


# University Bancorp & University Bank

## Strategic Plan

**Stephen Lange Ranzini**

President & CEO, University Bancorp

 (734) 741-5858 xt 226

 [ranzini@university-bank.com](mailto:ranzini@university-bank.com)

 [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm)

April 4, 2009

# Safe Harbor Statement

- ❑ **CAUTIONARY STATEMENT:** Any prediction of the future is inherently not assured. This document contains certain forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements concerning future growth in assets and net income, the sustainability of past results, and other expectations and/or goals. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including, but not limited to, economic, competitive, governmental and technological factors affecting our operations, markets, products, services, interest rates and fees for services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document.



# Overview of University Bancorp

- ❑ Bank holding company based in Ann Arbor, Michigan
  - Founded 1890 & Relocated 1996
- ❑ Owns 100% of University Bank
  - FDIC insured community bank
- ❑ Owns 80% of Midwest Loan Services
  - Mortgage subservicer to the Credit Union industry with \$4.4 billion in mortgages subserviced
- ❑ Owns 100% of University Insurance & Investment Services
  - Full-line Insurance Agency and Stock Brokerage Money Management services
- ❑ Owns 50.01% of University Lending Group
  - Conforming mortgage wholesaler specializing in FHA/VA and FNMA and FHLMC mortgages
- ❑ 4,275,878 shares of common stock
  - Board owns 62.28% of outstanding shares
  - Current Share Price \$1.40 (Symbol UNIB)
  - Current Market Capitalization, \$6 million
  - Trading volume averages 800 shares per day
  - 52 week range: High \$2.10; Low \$0.52

# Strategy

- ❑ Innovate by finding profitable niches that have:
  - Reasonable Risk Reward Ratio
  - High Profitability
  - High ROE and High Return on Capital Invested
  - Barrier to entry or low competition
- ❑ Hire the best, highly experienced people we can
  - Stephen Lange Ranzini, President & CEO
  - Ed Burger, President of Midwest Loan Services
  - Marianne Thompson, Jess Monticello & Randy Fosgard, Managers of University Lending Group
  - Edie Kingsley, President of University Insurance
- ❑ Strong internal audit & detailed financial disclosures

# What's the Opportunity?

- One of the few ways to invest in the ongoing growth and success of the Credit Union industry
  - (Already a success but just scratching the surface)
- Opening up new large niche for Islamic Banking nationwide
  - Sharia'a compliant Mortgage Alternative Loan Transactions
  - Sharia'a compliant deposits
  - Sharia'a compliant mutual funds
- Build on a sound base of community banking
  - Traditional Lending (Mainly real estate secured)
  - Wholesale Lending (Focused on growing FHA deals)
  - Core Local Deposits
  - Insurance
  - Money Management

- ❑ What is mortgage subservicing?
- ❑ What does Midwest Loan Services do?
  - Mortgage subservicing
  - Mortgage origination
  - White label basis for life of relationship
- ❑ Low cost Michigan location
  - Competitive advantage due to low cost U.P. location
  - Competitive advantage due to Internet Extranet
  - Competitive advantage by always giving customers what they want
- ❑ Growth of Credit Union industry
  - Gaining market share because they have better prices and provide better service on average versus competitors
- ❑ Growth of Midwest Loan Services



# Growth of Midwest Loan Services

- ❑ Serves 2.7% of all U.S. Credit Unions
- ❑ Currently 2<sup>nd</sup> or 3<sup>rd</sup> Largest subservicer of Credit Unions in the Country
- ❑ Major Credit Union customers include:
  - 4 of top 100 CUs
  - Baxter, San Diego Cty., Advancial (ATT Family), CalCoast, Motorola, EDS, University Fed'l, Twin Star
- ❑ Growth
  - 2002: Mortgages subserviced +66% to 8,372
  - 2003: Mortgages subserviced +77% to 13,764
  - 2004: Mortgages subserviced +21% to 16,751
  - 2005: Mortgages subserviced +48% to 24,720
  - 2006: Mortgages subserviced +30% to 32,561
  - 2007: Mortgages subserviced + 4% to 33,937
  - 2008: Mortgages subserviced + 9% to 37,103
  - 3/31/2009: Currently +8% at 40,223 & \$5.9 bn.

# Midwest's Future Strategy

- ❑ Increase originations from existing CUs
  - Midwest is currently subservicing mortgages for over 250 credit unions that have over 1.6 million active members (20.4 million potential members). Since the average American relocates on average every 9 years, our credit unions' members represent a pool of over 175,000 new mortgages per year. We originated just a few hundred mortgage loans last year.
  - We don't have to advertise for new CUs (Word of Mouth, attending industry meetings and attending trade shows is ALL that is Required)
- ❑ Cross-selling with University Bank
  - FHA Wholesale Lending
    - Only one competitor, but their offering is inferior
    - Leverages University Lending Group's FHA Wholesale lending platform & Midwest's Mortgage origination platform & CU customers
- ❑ Specialty Niche Subservicing:
  - Islamic consumers (with University Islamic & Guidance)
  - Hispanic language consumers (with HNMA)

# Islamic Banking Initiative

- ❑ How did we get into this?
  - FDIC Outstanding Rating for Community Service & Community Reinvestment
  - We see an opportunity based on community need
- ❑ Background on *Sharia'a*
  - “O ye who believe! Devour not *riba*, doubled and multiplied, but fear Allah that ye may (really) prosper” *Quar'an* 3:130

## Islamic Banking Niche (2)

- ❑ Mortgage Alternatives, Deposits & Mutual Funds
  - Zero to over \$20 million in MALTs. SHAPE Deposits of over \$20,000,000.
  - Deal to sell Mutual Funds with 0.25% annual trailer fee
- ❑ Ramping up, now 16 full-time people from one part-time person
  - “Islamic Banker 101” training class system
  - FHLMC secondary market
  - Midwest Loan Services Nationwide Subservicing Niche
  - Nationwide Third Party Originator Network (Wholesale) – currently small
- ❑ Credit risk is borne by Islamic depositors<sub>10</sub>

## Islamic Banking Niche (3)

### ❑ Near Term Goals:

- \$20,000,000 additional MALTs on balance sheet will yield net profit margin of \$600,000 to \$800,000
- \$20,000,000 additional SHAPE Deposits will yield net profit margin of \$200,000
- Increase sales to secondary market to \$48,000,000 an increase of about \$25,000,000

❑ Each \$10,000,000 of MALTs sold to the secondary market will yield approx. \$100,000 of net fee income and \$43,000 of net fee income per year

❑ Each \$600,000 in net income increases our ROE by 10% per year

# Core Community Banking

- ❑ A profitable base on which to add profitable niche products
- ❑ High Service Level under One Roof
  - Local Decision-Making
  - Our Customers Receive Personal Service and Attention
  - Competitive Pricing
  - All Financial Services Products Available
  - Low Fees
- ❑ Courier Network
- ❑ Commission incentives for:
  - Deposit sales team
  - Mortgage sales team
  - Senior commercial lender with excellent local connections
- ❑ Insurance cross-sales to build loyalty

# Wholesale Residential Lending Opportunity

- ❑ University Lending Group is a HUD loan specialist
  - The collapse of the secondary market conduits has created opportunity for FHA lenders to gain market share
    - FHA lending has grown nationwide from 3% of new nationwide mortgage lending in 2006 to 39.2% in Oct 2008
    - Few firms are expert in handling FHA mortgages
  - University Lending Group's management team is extremely experience in FHA mortgage lending
  - 70% of volume expected to be FHA/VA
- ❑ Also expert in FNMA and FHLMC mortgage lending
  - 30% of volume expected to be FNMA/FHLMC
  - Additional volume of mortgage loans sold to these agencies will over time increase our "master commitment" rates that we earn
    - This will increasing profit from all mortgage lending activities across all subsidiaries including University Bank, Midwest and University Islamic
- ❑ Management team invested \$400,000 for 49.99% of University Lending Group
  - University Bank invested \$400,000 and has a preferred return on capital employed of 15%
  - University Bank also is providing warehouse line



# Bank Performance

- 19.8% Annual Average Growth Rate

	2004	2005	2006	2007	2008
Interest Inc.	\$ 2,744,271	\$ 3,272,891	\$ 4,053,478	\$ 5,108,968	\$ 6,021,830
Non-Int. Inc.	\$ 3,822,548	\$ 5,891,330	\$ 4,467,845	\$ 5,968,710	\$ 7,428,026
Revenues	\$ 6,566,819	\$ 9,164,221	\$ 8,521,323	\$ 11,077,678	\$ 13,449,856

- High Growth Businesses Now 84.2% of Revenues
  - University Lending Group 36.1%
  - Midwest Loan Services 29.5%
  - University Islamic 18.6%
  - Community Bank 14.8%
  - Insurance Agency 1.0%

## Bank Performance (2)

### What 5 Years of Successful Management Can Do:

- ❑ 2) Assets up 2.97x
- ❑ 5) Securities up 12.62x
- ❑ 7) Net loans and leases up 2.58x
- ❑ 17) Total deposits up 2.66x
- ❑ 18) Non-interest bearing deposits up 31.42x from \$1.453M to \$45,650M
- ❑ 26) Equity capital up 67%, an increase of \$2.371M on base of \$3.558M
- ❑ 30) Undivided profits up 135% from a loss of \$1,523K to profit of \$648K
- ❑ 34) Earning assets up 3.13x
- ❑ 43) Tier 1 Capital up 2.33x, or \$4.998M, from \$3.755M to \$8.753M
- ❑ 52) Net interest income up 2.38x
- ❑ 98) Core capital (Tier 1 Leverage) ratio decreased to 7.81% from 8.69%
- ❑ 99) Tier 1 risk-based capital ratio rose to 12.51% from 11.17%
- ❑ 100) Total risk-based capital ratio rose to 13.28% from 12.42%

– Source [www.FDIC.gov](http://www.FDIC.gov) Call Report Data, 12/31/08 vs. 12/31/03, Keyed to Line Item of the Report,

# Careful Risk Management

## ❑ Risks We Did Not Take

- **Construction Lending**
  - Other than for single homeowners
- **CDOs, CDO2, CDO3 Bonds & Auction Rate Securities**
- **Municipal Bonds & Municipal Debt**
- **Correspondent Bank Risk**
  - No correspondent accounts not under insurance limits other than Federal Home Loan Bank of Indianapolis
- **Preferred Stock investments**
- **Leasing**
- **Auto Finance**
- **Student Lending**

## ❑ Risks We Carefully Controlled

- **Home Equity Loans**
  - Under \$4mm, few over 90% CLTV
- **Mortgage Lending**
  - No toxic, exotic mortgages (no NIV, Interest Only, Optional Pmt, high LTV loans without Mortgage Insurance)
- **Mortgage Insurance**
  - Only used AIG's mortgage subsidiary, which will pay claims
- **Credit Cards**
  - Only \$500,000 portfolio, mostly HE lien backed
- **Mortgage Bond Portfolio**
  - Only GSE bonds
- **Commercial Real Estate Lending**
  - Limited to under 100% of Tier 1 capital, 1/3<sup>rd</sup> our peer group's levels

# Industry Awards

- ❑ U.S. Banker Magazine's "Community Bankers of the Year" in 2006
- ❑ U.S. Banker Magazine 22<sup>nd</sup> Most Profitable "U.S. Community Bank Ranked by 3 Year Return on Equity" in 2008
- ❑ ABA Community Bank Award in 2009 for Increasing Homeownership Opportunities
- ❑ FDIC "Outstanding" rating for Community Service & Community Reinvestment

# Questions?

- Q&A – What’s your question?
- FAQ list at [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm)
  - Press Releases
  - Newspaper & Magazine Articles
  - Comprehensive Data
- Contact me:

Stephen Lange Ranzini, President & CEO:

☎ (734) 741-5858 xt 226

✉ [ranzini@university-bank.com](mailto:ranzini@university-bank.com)