479
Bank owned life insurance	2,981	2,940
Deferred tax assets, net	5,696	6,907
Real estate owned (REO)	958	-
Other assets	1,664	1,920
Total assets	**$ 440,652**	**$ 429,083**
Liabilities and stockholders equity		
Liabilities:		
Deposits	$ 294,920	$ 287,427
FHLB advances	86,000	85,000
Junior subordinated debentures	5,100	5,100
Advance payments by borrowers for taxes and insurance	1,537	828
Accrued expenses and other liabilities	4,980	5,202
Total liabilities	**392,537**	**383,557**
Stockholders Equity:		
Preferred stock, $.01 par value, authorized 1,000,000 shares; none issued or outstanding	-	-
Common stock, $.01 par value, voting, authorized 50,000,000 shares at September 30, 2017 and December 31, 2016; issued 21,312,649 shares at September 30, 2017 and 21,282,647 shares at December 31, 2016; outstanding 18,694,823 shares at September 30, 2017 and 18,664,821 shares at December 31, 2016	213	212
Common stock, $.01 par value, non-voting, authorized 25,000,000 shares at September 30, 2017 and December 31, 2016; issued and outstanding 8,756,396 shares at September 30, 2017 and December 31, 2016	87	87
Additional paid-in capital	46,073	45,819
Retained earnings	8,281	6,013
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,112)	(1,176)
Accumulated other comprehensive income (loss)	(101)	(103)
Treasury stock-at cost, 2,617,826 shares at September 30, 2017 and December 31, 2016	(5,326)	(5,326)
Total stockholders equity	**48,115**	**45,526**
Total liabilities and stockholders equity	**$ 440,652**	**$ 429,083**

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Income and Comprehensive Income

(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands, except per share)			
Interest income:				
Interest and fees on loans receivable	$ 4,127	$ 3,835	$ 12,035	$ 10,855
Interest on mortgage-backed and other securities	69	80	217	247
Other interest income	148	98	365	299
Total interest income	4,344	4,013	12,617	11,401
Interest expense:				
Interest on deposits	611	568	1,782	1,596
Interest on borrowings	494	419	1,515	1,267
Total interest expense	1,105	987	3,297	2,863
Net interest income	3,239	3,026	9,320	8,538
Loan loss provision recapture	300	-	950	550
Net interest income after loan loss provision recapture	3,539	3,026	10,270	9,088
Non-interest income:				
Service charges	117	119	338	365
Gain on sale of loans	160	-	383	-
CDFI grant	-	-	-	265
Income from litigation settlement	-	-	1,183	-
Other	28	25	82	256
Total non-interest income	305	144	1,986	886
Non-interest expense:				
Compensation and benefits	1,878	1,729	5,193	5,341
Occupancy expense	333	301	953	883
Information services	202	199	610	585
Professional services	120	170	525	617
Office services and supplies	72	74	225	216
FDIC assessments	34	68	118	151
Other	418	302	1,144	900
Total non-interest expense	3,057	2,843	8,768	8,693
Income before income taxes	787	327	3,488	1,281
Income taxes	284	-	1,220	2
Net income	$ 503	$ 327	$ 2,268	$ 1,279
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available-for-sale arising during the period	$ -	$ (68)	$ 3	$ 95
Income tax	-	(28)	1	39
Other comprehensive income (loss), net of tax	-	(40)	2	56

Comprehensive income	$ 503	$ 287	$ 2,270	$ 1,335
Earnings per common share-basic	$ 0.02	$ 0.01	$ 0.09	$ 0.04
Earnings per common share-diluted	$ 0.02	$ 0.01	$ 0.08	$ 0.04

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 2,268	$ 1,279
Adjustments to reconcile net income to net cash used in operating activities:		
Loan loss provision recapture	(950)	(550)
Depreciation	194	187
Net amortization of deferred loan origination costs	216	223
Net amortization of premiums on mortgage-backed securities	23	38
Amortization of investment in affordable housing limited partnership	146	145
Stock-based compensation expense	240	23
ESOP compensation expense	79	62
Earnings on bank owned life insurance	(41)	(44)
Originations of loans receivable held for sale	(94,972)	-
Repayments on loans receivable held for sale	318	-
Proceeds from sales of loans receivable held for sale	81,853	-
Gain on sale of loans receivable held for sale	(383)	-
Net gain on sale of REOs	-	(22)
Net change in deferred taxes	1,210	(8)
Net change in accrued interest receivable	65	(23)
Net change in other assets	110	129
Net change in advance payments by borrowers for taxes and insurance	709	402
Net change in accrued expenses and other liabilities	(222)	(1,845)
Net cash used in operating activities	(9,137)	(4)
Cash flows from investing activities:		
Net change in loans receivable held for investment	49,371	(40,235)
Purchase of available-for-sale securities	-	(2,505)
Principal payments on available-for-sale securities	1,708	2,365
Proceeds from sales of REO	-	382
Purchase of FHLB stock	(343)	-
Additions to office properties and equipment	(177)	(45)
Net cash provided by (used in) investing activities	50,559	(40,038)
Cash flows from financing activities:		
Net change in deposits	7,493	12,484
Proceeds from FHLB advances	29,500	-
Repayments of FHLB advances	(28,500)	(2,000)
Net cash provided by financing activities	8,493	10,484
Net change in cash and cash equivalents	49,915	(29,558)
Cash and cash equivalents at beginning of the period	18,430	67,839

Cash and cash equivalents at end of the period	$ 68,345	$ 38,281
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 3,168	$ 2,835
Cash paid for income taxes	20	8
Supplemental disclosures of cash flow information:		
Transfers of loans receivable held for investment to REO	$ 958	$ -
Transfers of loans receivable held for investment to loans receivable held for sale	9,337	-

See accompanying notes to unaudited consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements

September 30, 2017

NOTE (1) Basis of Financial Statement Presentation

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

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for quarterly reports on Form 10-Q. These unaudited consolidated financial statements do not include all disclosures associated with the Company s consolidated annual financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2016 and, accordingly, should be read in conjunction with such audited consolidated financial statements. In the opinion of management, all adjustments (all of which are normal and recurring in nature) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

Recently Adopted Accounting Pronouncement

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting . ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The areas for simplification include income tax consequences, forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. Under the new guidance, all excess tax benefits and deficiencies that occur when an award vests, is exercised, or expires are recognized in income tax expense as discrete period items. Previously, these transactions were typically recorded directly within equity. Consistent with this change, excess tax benefits and deficiencies are no longer included within estimated proceeds when performing the calculation for diluted earnings per share. The presentation of excess tax benefits in the statement of cash flows shifted to an operating activity from the prior classification as a financing activity. ASU 2016-09 also provides an accounting policy election to recognize forfeitures of awards as they occur when estimating stock-based compensation expense rather than the previous requirement to estimate forfeitures from inception. ASU 2016-09 became effective for the Company for reporting periods after January 1, 2017. The actual effects of adoption in 2017 primarily depends upon the share price of the Company s stock, probability of exercise of certain stock options and the magnitude of windfalls for all awards upon either vesting or exercise. The effects on earnings per share calculations and election to account for forfeitures as incurred have not been significant.

Recently Issued Accounting Pronouncements (Not Yet Effective)

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) . ASU 2014-09 replaced existing revenue recognition guidance for contracts to provide goods or services to customers. The new guidance clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP. Quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. ASU 2014-09 as amended by ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20, is effective for interim and annual periods beginning after December 15, 2017 and is applied on either a modified retrospective or full retrospective basis. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company s revenue is mainly comprised of net interest income from financial assets and liabilities and to a lesser degree, noninterest income. The scope of ASU 2014-09 explicitly excludes net interest income as well as other revenues associated with financial assets and liabilities, including loans and securities. Accordingly, the majority of the Company s revenues will not be affected. The Company will continue to evaluate the effect that this guidance will have on other revenue streams within its scope, as well as changes in disclosures required by the new guidance. However, adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) . Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases, as defined) at the commencement date: (i) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company has identified certain contracts with respect to leased real estate and office equipment that are within the scope of ASU 2016-02. As a lessee in operating lease arrangements that are not considered short-tem, effective January 1, 2019, the Company expects a gross-up of its Consolidated Statements of Condition as a result of recognizing lease liabilities and right of use assets. However, it will likely not have a significant impact on the Company s Consolidated Statements of Income and Comprehensive Income or Cash Flows but will have a minor impact on the Bank s regulatory capital.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments . ASU 2016-13 requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses over the life of the related financial assets. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public business entities, ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. While the Company is still evaluating the impact on its consolidated financial statements, the Company expects that ASU 2016-13 may result in an increase in the allowance for credit losses due to the following factors: 1) the allowance for credit losses will increase to provide for expected credit losses over the remaining expected life of the loan portfolio, and will consider expected future changes in macroeconomic conditions; and 2) an allowance may be established for estimated credit losses on available-for-sale debt securities. The amount of increase will be impacted by the portfolio composition and quality, as well as the economic conditions and forecasts as of the adoption date. While the Company has begun its implementation efforts by identifying key interpretive issues, and assessing its processes and identifying the system requirements against the new guidance to determine what modifications may be required, the Company cannot yet determine the overall impact of the new standard on its consolidated financial statements.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments . ASU 2016-15 provides guidance on the classification of certain cash receipts and payments on the consolidated statement of cash flows in order to reduce diversity in practice. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash . ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, where the guidance should be applied using a retrospective transition method to each period presented. Early adoption is permitted. Adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

NOTE (2) Earnings Per Share of Common Stock

Basic earnings per share of common stock is computed pursuant to the two-class method by dividing net income available to common stockholders less dividends paid on participating securities (unvested shares of restricted common stock) and any undistributed earnings attributable to participating securities by the weighted average common shares outstanding during the period. The weighted average common shares outstanding includes the weighted average number of shares of common stock outstanding less the weighted average number of unvested shares of restricted common stock. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per share of common stock includes the dilutive effect of unvested stock awards and additional potential common shares issuable under stock options.

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
	(Dollars in thousands, except per share)			
Net income	$ 503	$ 327	$ 2,268	$ 1,279
Less net income attributable to participating securities	1	-	5	-
Income available to common stockholders	$ 502	$ 327	$ 2,263	$ 1,279
Weighted average common shares outstanding for basic earnings per common share	26,702,564	29,076,708	26,662,344	29,076,708
Add: dilutive effects of unvested restricted stock awards	42,345	-	56,552	-

Add: dilutive effects of assumed exercises of stock options	79,898	-	3,748	-
Weighted average common shares outstanding for diluted earnings per common share	26,824,807	29,076,708	26,722,644	29,076,708
Earnings per common share - basic	$ 0.02	$ 0.01	$ 0.09	$ 0.04
Earnings per common share - diluted	$ 0.02	$ 0.01	$ 0.08	$ 0.04

Stock options for 90,625 shares of common stock for the three and nine months ended September 30, 2017 and for 540,625 shares of common stock for the three and nine months ended September 30, 2016 were not considered in computing diluted earnings per common share because they were anti-dilutive.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (3) Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
September 30, 2017:				
Federal agency mortgage-backed securities	$ 9,280	$ 216	$ (11)	$ 9,485
Federal agency debt	1,971	18	-	1,989
Total available-for-sale securities	$ 11,251	$ 234	$ (11)	$ 11,474
December 31, 2016:				
Federal agency mortgage-backed securities	$ 11,022	$ 227	$ (35)	$ 11,214
Federal agency debt	1,960	28	-	1,988
Total available-for-sale securities	$ 12,982	$ 255	$ (35)	$ 13,202

At September 30, 2017, the Bank had one federal agency security with an amortized cost and an estimated fair value of $2.0 million and a contractual maturity of October 2, 2019. The Bank also had 24 federal agency mortgage-backed securities with an amortized cost of $9.3 million, an estimated fair value of $9.5 million and an estimated average remaining life of 4.1 years. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

At September 30, 2017 and December 31, 2016, securities pledged to secure public deposits had a carrying amount of $533 thousand and $629 thousand, respectively. At September 30, 2017 and December 31, 2016, there were no holdings of securities by any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders equity.

There were no sales of securities during the three or nine months ended September 30, 2017 and 2016.

We held two securities with unrealized losses at September 30, 2017 and three securities with unrealized losses at December 31, 2016. Securities in unrealized loss positions are analyzed as part of our ongoing assessment of other-than-temporary impairment. Consideration is given to the financial condition and near-term prospects of the issuer, the length of time and the extent to which the fair value has been less than the cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. All of the Bank s securities were issued by the federal government or its agencies. The unrealized losses on our available-for-sale securities at September 30, 2017 were primarily caused by movements in market interest rates subsequent to the purchase of such securities. We do not consider these unrealized losses to be other than temporary impairment.

NOTE (4) Loans Receivable Held for Sale

Loans receivable held for sale at September 30, 2017 totaled $22.5 million and consisted of multi-family loans. As part of the Bank s loan concentration risk management program, $9.3 million of multi-family loans were transferred from the held-for-investment portfolio to the held-for-sale portfolio during the nine months ended September 30, 2017. The Bank also allocated $94.7 million, or 96%, of its total loan originations during the period as held-for-sale and completed sales of $81.1 million of multi-family loans during the nine months ended September 30, 2017 for a total gain of $383 thousand. There were no loans held for sale at December 31, 2016.

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (5) Loans Receivable Held for Investment

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

	September 30, 2017		December 31, 2016	
	(In thousands)			
Real estate:				
Single family	$	89,521	$	104,807
Multi-family		194,483		229,566
Commercial real estate		6,129		8,914
Church		31,188		37,826
Construction		1,394		837
Commercial other		351		308
Consumer		7		6
Gross loans receivable before deferred loan costs and premiums		323,073		382,264
Unamortized net deferred loan costs and premiums		1,662		1,793
Gross loans receivable		324,735		384,057
Allowance for loan losses		(4,213)		(4,603)
Loans receivable, net	$	320,522	$	379,454

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

	Three Months Ended September 30, 2017															
	Single family		Multi-family		Real Estate Commercial real estate		Church		Construction		Commercial - other		Consumer		Total	
	(In thousands)															
Beginning balance	$	320	$	2,719	$	77	$	1,104	$	9	$	17	$	-	$	4,246
Provision for (recapture of) loan losses		219		(297)		(4)		(214)		5		(9)		-		(300)
Recoveries		-		-		-		267		-		-		-		267
Loans charged off		-		-		-		-		-		-		-		-
Ending balance	$	539	$	2,422	$	73	$	1,157	$	14	$	8	$	-	$	4,213

	Three Months Ended September 30, 2016															
	Single family		Multi-family		Real Estate Commercial real estate		Church		Construction		Commercial - other		Consumer		Total	
	(In thousands)															
Beginning balance	$	441	$	2,247	$	240	$	1,596	$	3	$	17	$	1	$	4,545
Provision for (recapture of) loan losses		(68)		200		2		(133)		-		(1)		-		-

Recoveries	47	-	-	4	-	1	-	52
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 420	$ 2,447	$ 242	$ 1,467	$ 3	$ 17	$ 1	$ 4,597

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

	Nine Months Ended September 30, 2017							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 367	$ 2,659	$ 215	$ 1,337	$ 8	$ 17	$ -	$ 4,603
Provision for (recapture of) loan losses	142	(237)	(142)	(710)	6	(9)	-	(950)
Recoveries	30	-	-	530	-	-	-	560
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 539	$ 2,422	$ 73	$ 1,157	$ 14	$ 8	$ -	$ 4,213

	Nine Months Ended September 30, 2016							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Beginning balance	$ 597	$ 1,658	$ 469	$ 2,083	$ 3	$ 18	$ -	$ 4,828
Provision for (recapture of) loan losses	(224)	789	(475)	(632)	-	(9)	1	(550)
Recoveries	47	-	248	16	-	8	-	319
Loans charged off	-	-	-	-	-	-	-	-
Ending balance	$ 420	$ 2,447	$ 242	$ 1,467	$ 3	$ 17	$ 1	$ 4,597

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

	September 30, 2017							
	Single family	Multi-family	Real Estate Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 102	$ 1	$ -	$ 521	$ -	$ 5	$ -	$ 629
Collectively evaluated for impairment	437	2,421	73	636	14	3	-	3,584
Total ending allowance balance	$ 539	$ 2,422	$ 73	$ 1,157	$ 14	$ 8	$ -	$ 4,213
Loans:								
Loans individually evaluated for impairment	$ 631	$ 630	$ -	$ 8,435	$ -	$ 65	$ -	$ 9,761

Loans collectively evaluated for impairment		89,348		195,398		6,136		22,418		1,381		286		7	314,974
Total ending loans balance	$	89,979	$	196,028	$	6,136	$	30,853	$	1,381	$	351	$	7	$ 324,735

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	December 31, 2016							
	Real Estate							
	Single family	Multi-family	Commercial real estate	Church	Construction	Commercial - other	Consumer	Total
	(In thousands)							
Allowance for loan losses:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 125	$ -	$ -	$ 516	$ -	$ 15	$ -	$ 656
Collectively evaluated for impairment	242	2,659	215	821	8	2	-	3,947
Total ending allowance balance	$ 367	$ 2,659	$ 215	$ 1,337	$ 8	$ 17	$ -	$ 4,603
Loans:								
Loans individually evaluated for impairment	$ 644	$ 642	$ -	$ 10,545	$ -	$ 66	$ -	$ 11,897
Loans collectively evaluated for impairment	104,688	230,798	8,921	26,678	827	242	6	372,160
Total ending loans balance	$ 105,332	$ 231,440	$ 8,921	$ 37,223	$ 827	$ 308	$ 6	$ 384,057

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

	September 30, 2017			December 31, 2016		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(In thousands)					
With no related allowance recorded:						
Multi-family	$ 295	$ 295	$ -	$ 642	$ 642	$ -
Church	5,181	3,398	-	5,946	3,589	-
With an allowance recorded:						
Single family	631	631	102	644	644	125
Multi-family	335	335	1	-	-	-
Church	5,077	5,037	521	7,330	6,956	516
Commercial - other	65	65	5	66	66	15
Total	$ 11,584	$ 9,761	$ 629	$ 14,628	$ 11,897	$ 656

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

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

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 634	$ 7	$ 638	$ 21
Multi-family	631	5	636	28
Commercial real estate	-	-	397	104
Church	9,038	256	9,674	592
Commercial other	65	2	65	4
Total	$ 10,368	$ 270	$ 11,410	$ 749

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Cash Basis Interest Income Recognized	Average Recorded Investment	Cash Basis Interest Income Recognized
	(In thousands)			
Single family	$ 780	$ 232	$ 878	$ 246
Multi-family	804	92	997	144
Commercial real estate	425	4	1,277	271
Church	10,766	122	10,966	369
Commercial other	66	2	66	4
Total	$ 12,841	$ 452	$ 14,184	$ 1,034

Cash-basis interest income recognized represents cash received for interest payments on accruing impaired loans and interest recoveries on non-accrual loans that were paid off. Interest payments collected on non-accrual loans are characterized as payments of principal rather than payments of the outstanding accrued interest on the loans until the remaining principal on the non-accrual loans is considered to be fully collectible or paid off. When a loan is returned to accrual status, the interest payments that were previously applied to principal are deferred and amortized over the remaining life of the loan.

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

September 30, 2017

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
			(In thousands)		
Loans receivable held for investment:					
Single family	$ -	$ 54	$ -	$ 54	$ 89,925
Multi-family	-	295	-	295	195,733
Commercial real estate	-	-	-	-	6,136
Church	17	-	371	388	30,465
Construction	-	-	-	-	1,381
Commercial - other	-	-	-	-	351
Consumer	-	-	-	-	7
Total	$ 17	$ 349	$ 371	$ 737	$ 323,998

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	December 31, 2016				
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current
			(In thousands)		
Loans receivable held for investment:					
Single family	$ -	$ 64	$ -	$ 64	$ 105,268
Multi-family	-	-	-	-	231,440
Commercial real estate	1,324	-	-	1,324	7,597
Church	-	-	-	-	37,223
Construction	-	-	-	-	827
Commercial - other	-	-	-	-	308
Consumer	-	-	-	-	6
Total	$ 1,324	$ 64	$ -	$ 1,388	$ 382,669

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

	September 30, 2017	December 31, 2016
	(In thousands)	
Loans receivable held for investment:		
Multi-family	$ 295	$ -
Church	1,865	2,944
Total non-accrual loans	$ 2,160	$ 2,944

There were no loans 90 days or more delinquent that were accruing interest as of September 30, 2017 or December 31, 2016.

Troubled Debt Restructurings

At September 30, 2017, loans classified as troubled debt restructurings (TDRs) totaled $9.4 million, of which $1.8 million were included in non-accrual loans and $7.6 million were on accrual status. At December 31, 2016, loans classified as TDRs totaled $11.5 million, of which $2.5 million were included in non-accrual loans and $9.0 million were on accrual status. The Company has allocated $629 thousand and $656 thousand of specific reserves for accruing TDRs as of September 30, 2017 and December 31, 2016, respectively. TDRs on accrual status are comprised of loans that were accruing at the time of restructuring or loans that have complied with the terms of their restructured agreements for a satisfactory period of time and for which the Bank anticipates full repayment of both principal and interest. TDRs that are on non-accrual status can be returned to accrual status after a period of sustained performance, generally determined to be six months of timely payments, as modified. A well-documented credit analysis that supports a return to accrual status based on the borrower s financial condition and prospects for repayment under the revised terms is also required. As of September 30, 2017 and December 31, 2016, the Company had no commitment to lend additional amounts to customers with outstanding loans that are classified as TDRs. No loans were modified during the three or nine months ended September 30, 2017 and 2016.

Credit Quality Indicators

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

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

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

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

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

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

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

	September 30, 2017 (In thousands)					
	Pass	**Watch**	**Special Mention**	**Substandard**	**Doubtful**	**Loss**
Single family	$ 89,967	$ -	$ -	$ 12	$ -	$ -
Multi-family	194,754	-	-	1,274	-	-
Commercial real estate	6,013	123	-	-	-	-
Church	24,692	695	-	5,466	-	-

	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
Construction	1,381	-	-	-	-	-
Commercial - other	286	-	-	65	-	-
Consumer	7	-	-	-	-	-
Total	$ 317,100	$ 818	$ -	$ 6,817	$ -	$ -

	December 31, 2016					
	Pass	Watch	Special Mention	Substandard	Doubtful	Loss
	(In thousands)					
Single family	$ 105,332	$ -	$ -	$ -	$ -	$ -
Multi-family	228,522	1,274	342	1,302	-	-
Commercial real estate	6,965	-	-	1,956	-	-
Church	27,560	1,143	823	7,697	-	-
Construction	827	-	-	-	-	-
Commercial - other	242	-	-	66	-	-
Consumer	6	-	-	-	-	-
Total	$ 369,454	$ 2,417	$ 1,165	$ 11,021	$ -	$ -

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BROADWAY FINANCIAL CORPORATION AND SUBSIDIARY

Notes to Unaudited Consolidated Financial Statements (continued)

NOTE (6) Junior Subordinated Debentures

On March 17, 2004, the Company issued $6.0 million of Floating Rate Junior Subordinated Debentures (the Debentures) in a private placement to a trust that was capitalized to purchase subordinated debt and preferred stock of multiple community banks. Interest on the Debentures is payable quarterly at a rate per annum equal to the 3-Month LIBOR plus 2.54%. The interest rate is determined as of each March 17, June 17, September 17, and December 17, and was 3.86% at September 30, 2017. On October 16, 2014, the Company made payments of $900 thousand of principal on Debentures, executed a Supplemental Indenture for the Debentures that extended the maturity of the Debentures to March 17, 2024, and modified the payment terms of the remaining $5.1 million principal amount thereof. The modified terms of the Debentures require quarterly payments of interest only through March 2019 at the original rate of 3-Month LIBOR plus 2.54%. Starting in June 2019, the Company will be required to make quarterly payments of equal amounts of principal, plus interest, until the Debentures are fully amortized on March 17, 2024. The Debentures may be called for redemption at any time by the Company.

NOTE (7) Fair Value

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

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

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

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

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

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

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

Assets acquired through or by transfer in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated every nine months. These appraisals may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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

Assets Measured on a Recurring Basis

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

	Fair Value Measurement			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
	(In thousands)			
At September 30, 2017:				
Securities available-for-sale - federal agency mortgage-backed	$ -	$ 9,485	$ -	$ 9,485
Securities available-for-sale - federal agency debt	1,989	-	-	1,989
At December 31, 2016:				
Securities available-for-sale - federal agency mortgage-backed	$ -	$ 11,214	$ -	$ 11,214
Securities available-for-sale - federal agency debt	1,988	-	-	1,988

There were no transfers between Level 1, Level 2, or Level 3 during the three and nine months ended September 30, 2017 and 2016.

Assets Measured on a Non-Recurring Basis

Assets are considered to be reflected at fair value on a non-recurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the statement of condition. Generally, a non-recurring valuation is the result of the application of other accounting pronouncements that require assets to be assessed for impairment or recorded at the lower of cost or fair value.

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

	September 30, 2017	December 31, 2016
	(In thousands)	
Impaired loans carried at fair value of collateral	$ 796	$ 1,744
Real estate owned	958	-

There were no losses recognized on assets measured at fair value on a non-recurring basis for the three and nine months ended September 30, 2017 and 2016.

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Notes to Unaudited Consolidated Financial Statements (continued)

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2017 and December 31, 2016:

	Valuation Technique(s)	Unobservable Input(s)	Range	Weighted Average
September 30, 2017:				
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	-16% to 7%	-4%
Real estate owned church	Third Party Appraisals	Adjustment for differences between the comparable sales	-6%	-6%
December 31, 2016:				
Impaired loans	Third Party Appraisals	Adjustment for differences between the comparable sales	-2% to 0%	-1%

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of financial instruments as of the periods indicated were as follows:

	Carrying Value	Fair Value Measurements at September 30, 2017			
		Level 1	Level 2	Level 3	Total
			(In thousands)		
Financial Assets:					
Cash and cash equivalents	$ 68,345	$ 68,345	$ -	$ -	$ 68,345
Securities available-for-sale	11,474	1,989	9,485	-	11,474
Loans receivable held for sale	22,521	-	22,910	-	22,910
Loans receivable held for investment	320,522	-	-	319,012	319,012
Accrued interest receivable	1,113	63	89	961	1,113
Federal Home Loan Bank stock	2,916	2,916	-	-	2,916
Financial Liabilities:					
Deposits	$ 294,920	$ -	$ 286,025	$ -	$ 286,024