UNIVERSITY BANCORP INC /DE/
Form 10-Q
November 15, 2002
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Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

(Mark One)

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2002

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _______________ to _______________

Commission File Number 0-16023

UNIVERSITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware	38-2929531
(State of incorporation)	(IRS Employer Identification Number)

959 Maiden Lane, Ann Arbor, Michigan	48105
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (734) 741-5858

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value outstanding at October 31, 2002: 3,897,548 shares

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The information furnished in these interim statements reflects all adjustments and accruals, which are in the opinion of management, necessary for a fair statement of the results for such periods. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for the full year.

Part I. - Financial Information
1.- Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
September 30, 2002 (Unaudited) and December 31, 2001

	September 30,2002	December 31,2001
ASSETS		
Cash and due from banks	$ 2,761,440	$ 837,550
Securities available for sale, at market	1,854,784	2,260,103
Federal Home Loan Bank Stock	848,400	848,400
Loans held for sale, at the lower of cost or market	1,677,094	2,137,786
Loans	32,308,158	35,026,024
Allowance for loan losses	(588,959)	(579,113)
Loans, net	31,719,199	34,446,911
Premises and equipment, net	1,743,878	1,787,018
Investment in Michigan BIDCO Inc.	629,258	629,258
Investment in Michigan Capital Fund LPI	381,243	456,244
Mortgage servicing rights, net	583,957	606,537
Real estate owned, net	722,638	200,000
Accounts receivable	168,305	862,848
Accrued interest receivable	166,782	229,417
Prepaid expenses	165,108	191,700
Goodwill, net	103,914	63,914
Other assets	167,529	65,045
TOTAL ASSETS	$ 43,693,529	$ 45,622,731

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UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets (continued)
September 30, 2002 (Unaudited) and December 31, 2001

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2002	December 31, 2001
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 1,373,334	$ 2,390,750
Demand - interest bearing	18,722,950	13,701,011
Savings	445,488	340,341
Time	19,078,926	23,765,478
Total Deposits	39,620,698	40,197,580
Short term borrowings	-	91,566
Long term borrowings	558,506	1,657,506
Accounts payable	196,189	339,536
Accrued interest payable	69,695	177,407
Other liabilities	117,089	117,398
Total Liabilities	40,562,177	42,580,993
Minority Interest	294,921	305,129
Stockholders' equity:		

Common stock, $0.01 par value; Authorized - 5,000,000 shares; Issued - 4012,732 shares in 2002 and 3,867,732 shares in 2001	40,127	38,677
Additional paid-in-capital	5,537,980	5,411,018
Accumulated deficit	(2,307,977)	(2,205,444)
Treasury stock - 115,184 shares in 2002 and 2001	(340,530)	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(93,169)	(167,112)
Total Stockholders' Equity	2,836,431	2,736,609
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 43,693,529	$ 45,622,731

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended September 30, 2002 and 2001
(Unaudited)

	For the Three Month Period Ended		For
	2002	2001	2002
Interest income:			
Interest and fees on loans	$ 740,087	$ 824,811	$ 2,144
Interest on securities:			
U.S. Government agencies	73,979	172,907	233
Other securities	23,047	15,507	72
Interest on federal funds and other	2,335	1,451	14
Total interest income	839,448	1,014,676	2,464
Interest expense:			
Interest on deposits:			
Demand deposits	86,172	93,272	232
Savings deposits	1,195	1,507	3
Time deposits	147,876	281,773	521
Short term borrowings	8,184	27,773	9
Long term borrowings	4,803	13,436	16
Total interest expense	248,230	417,761	783
Net interest income	591,218	596,916	1,681
Provision for loan losses	15,000	22,500	60
Net interest income after			

provision for loan losses	576,218	574,416	1,621
Other income:			
Loan origination and other fees	662,521	357,740	1,785
Loan servicing and subservicing fees	143,033	198,445	534
Gain on sale of mortgage loans	42,607	19,404	97
Merchant banking/ BIDCO income	-	-	
Insurance and investment fee income	28,888	16,896	78
Deposit service charges and fees	28,555	25,047	59
Net security gains (losses)	69,733	-	69
Other	44,537	21,605	107
Total other income	1,019,874	639,137	2,733

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended September 30, 2002 and 2001
(Unaudited)

	For the Three Month Period Ended		For
	2002	2001	2002
Other expenses:			
Salaries and benefits	$ 695,665	$ 793,519	$ 2,111
Legal and audit expense	42,652	15,034	122
Occupancy, net	83,473	99,971	266
Data processing and equipment Expense	107,373	52,851	323
Consulting fees	43,142	42,472	135
Advertising	7,216	28,775	46
Supplies and postage	43,103	78,480	140
Servicing rights amortization	142,589	225,550	410
Mortgage banking expense	102,338	28,470	402
Travel and entertainment	17,693	19,742	66
Insurance	23,507	19,392	65
Other operating expenses	129,988	13,747	366
Total other expenses	1,438,739	1,418,003	4,457
Income (loss) before income taxes	157,353	(204,450)	(102
Income tax expense (benefit)			
Net Income (loss)	$ 157,353	$ 204,450)	$ (10
Preferred stock dividends	17,950		
Net income (loss) available to common shareholders	$ 157,353	$ (222,400)	$ (1
Basic and diluted loss per common share	$ 0.09	$ (0.21)	$

Weighted average shares outstanding (adjusted for 1 for 2 reverse stock split)	1,937,769	1,046,156	1,9
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The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Periods Ended September 30, 2002 and 2001
(Unaudited)

	For the Three Month Period Ended		Fo
	2002	2001	200
Net income (loss)	$ 157,353	$ (204,450)	$ (10
Other comprehensive income (loss):			
Unrealized gains on securities available for sale	245,852	230,081	14
Less: reclassification adjustment for accumulated gains (losses) included in net income(loss)	69,733		6
	------------	------------	-------
Other comprehensive income, before tax effect	176,119	230,081	7
Income tax expense (benefit)			
Other comprehensive income, net of tax	176,119	230,081	7
	------------	------------	-------
Comprehensive income (loss)	$ 333,472	$ 25,631	$ (2
	============	============	=======

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the nine month periods ended September 30, 2002 and 2001
(Unaudited)

	2002	2001
Cash flow from operating activities:		
Net income (loss)	$ (102,533)	$ (122,667)
Adjustments to reconcile net income (loss) to net cash from Operating Activities:		
Depreciation	217,617	141,693
Amortization	485,699	326,945
Provision for loan losses	60,000	67,500
Net(gain) on mortgage loan sales	(97,610)	(30,860)

Net(accretion) on investment securities	(233,389)	(262,168)
Net(gain)on sale of securities available for Sale	(69,733)	-
Change in:		
Minority interest	(10,208)	16,851
Mortgage servicing rights	(388,118)	(190,960)
Real estate owned	(522,638)	66,736
Accounts receivable	694,543	1,130,148
Accounts payable	(143,347)	(808,506)
Accrued interest receivable	62,635	50,113
Accrued interest payable	(107,712)	(186,458)
Other assets	(115,892)	(30,335)
Other liabilities	(309)	(186,664)
Net cash(used in)operating activities	(270,995)	(18,632)
Cash flow from investing activities:		
Purchase of securities available for sale	(488,705)	-
Proceeds from sales of securities available for sale	1,034,160	-
Proceeds from maturities and pay downs of securities available for sale	236,929	472
Loans granted, net of repayments	3,226,014	(1,314,977)
Decrease in Investment in Michigan BIDCO, Inc.	-	380,157
Premises and equipment expenditures	(174,477)	(520,065)
Net cash provided by (used in)investing activities	3,833,921	(1,454,413)
Cash flow used in financing activities:		
Net increase (decrease)in deposits	(576,882)	1,412,720
Net(decrease)in short term borrowings	(91,566)	(706,491)
Principal payments on long term borrowings	(1,119,000)	(127,822)

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the nine month periods ended September 30, 2002 and 2001
(Unaudited)

	2002	2001
Issuance of long term borrowings	20,000	76,280
Issuance of preferred stock	-	537,000
Issuance of common stock	128,412	106,602
Net cash provided by (used in) financing activities	(1,639,036)	1,298,289
Net change in cash and cash equivalents	1,923,890	(174,756)
Cash and cash equivalents:		
Beginning of period	837,550	2,546,620
End of period	$ 2,761,440	$ 2,371,864

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 891,155	$ 1,659,033
Income taxes	$ -	$ -

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1) General

See Note 1 of Notes to Financial Statements incorporated by reference in the Company's 2001 Annual Report on Form 10-K for a summary of the Company's significant accounting policies.

The unaudited financial statements included herein were prepared from the books of the Company in accordance with generally accepted accounting principles and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's 2001 Annual Report on Form 10-K. The current interim periods reported herein are included in the fiscal year subject to independent audit at the end of the year.

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period as follows: 1,937,769 and 1,046,156 for the three months ended September 30, 2002 and 2001, respectively; 1,922,785 and 1,030,617 shares for the nine months ended September 30, 2002 and 2001, respectively. The weighted average number of common shares outstanding reflect the 1 for 2 reverse stock split approved by the shareholders at the annual meeting held October 25, 2002. Stock options are considered anti-dilutive for 2002 and 2001, therefore, are not included in earnings per share calculations.

(2) Investment Securities

The Bank's available-for-sale securities portfolio at September 30, 2002 had a net unrealized loss of approximately $93,000 as compared with a net unrealized loss of approximately $167,000 at December 31, 2001.

Securities available for sale at September 30, 2002:

($ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$ 1,922	$ -	$ (93)	$ 1,829
U.S Government Securities	26	-		26
	$ 1,948	$ -	$ (93)	$ 1,855

Securities available-for-sale at December 31, 2001

($ in thousands)	Gross	Gross

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$ 1,948	$ -	$ (111)	$ 1,837
U.S. Treasury	479	-	(56)	423
Total	$ 2,427	$ -	$ (167)	$ 2,260

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains certain forward-looking statements that reflect the Company's expectation or belief concerning future events that involve risks and uncertainties. Among others, certain forward looking statements relate to the continued growth of various aspects of the Company's community banking, merchant banking, mortgage banking and investment activities, and the nature and adequacy of allowances for loan losses. The Company can give no assurance that the expectations reflected in forward-looking statements will prove correct. Various factors could cause results to differ materially from the Company's expectations. Among these factors are those referred to in the introduction to the Company's Management Discussion and Analysis of Financial Condition and Results of Operations that appear as Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, which should be read in conjunction with this Report.

The above cautionary statement is for the purpose of qualifying for the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934.

SUMMARY

For the three months ended September 30, 2002, the Company had net income of $157,353 compared to a net loss of $204,450 for the three months ended September 30, 2001. Compared to the third quarter of 2001, substantial profits were realized at the Bank's Community Banking operations. Gains were realized in all areas of the Community Banking operation during the quarter, including decreased interest expense from higher core deposits, increased fee income from higher mortgage originations, higher fee income from product sales and account fees, and higher securities portfolio income. The Bank's subsidiary, Midwest Loan Services, was negatively impacted during the quarter by a $88,617 valuation allowance as of September 2002 for a decrease in the appraised value of Midwest's capitalized mortgage servicing. In the third quarter of 2001, the loss was principally the result of a $224,175 impairment charge to the value of Midwest Loan Services' mortgage servicing rights portfolio.

For the nine months ended September 30, 2002, a net loss of $102,533 was realized versus a net loss of $122,667 in the same period in 2001. A profit was realized at Community Banking versus the prior year loss. However, the decrease in the mortgage servicing rights valuation as of both June 30 and September 30, 2002 negated the improvements noted above for the nine-month period in 2002. Similarly, for the same period in 2001, the impairment charge against the mortgage servicing rights contributed significantly to the loss.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the three months ended September 30, 2002 and 2001 (in thousands):

Pre-tax income (loss) summary for the three and nine months ended September 30, 2002

	Three Months	Nine Months
Community Banking	$ 141	$ 19
Midwest Loan Services	13	(67)
Corporate Office	3	(55)
Total	$ 157	$ (103)

Pre-tax income (loss) summary for the three and nine months ended September 30, 2001:

	Three Months	Nine Months
Community Banking	$ 87	$(315)
Midwest Loan Services	(327)	274
Corporate Office	35	(82)
Total	$ (205)	$(123)

RESULTS OF OPERATIONS

Net Interest Income

Net interest income decreased slightly to $591,218 for the three months ended September 30, 2002 from $596,916 for the three months ended September 30, 2001. The yield on interest earning assets decreased from 10.17% in the 2001 period to 8.55% in the 2002 period. The cost of interest bearing liabilities decreased from 4.17% in the 2001 period to 2.57% in the 2002 period. Net interest income as a percentage of total average earning assets increased from 5.98% to 6.02% in 2002.

Net interest income increased to $1,681,856 for the nine months ended September 30, 2002 from $1,313,916 for the nine months ended September 30, 2001. Net interest income for the nine months in 2002 rose from the previous period because of a higher net yield on interest earning assets. The yield on interest earning assets decreased from 9.32% in the 2001 period to 8.36% in the 2002 period. The cost of interest bearing liabilities decreased from 4.93% for the 2001 period to 2.70% for the nine months ended September 30, 2002. The net yield on interest earning assets increased from 4.39% to 5.70%.

Interest income

Interest income decreased to $839,448 in the quarter ended September 30, 2002 from $1,014,677 in the quarter ended September 30, 2001. The average volume of interest earning assets decreased to $38,950,638 in the 2002 period from $40,033,601 in the 2001 period. The yield on interest bearing assets declined from 10.17% in 2001 to 8.55% in 2002. The decrease was due principally to a general decline in the yield of interest bearing assets responding to the declining rate environment. Additionally, in third quarter of 2001 the securities portfolio yielded 26.19% as compared with 11.11% in the same period in 2002. In 2001, the yield resulted from accelerated income recognized on a collateralized mortgage obligation. As interest rates declined, the expected duration period for this bond was shortened. The reduction in the expected duration period stimulated an accelerated accretion of the bond discount. The acceleration in the third quarter of 2001 was significantly higher than in the same period in 2002.

Interest income decreased to $2,464,725 in the nine months ended September 30, 2002 from $2,789,235 in the nine months ended September 30, 2001. The average volume of interest earning assets decreased to $39,434,253 in the

2002 period from $39,991,896 in the 2001 period. The overall yield on interest bearing assets decreased to 8.36% from 9.32%, in response to a declining interest rate during 2001 and 2002.

Interest Expense

Interest expense decreased to $248,230 in the three months ended September 30, 2002 from $417,761 in the 2001 period. The decrease was due to a drop in the yield in 2002 to 2.57% from 4.17% in 2001. The yield declined as the interest rate liabilities re-priced in the declining rate environment occurring in 2001 and 2002. Additionally, the lower interest expense was due to lower interest bearing liabilities. The average volume of interest bearing liabilities decreased to $38,251,051 in 2002 from $40,199,598 in 2001.

Interest expense decreased to $783,443 in the nine months ended September 30, 2002 from $1,475,320 in the 2001 period. The decrease was due to a lower yield on the interest rate liabilities and by a decrease in the volume of interest bearing liabilities. The yield dropped to 2.70% in 2002 from 4.93% in 2001. As rates dropped in 2001 and 2002, the liabilities re-priced at lower rates. The volume of interest rate liabilities decreased to $38,844,397 in 2002 from $40,014,903 in 2001.

AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following tables summarize average balances, revenues from earning assets, expenses of interest bearing liabilities, their associated yield or cost and the net return on earning assets for the three and nine months ended September 30, 2002 and 2001.

	Three Months Ended September 30, 2002			
	Average Balance	Interest Inc(Exp)	Average Yield (1)	Av Ba
Interest Earning Assets:				
Loans:				
Commercial	$18,035,906	$ 392,959	8.64%	$15
Real Estate	13,695,408	277,441	8.04%	16
Installment/Consumer	3,190,144	69,687	8.67%	4
Total Loans	34,921,458	740,087	8.41%	36
Investment Securities	3,464,893	97,026	11.11%	2
Federal Funds & Bank Deposits	564,287	2,335	1.64%	
Total Interest Bearing Assets	38,950,638	839,448	8.55%	40
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	5,985,391	16,175	1.07%	4
Savings	418,736	1,195	1.13%	
Time	17,458,042	147,876	3.36%	21
Money Market Accts	12,306,332	69,997	2.26%	10
Short-term borrowings	1,507,185	8,184	2.15%	2
Long-term borrowings	575,365	4,803	3.31%	

Total Interest Bearing Liabilities	38,251,051	248,230	2.57%	40
Net Earning Assets, net interest income, and interest rate spread	$ 699,587	$ 591,218	5.98%	$
Net yield on interest-earning assets			6.02%	

(1) Yield is annualized.

	Nine Months Ended September 30, 2002			Nin Sep
	Average Balance	Interest Inc(Exp)	Average Yield (1)	Ave Ba
Interest Earning Assets:				
Loans:				
Commercial	$17,991,436	$1,098,679	8.16%	
Real Estate	13,646,202	811,488	7.95%	
Installment/Consumer	3,375,221	234,668	9.30%	
Total Loans	35,012,859	2,144,835	8.19%	
Investment Securities	3,201,903	305,455	12.75%	
Federal Funds & Bank Deposits	1,219,491	14,435	1.58%	
Total Interest Bearing Assets	39,434,253	2,464,725	8.36%	
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	5,105,967	41,031	1.07%	
Savings	404,937	3,447	1.14%	
Time	20,387,702	521,514	3.42%	
Money Market Accts	11,717,429	191,553	2.19%	
Short-term borrowings	620,416	9,536	2.06%	
Long-term borrowings	607,946	16,362	3.60%	
Total Interest Bearing Liabilities	38,844,397	783,443	2.70%	
Net Earning Assets, net interest income, and interest rate spread	$ 589,856	$1,681,282	5.66%	
Net yield on interest-earning assets			5.70%	

(1) Yield is annualized.

Allowance for Loan Losses

The provision to the allowance for loan losses was $60,000 and $67,500 for the nine months period ended September 30, 2002 and 2001, respectively. Illustrated below is the activity within the allowance for the period ended September 30 2002 and 2001, respectively.

	2002	2001
Balance, January 1	$ 579,113	$ 562,997
Provision for loan losses	60,000	67,500
Loan charge-offs	(59,581)	(43,942)
Recoveries	9,427	17,312
Balance, September 30	$ 588,959	$ 603,867

	At September 30, 2002	At December 31, 2001
Total loans (1)	$32,308,158	$35,026,024
Reserve for loan losses	$588,959	$579,113
Reserve/Loans % (1)	1.82%	1.65%

The Bank's overall loan portfolio is geographically concentrated in Ann Arbor, Michigan and the future performance of these loans is dependent upon the performance of a relatively limited geographical area.

The following schedule summarizes the Company's non-performing assets for the periods indicated:

	At September 30, 2002	At December 31, 2001
Past due 90 days and over and still accruing (1):		
Real estate	$ 232,412	$ 276,654
Installment	13,970	24,194
Commercial	-	194,404
Subtotal	246,382	495,252
Nonaccrual loans (1):		
Real estate	167,026	770,024
Installment	-	-
Commercial	230,000	-
Subtotal	397,026	770,024
Other real estate owned	722,638	200,000
Total non-performing assets	$1,366,046	$1,465,276

	At September 30, 2002	At December 31, 2001
Ratio of non-performing assets to total loans (1)	4.23%	4.18%
Ratio of loans past due over 90 days and nonaccrual loans to loan loss reserve	109%	218%

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(1) Excludes loans held for sale which are valued at the lower of cost or fair market value.

During 2002, management directed lending personnel to focus on reducing delinquencies and act proactively in light of the recession. If the current economic slowdown persists, loan delinquencies would likely increase, negatively impacting net interest income.

Other real estate owned at September 30, 2002 and December 31, 2001 includes a commercial development site in Sault Ste. Marie, Michigan. The property is being carried at a value of $150,000. The Bank has a sales contract with a commercial developer who is planning a major development on the site. The transaction is expected to close in the first quarter of 2003. There is no assurance that a sale of the property will be consummated. The sales price is $300,015, net of all expenses. The remaining balance of $572,638 in other real estate owned at September 30, 2002 represents houses which are all expected to sale by the first quarter of 2003. Management anticipates a gain of $50,000 to $100,000 on the sale of these homes.

Economic conditions in the Bank's primary market area in Ann Arbor were strong during the period. Management believes that the current allowance for loan losses is adequate to absorb losses inherent in the loan portfolio, although the ultimate adequacy of the allowance is dependent upon future economic factors beyond the Company's control. A downturn in the general nationwide economy will tend to aggravate, for example, the problems of local loan customers currently facing some difficulties, and could decrease residential home prices. A general nationwide business expansion could conversely tend to diminish the severity of any such difficulties.

Non-Interest Income

Total non-interest income increased to $1,019,874 for the three months ended September 30, 2002 from $639,137 for the three months ended September 30,2001. The significant increase was primarily due to increased loan origination and other fees. During the third quarter of 2002, the low mortgage rates generated significant activity in the mortgage re-financing category. Income generated from this activity was significantly higher than in the third quarter of 2001. Midwest has been increasing its emphasis on mortgage loan originations through its credit union customers. In the first quarter of 2001, Midwest originated an average of 26 loans per month. This has increased to an average of 150 loans per month.

Total non-interest income decreased to $2,733,631 for the nine months ended September 30, 2002 from $3,248,181 for the nine months ended September 30, 2001. The decrease was principally a result of a decrease in loan sub-servicing fee income at Midwest Loan Services. During the second quarter of 2001, Midwest's largest customer, the mortgage division of one of the top five mortgage firms on Wall Street, decided to significantly scale back the amount of business it was providing to Midwest. As of July 1, 2001, 18,500 loans or 95% of the mortgages sub-serviced by Midwest for this customer had been transferred to other sub-servicers including a subsidiary of this Wall Street firm. As of September 30, 2002, Midwest was sub-servicing approximately 6,475 loans versus about 5,000 at December 31, 2001. Midwest anticipates that it will be subservicing over 10,000 loans effective January 2, 2003.

Non-Interest Expense

Non-interest expense increased slightly to $1,438,739 in the three months ended September 30, 2002 from $1,418,003 for the three months ended September 30, 2001. Comparing the 2002 period to 2001, increase costs related to the mortgage banking activity and charges related to other real estate owned slightly exceeded a general decline in expenses at the Bank and Midwest.

At September 30, 2002, the Bank and Midwest owned the rights to service mortgages for Freddie Mac, Fannie Mae and other institutions, most of which was owned by Midwest, an 80% owned subsidiary of the Bank. The value of mortgages serviced for these institutions was approximately $79 million. The carrying value of these servicing rights was $583,957 at September 30, 2002. Based on recent comparable sales and indications of market value from industry brokers, management believes that the current market value of the mortgage servicing rights portfolio approximates cost. Market interest rate conditions can quickly affect the value of mortgage servicing rights in a positive or negative fashion, as long-term interest rates rise and fall. The amortization of these rights is based upon the level of principal pay downs received and expected prepayments of the mortgage loans. The amortization expense for the three-month period ended September 30, 2002 was $142,589 down from an expense of $225,550 in 2001. For the nine months in 2002, Midwest has taken special provisions of $275,721 to write down the servicing rights as a result of the decrease in long term interest rates to 40 year lows.

Non-interest expense decreased to $4,457,446 in the nine months ended September 30, 2002 from $4,617,264 for the nine months ended September 30, 2001. The decrease was primarily the result of decreased operating expenses at Midwest Loan Services as well as cost control efforts in other areas at the Community Banking operation. The increase in servicing rights amortization was due to market conditions as noted above. Relatedly, the mortgage banking expense increased for the nine month period in 2002 over the same period last year as a result of a significant increase in mortgage originations.

Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At September 30, 2002, the Bank was considered "well-capitalized".

(in 000)	Total	Items Not Subject To Risk Weighting	Allocat		
			0%	20%	5
Total Bank assets	$43,608	(520)	233	3,906	13
Risk Weighted Assets	34,156		-	781	6
Less: Excess allowance for loan losses	162				
Total risk-weighted assets	$33,994				
Average total Bank assets for leverage capital purposes	$43,780				

Tier 1 Capital	Balance
Total Bank equity capital	$2,950
Less: Net unrealized losses on available for sale securities	(93)
Plus: Qualifying minority interest in consolidated subsidiaries	295
Less: Disallowed goodwill and servicing assets	162
Total Tier 1 Capital	3,176
Tier 2 Capital	
llowance for loans & lease losses (net of excess A above 1.25% of loans)	427
Total Tier 2 Capital	427
Total Tier 1 & Tier 2 Capital	$3,603
Capital Ratios	
Tier 1/Total Assets	7.25%
Tier 1 /Total Risk-Weighted Assets	9.34%
Tier 1 & 2/Total Risk-Weighted Assets	10.60%

Liquidity

Bank Liquidity. The Bank's primary sources of liquidity are customer deposits, scheduled amortization and prepayments of loan principal, cash flow from operations, maturities of various investments, borrowings from correspondent lenders secured by securities, residential mortgage loans and/or commercial loans. In addition, the Bank invests in overnight federal funds. At September 30, 2002, the Bank had cash and cash equivalents of $2,761,440. The Bank has a line of credit for $4.0 million from the Federal Home Loan Bank of Indianapolis secured by investment securities and residential mortgage loans and a line of credit for $4.9 million from the Federal Reserve Bank of Chicago secured by commercial loans. In order to bolster liquidity from time to time,

the Bank also sells brokered time deposits. At September 30, 2002, the Bank had $9.9 million of these deposits outstanding.

Bancorp Liquidity. In an effort to maintain the Bank's Tier 1 capital to assets ratio above 7% and to increase capital through retained earnings, management does not expect that the Bank will pay dividends to the Company during 2002 or 2003. At September 30, 2002, the Bank's Tier 1 capital was 7.25%.

At September 30, 2002, $331,000 was payable to another financial institution as compared to $463,000 at September 30, 2001. Long-term borrowings at September 30, 2002 and 2001 also includes $227,506 of a note payable to another financial institution with respect to a low-income housing partnership investment by University Insurance and Investment Services.

Long-term borrowings at September 30, 2001 also included $184,082 of equity conversion notes of the Company that were redeemed by the Company in late 2001.

Impact of Inflation

The primary impact of inflation on the Company's operations is reflected in increased operating costs. Since the assets and liabilities of the Company are primarily monetary in nature, changes in interest rates have a more significant impact on the Company's performance than the general effects of inflation. However, to the extent that inflation affects interest rates, it also affects the net income of the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

All financial institutions are significantly affected by fluctuations in interest rates commonly referred to as "interest rate risk." The principal exposure of a financial institution's earnings to interest rate risk is the difference in time between interest rate adjustments or maturities on interest-earning assets compared to the time between interest rate adjustments or maturities on interest-bearing liabilities. Such difference is commonly referred to as a financial institution's "gap position." In periods when interest rates are increasing, a negative gap position will result in generally lower earnings as long-term assets are re-pricing upward slower than short-term liabilities. However during a declining rate environment, the opposite effect on earnings is true, with earnings rising due to long-term assets re-pricing downward slower than short-term liabilities.

Rising long term and short term interest rates tend to increase the value of Midwest Loan Services' investment in mortgage servicing rights and improve Midwest Loan Services' current return on such rights by lowering required amortization rates on the rights. Rising interest rates tends to decrease new mortgage origination activity, negatively impacting current income from the retail mortgage banking operations of the Bank and Midwest Loan Services. Rising interest rates also slow Midwest Loan Services' rate of growth, but increases the duration of its existing sub-servicing contracts.

Falling long term and short term interest rates tend to decrease the value of Midwest Loan Services' investment in mortgage servicing rights and decrease Midwest Loan Services' current return on such rights by increasing prepayments, by increasing amortization rates on the rights, and in some cases, by impairment of the rights. Falling interest rates tends to increase new mortgage origination activity, positively impacting current income from the retail mortgage banking operations of the Bank and Midwest Loan Services. Falling interest rates also increases Midwest Loan Services' rate of growth of new subservicing contracts, but decreases the duration of its existing sub-servicing contracts.

The Bank performs a static gap analysis that has limited value as a simulation because of competitive and other influences that are beyond the control of the Bank. The table on the following page details the Bank's interest sensitivity gap between interest-earning assets and interest-bearing liabilities at September 30, 2002. The table is based upon various assumptions of management that may not necessarily reflect future experience. As a result, certain assets and liabilities indicated in the table as maturing or re-pricing within a stated period may, in fact, mature or re-price in other periods or at different volumes. The one-year static gap position at September 30, 2002 was estimated to be ($9,365,000) or (21.48)%.

UNIVERSITY BANK
Asset/Liability Position Analysis as of September 30, 2002
(Dollar amount in Thousand's)

	Maturing or Re-pricing in			
	3 Months	91 Days to	1 - 3	3 - 5

ASSETS	Or Less	1 Year	Years	Years
Loans - Net	$11,428	$2,510	$3,429	12,924
Non-Accrual Loans		-	-	-
Securities	240	1000	615	-
Other Assets	-	600	-	-
Cash and Due from Banks	1424	-	-	-
TOTAL ASSETS	13,092	4,110	4,044	12,924
LIABILITIES				
CD's under $100,000	5,907	6,795	3,042	587
CD's over $100,000	310	1,049	890	100
MMDA	6,139	6,139	-	-
NOW	-	-	6,445	-
Demand and Escrow	-	-		-
Savings	-	-	445	-
Other Borrowings	-	228		-
Other Liabilities	-			-
Equity	-	-	-	-
TOTAL LIABILITIES	12,356	14,211	10,822	687
GAP	736	(10,101)	(6,778)	12,237
CUMULATIVE GAP	$736	$(9,365)	$16,143)	$3,906)
GAP PERCENTAGE	1.69%	-21.48%	-37.02%	-8.96%

PART II OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries is party or to which any of their properties are subject.

Item 4. Submission of Matters to a Vote of the Security-Holders

On October 25, 2002, the 2002 Annual Meeting of Stockholders of the Company was held. The following is a brief description of the matters voted upon at the meeting and tabulation of the voting therefor:

1. Election of seven directors to serve until the next Annual Meeting of Stockholders:

	Number of Votes	
Nominee	For	Withheld
Gary Baker	2,191,189	2,051

Robert Goldthrope	2,191,489	1,751
Joseph L Ranzini	2,191,156	2,084
Dr. Joseph L. Ranzini	2,191,156	2,084
Paul L. Ranzini	2,191,156	2,084
Stephen L. Ranzini	2,191,156	2,084
Michael Talley	2,191,564	1,676

There were no broker non-votes with respect to the election of directors.

2. The proposal to an amendment to University Bancorp's Amended and Restated Certificate of Incorporation effecting a 1-for-2 reverse split of University Bancorp's common stock was approved with 2,161,203 votes cast for, 11,926 votes cast withheld, 20,011 votes abstained and 0 broker non-votes.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

1. Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIVERSITY BANCORP, INC.

November 14, 2002

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President

November 14, 2002

/s/ Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

Exhibit 1

CERTIFICATION PURSUANT TO 18 U.S.C.SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Nicholas K. Fortson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of University Bancorp, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 14, 2002

/s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer