

**UNIVERSITY BANCORP, INC.  
AND SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2020 and 2019

# UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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## 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, 2020 and 2019, 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.

To the Board of Directors and Stockholders  
University Bancorp, Inc. and Subsidiaries  
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**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, 2020 and 2019, 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.

*UHY LLP*

Farmington Hills, Michigan  
March 29, 2021



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

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Demand - non-interest bearing	\$ 419,813,761	\$ 287,506,910
Demand - interest bearing and profit sharing	13,342,264	9,700,014
Savings	432,242	330,812
Time	1,861,140	1,936,770
Total deposits	<b>435,449,407</b>	299,474,506
Derivatives	1,416,972	209,631
Accounts payable	1,743,023	1,430,913
Accrued interest and profit sharing payable	3,347	3,015
Allowance for loan and financing recourse	710,737	446,169
Escrow, mortgage and financing insurance liabilities	754,453	1,166,255
Liability to fund closed but undisbursed loans and financings	10,655,200	2,937,582
Servicing remittances payable	1,933,142	2,385,021
Deferred income taxes	7,035,945	4,966,373
Accrued expenses and other liabilities	12,078,481	3,149,227
Contingent consideration liability	681,742	-
Mortgage payable	1,570,191	1,604,050
Operating lease liability	4,479,603	5,087,378
Loan repurchase liability	15,533,613	2,090,158
Dividends payable - common stock	718,578	-
Accrued preferred dividends	225,000	75,000
Total liabilities	<b>494,989,434</b>	325,025,278
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>EQUITY</b>		
University Bancorp, Inc. stockholders' equity:		
Common stock	52,069	52,049
Preferred stock; liquidation value \$5,000,000	50	50
Treasury stock, at cost	(3,994,498)	-
Additional paid-in capital	12,426,674	12,370,301
Retained earnings	48,110,133	21,125,894
Accumulated other comprehensive income	95	3,848
Equity attributable to stockholders of University Bancorp, Inc.	<b>56,594,523</b>	33,552,142
Noncontrolling interest	6,092,879	3,379,504
Total equity	<b>62,687,402</b>	36,931,646
Total liabilities and equity	<b>\$ 557,676,836</b>	\$ 361,956,924

See notes to consolidated financial statements.

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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Interest and financing income:		
Interest and fees on loans and financing income	<b>\$ 10,740,023</b>	\$ 8,499,983
Interest on securities:		
U.S. government agencies	<b>267,374</b>	474,031
Other securities	<b>28,099</b>	34,531
Interest on federal funds and other	<b>560,670</b>	3,502,622
Total interest and financing income	<b>11,596,166</b>	12,511,167
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand	<b>67,338</b>	14,895
Savings	<b>414</b>	378
Time	<b>40,820</b>	43,571
Note payable	<b>88,513</b>	90,098
Total interest and profit sharing expense	<b>197,085</b>	148,942
Net interest and financing income	<b>11,399,081</b>	12,362,225
Provision for loan and financing losses	<b>3,572,133</b>	48,481
Net interest and financing income after provision for loan and financing losses	<b>7,826,948</b>	12,313,744
Noninterest income:		
Loan and financing servicing and sub-servicing fees	<b>17,163,085</b>	12,935,593
Origination and other fees	<b>14,617,153</b>	8,999,021
Gain on sale of mortgage loans, net, and fee income for assignment of financings	<b>85,457,732</b>	31,496,592
Insurance & investment agency fee income	<b>1,354,228</b>	905,098
Deposit service charges and fees	<b>24,554</b>	23,921
Change in fair value of mortgage and financing servicing rights	<b>(9,162,355)</b>	(4,042,711)
Change in fair value of contingent consideration liability	<b>(681,742)</b>	-
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	<b>15,661,465</b>	5,722,568
Other income	<b>961,225</b>	561,253
Total noninterest income	<b>125,395,345</b>	56,601,335

See notes to consolidated financial statements.

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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Noninterest expense:		
Compensation and benefits	<b>\$ 71,758,716</b>	\$ 45,234,115
Occupancy	<b>3,078,925</b>	2,860,716
Data processing and equipment expense	<b>6,394,228</b>	4,712,576
Legal and audit	<b>1,284,197</b>	1,611,920
Consulting fees	<b>1,454,384</b>	1,047,762
Mortgage banking	<b>5,170,262</b>	3,389,518
Advertising	<b>502,114</b>	878,516
Membership and training	<b>731,856</b>	722,777
Travel and entertainment	<b>896,585</b>	1,050,941
Supplies and postage	<b>1,359,084</b>	1,238,450
Insurance	<b>574,076</b>	493,240
Director related	<b>480,200</b>	391,950
FDIC assessments	<b>85,408</b>	45,246
Amortization of customer relationships	<b>51,724</b>	71,142
Other operating	<b>483,855</b>	273,039
	<b>94,305,614</b>	64,021,908
Income before income taxes	<b>38,916,679</b>	4,893,171
Income tax expense	<b>8,200,487</b>	1,076,780
<b>Net income</b>	<b>\$ 30,716,192</b>	<b>\$ 3,816,391</b>



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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>COMPREHENSIVE INCOME</b>		
Net income	\$ 30,716,192	\$ 3,816,391
Net unrealized loss on debt securities available-for-sale	<u>(3,753)</u>	<u>(1,628)</u>
<b>COMPREHENSIVE INCOME</b>	<b><u>\$ 30,712,439</u></b>	<b><u>\$ 3,814,763</u></b>
Net income and comprehensive income attributable to the noncontrolling interests	<u>\$ 2,713,375</u>	<u>\$ 199,567</u>
<b>Net income attributable to stockholders of University Bancorp, Inc.</b>	<b><u>\$ 28,002,817</u></b>	<b><u>\$ 3,616,824</u></b>
<b>Comprehensive income attributable to stockholders of University Bancorp, Inc.</b>	<b><u>\$ 27,999,064</u></b>	<b><u>\$ 3,615,196</u></b>
<b>EARNINGS PER SHARE</b>		
Basic earnings per share attributable to common stockholders of University Bancorp, Inc.	\$ 5.39	\$ 0.64
Diluted earnings per share attributable to common stockholders of University Bancorp, Inc.	\$ 5.31	\$ 0.63
Weighted-average common shares outstanding		
Basic	5,141,148	5,203,967
Diluted	5,214,170	5,225,921
Dividends declared per common share	\$ 0.15	\$ -

**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		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income	Non- controlling Interest	Total
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares	Cost					
<b>Balance at January 1, 2019</b>	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
<b>Balance at December 31, 2019</b>	5,204,899	52,049	50,000	50	-	-	12,370,301	21,125,894	3,848	3,379,504	36,931,646
Exercise of stock options	2,000	20	-	-	-	-	13,980	-	-	-	14,000
Share-based compensation	-	-	-	-	-	-	42,393	-	-	-	42,393
Common stock dividends	-	-	-	-	-	-	-	(718,578)	-	-	(718,578)
Preferred dividends	-	-	-	-	-	-	-	(300,000)	-	-	(300,000)
Repurchase of common shares	-	-	-	-	441,381	(3,994,498)	-	-	-	-	(3,994,498)
Net unrealized loss on debt securities available-for-sale	-	-	-	-	-	-	-	-	(3,753)	-	(3,753)
Net income	-	-	-	-	-	-	-	28,002,817	-	2,713,375	30,716,192
<b>Balance at December 31, 2020</b>	5,206,899	\$ 52,069	50,000	\$ 50	441,381	\$ (3,994,498)	\$ 12,426,674	\$ 48,110,133	\$ 95	\$ 6,092,879	\$ 62,687,402

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

	Years ended December 31,	
	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 30,716,192	\$ 3,816,391
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	2,223,954	1,999,823
Amortization of discount on purchased loans held for investment	458,938	426,431
Change in fair value of mortgage and financing servicing rights	9,162,355	4,042,711
Change in fair value of contingent consideration liability	681,742	-
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	(15,661,465)	(5,722,568)
Deferred income tax expense	2,069,572	1,001,375
Provision for loan and financing losses	3,572,133	48,481
Net gain on sale of mortgage loans and fee income for assignment of financings	(85,457,732)	(31,496,592)
Loss on sale of premises and equipment	125,673	-
Unrealized (gain) loss on equity securities	(21,258)	28,207
Net amortization on securities held-to-maturity	8,400	8,400
Originations of mortgage loans and financings	(2,650,122,313)	(1,332,775,584)
Proceeds from mortgage loan sales and assignment of financings	2,677,312,961	1,303,652,304
Share-based compensation	42,393	42,393
Net change in:		
Various other assets	(5,226,226)	(892,775)
Various other liabilities	8,378,015	1,297,213
Operating lease liability	4,464	(79,953)
Net cash used in operating activities	<u>(21,732,202)</u>	<u>(54,603,743)</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from paydowns of debt securities held-to-maturity	7,276,484	3,592,003
Proceeds from paydowns of debt securities available-for-sale	25,248	68,386
Purchase of debt securities held-to-maturity	(1,015,000)	(3,068,399)
Purchase of equity securities	-	(152,721)
Purchase of Federal Home Loan Bank stock	(476,400)	-
Proceeds from sale of real estate owned	-	70,586
Purchases of loans held for investment	-	(5,406,277)
Loans and financings granted, buybacks, and repayments, net	(27,452,826)	(15,347,501)
Acquisition of business	(687,362)	-
Purchases of premises and equipment	(1,624,385)	(1,894,980)
Net cash used in investing activities	<u>(23,954,241)</u>	<u>(22,138,903)</u>

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

	<b>Years ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>FINANCING ACTIVITIES</b>		
Net change in deposits	\$ 135,974,901	\$ 99,191,460
Proceeds from exercise of stock options	14,000	14,000
Payment of preferred dividends	(150,000)	(234,167)
Principal payments on mortgage payable	(33,859)	(32,273)
Repurchase of common shares	(3,994,498)	-
	<b>131,810,544</b>	<b>98,939,020</b>
<b>NET CHANGE IN CASH AND RESTRICTED CASH</b>		
	<b>86,124,101</b>	<b>22,196,374</b>
<b>Cash, Cash Equivalents and Restricted Cash, Beginning of Year</b>	<b>114,236,436</b>	<b>92,040,062</b>
<b>Cash, Cash Equivalents and Restricted Cash, End of Year</b>	<b>\$ 200,360,537</b>	<b>\$ 114,236,436</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	\$ 196,753	\$ 149,272
Cash paid during the year for income taxes	\$ 6,217,000	\$ 22,840
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:</b>		
Mortgage loans recorded for repurchase option	\$ 13,443,455	\$ 2,090,158
Dividends declared on common stock	\$ 718,578	\$ -
Accrual of preferred dividends	\$ 150,000	\$ 75,000

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**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.

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, Tennessee 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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Nature of Operations and Principles of Consolidation (Continued)**

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 retail mortgage loans. Midwest also offers commercial warehouse lines of credit. In early 2020, the Company wound down its mortgage wholesale origination business.

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, state and faith-based law, 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 home financings and commercial real estate financings (as principal for its own account). Products compliant with faith-based law are offered to service the large number of faith-based customers who have an ethical aversion to paying or receiving interest.

Three distinct financing products are offered to both residential and commercial customers, which include redeemable lease, installment sale contracts, and declining balance partnerships.

Under the most seldom used 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.

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 UIF. 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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Nature of Operations and Principles of Consolidation (Continued)**

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 residential and commercial redeemable lease transactions, the Company uses the consolidated balance sheet account title “Loans and financings” instead of a typical title of “Loans”. In the consolidated statements of operations, “Interest and fees on loans” is modified to state “Interest and fees on loans and financing income”.

The second form of financing uses the installment sale method. As agent for the Bank, UIF buys either a residential or a commercial 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 residential financing contract is executed by UIF and the customer, the contract is assigned to the Bank, and then assigned to the Federal Home Loan Mortgage Corporation (“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 a master 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 repayment schedule.

The Company records these residential contracts at fair value for the short period of time that they are held before assignment to Freddie Mac. The residential financing installment contracts are assigned with servicing retained. Thus, the value of the residential 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 25 for additional discussion of the determination of fair value. After commercial financing contracts are executed, they are retained on the UIF’s balance sheet as Financings.

The third and now most widely used financing uses the declining balance partnership method to enter into a declining balance agreement and payment agreement as joint owner, secured by a mortgage or deed of trust, with a commercial or residential customer once the customer selects the property. With the customer holding title, the declining balance agreement outlines the percentage of ownership which shifts over time from the joint owner to the customer as the customer makes monthly buyout payments towards the buyout price.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Nature of Operations and Principles of Consolidation (Continued)**

The monthly buyout payments are also inclusive of use payments to the joint owner (UIF) in consideration for UIF allowing the customer to use their portion of the property. After the residential declining balance agreements are executed by UIF and the customer, the contract and UIF's ownership rights are assigned to either the Freddie Mac or the Federal National Mortgage Association ("Fannie Mae"). After commercial financing contracts are executed, they are retained on UIF's balance sheet as Financings.

The Company records these residential financings at fair value for the short period of time that they are held before assignment to Freddie Mac or Fannie Mae. These residential financings are assigned with servicing retained. See Note 25 for additional discussion of the determination of fair value.

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.



**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates (Continued)**

In particular, the COVID-19 pandemic and the resulting impact to global economic conditions, as well as the Company's operations, may affect future estimates including, but not limited to the identification and valuation 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.

**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, 2020 and 2019, 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.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 \$710,737 and \$446,169 as of December 31, 2020 and 2019, respectively.

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**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, 2020 and 2019 are \$15,533,613 and \$2,090,158, respectively, of delinquent residential loans that the Company has the option to buy back. As of December 31, 2020, and 2019, a loan repurchase liability of \$15,533,613 and \$2,090,158, 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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 25) 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 25) 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 2020 and 2019 resulted in no impairment losses.

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**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 2020 or 2019.

**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, 2020 and 2019, 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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**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.

**COVID-19**

Towards the end of 2019 and during 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally, and the global and domestic responses to the COVID-19 outbreak continue to evolve. There were, and continue to be, mandates from federal, state and local authorities requiring forced closures and/or restrictions of non-essential businesses, which could impact the Company’s business. Management’s determination is that COVID-19 has not had a significant overall negative financial impact on the Company.

Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant changes caused by COVID-19 may impact future performance.

**Subsequent Events**

The Company has performed a review of events subsequent to December 31, 2020 through March 29, 2021, the date the consolidated financial statements were available to be issued. See Note 30.

**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, 2020 and 2019, this reserve requirement amounted to \$-0- and \$17,043,000, respectively. The reserve requirement was reduced to \$0 during 2020 by the Federal Reserve Bank in response to the COVID-19 pandemic.

In accordance with the mortgage payable discussed in Note 22, 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 \$509,453 and \$420,439 at December 31, 2020 and 2019, respectively.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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:

<u>December 31, 2020</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At amortized cost:				
U.S. agency mortgage-backed securities held-to-maturity	\$ 4,287,776	\$ 177,818	\$ -	\$ 4,465,594
At fair value:				
U.S. agency mortgage-backed securities available-for-sale	\$ 318,317	\$ 95	\$ -	\$ 318,412
Equity securities	152,722	-	(6,949)	145,773
Total at fair value	<u>\$ 471,039</u>	<u>\$ 95</u>	<u>\$ (6,949)</u>	<u>\$ 464,185</u>
<u>December 31, 2019</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At amortized cost:				
U.S. agency mortgage-backed securities held-to-maturity	\$ 10,557,660	\$ 283,960	\$ -	\$ 10,841,620
At fair value:				
U.S. agency mortgage-backed securities available-for-sale	\$ 343,565	\$ 3,848	\$ -	\$ 347,413
Equity securities	152,722	-	(28,207)	124,515
Total at fair value	<u>\$ 496,287</u>	<u>\$ 3,848</u>	<u>\$ (28,207)</u>	<u>\$ 471,928</u>

At December 31, 2020 and 2019, the fair value of investment securities pledged to secure certain borrowings was \$4,784,006 and \$11,189,033, respectively. The balance of these borrowings at both December 31, 2020 and 2019 was \$-0-.



**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 – INVESTMENT SECURITIES (Continued)**

The following is a summary of maturities of debt securities held-to-maturity and available-for-sale as of December 31, 2020:

	Held-to-maturity		Available-for-sale	
	Amortized	Fair Value	Amortized	Fair Value
	Cost		Cost	
Amounts maturing in:				
One year or less	\$ -	\$ -	\$ -	\$ -
After one year				
through five years	-	-	7,635	7,583
After five years				
through ten years	-	-	-	-
After ten years	4,287,776	4,465,594	310,682	310,829
	<u>\$ 4,287,776</u>	<u>\$ 4,465,594</u>	<u>\$ 318,317</u>	<u>\$ 318,412</u>

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 \$7,301,732 and \$3,660,389 for the years ended December 31, 2020 and 2019, respectively.

**NOTE 4 – LOANS AND FINANCINGS, NET**

Major classifications of loans and financings are as follows:

	December 31,	
	2020	2019
Commercial	\$ 16,866,149	\$ 2,390,674
Commercial real estate	49,613,540	45,580,662
Residential real estate	52,665,280	31,147,325
Installment	90,504	134,741
Credit cards	74,319	59,908
	<u>119,309,792</u>	<u>79,313,310</u>
Gross loans and financings		
Allowance for loan and financing losses	(3,980,918)	(390,708)
Unearned discount on residential real estate loans	(508,703)	(967,641)
	<u>(4,490,329)</u>	<u>(1,359,057)</u>
Net loans and financings	<u>\$ 114,820,171</u>	<u>\$ 77,954,961</u>

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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4 – LOANS AND FINANCINGS, NET (Continued)**

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

	December 31,	
	2020	2019
Balance, beginning of year	\$ 390,708	\$ 322,673
Provision charged to operations	3,572,133	48,481
Recoveries credited to allowance	55,400	25,099
Charge-offs	(37,323)	(5,545)
Balance, end of year	<u>\$ 3,980,918</u>	<u>\$ 390,708</u>

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

	2020			
	Commercial	Retail	Unallocated	Total
Balance, beginning of year	\$ 95,960	\$ 148,055	\$ 146,693	\$ 390,708
Provision charged to operations	250,084	90,943	3,231,106	3,572,133
Recoveries credited to allowance	-	55,400	-	55,400
Charge-offs	-	(37,323)	-	(37,323)
Balance, end of year	<u>\$ 346,044</u>	<u>\$ 257,075</u>	<u>\$ 3,377,799</u>	<u>\$ 3,980,918</u>

  

	2019			
	Commercial	Retail	Unallocated	Total
Balance, beginning of year	\$ 78,257	\$ 112,599	\$ 131,817	\$ 322,673
Provision 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	<u>\$ 95,960</u>	<u>\$ 148,055</u>	<u>\$ 146,693</u>	<u>\$ 390,708</u>

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:

	2020			
	Commercial	Retail	Unallocated	Total
Allowance for loan and financing losses				
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	346,044	257,075	3,377,799	3,980,918
Balance, end of year	<u>\$ 346,044</u>	<u>\$ 257,075</u>	<u>\$ 3,377,799</u>	<u>\$ 3,980,918</u>
Loans and financings				
Individually evaluated for impairment	\$ -	\$ 259,312	\$ -	\$ 259,312
Collectively evaluated for impairment	66,479,689	52,570,791	-	119,050,480
Balance, end of year	<u>\$ 66,479,689</u>	<u>\$ 52,830,103</u>	<u>\$ -</u>	<u>\$ 119,309,792</u>

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 4 – LOANS AND FINANCINGS, NET (Continued)**

	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	<u>\$ 95,960</u>	<u>\$ 148,055</u>	<u>\$ 146,693</u>	<u>\$ 390,708</u>
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	<u>\$ 47,971,336</u>	<u>\$ 31,341,974</u>	<u>\$ -</u>	<u>\$ 79,313,310</u>

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. This unallocated portion captures the impact and uncertainty of the COVID-19 pandemic. Information about impaired loans and financings by class at December 31 was as follows:

	2020			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With an allowance recorded:				
Commercial	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-
Consumer/credit card	-	-	-	-
Residential real estate	259,312	259,312	-	271,105
Total	<u>\$ 259,312</u>	<u>\$ 259,312</u>	<u>\$ -</u>	<u>\$ 271,105</u>

	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	<u>\$ 363,652</u>	<u>\$ 363,652</u>	<u>\$ 71,759</u>	<u>\$ 360,699</u>

Interest and financing income recognized for the time that loans and financings were impaired during 2020 and 2019 was not significant.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**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, 2020 and 2019 (in thousands):

December 31, 2020	Current	Past Due			Total Past Due	Total Loans and Financings
		30-59 Days	60-89 Days	≥ 90 Days		
Commercial	\$ 16,866	\$ -	\$ -	\$ -	\$ -	\$ 16,866
Commercial real estate	49,613	-	-	-	-	49,613
Consumer	91	-	-	-	-	91
Credit card	74	-	-	-	-	74
Residential real estate	35,481	1,331	320	15,534	17,185	52,666
Total	<u>\$ 102,125</u>	<u>\$ 1,331</u>	<u>\$ 320</u>	<u>\$ 15,534</u>	<u>\$ 17,185</u>	<u>\$ 119,310</u>

December 31, 2019	Current	Past Due			Total Past Due	Total Loans and Financings
		30-59 Days	60-89 Days	≥ 90 Days		
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	<u>\$ 75,943</u>	<u>\$ 1,235</u>	<u>\$ 309</u>	<u>\$ 1,826</u>	<u>\$ 3,370</u>	<u>\$ 79,313</u>

December 31, 2020	Accrual Status	
	Total Loans and Financings on Nonaccrual Status	Loans and Financings Past Due ≥ 90 Days and Still Accruing
Commercial	\$ -	\$ -
Commercial real estate	-	-
Consumer	-	-
Credit card	-	-
Residential real estate	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 4 – LOANS AND FINANCINGS, NET (Continued)**

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

At December 31, 2020 and 2019, the Company also had \$366,200 and \$781,900 of loans and financings held for sale or assignment that were on nonaccrual status.

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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 4 – LOANS AND FINANCINGS, NET (Continued)**

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.

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:

	2020		
	Commercial Real Estate	Commercial	Total
Grade			
Pass	\$ 49,613,540	\$ 16,866,149	\$ 66,479,689
Classified - performing	-	-	-
Classified - nonperforming	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	<u>\$ 49,613,540</u>	<u>\$ 16,866,149</u>	<u>\$ 66,479,689</u>
	Residential Real Estate	Consumer/ Credit Card	Total
Grade			
Performing	\$ 52,665,280	\$ 164,823	\$ 52,830,103
Substandard	-	-	-
Total	<u>\$ 52,665,280</u>	<u>\$ 164,823</u>	<u>\$ 52,830,103</u>

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**NOTE 4 – LOANS AND FINANCINGS, NET (Continued)**

	2019		
	Commercial Real Estate	Commercial	Total
Grade			
Pass	\$ 45,580,662	\$ 2,390,674	\$ 47,971,336
Classified - performing	-	-	-
Classified - nonperforming	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	<u>\$ 45,580,662</u>	<u>\$ 2,390,674</u>	<u>\$ 47,971,336</u>
	Residential	Consumer/ Credit Card	Total
Grade	Real Estate	Credit Card	Total
Performing	\$ 30,850,314	\$ 128,008	\$ 30,978,322
Substandard	297,011	66,641	363,652
Total	<u>\$ 31,147,325</u>	<u>\$ 194,649</u>	<u>\$ 31,341,974</u>

**NOTE 5 – MORTGAGE BANKING ACTIVITIES**

Midwest and University Bank provide sub-servicing of real estate mortgage loans for over 387 financial institutions. The unpaid principal balance of these loans was approximately \$28.8 billion and \$22.8 billion as of December 31, 2020 and 2019, 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 \$3.0 billion and \$1.6 billion at December 31, 2020 and 2019, respectively.

Custodial escrow balances maintained in connection with these loans and financings were approximately \$649 million and \$429 million, of which approximately \$383 million and \$198 million were held at other banks and were not included in the accompanying consolidated financial statements at December 31, 2020 and 2019, respectively.

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**NOTE 5 – MORTGAGE BANKING ACTIVITIES** (Continued)

The following summarizes the activity relating to MSR's:

	December 31,	
	2020	2019
Balance, January 1	\$ 13,187,552	\$ 12,610,729
Amount capitalized	12,880,479	4,619,534
Change in fair value due to:		
Pay-offs and pay-downs	(4,315,389)	(1,829,600)
Changes in estimates	(4,846,966)	(2,683,602)
MSRs received in nonreciprocal transfer	-	470,491
Balance, December 31	<u>\$ 16,905,676</u>	<u>\$ 13,187,552</u>

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 and financing servicing rights in the 2019 consolidated statement of operations and comprehensive income.

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, 2020, and 2019, IRLCs amounted to approximately \$244.7 million and \$94.2 million, respectively, of which management estimated approximately \$207.0 million and \$79.4 million, respectively, to eventually close and be funded. These IRLCs were recorded in assets in the consolidated balance sheets at a fair value of \$8,075,434 and \$1,686,711 as of December 31, 2020 and 2019, 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 \$277.5 million and \$109.0 million as of December 31, 2020 and 2019, respectively. These forward commitments were recorded in liabilities in the consolidated balance sheet at a fair value of \$1,416,972 and \$209,631 as of December 31, 2020 and 2019, respectively.

The net change in fair value of the IRLCs and the related forward loan and financing sales commitments held at December 31, 2020 and 2019 resulted in a gain of \$5,181,382 and \$1,263,475, 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 25. 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.



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**NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)**

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 25 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,	
	2020	2019
Land	\$ 1,043,400	\$ 1,043,400
Buildings and improvements	6,745,872	6,844,067
Furniture, fixtures, equipment and software	12,213,289	10,625,242
Construction in process	1,925	198,098
	<u>20,004,486</u>	<u>18,710,807</u>
Less accumulated depreciation and amortization	<u>(11,071,693)</u>	<u>(9,104,496)</u>
Premises and equipment, net	<u>\$ 8,932,793</u>	<u>\$ 9,606,311</u>

Depreciation and amortization expense related to premises and equipment amounted to \$2,172,230 and \$1,928,681 for the years ended December 31, 2020 and 2019, 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 15 years, with a weighted average of 8.0 years. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 6 – PREMISES AND EQUIPMENT, NET (Continued)**

**Leases (Continued)**

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

<u>Years ending December 31,</u>	<u>Amount</u>
2021	\$ 978,170
2022	1,038,061
2023	722,313
2024	461,222
2025	387,162
Thereafter	<u>2,045,880</u>
Total minimum future payments	5,632,808
Less: Imputed interest	<u>1,153,205</u>
Present value of lease liabilities	<u>\$ 4,479,603</u>

The weighted average discount rate used to calculate the present value of future lease payments was 5.5%. Operating lease expense for the years ended December 31, 2020 and 2019 totaled \$1,555,002 and \$1,439,805, respectively.

**NOTE 7 – GOODWILL**

The following table summarizes goodwill by reporting unit:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Midwest	\$ 103,914	\$ 103,914
AAIC	<u>319,067</u>	<u>252,396</u>
	<u>\$ 422,981</u>	<u>\$ 356,310</u>

As further discussed in Note 26, during 2020, the Company recorded goodwill totaling \$66,671 related to the acquisition of a local insurance agency.

**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 \$-0- and \$71,142 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2019, these customer relationships were fully amortized.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 8 – CUSTOMER RELATIONSHIPS, NET (Continued)**

As discussed in Note 26, during 2020, the Company acquired customer relationships of \$620,691 as part of the acquisition of a local insurance agency. These customer relationships are being amortized on a straight-line basis over their estimated economic lives, which were determined to be 10 years. Amortization expense amounted to \$51,724 for the year ended December 31, 2020.

**NOTE 9 – TIME DEPOSITS**

Time deposit liabilities issued in denominations of \$250,000 or more were \$347,781 and \$328,065 at December 31, 2020 and 2019, respectively.

At December 31, 2020, stated maturities of time deposits were:

Years ending December 31,	Amount
2021	\$ 315,219
2022	496,126
2023	394,294
2024	63,264
2025 and thereafter	592,237
	<u>\$ 1,861,140</u>

**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, as defined in the Agreement, since September 1, 2011, 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, 2020, \$229,167 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 may be made and also have been made at the discretion of the board (“Special Distribution”).

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 10 – DEFERRED COMPENSATION (Continued)**

As of December 31, 2020, Special Distributions were paid in which the employee was paid the following amounts of the accrued liability:

<u>Years ended December 31,</u>	<u>Amount</u>
2013	\$ 65,000
2014	165,000
2015	-
2016	140,000
2017	159,000
2018	58,000
2019	-
2020	-
	<u>\$ 587,000</u>

In relation to the Agreement, the Company recognized a compensation benefit of \$2,624,454 and \$25,624 during the years ended December 31, 2020 and 2019, respectively, and had remaining unpaid accrued deferred compensation of \$2,679,770 and \$55,316 as of December 31, 2020 and 2019, respectively. Accrued deferred compensation is included in “Accrued expenses and other liabilities” in the consolidated balance sheets.

**NOTE 11 – CONTINGENT CONSIDERATION LIABILITY**

During 2019, ULG entered into a contingent consideration agreement as part of an acquisition, which could require the Company to pay the former owner annually through 2025 if certain loan production thresholds are met. The fair value of the contingent consideration liability related to the acquisition was \$681,742 and \$-0- as of December 31, 2020 and 2019, respectively. No contingent consideration payments were made during the years ended December 31, 2020 and 2019. In early 2021, \$390,226 of this liability was paid.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 12 – INCOME TAXES**

Income tax expense is summarized as follows:

	December 31,	
	2020	2019
Current	\$ 6,130,915	\$ 75,405
Deferred	2,069,572	1,001,375
Income tax expense	<u>\$ 8,200,487</u>	<u>\$ 1,076,780</u>

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

	Year ended December 31,	
	2020	2019
Statutory rate	21%	21%
Permanent differences	0%	1%
Effective rate	<u>21%</u>	<u>22%</u>

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

	December 31,	
	2020	2019
Deferred income tax assets:		
Allowance for loan and financing losses and recourse liabilities	\$ 833,418	\$ 28,829
Contingent consideration liability	143,166	-
Other	11,666	11,713
	<u>988,250</u>	<u>40,542</u>
Deferred income tax liabilities:		
Mortgage and financing servicing rights	3,550,192	2,769,386
Derivatives and LHFS	3,599,094	1,246,596
Premises and equipment	825,581	933,896
Other	49,328	57,037
	<u>8,024,195</u>	<u>5,006,915</u>
Net deferred tax liability	<u>\$ (7,035,945)</u>	<u>\$ (4,966,373)</u>

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 12 – INCOME TAXES (Continued)**

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 2017.

**NOTE 13 – CONVERTIBLE PREFERRED STOCK**

The Company had 50,000 shares of convertible preferred stock outstanding at December 31, 2020 and 2019. 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, 2020 and 2019, dividends of \$150,000 and \$234,167, respectively, were paid out. As of December 31, 2020, and 2019, \$225,000 and \$75,000, respectively 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 14 – TREASURY STOCK**

During the year ended December 31, 2020, the Company repurchased 441,381 common shares at an aggregate cost of \$3,994,498. These treasury stock shares are recorded at cost in the consolidated statement of equity.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 15 – 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, 2019	168,000	\$ 7.00	
Granted	-	\$ -	
Exercised	(2,000)	\$ 7.00	
Expired or forfeited	-	\$ -	
Outstanding at December 31, 2019	166,000	\$ 7.00	
Granted	-	\$ -	
Exercised	(2,000)	\$ 7.00	
Expired or forfeited	-	\$ -	
Outstanding at December 31, 2020	<u>164,000</u>	\$ 7.00	4.7
Vested and expected to vest in the future as of December 31, 2020	<u>164,000</u>	\$ 7.00	4.7
Options exercisable at December 31, 2020	<u>63,000</u>	\$ 7.00	4.7

  

	Nonvested Options	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	147,000	\$ 1.91
Granted	-	\$ -
Vested	(23,000)	\$ 1.72
Expired or forfeited	-	\$ -
Nonvested at December 31, 2019	124,000	\$ 1.95
Granted	-	\$ -
Vested	(23,000)	\$ 1.72
Expired or forfeited	-	\$ -
Nonvested at December 31, 2020	<u>101,000</u>	\$ 2.00

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 15 – STOCK OPTIONS** (Continued)

During each 2020 and 2019, 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 2020 and 2019 was approximately \$2,400 and \$3,000, 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, 2020 and 2019, 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, 2020, unrecognized compensation cost related to stock options totaled approximately \$193,000, which is expected to be recognized over a weighted-average period of approximately 6.6 years. At December 31, 2020, the intrinsic value of options vested and expected to vest totaled approximately \$910,000, and the intrinsic value of options exercisable totaled approximately \$350,000.

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 16 – 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, 2020 and 2019, total equity of UIF was \$30,464,390 and \$16,897,519, respectively. The noncontrolling interest at December 31, 2020 and 2019 was \$6,092,879 and \$3,379,504, respectively.



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**NOTE 17 – EARNINGS PER SHARE**

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

	<u>Years ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>Basic earnings per share</b>		
Net income attributable to stockholders	\$ 28,002,817	\$ 3,616,824
Less: cumulative dividends on preferred stock	<u>(300,000)</u>	<u>(309,167)</u>
Net income attributable to common stockholders	<u><u>\$ 27,702,817</u></u>	<u><u>\$ 3,307,657</u></u>
Weighted-average common shares outstanding	5,141,148	5,203,967
Basic earnings per share	\$ 5.39	\$ 0.64
<b>Diluted earnings per share</b>		
Net income attributable to common stockholders - diluted	<u><u>\$ 27,702,817</u></u>	<u><u>\$ 3,307,657</u></u>
Weighted-average common shares outstanding - basic	5,141,148	5,203,967
Dilutive effect of stock options	<u>73,022</u>	<u>21,954</u>
Weighted-average common shares outstanding - diluted	5,214,170	5,225,921
Diluted earnings per share	\$ 5.31	\$ 0.63

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**NOTE 18 – 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, 2020 and 2019 totaled \$898,816 and \$271,274, 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, 2020, the Company had accrued \$1,179,431 which is expected to be contributed to the ESOP in 2021. At December 31, 2019, the Company had accrued \$133,658. Compensation expense related to ESOP contributions amounted to \$1,170,053 and \$134,690 during the years ended December 31, 2020 and 2019, respectively.

The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the ESOP include 97,584 and 97,584 shares of the Company’s stock at December 31, 2020 and 2019, respectively, all of which were fully allocated. The shares of the ESOP are held in trust and were valued at \$1,225,655 and \$786,527 at December 31, 2020 and 2019, respectively.

**NOTE 19 – 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.

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**NOTE 19 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Commitments (Continued)**

The following is a summary of commitments:

	December 31,	
	<u>2020</u>	<u>2019</u>
Unused lines of credit	\$ 16,798,895	\$ 9,132,967
Unused credit card limits	4,302,998	2,507,188
Unused commitments for residential construction	<u>11,524,284</u>	<u>12,221,210</u>
	<u>\$ 32,626,177</u>	<u>\$ 23,861,365</u>

**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.

**NOTE 20 – RELATED PARTY TRANSACTIONS**

Available lines of credit to directors, officers and their affiliates at both December 31, 2020 and 2019 amounted to \$90,000 and \$125,000, of which \$20,888 and \$20,674 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, 2020 and 2019.

The Bank had demand deposits of \$668,143 and \$1,107,525 from directors, officers and their affiliates as of December 31, 2020 and 2019, respectively. The Bank also holds demand deposits from various employees in the normal course of business.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 21 – LINES OF CREDIT**

The Bank has a line of credit available from the FHLB. The limit on this line is \$10,000,000 as of December 31, 2020 and 2019. 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, 2020 and 2019, the Bank's had no outstanding balance on the line and availability on the line totaled \$10,000,000.

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, 2021. At both December 31, 2020 and 2019, there was no outstanding balance on this line of credit.

**NOTE 22 – 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, 2020 and 2019 was \$1,570,191 and \$1,064,050, respectively.

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

<u>Years ending December 31,</u>	<u>Amount</u>
2021	\$ 37,491
2022	<u>1,532,700</u>
	<u><u>\$ 1,570,191</u></u>

**NOTE 23 – 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 \$7,946,000 and \$-0- during the years ended December 31, 2020 and 2019, respectively. University Bancorp, Inc. declared dividends totaling \$718,578 and \$-0- during the years ended December 31, 2020 and 2019, respectively. The dividends declared in 2020 were paid in January 2021.

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**NOTE 23 – REGULATORY MATTERS (Continued)**

**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.

The Economic Growth, Regulatory Relief, and Consumer Protection Act was passed in 2018. Included among the provisions was the Community Bank Leverage Ratio ("CBLR"), a special alternative capital framework available only to banks holding less than \$10 billion in assets. On April 6, 2020, the federal banking regulators issued interim rules which modified the CBLR framework so that: (i) beginning in the second quarter 2020 through the end of 2020, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations will have until January 1, 2022, before the CBLR requirement is reestablished at greater than 9%. Under the interim rules, the minimum CBLR is 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

The Bank has opted into the CBLR framework. At December 31, 2020, the Bank's CBLR ratio was 11.32% which exceeded the regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized". Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more of the prescribed minimum capital ratios. As discussed above, a qualifying community banking organization, such as the Bank, that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations and will not be required to report or calculate risk-based capital.

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**NOTE 23 – REGULATORY MATTERS (Continued)**

**Regulatory Capital Requirements (Continued)**

As of December 31, 2019, the Bank was required to maintain a minimum of total capital, tier 1 capital (as defined), and common equity 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, the Bank met all capital adequacy requirements to which it is subject. The Bank's actual and required ratios 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)	\$ 25,177,000	14.50%	\$ 13,892,720	8.00%	\$ 17,365,900	10.00%
Tier 1 capital						
(to risk-weighted assets)	\$ 24,331,000	14.01%	\$ 10,419,540	6.00%	\$ 13,892,720	8.00%
Common equity tier 1 capital						
(to risk-weighted assets)	\$ 23,137,000	13.32%	\$ 7,814,655	4.50%	\$ 11,287,835	6.50%
Tier 1 capital						
(to average assets)	\$ 24,331,000	8.13%	\$ 11,965,840	4.00%	\$ 14,957,300	5.00%

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**NOTE 24 – OTHER CAPITAL REQUIREMENTS**

The Bank, Midwest, ULG, and UIF are each 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.

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:

	<u>Actual Capital</u>	<u>Minimum Capital</u>
As of December 31, 2020:		
Bank		
HUD	\$ 48,671,496	\$ 1,000,000
FHLMC	\$ 48,671,496	\$ 5,052,571
FNMA	\$ 48,671,496	\$ 3,629,080
Midwest		
HUD	\$ 9,382,463	\$ 2,500,000
FHLMC	\$ 9,382,463	\$ 2,513,654
FNMA	\$ 9,382,463	\$ 2,965,767
GNMA	\$ 9,382,463	\$ 5,090,163
ULG		
HUD	\$ 31,038,242	\$ 1,996,422
UIF		
FHLMC	\$ 28,551,638	\$ 4,592,793
FNMA	\$ 28,551,638	\$ 2,583,592
	<u>Actual Capital</u>	<u>Minimum Capital</u>
As of December 31, 2019:		
Bank		
HUD	\$ 29,320,566	\$ 1,000,000
FHLMC	\$ 29,320,566	\$ 5,026,449
FNMA	\$ 29,320,566	\$ 2,712,028
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	\$ 15,511,890	\$ 3,061,960

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 24 – OTHER CAPITAL REQUIREMENTS (Continued)**

As of December 31, 2020, and 2019, 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 25 – 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.



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**NOTE 25 – 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, 2020 and 2019 was \$10,480,083 and \$4,459,093, 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 (1.7-2.3 years), discount rates (11%-14%), float rate (0.25%), servicing costs (\$78-\$97), 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.

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**NOTE 25 – 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 (67%-99%). 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, counterparty credit risk. 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.

*Contingent Consideration Liability*

The fair value of the contingent consideration liability is determined by management based on projected future originations, which drives the amount of the contingent consideration obligation that will actually be paid. As this measure is based on significant inputs that are not observable in the market, the Company classifies the contingent consideration liabilities within level 3.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 25 – FAIR VALUE MEASUREMENTS (Continued)**

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, 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, 2020			
Assets:			
Investment securities	\$ 145,773	\$ 318,412	\$ -
Loans and financings held for sale or assignment	\$ -	\$ 185,856,685	\$ -
Mortgage and financing servicing rights	\$ -	\$ -	\$ 16,905,676
Interest and financing rate lock commitments	\$ -	\$ -	\$ 8,075,434
Liabilities:			
Forward sales commitments	\$ -	\$ -	\$ 1,416,972
Contingent consideration	\$ -	\$ -	\$ 681,742
	Level 1	Level 2	Level 3
December 31, 2019			
Assets:			
Investment 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

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**NOTE 25 – FAIR VALUE MEASUREMENTS (Continued)**

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	Contingent Consideration Liability
Fair value at January 1, 2019	\$ 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)	-
Purchases, sales, issuances, settlements, net	12,880,479	(1,686,711)	209,631	-
Net gains (losses)	(9,162,355)	8,075,434	(1,416,972)	(681,742)
Fair value December 31, 2020	<u>\$ 16,905,676</u>	<u>\$ 8,075,434</u>	<u>\$ (1,416,972)</u>	<u>\$ (681,742)</u>

There were no assets or liabilities valued on a nonrecurring basis during the years ended December 31, 2020 and 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.

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 25 – FAIR VALUE MEASUREMENTS (Continued)**

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

	December 31,			
	2020		2019	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Significant financial assets:</b>				
Cash and cash equivalents	\$ 199,851	\$ 199,851	\$ 113,816	\$ 113,816
Restricted cash	509	509	420	420
Securities, at amortized cost	4,288	4,466	10,558	10,842
Securities, at fair value	464	464	472	472
Federal Home Loan Bank stock	1,113	1,113	637	637
Loans and financings held for sale or assignment, at fair value	185,857	185,857	117,331	117,331
Loans and financings held for sale or assignment, at lower of cost or fair value	1,325	1,390	6,002	6,223
Loans and financings, net	114,820	115,252	77,955	80,610
Mortgage and financing servicing rights	16,906	16,906	13,188	13,188
Derivatives	8,075	8,075	1,687	1,687
<b>Significant financial liabilities:</b>				
<b>Deposits:</b>				
Demand - non-interest bearing	\$ 419,814	\$ 419,814	\$ 287,507	\$ 287,507
Demand - interest bearing and profit sharing	13,342	13,342	9,700	9,700
Savings	432	432	331	331
Time	1,861	1,940	1,937	1,998
Derivatives	1,417	1,417	210	210
Contingent consideration liability	682	682	-	-
Mortgage payable	1,570	1,570	1,605	1,605

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 26 – BUSINESS COMBINATION**

In February 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. The acquisition was made to enable the Company to expand the insurance products that it can offer to its existing and new customers, and to expand the customer base of the Company.

The following table summarizes the fair value of assets acquired (there were no liabilities assumed) that were recognized at the acquisition date:

Customer list	\$ 620,691
Goodwill	<u>66,671</u>
	<u>\$ 687,362</u>

As a result of this acquisition, the Company recognized goodwill of \$66,671. The goodwill recorded primarily reflects a history of operating margins and profitability and the benefit the Company will receive from synergies between the acquired insurance agency and the Company. This goodwill is being amortized for tax purposes.

The identifiable assets acquired were recorded at fair value as of the acquisition date. The identifiable assets acquired included an intangible asset with a fair value that was determined by the multiperiod excess earnings method. Inputs and assumptions used were based on the acquiree's history, projections and current market conditions.

**NOTE 27 – 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.

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**NOTE 27 – SEGMENT REPORTING (Continued)**

Information about reportable segments as of and for the years ended December 31, 2020 and 2019 is as follows (in thousands):

**2020**

	The Bank and Midwest	ULG	UIF	Holding Company	Total
Net interest and financing income	\$ 10,046	\$ 388	\$ 962	\$ 3	\$ 11,399
Loan and financing servicing and sub-servicing fees	12,773	1,879	2,511	-	17,163
Originations and other fees	5,764	5,501	3,352	-	14,617
Gain on sale of mortgage loans, net, and fee income for assignment of financings	2,606	48,001	34,851	-	85,458
Other income (expense)	392	7,711	31	23	8,157
Provision for loan losses	(2,076)	20	(1,516)	-	(3,572)
Depreciation and amortization	(1,415)	(644)	(165)	-	(2,224)
Other operating expenses	(28,425)	(41,764)	(21,757)	(136)	(92,082)
Income (loss) before income taxes	(335)	21,092	18,269	(110)	38,916
Income tax expense (benefit)	(42)	4,429	3,836	(23)	8,200
Net income (loss)	<u>\$ (293)</u>	<u>\$ 16,663</u>	<u>\$ 14,433</u>	<u>\$ (87)</u>	<u>\$ 30,716</u>
Intersegment revenue	\$ 5,300	\$ (2,928)	\$ (2,372)	\$ -	\$ -
Segment assets	\$ 258,704	\$ 166,405	\$ 124,690	\$ 7,878	\$ 557,677
Capital expenditures	\$ 1,456	\$ 92	\$ 76	\$ -	\$ 1,624

**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 assignment 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)	<u>\$ 3,376</u>	<u>\$ (503)</u>	<u>\$ 1,052</u>	<u>\$ (108)</u>	<u>\$ 3,817</u>
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

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**NOTE 28 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**

**CONDENSED BALANCE SHEETS**

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,779,454	\$ 3,913,644
Equity investment securities, at fair value	145,772	124,514
Investment in University Bank	49,610,444	29,503,529
Accounts receivable - University Bank	53,000	53,000
Other assets	-	32,455
Total assets	<u>\$ 57,588,670</u>	<u>\$ 33,627,142</u>
<b>LIABILITIES AND EQUITY</b>		
Accounts payable and other liabilities	\$ 994,147	\$ 75,000
Total equity	<u>56,594,523</u>	<u>33,552,142</u>
Total liabilities and equity	<u>\$ 57,588,670</u>	<u>\$ 33,627,142</u>



**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 28 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**  
(Continued)

**CONDENSED STATEMENTS OF OPERATIONS**

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>OTHER INCOME (LOSS)</b>		
Interest and dividend income	\$ 7,591	\$ 40,125
Unrealized gain (loss) on equity securities	21,258	(28,207)
Other income, net	<u>28,849</u>	<u>11,918</u>
<b>EXPENSES</b>		
Professional fees	78,470	93,122
Share-based compensation	42,393	42,393
Other miscellaneous	18,108	15,323
Total expenses	<u>138,971</u>	<u>150,838</u>
Net loss before income taxes and net income of subsidiary	(110,122)	(138,920)
Income tax benefit	(156,271)	(20,271)
Net income (loss) before net income of subsidiary	46,149	(118,649)
Net income of subsidiary	<u>27,956,668</u>	<u>3,735,473</u>
Net income	<u>\$ 28,002,817</u>	<u>\$ 3,616,824</u>

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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December 31, 2020 and 2019

**NOTE 28 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**  
(Continued)

**CONDENSED STATEMENTS OF CASH FLOWS**

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 28,002,817	\$ 3,616,824
Adjustments to reconcile net income to net cash flows from operating activities:		
Unrealized (gain) loss on equity securities	(21,258)	28,207
Share-based compensation	42,393	42,393
Net change in:		
Accounts receivable and other assets	32,455	(20,270)
Accounts payable and other liabilities	50,569	(250)
Net income of subsidiary	<u>(27,956,668)</u>	<u>(3,735,473)</u>
Net cash provided by (used in) operating activities	<u>150,308</u>	<u>(68,569)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of equity securities	-	(152,721)
Investment in University Bank	-	(1,500,000)
Dividends received from University Bank	<u>7,846,000</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>7,846,000</u>	<u>(1,652,721)</u>
<b>FINANCING ACTIVITIES</b>		
Payment of preferred dividends	(150,000)	(234,167)
Exercise of stock options	14,000	14,000
Repurchase of common shares	<u>(3,994,498)</u>	<u>-</u>
Net cash used in financing activities	<u>(4,130,498)</u>	<u>(220,167)</u>
<b>NET CHANGE IN CASH</b>	3,865,810	(1,941,457)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>3,913,644</u>	<u>5,855,101</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 7,779,454</u>	<u>\$ 3,913,644</u>

**UNIVERSITY BANCORP, INC. AND SUBSIDIARIES**  
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**NOTE 29 – RECENT ACCOUNTING PRONOUNCEMENTS**

**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 30 – SUBSEQUENT EVENTS**

In March 2021, University Bancorp, Inc. declared a dividend of \$0.075 per common share to be paid in April 2021.