

# BROADWAY

FINANCIAL CORPORATION

To: Mr. Neil M. Barofsky  
Special Inspector General – TARP  
1500 Pennsylvania Avenue, NW Suite 1064  
Washington, DC 20220

Dear Mr. Barofsky,

On November 14, 2008, Broadway Financial Corporation (the Company) received a \$9million investment from the U.S. Treasury Department pursuant to treasury's TARP Capital Purchase Program. As of 09/30/08, our Total Risk Based Capital Ratio was 11.02%. Our regulators required us to maintain a Total Risk Based Capital Ratio of 11.00%. As of 10/31/08, prior to us receiving the TARP funds, our existing capital level plus our 2009 earnings could only support an asset growth of \$39 mil. This amount was far below the optimal growth of \$87mil planned by the Board.

Broadway initiated the CPP investment transaction to raise capital to support our continued growth. Upon receipt of the \$9mil TARP funds in November of 2008, we immediately invested \$2 mil in the Bank. This additional capital will allow the Bank to grow its loan portfolio by an additional \$20 mil through the first half of 2009. By June 2009, we plan to invest an additional \$3 mil in the Bank which will increase our loan portfolio by another \$30 mil.

The total capital infusion of \$5 mil in the Bank as well as the additional capital from our 2009 earnings will enable the Bank to support its budgeted growth of \$87 mil for the year 2009.

The remaining \$4 mil of TARP funds was used or is expected to be used as follows:

- (1) \$2.5 mil was used to repay a line of credit with First Federal Bank of California which was added as capital to support an increase in our loan portfolio of \$25 mil in advance of the receipt of the TARP funds.
- (2) \$1.5 mil will be retained at the Holding Company to ensure the Holding Company has the appropriate resources to support and manage the bank.

As regards to item #2 of your letter regarding executive compensation we have done the following:

Broadway Federal Bank's Compensation Committee of the Board of Directors engaged EW Partners Inc, a Human Resource consulting firm to do a complete review of our executive compensation and incentive compensation plans as they relate to our TARP obligations. Their work included the following tasks:

The personnel file for each of the executive officers was reviewed in detail as to compensation, severance and employment agreements. All compensation information for each executive was summarized for the Compensation Committee's review.

The executive incentive compensation plan in place for 2008 and 2009 was reviewed to provide an understanding as to what objectives and their weightings might encourage "unnecessary or excessive risk taking".

2008 compensation components for each executive were reviewed and noted for the committee.

2007 bonus calculations for payment in 2008 were reviewed, and the CFO was interviewed to confirm that no underlying bonus criteria had been subsequently revised or modified.

All severance payments made to executives in 2008 were reviewed for compliance with the TARP and IRS restrictions.

From this detailed review, by a third party, the following recommendations were made to the Compensation Committee of the Board and confirmed by the board:

All executives will have their annual objectives and the scoring for same included in their personnel files.

Each personnel file will, in the future, include the bonus calculation for that executive, the date of payment, dated and signed by person performing the calculation and dated and signed by the SEO approving the bonus.

Each SEO has met with the Chair of the Compensation Committee of the Board of Directors to be informed that asset quality and safety and soundness are critical to the bank and that any "unnecessary or excessive risk taking" will not be condoned. Each executive was assured that there would be no retaliation for their informing the board of any loans at risk or any bank policies they felt added risk to the bank. Each SEO received a copy of the amendment to the incentive plan for the "clawback" provision and the restriction on payment of bonuses if certain soundness objectives were not met by the bank.

Each SEO confirmed their understanding and signed an acknowledgement of same. They also executed a waiver of any claims against the bank and the Department of the Treasury related to any loss due to the changes in the executive compensation plans.

A formal amendment to the executive incentive plan was made by the board to comply with the TARP requirements.

The CFO has been charged with the responsibility to confirm that any severance payment made by the bank complies with the Department of Treasury's regulations and that this confirmation will be in writing, signed and dated by the CFO and filed in the executive's personnel file.

The board changed the 2009 objectives for the bank and each executive to make sure that a significant portion of the objective weighting was allocated to compliance and asset quality. In the case of the bank this weighting accounted for 30% of the objective weighting compared to 5% for 2007.

Mr. Barofsky, feel free to contact me if you should have any questions. I can be reached at: (323) 556.3224.

Sincerely,

  
Sam Sarpong  
SVP/Chief Financial Officer

Cc:

OFFICE OF THE SPECIAL INSPECTOR GENERAL  
TROUBLED ASSET RELIEF PROGRAM  
1500 Pennsylvania Ave., N.W., Suite 1064  
Washington, D.C. 20220

February 6, 2009

Mr. Sam Sarpong  
Broadway Financial Corporation/ Broadway Federal Bank  
4800 Wilshire Blvd  
Los Angeles, CA 90010

Dear Mr. Sam Sarpong,

The Emergency Economic Stabilization Act of 2008 ("EESA") that established the Troubled Asset Relief Program (TARP) also created the Office of the Special Inspector General for Troubled Asset Relief Program (SIGTARP). SIGTARP is responsible for coordinating and conducting audits and investigations of any program established by the Secretary of the Treasury under the act. As part of an audit into TARP recipients' use of funds and their compliance with EESA's executive compensation requirements,

I am requesting that you provide my office, within 30 days of this request, the following information:

- (1) A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.
- (2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

In connection with this request:

- (1) We anticipate that responses might well be quantitative as well as qualitative in nature regarding the impact of having the funds, and we encourage you to make reference to such sources as statements to the media, shareholders, or others concerning your intended or actual use of TARP funds, as well as any internal email, budgets, or memoranda describing your anticipated use of funds. We ask that you segregate and preserve all documents referencing your use or anticipated use of TARP funds such as any internal email, budgets, or memoranda regarding your anticipated or actual use of TARP funds.
- (2) Your response should include copies of pertinent supporting documentation (financial or otherwise) to support your response.
- (3) Further, I request that, your response be signed by a duly authorized senior executive officer of your company, including a statement certifying the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.
- (4) Responses should be provided electronically within 30 days to SIGTARP at SIGTARP.response@do.treas.gov, with an original signed certification and any other supporting documentation mailed to: **Special Inspector General – TARP; 1500 Pennsylvania Avenue, NW; Suite 1064; Washington, D.C. 20220.**

We think this initiative is vital to providing transparency the TARP program and the ability of SIGTARP and others to assess the effectiveness of TARP programs over time. If you have any questions regarding this initiative, please feel free to contact Mr. Barry W. Holman, my Deputy Inspector General for Audit at (202) 927-9936.

Very truly yours,



Neil M. Barofsky  
Special Inspector General

OMB Control No. 1505-0212  
(Expires August 2009)