

Dear University Bancorp, Inc. Shareholder:

University Bancorp, Inc. (OTCQB: UNIB) has scheduled its next Annual Shareholder Meeting for January 6, 2021, beginning at Noon EST. As a shareholder of record as of the close of business December 11, 2020 you are be entitled to vote. The Company is mailing this notice of the Annual Shareholder Meeting to all shareholders. As a measure to economize and save the shareholders money, no proxies will be solicited for the meeting by the company. Shareholders will vote at the Annual Shareholder Meeting to elect directors for the coming year. The board recommends that the Shareholders reelect the current board members and each has indicated their willingness to stand for reelection. No other business is anticipated to be voted on, and shareholders will have the opportunity to engage management in a question and answer period following a short presentation. Due to the pandemic, the meeting was delayed and will be fully virtual. If you wish to participate please let me know and I will provide you the dial in information for the meeting.

To bring you up to date on recent developments at our Company, enclosed please find:

- 1) The most recent version of our [Investor Relations Summary](#), from our website.
- 2) Our [third quarter 2020 earnings press release](#), from our website.

Despite the pandemic, your company had a truly outstanding year. We are on track to earn over \$27.5 million of net income for the year, or well over \$5 per share of net income per share. Before some large loan loss provisions, which may not ultimately be needed, and before tax, we earned over \$43 million. To put this sum into perspective, we began the year with Tier 1 Capital of \$24.4 million and Common Stockholders' Equity of \$33.6 million.

The great results in 2020 are the latest in a long line of good results. In 2004 our current business model came together. In that year we raised \$3 million from the sale of 20% of a new subsidiary, UIF, and we earned \$1.2 million from the relocation of our headquarters in Ann Arbor, from our old location near the U-M Hospital, to the current headquarters, at the Mansion. This additional capital enabled us to bring into the bank the zero interest rate escrow deposits controlled by our subservicing business, Midwest Loan Services. Since 2004, our annual revenue has grown from \$6.57 million to over \$140 million in 2020. This is an annually compounding internal rate of growth of 21.0%. Over those same 16 years, our return on shareholders equity has averaged 20.0%. Over the 60 months to 9/30/2020, the annual average return on equity was 29.3%, so we've seen an acceleration as we have gained greater economies of scale as our business has grown. Common Shareholders' equity has grown from \$3.0 million in 2004 to over \$50 million this year.

There are few companies of any kind that have grown their top line revenue by over 20% per annum, while also earning their shareholders over 20% return on equity annually. You own a share of a very high performing business.

At the core of our business model is Midwest Loan Services. It has grown its mortgages subserviced since 2001 from 5,830 to over 168,000 this month. That is an annually compounding internal rate of growth of 20.2%. The growth this year was above average, from 136,457 at year-end 2019 to over 168,000 this month. That is above trend annual growth of 23.1%. The growth accelerated this year because for the first time in many years

we didn't sell any of the servicing rights on the over \$2 billion of mortgages we originated starting March 1st. We were able to do this because our earnings rose significantly driving our capital base higher at a pace faster than the Mortgage Servicing Rights were being generated. Our regulators are comfortable with University Bank holding up to 75% of its Tier 1 Capital as an investment in Mortgage Servicing Rights. Currently that statistic is just 33% of our Tier 1 Capital, so we have room to grow faster in this way.

We use the zero interest rate deposits from Midwest Loan Services to fund the Loans Held for Sale that we originate in our retail loan origination businesses, UIF and University Lending Group (ULG). This year those businesses will originate over \$2 billion in new mortgages. When we don't sell the Mortgage Servicing Rights on the mortgages we originate, Midwest Loan Services grows its subservicing faster and what we call the "Flywheel" goes around faster (see page 12 of the Investor Relations PowerPoint available on our website, <https://www.university-bank.com/bancorp/>, to see an illustration of this).

Our balance sheet has grown significantly since 2004, when it was just \$50.8 million in assets. At the end of November 2020, University Bank's total assets were \$609.1 million. We are turning that balance sheet over 3-4 times per year, each time earning a gain on sale of newly originated mortgage loans sold to the secondary market of between 4-5% before overhead expenses. Usually, after the expenses of originating those mortgage loans, we take 1-2% to the bottom line. Multiply that by 3-4x; it's a great annual return on assets. In 2020, with the industry capacity constrained, needing to refinance \$8 trillion of mortgages to lower interest rates, and only capable of originating \$4.1 trillion per year, margins are at peak cyclical levels, a full 1% higher. We earn more money by holding these Loans Held for Sale, which is a low risk, short duration, high yielding asset, than we could by investing in portfolio loans. In sum, our bank excels at generating high yielding, quality assets.

Some banks are very good at generating low cost deposits. Our Midwest Loan Services business currently generates a monthly average of \$600 million of zero cost deposits. As a result, our cost of funds in November 2020 was *4 basis points*, or 0.04%, and it's only that high because we have a high cost mortgage on a building we bought for an operations center in Ann Arbor that we cannot payoff for another year and a half.

Our bank is that rare bank that is very good at generating both low cost deposits and high yielding high quality loans. This is the true strength of our business model.

What does the future hold? Can we continue to grow at this pace?

Midwest Loan Services has only a 0.20% market share of the mortgages being serviced in the U.S. It has a strong competitive advantage. Our operations center is in Hancock, Michigan, in the western Upper Peninsula, where the average home sold in November 2020 for \$200,517. It's an on shore low cost place to do business from. Our costs are lower than our competitors and we provide a superior service. Our Google ratings are an average of 2.5 stars out of 5 *higher* than our competitors' and according to the CFPB's complaint database we have many fewer customer complaints than most of our competition per loan subserviced. We believe that Midwest Loan Services has many years of strong growth ahead of us.

Our mortgage origination businesses have grown significantly over the years, and that growth is sustainable because it is based on the growth of mortgages for home purchase transactions, as opposed to mortgage refinancings, which are cyclical. Here are the statistics for annual growth of home purchase mortgage originations at both ULG and UIF over the past seven years:

	ULG Purchase	UIF Purchase
2014	8.50%	25.00%
2015	15.40%	25.10%
2016	14.50%	19.90%
2017	9.60%	27.00%
2018	4.10%	16.50%
2019	5.00%	36.50%
9M2020	30.10%	19.80%

What is driving this growth and is it sustainable? We provide our Mortgage Loan Originators with 24-48 hour underwriting turn times and 24-48 hour decision times on underwriting condition waivers. We have a broad suite of mortgage products that enable any borrower who is qualified to buy a home. We believe that this Unique Selling Proposition makes ULG and UIF the best place for Mortgage Loan Officers who are focused on home purchase transaction to work in the industry. We are constantly recruiting skilled Mortgage Loan Originators who fit our model to join our firm and employ two full-time recruiters in-house. With \$2 billion of originations, we still have just a *5 basis points* market share, or 0.05%. We also believe that the growth of mortgage originations can continue.

If you want to learn more about the company you've invested in, we encourage you to refer to the financial information including the investor presentations, audited financial statements, strategic plan and prior press releases, available on our investor relations web page at: <http://www.university-bank.com/bancorp/>. Another useful site is <https://www.otcmartets.com/stock/UNIB/quote>, where you can find the current quote and recent trades of our stock. The trading history of our stock is available here: <https://www.otcmartets.com/stock/UNIB/overview>, if you click on the tab just above the stock price chart labeled "Data Table". All quarterly University Bank Call Reports are available here: <https://www.otcmartets.com/stock/UNIB/disclosure>.

If you own your shares in your own name and hold a certificate, we want to emphasize the importance of keeping our transfer agent, Computershare, updated with your current correct address, if you have moved. Under state escheat laws, if you don't respond to Computershare's requests to update your address, or don't receive future mailings from us, within a short period of time in some states your shares will be seized and sold by the state you live in. One way to avoid this is to transfer your shares into a brokerage account in your name. If you receive any communication from Computershare, please act on it immediately!

If you have any questions or wish to attend the annual shareholders' meeting, please contact:

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