


# University Bancorp & University Bank

Investor Presentation

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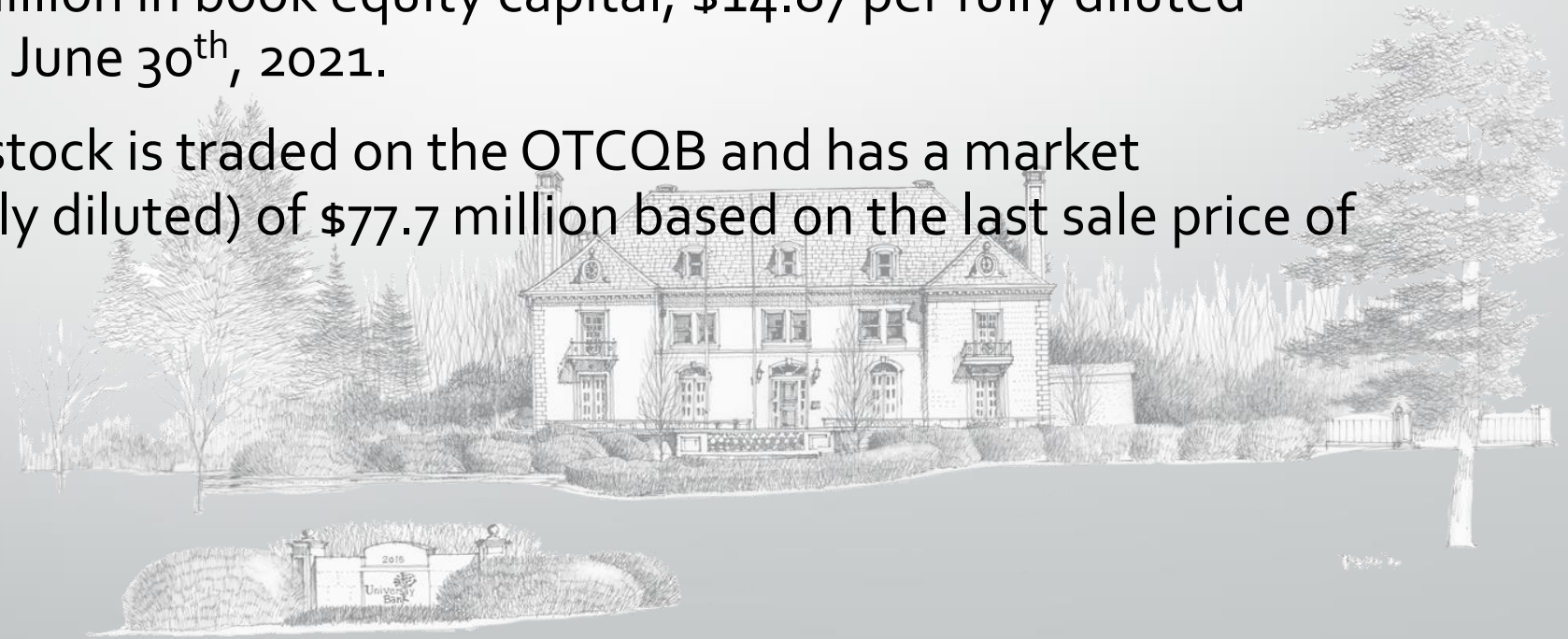
 [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm)



June 2021

# About University Bancorp

- University Bancorp, Inc. (UNIB) is the holding company for University Bank, an Ann Arbor based community bank with \$697 million in assets as of June 30<sup>th</sup>, 2021.
- UNIB has \$70.8 million in book equity capital, \$14.87 per fully diluted common share at June 30<sup>th</sup>, 2021.
- UNIB's common stock is traded on the OTCQB and has a market capitalization (fully diluted) of \$77.7 million based on the last sale price of \$14.75.



# Our Business Model

- University's business model includes substantial mortgage loan subservicing and loan origination operations combined with traditional community banking.
- University's Retail Mortgage Operations are designed to be sustainable and profitable, with a hyper focus on purchase, new construction & renovation transactions vs. the volatile refinance transaction model highly dependent on market rates & high levels of price competition.
- University currently services over \$36.3 billion in mortgage loans and have originated \$1.1 billion mortgages year-to-date.
- Our mortgage subservicing unit is endorsed by the American Banker Association's CAB division.

# What Our Business Model Provides

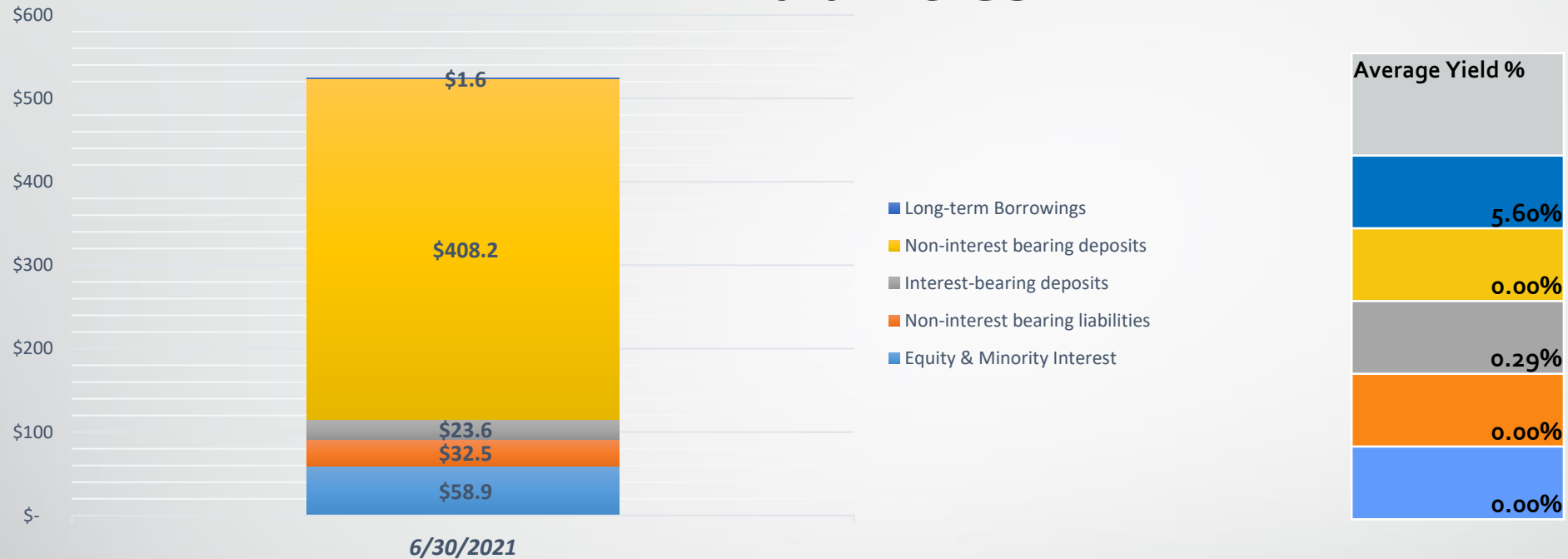
- Our business model provides UNIB with a low cost of funds which we believe to be an important competitive advantage compared with traditional banks.
- Our mortgage subservicing business currently generates an average monthly balance of \$524.3 million of non-interest bearing escrow deposits.
- As a result our overall cost of funds is *5 basis points*. UNIB uses these low cost funds to finance its own internal monthly residential mortgage loan origination pipeline.
- The loans and financings held for sale or assignment on our balance sheet are delivered monthly as originated loans are sold into the secondary markets.

# Our Balance Sheet Breakdown – Average Assets



- Total Assets grew 7% from Q1 2021 through Q2 2021. The increase was primarily driven by an increase in portfolio originations (Commercial, Residential Real Estate & Home Equity), continued Mortgage Servicing Right (MSR) production, an increase in servicing deposits (related to production), and small increase in investment securities.
- Improving economic conditions including stable interest rates, slower prepayment speeds & lower average costs of servicing saw the Fair Market Value of our MSR portfolio increase significantly in 2Q2021 (not incl. in average yield %). The new MSR capitalization rate increased over the quarter.

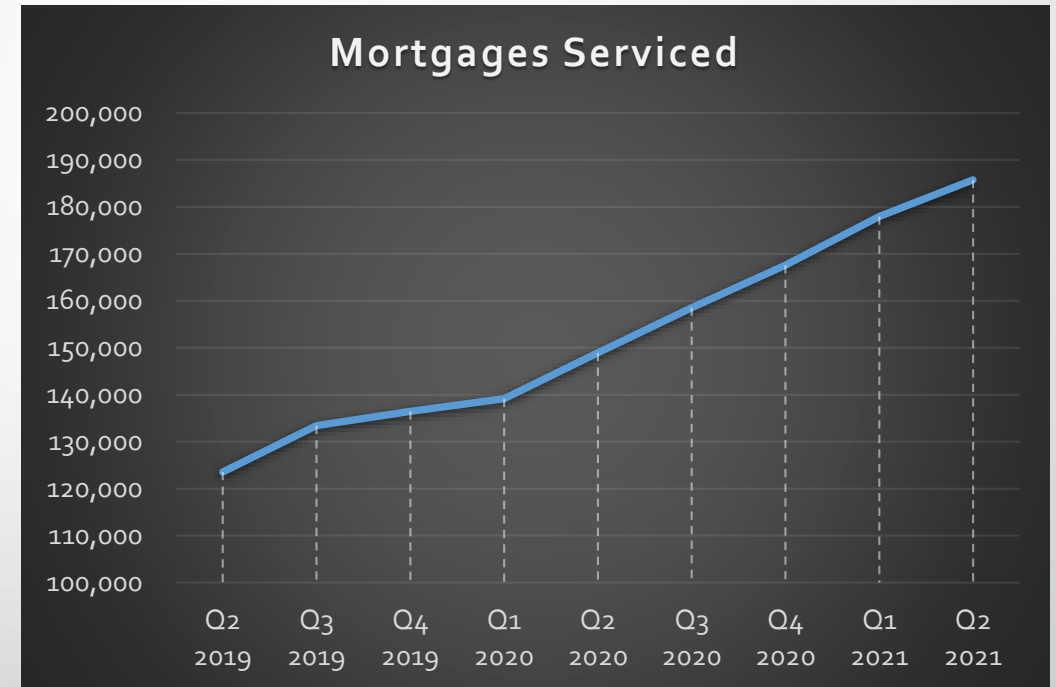
# Our Balance Sheet Breakdown – Average Liabilities



- UNIB’s low cost of funds allows us to generate growth without utilizing outside financing and other debt instruments.
- The non-interest bearing deposits relate to mortgage servicing and origination activity and fund the day to day operations of University Bank.

# Mortgage Servicing – Fueling Growth

- The increase in internal originations and organic growth of our sub-servicing clients has led our servicing book to grow 25% from Q2 2020 – Q2 2021. Mortgage Unpaid Principal Balance serviced & sub-serviced increased \$9B YoY, or 33%.
- Our mortgage servicing business has an estimated 0.24% market share of approx. \$15 trillion of outstanding mortgage debt. We believe this represents an excellent long term opportunity to grow and create a stable profit source for UNIB as well as hedge against mortgage market volatility.
- Mortgage Servicing contributed \$4.4MM in Pre-Tax Income year-to-date 2021. Our unique structure also allows us to benefit from the investment of custodial deposits, which are held off-balance sheet, providing additional liquidity and funds to grow.

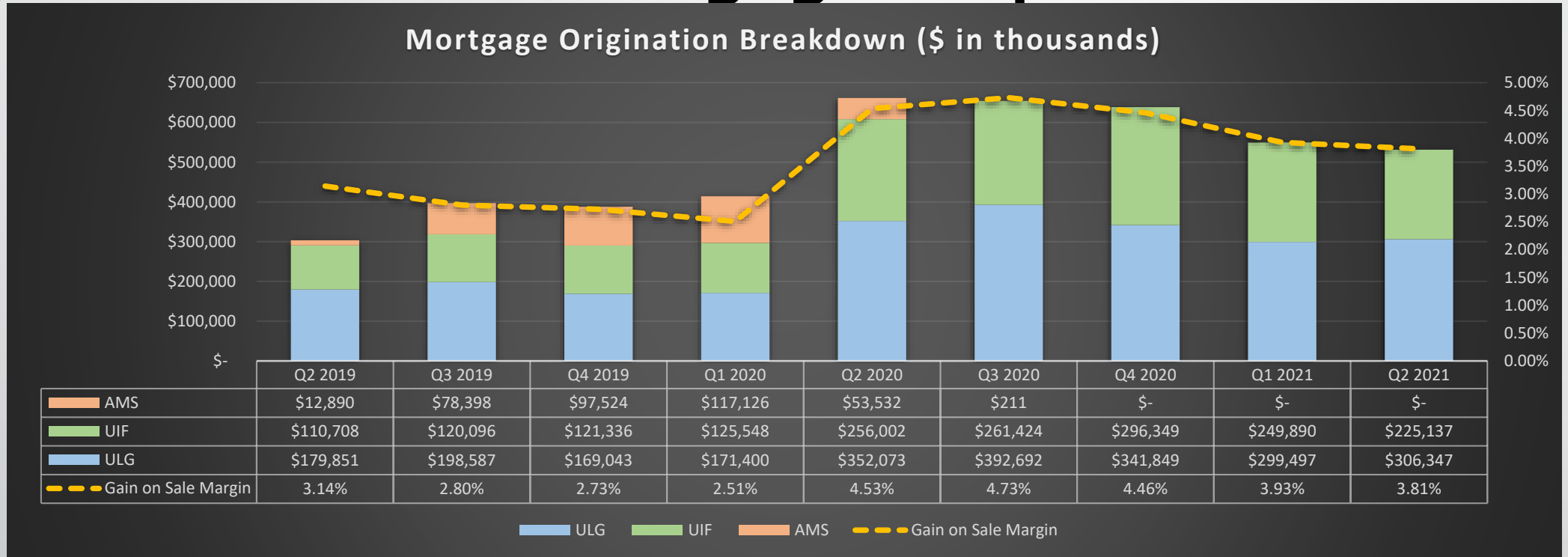


# UNIB's Mortgage Origination Channels

- UNIB's Retail Mortgage Operations remain strong, originating a combined \$1.1B loans 2021 YTD. Our pipeline indicates a slow down in originations from Q2 2020 highs, a decrease of approx. 13% vs. Q2 2021. Primarily due to rates rebounding from 2020's record lows and a subsequent slow down in refinance transactions.
- University Lending Group ("ULG") - Government, Conventional & HELOC Mortgage Origination
  - Originated \$306mm in mortgages in Q2 2021,
  - Contributed \$2.1 million in EBIT in Q2 2021, excluding any activity related to Mortgage Servicing Rights ("MSRs"),
  - Launched the New 1<sup>st</sup> position Smart HELOC product, originating approx. \$21mm YTD, with a strong pipeline.
- UIF Corporation ("UIF") - Faith Based Mortgage Origination
  - Originated \$225mm in mortgages in Q2 2021,
  - Contributed \$1.7 million in EBIT in Q2 2021, excluding any activity related to MSRs and commercial & portfolio operations.

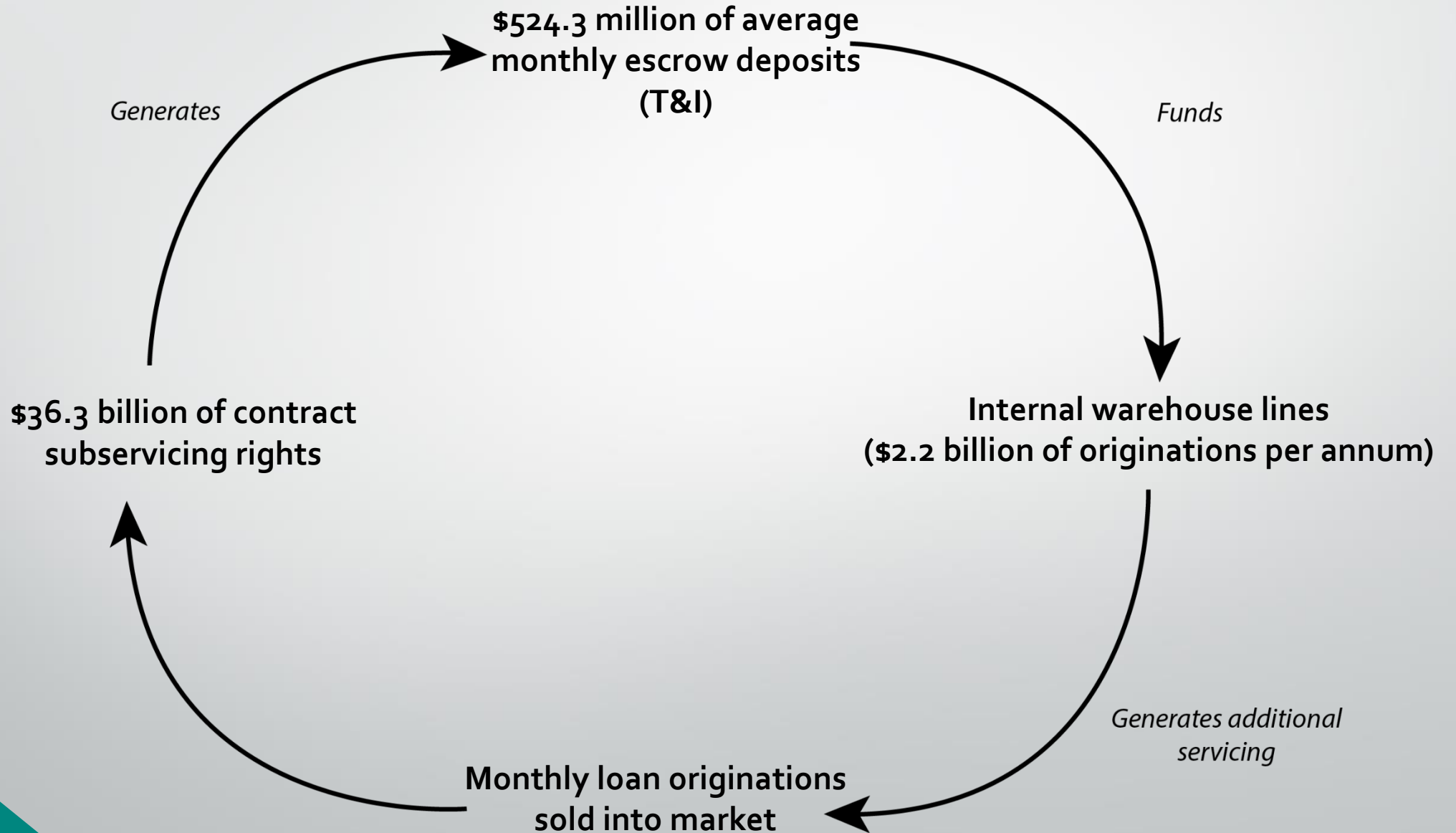


# UNIB's Retail Mortgage – A proven model



- Retail Mortgage Originations grew 19% from Q2 2020 to Q2 2021 (excluding the discontinued wholesale channel).

# Virtuous Cycle of Funding Advantage



# Industry Awards

- ULG the #1 Residential Lender with local offices in Washtenaw County (Ann Arbor), Michigan. Tied for #1 Residential Lender in Florida Panhandle
- U.S. Banker Magazine's "Community Bankers of the Year" in 2006
- Recipient of the American Bankers Association's 2009 "Community Bankers of the Year" Award
- FDIC "Outstanding" rating for Community Service & Community Reinvestment, 2003-2009
- As of 6/30/2021, University Bank's 540 employees were managing over \$36.0 billion in financial assets for over 191,000 customers.

# Valuation – Midwest Loan Servicing

- Midwest's earnings "run rate" through the 2<sup>nd</sup> quarter of 2021 is \$9 million pre-tax per year. This is \$1.90 per share.
- Midwest's business uses \$5 million of capital, leaving \$58.6 million of capital allocated to the rest of our business units. These businesses have the ability to earn more than \$21 million annually after-tax, based on their current sales force, product mix and industry margins.
  - For the quarter ended 6/30/2021, UNIB had net income of \$7.4 million, or \$1.55 per share.
    - Midwest contributed \$2.26 million in pre-tax income during 2Q2021.

# Valuation Summary – Year End 2020

VALUATION METHODS COMPARISON			
	12/31/2019	12/31/2020	% Change
<b>DISCOUNTED CASH FLOW VALUE (1)</b>	<b>\$8.40</b>	<b>\$20.39</b>	<b>142.7%</b>
<b>NET ASSET VALUE</b>	<b>\$7.25</b>	<b>\$14.82</b>	<b>104.3%</b>
<b>GUIDELINE TRANSACTIONS - MINORITY SHARE TRADING</b>			
Price-to-Tangible Book Value	\$8.73	\$21.12	142.0%
Price-to-Earnings Multiple	\$8.28	\$26.56	220.7%
Price-to-Recurring Revenue	\$10.88	\$18.19	67.2%
<b>MARKET PRICE (2)</b>	<b>\$8.06</b>	<b>\$12.56</b>	<b>55.8%</b>
<b>Indication of Value (Marketable Minority Interest)</b>	<b>\$8.10</b>	<b>\$19.00</b>	<b>134.6%</b>
<b>Marketability Discount</b>	<b>0%</b>	<b>0%</b>	
<b>FAIR MARKET VALUE</b>	<b>\$8.10</b>	<b>\$19.00</b>	<b>134.6%</b>

(1) 12/31/2020 indication of value represents the average of the two Discount Cash Flow Value methodologies utilized for the valuation.

(2) Based on the December 31st closing price.

# Questions?

- FAQ list at [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm)
  - Press Releases
  - Newspaper & Magazine Articles
  - Comprehensive Data
- Contact me:

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**CAUTIONARY STATEMENT:** *This Executive Summary contains certain forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements concerning future growth in loan origination and servicing, revenues and income, cost of funds, the sustainability of past results, mortgage origination levels, and other expectations and/or goals. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including, but not limited to, economic, competitive, governmental and technological factors affecting our operations, markets, products, services, interest rates and fees for services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Executive Summary.*