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BROADWAY FINANCIAL CORP \DE\
Form 8-K
May 02, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) May 1, 2003

Broadway Financial Corporation

(Exact name of registrant as specified in its charter)

Delaware 95-4547287

(State of Incorporation) (IRS Employer Identification No.)

4800 Wilshire Boulevard, Los Angeles, California 90010
(Address of Principal Executive Offices)

(323) 634-1700
(Issuer's Telephone Number, Including Area Code)

NOT APPLICABLE

(Former name or former address, if changed since last report)

Item 5. Information required under Item 12.

See Press Release on earnings for the three months ended
March 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the
registrant has duly caused this report to be signed on its behalf by the
undersigned hereunto duly authorized.

BROADWAY FINANCIAL CORPORATION
(Registrant)

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Date: May 1, 2003

/s/ Alvin D. Kang

(Signature)

Name: Alvin D. Kang
Chief Financial Officer

News Release

FOR IMMEDIATE RELEASE

Contact: Paul C. Hudson, President/CEO
Alvin D. Kang, CFO
(323) 634-1700
www.broadwayfed.com

Broadway Financial Corporation Reports 12% Increase in Net Earnings

LOS ANGELES, CA (BUSINESS WIRE) April 29, 2003 Broadway Financial Corporation (the Company) (NASDAQ Small-Cap: BYFC), the holding company of Broadway Federal Bank, f.s.b. (the Bank), today reported net earnings of \$364,000 or \$0.18 per diluted share for the three months ended March 31, 2003, compared to \$326,000 or \$0.17 per diluted share for the three months ended March 31, 2002, an 11.66% increase.

Net Earnings

The increase in net earnings was primarily attributable to the increase in net interest income and non-interest income, offset by an increase in non-interest expense. Net interest income after provision for loan losses increased \$71,000 or 3.58% for first quarter 2003 compared to first quarter 2002. Non-interest income increased \$53,000 or 22.46% for first quarter 2003 compared to first quarter 2002, and non-interest expense increased \$83,000 or 4.98% for first quarter 2003 compared to first quarter 2002.

Net Interest Income

Net interest income after provision for loan losses increased to \$2,055,000 for the three months ended March 31, 2003, from \$1,984,000 for the same period in 2002. A rate/volume analysis indicates that the \$71,000 increase was primarily attributable to the impact of the growth in average interest-earning assets of \$28.2 million, or 16.42%, and interest-bearing liabilities of \$33.8 million, or 21.9%, which resulted in an increase in net interest income of \$251,000 (volume impact), offset by the impact of a decrease in the net interest rate spread of 32 basis points, which resulted in a decrease in net interest income of \$180,000 (rate impact).

Gross loan originations were \$7.7 million for first quarter 2003 compared to \$5.0 million for first quarter 2002. Loan and mortgage-backed securities (MBS) purchases were \$16.0 million for first quarter 2003 compared to none for first quarter 2002. Loan prepayments amounted to \$8.8 million for first quarter 2003 compared to \$7.1 million for first quarter 2002. Management anticipates that prepayments will continue at a comparable rate in this current low rate environment, and is focused on increasing lending volume and continuing purchases of loans and MBSs. Interest-bearing liabilities increased due to the growth in deposits of \$16.3 million and the growth in FHLB advances of \$15.7 million comparing March 31, 2003 and 2002 balances.

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The net interest rate spread for the three months ended March 31, 2003 and 2002 was 3.99% and 4.31%, respectively. The 32 basis point decrease in spread was attributable to the larger decline in the weighted average yield on the loan portfolio, compared to the decline in the weighted average cost of funds on interest-bearing liabilities. The yield on interest-earning assets declined 125 basis points to 6.10% for first quarter 2003 from 7.35% for first quarter 2002. The weighted average cost of funds declined to 2.11% for first quarter 2003 compared to 3.04% for first quarter 2002. The primary spread (weighted average interest rate on loans minus weighted average interest rate on deposits) at March 31, 2003 was 4.92% compared to 4.72% at March 31, 2002.

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Non-interest Income

Total non-interest income increased to \$289,000 for the three months ended March 31, 2003, from \$236,000 for the same period in 2002. The \$53,000 increase was primarily attributable to an increase in service charges.

Non-interest Expense

Total non-interest expense increased to \$1,749,000 for the three months ended March 31, 2003 from \$1,666,000 for the same period in 2002. The \$83,000 increase was primarily attributable to higher professional services costs (legal and investment banking fees) of \$82,000.

Loans Receivable, Net

Loans receivable, net increased \$16.1 million, or 11.49%, to \$156.2 million at March 31, 2003 from \$140.1 million at December 31, 2002. Loans held for sale of \$3.2 million at March 31, 2003 were reclassified to the held to maturity portfolio at cost, which was lower than market value. During February 2003, the Bank purchased \$14.2 million of adjustable rate mortgage loans having an initial fixed rate period, hybrid ARMs. This purchase of hybrid ARMs, along with loan originations offset the combined negative effect of a decline in the yield on the loan portfolio and the continuing high level of loan prepayments.

The allowance for loan losses as a percentage of total loans was 0.90% at March 31, 2003 compared to 0.98% at December 31, 2002 and 1.12% at March 31, 2002. The Banks non-performing assets to total assets ratio improved to 0.04 % at March 31, 2003 compared to 0.07% at December 31, 2002 and 0.19% at March 31, 2002. At March 31, 2003, the Bank had no loans in foreclosure or REO (real estate owned) properties.

Deposits

Total deposits increased \$13.4 million, or 8.58% to \$169.5 million from \$156.1 million at December 31, 2002. Core deposits (NOW, demand, money market, and passbook accounts) increased by \$7.9 million during the first quarter of 2003. At March 31, 2003 core deposits represented 42.3% of total deposits, compared to 40.4% at December 31, 2002, and 39.8% at March 31, 2002.

Performance Ratios

For the three months ended March 31, 2003 the Companys return on average equity declined slightly to 8.60% compared to 8.73% for the same period in 2002. During the first quarter of 2003, the Company contributed \$1 million to the Bank, which was raised from its issuance of preferred stock to Fannie Mae. The return on average assets also declined slightly to 0.70% for the three months ended March 31, 2003 compared to 0.73% for the same period in 2002. The ratio of non-interest expense to average assets improved to 3.36% for the three months

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ended March 31, 2003 compared to 3.72% for the same period in 2002. The efficiency ratio also improved to 74.62% in first quarter 2003 compared to 75.05% in first quarter 2002.

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Significant Events

On January 17, 2003 the Company entered into an unsecured \$5.0 million revolving line of credit agreement with First Federal Bank of California. Interest is at the prime rate, if the loan proceeds are used for CRA lending, and at prime plus one percent if the loan proceeds are used for any other purpose. The line of credit is renewable annually, and at the Companys option, may be converted to a four-year term loan at the same rate of interest.

On January 31, 2003 the Companys Board of Directors adopted a Shareholder Rights Plan, the Rights Plan. The Boards purpose in adopting the Rights Plan is to protect shareholder value in the event of an unsolicited offer to acquire the Company, particularly one that does not provide equitable treatment to all shareholders. Adoption of the Rights Plan is intended to encourage a potential acquirer of the Company to negotiate directly with the Board. In connection with the adoption of the Rights Plan, the Board declared a dividend distribution of one Right for each outstanding common share held by shareholders of record on February 13, 2003.

About us

Broadway Federal Bank, f.s.b. is a community-oriented savings bank, which primarily originates residential mortgage loans and conducts funds acquisition in the geographic areas known as Mid-City and South Los Angeles. The Bank operates four full service branches, three in the city of Los Angeles, and one located in the nearby city of Inglewood, California. At March 31, 2003, the Bank met the capital requirements necessary to be deemed well capitalized for regulatory capital purposes.

Shareholders, analysts and others seeking information about the Company are invited to write to: Broadway Financial Corporation, Investor Relations, 4800 Wilshire Blvd., Los Angeles, California 90010, or visit our website at www.broadwayfed.com.

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Balance Sheets
(Dollars in thousands, except share amounts)
(Unaudited)

| | March 31, 2003 |
|---------|-------------------|
| Assets: | |
| Cash | \$ 4,658 |

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| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| Fed funds sold | 5,500 |
| Interest bearing deposits | 1,028 |
| Investment securities held to maturity | 2,000 |
| Investment securities available for sale | - |
| Mortgage-backed securities available for sale | 9,581 |
| Mortgage-backed securities held to maturity | 28,633 |
| Loans receivable, net | 156,156 |
| Loans receivable held for sale, at lower of cost or fair value | 480 |
| Accrued interest receivable | 1,023 |
| Investments in capital stock of Federal Home Loan Bank, at cost | 1,582 |
| Office properties and equipment, net | 5,797 |
| Other assets | 876 |
| | |
| Total assets | \$ 217,314 |
| | |
| Liabilities and stockholders' equity | |
| | |
| Deposits | \$ 169,509 |
| Advances from Federal Home Loan Bank | 25,181 |
| Advance payments by borrowers for taxes and insurance | 18 |
| Deferred income taxes | 932 |
| Other liabilities | 4,413 |
| | |
| Total liabilities | 200,053 |
| | |
| Stockholders' Equity: | |
| Preferred non-convertible, non-cumulative, and non-voting stock, \$.01 par value, authorized 1,000,000 shares; issued and outstanding 155,199 shares at March 31, 2003 and at December 31, 2002 | 2 |
| Common stock, \$.01 par value, authorized 3,000,000 shares; issued and outstanding 1,818,934 shares at March 31, 2003 and 1,815,294 shares at December 31, 2002 | 10 |
| Additional paid-in capital | 10,514 |
| Accumulated other comprehensive gain, net of taxes | 73 |
| Retained earnings-substantially restricted | 7,279 |
| Treasury stock-at cost, 50,008 shares at March 31, 2002 and 53,648 shares at December 31, 2002 | (485) |
| Unearned Employee Stock Ownership Plan shares | (132) |
| | |
| Total stockholders' equity | 17,261 |
| | |
| Total liabilities and stockholders' equity | \$ 217,314 |

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BROADWAY FINANCIAL CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Earnings
(Dollars in thousands, except per share amounts)
(Unaudited)

Three Months ended March 31
2003 2002

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| | | |
|-----------------------------------------------------------|-----------|-----------|
| Interest on loans receivable | \$ 2,544 | \$ 2,824 |
| Interest on investment securities held to maturity | 30 | 49 |
| Interest on investment securities available for sale | 36 | 40 |
| Interest on mortgage-backed securities | 404 | 202 |
| Other interest income | 38 | 45 |
| Total interest income | 3,052 | 3,160 |
| Interest on deposits | 821 | 1,047 |
| Interest on borrowings | 176 | 129 |
| Total interest expense | 997 | 1,176 |
| Net interest income before provision for loan losses | 2,055 | 1,984 |
| Provision for loan losses | - | - |
| Net interest income after provision for loan losses | 2,055 | 1,984 |
| Non-interest income: | | |
| Service charges | 270 | 226 |
| Gain (loss) on loans receivable held for sale | 13 | (1) |
| Other | 6 | 11 |
| Total non-interest income | 289 | 236 |
| Non-interest expense: | | |
| Compensation and benefits | 914 | 928 |
| Occupancy expense, net | 258 | 241 |
| Information services | 130 | 134 |
| Professional services | 161 | 93 |
| Office services and supplies | 102 | 79 |
| Other | 184 | 191 |
| Total non-interest expense | 1,749 | 1,666 |
| Earnings before income taxes | 595 | 554 |
| Income taxes | 231 | 228 |
| Net earnings | \$ 364 | \$ 326 |
| Other comprehensive income (loss): | | |
| Unrealized income (loss) on securities available for sale | \$ 116 | \$ (5) |
| Income tax (expense) benefit | (43) | 2 |
| Other comprehensive income (loss) | 73 | (3) |
| Comprehensive earnings | \$ 437 | \$ 323 |
| Net earnings | 364 | 326 |
| Dividends paid on preferred stock | (19) | (7) |
| Earnings available to common shareholders | \$ 345 | \$ 319 |
| Earnings per share-basic | \$ 0.19 | \$ 0.18 |
| Earnings per share-diluted | \$ 0.18 | \$ 0.17 |
| Dividend declared per share-common stock | \$ 0.04 | \$ 0.03 |
| Basic weighted average shares outstanding | 1,787,662 | 1,782,330 |
| Diluted weighted average shares outstanding | 1,878,512 | 1,800,972 |

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| | As of March 31, 2003 | 2002 | Well- Re |
|----------------------------------------------------------------------|-------------------------|------------|-------------|
| Broadway Federal Bank, f.s.b. | | | |
| Regulatory Capital Ratios: | | | |
| Leverage/Tangible Ratio | 7.28% | 7.12% | |
| Tier1 Risk-Based Ratio | 12.24% | 10.92% | |
| Total Risk-Based Ratio | 13.15% | 12.09% | |
| Asset Quality Ratios and Data: | | | |
| Non-performing loans as a percentage of total gross loans | 0.06% | 0.17% | |
| Non-performing assets as a percentage of total assets | 0.04% | 0.19% | |
| Allowance for loan losses as a percentage of total gross loans | 0.90% | 1.12% | |
| Allowance for loan losses as a percentage of non-performing loans | 1623.86% | 662.87% | |
| Allowance for losses as a percentage of non-performing assets | 1623.86% | 455.36% | |
| Non-performing Assets: | | | |
| Non-accrual loans | \$ 88 | \$ 237 | |
| Real estate acquired through foreclosure | \$ - | \$ 108 | |
| Total non-performing assets | \$ 88 | \$ 345 | |
| Balance Sheet Data: | | | |
| Total assets | \$ 217,314 | \$ 181,986 | |
| Total gross loans | \$ 158,789 | \$ 140,298 | |
| Total equity | \$ 17,261 | \$ 14,916 | |
| Average assets | \$ 208,438 | \$ 179,189 | |
| Average loans | \$ 146,638 | \$ 139,536 | |
| Average deposits | \$ 162,215 | \$ 145,191 | |
| Average equity | \$ 16,922 | \$ 14,930 | |
| Average interest-earning assets | \$ 200,076 | \$ 171,856 | |
| Average interest-bearing liabilities | \$ 188,575 | \$ 154,730 | |
| Non-accrual loans | \$ 88 | \$ 237 | |
| REO, net | \$ - | \$ 108 | |
| ALLL | \$ 1,429 | \$ 1,571 | |

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AND SUBSIDIARIES Selected Ratios and Data (Dollars in thousands)

| | March 31, | |
|----------------------------------------|-----------|--------|
| | 2003 | 2002 |
| Performance Ratios: | | |
| Return on average assets | 0.70% | 0.73% |
| Return on average equity | 8.60% | 8.73% |
| Average equity to average assets | 8.12% | 8.33% |
| Non-interest expense to average assets | 3.36% | 3.72% |
| Efficiency ratio (1) | 74.62% | 75.05% |
| Net interest rate spread (2) | 3.99% | 4.31% |
| Effective net interest rate spread (3) | 4.11% | 4.62% |

- (1) The "efficiency ratio" is calculated by dividing total non-interest expense by total interest income before provision for loan losses plus total non-interest income (total income).
- (2) The "net interest rate spread" represents the difference between the yield on average interest-earning assets before provision for loan losses and the cost of average interest-bearing liabilities.
- (3) The "effective net interest rate spread" represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

