



## **PUBLIC DISCLOSURE**

June 6, 2016

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Broadway Federal Bank, F.S.B.  
Charter Number 705141

5055 Wilshire Boulevard, Suite 500, Los Angeles, CA 90036

Office of the Comptroller of the Currency

550 North Brand Boulevard, Suite 500, Glendale, CA 91203

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Outstanding.**

**The Lending Test is rated: Outstanding.**

**The Community Development Test is rated: Outstanding.**

The major factors that support these ratings include:

- The bank's loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and business strategy.
- A majority of the bank's lending activity originated within its delineated assessment areas.
- The geographic distribution of loans exceeds the standard for satisfactory performance and reflects excellent dispersion.
- The bank's community development activities exceed the standard for satisfactory performance and reflect excellent responsiveness to the community development needs in the assessment area.

### **Scope of Examination**

This Performance Evaluation (PE) assesses Broadway Federal Bank, F.S.B.'s (Broadway or bank) CRA performance using Intermediate Small Bank CRA procedures. We evaluated the bank's Home Mortgage Disclosure Act (HMDA) lending activity from January 1, 2014, through December 31, 2015. Our analysis included home purchase and home refinance loans for multi-family properties. In addition, we evaluated the bank's community development loans, investments, and services. The evaluation period for community development activities was from January 1, 2013, through June 1, 2016.

Prior to the CRA examination, we performed a data integrity examination to determine the accuracy of the bank's HMDA loan data. We determined the data to be accurate. As a result, our analysis included 100 percent of the bank's lending activity for multifamily properties for the evaluation period.

### **Description of Institution**

Broadway Federal Bank is a federally chartered stock savings institution headquartered in Los Angeles, California. The bank, a minority-owned financial institution, opened in January 1947. It is designated a Community Development Financial Institution (CDFI).

As a CDFI, the bank promotes community development (CD) and revitalization in low- and moderate-income (LMI) areas by providing access to credit and other financial services. During the assessment period, the bank received the CDFI Bank Enterprise Award.

The bank is a wholly owned subsidiary of Broadway Financial Corporation, which is a single-bank holding company. The main bank is located in midtown Los Angeles, in an upper-income census tract (CT). In addition, the bank operates two branch locations, with one in a low-income CT in Exposition Park, and one in a middle-income CT in Inglewood. There were no branch closures during this assessment period.

Broadway offers a variety of commercial loan products to meet the credit needs of small- and medium-size businesses, with a primary emphasis on multifamily residential lending. Additionally, the bank offers traditional services at the main bank location and the two branch locations. Banking hours at all banking locations are reasonable, and for off-hours ATMs are maintained at each location.

As of March 31, 2016, Broadway reported total assets of \$387 million, total loans of \$324 million, total deposits of \$261 million, and tier 1 capital of \$47 million. Net loans represented 83 percent of total assets. The bank’s primary lending product is multifamily loans, both purchase and refinance. During the assessment period, management made a bulk purchase of traditional 1-4 family residential loans to diversify the loan portfolio. While these loans represent 38 percent of the loan portfolio, the loans are not the bank’s primary product and were not considered as part of this CRA evaluation. The following chart summarizes the loan portfolio by major loan type.

Loan Portfolio Summary by Loan Product as of March 31, 2016	
Loan Category	Percentage of Total Loans (Outstanding Dollars)
Commercial Real Estate (RE)	17.2%
Multifamily Residential RE	44.1%
1-4 Family Residential RE	38.4%
Other (Commercial/Construction)	0.3%
Total	100.0%

Currently, the bank has no financial impediments that would affect its ability to help meet the credit needs of its AAs. However, during the evaluation period, the bank’s ability to lend and participate in CD activities in its AAs was impacted by the terms of a formal enforcement action with its primary regulator. The Consent Order, which was in place from September 9, 2010 to November 23, 2015, restricted lending activity and prevented the bank from increasing investments in public welfare instruments.

The bank received an “Outstanding” rating at the prior CRA examination performed on July 15, 2013. Similar to this CRA Performance Evaluation, the bank was evaluated under the Intermediate/Small Bank CRA procedures during the 2013 CRA examination.

**DESCRIPTION OF ASSESSMENT AREA**

Broadway has designated Los Angeles County as its assessment area (AA). The AA includes all 2,346 census tracts that make up the Los Angeles Metropolitan Division (MD). The bank’s AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. The following table provides demographic information for the Los Angeles County AA.

Demographic Information for Los Angeles County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2,346	8.99	28.64	26.77	34.02	1.58
Population by Geography	9,818,605	8.01	29.43	28.26	33.92	0.39
Owner-Occupied Housing by Geography	1,552,091	2.13	16.61	28.64	52.61	0.01
Business by Geography	734,030	6.42	18.23	25.19	48.90	1.26
Farms by Geography	7,024	3.29	16.29	26.79	52.98	0.65
Family Distribution by Income Level	2,170,227	24.05	16.43	17.64	41.88	0.00
Distribution of LMI Families throughout AA Geographies	878,478	13.64	41.84	26.84	17.67	0.01
Median Family Income HUD Adjusted Median Family Income for 2015 Households Below Poverty Level		61,622 63,000 14%	Median Housing Value (Zillow 4/30/2016) Unemployment Rate (May 2016)	576,100 4.9%		

Los Angeles County is located in southern California and covers 70 miles of coastline along the Pacific Ocean. The county spans over 4,083 square miles and includes San Clemente and Santa Catalina Islands. This area is larger than the combined areas of the states of Delaware and Rhode Island. The neighboring counties include Orange to the southeast, Kern to the north, San Bernardino to the east, and Ventura to the northwest.

Los Angeles County holds most of the state’s principal cities encompassing the Greater Los Angeles Area. There are 88 incorporated cities in the county and many unincorporated areas. The northern half of the county consists of less populated inland areas, while the southern half of the county is heavily urbanized. Based on 2010 Census data, the population was 9.8 million. However, recent estimates indicate the population has increased to over 10 million, making Los Angeles County the most populous county in the United States.

Los Angeles County has a diverse economic base. Historically, the leading industry clusters have been tourism and hospitality, professional and business services, entertainment (motion picture and television production), wholesale distribution, and health services and biomedical. However, in recent years aerospace and technology have become leading industries in the county.

Additionally, Los Angeles County is the largest manufacturing center in the United States, including several auto manufacturing design centers. This includes Tesla, which manufactures an electric car and now owns the factory previously owned by Toyota. Manufacturers of heavy machinery for the agricultural, construction, mining, and oil industries contribute significantly to the local economy. Los Angeles is also a major producer of furniture and fixtures, as well as petroleum products and chemicals, print material, rubber goods, electronic equipment, and glass, pottery, ceramics, and cement products.

The top employers in the AA are: Los Angeles County, Los Angeles Unified School District, U.S. Government, UCLA, City of Los Angeles, State of California (non-education), Kaiser Permanente, Boeing Company, and Ralph's Grocery Stores. The unemployment rate in the county has continued to decline; as of May 2016, the unemployment rate was 4.9 percent compared to 8.3 percent three years ago.

Overall, high home prices force the majority of Los Angeles County residents to rent, and rents are high compared to incomes. According to Trulia, the median starter home (single family residence and condominium), which listed at \$329 thousand, would require over 88 percent of the median starter homebuyer's income. The national average is 38 percent. However, the starter home inventory in Los Angeles dropped almost 71 percent over the past few years, forcing most potential first-time homebuyers to continue to rent. As a result, the demand for rentals has increased the cost of renting. The average rent in Los Angeles is \$1,716 per month. An apartment is considered affordable when the renter pays no more than 38 percent of his/her income in rent. Los Angeles residents spend an average of 47 percent of their income on rent, which makes the city one of the most unaffordable cities in the U.S.

The banking environment in the bank's AA is highly competitive. The June 30, 2015 FDIC Deposit Market Share report indicates that 110 institutions competed for deposits in the Los Angeles MD. Broadway ranks 63<sup>rd</sup> and holds a deposit market share of 0.07 percent. This is a decrease from the prior assessment period when market share was at 0.10 percent. Eighty-five percent of the deposits in the AA are held by large bank institutions such as: Bank of America, N.A.; Wells Fargo Bank, N.A.; Union Bank N.A.; JP Morgan Chase, N.A.; City National Bank; Citibank, N.A.; East West Bank; OneWest Bank, N.A.; Bank of the West; U.S. Bank, N.A.; Comerica Bank; Pacific Western Bank; Cathay Bank; and HSBC Bank USA, N.A. The remaining competing banks hold less than one percent each. The banks competing for deposits in the Los Angeles AA, also compete for loans. There are numerous other institutions that do not collect deposits but compete for loans in the Los Angeles AA, making it more difficult for banks to compete for loans than deposits.

We contacted three Community Development (CD) organizations in Los Angeles County, one that serves LMI individuals and two that provide economic development services to small businesses. We also reviewed three recent community contacts: one that provides economic development services to small businesses, one that provides services to LMI, and another that helps provide affordable housing for LMI individuals. These contacts indicated the following are the most significant CD needs in the AA:

- Financial literacy training for individuals and families, including how to manage and reconcile a checking account, how bank fees work, and how to establish and use credit;
- Technical assistance and education for small business owners or entrepreneurs regarding how to run a business (recordkeeping, accounting, taxes, and how to provide sufficient documentation for obtaining loans from a financial institution);
- Support for loan funds that provide financing for small businesses;
- Financial support in the form of grants and loans to programs that assist the homeless;
- Support for programs that help people meet basic day-to-day needs: food, clothing, shelter;
- Grant funds for Community Development Financial Institutions (CDFI) to support their operations, provide technology to remain relevant in the changing market, and provide staff to efficiently and effectively distribute available funds; and
- Access to credit, particularly for LMI individuals that could be at risk for predatory lending.

### **Conclusions with Respect to Performance Tests**

The bank's overall CRA performance is *Outstanding*. This is supported by separate conclusions for the lending test and the community development test. See details of each test in the following sections.

#### **LENDING TEST**

The bank's performance under the lending test is *Outstanding*. Overall, the bank's lending activity more than reasonably meets the credit need of its delineated AA. The bank exceeds the standard for satisfactory performance on two tests and meets the standard for satisfactory performance on one test.

#### **Loan-to-Deposit Ratio**

Broadway's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. The bank's LTD ratio is more than reasonable given the size, financial condition, and business strategy. The quarterly average LTD ratio for the previous 12 quarters, since the prior CRA examination through March 31, 2016, was 116 percent.

The bank’s average LTD ratio compares favorably to other financial institutions of similar size, assessment area demographics, and/or lending products. For the purpose of this evaluation, we compared five similarly situated banks. The average net LTD ratio for the five banks was 107 percent.

**Lending in Assessment Area**

Broadway’s lending in the AAs meets the standard for satisfactory performance. A majority of the bank’s loans were made within the bank’s delineated AAs, both by number and dollar volume. See Table 1 for details.

Table 1 – Lending in the Defined CRA Area Los Angeles County AA January 2014 through December 2015										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Multi-Family	147	70.33	62	29.67	209	136,116	66.08	69,882	33.92	205,998

Source: Bank Loan Data

Note: In 2015 the bank purchased a pool of traditional single family residences located outside the bank’s AA. These loans are not included in the data above.

**Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The bank’s primary lending product is HMDA reportable loans for multifamily housing, both purchase and refinance. The bank is not required to report income information on multifamily housing loans for HMDA data purpose. Therefore, we are unable to determine if these loans went to low- and moderate-income borrowers. Hence, the income distribution analysis would not be meaningful and was not included in the scope of this review.

We did not sample commercial business loans to evaluate lending to businesses of different sizes, as this product is not a major loan product. The analysis would not provide a meaningful conclusion due to the bank’s lending activity and business strategy during this evaluation period.

**Geographic Distribution of Loans**

The geographic distribution of multi-family loans reflects excellent dispersion and exceeds the standard for satisfactory performance. Lending to borrowers located in low- and moderate-income tracts exceeds the peer aggregate, which is the demographic comparator. Additionally, we compared the bank’s lending to the percentage of multifamily properties in the AA. The bank’s lending also exceeds this comparator. See Table 2 for details.

Table 2 – Geographic Distribution of Mortgage Loans Los Angeles County AA			
Census Tract Designation	Review Period 2014 - 2015		Peer Aggregate 2014
	% of Multi-Family 5+ Units in AA	% Number of Bank Loans	%
Low	13.15	22.45	2.71
Moderate	31.58	55.10	17.40
Middle	24.67	19.05	22.75
Upper	0.17	3.40	58.36

Sources: 2010 U.S. Census and Bank Reported HMDA-LAR information/Not Available is 0.17%

## Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

## COMMUNITY DEVELOPMENT TEST

The bank's performance under the community development test is *Outstanding*. Overall, the bank's community development activities reflect excellent responsiveness to the community development needs in the AA. We gave the most weight to the bank's community development services since this is a stated need in the bank's AA. Furthermore, due to the bank's size, it does not have the expertise or the opportunities for CD loans and investments that larger competing banks have.

### Extent to Which the Bank Provides Community Development Services

Broadway's community development service program demonstrates excellent responsiveness to the needs within the AA. We evaluated both the bank's retail banking services and community development services.

The bank is significantly involved in financial literacy education programs with numerous organizations throughout the AA. This is particularly noteworthy, since there is a significant need for financial literacy education for LMI individuals, to which Broadway has been very responsive by providing in excess of 3,700 community service hours in the AA. Of these community service hours, 1,347 hours qualified for community development consideration to various organizations. These organizations include Title 1 schools and community organizations with services targeted to LMI individuals/families. Additionally, the bank participated in the LA Saves campaign and VITA programs, which provide financial and tax services to LMI individuals.

The distribution of the bank's branches and service delivery systems are satisfactory and accessible to individuals of different income levels within the AA. The bank has three full service branch locations with full service ATMs.

Of the three branch locations, one branch is located in low-income tract, representing 33 percent of the bank's branches, which compares favorably with the AA demographics of nine percent of the census tracts are low-income. Branch hours are convenient to individuals. Additionally, the bank offers internet-banking services.

### **Number and Amount of Community Development Loans**

Broadway's CD loans reflect adequate responsiveness to the needs within the AA. The bank originated 12 loans totaling \$6.3 million. These loans provided 87 units of affordable housing for LMI families and helped meet a significant need in the AA.

### **Number and Amount of Qualified Investments**

Broadway's CD investments reflect adequate responsiveness to the needs within the AA during the evaluation period. The bank made qualified investments totaling \$12.2 thousand. The investments were in the form of donations to 16 different community service organizations in their AA. These organizations provide community development services targeted to LMI individuals/families. The following are services provided by the various organizations:

- Scholarships programs to low income students
- Specialized services for at-risk low income youth and early intervention programs for at-risk community youth
- Mental healthcare for low income/homeless

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other legal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.