


University Bancorp & University Bank

Strategic Plan

Stephen Lange Ranzini

President & CEO, University Bancorp

 (734) 741-5858 xt 9226

 ranzini@university-bank.com

 www.university-bank.com/bancorp.htm

September 10, 2018

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. Any prediction in this release is intended to be covered by the Safe Harbor provisions of Section 21E of the Securities Exchange Act of 1934.

Overview of Company

- ❑ **Bank holding company based in Ann Arbor, Michigan**
 - ❑ One of the Top 3 performing publicly traded bank holding companies in the entire United States for the past six years (2012 to 2017) based on Return on Shareholders' Equity
 - ❑ Return on shareholders' equity in 2017 was 28.3%
- ❑ **Owns 100% of *University Bank***
 - ❑ Founded 1890 & Relocated to Ann Arbor in 1996
 - ❑ FDIC insured community bank in Ann Arbor, Michigan
- ❑ **University Bank's key service is *Midwest Loan Services***
 - ❑ \$21 billion in mortgages subserviced
 - ❑ Mortgage servicer to 5.8% of the 5,697 credit unions in the U.S.
 - ❑ Exclusively endorsed by the American Bankers Association's CAB division as the nationwide provider of mortgage subservicing
- ❑ **Bank owns 100% of *University Lending Group***
 - ❑ Retail GNMA/FHA/VA/FNMA/FHLMC/USDA-RD lender operating in FL, IL, IN, MI, TX
- ❑ **Bank owns 80% of *UIF***
 - ❑ Faith-based lender operating in 23 states nationwide
- ❑ **Bank owns 100% of *Midwest Loan Solutions***
 - ❑ Correspondent Lender to Financial Institutions & GNMA Subservicer
- ❑ **Bank owns 100% of *Ann Arbor Insurance Centre***
 - ❑ Full-line Insurance Agency, licensed in FL, IL, IN, MI, OH & TX

Investment Performance Metrics

- ❑ **5,202,899 shares of common stock**
 - **Board owns 54.90% of outstanding shares**
 - **Current Share Price \$11.50 (Symbol UNIB)**
 - **Current Market Capitalization, \$59.8 million**
 - **Trading volume averages 4,274 shares per day**
 - **52 week range: High \$11.99; Low \$6.89**
 - **Trading at:**
 - **18.5x 2015 Net Income of \$0.62 per share**
 - **15.1x 2016 Net Income of \$0.76 per share**
 - **11.6x 2017 Net Income of \$0.99 per share**
 - **Net income in 2018 projected at \$0.73 per share**
 - **Current price is 15.7x projected 2018 net income**

Strategy

- ❑ Continue to make large ROE in our portfolio of core business 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
- ❑ Listen & respond to market needs with the highest level of service
- ❑ 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
- ❑ Grow our niche in Faith Based Lending nationwide
- ❑ Build on a sound base of community banking
 - Traditional Lending (Mainly real estate secured)
 - Correspondent Lending (Focused on growing FHA/VA originations)
 - Mortgage Escrow Deposits & Core Local Deposits
 - Insurance (cross-sold to increase customer loyalty)

Credit Union Business Process Outsourcing

- ❑ What is mortgage subservicing?
- ❑ What does Midwest Loan Services do?
 - Mortgage subservicing: we are the “P.O. Box” you send your monthly mortgage payments to
 - Mortgage origination (via American Mortgage Solutions)
 - 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 from ABA CAB’s exclusive endorsement
- ❑ Growth of Credit Union industry
 - Gaining market share because they have better prices and provide better service on average versus competitors
 - Credit Unions pay no federal income tax
- ❑ Growth of Midwest Loan Services

Growth of Midwest Loan Services

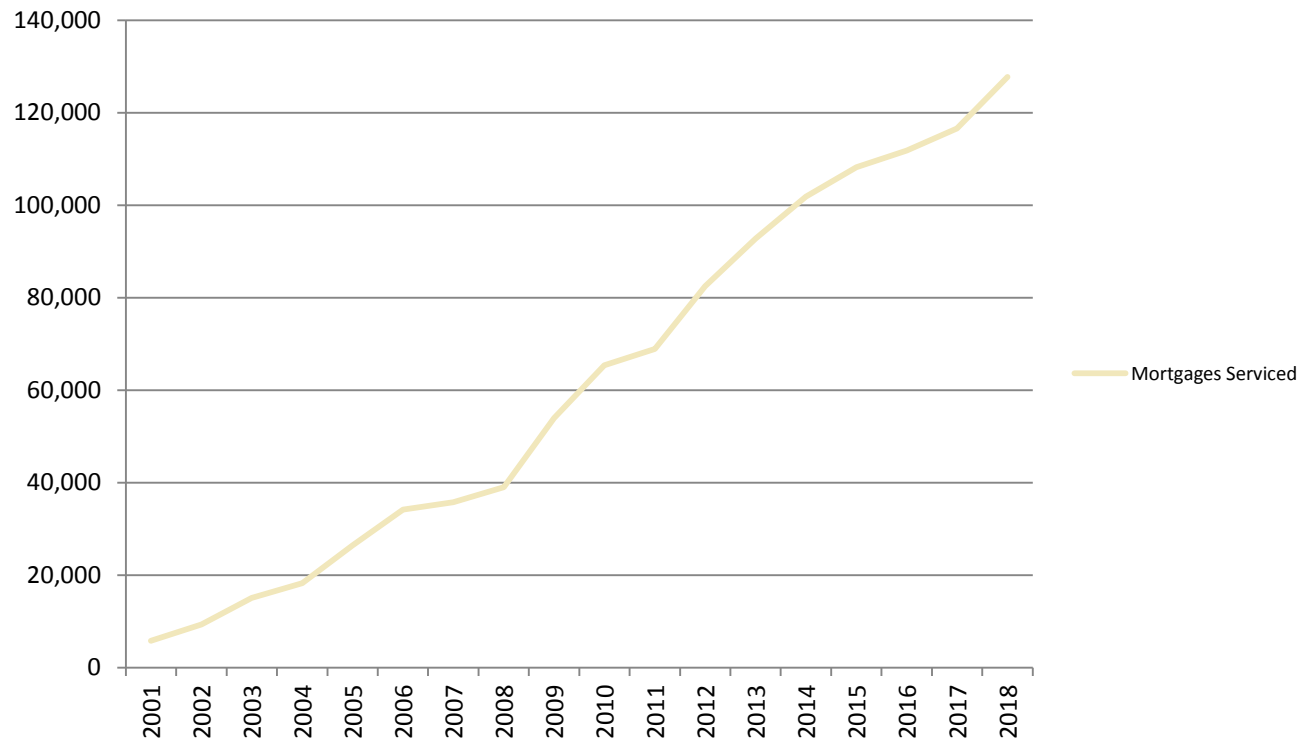
- ❑ Serves 5.8% of the 5,697 credit unions in the U.S.
- ❑ Currently 2nd Largest subservicer of Credit Unions in the Country by number of loans
 - ❑ More Credit Unions than any other vendor
- ❑ Major Credit Union customers include:
 - ❑ 4 of top 100 CUs
 - ❑ Advancial (ATT Family), Alaska Airlines, CalCoast, DuPont Community, San Diego Cty., Twin Star, University Fed'l.
- ❑ Growth
 - 2001: Mortgages subserviced were 5,830
 - 2007: Mortgages subserviced +514% to 35,781
 - 2012: Mortgages subserviced +130% to 82,456
 - 2017: Mortgages subserviced +41% to 116,609



Growth of Midwest Loan Services (2)

Average Annual Growth over the past 16 years of +21% per year!

Mortgages Serviced



Investment in Midwest Loan Services

- ❑ University Bank paid \$799,647 on November 1, 1995, to acquire 80% of Midwest Loan Services
 - We later paid another \$190,000 in deferred consideration and legal fees.
 - University Bank received an \$800,000 dividend in 2008 recovering 100% of its original investment.
 - We paid \$3.1 million in early 2015 for the remaining 20% we didn't already own.
- ❑ Midwest Loan Services has an estimated value far above its book value.
 - Midwest Loan Services' mortgage subservicing business EBIT in 2018 is currently running at \$4,300,000 based on the 6M2018 result.

Midwest's Future Strategy

- ❑ Increase mortgage originations of CU customers
 - Midwest is currently subservicing mortgages for 330 credit unions that have over 1.5 million active members. Since the average American relocates on average every 9 years, our credit unions' members represent a pool of over 165,000 new mortgages per year.
 - The CU correspondent business unit originated just 203 mortgage loans with a UPB of \$46 million in 2017.
- ❑ Cross-selling with American Mortgage Solutions
 - Correspondent Origination & Warehouse Lending
 - Few CUSO competitors, but their offerings are inferior
 - Leverages correspondent lending platform & CU customers
- ❑ Exclusive endorsement from CAB division of the American Bankers Association:
 - Number of community bank customers is rising

Faith Based Lending Initiative

- ❑ How did we get into this?
 - FDIC Outstanding Rating for Community Service & Community Reinvestment
 - We see an opportunity based on community need
 - Many devout Christians, Hindus, Jews and Muslims avoid paying or receiving interest on loans due to religious & ethical beliefs
- ❑ Initiated our first product in June 2002
- ❑ Sold 20% of newly formed Faith Based Lending subsidiary, UIF, on 12/31/2005 for \$3 million.

Faith Based Lending Niche (2)

- ❑ Residential & Commercial Mortgage Alternatives Loan Transactions (MALTs)
 - Zero to over \$34 million in MALTs.
 - Continuing to grow portfolio of serviced loans, with over \$950 million now under management, including \$27 million in commercial real estate transactions participated to other banks
- ❑ Ramping up, 50 full-time employees now from one part-time person
 - FHLMC secondary market, \$1.43 billion originated since inception
 - Separate FHLMC seller/servicer license granted to UIF in 2014
 - 23 states now, adding additional incrementally
 - First operating profit, \$188,200, achieved in 2010
 - Eighth annual profit, \$1,347,375 achieved in 2017

Core Community Banking

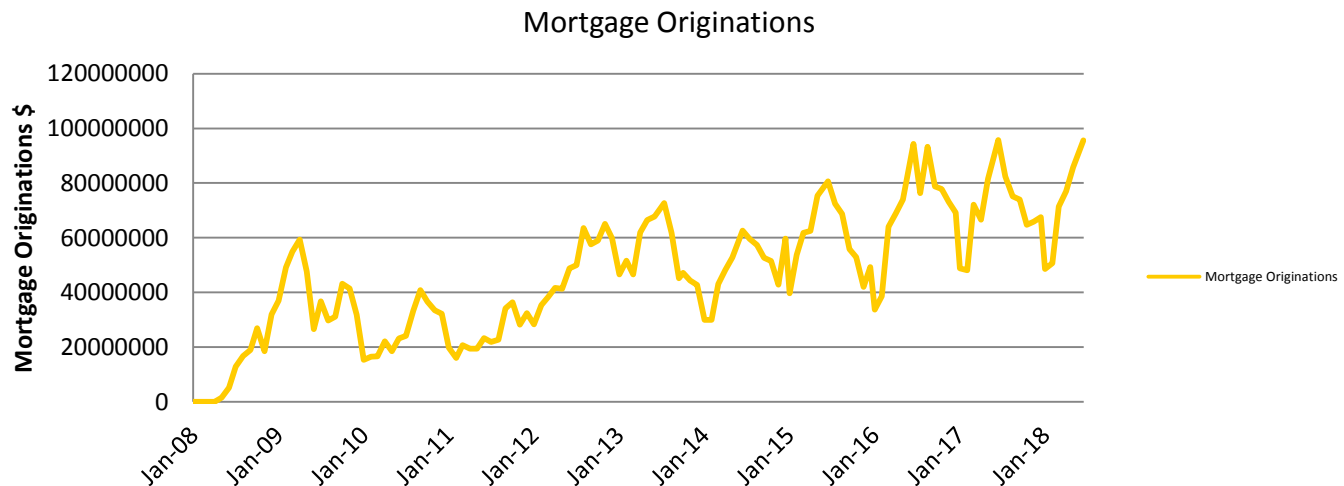
- ❑ High Service Level under One Roof
 - Local Decision-Making
 - Our Customers Receive Personal Service and Attention
 - Competitive Pricing
 - All Financial Services Products Available
 - Low Fees
- ❑ Mortgage Escrow deposits funding 79% of balance sheet
- ❑ Off balance sheet escrow sweep deposit accounts averaging \$120mm per month
 - Earning \$230,000 pre-tax per month in interest
 - What if Fed Funds is 3%, 5%, 10%?

Retail Residential Lending Opportunity

- ❑ University Lending Group is a HUD & VA loan specialist that provides a full spectrum of secondary market loan products
 - FHA lenders are gaining market share
 - FHA lending has grown nationwide from 4% of new nationwide mortgage lending to 20%
 - Few firms are expert in handling FHA mortgages
 - University Lending Group’s management team is extremely experienced in FHA & VA mortgage lending
 - 60% of volume is FHA/VA
 - Expert in USDA-RD & FHLB MPF lending
 - Expert in renovation and one-time close construction lending
- ❑ Also expert in FNMA and FHLMC mortgage lending
 - 40% of volume is FNMA/FHLMC
- ❑ Over \$4.25 billion in mortgages originated
 - Board gave go ahead in December 2008
 - Began operations in mid-2009 as a wholesale lender
 - Transitioned in 2011 to only retail lending offices focused on purchase activity and Realtor® referrals
 - Unique selling proposition to Realtors® that we can provide an underwriting decision within 24 hours

Track Record: ULG Retail Originations

- ❑ Mortgage Originations are an inherently cyclical business with a high average Return on Equity.
 - \$400,000 invested in 2008 has returned net income to the bank of \$13,208,770 to 12/31/2017
 - Plus interest income of \$7,830,886
 - LHFS is an excellent use of investment funds
 - 2016 pre-tax income was \$2,451,587
 - 2017 pre-tax loss was \$421,569, after interest paid to University Bank of \$1,603,923





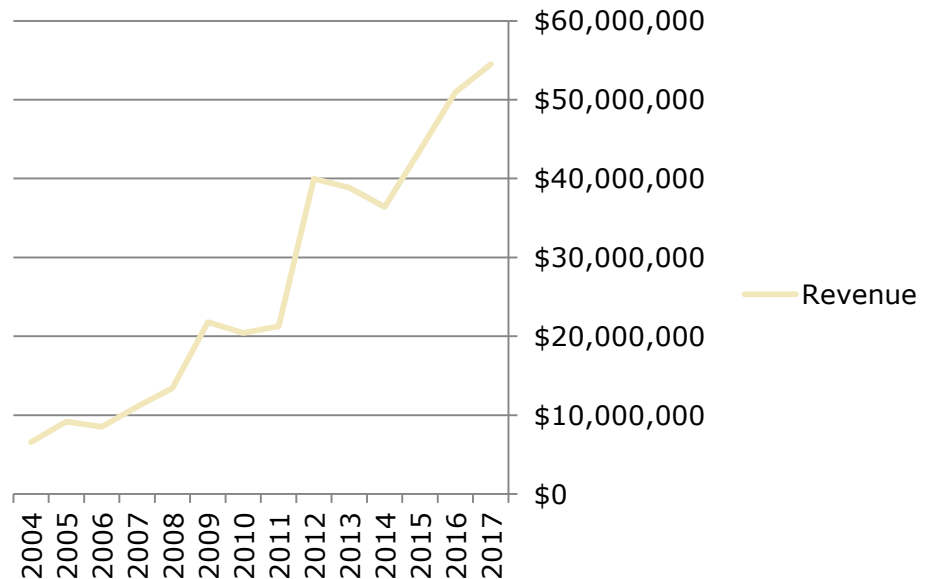
Bank Performance

□ 17.7% Annual Average Growth Rate from 2004 to 2017:

Total Revenue by Year:

- 2017 \$ 54,493,179
- 2016 \$ 50,948,149
- 2015 \$ 43,644,425
- 2014 \$ 36,598,052
- 2013 \$ 38,856,573
- 2012 \$ 39,991,125
- 2011 \$ 21,280,296
- 2010 \$ 20,437,724
- 2009 \$ 21,814,793
- 2008 \$ 13,449,856
- 2007 \$ 11,077,678
- 2006 \$ 8,521,323
- 2005 \$ 9,164,221
- 2004 \$ 6,566,819

University Bank Revenue



Bank Performance (2)

- High Growth Businesses Now 92.1% of Revenues
 - Midwest Loan Services 24.3%
 - University Lending Group 46.0%
 - University Islamic 21.8%
 - Community Bank 4.4%
 - Insurance Agency 2.5%
 - American Mortgage Solutions 1.0%

What 10 Years of Successful Management Can Do

- ❑ 2) Assets up 121%
- ❑ 3) Cash and due from depository institutions up 61%
- ❑ 4) Interest bearing balances up 103%
- ❑ 7) Net loans and leases up 133%
- ❑ 16) Total deposits up 98%
- ❑ 17) Non-interest bearing deposits up 26x from \$5,088,000 to \$137,410,000
- ❑ 25) Equity capital up 292%, an increase of \$15,383,000 on a base of \$5,267,000
- ❑ 30) Undivided profits up 768x from a loss of \$14,000 to a profit of \$10,748,000
- ❑ 35) Earning assets up 125%
- ❑ 50) Tier 1 Capital up 106%, or \$8,160,000, from \$7,681,000 to \$15,841,000
- ❑ 57) Net interest income up 99%
- ❑ 59) Non-interest income up 541%
- ❑ 106) Equity capital to assets ratio rose 54% to 9.29% from 6.03%

– Source www.FDIC.gov Call Report Data, 12/31/14 vs. 12/31/04, 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 \$2.5mm, 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 has paid all claims
- **Credit Cards**
 - Only \$500,000 portfolio, mostly HE lien backed
- **Mortgage Bond Portfolio**
 - Only GSE bonds
- **Commercial Real Estate Lending**
 - Was historically limited to under 100% of Tier 1 capital, 1/3rd our peer group's levels

Industry Awards

- ❑ U.S. Banker Magazine's "Community Bankers of the Year" in 2006
- ❑ Recipient of the American Bankers Association's 2009 "Community Bankers of the Year" Award
- ❑ Selected as the second fastest growing business of any type in the Greater Detroit Region by Crain's Detroit Business in 2009.
- ❑ FDIC "Outstanding" rating for Community Service & Community Reinvestment, 2003-2009
- ❑ Top performing publicly traded bank in the entire United States in 2016 & 2015, based on our return on average equity of 25.25% & 25.21% according to American Banker newspaper
- ❑ "Second most profitable publicly traded community bank in the U.S. 2012-2014" based on 18.75% return on average equity by American Banker newspaper
- ❑ "Third most profitable publicly traded community bank in the U.S. 2017" based on 28.3% return on average equity per American Banker
- ❑ As of 6/30/2018, University Bank was managing \$21.2 billion in financial assets for its customers.

Questions?

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

Stephen Lange Ranzini, President & CEO:

☎ (734) 741-5858 xt 9226

✉ ranzini@university-bank.com