

## University Bancorp's Frequently Asked Questions:

### What was the performance of the Newberry State Bank under University Bancorp's ownership and Stephen Lange Ranzini's direction?

Year	Pre-tax Income Normalized As Stated	Unusual Items	Pre-Tax income
1988	\$471,000		\$471,000
1989	\$562,000		\$562,000
1990	\$668,000	(\$ 50,000) (1)	\$718,000
1991	\$328,000	(\$391,000) (2)	\$719,000
1992	\$776,000	\$ 45,000 (3)	\$821,000
1993	\$694,000 (4)	(\$190,000) (5)	\$884,000

- (1) Start-up of Sault Ste. Marie branch operations (partial year) \$50,000
- (2) Start-up of Sault Ste. Marie branch operations \$120,000; net securities losses due to collapse of Southeast Bank \$271,000
- (3) Off-balance sheet value of mortgage servicing rights created.
- (4) Securities gains from mortgage banking ARMs of \$118,000 included in pre-tax income; excludes RAP charitable contribution of \$280,000 to fund Northern Michigan BIDCO.
- (5) Off-balance sheet value of mortgage servicing rights created +\$60,000; start-up of Sault Ste. Marie full service branch operations -\$100,000; start-up of mortgage banking division - \$150,000.

### What has been the track record of Stephen Lange Ranzini as a manager and investor in financial services businesses?

Here is the track record for the five financial services firms that University Bancorp has owned:

Firm	\$ Invested	Date	Sale Proceeds	Date
Newberry State Bank	\$1,550,000	8/88	\$5,000,000	11/94
Michigan BIDCO	\$ 280,000	5/93	\$1,543,464	(1) 12/01
Midwest Loan Services	\$ 800,000	12/94		(2)
Varsity Mortgage	\$ 300,000	2/96	\$1,100,000	(3) 11/99
University Bank	\$5,000,000	2/96		(4)

- (1) Sale proceeds includes intercompany tax payments received during ownership.
- (2) Current shareholders' equity \$2,300,000.
- (3) Sale proceeds includes dividends received during ownership.
- (4) Cumulative loss to shareholders to date from this division: \$4,400,000 (includes income from certain mortgage operations 1995 to 1998)

### What has been the growth of Midwest Loan Services' mortgage servicing business?

See [Midwest Stats.](#)

## What is the performance of University Bancorp's investment portfolio?

University Bancorp, Inc.

Style: equity and non-investment grade debt to generate capital gains.

2002	(none)	
2001	(none)	
2000	128.7%	
1999	(none)	
1998	74.7%	
1997	20.8%	
1996	51.2%	
1995	17.5%	
1994	11.8%	
1993	39.6%	
1992	68.9%	
1991	-53.6%	
1990	73.8%	
1989	(none)	
1988	(none)	
Average	43.3%	(10 year average)

Note: In some years University Bancorp did not have an investment portfolio.

## What is the performance of University Bank's investment portfolio?

Style: conservative U.S. government-backed or U.S. agency securities to generate income with short duration of two to three years. Performance includes realized and unrealized gains and losses.

2002	13.69%
2001	18.18%
2000	13.94%
1999	-11.99%
1998	1.14%
1997	14.15%
1996	7.79%
1995	12.72%
1994	-0.83%
1993	6.48%
1992	6.95%
1991	8.71%
1990	4.79%
1989	10.27%
Average	7.09%

## The community banking division of University Bank in Ann Arbor has lost money almost every year since it started. Why? Are things improving? What is the trend?

The original management team that was hired to run the community banking division was unable to meet the established budgets for three years running which called for the bank to break-even in the second

year and instead lost \$3,500,000 over two years. When the management was replaced in late November 1997 and Stephen Lange Ranzini took over day-to-day management of the bank for the first time, the community banking division was losing over \$100,000 a month. A cost cut that was implemented on January 15, 1998 was intended to immediately bring the community banking division to a profit however a series of biased and hostile articles in the Ann Arbor News and Ann Arbor Observer caused 1/3 of the bank's loans and deposits to leave the bank over the following six months. The Ann Arbor News articles included quotes from and discussion of the FDIC's 1997 confidential Report of Examination of the Bank, a biased and fundamentally flawed report that was littered with inaccuracies, and did not include management's rebuttals of the Report of Examination. The negative publicity impeded the bank's growth for the next several years.

Here are the annual results of the Ann Arbor Community Banking division since inception:

1996	(\$1,199,000)
1997	(\$1,487,000)
1998	(\$ 900,000)
1999	(\$ 579,000)
2000	(\$1,099,000) (1)
2001	(\$ 414,000)
2002	\$ 20,000
2003	(\$ 301,000)
2004	(\$ 249,000) (2) year to-date to 9/30/2004

- (1) Income in 2000 was negatively impacted by a sharp spike in short-term interest rates, and there were two unusual, non-recurring expenses of \$360,000 that negatively impacted the results.
- (2) Income in 2003 and 2004 was negatively impacted by losses from foreclosures of real estate loans. The cost in the 2004 period was over \$300,000, and the cost in the 2003 period was over \$150,000.

### **How is your board of directors structured? Do they live up to the best practices of corporate governance?**

Our company conforms to best practices for public companies. We have divided the role of Chairman from President and Chief Executive Officer and also have appointed an official Lead Independent Director, who also serves as the Chairman of the Audit Committee. Robert Goldthorpe is the Chairman of our company, Stephen Lange Ranzini is the President and Chief Executive Officer, Nicholas Fortson is the Chief Financial Officer and Michael Talley is the Lead Independent Director and Chairman of the Audit Committee. The Audit Committee consists of our three independent directors, Michael Talley, Robert Goldthorpe and Gary Baker. The Audit Committee meets quarterly, each time without management present.

### **What financial controls have you placed on the company and how it is run day-to-day?**

Both University Bank and University Bancorp have an active audit committee whose membership consists solely of non-management, independent directors. Management does not attend these meetings. The company has a full-time Internal Auditor, VP Janet Anderson, who is assisted on a case-by-case basis by additional outside expert consultants. The company's external auditor is Grant Thornton.

### **How much does your board earn each year?**

The members of the board of directors all serve without pay. Each board member of University Bancorp does have stock options covering 25,000 shares of stock so they have an incentive that is similar to the shareholders to see the company prosper.

### **When does your board of directors meet?**

The board meets four times a year. The audit committee of the board meets four times a year. The other committees meet as needed. The meeting schedule is not open to the public and the board and committee meetings are not open to the public.

### **How much does management get paid?**

The senior managers have relatively low salaries and benefits relative to their peer group. For full details see the proxy statement at [2004 Proxy](#).

### **What is University Bank's Vision?**

University Bank's Vision is: "We build the foundation for your future."

### **What is University Bank's Mission?**

University Bank's Mission is: "We are a bank focused on listening and responding to our community's true needs, profitably providing the highest level of service to the people, small businesses and organizations we serve."

### **What are University Bank's Values?**

#### ETHICS

*We are guided by our shared values and always strive to maintain them in everything we do:*

#### THE INDIVIDUAL

We respect the individual and value their differences, including their need to achieve professional and personal balance in their life.

#### INTEGRITY

We speak openly and directly and we do what we say, with care and compassion, and work hard to understand and resolve issues.

#### ACCOUNTABILITY

We understand what is expected of us, and are fully committed to meeting those expectations.

#### SUCCESS

We focus on listening and responding to our customers' true needs, by combining operational excellence and cross-functional teamwork to

produce exceptional results, with profit.

DIVERSITY

We celebrate, respect and serve our diverse community.

COMMUNITY

We improve our communities by being active, responsible and generous members of the communities we serve.

**Who are your primary competitors?**

We compete in three major segments:

1. Retail Banking in Ann Arbor
2. Mortgage Servicing; and
3. Islamic Finance.

Our primary competitors are:

1. Retail Banking in Ann Arbor:
  - a. Bank of Ann Arbor
  - b. Capitol Bancorp
2. Mortgage Servicing:
  - a. Dovenmuehle Mortgage
  - b. CUNA Mutual
3. Islamic Finance:
  - a. Guidance Mortgage
  - b. La Riba
  - c. Devon Bank

**What is a rights offering and why did you do one in November 2001?**

In a rights offering, each shareholder is offered the right to acquire additional shares. In November 2001 we offered shareholders the right to acquire one additional share of common stock for each share of common stock that they owned at that time. A total of 1,659,749 shares were sold to our shareholders for \$1,659,749 under the rights offering. The board decided to conduct the rights offering because the major shareholders of the company had loaned the company substantial dollars during the turn-around of University Bank and rather than selling shares of common stock in a private sale to those shareholders, offered shares on the same terms to all, so that every shareholder would be treated fairly and have the same opportunity to benefit from the turn-around of the bank. The rights offering prospectus is available at [Rights Offering Prospectus](#).

**What is a reverse stock split and why did you announce a reverse stock split in September 2002? Why didn't you follow through and do it?**

A reverse stock split is the opposite of a typical stock split. For example, we had proposed that every two shares of stock would become just one share of stock, halving the number of shares outstanding. We did this because our stock was in danger of being delisted from the NASDAQ Stock Market and we wanted to preserve our listing on NASDAQ. However, our stock price increased and as a result NASDAQ informed us that our stock listing was no longer at risk. Since reverse stock splits are expensive and generally hurt the shareholders, we immediately terminated the proposed reverse stock split.

**Over the years, what stock splits and stock dividends have you done?**

Holders of record at the close of business on February 23, 1998 received an additional 1 share for each 2 shares held in the form of a 50% stock dividend. On May 15, 1992 we effected a 1 for 2 reverse stock split and on December 27, 1990 we effected a 1 for 5 reverse stock split. The company changed its name from Fortune 44 Company on March 10, 1990. To illustrate, if you had held 100 shares of Fortune 44 Company at January 1, 1990 when Fortune 44 acquired became a bank holding company, you would have had the following number of shares:

January 1, 1990	100 shares
December 28, 1990	20 shares
May 16, 1992	10 shares
February 24, 1998	15 shares
Today	15 shares

### **Why do you have a bank holding company and how is it different from a bank?**

In 1988 when we acquired the Newberry State Bank, we formed a bank holding company because we had to borrow \$3,200,000 from BankOne to acquire the bank. The best way to have this loan was through a bank holding company, so we formed University Bancorp at that time. Today's the bank holding company's loan is reduced down to just \$34,000.

### **Are you profitable?**

See our [recent press releases](#) on the shareholder information web page for detailed financial information.

### **Are you well capitalized?**

See our [recent press releases](#) on the shareholder information web page for detailed financial information.

### **What is the history of University Bank and University Bancorp?**

University Bank is owned by University Bancorp, a NASDAQ Stock Market listed bank holding company. University Bank was initially chartered as The Newberry State Bank located in Newberry, Michigan in the Upper Peninsula. While the bank was founded in 1890, a bank holding company owned by Stephen Lange Ranzini and Joseph Ranzini acquired controlling interest in the bank in 1988. Under Stephen Lange Ranzini's leadership as President and CEO of the Bancorp, the bank expanded into Sault Ste. Marie and doubled in size.

In 1994 Newberry State Bank sold its loans, deposits and branches to another bank in the Upper Peninsula. Retaining the Bank charter, Stephen Ranzini changed the name of the charter to University Bank.

Stephen Lange Ranzini was interested in relocating the bank charter to Ann Arbor because there were no community banks based in Ann Arbor and this is a diverse, vibrant and growing community. A new management team was recruited and the bank opened in Ann Arbor in early 1996. After the initial management team was replaced, Stephen Lange Ranzini took over the direct day-to-day management of the bank in late 1997.

Rebecca David joined University Bank in January 2001 as CEO. She was previously President of a \$500 million community bank in the Detroit area. Rebecca left the bank January 2, 2004 and Nick Fortson, the

bank's Treasurer, was appointed CEO of the bank in her place. Stephen Lange Ranzini remains President and Chairman.

### **What is University Bank's unique service proposition?**

University Bank is positioned as a sophisticated community bank with a high degree of personalized, comprehensive, responsive customer service and low fees. At University Bank customers experience the difference of:

- **Local decision making**
- **Our Customers Receive Personal Service and Attention**
- **Competitive Pricing**
- **All Financial Services Products Available**
- **Low fees**

### **Who are your major shareholders?**

University Bancorp Inc.

Large Shareholders:

	Common	%	Public	Notes:
Orpheus Capital, Limited Partnership	1,958,757	47.48%		Various Ranzini's
Stephen Lange Ranzini	556,868	13.50%		
Mildred Lange Ranzini	283,725	6.88%		
West Pier Corporation	80,000	1.94%		Various Ranzini's
Employee Stock Ownership Plan	77,018	1.87%		Stephen Lange Ranzini
Ranzini Family Trust dated 12/20/1989	39,600	0.96%		
Charles McDowell	34,000	0.82%		
Robert Goldthorpe	27,810	0.67%		
All Other	1,067,679	25.88%	1,067,679	
<b>Total Shares</b>	<b>4,125,457</b>			
<b>Total Public</b>	<b>1,067,679</b>	<b>25.88%</b>		
<b>Total Ranzini</b>	<b>2,995,968</b>	<b>72.62%</b>		

### **When do you release financial updates and when is your annual shareholders meeting?**

Here is a list of our target financial release dates during a typical year (please note that if we complete a filing early we will release it early):

March 31<sup>st</sup> Securities and Exchange Commission Annual Report on Form 10K  
 March 31<sup>st</sup> Annual Earnings Press Release  
 April 30<sup>th</sup> Annual Proxy Statement for Annual Meeting and Date of Annual Meeting  
 May 15<sup>th</sup> First Quarter Earnings Press Release  
 May 15<sup>th</sup> First Quarter Securities and Exchange Commission Report on Form 10Q  
 May 15<sup>th</sup> to May 30<sup>th</sup> Annual Report to Shareholders  
 June 15<sup>th</sup> to June 30<sup>th</sup> Annual Meeting of Shareholders  
 August 15<sup>th</sup> Second Quarter Earnings Press Release

August 15<sup>th</sup> Second Quarter Securities and Exchange Commission Report on Form 10Q  
November 15<sup>th</sup> Third Quarter Earnings Press Release  
November 15<sup>th</sup> Third Quarter Securities and Exchange Commission Report on Form 10Q

**What time of day do you release earnings?**

We release earnings when the press release is done. Earnings may be released before the market opens, during the day or after the market closes based on our own schedule and work flow on earnings release day.

**Do you do earnings conference calls?**

We do not do earnings conference calls, but any investors or shareholders are welcome to inquire of management with any questions they may have about any release. The appropriate contact person is listed on each release. Email inquiries are preferred and are generally answered fastest.