



Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave. N.W., Suite 1064
Washington, DC 20220

March 5, 2009

Dear Mr. Barofsky:

This report contains our response to your request of February 6, 2009. It will follow the same format as your request.

About United Bancorp, Inc.

United Bancorp, Inc. is an \$830 million financial holding company that is the parent company for United Bank & Trust and United Bank & Trust – Washtenaw. The subsidiary banks operate seventeen banking offices in southeast Michigan, and United Bank & Trust maintains an active wealth management group that serves the company's market area. United received \$20.6 million in capital from the United States Department of Treasury on January 16, 2009.

TARP Funds

- (a) Anticipated Use – Our anticipated use for the TARP funds was (at the time of our application), and still is, to provide additional capital to further strengthen our capital position to better position United Bancorp, Inc. (“United”) and its banks to respond to market conditions and to grow organically through increased lending and (b) (4) [REDACTED] As shown on Exhibit A, during 2008 United's loan portfolio increased by \$52.5 million, or 8.1%, and it increased by \$14 million during the fourth quarter of 2008. This growth occurred during a difficult economic period for the nation, and specifically in Michigan where United operates.
- (b) Segregation of TARP Funds – We received the TARP proceeds at our bank holding company, United Bancorp, Inc. We have not segregated these funds from our other funds at the holding company or at our two banks.
- (c) Actual Use of Funds - As shown on Exhibit B, United Bancorp used \$9.0 million of the TARP proceeds as a capital injection into its two banks (\$5.2 million to United Bank & Trust and \$3.8 million to United Bank & Trust – Washtenaw) to bring their capital levels up to internally-developed target levels (higher than “well-capitalized” levels) so the banks could continue to meet the lending needs of their respective markets. Due to the loan growth achieved in 2008, along with abnormally high credit costs associated with the difficult economic conditions, both banks have seen their capital ratios decline during 2008. Without the additional capital, both banks would likely have drastically reduced their lending efforts so as to maintain a “well-capitalized” position. As a result of the capital injections, both banks have continued to be active lenders in their markets. On a combined basis, for the first two months of 2009, the banks have originated \$72.2 million

of loans. These loans consist of 72 small business loans for \$18.1 million, 152 consumer loans for \$3.6 million, and 270 residential mortgage loans for \$50.5 million. The mortgage loans consist primarily of conforming fixed rate loans that are sold to FNMA. Net loan growth during the same two months has amounted to \$2.7 million.

It is also important to note what we haven't done with the TARP proceeds. We have not used it for executive bonuses, as no year-end bonuses were paid to our Senior Executive Officers for 2008. [REDACTED] (b) (4)

[REDACTED] In addition, we are not using it for dividends to shareholders, as we have reduced the quarterly dividend to common shareholders from \$0.20 per share in the third quarter of 2008 to \$0.10 per share in the fourth quarter, and then further reduced it to \$0.02 per share in the first quarter of 2009.

- (d) Expected Use of Unspent Funds – As shown on Exhibit B, the current plans for the remainder of the TARP proceeds are to 1) continue capital injections into its two banks to maintain target capital ratios to ensure that both banks can continue to meet the loan demand in their markets, and 2) provide short-term funding to the banks to enable them to fund additional loans. This short-term funding is made available through a one-year line of credit facility with each bank. The use of the facility will be reviewed on a quarterly basis to ensure that the proceeds are being used in the most appropriate manner for United and its shareholders.

Executive Compensation Requirements

This section addresses the initial executive compensation requirements for participating in the Capital Purchase Program of the TARP.

1. Limiting severance pay to the “golden parachute” safe harbor – This requirement was already in place at United, as its senior executive officers (SEO) have entered into employment contracts that provide for continuation of salary and benefits for no more than twelve months in the event of a change in control and for no more than six months for other types of termination. On January 13, 2009, United's board of directors amended all benefit plans in which any Senior Executive Officer participates or is eligible to participate and all agreements to which any Senior Executive Officer is a party to comply with the then applicable requirements for participating in the Capital Purchase Program of the TARP. These amendments included provisions to the effect that each Senior Executive Officer shall be ineligible to receive any “golden parachute payment” in connection with an applicable severance from employment as provided in regulations issued by the Department of Treasury. Each Senior Executive Officer has consented to the adoption of these amendments. The resolution adopted by the board of directors making appropriate amendments and the form of consent executed by each Senior Executive Officer is appended to this letter as Exhibit C.
2. Adopting clawback provisions so incentive pay can be recouped if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric – Short-term incentive compensation plans covering our SEOs were amended for 2009 to include the clawback provisions. The board of director's resolution and Senior Executive Officer consent described in paragraph 1 above and appended as Exhibit C also implemented clawback provisions which are applicable to all benefit plans in which any Senior Executive Officer participates or is eligible to participate and all agreements to which any Senior Executive Officer is a party.

3. Requiring a risk review to ensure that incentives do not motivate executives to take unnecessary and excessive risks that threaten the value of the financial institution – A risk assessment was prepared by United’s senior risk officer and was reviewed with the Compensation and Governance Committee on February 24, 2009. The Committee, in its report which will be contained in the 2009 proxy statement, has certified that it has reviewed the incentive compensation arrangements of the Company’s Senior Executive Officers and has made reasonable efforts to ensure that such arrangements do not encourage the Senior Executive Officers to take unnecessary and excessive risks that threaten the Company. The board of director’s resolution and consent appended as Exhibit C includes a provision to the effect that Senior Executive Officers will be ineligible to receive compensation to the extent that the Compensation Committee determines that a plan or agreement includes incentives to take unnecessary and excessive risks.
4. Capping tax deductible compensation at \$500,000 per year – The report of the Compensation and Governance Committee, which will be contained in the 2009 proxy statement, states: “We consider the impact of Section 162(m) when structuring the performance based portion of our executive compensation, but Section 162(m) is not a dispositive consideration. We do not expect any compensation to be non-deductible because of Section 162(m) in 2009.”

Other Information

For reference, we are including the following in addition to Exhibits A, B and C referenced above:

1. Press release announcing approval by Treasury (Exhibit D).
2. Press release announcing closing of CPP transaction (Exhibit E).
3. Explanation of TARP – posted on United’s website (Exhibit F).

Certification

As Chief Financial Officer of United Bancorp, Inc., I certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,



Randal J. Rabe
Executive Vice President & Chief Financial Officer

(b) (6)

Attachments

**United Bancorp, Inc. - TARP
Growth & Capital Ratios
\$000's**

Exhibit A

	<u>12/31/2007</u>	<u>9/30/2008</u>	<u>12/31/2008</u>	(1) 4th Qtr <u>Inc(Dec)</u>	(2) 2008 <u>Inc(Dec)</u>	2008% <u>Inc(Dec)</u>
United Bancorp:						
Shareholders Equity	72,967	72,766	69,451	(3,315)	(3,516)	
Tier 1 Capital	69,205	69,510	65,696	(3,814)	(3,509)	
Total Capital	77,462	78,173	74,487	(3,686)	(2,975)	
Loans	644,530	683,064	697,019	13,955	52,489	8.1%
Average Assets	794,003	800,698	833,904	33,206	39,901	
Ratios:						
Tier 1 to Average Assets	8.72%	8.68%	7.88%	-0.80%	-0.84%	
Tier 1 to Risk Weighted Assets	10.52%	10.12%	9.47%	-0.65%	-1.05%	
Total Capital to Risk Weighted Assets	11.78%	11.38%	10.74%	-0.64%	-1.04%	

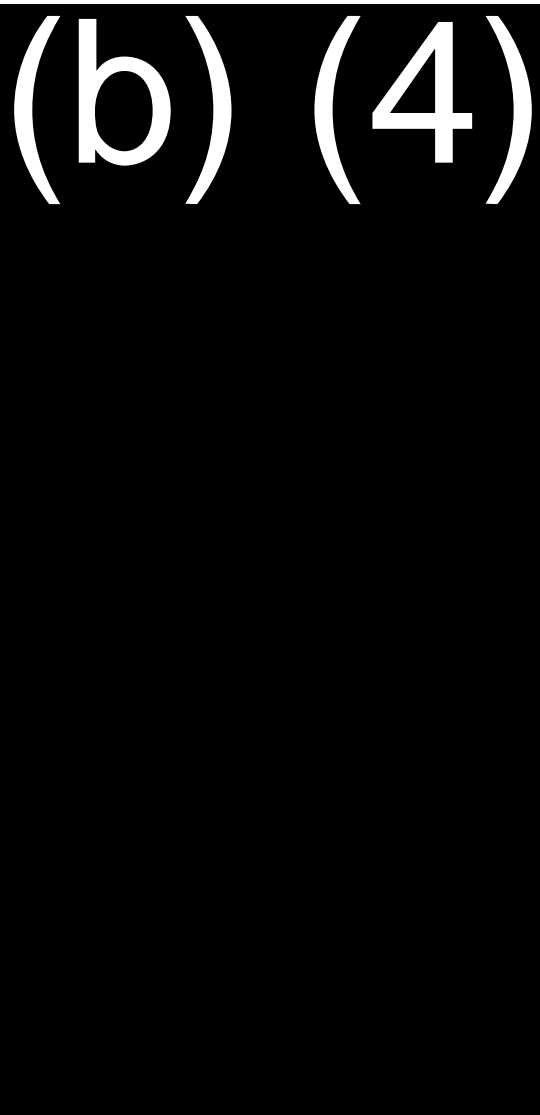
(1) Represents the increase (decrease) in each line item from September 30, 2008 to December 31, 2008

(2) Represents the increase (decrease) in each line item from December 31, 2007 to December 31, 2008

**United Bancorp, Inc. - TARP
Utilization of TARP
\$000's**

Exhibit B

	Actual		Anticipated				
	Jan	Feb	Mar	2Q09	3Q09	4Q09	2009
United Bancorp (UBI):							
TARP CPP Proceeds	20,600						
Capital Injections to Banks:							
To United Bank & Trust	(5,200)		(1,800)				
To United Bank & Trust-Washtenaw	(3,800)						
Funding to Banks:							
To United Bank & Trust			-				
To United Bank & Trust-Washtenaw			(7,500)				
Unused Balance of TARP Proceeds	11,600	11,600	2,300				
United Bank & Trust:							
Capital from UBI	5,200	-	1,800				
Funding from UBI	-	-	-				
Subtotal Capital/Funding	5,200	-	1,800				
Cumulative Capital/Funding	5,200	5,200	7,000				
United Bank & Trust - Washtenaw:							
Capital from UBI	3,800	-	-				
Funding from UBI	-	-	7,500				
Subtotal Capital/Funding	3,800	-	7,500				
Cumulative Capital/Funding	3,800	3,800	11,300				
Combined Banks:							
Loans Outstanding	708,002	704,713					
Cumulative Increase in Loans Outstanding	5,996	2,707	-				
Loan Production:							
Personal	1,638	1,921					
Mortgage	23,789	26,754					
Business	7,461	10,660					
Total Loan Production	32,888	39,335	-				
Cumulative Loan Production	32,888	72,223	-				



CONSENT

I, _____, hereby do consent to the adoption of the amendments to the “Benefit Plans” as defined in and as described in the attached Resolutions as and to the extent, and for the period, required by the provisions of Section 111 of the Emergency Economic Stabilization Act of 2008 (“EESA”) applicable to participants in the Capital Purchase Program under EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

Agreed to and acknowledged
as of the 13th day of January, 2009

[Note: This form of consent has been signed and delivered by all Senior Executive Officers of United Bancorp, Inc.]

UNITED BANCORP, INC.

Preferred Stock Committee

Board of Directors

Resolutions

January 13, 2009

Amendment of Benefit Plans to Comply with Emergency Economic Stabilization Act

WHEREAS United Bancorp, Inc. (the “Company”) currently intends on entering into a Securities Purchase Agreement with the United States Department of Treasury (the “Agreement”) as part of the Capital Purchase Program under the Emergency Economic Stabilization Act of 2008 (“EESA”); and

WHEREAS pursuant to Section 1.2(d)(iv) of the Agreement, the Company is required to amend its “Benefit Plans” with respect to its “Senior Executive Officers” (as such terms are defined in the Agreement) to the extent necessary to comply with Section 111 of EESA; and

WHEREAS the applicable “Benefit Plans” are the plans in which any Senior Executive Officer participates, or is eligible to participate, and the agreements to which any Senior Executive Officer is a party, that either: (i) provide for incentive or bonus compensation based on the achievement of performance goals tied to or affected by the Company’s financial results (“Financial Performance Plans”) or (ii) provide for payments or benefits upon an “applicable severance from employment” within the meaning of EESA (“Involuntary Separation Pay Arrangements”);

RESOLVED that each Financial Performance Plan and Involuntary Separation Pay Arrangement is hereby amended effective as of the date of entry into the Agreement as follows:

1. Compliance With Section 111 of EESA. Each Financial Performance Plan and Involuntary Separation Pay Arrangement is hereby amended by adding the following provision as a final section to such arrangement:

“Compliance With Section 111 of EESA. Solely to the extent, and for the period, required by the provisions of Section 111 of the Emergency Economic Stabilization Act of 2008 (“EESA”) applicable to participants in the Capital Purchase Program under EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008: (a) each “Senior Executive Officer” within the meaning of Section 111 of EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 who participates in this plan or is a party to this agreement shall be ineligible to receive compensation hereunder to the extent that the Board

of Directors or Compensation Committee of the Board of Directors of the Company determines this plan or agreement includes incentives for the Senior Executive Officer to take unnecessary and excessive risks that threaten the value of the financial institution; (b) each Senior Executive Officer who participates in this plan or is a party to this agreement shall be required to forfeit and promptly repay to the Company any bonus or incentive compensation paid to the Senior Executive Officer hereunder during the period that the Department of the Treasury holds a debt or equity position in the Company based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; and (c) the Company shall be prohibited from making to each Senior Executive Officer who participates in this plan or is a party to this agreement, and each such Senior Executive Officer shall be ineligible to receive hereunder, any “golden parachute payment” in connection with the Senior Executive Officer’s “applicable severance from employment,” in each case, within the meaning of Section 111 of EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.”

2. Continuation of Affected Plans. Except as expressly or by necessary implication amended hereby, each Financial Performance Plan and Involuntary Separation Pay Arrangement shall continue in full force and effect.

UNITED BANCORP, INC.

FOR IMMEDIATE RELEASE
December 23, 2008

CONTACT: Robert K. Chapman
United Bancorp, Inc.
734-214-3801

**UNITED BANCORP, INC. SELECTED TO PARTICIPATE IN U.S. TREASURY
CAPITAL PURCHASE PROGRAM**

AND

SHAREHOLDERS APPROVE CLASS OF PREFERRED STOCK

TECUMSEH, MI – United Bancorp, Inc. (OTC: UBMI) announced that it has been advised that it has received preliminary approval from the United States Department of Treasury to participate in its Capital Purchase Program (“CPP”). Under the CPP, United Bancorp, Inc. (“United”) intends to sell \$20.6 million of shares of senior preferred stock to Treasury. It also intends to issue warrants to purchase shares of common stock with an aggregate market price of \$3,090,000. Participating in the CPP would provide United with additional capital to grow organically through increased lending and to pursue future strategic acquisition opportunities.

The CPP has a critical role in helping to revive the U.S. economy through its goal to restore the availability of credit to businesses and individuals by creating liquidity and providing additional capital to banks. This program is designed to promote confidence in the banking system, invigorate lending, and assist in consolidation of weaker financial institutions into stronger institutions. Treasury and federal banking regulators have encouraged strong institutions, such as United, to participate in this voluntary program.

United’s capital ratios continue to be well above the level considered to be “well-capitalized” by its federal regulators. United’s tier 1 capital ratio, ratio of tier 1 capital to risk-weighted assets, and ratio of total capital to risk-weighted assets were 8.68%, 10.12% and 11.38%, respectively, at September 30, 2008. Participation in the CPP will further increase United’s capital levels.

Mr. Robert K. Chapman, President and Chief Executive Officer of United, commented, “In addition to our already strong capital position, this new equity will enhance our competitive position and increase our capacity to lend.” According to Chapman, the additional capital provided through the CPP would enhance the company’s balance sheet and its ability to pursue its disciplined growth strategy, which includes expanding existing client relationships, adding new clients and pursuing future strategic acquisition opportunities.

Terms of the preferred stock and warrants are set by Treasury and are standardized for all institutions participating in the CPP. United’s anticipated sale of the preferred stock through the CPP is expected to be completed during the first quarter of 2009. United’s participation in the CPP is subject to the execution of mutually acceptable definitive agreements, satisfaction of closing and other conditions and funding of the purchase of shares of senior preferred stock.

Shareholder Approval of Class of Preferred Stock

At a special meeting of shareholders held on December 23, 2008, United shareholders voted to approve an amendment to United's Restated Articles of Incorporation authorizing for issuance 2,000,000 shares of preferred stock. Shareholders representing over 85% of the shares voting at the meeting voted in favor of the proposal. The authorized preferred stock will allow United to participate in the CPP and will also provide United with flexibility of action for possible future transactions, acquisitions, employee benefit plans and other corporate purposes.

About United Bancorp, Inc.

United Bancorp, Inc. is an independent financial holding company that is the parent company for United Bank & Trust and United Bank & Trust – Washtenaw. The subsidiary banks operate seventeen banking offices in Lenawee, Washtenaw and Monroe counties, and United Bank & Trust maintains an active wealth management group that serves the Company's market area. For more information, visit the company's website at www.ubat.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and United Bancorp, Inc. Forward-looking statements are identifiable by words or phrases such as that an event or trend "will" or "would" occur or "continue" or that United Bancorp, Inc. or its management "expects" or "intends" that a particular result or event will occur or desires to "pursue" a particular opportunity, or other words such as "preliminary", "enhance", "future", "designed", "expanding", "adding", "new", and variations of such words and similar expressions. United's ability to successfully satisfy all conditions and requirements for participation in the CPP is not assured and is to some extent dependent on factors outside of United's control. The availability of the Capital Purchase Program to United Bancorp, Inc. is not assured and is dependent on factors outside of United's control. Preliminary approval is not an assurance that an investment in United will be funded or occur. United's ability to enhance its balance sheet, expand loans, add new customers, execute its growth strategy and identify and successfully realize strategic acquisition opportunities is also not assured and also depends on factors not entirely within United's control. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. United Bancorp, Inc. undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

UNITED BANCORP, INC.

FOR IMMEDIATE RELEASE:
January 16, 2009

CONTACT: Robert K. Chapman
United Bancorp, Inc.
734-214-3801

**UNITED BANCORP, INC. RECEIVES \$20.6 MILLION IN CAPITAL THROUGH THE
U.S. TREASURY DEPARTMENT'S TARP CAPITAL PURCHASE PROGRAM**

TECUMSEH, MI – United Bancorp, Inc. (OTC: UBMI) announced today that it has received \$20.6 million in capital from the United States Department of the Treasury (the “Treasury”) under the TARP Capital Purchase Program (the “CPP”).

United sold to Treasury 20,600 shares of United’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A, which will pay cumulative dividends at a rate of 5% for the first five years and 9% thereafter. United also issued to Treasury a 10-year Warrant to purchase 311,492 shares of United common stock at an exercise price of \$9.92 per share. United will have the right to redeem the preferred stock at any time after three years.

Mr. Robert K. Chapman, President and Chief Executive Officer of United, commented, “We believe that it is important for us, and for other healthy institutions throughout the industry, to continue to strengthen our capital base. While our capital ratios currently exceed those needed to earn the designation of “well capitalized”, we are pleased to have been selected to utilize this additional capital to better serve the lending needs of consumers and businesses in our market, and to pursue future strategic acquisition opportunities.”

About United Bancorp, Inc.

United Bancorp, Inc. is an independent financial holding company that is the parent company for United Bank & Trust and United Bank & Trust – Washtenaw. The subsidiary banks operate seventeen banking offices in Lenawee, Washtenaw and Monroe counties, and United Bank & Trust maintains an active wealth management group that serves the Company’s market area. For more information, visit the company’s website at www.ubat.com.

Forward-Looking Statements

This press release contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and United Bancorp, Inc. Forward-looking statements are identifiable by words or phrases such as that an event or trend “will” occur or “continue” or that United Bancorp, Inc. or its management “believes” that a particular result or event will occur or desires to “pursue” a particular opportunity, or other words such as “future”, “strengthen”, and variations of such words and similar expressions. United’s ability to enhance its balance sheet, expand loans, add new customers, execute its growth strategy and identify and successfully realize strategic acquisition opportunities is not assured and also depends on factors not entirely within United’s control. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (“risk factors”) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. United Bancorp, Inc. undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.



January 30, 2009

The Facts about the TARP Capital Purchase Program

The government wants banks to take this money.

The U.S. Treasury Department will invest \$250 billion into the American banking industry to help strengthen the financial system; the government wants to empower and encourage banks to help more consumers and businesses during these rough economic times. It's called the TARP Capital Purchase Program (CPP). Is it free money? No, but it's a pretty good deal!

This is not a bailout.

This is absolutely not "bailout" money. We have plenty of capital and liquidity to continue making loans to our customers, with or without the CPP. We have increased our loans in 2008, and we are in a position to continue lending money. Again, we are "OK" and this is *not* a bailout; **but, we will take the money to grow.**

There are many good reasons why this is the right thing to do.

- Financially, **it's a good deal.** We always look for and fully consider good deals that will benefit our company, clients, and communities in the long run.
- **Our peers and strongest competitors are taking the money.** If we say "no thanks," they get access to an advantage we won't have.
- More money **makes us even stronger and gives us added flexibility**, with which we can take advantage of good opportunities or more easily provide or enhance services for our associates, clients, and communities.
- Having this money will also allow us the possibility of **expanding into other markets** or to purchase assets from other troubled banks, which would allow us to increase our footprint within the state.
- Our government is asking good banks to participate in this program; **to do our part in helping the American economy** (even more than our normal services and support). To date, there have only been a handful of banks in Michigan to get approved for this money, and we are one of them.
- And, our intention is to **repay the CPP** as soon as it makes sense. This money is not free — we have to pay it back plus 5 percent interest. In fact, if you think about a five-year U.S. treasury bill today is 1.5 percent; therefore, the government is actually going to make money loaning to banks at 5 percent.

What's the next step?

- A key part of the deal involves "preferred stock" shares, a special type of stock. United's current structure did not include preferred stock shares, so our shareholders approved issuing preferred stock during a special shareholder meeting on December 23, 2008. This vote was necessary so we could participate in this opportunity.
- We were officially approved by the U.S. Treasury in early January 2009 for the program in the amount of \$20.6 million; we received the funds on January 16, 2009.
- We will now work to explore opportunities as they arise, and invest this money where it makes the most sense for United.