UNIVERSITY BANCORP INC /DE/
Form 10-Q
August 14, 2003
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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 June 30, 2003

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 July 31, 2003 3,914,548 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
Item 1.- Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2003 (Unaudited) and December 31, 2002

ASSETS	June 30, 2003	December 31, 2002
Cash and due from banks	$ 1,916,568	$ 2,569,469
Securities available for sale, at market	2,300,372	3,102,838
Federal Home Loan Bank Stock	859,600	848,400
Loans held for sale, at the lower of cost or market	1,538,171	1,550,995
Loans	32,522,788	33,192,034
Allowance for loan losses	(460,165)	(408,219)
Loans, net	32,062,623	32,783,815
Premises and equipment, net	815,013	1,720,902
Investment in Michigan BIDCO Inc.	629,258	629,258
Investment in Michigan Capital Fund LPI	306,244	356,244
Mortgage servicing rights, net	957,379	1,014,939
Real estate owned, net	680,218	853,198
Accounts receivable	48,641	72,786
Accrued interest receivable	104,336	169,811
Prepaid expenses	182,616	214,472
Goodwill, net	103,914	103,914
Other assets	464,534	258,272
TOTAL ASSETS	$ 42,969,487	$ 46,249,313

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UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets (continued)
June 30, 2003 (Unaudited) and December 31, 2002

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2003	December 31, 2002
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 1,775,007	$ 2,197,567
Demand - interest bearing	22,756,254	21,051,588
Savings	366,231	473,894
Time	12,335,240	18,197,407
Total Deposits	37,232,732	41,920,456
Short term borrowings	991,000	0
Long term borrowings	232,000	298,000
Accounts payable	290,610	228,062
Accrued interest payable	60,464	97,068
Other liabilities	444,586	189,594
Total Liabilities	39,251,392	42,733,180
Minority Interest	415,357	360,166
Stockholders' equity:		
Common stock, $0.01 par value;		

Authorized - 5,000,000 shares;		
Issued - 4,014,732 shares in 2003 and 2002	40,147	40,147
Additional paid-in-capital	5,537,960	5,537,960
Accumulated deficit	(1,912,123)	(1,999,846)
Treasury stock - 115,184 shares in 2003 and 2002	(340,530)	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(22,716)	(81,764)
Total Stockholders' Equity	3,302,738	3,155,967
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 42,969,487	$ 46,249,313

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 June 30, 2003 and 2002
(Unaudited)

	For the Three Month Period Ended	
	2003	2002
Interest income:		
Interest and fees on loans	$ 628,429	$ 659,319
Interest on securities:		
U.S. Government agencies	28,047	148,106
Other securities	21,267	23,445
Interest on federal funds and other	3,168	6,861
Total interest income	680,911	837,731
Interest expense:		
Interest on deposits:		
Demand deposits	97,214	79,131
Savings deposits	1,152	1,163
Time deposits	115,393	165,878
Short term borrowings	1,391	311
Long term borrowings	3,294	5,691
Total interest expense	218,444	252,174
Net interest income	462,467	585,557
Provision for loan losses	38,500	22,500
Net interest income after provision for loan losses	423,967	563,057

Other income:		
Loan servicing and sub-servicing fees	232,682	133,066
Initial loan set up and other fees	1,068,109	470,929
Gain on sale of mortgage loans	304,808	20,119
Insurance and investment fee income	33,490	20,550
Deposit service charges and fees	29,314	15,522
Other	27,451	21,928
Total other income	1,695,854	682,114

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended June 30, 2003 and 2002
(Unaudited)

	For the Three Month Period Ended	
	2003	2002
Other expenses:		
Salaries and benefits	$ 826,760	$ 692,375
Occupancy, net	89,438	92,338
Data processing and equipment Expense	115,642	106,654
Legal and audit expense	40,597	42,001
Consulting fees	33,319	41,392
Mortgage banking expense	219,198	120,595
Servicing rights amortization	451,842	218,670
Advertising	33,990	21,822
Memberships and training	26,046	26,228
Travel and entertainment	33,001	31,539
Supplies and postage	58,290	48,508
Insurance	24,080	21,566
Other operating expenses	153,146	19,405
Total other expenses	2,105,349	1,483,093
Income (loss) before income taxes	14,472	(237,922)
Income tax expense (benefit)	-	-
Net Income (loss)	$ 14,472	$ (237,922)
Preferred stock dividends		
Net income (loss) available to common shareholders	$ 14,472	$ (237,922)
Basic and diluted loss per common share	$ 0.00	$ (0.06)

Weighted average shares outstanding	3,899,548	3,850,130

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 June 30, 2003 and 2002
(Unaudited)

	For the Three Month Period Ended	
	2003	2002
Net income (loss)	$ 14,472	($237,922)
Other comprehensive income(loss):		
Unrealized gains (losses) on securities available for sale	42,134	62,993
Less: reclassification adjustment for accumulated (losses)/gains included in net loss	-	-
Other comprehensive income (loss), before tax effect	42,134	62,993
Income tax expense (benefit)	-	-
Other comprehensive income (loss), net Of tax	42,134	62,993
Comprehensive income (loss)	$ 56,606	($174,929)

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash
Flows For the six month periods ended June 30, 2003 and 2002

Cash flow from operating activities:

Net income(loss)	$
Adjustments to reconcile net income (loss) to net cash from Operating Activities:	
Depreciation	
Amortization	
Provision for loan losses	
Net (gain) on mortgage loan sales	
Net (accretion) on investment securities	
Met loss on sale of securities	
Originations of mortgage loans	
Proceeds from mortgage loan sales	
Change in:	
Real estate owned	
Other assets	
Other liabilities	

Net cash (used in) provided by operating activities	

Cash flow from investing activities:	
Purchase of investment securities	
Proceeds from maturities and pay downs of securities available for sale	
Net repayments of loans	
Proceeds from sales of investment securities	
Premises and equipment expenditures	
Proceeds from sale of premises	

Net cash provided by (used in) investing activities	

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the six month periods ended June 30, 2003 and 2002

Cash flow used in financing activities:	
Net (decrease) increase in deposits	(4
Net increase (decrease) in short term borrowings	
Principal payments on long term borrowings	
Issuance of long term borrowings	-
Issuance of common stock	

Net cash used in financing activities	(3

Net change in cash and cash equivalents Cash and cash equivalents:	

Beginning of period	2
End of period	$ 1
Supplemental disclosure of cash flow information:	
Cash paid for interest	$

See accompanying notes to consolidated financial statements (unaudited).

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

(1) General

See Note 1 of the Financial Statements incorporated by reference in the Company's 2002 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 2002 Annual Report on Form 10-K.

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period as follows: 3,899,548 and 3,850,130 for the three months ended June 30, 2003 and 2002, respectively; 3,899,548 and 3,830,338 shares for the six months ended June 30, 2003 and 2002, respectively

(2) Investment Securities

The Bank's available-for-sale securities portfolio at June 30, 2003 had a net unrealized loss of approximately $22,000 as compared with a net unrealized loss of approximately $82,000 at December 31, 2002.

Securities available for sale at June 30, 2003:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fa Va
U.S. agency mortgage-backed	$ 2,322	$ 0	$ (22)	$ 2

Securities available for sale at December 31, 2002

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	F V

U.S. agency mortgage-backed	$ 3,185	$ 0	$ (82)	$ 3

(3) Stock options

At June 30, 2003, the Company has a stock-based employee compensation plan. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant. As new options granted were only 10,000 and 75,000 during the six month period ended June 30, 2003 and 2002, the effect on net income (loss) and earnings (loss) per share if the Corporation had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148, to stock-based employee compensation was less than $.01 in each of the periods presented.

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, 2002, 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 June 30, 2003, we had net income of $14,472 compared to a net loss of $237,922 for the three months ended June 30, 2002. In both periods, our income was negatively impacted by impairment write downs on the mortgage servicing rights portfolio of our 80%-owned subsidiary, Midwest Loan Services. However, in 2003 the write down was more than offset by income generated from the high volume of mortgage refinancing which was stimulated by 45-year low mortgage rates. Community Banking improved its results, with a profit of $10,000 from a loss of $21,000 in the prior period.

Our net income for the first half of 2003 was $87,723, versus a net loss of $259,886 for the same period last year. Community Banking incurred a loss of $127,000 during the current year's first half as opposed to a loss of $122,000 from the year before. Compared to the first half of 2002, profits at the Bank's subsidiary, Midwest Loan Services, increased to $276,000 in 2003 from a loss of $80,000 last year. Income at Midwest Loan Services increased with rapidly increasing mortgage originations and mortgage loans sub-serviced.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the three months ended June 30, 2003 and 2002 (in thousands):

Pre-tax income (loss) summary for the three and six months ended June 30, 2003

	Three Months	Six Months
Community Banking	$ 10	$ (127)
Midwest Loan Services	36	276
Corporate Office	(31)	(61)
Total	$ 15	$ 88

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

	Three Months	Six Months
Community Banking	$ (21)	$ (122)
Midwest Loan Services	(183)	(80)
Corporate Office	(34)	(58)
Total	$ (238)	$ (260)

RECENT EVENTS

Subsequent to June 30, 2003, Community Banking completed the sale of the Easterday property in Sault Ste. Marie, Michigan, carried on its books as real estate owned, for a profit of $150,015 versus a carrying cost of $150,000. In addition, the bank entered into sales contracts covering each of the two remaining residential properties that made up the balance of the real estate owned account, with no material net gain or loss from the two sales, which sales are scheduled to close prior to August 15, 2003.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income decreased to 462,467 for the three months ended June 30, 2003 from $585,557 for the three months ended June 30, 2002. Net interest income decline from last year primarily as a result of a lower discount accretions from a U.S Government agency bond. In 2002, rates dropped and the duration period for the bond was shortened causing an acceleration of accreted income. The yield on earning assets decreased from 8.43% to 6.99% while the cost of earning liabilities declined from 2.58% to 2.30%. Overall, the net interest income as a percentage of total average earning assets decreased from 5.90% to 4.74%.

Net interest income decreased to $929,915 for the six months ended June 30, 2003 from $1,090,064 for the six months ended June 30, 2002. Net interest income declined from a year ago primarily as a result of lower bond income as noted above. The yield on interest earning assets decreased from 8.17% in the 2001 period to 6.97% in the 2003 period. The cost of interest bearing liabilities decreased from 2.76% for the 2002 period to 2.30% for the period ended June 30, 2003. Net interest income as a percentage of total average earning assets decreased from 5.48% to 4.71%.

Interest income

Interest income decreased to $680,911 in the quarter ended June 30, 2003 from $837,731 in the quarter ended June 30, 2002. The decline resulted from a lower average yield on average earning assets as well as a decline in average earning assets. The average volume of interest earning assets declined to $39,095,202 in the 2003 period from $39,840,081 in the 2002 period. The yield on interest bearing assets declined from 8.43% in 2002 to 6.99% in 2003. The decrease was due to lower income earned on the securities portfolio. During the second quarter of 2002, this portfolio yielded a rate of 18.93%. The yield resulted from accelerated income recognized on a principal-only collateralized mortgage obligation that began to pay down during the quarter, as a result of the drop in long-term interest rates. As the interest rates declined, the expected duration period for this bond was shortened. The decrease in average expected duration stimulated an accelerated accretion of the bond discount. During the 2003 period, the yield on the investment securities was 4.98%

Interest income decreased to $1,375,771 in the six months ended June 30, 2003 from $1,625,277 in the six months ended June 30, 2002. This decrease resulted from a decline in average earning assets and the yield on average earning assets. The average volume of interest earning assets decreased to $39,783,764 in the 2003 period from $40,124,970 in the 2002 period. The overall yield on earning assets declined to 6.97% from 8.17%. The yield on the investment securities declined to 5.23% in 2003 from 11.46% in 2002 due the accelerated income on the bond described above.

Interest Expense

Interest expense decreased to $218,444 in the three months ended June 30, 2003 from $252,174 in the 2002 period. The decrease was due to a drop in the yield in 2003 to 2.30% from 2.58% in 2002, a decline in interest bearing liabilities and a favorable shift in the mix of deposits. The yield declined as the interest rate liabilities re-priced in the declining rate environment throughout 2001. The average volume of interest bearing liabilities decreased to $38,047,180 in 2003 from $39,263,061 in 2002. During the second quarter of 2003, lower cost average demand deposits and money market accounts represented 57% of average interest bearing liabilities as compared with 44% for the same period in 2002.

Interest expense decreased to $445,856 in the six months ended June 30, 2003 from $535,213 in the 2002 period. The decrease was due to a lower yield on the interest rate liabilities, a decrease in volume, and a favorable shift in the mix of deposits. The yield dropped to 2.30% in 2003 from 2.76% in 2002. The volume of interest rate liabilities decreased slightly to $39,027,977 in 2003 from $39,154,375 in 2002. The decrease in volume primarily occurred in time deposits, particularly brokered deposits, and short-term borrowings. The decline in these liabilities was offset by a rise in other interest bearing liabilities and non-interest bearing demand deposits. These liabilities typically have lower rates than brokered deposits.

MONTHLY AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following table summarizes monthly 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 months and six months ended June 30, 2003 and 2002.

	Three Months Ended	Three Mo
	June 30, 2003	

	Average Balance	Interest Inc / Exp	Average Yield (1)	Avera Balan
Interest Earning Assets:				
Commercial Loans	$ 18,589,768	$366,056	7.90%	$ 18,211
Real Estate Loans	13,259,140	220,402	6.67%	13,011
Installment/Consumer Loans	2,307,156	41,971	7.30%	3,374
Total Loans	34,156,064	628,429	7.38%	34,597
Investment Securities	3,970,355	49,314	4.98%	3,635
Fed. Funds & Bank Deposits	968,783	3,168	1.31%	1,607
Total Interest Bearing Assets	39,095,202	680,911	6.99%	39,840
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	5,947,844	14,166	0.96%	5,492
Savings	404,971	1,152	1.14%	406
Time	15,187,310	115,393	3.05%	20,696
Money Market	15,813,101	83,048	2.11%	11,970
Short-term Borrowings	445,454	1,391	1.25%	72
Long-term Borrowings	248,500	3,294	5.32%	624
Total Interest Bearing Liabilities	38,047,180	218,444	2.30%	39,263
Net Earning Assets, net interest income, and interest rate spread	$ 1,048,022	$462,467	4.69%	$577
Net Interest Margin			4.74%	

(1) Yield is annualized.

	Six Months Ended June 30, 2003			Six
	Average Balance	Interest Inc (Exp)	Average Yield (1)	Aver Bala
Interest Earning Assets:				
Loans:				
Commercial	$18,792,771	$724,043	7.77%	$1
Real Estate	13,201,950	438,339	6.70%	1

Installment/Consumer	2,243,975	97,386	8.75%	
Total Loans	34,238,696	1,259,768	7.42%	3
Investment Securities	4,157,432	107,848	5.23%	
Federal Funds & Bank Deposits	1,387,636	8,155	1.19%	
Total Interest Bearing Assets	39,783,764	1,375,771	6.97%	4
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	6,251,254	26,060	0.84%	
Savings	432,052	2,433	1.14%	
Time	16,336,457	246,460	3.04%	2
Money Market	15,512,628	162,660	2.11%	1
Short-term borrowings	230,586	1,391	1.22%	
Long-term borrowings	265,000	6,852	5.21%	
Total Interest Bearing Liabilities	39,027,977	445,856	2.30%	3
Net Earning Assets, net interest income, and interest rate spread	$ 755,787	$929,915	4.67%	
Net yield on interest-earning assets			4.71%	

(1) Yield is annualized.

Allowance for Loan Losses

The provision to the allowance for loan losses was $144,400 for the six-month period ended June 30, 2003 and $45,000 for the same period in 2002. The provision was increased to reflect higher delinquencies in the loan portfolio and related charge offs. Net charge-offs totaled $92,454 for the six-month period ended June 30, 2003 as compared to $54,466 for the same period in 2002. Illustrated below is the activity within the allowance for the six-month period ended June 30 2003 and 2002, respectively.

	2003	2002
Balance, January 1	$ 408,219	$ 579,113
Provision for loan losses	144,400	45,000
Loan charge-offs	(129,969)	(59,581)
Recoveries	37,515	5,115
Balance, June 30	$ 460,165	$ 569,647

	At June 30, 2003	At December 31, 2002
Total loans (1)	$32,522,788	$33,192,034
Reserve for loan losses	$460,165	$ 408,219
Reserve/Loans % (1)	1.41%	1.23%

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 this relatively limited geographical area.

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

	At June 30, 2003	At December 31, 2002
Past due 90 days and over and still accruing (1):		
Real estate	$ -	$ -
Installment	-	-
Commercial	-	-
Subtotal	-	-
Nonaccrual loans (1):		
Real estate (including commercial real estate)	1,105,553	102,713
Installment	0	67,546
Commercial	307,507	509,301
Subtotal	1,413,060	679,560
Other real estate owned	680,218	853,198
Total non-performing assets	$2,093,273	$1,532,758

	At June 30, 2003	At December 31, 2002
Ratio of non-performing assets to total loans (1)	6.44%	4.62%
Ratio of loans past due over 90 days and nonaccrual loans to loan loss reserve	307%	166%

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

Other real estate owned at June 30, 2003 and December 31, 2002 includes a commercial development site in Sault Ste. Marie, Michigan. The property is being carried at a value of $150,000. Subsequent to June 30, 2003, Community Banking sold the property for $300,000. At June 30, 2003, the remaining balance of $530,218 consists of two single-family houses, both of which are under a contract of sale to close by August 15, 2003.

Non-accrual loans at June 30, 2003 include two large real estate secured loan relationships in the amount of $870,708 that are in process of foreclosure. Management believes that Community Banking is adequately secured with regard to all of the delinquent real estate loans on non-accrual at June 30, 2003.

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 $1,695,854 for the three months ended June 30, 2003 from $682,114 for the three months ended June 30,2002. The increase was primarily due to higher mortgage loan origination activity. In 2003, the rates on mortgages were historically low and this spurred an increase in the re-financing market. Management at the Bank and Midwest aggressively pursued this activity and was able to increase income from initial loan set up and other fess and gain on the sale of mortgage loans.

In June 2003, Community Banking completed the sale of its headquarters to a development group that intends to construct a $125 million mixed-use community in the Lowertown area of Ann Arbor. Community Banking is leasing its headquarters until its new building is constructed. Community Banking realized a gain of $343,000 on the sale, which gain is being deferred over the next two years, the estimated term of the lease. Under the terms of the deal, Community Banking will purchase 10,000 ft2 in the new complex for $200,000 less than the lower of fair market value or cost, capped to a purchase price of $1,800,000 based on a cost or fair market value of $2,000,000. The new headquarters, which is in a better, more visible location in the same general neighborhood of its existing headquarters, is anticipated to be ready for occupancy in December 2004.

Total non-interest income increased to $3,017,830 for the six months ended June 30, 2003 from $1,713,757 for the six months ended June 30, 2002. The increase was principally a result of increases in loan origination, loan sub-servicing fee income, and gain on the sale of mortgage loans at Midwest Loan Services.

At June 30, 2003, Midwest was subservicing 12,632 mortgages, an increase of 51% from 8,372 mortgages at December 31, 2002. During the first half of 2003, Midwest originated 519 mortgages, an increase of 93% from mortgages originated in the first half of 2002.

Subsequent to June 30, 2003, long-term interest rates rose substantially. This rise would tend to increase the value of mortgage servicing rights and decrease current mortgage loan origination activity.

Non-Interest Expense

Non-interest expense increased to $2,105,349 in the three months ended June 30, 2003 from $1,483,093 for the three months ended June 30, 2002. The increase was due principally to increases in costs related to high mortgage origination activity. Salaries and benefits, mortgage banking expense, amortization of servicing rights and other operating expenses increased in relationship to activity spurred by a low mortgage rate environment. Servicing rights amortization increased to $451,842 during the three-month period ended June 30, 2003 from $218,670 in the same period in 2002. The increase results from an impairment write down and higher amortizations impacted by a high level of loan principal pay offs due to loan refinancing activity.

At June 30 2003, 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, which is an 80%-owned subsidiary of the Bank. The value of mortgages serviced for these institutions was approximately $96 million. The carrying value of these servicing rights was $957,379 at June 30, 2003. Based on recent comparable sales and indications of fair value from industry brokers, management believes that the current fair value of the mortgage servicing rights portfolio approximates carrying value. 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.

Non-interest expense increased to $3,715,621 in the six months ended June 30, 2003 from $3,018,707 for the six months ended June 30, 2002. The increase was primarily the result of increased operating expenses at Midwest Loan Services resulting from high mortgage origination activity.

Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At June 30, 2003, the Bank was considered "well-capitalized".

	June 30, 2003 (in $000s)
TIER 1 CAPITAL	
Total Equity Capital	$3,519
Less: Unrealized losses on available-for-Sale Securities	(22)
Plus: Minority Interest	415
Less: Other identifiable Intangible Assets	200
Total Tier 1 Capital	3,756
TIER 2 CAPITAL	
Allowance for loans & Lease losses	414
Less: Excess Allowance	-
Total Tier 2 Capital	414
Total Tier 1 & Tier 2 Capital	$4,170
CAPITAL RATIOS	
Tier 1/Total Average Assets of $43,747	8.59%
Tier 1/Total Risk-Weighted Assets of $33,058	11.36%
Tier 1 & 2/Total Risk-Weighted Assets of $33,058	12.61%

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 June 30, 2003, the Bank had cash and cash equivalents of $1,916,568. The Bank's lines of credit include the following:

- $3.5 million from the Federal Home Loan Bank of Indianapolis secured by investment securities and residential mortgage loans,
- $5.2 million from the Federal Reserve Bank of Chicago secured by commercial loans, and
- $775,000 unsecured line of credit from Great Lakes Bankers Bank.

In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At June 30, 2003, the Bank had $2.1 million of these deposits outstanding.

Bancorp Liquidity. In an effort to increase the Bank's Tier 1 capital to assets ratio through retained earnings, management does not expect that the Bank will pay dividends to the Company during the balance of 2003. Management intends to increase Bancorp's working capital through the exercise of maturing stock options, and the issuance of additional shares of common stock.

At June 30, 2003, $232,000 was payable to another financial institution as compared to $397,000 at June 30, 2002. Long-term borrowings at June 30, 2002 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. This obligation was paid in full by the end of 2002. At June 30, 2003, Bancorp had $10,000 in cash and investments on hand to meet its working capital needs.

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 repricing 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 repricing 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 subservicing 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 June 30, 2003. 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 June 30, 2003 was estimated to be ($12,124,000) or -28.22%.

In addition, management prepares an estimate of sensitivity to immediate changes in short term interest rates. At June 30, 2003, the following impact was estimated on net interest margin in the 12 months following an immediate movement of interest rates:

Rate Change	Effect on Net Interest Margin (% Change)	($ Change)
-1.00%	3.22%	$56,000
+1.00%	-2.77%	($48,000)
+3.00%	-8.30%	($145,000)

A negative 3% change in short-term interest rates is not possible, because the current Fed Funds target rate is set at 1%.

UNIVERSITY BANK
Asset/Liability Position Analysis as of June 30, 2003
(Dollar amounts in thousand's)
Maturing or Repricing in

ASSETS	3 Mos or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years	O
Loans - Net	$8,719	$2,893	$3,160	$12,378	$
Non-Accrual Loans		-	-	-	
Securities	460	1,215	-	-	
Other Assets	-	600	-	-	
Cash and Due from Banks	47	-	-	-	
TOTAL ASSETS	9,226	4,708	3,160	12,378	
LIABILITIES					
Time deposits	3,435	4,916	2,908	501	
Demand -interest bearing	8,292	8,292	6,172	-	
Demand - non interest	-	-		-	
Savings	-	-	366	-	
Long term borrowings	1,024	99	100	-	
Other Liabilities	-	-	-	-	
Equity	-	-	-	-	
TOTAL LIABILITIES	12,751	13,307	9,546	501	
Gap	(3,525)	(8,599)	(6,386)	11,877	
Cumulative gap	($3,525)	($12,124)	($18,510)	($6,633)	($
Gap percentage	-8.20%	-28.22%	-43.08%	-15.44%	

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 5. Other information

Parent Company Financial Information

Certain financial information with respect to University Bancorp, Inc. is presented on pages 21, 22, and 23.

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.

Date: August 9, 2003 /s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President

Date: August 9, 2003 /s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

10-Q 302 CERTIFICATION

I, Stephen Lange Ranzini 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.

Date: August 9, 2003 /s/Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

10-Q 302 CERTIFICATION

I, Nicholas K. Fortson certify that:

7) I have reviewed this quarterly report on Form 10-Q of University Bancorp, Inc.;

8) 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;

9) 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;

10) 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;

11) 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

12) 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.

Date: August 9, 2003 /s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on August 9, 2003, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

University Bancorp, Inc

Date: August 9, 2003

By: /s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

CERTIFICATION PURSUANT

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended June 30, 2003 as filed with the Securities and Exchange Commission on August 9, 2003, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:
(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

University Bancorp, Inc

Date: August 9, 2003
By: /s/ Nicholas K. Fortson
Nicholas K. Fortson
Chief Financial Officer