UNIVERSITY BANCORP, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of University Bancorp, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Bancorp, Inc. and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 and 26 to the consolidated financial statements, the Company changed its method of accounting for leases as required by the provisions of FASB Accounting Standards Update No. 2016-02. Our opinion is not modified with respect to that matter.

Subsequent Event

As discussed in Note 27 to the consolidated financial statements, global and domestic responses to the COVID-19 outbreak continue to rapidly evolve. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Company's business. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. Our opinion is not modified with respect to that matter.

UHY LLP

Farmington Hills, Michigan
March 30, 2020

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	**$ 113,815,997**	$ 90,669,009
Restricted cash	**420,439**	1,371,053
Total cash, cash equivalents and restricted cash	**114,236,436**	92,040,062
Investment securities held-to-maturity	**10,557,660**	11,089,663
Investment securities available-for-sale, at fair value	**471,928**	417,429
Federal Home Loan Bank stock	**637,000**	637,000
Loans and financings held for sale or assignment, at fair value	**117,330,908**	56,996,744
Loans held for sale at lower of cost or fair value	**6,001,827**	2,747,216
Loans and financings, net	**77,954,961**	55,585,937
Premises and equipment, net	**9,606,311**	9,640,012
Mortgage and financing servicing rights	**13,187,552**	12,610,729
Real estate owned, net	**-**	70,586
Accounts receivable	**1,840,721**	1,360,253
Accrued interest and financing income receivable	**564,077**	451,642
Prepaid expenses	**1,572,808**	1,473,189
Prepaid federal income taxes	**17,051**	74,838
Derivatives	**1,686,711**	892,286
Goodwill	**356,310**	356,310
Customer relationships, net	**-**	71,142
Servicing remittances receivable	**741,307**	501,645
Operating lease right of use assets	**5,167,331**	-
Other assets	**26,025**	7,647
Total assets	**$ 361,956,924**	$ 247,024,330

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	2019	**2018**
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	**$ 287,506,910**	$ 186,488,813
Demand - interest bearing and profit sharing	**9,700,014**	11,029,985
Savings	**330,812**	444,584
Time	**1,936,770**	2,319,664
Total deposits	**299,474,506**	200,283,046
Derivatives	**209,631**	678,681
Accounts payable	**1,430,913**	1,610,244
Accrued interest and profit sharing payable	**3,015**	3,345
Allowance for loan and financing recourse	**446,169**	254,407
Escrow, mortgage and financing insurance liabilities	**1,166,255**	732,778
Liability to fund closed but undisbursed loans and financings	**2,937,582**	-
Servicing remittances payable	**2,385,021**	2,044,111
Deferred income taxes	**4,966,373**	3,964,998
Accrued expenses and other liabilities	**3,149,227**	2,446,740
Mortgage payable	**1,604,050**	1,636,323
Operating lease liability	**5,087,378**	-
Loan repurchase liability	**2,090,158**	-
Accrued preferred dividends	**75,000**	-
Total liabilities	**325,025,278**	213,654,673
COMMITMENTS AND CONTINGENCIES		
EQUITY		
University Bancorp, Inc. stockholders' equity:		
Common stock	**52,049**	52,029
Preferred stock; liquidation value $5,000,000	**50**	50
Additional paid-in capital	**12,370,301**	12,313,928
Retained earnings	**21,125,894**	17,818,237
Accumulated other comprehensive income	**3,848**	5,476
Equity attributable to stockholders of University Bancorp, Inc.	**33,552,142**	30,189,720
Noncontrolling interest	**3,379,504**	3,179,937
Total equity	**36,931,646**	33,369,657
Total liabilities and equity	**$ 361,956,924**	$ 247,024,330

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years ended December 31,	
	2019	**2018**
Interest and financing income:		
Interest and fees on loans and financing income	**$ 8,499,983**	$ 6,085,215
Interest on securities:		
U.S. government agencies	**474,031**	217,407
Other securities	**34,531**	32,260
Interest on federal funds and other	**3,502,622**	3,022,193
Total interest and financing income	**12,511,167**	9,357,075
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand	**14,895**	13,724
Savings	**378**	455
Time	**43,571**	54,120
Note payable	**90,098**	89,507
Total interest and profit sharing expense	**148,942**	157,806
Net interest and financing income	**12,362,225**	9,199,269
Provision (reduction) for loan and financing losses	**48,481**	(290,722)
Net interest and financing income after provision for loan and financing losses	**12,313,744**	9,489,991
Noninterest income:		
Loan and financing servicing and sub-servicing fees	**12,935,593**	11,575,557
Origination and other fees	**8,999,021**	7,516,520
Gain on sale of mortgage loans, net, and fee income for assignment of financings	**31,496,592**	24,668,017
Insurance & investment agency fee income	**905,098**	934,746
Deposit service charges and fees	**23,921**	21,617
Change in fair value of mortgage and financing servicing rights	**(4,042,711)**	(738,157)
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	**5,722,568**	2,047,466
Change in fair value of mortgage servicing rights previously sold	**-**	(228,719)
Other income	**561,253**	543,726
Total noninterest income	**56,601,335**	46,340,773

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

	Years ended December 31,	
	2019	**2018**
Noninterest expense:		
Compensation and benefits	**$ 45,234,115**	$ 36,906,803
Occupancy	**2,860,716**	2,486,932
Data processing and equipment expense	**4,712,576**	3,599,319
Legal and audit	**1,611,920**	1,721,111
Consulting fees	**1,047,762**	717,318
Mortgage banking	**3,389,518**	2,684,907
Advertising	**878,516**	920,201
Membership and training	**722,777**	522,947
Travel and entertainment	**1,050,941**	851,930
Supplies and postage	**1,238,450**	1,100,482
Insurance	**493,240**	446,164
Director related	**391,950**	331,250
FDIC assessments	**45,246**	53,748
Amortization of customer relationships	**71,142**	71,143
Other operating	**273,039**	241,542
Total noninterest expense	**64,021,908**	52,655,797
Income before income taxes	**4,893,171**	3,174,967
Income tax expense	**1,076,780**	744,488
Net income	**$ 3,816,391**	$ 2,430,479

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

	Years ended December 31,	
	2019	2018
COMPREHENSIVE INCOME		
Net income	**$ 3,816,391**	$ 2,430,479
Net unrealized loss on debt securities available-for-sale	**(1,628)**	(3,419)
COMPREHENSIVE INCOME	**$ 3,814,763**	$ 2,427,060
Net income and comprehensive income attributable to the noncontrolling interests	**$ 199,567**	$ 200,313
Net income attributable to stockholders of University Bancorp, Inc.	**$ 3,616,824**	$ 2,230,166
Comprehensive income attributable to stockholders of University Bancorp, Inc.	**$ 3,615,196**	$ 2,226,747

EARNINGS PER SHARE

Basic earnings per share attributable to common stockholders of University Bancorp, Inc.	**$ 0.64**	$ 0.43
Diluted earnings per share attributable to common stockholders of University Bancorp, Inc.	**$ 0.63**	$ 0.42
Weighted-average common shares outstanding		
Basic	**5,203,967**	5,201,995
Diluted	**5,225,921**	5,239,529
Dividends declared per common share	**$ -**	$ -

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	University Bancorp, Inc. Stockholders'								
	Common Stock, $.01 par value, 6,000,000 shares authorized		Preferred Stock, $.001 par value, 500,000 shares authorized						
	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre-hensive Income	Non-controlling Interest	Total
Balance at January 1, 2018	5,200,899	$ 52,009	-	$ -	$ 7,727,685	$ 15,588,071	$ 8,895	$ 2,979,624	$ 26,356,284
Exercise of stock options	2,000	20	-	-	13,980	-	-	-	14,000
Share-based compensation	-	-	-	-	42,393	-	-	-	42,393
Issuance of preferred stock	-	-	50,000	50	4,749,950	-	-	-	4,750,000
Costs of issuance of preferred stock	-	-	-	-	(220,080)	-	-	-	(220,080)
Net unrealized loss on debt securities available-for-sale	-	-	-	-	-	-	(3,419)	-	(3,419)
Net income	-	-	-	-	-	2,230,166	-	200,313	2,430,479
Balance at December 31, 2018	5,202,899	52,029	50,000	50	12,313,928	17,818,237	5,476	3,179,937	33,369,657
Exercise of stock options	2,000	20	-	-	13,980	-	-	-	14,000
Share-based compensation	-	-	-	-	42,393	-	-	-	42,393
Preferred dividends	-	-	-	-	-	(309,167)	-	-	(309,167)
Net unrealized loss on debt securities available-for-sale	-	-	-	-	-	-	(1,628)	-	(1,628)
Net income	-	-	-	-	-	3,616,824	-	199,567	3,816,391
Balance at December 31, 2019	5,204,899	$ 52,049	50,000	$ 50	$ 12,370,301	$ 21,125,894	$ 3,848	$ 3,379,504	$ 36,931,646

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2019	**2018**
OPERATING ACTIVITIES		
Net income	**$ 3,816,391**	$ 2,430,479
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	**1,999,823**	1,610,256
Amortization of discount on purchased loans held for investment	**426,431**	-
Change in fair value of mortgage and financing servicing rights	**4,042,711**	738,157
Change in fair value of mortgage servicing rights previously sold	**-**	228,719
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	**(5,722,568)**	(2,047,466)
Deferred income tax expense	**1,001,375**	699,488
Provision (reduction) for loan and financing losses	**48,481**	(290,722)
Net gain on sale of mortgage loans and fee income for assignment of financings	**(31,496,592)**	(24,668,017)
Unrealized loss on equity securities available-for-sale	**28,207**	-
Net amortization on securities held-to-maturity	**8,400**	6,603
Originations of mortgage loans and financings	**(1,332,775,584)**	(881,227,495)
Proceeds from mortgage loan sales and assignment of financings	**1,303,652,304**	905,924,832
Share-based compensation	**42,393**	42,393
Net change in:		
Various other assets	**(892,775)**	(397,832)
Various other liabilities	**1,297,213**	(589,060)
Operating lease liability	**(79,953)**	-
Net cash provided by (used in) operating activities	**(54,603,743)**	2,460,335
INVESTING ACTIVITIES		
Proceeds from paydowns of securities held-to-maturity	**3,592,003**	286,440
Proceeds from paydowns of debt securities available-for-sale	**68,386**	207,518
Purchase of securities held-to-maturity	**(3,068,399)**	(10,890,974)
Purchase of equity securities available-for-sale	**(152,721)**	-
Proceeds from sale of real estate owned	**70,586**	-
Purchases of loans held for investment	**(5,406,277)**	-
Loans and financings (granted) and repayments, net	**(15,347,501)**	1,588,715
Purchases of premises and equipment	**(1,894,980)**	(2,453,534)
Net cash used in investing activities	**(22,138,903)**	(11,261,835)

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years ended December 31, 2019	2018
FINANCING ACTIVITIES		
Net change in deposits	**$ 99,191,460**	$ (4,844,301)
Proceeds from exercise of stock options	**14,000**	14,000
Proceeds from issuance of preferred stock	**-**	4,750,000
Payments for costs of issuance of preferred stock	**-**	(220,080)
Payment on earn-out liability	**-**	(224,834)
Payment of preferred dividends	**(234,167)**	-
Principal payments on mortgage payable	**(32,273)**	(30,533)
Net cash provided by (used in) financing activities	**98,939,020**	(555,748)
NET CHANGE IN CASH AND RESTRICTED CASH	**22,196,374**	(9,357,248)
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	**92,040,062**	101,397,310
Cash, Cash Equivalents and Restricted Cash, End of Year	**$ 114,236,436**	$ 92,040,062
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	**$ 149,272**	$ 158,391
Cash paid during the year for income taxes	**$ 22,840**	$ 808,955
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Mortgage loans and financings converted to real estate owned	**$ -**	$ 70,586
Mortgage loans recorded for repurchase option	**$ 2,090,158**	$ -
Accrual of preferred dividends	**$ 75,000**	$ -

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The consolidated financial statements of University Bancorp, Inc. (the "Parent") include the operations of its wholly-owned subsidiary, University Bank (the "Bank"), the Bank's wholly-owned subsidiaries, Ann Arbor Insurance Centre, Inc. ("AAIC"), Hoover, LLC ("Hoover"), University Lending Group, LLC ("ULG") and Midwest Loan Solutions, Inc. ("Midwest"), and the Bank's 80% owned subsidiary, UIF Corporation ("UIF"). These consolidated financial statements also include the operations of Hoover's wholly-owned subsidiary, Tuomy, LLC, as well as the operations of AAIC's wholly-owned subsidiary, 2621 Carpenter Road, LLC. The accounts are maintained on an accrual basis in accordance with generally accepted accounting principles and predominant practices within the banking and mortgage banking industries. All significant intercompany balances and transactions have been eliminated in preparing the consolidated financial statements. University Bancorp, Inc. and Subsidiaries are herein referred to as the "Company".

The Parent is a bank holding company. The Bank, which is located in Michigan, is a full service community bank, which offers all customary banking services, including the acceptance of checking, savings and time deposits. The Bank also makes commercial, real estate, personal, home improvement, automotive and other installment, credit card and consumer loans, and provides fee based services such as foreign currency exchange. The Bank's customer base is primarily located in the Ann Arbor, Michigan metropolitan statistical area.

The Bank's loan portfolio is concentrated in Ann Arbor and Washtenaw County, Michigan. While the loan portfolio is diversified, the customers' ability to honor their debts is partially dependent on the local economy. The Ann Arbor area is primarily dependent on the education, healthcare, services, and manufacturing (automotive and other) industries. Most real estate loans are secured by residential or commercial real estate and business assets secure most business loans. Generally, installment loans are secured by various items of personal property.

AAIC is engaged in the sale of insurance products including life, health, property and casualty, and investment products such as annuities. AAIC is located in the building owned by 2621 Carpenter Road, LLC in Ann Arbor, MI.

Hoover owns the Bank's headquarters facility. Tuomy owns commercial land with a drive through ATM and a rental building.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

ULG commenced operations in April 2008 and is headquartered in Clinton Township, Michigan. ULG operates in seventeen retail branches throughout Michigan, Indiana, Florida, North Carolina, Louisiana and Texas. ULG is engaged in the business of marketing, originating, processing, closing and selling retail mortgage loans. ULG is also engaged in the business of servicing mortgage loans as servicing rights are retained on selective loans that are sold.

Midwest is engaged in the business of servicing and sub-servicing residential mortgage loans. Midwest began operations in 1992 and was acquired by University Bank in December 1995. Midwest is based in Houghton, Michigan, and is also engaged in the business of marketing, originating, processing, closing and selling wholesale and retail mortgage loans.

UIF is a faith-based banking firm and was formed in December 2005. UIF is based in Southfield, Michigan. Its current products, which comply with federal and state law, as well as religious precepts, are deposits (as agent for the Bank) that are insured by the Federal Deposit Insurance Corporation (the “FDIC”), home financings (as agent for the Bank and Federal Home Loan Mortgage Corporation (“Freddie Mac”)), and home financings and commercial real estate financings (as principal for its own account). Products are offered to service the large number of faith-based customers who have an ethical aversion to paying or receiving interest.

There are two distinct financing products offered using redeemable lease and installment sale contracts.

Under the redeemable lease method, a single-asset trust or an LLC is established by or on behalf of the originator (Bank/UIF), as settlor, naming a special purpose entity as the trustee or manager. The trust or LLC is subject to the terms of the written indenture designed for this specific purpose which is used generically for all financings in the redeemable lease program. The funds necessary to acquire the real property are deposited into the trust or LLC by the originator, as settlor, and used to fund the purchase of the property. The trust or LLC then enters into a combination lease/contract-for-deed agreement with the lessee/purchaser. The settlor is the initial beneficiary of the trust or LLC, but the beneficial interest in the payment stream arising from the trust or LLC is assignable to third parties. The power to remove and appoint trustees or managers is granted to the beneficiary and the beneficiary has the power to direct the trustee or manager with respect to foreclosure of the property. These rights are assignable with the payment stream.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

The terms of the lease and contract-for-deed agreements, in combination, result in a payment stream and cost of the real property that are functionally equivalent to secured real estate lending for both the lessee/purchaser and the Company. The lease payment under the lease agreement is similar to an interest payment under a conventional mortgage. The contract-for-deed payments resemble a principal payment under a conventional mortgage.

The lease and contract-for-deed payment streams are combined and considered as a single transaction. These redeemable lease arrangements are treated as sales-type leases in accordance with U.S. generally accepted accounting principles (“GAAP”), with no profit or loss at lease commencement.

Accordingly, the Company’s accounting for this product is essentially the same as a conventional mortgage product. To reflect the substance of the redeemable lease transactions, the Company uses the balance sheet account title “Loans and financings” instead of a typical title of “Loans”. In the consolidated statements of operations and comprehensive income, “Interest and fees on loans” is modified to state “Interest and fees on loans and financing income”.

The second form of home financing uses the installment sale method. As agent for the Bank, UIF buys a property selected by a customer and then resells it to the customer, at a selling price higher than the purchase price. The difference between UIF’s purchase price and the selling price is the profit that the ultimate holder of the installment contract will accrete into income over the life of the contract. After the contract is executed by UIF and the customer, the contract is assigned to the Bank, and then assigned to Freddie Mac. Freddie Mac then reimburses the Bank for the outlay of cash to purchase the property and pays the Bank a fee for origination. The cash, origination fees, and servicing rights are retained by UIF under an installment sale agreement between UIF and the Bank. The customer pays Freddie Mac for the property that was purchased on an installment basis, in accordance with an agreed upon repayment schedule.

The Company records these contracts at fair value for the short period of time that they are held before assignment to Freddie Mac. The installment contracts are assigned with servicing retained. Thus, the value of the installment contract and value of the servicing is determined to calculate the fair value and any gain or loss on the assignment of the underlying installment contract. See Note 23 for additional discussion of the determination of fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

On the liability side of the balance sheet, UIF (as agent for the Bank) also offers FDIC–insured deposits that use a method of profit sharing. These deposits are specifically invested in investments that do not involve interest such as, but not limited to, transactions structured using the redeemable lease and installment sale methods. Savings, money markets, and certificates of deposits pay out earnings that are derived specifically from the revenues from these investments net of certain expenses. In compliance with the FDIC definition of a deposit, balances in these accounts, like all deposit accounts, are FDIC insured. The sharing of earnings paid out to the depositors holding these accounts can fluctuate to as low as zero percent with the net earnings of the redeemable lease portfolio and other investments compliant.

The earnings paid to the depositors by the Bank are accounted for as an expense. This expense is analogous to interest expense paid on deposits in conventional financing. To reflect the legal substance of the profit sharing deposits, the Company uses the balance sheet account title “Demand deposits – interest bearing and profit sharing” instead of the typical title of “Demand deposits – interest bearing”. In the consolidated statements of operations and comprehensive income, “Interest on deposits” is modified to state “Interest and profit sharing on deposits”.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based upon available information. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The significant estimates incorporated into these consolidated financial statements, which are more susceptible to change in the near term, include the value of mortgage and financing servicing rights, the allowance for loan and financing losses, the identification and valuation of impaired loans and financings, the valuation of real estate owned, impairment analysis of goodwill and other intangible assets, the valuation allowance for deferred tax assets, the fair value of loans and financings held for sale or assignment, the fair value of derivative instruments such as mortgage interest and financing rate locks and forward commitments, recourse liabilities related to loans sold and financings assigned and loans and financings held for sale or assignment, the valuation of stock options and related stock based-compensation, the fair value of the contingent earn-out liabilities, the amount of contingent liabilities, and the determination and the fair value of other financial instruments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Flow Reporting

For purposes of the consolidated statements of cash flows, cash and cash equivalents and restricted cash is defined to include the cash on hand, interest bearing deposits in other institutions, federal funds sold, other investments with an original maturity of three months or less, and restricted cash. Net cash flows are reported for customer loans and financings, deposit transactions, and interest bearing deposits with other banks.

Investment Securities

Debt securities held-to-maturity are carried at amortized cost and adjusted for amortization of premiums and accretion of discounts using the interest method. Debt securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss. Realized gains and losses on the sale of debt securities available-for-sale are recorded in the consolidated statements of operations.

Debt securities are written down through a charge to earnings when a decline in fair value below amortized cost is other-than-temporary. During the years ended December 31, 2019 and 2018, there were no other-than-temporary losses.

Equity securities available-for-sale are carried at fair value, with unrealized and realized gains and losses reported in earnings.

Investment securities transactions are recorded on the trade date for purchases and sales. Interest earned on investment securities, including the amortization of premiums and the accretion of discounts, are determined using the effective interest method over the period of maturity and recorded in interest income in the consolidated statements of operations.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (the “FHLB”), the Bank is required to invest in FHLB stock, which is carried at cost since there is no readily available market value. When redeemed, the Bank receives an amount equal to the par value of the stock. Dividends paid on the FHLB stock are subject to economic events, regulatory actions, and other factors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Financings

Loans and financings are reported at the principal balance outstanding, net of unearned interest or financing income, discounts, deferred loan or financing fees and costs, and an allowance for loan and financing losses. Interest income is reported on the interest method and includes amortization of discounts and net deferred loan fees and costs over the loan term. Financing income is calculated monthly and includes amortization of net deferred financing fees and costs over the term of the financing. Interest or financing income is not reported when full loan repayment is in doubt, typically when payments are past due over ninety days. Payments received on such loans and financings are reported as principal reductions, unless all interest or financing income and principal payments in arrears are paid in full.

Allowance for Loan and Financing Losses

The allowance for loan and financing losses is a valuation allowance for probable credit losses, increased by the provision for loan and financing losses and recoveries and decreased by charge-offs. Management estimates the balance required based on past loss experience, known and inherent risks in the portfolio, information about specific borrower situations, and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans or financings, but the entire allowance is available for any loan or financing that, in management's judgment, should be charged-off.

Loan or financing impairment is reported when full payment under the loan or financing terms is not expected. Impairment is evaluated in total for smaller-balance loans and financings of similar nature such as residential, consumer, and credit card, and on an individual loan or financing basis for other loans or financings. If a loan or financing is impaired, a portion of the allowance is allocated so that the loan or financing is reported, net, at the present value of estimated future cash flows using the loan's or financing's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans or financings are evaluated for impairment when payments are delinquent, typically ninety days or more, or when it is probable that all principal and interest or profit sharing amounts will not be collected according to the original terms of the loan or financing. When collection becomes remote, loans or financings are written off.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed primarily on the straight-line method over the assets' estimated useful lives which range from three to thirty-nine years. In the case of a leasehold improvement, the life will be the lesser of the term of the lease and the estimated useful life.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

The Company adopted ASU No. 2016-02, Leases (ASC 842) on January 1, 2019 using the transition method which allows entities to initially apply the standard at the date of adoption and recognize a cumulative-effect adjustment to the opening balance of stockholders' equity. The Company elected the package of transition practical expedients, which allowed the Company to carryforward the historical assessment of whether contracts are or contain leases, lease classification and initial direct costs. The Company elected not to separate lease and non-lease components for all leases. The Company also elected to make the accounting policy election for short-term leases where leases with an initial term of 12 months or less are not recorded on the balance sheet. The adoption of ASC 842 resulted in the Company recording a lease right of use asset and liability of approximately $2,783,000 as of January 1, 2019. The cumulative effect of initially applying the guidance had no impact on the opening balance of stockholders' equity. Rent expense is recognized on a straight-line basis over the lease term.

Mortgage Banking Activities

The Company's mortgage banking activities consist of retail and servicing operations. Loans and financings held for sale are sold or assigned with selective loans or financings having their servicing or financing rights retained, and others are sold or assigned on a servicing released basis. The Company has elected to record MLS' construction loans held for sale at lower of cost or fair value, and all other loans and financings held for sale at fair value. Loans and financings are generally sold or assigned without recourse, except in certain events as defined in the related sale or assignment documents.

An allowance was booked for potential recourse liabilities related to loans and financings sold or assigned, and loans and financings held for sale or assignment, in the amount of $446,169 and $254,407 as of December 31, 2019 and 2018, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Activities (Continued)

At certain times the Company may be required to buyback loans from a purchaser in accordance with loan purchase documents if certain representations and warranties regarding eligibility and underwriting are not met. Also, certain securitization programs allow the Company to buy back individual delinquent mortgage loans from the securitized loan pool once certain conditions are met. When individual loans meet the specified delinquency criteria and are eligible for repurchase, the Company has the option to repurchase the delinquent loan for an amount equal to 100% of the loan's remaining principal balance and must account for loans as if they had been repurchased, provided the buyback option provides the Company with a "more-than-trivial benefit." The delinquent loans must be brought back onto the Company's balance sheet as assets and initially recorded at fair value, regardless of whether the Company intends to exercise the buyback option. An offsetting liability is also recorded. Included in the loans held for investment at December 31, 2019 and 2018 are $2,090,158 and $-0-, respectively, of delinquent residential loans that the Company has the option to buy back. As of December 31, 2019 and 2018, a loan repurchase liability of $2,090,158 and $-0-, respectively, is recorded on the balance sheet related to these repurchase options.

Mortgage and financing servicing rights ("MSRs") represent both purchased rights and the allocated value of servicing rights retained on loans or financings originated and sold or assigned. Loan and financing servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans or financings.

MSRs are initially recognized at their fair value and subsequently can either be: (1) carried at fair value with changes in fair value recognized in earnings; or (2) amortized and assessed for impairment. These options may be applied by class of servicing assets or liabilities. The Company has elected to apply fair value accounting to all MSRs.

Real Estate Owned

Real estate properties acquired upon foreclosure of a loan or financing are recorded at fair value upon foreclosure, establishing a new cost basis. Any difference between the fair value of the real estate from the carrying value of the related loan or financing is accounted for as a loan or financing loss. After foreclosure, management periodically performs valuations to ensure real estate is carried at the lower of cost or fair value, less estimated costs to sell. Expenses, gains and losses on disposition, and decreases in the fair value are reported in noninterest expense.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments

The Company enters into interest and financing rate lock commitments ("IRLCs") in connection with its mortgage banking activities to fund residential mortgage loans and financings within specified times in the future. IRLCs that relate to the origination of mortgage loans and financings that will be held for sale or assignment are considered derivative instruments. As such, these IRLCs are recorded at fair value (see Note 23) with changes in fair value recorded in earnings.

Outstanding IRLCs expose the Company to the risk that the price of the loans or financings underlying the commitments might decline from inception of the rate lock to the funding of the loan or financing. To protect against this risk, the Company utilizes forward loan and financing sales commitments to economically hedge the risk of potential changes in the value of the loans and financings that would result from the commitments. These forward commitments are recorded at fair value (see Note 23) with net changes in fair value recorded in earnings.

Goodwill

Goodwill is the excess costs of acquired businesses over the fair value amounts assigned to identifiable assets acquired and liabilities assumed. The Company reviews goodwill for impairment annually or whenever events and circumstances have occurred that indicate a potential impairment.

When performing an impairment test, entities are provided with the option of first performing a qualitative assessment on none, some or all of its reporting units to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after completing a qualitative analysis, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative analysis is required.

Under a quantitative analysis, management first compares the fair value of a reporting unit to the carrying value of the reporting unit's net assets at the measurement date. If the carrying value of the reporting unit exceeds the fair value, the second step of the quantitative analysis must be performed. The second step of the quantitative analysis requires an allocation of the estimated fair value of the reporting unit to all assets and liabilities as if the reporting unit had been acquired at the measurement date. The carrying value of goodwill is then compared to the implied value of goodwill and any excess of carrying value over implied value is recognized as goodwill impairment.

The Company's evaluations of goodwill completed during 2019 and 2018 resulted in no impairment losses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

Management periodically reviews the potential impairment of long-lived assets to assess recoverability. If a long-lived asset is deemed to be impaired, the write-down is recorded as a periodic expense. There was no impairment recorded during 2019 or 2018.

Income Taxes

Deferred income tax assets and liabilities are recorded for estimated future tax consequences attributable to the differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are to be computed on the liability method and deferred tax assets are recognized only when realization is certain. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If necessary, a valuation allowance is booked to reduce net deferred tax assets to a net amount that is more likely than not to be realized.

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At December 31, 2019 and 2018, there are no uncertain tax positions for which a reserve or liability is recognized.

The Company's major state tax expense is in the state of Michigan. Under Michigan tax law, the Company is subject to a franchise tax. It is management's policy to include the franchise tax in other operating expenses as the Michigan state tax is not income-based. The Michigan statute calls for a "joint and severally liable" unitary tax on entities which are commonly controlled and have inter-company "flow of value" transactions. Hence, the Company pays this tax on a consolidated basis just as it pays its federal tax on a consolidated basis.

The Parent and the Bank have a tax sharing agreement with some of its subsidiaries in which the subsidiaries record their share of federal and state taxes in accordance with the tax sharing agreements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Computation of EPS

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) attributable to common stockholders by the weighted-average common shares outstanding in the period. Diluted EPS is computed by giving effect to all potentially dilutive securities that are outstanding, and excludes the effect of any potentially antidilutive securities. The number of shares related to options included in diluted EPS is based on the treasury stock method.

The Company has preferred shares that earn preferred dividends. In the determination of EPS, net income available to common stockholders has been reduced by the amount of preferred dividends.

Subsequent Events

The Company has performed a review of events subsequent to December 31, 2019 through March 30, 2020, the date the consolidated financial statements were available to be issued. See Note 27.

NOTE 2 – RESTRICTIONS ON CASH AND CASH EQUIVALENTS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2019 and 2018, this reserve requirement amounted to $17,043,000 and $8,527,000, respectively.

In accordance with a seller and servicer agreement with Freddie Mac, UIF was previously required to maintain a pledged collateral deposit of $1,000,000. In 2019, Freddie Mac released its security interest in the collateral deposit and released the funds to the Company. The balance maintained in the restricted account totaled $-0- and $1,035,670 at December 31, 2019 and 2018, respectively. This cash balance is shown as restricted cash in the consolidated balance sheets.

In accordance with the mortgage payable discussed in Note 20, the Company is required to maintain restricted cash accounts to be used for principal, tax, and insurance payments, as well as tenant improvements. The balance in these restricted accounts totaled $420,439 and $335,383 at December 31, 2019 and 2018, respectively.

NOTE 3 – INVESTMENT SECURITIES

Investment securities have been classified according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency mortgage-backed securities	$ 10,557,660	$ 283,960	$ -	$ 10,841,620
Available-for-sale				
U.S. agency mortgage-backed securities	$ 343,565	$ 3,848	$ -	$ 347,413
Equity securities	152,722	-	(28,207)	124,515
Total available-for-sale	$ 496,287	$ 3,848	$ (28,207)	$ 471,928

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency mortgage-backed securities	$ 11,089,663	$ 110,248	$ (20,162)	$ 11,179,749
Available-for-sale				
U.S. agency mortgage-backed securities	$ 411,953	$ 5,476	$ -	$ 417,429

At December 31, 2019 and 2018, the fair value of investment securities pledged to secure certain borrowings was $11,189,033 and $11,597,178, respectively. The balance of these borrowings at both December 31, 2019 and 2018 was $-0-.

The following is a summary of maturities of debt securities held-to-maturity and available-for-sale as of December 31, 2018:

	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	$ -	$ -	$ -	$ -
After one year through five years	-	-	12,959	12,597
After five years through ten years	-	-	-	-
After ten years	10,557,660	10,841,620	330,606	334,816
	$ 10,557,660	$ 10,841,620	$ 343,565	$ 347,413

NOTE 3 – INVESTMENT SECURITIES (Continued)

Actual maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Proceeds from pay downs of mortgage-backed securities amounted to $3,660,389 and $493,958 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 – LOANS AND FINANCINGS, NET

Major classifications of loans and financings are as follows:

	December 31, 2019	December 31, 2018
Commercial	$ 2,390,674	$ 1,203,023
Commercial real estate	45,580,662	37,936,510
Residential real estate	31,147,325	16,564,392
Installment	134,741	143,350
Credit cards	59,908	61,335
Gross loans and financings	79,313,310	55,908,610
Allowance for loan and financing losses	(390,708)	(322,673)
Unearned discount on residential real estate loans	(967,641)	-
Net loans and financings	$ 77,954,961	$ 55,585,937

During the year ended December 31, 2019, the Company purchased loans with a principal balance of $6,800,349 at a discount of $1,394,072, from an unrelated financial institution.

Changes in the allowance for loan and financing losses were as follows:

	December 31, 2019	December 31, 2018
Balance, beginning of year	$ 322,673	$ 406,437
Provision (reduction) charged to operations	48,481	(290,722)
Recoveries credited to allowance	25,099	206,958
Charge-offs	(5,545)	-
Balance, end of year	$ 390,708	$ 322,673

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Changes in the allowance for loan and financing losses by portfolio segment for the year ended December 31 were as follows:

	2019			
	Commercial	Retail	Unallocated	Total
Balance, beginning of year	$ 78,257	$ 112,599	$ 131,817	$ 322,673
Provision (reduction) charged to operations	17,703	15,902	14,876	48,481
Recoveries credited to allowance	-	25,099	-	25,099
Charge-offs	-	(5,545)	-	(5,545)
Balance, end of year	$ 95,960	$ 148,055	$ 146,693	$ 390,708

	2018			
	Commercial	Retail	Unallocated	Total
Balance, beginning of year	$ 79,356	$ 27,010	$ 300,071	$ 406,437
Provision (reduction) charged to operations	(184,407)	61,939	(168,254)	(290,722)
Recoveries credited to allowance	183,308	23,650	-	206,958
Charge-offs	-	-	-	-
Balance, end of year	$ 78,257	$ 112,599	$ 131,817	$ 322,673

The following tables present the balance in the allowance for loan and financing losses and the recorded investment in loans and financings by portfolio segment and based on impairment method as of December 31:

	2019			
	Commercial	Retail	Unallocated	Total
Allowance for loan and financing losses				
Individually evaluated for impairment	$ -	$ 71,759	$ -	$ 71,759
Collectively evaluated for impairment	95,960	76,296	146,693	318,949
Balance, end of year	$ 95,960	$ 148,055	$ 146,693	$ 390,708
Loans and financings				
Individually evaluated for impairment	$ -	$ 363,652	$ -	$ 363,652
Collectively evaluated for impairment	47,971,336	30,978,322	-	78,949,658
Balance, end of year	$ 47,971,336	$ 31,341,974	$ -	$ 79,313,310

	2018			
	Commercial	Retail	Unallocated	Total
Allowance for loan and financing losses				
Individually evaluated for impairment	$ -	$ 69,156	$ -	$ 69,156
Collectively evaluated for impairment	78,257	43,443	131,817	253,517
Balance, end of year	$ 78,257	$ 112,599	$ 131,817	$ 322,673
Loans and financings				
Individually evaluated for impairment	$ -	$ 1,069,868	$ -	$ 1,069,868
Collectively evaluated for impairment	39,139,533	15,699,209	-	54,838,742
Balance, end of year	$ 39,139,533	$ 16,769,077	$ -	$ 55,908,610

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Due to the imprecise nature of the loan and financing loss estimation process and ever changing economic conditions, the risk attributes of the portfolio may not be adequately captured in data related to the formula-based loan and financing loss components used to determine allocations in the Company's analysis of the adequacy of the allowance for loan and financing losses. The Company therefore, has established and held an unallocated portion within the allowance for loan and financing losses reflecting the uncertainty of future economic conditions within the Company's market area. Information about impaired loans and financings by class at December 31 was as follows:

	2019			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Consumer/credit card	66,641	66,641	66,641	66,641
Residential real estate	297,011	297,011	5,118	294,058
Total	$ 363,652	$ 363,652	$ 71,759	$ 360,699

	2018			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Consumer/credit card	75,507	75,507	68,628	47,051
Residential real estate	994,361	994,361	528	1,158,245
Total	$ 1,069,868	$ 1,069,868	$ 69,156	$ 1,205,296

Interest and financing income recognized for the time that loans and financings were impaired during 2019 and 2018 was not significant.

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

The following tables present informative data by class of loan and financing regarding their age and interest or financing income accrual status at December 31, 2019 and 2018 (in thousands):

December 31, 2019	Current	Past Due 30-59 Days	Past Due 60-89 Days	Past Due ≥ 90 Days	Total Past Due	Total Loans and Financings
Commercial	$ 2,391	$ -	$ -	$ -	$ -	$ 2,391
Commercial real estate	45,581	-	-	-	-	45,581
Consumer	135	-	-	-	-	135
Credit card	60	-	-	-	-	60
Residential real estate	27,776	1,235	309	1,826	3,370	31,146
Total	$ 75,943	$ 1,235	$ 309	$ 1,826	$ 3,370	$ 79,313

December 31, 2018	Current	Past Due 30-59 Days	Past Due 60-89 Days	Past Due ≥ 90 Days	Total Past Due	Total Loans and Financings
Commercial	$ 1,203	$ -	$ -	$ -	$ -	$ 1,203
Commercial real estate	37,937	-	-	-	-	37,937
Consumer	143	-	-	-	-	143
Credit card	61	-	-	-	-	61
Residential real estate	16,392	27	-	145	172	16,564
Total	$ 55,736	$ 27	$ -	$ 145	$ 172	$ 55,908

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

December 31, 2019	Accrual Status: Total Loans and Financings on Nonaccrual Status	Accrual Status: Loans and Financings Past Due ≥ 90 Days and Still Accruing
Commercial	$ -	$ -
Commercial real estate	-	-
Consumer	-	-
Credit card	-	-
Residential real estate	-	-
Total	$ -	$ -

December 31, 2018	Accrual Status: Total Loans and Financings on Nonaccrual Status	Accrual Status: Loans and Financings Past Due ≥ 90 Days and Still Accruing
Commercial	$ -	$ -
Commercial real estate	-	-
Consumer	-	-
Credit card	-	-
Residential real estate	145	-
Total	$ 145	$ -

At December 31, 2019 and 2018, the Company also had $781,900 and $339,500 of loans and financings held for sale or assignment that were on nonaccrual status.

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

The Company has a grading system to help evaluate and classify the Company's loan and financing portfolio with respect to credit quality and risk.

The Company reviews commercial loans and financings on a regular basis and categorizes those loans and financings into risk categories based on relevant information about the ability of the customers to service their loan or financings, including financial information, payment experience, credit documentation, public information, and current economic trends.

Commercial loans and financings that are considered to be of lesser quality are considered substandard, doubtful, or loss (classified). The Company considers a loan or financing substandard when there is an inadequate primary or secondary source of repayment, hence inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. Substandard loans and financings include those in which there is the distinct possibility that the Company will sustain some loss of principal if the deficiencies are not corrected. Loans and financings that are classified as doubtful have all of the weaknesses inherent in those loans and financings that are classified substandard, but also have the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans and financings classified as loss, are those considered uncollectible and of such little value that their continuance as an asset is not warranted, and the uncollectible amounts are charged off.

Loans and financings that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weakness, are designated as special mention. A special mention loan or financing has a potential weakness that deserves close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risks to warrant classification. Special mention loans and financings are included with substandard performing loans and financings in the following table. Commercial loans and financings not meeting the above criteria are considered to be pass rated loans and financings.

For residential real estate and consumer loans and financings, the Company uses payment status to monitor the credit risk in these loans and financings. Substandard loans and financings are those that are ninety days or more past due. Residential real estate and consumer loans and financings that don't meet these criteria are considered performing.

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Information pertaining to the credit risk of loans and financings at December 31, aggregated by risk category and class of loans and financings is as follows:

	2019		
	Commercial Real Estate	Commercial	Total
Grade			
Pass	$ 45,580,662	$ 2,390,674	$ 47,971,336
Classified - performing	-	-	-
Classified - nonperforming	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	$ 45,580,662	$ 2,390,674	$ 47,971,336

	Residential Real Estate	Consumer/ Credit Card	Total
Grade			
Performing	$ 30,850,314	$ 128,008	$ 30,978,322
Substandard	297,011	66,641	363,652
Total	$ 31,147,325	$ 194,649	$ 31,341,974

	2018		
	Commercial Real Estate	Commercial	Total
Grade			
Pass	$ 37,936,510	$ 1,203,023	$ 39,139,533
Classified - performing	-	-	-
Classified - nonperforming	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	$ 37,936,510	$ 1,203,023	$ 39,139,533

	Residential Real Estate	Consumer/ Credit Card	Total
Grade			
Performing	$ 16,419,804	$ 204,685	$ 16,624,489
Substandard	144,588	-	144,588
Total	$ 16,564,392	$ 204,685	$ 16,769,077

NOTE 5 – MORTGAGE BANKING ACTIVITIES

Midwest and University Bank provide sub-servicing of real estate mortgage loans for over 390 financial institutions. The unpaid principal balance of these loans was approximately $24.4 billion and $21.6 billion as of December 31, 2019 and 2018, respectively. The value of the mortgage servicing rights associated with these sub-serviced loans belong to the customer and therefore are not included in the accompanying consolidated financial statements.

University Bank, Midwest, UIF and ULG sell residential mortgage loans and financings to the secondary market with servicing rights retained for selected loans and financings. These loans and financings are owned by other institutions and are not included in the Company's consolidated balance sheets, but the associated MSRs are included in the accompanying consolidated financial statements. Such mortgage loans and financings have been sold or assigned generally without recourse or with limited recourse. The unpaid principal balance of these loans and financings was $1.6 billion and $1.3 billion at December 31, 2019 and 2018, respectively.

Custodial escrow balances maintained in connection with these loans and financings were approximately $429 million and $299 million, of which approximately $198 million and $180 million were held at other banks and were not included in the accompanying consolidated financial statements at December 31, 2019 and 2018, respectively.

The following summarizes the activity relating to MSR's:

	December 31, 2019	December 31, 2018
Balance, January 1	$ 12,610,729	$ 9,812,943
Amount capitalized	4,619,534	3,535,943
Change in fair value due to:		
Pay-offs and pay-downs	(1,829,600)	(1,166,117)
Changes in estimates	(2,683,602)	427,960
MSRs received in nonreciprocal transfer	470,491	-
Balance, December 31	$ 13,187,552	$ 12,610,729

During the year ended December 31, 2019, the Company received mortgage servicing rights in a nonreciprocal transfer from an unrelated financial institution. The mortgage servicing rights were recorded at a fair value of $470,491 on the transfer date, resulting in a gain of $470,491 which is included in change in fair value of mortgage servicing rights in the 2019 consolidated statement of operations and comprehensive income.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

The Company enters into IRLCs in connection with its mortgage banking activities to fund residential mortgage loans and financings within specified times in the future. As of December 31, 2019 and 2018, IRLCs amounted to approximately $94.2 million and $37.7 million, respectively, of which management estimated approximately $79.4 million and $29.1 million, respectively, to eventually close and be funded. These IRLCs were recorded in assets in the consolidated balance sheets at a fair value of $1,686,711 and $892,286 as of December 31, 2019 and 2018, respectively.

The Company also utilizes forward loan and financing sales commitments in order to economically hedge the risk of potential changes in the value of the loans and financings that would result from the IRLCs. Forward sales commitments to fund loans and financings at specified rates amounted to approximately $109.0 million and $76.0 million as of December 31, 2019 and 2018, respectively. These forward commitments were recorded in liabilities in the consolidated balance sheet at a fair value of $209,631 and $678,681 as of December 31, 2019 and 2018, respectively.

The net change in fair value of the IRLCs and the related forward loan and financing sales commitments held at December 31, 2019 and 2018 resulted in a gain of $1,263,475 and loss of $525,212, respectively, which have been recognized in the noninterest section in the consolidated statements of operations. These gains and losses are due principally to the inclusion of day one gains/losses associated with the adoption of fair value accounting as discussed in Note 23. Prior to companies being permitted to adopt fair value accounting, the recognition of such day one gains/losses was prohibited and these gains/losses were not recognized until realized through the sale or assignment of the related loans and financings.

Market interest rate conditions can quickly affect the fair value of MSRs, IRLCs, and forward loan and financing sales commitments in a positive or negative fashion, as long-term interest rates rise and fall. See Note 23 for further discussion of management's assumptions used in determination of fair value of these assets and liabilities.

NOTE 6 – PREMISES AND EQUIPMENT, NET

Premises and equipment consist of the following:

	December 31, 2019	December 31, 2018
Land	$ 1,043,400	$ 1,043,400
Buildings and improvements	6,844,067	5,801,085
Furniture, fixtures, equipment and software	10,625,242	9,147,326
Construction in process	198,098	825,880
	18,710,807	16,817,691
Less accumulated depreciation and amortization	(9,104,496)	(7,177,679)
Premises and equipment, net	$ 9,606,311	$ 9,640,012

Depreciation and amortization expense related to premises and equipment amounted to $1,928,681 and $1,539,113 for the years ended December 31, 2019 and 2018, respectively.

Leases

As discussed in Note 1, the Company adopted ASC 842 on lease accounting on January 1, 2019. The Company is now required to record a lease right of use asset and liability for its leases.

Midwest, UIF, and ULG each lease office space for their respective operations under operating leases. ULG and UIF also lease office space for their retail branches. Several leases have an option to renew at the Company's discretion for an additional term. Only lease options that the Company believes are reasonably certain to be exercised are included in the measurement of lease assets and liabilities. The Company's present lease terms range from less than 1 year to 14 years, with a weighted average of 8.2 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

NOTE 6 – PREMISES AND EQUIPMENT, NET (Continued)

Leases (Continued)

Maturities of operating lease liabilities for office space are as follows:

Years ending December 31,	Amount
2020	$ 1,037,729
2021	993,114
2022	872,471
2023	688,071
2024	461,222
Thereafter	2,433,042
Total minimum future payments	6,485,649
Less: Imputed interest	1,398,271
Present value of lease liabilities	$ 5,087,378

The weighted average discount rate used to calculate the present value of future lease payments was 5.5%. Operating lease expense for the year ended December 31, 2019 totaled $1,439,805.

NOTE 7 – GOODWILL

The following table summarizes goodwill by reporting unit:

	December 31,	
	2019	2018
Midwest	$ 103,914	$ 103,914
AAIC	252,396	252,396
	$ 356,310	$ 356,310

NOTE 8 – CUSTOMER RELATIONSHIPS, NET

During 2012, the Company acquired customer relationships of $498,000 as part of the acquisition of AAIC and 2621 Carpenter Road, LLC. These customer relationships were being amortized on a straight-line basis over their estimated economic lives, which were determined to be seven years. Amortization expense amounted to $71,142 for each of the years ended December 31, 2019 and 2018. As of December 31, 2019, these customer relationships were fully amortized.

NOTE 9 – TIME DEPOSITS

Time deposit liabilities issued in denominations of $250,000 or more were $328,065 and $309,468 at December 31, 2019 and 2018, respectively.

At December 31, 2019, stated maturities of time deposits were:

Years ending December 31,	Amount
2020	$ 818,959
2021	150,546
2022	409,064
2023	-
2024 and thereafter	558,201
	$ 1,936,770

NOTE 10 – DEFERRED COMPENSATION

ULG has a deferred compensation agreement (the “Agreement”) with one of its key employees that provides this employee with a phantom interest in the net income of ULG based on years of service. The deemed value of the phantom interest at any point in time is the net income of ULG since September 1, 2011, less 34%, multiplied by 12.4975%, less $250,000. Since December 31, 2014, this phantom interest has been fully vested. In addition, the employee is entitled to earn $250,000 vested over time with 50% vesting after 5 years, and 10% vesting in each of the 5 years thereafter. As of December 31, 2019, $204,167 of this $250,000 benefit was vested.

Any accrued benefit to the employee is to be distributed upon retirement, death, or disability of the employee, or upon termination of the employee without cause. Distributions have also been made at the discretion of the board (“Special Distribution”). As of December 31, 2019, Special Distributions were paid in which the employee was paid the following amounts of the accrued liability:

Years ended December 31,	Amount
2013	$ 65,000
2014	165,000
2015	-
2016	140,000
2017	159,000
2018	58,000
2019	-
	$ 587,000

NOTE 10 – DEFERRED COMPENSATION (Continued)

In relation to the Agreement, the Company recognized compensation benefit of $25,624 and $207,163 during the years ended December 31, 2019 and 2018, respectively, and had remaining unpaid accrued deferred compensation of $55,316 and $80,940 as of December 31, 2019 and 2018, respectively. Accrued deferred compensation is included in "Accrued expenses and other liabilities" in the consolidated balance sheets.

NOTE 11 – INCOME TAXES

Income tax expense is summarized as follows:

	December 31,	
	2019	2018
Current	$ 75,405	$ 45,000
Deferred	1,001,375	699,488
Income tax expense	$ 1,076,780	$ 744,488

The effective tax rate varies from the current U.S. federal statutory income tax rate as follows:

	Year ended December 31,	
	2019	2018
Statutory rate	21%	21%
Permanent differences	1%	1%
Other	0%	1%
Effective rate	22%	23%

NOTE 11 – INCOME TAXES (Continued)

Significant components of the Company's deferred income tax assets and liabilities consist of the following:

	December 31, 2019	December 31, 2018
Deferred income tax assets:		
Net operating loss carryforward	$ -	$ 181,290
Allowance for loan and financing losses and recourse liabilities	28,829	-
Other	11,713	15,912
	40,542	197,202
Deferred income tax liabilities:		
Mortgage servicing rights	2,769,386	2,648,253
Derivatives and LHFS	1,246,596	585,120
Premises and equipment	933,896	857,149
Customer relationships	-	14,940
Allowance for loan and financing losses and recourse liabilities	-	16,656
Other	57,037	40,082
	5,006,915	4,162,200
Net deferred tax liability	$ (4,966,373)	$ (3,964,998)

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before calendar year 2016.

NOTE 12 – CONVERTIBLE PREFERRED STOCK

On December 20, 2018, the Company issued 50,000 shares of convertible preferred stock to a new investor for cash $4,750,000 ($95 per share). During 2018, the Company incurred costs related to the issuance of these preferred shares totaling $220,080. As a result, net proceeds from the transaction amounted to $4,529,920.

NOTE 12 – CONVERTIBLE PREFERRED STOCK (Continued)

The Company's preferred stock has a liquidation preference over its common stock. The shares have a $100 per share liquidation value, on which cumulative dividends accrue at 6% per annum, payable quarterly. When the tangible book value of the Company, as defined in the preferred stock certificate of designation, reaches at least seven times the value of the liquidation value of preferred shares, the 6% preferred dividends become noncumulative and are paid quarterly only if declared by the Company's Board of Directors. The Company can't declare or pay dividends to any other classes of stock until the cumulative preferred dividends are paid, along with any noncumulative preferred dividends declared. The preferred stock does not participate in common dividends. During the years ended December 31, 2019 and 2018, dividends of $234,167 and $-0-, respectively, were paid out. As of December 31, 2019, $75,000 of the cumulative dividends are accrued in the consolidated balance sheet.

Each share of preferred stock can be converted into common stock initially at a rate of $10 preferred stock liquidation value per common share. The conversion price is subject to certain antidilution provisions as defined in the stock certificate designation. Beginning December 20, 2023, the Company may cause some or all of the preferred stock to be converted into common stock at the then prevailing conversion price, if the closing price of the Company's common stock exceeds 130% of the then applicable conversion price for twenty out of thirty consecutive trading days. The holder is also prevented from exercising the conversion right if, after the conversion, it results in the holder owning more than one third of the Company's outstanding equity.

NOTE 13 – STOCK OPTIONS

The Company sometimes issues stock options to directors of the Company in lieu of board fees paid in cash. The following tables summarize the activity relating to options to purchase the Company's common stock:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years
Outstanding at January 1, 2018	170,000	$ 7.00	
Granted	-	$ -	
Exercised	(2,000)	$ 7.00	
Expired or forfeited	-	$ -	
Outstanding at December 31, 2018	168,000	$ 7.00	
Granted	-	$ -	
Exercised	(2,000)	$ 7.00	
Expired or forfeited	-	$ -	
Outstanding at December 31, 2019	166,000	$ 7.00	5.7
Vested and expected to vest in the future as of December 31, 2019	166,000	$ 7.00	5.7
Options exercisable at December 31, 2019	42,000	$ 7.00	5.7

	Nonvested Options	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2018	170,000	$ 1.89
Granted	-	$ -
Vested	(23,000)	$ 1.72
Expired or forfeited	-	$ -
Nonvested at December 31, 2018	147,000	$ 1.91
Granted	-	$ -
Vested	(23,000)	$ 1.72
Expired or forfeited	-	$ -
Nonvested at December 31, 2019	124,000	$ 1.95

NOTE 13 – STOCK OPTIONS (Continued)

During each 2019 and 2018, the Company received cash of $14,000 related to the exercise of options. As of the exercise dates, the intrinsic value of the options exercised in 2019 and 2018 was approximately $3,000 and $8,600, respectively.

The Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. The fair value of the Company's options was determined pursuant to the Black-Scholes model at the date of issuance. As the options vest, the Company recognizes compensation expense in earnings. During each of the years ended December 31, 2019 and 2018, 23,000 shares vested and the Company recorded share-based compensation expense of $42,393 in the consolidated statement of operations and comprehensive income. At December 31, 2019, unrecognized compensation cost related to stock options totaled approximately $236,000, which is expected to be recognized over a weighted-average period of approximately 7.3 years. At December 31, 2019, the intrinsic value of options vested and expected to vest totaled approximately $176,000, and the intrinsic value of options exercisable totaled approximately $45,000.

The grant date fair value of options was determined using the Black-Scholes option pricing model, which values options based on the stock price at the grant date, expected term of the option, expected volatility of the stock, expected dividend payments, exercise price, and risk-free interest rate over the expected term of the option. The Company accounts for any forfeitures of options when they occur.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. As the Company's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

NOTE 14 – NONCONTROLLING INTEREST

Included in the consolidated financial statements are the results for UIF. The Bank owns 80% of the common stock of UIF. An outside investor owns the remaining 20%. At December 31, 2019 and 2018, total equity of UIF was $16,897,519 and $15,899,680, respectively. The noncontrolling interest at December 31, 2019 and 2018 was $3,379,504 and $3,179,937, respectively.

NOTE 15 – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31, 2019	Years ended December 31, 2018
Basic earnings per share		
Net income attributable to stockholders	$ 3,616,824	$ 2,230,166
Less: cumulative dividends on preferred stock	(309,167)	-
Net income attributable to common stockholders	$ 3,307,657	$ 2,230,166
Weighted-average common shares oustanding	5,203,967	5,201,995
Basic earnings per share	$ 0.64	$ 0.43
Diluted earnings per share		
Net income attributable to common stockholders - diluted	$ 3,307,657	$ 2,230,166
Weighted-average common shares oustanding - basic	5,203,967	5,201,995
Dilutive effect of stock options	21,954	37,534
Weighted-average common shares oustanding - diluted	5,225,921	5,239,529
Diluted earnings per share	$ 0.63	$ 0.42

NOTE 16 – EMPLOYEE STOCK OWNERSHIP AND RETIREMENT SAVINGS PLAN

The Bank has an employee stock ownership and retirement savings plan (the "Plan") that allows employees of the Bank and the Bank's subsidiaries to contribute a portion of their salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service (the "401(k) Component"). Management has discretion to make matching contributions to the Plan. All amounts have been funded or accrued at each respective balance sheet date. Matching contributions for the years ended December 31, 2019 and 2018 totaled $271,274 and $257,164, respectively.

The Company may also make discretionary contributions to the employee stock ownership component (the "ESOP Component"). A participants' share in the Company's ESOP contribution is based on his or her current compensation as a percentage of the total employee compensation. Upon retirement from the Company, participants can receive distributions of their allocated shares of the Company's stock. At December 31, 2019, the Company had accrued $133,658 which is expected to be contributed to the ESOP in 2020. At December 31, 2018, the Company had accrued $112,716 which was to be contributed to the ESOP in 2019. Compensation expense related to ESOP contributions amounted to $134,690 and $104,219 during the years ended December 31, 2019 and 2018, respectively.

The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the ESOP include 97,584 and 97,316 shares of the Company's stock at December 31, 2019 and 2018, respectively, all of which were fully allocated. The shares of the ESOP are held in trust and were valued at $786,527 and $875,844 at December 31, 2019 and 2018, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

Commitments

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to fund lines of credit and credit card limits. The Bank's exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements.

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

The following is a summary of commitments:

	December 31,	
	2019	2018
Unused lines of credit	$ 9,132,967	$ 6,383,208
Unused credit card limits	2,507,188	1,866,083
Unused commitments for residential construction	12,221,210	14,058,524
	$ 23,861,365	$ 22,307,815

Contingencies

The Company from time to time may maintain cash balances with other financial institutions in excess of insured limits. Management has deemed this as a normal business risk.

The Company has been party to various legal claims that have arisen from time to time in the normal course of business. Any impact of these legal claims has been reflected in the Company's consolidated financial statements.

At December 31, 2017, the Company had a remaining accrual of $203,346 related to a lawsuit against the Company stemming from trade secrets claims made by a competitor. The accrual was included in the accrued lawsuit judgment on the consolidated balance sheet. During the year ended December 31, 2018, the Company paid $193,879 as part of the judgment, and has no further liability with respect to this litigation.

In January 2019, a former loan correspondent of Midwest made a demand for indemnification in the amount of approximately $950,000 related to the underwriting of several loans sold to the correspondent over the period of 2004 through 2007. The claim was resolved during 2019, resulting in the Company paying the former loan correspondent $190,000 which is included in legal and audit expense in the 2019 consolidated statement of operations and comprehensive income. As of December 31, 2019, there are no outstanding liabilities or contingencies related to this issue.

NOTE 18 – RELATED PARTY TRANSACTIONS

Available lines of credit to directors, officers and their affiliates at both December 31, 2019 and 2018 amounted to $125,000 and $155,000, of which $20,674 and $24,134 had been borrowed against, respectively. The Company has closed and sold related party loans during the normal course of business. These loans were performing pursuant to terms at December 31, 2019 and 2018.

The Bank had demand deposits of $1,107,525 and $192,253 from directors, officers and their affiliates as of December 31, 2019 and 2018, respectively. The Bank also holds demand deposits from various employees in the normal course of business.

NOTE 19 – LINES OF CREDIT

The Bank has a line of credit available from the FHLB. The limit on this line is $10,000,000 and $1,300,000 as of December 31, 2019 and 2018, respectively. The line is secured by the pledge of specific mortgage loans held for investment along with FHLB stock and investment securities. At both December 31, 2019 and 2018, the Bank's had no outstanding balance on the line and availability on the line totaled $10,000,000 and $1,300,000, respectively.

In June 2014, the Company entered into a $1,000,000 revolving warehouse line of credit with a bank so that UIF could meet a state licensing requirement. The Company does not intend to draw on this line. Interest on this line is at the greater of the prime rate or 5%. This line is secured by financings, and matures on June 30, 2020. At both December 31, 2019 and 2018, there was no outstanding balance on this line of credit.

NOTE 20 – MORTGAGE PAYABLE

When 2621 Carpenter Road, LLC purchased the building located at 2755 Carpenter Road in Ann Arbor, Michigan in 2017, the Company assumed the mortgage held by the seller. The mortgage is payable in monthly installments of $10,198, including interest at 5.48%, and is due October 2022. The mortgage balance at December 31, 2019 and 2018 was $1,604,050 and $1,636,323, respectively.

The following is a schedule of mortgage principal payments for each of the next four years:

Years ending December 31,	Amount
2020	$ 35,496
2021	37,491
2022	1,531,063
	$ 1,604,050

NOTE 21 – REGULATORY MATTERS

Dividend Restriction

Banking regulations require the maintenance of certain capital levels and limits the amount of dividends that may be paid by a bank to a holding company or by a holding company to shareholders. The Bank paid dividends to University Bancorp, Inc. totaling $-0- and $1,165,000 during the years ended December 31, 2019 and 2018, respectively. University Bancorp, Inc. did not pay any dividends to common shareholders during the years ended December 31, 2019 and 2018.

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

NOTE 21 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

The Bank is also subject to prompt corrective action capital requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain a minimum of total capital and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average total assets (as defined). As of December 31, 2019 and 2018, respectively, the Bank met all capital adequacy requirements to which it is subject. The Bank's required and actual ratios and amounts of Tier 1 leverage, Tier 1 risk-weighted and total risk-weighted capital are as follows:

	Actual		To Be Adequately Capitalized		To Be Well Capitalized	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
As of December 31, 2019:						
Total capital (to risk-weighted assets)	$ 25,219,000	14.55%	$ 13,861,520	8.00%	$ 17,326,900	10.00%
Tier 1 capital (to risk-weighted assets)	24,373,000	14.07%	10,396,140	6.00%	13,861,520	8.00%
Tier 1 capital (to average assets)	24,373,000	8.15%	11,965,840	4.00%	14,957,300	5.00%
As of December 31, 2018:						
Total capital (to risk-weighted assets)	$ 19,618,000	17.27%	$ 9,086,960	8.00%	$ 11,358,700	10.00%
Tier 1 capital (to risk-weighted assets)	19,066,000	16.79%	6,815,220	6.00%	9,086,960	8.00%
Tier 1 capital (to average assets)	19,066,000	9.54%	7,993,560	4.00%	9,991,950	5.00%

NOTE 22 – OTHER CAPITAL REQUIREMENTS

The Bank, Midwest, ULG, and UIF are subject to certain capital requirements in connection with seller/servicer agreements that these entities have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in these entities' inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on the Company's consolidated financial statements.

NOTE 22 – OTHER CAPITAL REQUIREMENTS (Continued)

The Bank's, Midwest's, ULG's, and UIF's actual capital amounts and the minimum amounts required for capital adequacy purposes, by investor, are as follows:

	Actual Capital	Minimum Capital
As of December 31, 2019:		
Bank		
HUD	$ 29,320,566	$ 1,000,000
FHLMC	$ 29,320,566	$ 2,712,028
FNMA	$ 29,320,566	$ 5,026,449
Midwest		
HUD	$ 5,616,184	$ 1,380,648
FHLMC	$ 5,616,184	$ 2,504,581
FNMA	$ 5,616,184	$ 2,900,313
GNMA	$ 5,616,184	$ 3,060,880
ULG		
HUD	$ 10,021,321	$ 1,635,227
UIF		
FHLMC	$ 16,245,063	$ 3,061,568

	Actual Capital	Minimum Capital
As of December 31, 2018:		
Bank		
HUD	$ 23,879,847	$ 1,000,000
FHLMC	$ 23,879,847	$ 2,633,838
FNMA	$ 23,879,847	$ 4,371,473
Midwest		
HUD	$ 8,897,074	$ 1,273,291
FHLMC	$ 8,897,074	$ 2,504,072
FNMA	$ 8,897,074	$ 2,734,389
GNMA	$ 8,897,074	$ 3,003,365
ULG		
HUD	$ 10,665,032	$ 1,625,823
UIF		
FHLMC	$ 15,515,866	$ 3,161,833

As of December 31, 2019 and 2018, the Bank, Midwest, ULG and UIF were also each required to have a minimum amount of liquid assets under certain liquidity requirements and were in compliance with these requirements.

NOTE 23 – FAIR VALUE MEASUREMENTS

The ASC standards establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Determining which hierarchical level an asset or liability falls within requires significant judgment.

Hierarchical levels, as defined by the standards and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

> Level 1: Quoted prices in active markets for identical assets or liabilities.
>
> Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Because valuation methodologies require the use of subjective assumptions, changes in these assumptions can materially affect fair value. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A description of the valuation methodologies used by the Company for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment Securities

The fair value of the securities represents the amount the Company would realize upon sale of the securities currently in the portfolio. The Company receives current fair values of its debt securities from The Federal Home Loan Bank on a monthly basis as part of its collateral positions. These debt securities are considered to be Level 2 assets in the valuation hierarchy. The Company determines the fair value of its equity securities using quoted prices in active markets. Hence, these equity securities are considered to be Level 1 assets in the valuation hierarchy.

NOTE 23 – FAIR VALUE MEASUREMENTS (Continued)

Loans and Financings Held for Sale or Assignment

The Company elected to account for certain loans and financings held for sale or assignment at fair value. These loans and financings held for sale or assignment are recorded at fair value based on quoted market prices, where available, or are determined by discounting cash flows using interest rates approximating the Company's current origination rates for similar loans and financings and adjusted to reflect the inherent credit risk. In most situations, these loans and financings are locked into buckets to be sold under forward loan and financing sales commitments (as discussed below), in which case the fair value of these loans and financings held for sale or assignment are approximated by the value to be received soon thereafter under the forward sales commitments. Loans and financings held for sale or assignment are considered to be Level 2 assets in the valuation hierarchy. Net changes in the fair value of the Company's loans and financings held for sale or assignment are included in earnings. The net gain on change in fair value of loans and financings held for sale or assignment at December 31, 2019 and 2018 was $4,459,093 and $2,572,678, respectively, which is included in the noninterest income section in the consolidated statements of operations.

MSRs

The fair value of MSRs represents the amount that the Company would receive upon the sale of the MSRs. The Company receives an independent valuation of its MSRs on a quarterly basis. The fair value of MSRs is determined by projecting cash flows which are then discounted to estimate an expected fair value. The fair value of MSRs is impacted by a variety of quantitative factors (including a range of the assumptions used): expected servicing life (2.2-3.5 years), discount rates (11%-14%), float rate (2.0%), servicing costs ($76-$99), and underlying observable portfolio characteristics. Because many of these inputs are not transparent in market trades, MSRs are considered to be Level 3 assets in the valuation hierarchy.

Derivatives – IRLCs and Forward Commitments

The Company estimates the fair value of an IRLC subsequent to inception of the commitment. In estimating the fair value of an IRLC, the Company assigns a probability to the loan or financing commitment based on an expectation that it will be exercised and the loan or financing will be funded. The fair value of IRLCs, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans or financings. These "pull-through" rates are based on the Company's historical data and reflect an estimate of the likelihood that a commitment will ultimately result in a closed loan or financing.

NOTE 23 – FAIR VALUE MEASUREMENTS (Continued)

Also, the fair value of these commitments is derived from the fair value of the related mortgage loans or financings. Unobservable quantitative factors used in the valuation of IRLCs include the following (including a range of the assumptions used): pull-through rates (60%-85%). Because some inputs are not transparent in market trades, IRLCs are considered to be Level 3 assets or liabilities in the valuation hierarchy. Changes in the fair value of the IRLCs are recognized based on interest rate changes, changes in the probability that the commitment will be exercised, and the passage of time. Changes from the expected future cash flows related to the customer relationship or loan or financing servicing are excluded from the valuation of IRLCs.

The fair value of forward sales commitments is based primarily on the fluctuation of interest rates between the date on which the particular forward sales commitment was entered into and year end. Unobservable inputs include (including a range of the assumptions used): volatility (10%-20%), counterparty credit risk (1%-3%). Forward commitments are considered to be Level 3 assets or liabilities in the valuation hierarchy.

Real Estate Owned

Real estate properties acquired in collection of a loan or financing are recorded at fair value upon foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations to ensure real estate is carried at lower of cost or fair value, less estimated costs to sell. Fair value of the real estate is estimated by considering appraisals, which are updated on a periodic basis to reflect current housing market conditions.

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3
December 31, 2019			
Assets:			
Available-for-sale securities	$ 124,515	$ 347,413	$ -
Loans and financings held for sale or assignment	$ -	$ 117,330,908	$ -
Mortgage and financing servicing rights	$ -	$ -	$ 13,187,552
Interest and financing rate lock commitments	$ -	$ -	$ 1,686,711
Liabilities:			
Forward sales commitments	$ -	$ -	$ 209,631

NOTE 23 – FAIR VALUE MEASUREMENTS (Continued)

	Level 1	Level 2	Level 3
December 31, 2018			
Assets:			
Available-for-sale securities	$ -	$ 417,429	$ -
Loans and financings held for sale or assignment	$ -	$ 56,996,744	$ -
Mortgage and financing servicing rights	$ -	$ -	$ 12,610,729
Interest and financing rate lock commitments	$ -	$ -	$ 892,286
Liabilities:			
Forward sales commitments	$ -	$ -	$ 678,681

The table below includes a roll forward of the fair value of assets and liabilities that are classified by the Company within Level 3 of the valuation hierarchy:

	MSRs	IRLCs	Forward Sales Commitments
Fair value at January 1, 2018	$ 9,812,943	$ 795,989	$ (57,172)
Purchases, sales, issuances, settlements, net	3,535,943	(795,989)	57,172
Net gains (losses)	(738,157)	892,286	(678,681)
Fair value December 31, 2018	12,610,729	892,286	(678,681)
Purchases, sales, issuances, settlements, net	4,619,534	(892,286)	678,681
Net gains (losses)	(4,042,711)	1,686,711	(209,631)
Fair value December 31, 2019	$ 13,187,552	$ 1,686,711	$ (209,631)

NOTE 23 – FAIR VALUE MEASUREMENTS (Continued)

During the year ended December 31, 2018, the only assets or liabilities valued at fair value on a nonrecurring basis was real estate owned which was recorded at a fair value of $70,586. There were no assets or liabilities valued on a nonrecurring basis during the year ended December 31, 2019.

The methodologies for estimating the fair value of financial assets and financial liabilities that are not measured at fair value on a recurring or non-recurring basis are discussed below.

The estimated fair value approximates carrying value for cash and cash equivalents, restricted cash, Federal Home Loan Bank stock, and the mortgage payable. The methodologies for other financial assets and financial liabilities are discussed below.

Loans and Financings, Net

The fair value of fixed-rate loans and financings is estimated by discounting the future cash flows for each loan and financing category using the current rates at which similar loans or financings would be made to borrowers with similar credit ratings and for the same remaining maturities. These loans and financings are considered to be Level 2 assets in the valuation hierarchy. The fair value of adjustable-rate loans is assumed to approximate their carrying amount.

Deposits

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using the market rates offered for similar deposits with the same remaining maturities. These time deposits are considered to be Level 2 liabilities in the valuation hierarchy.

NOTE 23 – FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of financial instruments are as follows (in thousands):

	December 31,			
	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Cash and cash equivalents	$ 113,816	$ 113,816	$ 123,541	$ 123,541
Restricted cash	420	420	1,371	1,371
Securities held-to-maturity	10,558	10,842	11,090	11,180
Securities available-for-sale	472	472	417	417
Federal Home Loan Bank stock	637	637	637	637
Loans and financings held for sale or assignment, at fair value	117,331	117,331	56,997	56,997
Loans and financings held for sale or assignment, at lower of cost or fair value	6,002	6,223	2,747	2,869
Loans and financings, net	77,955	80,610	55,586	54,581
Mortgage and financing servicing rights	13,188	13,188	12,611	12,611
Derivatives	1,687	1,687	892	892
Significant financial liabilities:				
Deposits:				
Demand - non-interest bearing	$ 287,507	$ 287,507	$ 186,489	$ 186,489
Demand - interest bearing and profit sharing	9,700	9,700	11,030	11,030
Savings	331	331	445	445
Time	1,937	1,998	2,320	2,431
Derivatives	210	210	679	679
Mortgage payable	1,605	1,605	1,636	1,636

NOTE 24 – SEGMENT REPORTING

The Company's operations include four primary segments: the Bank and Midwest (community banking and servicing), ULG (mortgage banking), UIF (faith-based lending), and the holding company, as further discussed in Note 1. The Company's four reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, the Bank and Midwest, ULG, and UIF each service a different customer base.

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss before income taxes, not including nonrecurring gains and losses. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. The Company accounts for transactions between segments at current market prices. Information about reportable segments as of and for the years ended December 31, 2019 and 2018 is as follows (in thousands):

2019

	The Bank and Midwest	ULG	UIF	Holding Company	Total
Net interest and financing income	$ 11,706	$ (335)	$ 989	$ 2	$ 12,362
Loan and financing servicing and sub-servicing fees	10,058	539	2,339	-	12,936
Originations and other fees	4,172	3,251	1,576	-	8,999
Gain on sale of mortgage loans, net, and fee income for assigment of financings	(407)	20,656	11,248	-	31,497
Other income (expense)	2,866	2,040	(1,746)	10	3,170
Provision for loan losses	(27)	(7)	(14)	-	(48)
Depreciation and amortization	(1,205)	(623)	(172)	-	(2,000)
Other operating expenses	(22,835)	(26,166)	(12,871)	(150)	(62,022)
Income (loss) before income taxes	4,328	(645)	1,349	(138)	4,894
Income tax expense (benefit)	952	(142)	297	(30)	1,077
Net income (loss)	$ 3,376	$ (503)	$ 1,052	$ (108)	$ 3,817
Intersegment revenue	$ 4,455	$ (2,634)	$ (1,821)	$ -	$ -
Segment assets	$ 202,910	$ 76,550	$ 78,426	$ 4,071	$ 361,957
Capital expenditures	$ 1,219	$ 633	$ 43	$ -	$ 1,895

NOTE 24 – SEGMENT REPORTING (Continued)

2018	The Bank and Midwest	ULG	UIF	Holding Company	Total
Net interest and financing income	$ 8,175	$ 160	$ 861	$ 3	$ 9,199
Loan and financing servicing and sub-servicing fees	9,174	524	1,878	-	11,576
Originations and other fees	3,651	2,755	1,111	-	7,517
Gain on sale of mortgage loans, net, and fee income for assigment of financings	(100)	16,957	7,811	-	24,668
Other income (expense)	1,314	1,100	167	-	2,581
Provision for loan losses	125	(2)	168	-	291
Depreciation and amortization	(970)	(486)	(154)	-	(1,610)
Other operating expenses	(17,409)	(23,017)	(10,458)	(163)	(51,047)
Income (loss) before income taxes	3,960	(2,009)	1,384	(160)	3,175
Income tax expense (benefit)	929	(472)	325	(38)	744
Net income (loss)	$ 3,031	$ (1,537)	$ 1,059	$ (122)	$ 2,431
Intersegment revenue	$ 3,615	$ (2,109)	$ (1,506)	$ -	$ -
Segment assets	$ 135,128	$ 43,098	$ 62,931	$ 5,867	$ 247,024
Capital expenditures	$ 1,869	$ 394	$ 191	$ -	$ 2,454

NOTE 25 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 3,913,644	$ 5,855,101
Equity investment securities available-for-sale, at fair value	124,514	-
Investment in University Bank	29,503,529	24,269,685
Accounts receivable - University Bank	53,000	53,000
Other assets	32,455	12,184
Total assets	$ 33,627,142	$ 30,189,970
LIABILITIES AND EQUITY		
Accounts payable and other liabilities	$ 75,000	$ 250
Total equity	33,552,142	30,189,720
Total liabilities and equity	$ 33,627,142	$ 30,189,970

NOTE 25 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION
(Continued)

CONDENSED STATEMENTS OF OPERATIONS

	December 31, 2019	December 31, 2018
OTHER INCOME (LOSS)		
Interest and dividend income	$ 40,125	$ 2,593
Unrealized loss on equity securities available-for-sale	(28,207)	-
Other income (loss), net	11,918	2,593
EXPENSES		
Professional fees	93,122	104,594
Share-based compensation	42,393	42,393
Other miscellaneous	15,323	16,463
Total expenses	150,838	163,450
Net loss before income taxes and net income of subsidiary	(138,920)	(160,857)
Income tax benefit	(20,271)	(33,787)
Net loss before net income of subsidiary	(118,649)	(127,070)
Net income of subsidiary	3,735,473	2,357,236
Net income	$ 3,616,824	$ 2,230,166

NOTE 25 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION
(Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	December 31, 2019	December 31, 2018
OPERATING ACTIVITIES		
Net income	$ 3,616,824	$ 2,230,166
Adjustments to reconcile net income to net cash flows from operating activities:		
Unrealized loss on equity securities available-for-sale	28,207	-
Share-based compensation	42,393	42,393
Net change in:		
Accounts receivable and other assets	(20,270)	(620)
Accounts payable and other liabilities	(250)	(21,353)
Net income of subsidiary	(3,735,473)	(2,357,236)
Net cash provided by (used in) operating activities	(68,569)	(106,650)
INVESTING ACTIVITIES		
Purchase of equity securities available-for-sale	(152,721)	-
Investment in University Bank	(1,500,000)	-
Dividends received from University Bank	-	1,165,000
Net cash provided by (used in) investing activities	(1,652,721)	1,165,000
FINANCING ACTIVITIES		
Issuance of preferred stock, net of costs	-	4,529,920
Payment of preferred dividends	(234,167)	-
Exercise of stock options	14,000	14,000
Net cash provided by (used in) financing activities	(220,167)	4,543,920
NET CHANGE IN CASH	(1,941,457)	5,602,270
Cash and Cash Equivalents, Beginning of Year	5,855,101	252,831
Cash and Cash Equivalents, End of Year	$ 3,913,644	$ 5,855,101

NOTE 26 – RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

The following is a list of ASUs that have been adopted which impact the Company's significant accounting policies and/or have a significant financial impact:

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASC 842"). ASU 2016-02 requires lessees to recognize right of use assets and lease liabilities on the balance sheet for all leases with terms longer that 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying assets not to recognize a right of use asset and lease liability. Additionally, when measuring assets and liabilities arising from a lease, optional payments should be included only if the lessee is reasonably certain to exercise an option to extend the lease, exercise a purchase option or not exercise an option to terminate the lease. The Company adopted ASC 842 effective January 1, 2019. The adoption of ASC 842 did not result in material changes to the Company's lessor accounting for redeemable lease transactions. See Note 1 for further discussion.

Recent Accounting Pronouncements – Not Yet Adopted

The following is a list of ASUs that have not yet been adopted which may impact the Company's significant accounting policies and/or have a significant financial impact:

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 is effective for the Company on January 1, 2023. Early adoption is permitted. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements.

NOTE 27 – SUBSEQUENT EVENTS

COVID-19

In December 2019, an outbreak of a novel strain of the coronavirus ("COVID-19") emerged globally. Global and domestic responses to the COVID-19 outbreak continue to rapidly evolve. There have been mandates from federal, state and local authorities requiring forced closure of non-essential businesses which could negatively impact the Company. The effect of this pandemic on the Company's operational and financial performance will depend on future developments including the duration, spread and intensity of COVID-19, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Company's business. However, if the pandemic continues to evolve into a severe worldwide health crisis, the disease could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Acquisition

On February 24, 2020, the Company entered into an agreement to acquire certain assets of a local insurance agency for cash consideration of $687,362. The Company also extended offers of employment to hire employees of such agency. As of the issuance date of this report, the Company was in the process of completing the initial accounting for this business combination, including the identification and determination of the fair value of the purchase price and related acquired assets and assumed liabilities.

Wholesale Mortgage Division

In March 2020, the Company decided to shut down its mortgage wholesale origination business. The Company expects that the wind down of the division will take between 45 and 60 days. As of the issuance date of this report, the Company was in the process of aggregating any exit costs related to the closure of this division. The Company does not expect that these exit costs will be material as the Company is in process of repurposing many of the affected staff within other divisions of the Company.