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Focusing On Niche Strategies Such As Church Lending, Broadway Financial Was Able To Be Competitive And Avoid The Sub-Prime Crisis

**Financial
Savings & Loans
(BYFC-NASDAQ)**

Broadway Financial Corporation

Broadway Federal Bank (the bank)

**4800 Wilshire Boulevard
Los Angeles, CA 90010
Phone: 323-634-1700**



**Paul C. Hudson
Chairman and CEO**

BIO:

Paul C. Hudson is the Chairman and Chief Executive Officer of the Company and the Bank. Mr. Hudson joined the Bank in 1981, was elected to the Board of Directors in 1985, and served in various positions prior to becoming President and Chief Executive Officer in 1992. Mr. Hudson is a member of the California and District of Columbia Bars. He serves on the board of the Insight Center for Community and Economic Development, Los Angeles Universal Preschool, Los Angeles Community Design Center, Boy

Scouts of America, and chairs the board of Community Build, Inc. and the Ebony Repertory Theatre. Mr. Hudson is a member of the Executive Committees of the Company and the Bank and is a member of the Loan Committee of the Bank.

Company Profile:

Broadway Financial Corp. (Nasdaq: BYFC), is the parent company of Broadway Federal Bank, f.s.b. a community-oriented savings bank, which primarily originates residential, church and commercial mortgage loans and conducts funds acquisition in the geographic areas known as Mid-City and South Los Angeles. The Bank operates five full service branches, four in the city of Los Angeles, and one located in the nearby city of Inglewood, California.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Hudson, how has the vision of Broadway Financial changed under your leadership?

Mr. Hudson: "We have taken a very aggressive growth position and we have sustained our growth based on unique niche strategies."

CEOCFO: What are some of these unique niche strategies?

Mr. Hudson: "For example, I am now getting credit for having avoided the sub-prime crisis. What it boiled down to was that was not a niche where we thought we could excel based upon the competition, and the pricing. We took niches like church lending, which was a unique niche for us where there isn't as much competition for understanding the unique characteristics of the borrower. It is built

on relationships, so for us that was a strategy that would allow us to go, keep our margins, maintain our credit quality and yet get volume. That is an example of one of our unique strategies."

CEOCFO: Would you tell us about the geographic area which you serve?

Mr. Hudson: "We focus on South Los Angeles and urban areas throughout California. Their characteristics tend to be large populations of minorities, low-income to moderate income, and urban environments so that is our primary geographic target market."

CEOCFO: How are things going today in your community?

Mr. Hudson: "Our community tends to if the economy has a fever then we have a high-grade cold. We usually have a much more painful impact of the economy, so unemployment is usually higher in our community as in the general community. Incomes are usually lower, which means they have less disposable income and less reserves in case of difficult economic times. The financial sophistication often is not at the same level when it comes to sophisticated financial products. Our market is very much impacted by the current economy."

CEOCFO: Your recent strategy involves re-establishing meaningful relationships; please tell us about that in general and how that is playing out today.

Mr. Hudson: "We have been questioning for some time the business model of wholesale banks, where you bring in broker deposits and you mesh that with brokered loans. As a model, we didn't believe that added franchise value. It was a model that other companies were operating quite successfully and it would be

difficult for us to compete, so we have purposefully tried to develop a more retail model that involves as you said customer relationships, the interaction with our customers and establishing our understanding of their deposit and borrowing needs. We believe that if we can build that type of business it will have more franchise value because there is more stickiness so to speak for those relationships.”

CEOFCFO: How is that working?

Mr. Hudson: “It is not a fast growth strategy, much slower growth, much more labor intensive, but we are very happy with the strategy because we are comfortable with slow incremental growth.”

CEOFCFO: How much is retail consumer vs. commercial, and would you like to see the mix change?

Mr. Hudson: “We tend to have more consumer relationships on the deposit side of our business, and more business relationships on the loan side of our business. Sometimes you almost think it is two banks, which is not unusual for a thrift franchise. Almost 90-plus percent of our business is real estate based, so we deal with small businesses that are refinancing their property to get cash out to run their businesses, to buy properties, and churches fit into the commercial real estate category, as well as charter schools. We tend to deal with small businesses and investors on our loan side. On our deposit side we tend to deal with people in our communities around our branches that are familiar with our history and our traditions that have banked with us for a number of years or that have recently discovered us and liked the personal community bank environment.”

CEOFCFO: How do you attract new customers?

Mr. Hudson: “It is very difficult particularly in the Los Angeles market because it is competitive market. As a large and diverse market, it requires such large advertising dollars to reach the consumer, so for us as a small community bank it is

challenging. What we have done is we have tried to target our marketing to the niches that we serve and the areas of South Los Angeles. This coming March 21st we are having our second town hall meeting where we invite members of our community to discuss current topics. The first one was on the financial crisis, and the second one is on the stimulus package. We have events in our branches, book signings, we do things with the press, and we go out and speak. It is more of what they call gorilla marketing when you have a small budget and you target your marketing in very specific niches.”

CEOFCFO: Do you find people coming to you for advice and guidance in this current environment?

“I am receiving credit for having avoided the sub-prime crisis. In fact, single family residential lending was not a product niche where we thought we could excel based upon competitive factors, such as loan pricing, automated origination systems and volume production. Thus, we focused on specialized market niches like church lending that afforded us better interest margins and stronger credit quality borrowers. We grew our loan volume based on local relationships and inefficiencies in the market resulting from fewer lenders understanding the unique characteristics of the faith based lending.”- Paul C. Hudson

Mr. Hudson: “Definitely. What I am finding is most consumers do not have a relationship with their banks. They don’t really have a banker. What Broadway offers is a place where people can come and get answers to their questions, actually sit down with a banker and talk to a banker about concerns, fears, and questions. I have found people to be very responsive to that. It is kind of a refreshing change, almost like I didn’t know there was such a thing where you could do that. So I am finding great receptivity to the idea of a personal banker.”

CEOFCFO: Given the current financial climate, it seems to be the right time for a personal banker!

Mr. Hudson: “I agree. Consumers are accepting their banking experience because the large banks have acquired such a large market share and they are so much alike that people assume that is all

there is. However, this is what banking is in America in 2009, particularly in urban centers where there are not a lot of small community banks such as in the rural areas. The banking experience has become very institutional, very technical. That is fine when everything is going fine in your life, but when things start breaking down and you want to talk to somebody about a late loan payment or you want to talk to someone about the safety and soundness of the bank, and are their deposits insured? You find that you don’t really have a banker that you could talk to about those sorts of things, or the banker that you thought you had, got moved or transferred. I agree that this banking option is not for everyone, but for a large constituency of people that are concerned

and have questions and suddenly have doubts about the banking system, it is a good thing to be able to talk to your banker and get answers to your questions.”

CEOFCFO: What is the financial picture like at the bank today?

Mr. Hudson: “We are very strong right now. We didn’t get caught up in the sub-prime lending operation, we tended to lend to people that we knew based on appraisals by independent appraisers and we verified peoples’ incomes. We have weathered so far quite well with respect to credit quality. On the deposit side we have benefited from the fed’s reduction in interest rates, so we have been able to slowly grow the volume our loans while at the same time improving the net interest margin between our cost of funds and the yield on our deposits. So the combination of those things, and as long as you don’t have high delinquencies is a recipe for improving earnings. We had a very good 2008, and so far we are pleased with our 2009, the only caveat I would put is that most economist don’t believe we are at the bottom of the economic cycle here, and that real estate prices in California continue to trend down, and unemployment continues to trend up. I can’t assure anyone that our portfolio will continue to hold up, but we are way ahead of the game compared to our peers.”

CEO CFO: I noticed you have a program aimed for young children; are people taking advantage of that?

Mr. Hudson: “The challenge for us is to get information out about what we have. Not many people know about this great program that we have for kids. We made an outreach of schools, but the schools that hear about us really love it. It is an exciting program. It is kind of small given the large number of public schools.”

CEO CFO: I see on your website that you are offering a really nice rate for online accounts; are many people taking advantage of this, and are you getting people outside of the area perhaps?

Mr. Hudson: “Yes. The reason the rate is so attractive is to try and increase our business from outside the neighborhoods that we serve and to reach a more technical, national audience. That account is a very popular. When people discover it they have to be pretty savvy online to check rates to find our rate or to find us, but once they do, we are finding that the word-of-mouth is starting to go around. We are seeing substantial growth in our online accounts.”

CEO CFO: What do you look for in your people; what are the intangibles?

Mr. Hudson: “They have to have an interest in and a passion for community banking, which means they have to wear a number of different hats, and have to be willing to deal with and interact with customers. It is not a big bank where you are three levels removed from customers. We are also looking for honesty and integrity, which is very important, particularly in this environment. We are looking for people who enjoy interacting with people, which is a very important variable that people just take for granted in a banking environment.”

CEO CFO: Are there new services that you would like to add to the mix?

Mr. Hudson: “We are really less focused right now on new products and services.

We are trying to have a more personal relationship with the customers that already bank with us and are using our product already. So we have a lot of interaction with new customers, and we are trying to expend that experience to the customers that have been with us for years. We try to expand our business and relationship with our traditional customers, which we think is very important not only for customers retention, but in establishing multiple relationships with our existing customers. We are trying to grow our business with new customers, but we are particularly focused on our existing customer base and trying to leverage those relationships, which probably doesn't require us to do a lot of new products and services.”

CEO CFO: Are the church members using your services?

Mr. Hudson: “We haven't gotten that far yet, although that is the strategy, to bank the church and the members. It is a little harder when you only have five branches to convince the membership that you are acceptable and convenient, but we think that it is the logical progression for churches to pool and leverage their money through the church and the church membership. We are looking for strategies to provide incentives to church members, maybe a program where we can tithe back to the churches in some way for their members' support of the bank. We think that is a very smart, very intelligent business model in 'mining', so to speak, our church niche.”

CEO CFO: What is ahead for Broadway Financial?

Mr. Hudson: “We like most banks are looking to develop strategies to allow us to weather the next 12 to 24 months. What we would like to do is position ourselves to be one of the strong banks that either can look to do mergers and acquisitions within our market or expand through branch expansion. We are hopeful that we can maintain our profitability, attract new capital, and continue to grow

from about \$400 million to about \$1 billion.”

CEO CFO: As CEO, what are some of your usual activities during the day?

Mr. Hudson: “Today I did a radio spot for the town hall meeting we are having on March 21st, and I'm doing this interview with you. I also meet with new clients and I look at loans for approval. I am meeting with our senior management staff this afternoon to talk about what we are trying to do this year in terms of how much growth, what type of growth, new systems we are trying to implement to ensure the credit quality. I have a board; and I am liaison with our board committee and our board chairs. On top of all of that, I spend probably about 30% of my time with volunteer activities on non-profit boards.”

CEO CFO: In closing, what should people reading about Broadway Financial remember most?

Mr. Hudson: “It is important to develop a business strategy and a model and stay with it in spite of what is popular or profitable. As bankers we too often get caught up in copycat type strategies. It is easier to look back now and see the sub-prime lending strategy that a lot of people copied, because it was so profitable and so many banks were making so much money with it. There was also the Madoff Ponzi scheme; people followed other people that were making 18% returns, but that wasn't really their investor strategy. They were adopting someone else's investment strategy because it was perceived as more profitable or lucrative for them. If people come away saying they stuck with their knitting and they are weathering the storm, I think that is a good story.”

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