

## University Bancorp's Frequently Asked Questions:

### What has been the track record under University Bancorp's ownership and Stephen Lange Ranzini's direction as a manager and investor in financial services businesses?

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

Firm	Investment	Amount Invested	Sale Proceeds	Annual ROI	Sale Date	Net Investment	Current Book Value	Est. Value Midpoint (8)
Newberry State Bank	Aug-88	\$1,550,000	\$5,000,000	22%	Nov-94			
Michigan BIDCO(1)	May-93	\$280,000	\$1,543,464	24%	Dec-01			
University Insurance(2)	Jul-94	\$5,201		30%		\$5,201	\$285,128	\$1,372,000
Midwest Loan Services(3)	Dec-94	\$799,647		21%		\$3,291,111	\$11,985,376	\$52,179,376
Varsity Mortgage(4)	Feb-96	\$300,000	\$1,100,000	38%	Nov-99			
University Bank(5)	Feb-96	\$5,000,000		15%		\$3,996,000	\$14,725,731	\$76,815,500
University Islamic Financial(6)	Dec-05	\$7,000,000		11%		\$7,000,000	\$10,114,600	\$20,763,026
University Lending Group (7)	May-08	\$400,000		98%		\$449,395	\$10,910,000	\$13,637,500

(Data as of September 25, 2015)

- (1) Sale proceeds include intercompany tax payments received during ownership.
- (2) Current shareholders' equity \$285,128. Insurance agencies are valued at 2 to 3 times revenue. A value of 2 times revenue is used to calculate value and the annual ROI.
- (3) Current shareholders' equity \$11,985,376. Ownership was raised to 100% in February 2015 through the acquisition of 20% for \$3,101,464. Estimated value ranges between \$57.9mm and \$46.4mm as of September 25, 2015. The mid-point is used to calculate the annual ROI.
- (4) Sale proceeds includes dividends received during ownership but does not include a substantial amount of net interest income earned by funding loans held for sale.
- (5) Current shareholders' equity \$14,725,731. Estimated value ranges between \$86.1mm and \$67.5mm as of September 25, 2015, before deducting taxes on all gains. This mid-point is used to calculate the annual ROI.

- (6) At formation \$8,000,000 was invested and a gain of \$1 million was realized. Current shareholders' equity is \$12,588,783 of which our 80% share is \$10,071,026. Estimated value of our 80% share ranges between \$24.3mm and \$17.2mm as of September 25, 2015. The mid-point is used to calculate the annual ROI.
- (7) At formation \$400,000 was invested and an additional \$823,565 was invested to increase our ownership from 50.01% to 100% on 12/31/2011. Current shareholders' equity \$10,910,000 and dividends paid to shareholders to date are \$774,170 excluding additional tax benefit payments. Book value plus dividends received is used to calculate the ROI, but this calculation does not include a substantial amount of net interest income earned by funding loans held for sale.
- (8) The valuation model is available at [www.university-bank.com/bancorp/valuation](http://www.university-bank.com/bancorp/valuation). The valuation of each entity includes the book value and estimated value above book value.

**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)
<b>Average</b>	<b>43.3%</b>
	<b>(10 year average)</b>

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%

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

<b>Year</b>	<b>Pre-tax Income Normalized As Stated</b>	<b>Unusual Items</b>	<b>Pre-Tax Income</b>
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.

## **The community banking division of University Bank in Ann Arbor lost money for six years before turning a profit. Why?**

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 and the bank was indeed profitable for the following month however a series of 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 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 for the first ten years of operation from 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)	(2)
2004	(\$ 388,000)	(2)
2005	\$1,518,000	(3)

- (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.
- (3) Income in 2005 was positively boosted by the \$1,000,000 gain from the formation of University Islamic Financial, which was created out of the Islamic Finance Division of the Community Banking division of University Bank.

## **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. Joseph Lange Ranzini serves as the Chairman of our company, Stephen Lange Ranzini is the President and Chief Executive 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, Armando Cavazos and Alma Wheeler Smith, who also serves as the Chair of University Bank's board of directors. The Audit Committee meets at least once per year to receive the report of the company's independent outside auditors, and meets 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. At each audit committee meeting, the audit committee meets without management present for a portion of each meeting. The company has a full-time Internal Auditor Coordinator, who is assisted by outside expert internal auditors from the Crowe Horwath accounting firm. The company's external auditor is UHY. The University Bank audit committee meets monthly to discuss reports received from the outside independent audit firm.

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

The members of the board of directors all serve with nominal pay of \$1,500 per year. Every five years, each board member of University Bancorp receives 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. The highest paid administrative employee is Bank President Stephen Lange Ranzini who earns \$250,000 a year. Certain very productive members of the sales force earn higher income from commissions but receive no or very low base pay. The management and staff have profit sharing only if the shareholders earn a return on equity greater than 14.5% in any given year and the profit sharing is based on a formula that increases as the shareholders' return on equity increases. This profit sharing plan applies to all full-time employees across the board, provided that their business unit also earns at least a 14.5% return on capital employed.

### **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?**

1.        ETHICS  
    *We are guided by our shared values and always strive to maintain them in everything we do:*
  
2.        THE INDIVIDUAL  
    We respect the individual and value their differences, including their need to achieve professional and personal balance in their life.
  
3.        INTEGRITY  
    We speak openly and directly and we do what we say, with care and compassion, and work hard to understand and resolve issues.
  
4.        ACCOUNTABILITY  
    We understand what is expected of us, and are fully committed to meeting those expectations.
  
5.        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.
  
6.        DIVERSITY  
    We celebrate, respect and serve our diverse community.
  
7.        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 four major segments:

1. Mortgage Subservicing;
2. Retail Mortgage Lending;
3. Islamic Finance;
4. Retail Community Banking in Ann Arbor.

Our primary competitors are:

1. Mortgage Subservicing:
  - a. Dovenmuehle Mortgage

- b. PHH
- c. Cenlar Savings Bank
- 2. Retail Mortgage Lending:
  - a. Flagstar Bank, FSB
  - b. JPMorgan Chase Bank
  - c. Wells Fargo Bank
  - d. Bank of America
  - e. Quicken Loans
- 3. Islamic Finance:
  - a. Guidance Mortgage
  - b. Devon Bank
  - c. La Riba/Bank of Whittier
- 4. Retail Community Banking in Ann Arbor:
  - a. Bank of Ann Arbor
  - b. Ann Arbor State 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 the Newberry State Bank and Newberry Bancorp, Inc. and 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. The bank holding company's loan was paid in full in 2004.

### **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, an OTCQB Stock Exchange 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 July 1988 backed by a \$3.2 million leveraged loan from Bank One secured by 100% of the stock of the bank. Under Stephen Lange Ranzini's leadership as President and CEO of the Bancorp, the bank expanded into Sault Ste. Marie and doubled in size. At the time of the acquisition in July 1988, Stephen Lange Ranzini, age 23, was the youngest bank holding company president in the U.S.

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

We were interested in relocating the bank charter to Ann Arbor because at the time 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 as the bank's President.

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. Nick Fortson resigned as CEO in February 2008 and Stephen Lange Ranzini assumed day to day responsibility for the organization as CEO of University Bank.

**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 Passion is Serving Our Customers**
- **Competitive Pricing**
- **All Financial Services Offered**
- **Low fees**

**Who are your major shareholders?**

University Bancorp Inc.	6/30/2015				
Large Shareholders:					
	Common	%	Public	Notes:	
Orpheus Capital, Limited Partnership	1,950,007	38.21%		Stephen Lange Ranzini and his family members own Orpheus	
Fundamental Global Partners, L.P. & Fundamental Global Master Fund, L.P.	503,058	9.86%		These are hedge funds managed by Kyle Cerminara, the former bank stock analyst at T. Rowe Price Associates	
Stephen Lange Ranzini	437,959	8.58%		Stephen Lange Ranzini is President & CEO	
Ed Burger	336,549	6.60%		Founder & Former CEO of Midwest Loan Services	
Mildred Lange Ranzini	283,725	5.56%		Mildred Lange Ranzini is Stephen Lange Ranzini's mother	
Employee Stock Ownership Plan	98,054	1.92%		Stephen Lange Ranzini is beneficiary of 28,385.418 shares	
Dr. Joseph Ranzini Profit Sharing Plan	45,392	0.89%		Dr. Joseph Ranzini is Chairman of the board	
Joseph Louis Ranzini Family Trust dated 12/20/1989	38,330	0.75%		Stephen Lange Ranzini & his family members are the beneficiaries	
All Other	1,409,770	27.63%	1,409,770		
Total Shares	5,102,844	100.00%			

Total Public	1,409,770	27.62%
Total Ranzini	2,853,467	55.92%
University Bancorp Inc.		

### **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):

- **January 30<sup>th</sup>** University Bank 4<sup>th</sup> Quarter Call Report filed and available on FDIC.gov shortly thereafter
- March 31<sup>st</sup> University Bancorp Annual Earnings Press Release
- April 30<sup>th</sup> Annual Proxy Statement for Annual Meeting and Date of Annual Meeting
- April 30<sup>th</sup> University Bank 1<sup>st</sup> Quarter Call Report filed and available on FDIC.gov shortly thereafter
- May 15<sup>th</sup> First Quarter Earnings Press Release
- 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
- July 30<sup>th</sup> University Bank 2<sup>nd</sup> Quarter Call Report filed and available on FDIC.gov shortly thereafter
- August 15<sup>th</sup> Second Quarter Earnings Press Release
- October 30<sup>th</sup> University Bank 3<sup>rd</sup> Quarter Call Report filed and available on FDIC.gov shortly thereafter
- November 15<sup>th</sup> Third Quarter Earnings Press Release

### **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.

### **Who is the transfer agent for your common stock?**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016

### **I want to change banks for one that has a stated mission of social responsibility. In what way(s) is University Bank doing that?**

The best way to answer this question is to refer to the most recent copy of our list of community services disclosed to the public in our community reinvestment act file in 2010. Over the past year in addition to those things listed we created an innovative and pioneering program to lend to build hoop houses, which allow the growing season to be expanded six weeks at the beginning and end of the growing season each year. The MSU extension service pioneered this technology which helps increase the amount of high quality locally grown food and has the potential to create tens of thousands of additional high paying jobs in Michigan (agriculture is the second largest industry in Michigan already in sales and jobs and has been growing rapidly throughout the past decade). We partnered to do this with local non-profits, Selma Cafe and the Economic Food Partnership.

I also want to amplify the comments in the report on our involvement in South East Michigan Health Information Exchange (SEMHIE - [www.SEMHIE.org](http://www.SEMHIE.org)) One of our directors quit his job and became the first full time employee of SEMHIE and is singlehandedly responsible for securing all of SEMHIE's funding for the past two years and has successfully built the service from scratch (with SEMHIE's technology partners). SEMHIE is SE Michigan's health information exchange and will reduce medical errors, increase the quality of medical care and lower administrative cost and red tape in procuring quality health care for individuals throughout it's medical trading area. SEMHIE's six major health system partners cover 4.5 million individuals in SE Michigan as their hospital provider. Having witnessed the destruction of a significant portion of Michigan's auto industry due to high health care costs (with the resulting loss of 1 million of the 4 million jobs in Michigan), we believe that SEMHIE is a critical program to eliminate the handicaps that manufacturers in SE Michigan have suffered under. In the future, having made SEMHIE a leader nationwide in the health information exchange industry, we will create many high quality jobs here in Michigan as it grows, and there is the strong possibility that services built at SEMHIE can be sold to other health information exchanges in the rest of the nation, adding even more quality jobs.

We are proud of the fact that our service to the community has been recognized over the years with:

- American Bankers Association's Community Bankers of the Year award
- American Banker magazine's Community Bankers of the Year award
- The FDIC's Outstanding rating for Community Service and Community Reinvestment

**How technologically advanced are the bank's services? Are the bank's computer systems secure? What kind of experience does senior management have in information technology?**

University Bank's IT team is led by VP Lauren Giroux, who previously worked for an agency of the U.S. government vetting major IT system investments and their security and who has advanced graduate degrees in computer science. The bank engages outside auditors to perform rigorous IT penetration tests of various kinds designed to identify security gaps. The bank consistently scores well on its IT internal audits. Ms. Giroux was personally recruited by University Bank CEO Stephen Lange Ranzini, who has extensive personal experience in banking IT standards development with the leading U.S. and international banking industry standard setting bodies including servicing as:

- U.S. delegate to the United Nations global financial services standards setting body, UN CEFACT TBG5, [4] from April 2003 until July 2011;

- U.S. Delegate to the International Organization for Standardization global standards setting body for financial services, ISO/TC 68, from June 2004 until June 2007;
- Member of the board of directors of the U.S. financial services standards setting body, ANSI ASC X9 from May 2004 to August 2011;
- Member of the Federal Reserve System's Remittance Coalition, an invitation only group of national payment system experts working to eliminate paper check based transactions in the U.S., since its formation in August 2011.
- Member of the Federal Reserve System's Secure Payments Task Force Steering Committee. The steering committee is designing a new more secure real-time payment system for the U.S.

The bank's subsidiary, Midwest Loan Services, has developed in-house the best in the industry internet extranet for residential mortgage subservicing. The programming includes 30,000 code routines. Among the "firsts" for Midwest Loan Services' technology, it was the first to offer internet based residential mortgage payment initiation from any financial institution deposit account in the U.S., in 1994.