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UNIVERSITY BANCORP INC /DE/
Form 10-Q
November 14, 2001

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, 2001

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

(State of incorporation)

38-2929531

(IRS Employer Identification Number)

959 Maiden Lane, Ann Arbor, Michigan

(Address of principal executive offices)

48105

(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, 2001: 2,092,801
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.

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Part I. - Financial Information

Item 1.- Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES Consolidated Balance Sheets September 30, 2001(Unaudited) and December 31, 2000

	September 30, 2001	December 31, 2000
ASSETS	-----	-----
Cash and due from banks	2,371,864	\$ 2,537,313
Short term investments	0	9,307
	-----	-----

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Total cash and cash equivalents	2,371,864	2,546,620
Securities available for sale, at market	2,324,114	1,944,629
Federal Home Loan Bank Stock	848,400	848,400
Loans held for sale, at the lower of cost or market	2,788,109	267,570
Loans	35,005,212	36,206,544
Allowance for loan losses	(603,867)	(562,997)
Loans, net	34,401,345	35,643,547
Premises and equipment, net	1,754,129	1,375,757
Investment in Michigan BIDCO Inc.	897,227	1,277,384
Investment in Michigan Capital Fund LPI	481,244	556,904
Mortgage servicing rights, net	474,349	582,210
Real estate owned, net	274,145	340,881
Accounts receivable	509,814	1,639,962
Accrued interest receivable	257,487	307,600
Prepaid expenses	281,452	168,195
Goodwill, net	67,908	139,412
Other assets	67,700	31,582
TOTAL ASSETS	47,799,287	\$ 47,670,653

-Continued-

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES Consolidated Balance Sheets (continued) September 30, 2001 (Unaudited) and December 31, 2000

	September 30, 2001	December 31, 2000
LIABILITIES AND STOCKHOLDERS' EQUITY	-----	-----
Liabilities:		
Deposits:		
Demand - non interest bearing	3,755,947	\$ 3,062,013
Demand - interest bearing	14,427,042	13,106,221
Savings	370,503	368,928
Time	21,037,951	21,641,561
Total Deposits	39,591,443	38,178,723
Short term borrowings	3,387,463	4,093,954
Long term borrowings	874,588	926,130
Accounts payable	666,457	1,474,963
Accrued interest payable	240,012	426,470
Other liabilities	104,151	245,381
Total Liabilities	44,864,114	45,345,621
Minority Interest	299,601	282,750
Stockholders' equity:		
Preferred stock, \$0.001 par value; \$1,000		
liquidation value; Authorized - 500,000 shares;		

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Issued 1,262 shares in 2001 and 725 shares in 2000	1,262,000	725,000
Common stock, \$0.01 par value; Authorized - 5,000,000 shares; Issued - 2,207,985 shares in 2001 and 2,142,985 shares in 2000	22,080	21,430
Additional paid-in-capital	3,923,560	3,817,608
Accumulated deficit	(2,014,495)	(1,846,627)
Treasury stock - 115,184 shares in 2001 and 2000	(340,530)	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(217,043)	(334,599)
	-----	-----
Total Stockholders' Equity	2,635,572	2,042,282
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	47,799,287	\$ 47,670,653
	=====	=====

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

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES Consolidated Statements of Operations For the Periods Ended September 30, 2001 and 2000 (Unaudited)

	For the Three Month Period Ended		For
	2001	2000	2001
Interest income:			
Interest and fees on loans	\$ 824,811	\$ 784,816	\$2,455,39
Interest on securities:			
U.S. Government agencies	172,907	36,303	262,23
Other securities	15,507	22,189	48,63
Interest on federal funds and other	1,451	510	22,96
	-----	-----	-----
Total interest income	1,014,676	843,818	2,789,23
	-----	-----	-----
Interest expense:			
Interest on deposits:			
Demand deposits	93,272	159,307	336,92
Savings deposits	1,507	1,777	5,11
Time deposits	281,773	285,200	1,016,40
Short term borrowings	27,773	61,188	69,58
Long term borrowings	13,436	25,177	47,30
	-----	-----	-----
Total interest expense	417,761	532,649	1,475,32
	-----	-----	-----
Net interest income	596,916	311,169	1,313,91

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Provision for loan losses	22,500	22,500	67,500
	-----	-----	-----
Net interest income after provision for loan losses	574,416	288,669	1,246,416
Other income:			
Loan origination and other fees	357,740	342,091	1,481,150
Loan servicing and subservicing fees	198,445	292,928	1,529,710
Gain on sale of mortgage loans	19,404	17,976	50,260
Merchant banking/ BIDCO income	--	--	--
Insurance and investment fee income	16,896	16,083	66,200
Deposit service charges and fees	25,047	14,729	60,250
Net security gains (losses)	--	20,625	--
Other	21,605	40,935	60,580
	-----	-----	-----
Total other income	639,137	745,367	3,248,180
	-----	-----	-----

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES Consolidated Statements of Operations For the Periods Ended September 30, 2001 and 2000 (Unaudited)

	For the Three Month Period Ended		For the Nine Month Period Ended
	2001	2000	2001
Other expenses:			
Salaries and benefits	\$ 793,519	\$ 468,122	\$ 2,598,066
Legal and audit expense	15,034	49,009	83,648
Occupancy, net	99,971	66,532	348,470
Data processing and equipment expense	52,851	86,998	207,947
Consulting fees	42,472	52,983	189,357
Advertising	28,775	17,388	80,889
Supplies and postage	78,480	34,364	283,660
Servicing rights amortization	225,550	26,421	298,821
Mortgage banking expense	28,470	41,159	63,720
Travel and entertainment	19,742	4,974	84,991
Insurance	19,392	21,963	65,582
Other operating expenses	13,747	161,112	312,113
	-----	-----	-----
Total other expenses	1,418,003	1,031,025	4,617,264
	-----	-----	-----
Income (loss) before income taxes	(204,450)	3,011	(122,667)
Income tax expense (benefit)		(752)	
	-----	-----	-----
Net Income (loss)	\$ (204,450)	\$ 3,763	\$ (122,667)
	=====	=====	=====
Preferred stock dividends	17,950		45,201

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	-----	-----	-----
Net income (loss) available to common shareholders	\$ (222,400)	\$ 3,763	\$ (167,868)
	=====	=====	=====
Basic and diluted loss per common share	\$ (0.11)	\$ 0.00	\$ (0.08)
	=====	=====	=====
Weighted average shares outstanding	2,092,312	2,027,801	2,061,233
	=====	=====	=====

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

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Periods Ended September 30, 2001 and 2000
(Unaudited)

	For the Three Month Period Ended		F
	2001	2000	2
Net income (loss)	(\$204,450)	\$3,763	(\$12
Other comprehensive income (loss):			
Unrealized gains/(losses) on securities available for sale	\$230,081	(\$16,781)	1
Less: reclassification adjustment for accumulated losses/(gains) included in net income (loss)		(\$20,625)	

Other comprehensive income/(loss), before tax effect	230,081	(37,406)	1
Income tax expense (benefit)			
Other comprehensive income (loss), net of tax	230,081	(37,406)	1
	-----	-----	
Comprehensive loss	\$25,631	(\$29,348)	(\$
	=====	=====	

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

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the three month periods ended September 30, 2001 and 2000

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(Unaudited)

	2001	2000
Cash flow from operating activities:		
Net income (loss)	\$ (122,667)	\$ (542,607)
Adjustments to reconcile net income (loss)		
to net cash from Operating Activities:		
Depreciation	141,693	183,896
Amortization	326,945	160,361
Provision for loan losses	67,500	88,500
Net gain on mortgage loan sales	(30,860)	(37,241)
Net (accretion) on investment securities	(262,168)	(85,129)
Net gain on sale of securities available for sale	--	(24,126)
Change in:		
Minority interest	16,851	59,075
Mortgage servicing rights	(190,960)	(42,497)
Real estate owned	66,736	330,154
Accounts receivable	1,130,148	(219,154)
Accounts payable	(808,506)	(88,909)
Accrued interest receivable	50,113	(64,573)
Accrued interest payable	(186,458)	78,834
Other assets	(30,335)	(172,412)
Other liabilities	(186,664)	300,573
Net cash used in operating activities	(18,632)	(75,255)
Cash flow from investing activities:		
Purchase of securities available for sale	--	(37,500)
Proceeds from sales of securities available for sale	--	161,626
Proceeds from maturities and pay downs of securities available for sale	472	2,976
Net change in market value of Michigan BIDCO equity investments	--	197,302
Loans granted, net of repayments	(1,314,977)	(3,335,760)
Decrease in Investment in Michigan BIDCO, Inc.	380,157	--
Premises and equipment expenditures	(520,065)	(162,223)
Net cash used in investing activities	(1,454,413)	(3,173,579)
Cash flow used in financing activities:		
Net increase in deposits	1,412,720	3,504,417
Net increase (decrease) in short term borrowings	(706,491)	230,434
Principal payments on long term borrowings	(127,822)	(168,000)

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	2001	2000
Issuance of long term borrowings	76,280	60,000
Issuance of preferred stock	537,000	150

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Issuance of common stock	106,602	31,100
	-----	-----
Net cash provided by financing activities	1,298,289	3,658,101
	-----	-----
Net change in cash and cash equivalents	(174,756)	409,267
Cash and cash equivalents:		
Beginning of period	2,546,620	1,551,320
	-----	-----
End of period	\$ 2,371,864	\$ 1,960,587
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,659,033	\$ 1,433,781
Income taxes	\$ --	\$ --

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

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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 2000 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 2000 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: 2,092,312 and 2,027,801 for the three months ended September 30, 2001 and 2000, respectively; 2,061,233 and 2,026,378 shares for the nine months ended September 30, 2001 and 2000, respectively. Stock options are considered anti-dilutive for 2001 and 2000, therefore, are not included in earnings per share calculations.

(2) Investment Securities

The Bank's available-for-sale securities portfolio at September 30, 2001 had a net unrealized loss of approximately \$217,000 as compared with a net unrealized loss of approximately \$335,000 at December 31, 2000.

Securities available for sale at September 30, 2001:

(\$ in thousands)		Gross	Gross
	Amortized	Unrealized	Unrealized

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	Cost	Gains	Losses
U.S. agency mortgage-backed	\$ 2,015	\$ -	\$ (168)
U.S. Treasury	526	-	(49)
Total	\$ 2,541	\$ -	\$ (217)

Securities available-for-sale at December 31, 2000

(\$ in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. agency mortgage-backed	\$ 1,774	\$ -	\$ (293)
U.S. Treasury	506	-	(42)
Total	\$ 2,280	\$ -	\$ (335)

Subsequent to September 30, 2001, the U.S. Treasury with an unrealized loss at September 30, 2001 of \$49,000 was sold for a \$12,000 profit. A shorter term Treasury bond was purchased to decrease the risk in the Bank's investment portfolio.

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

This report contains certain forward-looking statements which 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 which appear as Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, 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, 2001, the Company had net loss of \$204,450 compared to net income of \$3,763 for the three months ended September 30, 2000. The loss was principally the result of a \$224,175 special impairment charge to write-down the value of Midwest Loan Services' mortgage servicing rights portfolio during the third quarter of 2001. Net interest income increased to \$596,916 the 2001 period from \$311,169 in the 2000 period, and other income decreased to \$639,137 the 2001 period from \$745,367 in the 2000

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period. Operating expenses increased to \$1,418,003 in the 2001 period from \$1,031,025 in the 2000 period. Basic and diluted net loss per common share in the three months ended September 30, 2001 was \$(0.11), compared to \$(0.00) for the three months ended September 30, 2000.

For the nine months ended September 30, 2001, a net loss of \$122,667 was incurred versus a net loss of \$542,606 in the same period in 2000. As in the three-month period, the loss was principally the result of a \$224,175 special impairment charge to write-down the value of Midwest Loan Services' mortgage servicing rights portfolio during the third quarter of 2001. Net interest income increased to \$1,313,916 in the 2001 period from \$959,326 in the 2000 period. Other income was \$3,248,181 in the 2001 period versus \$1,796,106 in the 2000 period. Operating expenses increased to \$4,617,264 in the 2001 period from \$3,205,244 in the 2000 period. Basic and diluted net loss per share in the nine months ended September 30, 2001 was \$(0.08), compared to a net loss of \$(0.27) for the nine months ended September 30, 2000.

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

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

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Pre-tax income (loss) summary for the three and nine months ended September 30, 2000:

	Three Months	Nine months
Community Banking	\$ (142)	\$ (819)
Midwest Loan Services	187	273
Merchant Banking (Michigan BIDCO)	-	114
Corporate Office	(41)	(111)
	-----	-----
Total	\$ 4	\$ (543)
	=====	=====

RESULTS OF OPERATIONS

Net Interest Income

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Net interest income increased to \$596,916 for the three months ended September 30, 2001 from \$311,169 for the three months ended September 30, 2000. Net interest income rose from the year ago period as a result of a higher net yield on interest earning assets. The yield on interest earning assets increased from 9.19% in the 2000 period to 10.17% in the 2001 period. The cost of interest bearing liabilities decreased from 5.72% in the 2000 period to 4.17% in the 2001 period. Net interest income as a percentage of total average earning assets increased from 3.39% to 5.98% in 2001.

Net interest income increased to \$1,313,916 for the nine months ended September 30, 2001 from \$959,326 for the nine months ended September 30, 2000. As in the three month period noted above, net interest income for the nine months in 2001 rose from the previous period because of a higher net yield on interest earning assets. The yield on interest earning assets increased from 9.08% in the 2000 period to 9.32% in the 2001 period. The cost of interest bearing liabilities decreased from 5.34% for the 2000 period to 4.93% for the nine months ended September 30, 2001. Net interest income as a percentage of total average earning assets increased from 3.58% to 4.39%.

Interest income

Interest income increased to \$1,014,677 in the quarter ended September 30, 2001 from \$843,818 in the quarter ended September 30, 2000. The average volume of interest earning assets increased to \$40,033,601 in the 2001 period from \$36,837,789 in the 2000 period, an increase of 8.7%. Despite a declining interest rate environment during the third quarter in 2001, the yield on interest bearing assets rose from 9.19% in 2000 to 10.17% in 2001. The increase was due to income earned on the securities portfolio. During the third quarter of 2001, this portfolio yielded a rate of 26.19%. The yield resulted from accelerated income recognized on a collateralized mortgage obligation. As

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the interest rates declined, the expected duration period for this bond was shortened from over 6 years to 4 years. The decrease in average expected duration stimulated an accelerated accretion of the bond discount.

Generally, the yield on other interest bearing assets declined in response to the rate environment.

Interest income increased to \$2,789,235 in the nine months ended September 30, 2001 from \$2,434,703 in the nine months ended September 30, 2000. The average volume of interest earning assets increased to \$39,991,896 in the 2001 period from \$35,848,754 in the 2000 period, an increase of 11.5%. The overall yield on the loan portfolio increased to 9.32% from 9.08%, despite a declining interest rate during 2001. As in the third quarter, the overall yield on the interest bearing assets increased in 2001 from 2000 due the accelerated income on the bond portfolio.

Interest Expense

Interest expense decreased to \$417,761 in the three months ended September 30, 2001 from \$532,649 in the 2000 period. The decrease was due to a drop in the yield in 2001 to 4.14% from 5.72% in 2000, mitigated by an increase in interest bearing liabilities. The yield declined as the interest rate liabilities re-priced in the declining rate environment occurring in 2001. The average volume of interest bearing liabilities increased to \$40,199,598 in 2001 from \$37,375,109 in 2000.

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Interest expense decreased slightly to \$1,475,320 in the nine months ended September 30, 2001 from \$1,475,377 in the 2000 period. The decrease was due to a lower yield on the interest rate liabilities mitigated by an increase in volume. The yield dropped to 4.92% in 2001 from 5.34% in 2000. As rates dropped in 2001, the liabilities re-priced at rates lower than in 2000. The volume of interest rate liabilities increased to \$40,014,903 in 2001 from \$36,940,498 in 2000. The increase in volume primarily occurred in time deposits. At September 30, 2001, the Company had \$9,967,000 of brokered time deposits, 25% of total deposits. To reduce the dependency on these higher cost funds, management has implemented a plan to increase core deposits from individuals and businesses. It is intended that the percentage of brokered time deposits will reduce over the next year.

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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, 2001 and 2000.

	Three Months Ended September 30,			Th
	2001			
	Average	Interest	Average	Average
	Balance	Inc (Exp)	Yield (1)	Balance
Interest Earning Assets:				
Loans:				
Commercial	\$ 15,857,311	\$ 369,804	9.35%	\$ 13,401,989
Real Estate	16,605,624	325,999	7.87%	15,170,382
Installment/Consumer	4,527,998	129,008	11.43%	4,728,843
Total Loans	36,990,933	824,811	8.94%	33,301,214
Investment Securities	2,885,254	188,414	26.19%	3,479,129
Federal Funds & Bank Deposits	157,414	1,451	3.70%	57,446
Total Interest Bearing Assets	40,033,601	1,014,676	10.17%	36,837,789
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	4,210,377	16,456	1.57%	2,794,612
Savings	351,892	1,507	1.72%	353,503
Time	21,515,665	281,773	5.25%	17,703,268
Money Market Accts	10,873,333	76,816	2.83%	11,837,473
Short-term borrowings	2,357,602	27,773	4.73%	3,649,753
Long-term borrowings	890,729	13,436	6.05%	1,036,500
Total Interest Bearing Liabilities	40,199,598	417,761	4.17%	37,375,109

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Net Earning Assets, net interest income, and interest rate spread	\$ (165,997)	\$ 596,916	6.00%	\$ (537,320)
Net yield on interest-earning assets			5.98%	

(1) Yield is annualized.

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Nine Months Ended September 30,				
2001				
	Average Balance	Interest Inc (Exp)	Average Yield (1)	Average Balance
Interest Earning Assets:				
Loans:				
Commercial	\$15,552,429	\$1,111,936	9.56%	\$ 13,250,000
Real Estate	16,043,827	972,979	8.11%	14,440,000
Installment/Consumer	4,879,119	370,482	10.15%	4,620,000
Total Loans	36,475,375	2,455,397	9.00%	32,310,000
Investment Securities	2,842,687	310,870	14.62%	3,470,000
Federal Funds & Bank Deposits	673,834	22,968	4.56%	4,620,000
Total Interest Bearing Assets	39,991,896	2,789,235	9.32%	35,840,000
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	3,270,771	58,209	2.38%	2,890,000
Savings	359,186	5,112	1.90%	310,000
Time	23,458,076	1,016,400	5.79%	15,950,000
Money Market Accts	10,314,021	278,711	3.61%	12,640,000
Short-term borrowings	1,699,141	69,585	5.48%	3,470,000
Long-term borrowings	913,708	47,303	6.92%	1,650,000
Total Interest Bearing Liabilities	40,014,903	1,475,320	4.93%	36,940,000
Net Earning Assets, net interest income, and interest rate spread	\$ (23,007)	\$1,313,916	4.40%	\$ (1,091,000)
Net yield on interest-earning assets			4.39%	

(1) Yield is annualized.

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Allowance for Loan Losses

The provision to the allowance for loan loss was \$67,500 for the nine months ended September 30, 2001. In the nine month period ended September 30, 2000, the provision was \$88,500. The Bank went from net charge-offs of \$86,867 for the nine month period ended September 30, 2000 to net charge-offs of \$26,630 for the same period in 2001. Illustrated below is the activity within the allowance for the nine month period ended September 30, 2001 and 2000, respectively.

	2001 ----	2000 ----
Balance, January 1	\$ 562,997	\$ 532,585
Provision for loan losses	67,500	88,500
Loan charge-offs	(43,942)	(144,036)
Recoveries	17,312	57,169
	-----	-----
Balance, September 30	\$ 603,867	\$ 534,218
	=====	=====

	At September 30, 2001 -----	At December -----
Total loans (1)	\$35,005,212	\$3
Reserve for loan losses	\$603,867	
Reserve/Loans % (1)	1.73%	

The allowance for loan losses is calculated using the following assumptions:

	Bank's Average 5 Year Loss Ratio -----	Peer Group Average Loss Ratio -----
Commercial loans, performing (1)	0.61%	0.43%
Commercial loans, classified (2)	N/A	N/A
Commercial loan commitments to lend	0.00%	N/A
Real estate mortgage, performing	0.22%	0.07%
Real estate mortgage, classified (3)	N/A	N/A
Installment loans to individuals (4)	0.00%	0.74%
Home Equity loans, performing (5)	0.00%	0.04%
Credit Cards (6)	0.00%	1.83%
Overdrafts (7)	N/A	N/A

(1) Performing Loans:

The Bank's actual 5-year average losses were 0.61%, and this is the rate used. Per the FDIC Quarterly Banking Profile (FDIC Profile) the loss rate for loans in

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the central region is .38%. Real estate construction loans are included in commercial loan balances.

(2) Commercial Classified Loans: The allocation for the classified loans was determined by a combination of the risk rating and the collateral value. The loan loss allowance is the greater of the collateral deficiency or the required loan loss allowance for the risk rating. All loans are rated 1 (highest quality) to 8 (lowest quality), with performing loans rated 1 to 4. A Special Mention or Watch List loan (5) requires a minimum of a 5%

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allocation, a Substandard loan (6) requires a minimum of a 15% allocation, a Doubtful loan (7) requires a minimum of a 50% allocation and a Loss loan (8) requires a complete charge off of the loan.

(3) Classified Residential Mortgages: A specific analysis is used, based on the Broker Price Opinion value of the home, less a 15% liquidation expense. If the estimated loss is \$0, then a 5% (Watch List) allocation ratio is used to account for increased administration costs and risks associated with the foreclosure process.

(4) Installment loans to individuals: The FDIC Profile loss ratio is 1.39%. All Installment loans are rated A-D, with A being highest quality and D being lowest quality. For loans between 32 -120 days delinquent, an allocation can be taken as follows: "A" & "B" Loans - 2.5%, "C" - 5%, "D" - 15%. The Bank typically gives a 15% allocation for all installment loans over 32 days delinquent. However, a specific analysis, based on the FMV of the collateral, less liquidation costs was used for Secured Installment loans greater than 120 days past due. See the UB Classified Loan Report for specific allocations.

(5) Home Equity: Term Loans & Lines of Credit: The rate shown above of 0.50% is for Home Equity Term Loans. The allocation ratio for Home Equity Lines of Credit is .75% since they carry higher risk since they do not amortize during the life of the loan.

(6) Credit Cards: The FDIC Profile loss ratio is 4.13%.

(7) Overdrafts: Overdrafts generally carry an unusually high risk of loss as they are generally unsecured and are rated the same way as non-performing installment loans with an allocation ratio of 15%.

The Bank's overall loan portfolio is geographically concentrated in Ann Arbor and the future performance of these loans is dependent upon the performance of relatively limited geographical areas. Since the Bank has a limited experience with its loan portfolio in Ann Arbor, the Bank's historical loss ratios may be less than future loss ratios.

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

At September 30, 2001

At December 31,

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Past due 90 days and over
and still accruing (1):

Real estate	\$380,000	\$457,4
Installment	-	4,0
Commercial	-	158,2
Subtotal	380,000	619,8
Non-accrual loans (1):		
Real estate	174,294	72,3
Installment	-	
Commercial	-	
Subtotal	174,294	72,3
Other real estate owned	274,145	340,8
Total non-performing	\$828,439	\$1,033,1
Ratio of non-performing to total loans (1)	2.37%	2.8
Ratio of loans past due over 90 days and non-accrual loans to loan loss reserve	92%	12

(1) Excludes loans held for sale which are valued at fair market value.

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During 2001, management directed lending personnel to focus on reducing delinquencies and act proactively in light of a possible recession. If the current economic slowdown becomes a recession, loan delinquencies would likely increase, negatively impacting net interest income.

Other real estate owned at September 30, 2001 December 31, 2000 includes a commercial development site in Sault Ste. Marie, Michigan, which based on a recent appraisal, management believes has a fair market value more than its carrying cost of \$200,000 at September 30, 2001. The Bank executed an agreement to sell the property to a commercial developer who is planning a major development on the site. The purchase price will be determined by averaging two new appraisals.

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

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conversely tend to diminish the severity of any such difficulties.

Non-Interest Income

Total non-interest income decreased to \$639,137, for the three months ended September 30, 2001 from \$745,367 for the three months ended September 30, 2000. The significant decrease was primarily due to decreased loan servicing and sub-servicing fees and other loan set-up fees resulting from the decreased servicing and sub-servicing portfolios at Midwest Loan Services.

Total non-interest income increased to \$3,248,181 for the nine months ended September 30, 2001 from \$1,796,106 for the nine months ended September 30, 2000. The increase was principally a result of increases in loan origination and loan sub-servicing fee income at Midwest Loan Services. During the second quarter, 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 July 1, 2001, Midwest was sub-servicing approximately 5,600 loans, including 1,000 for this customer.

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 100 loans per month. Management of Midwest expects to be able to replace a substantial portion of the monthly revenue lost from the decreased business from the Wall Street firm with fee income from mortgage originations from its credit union focused Members for Life mortgage origination program. The Wall Street firm generated an average of \$154,000 in revenue per month for Midwest in the first quarter of 2001, and an average \$209,000 in revenue per month for Midwest in the second quarter of 2001.

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Michigan BIDCO. In May 2000, the BIDCO converted or redeemed all outstanding bonds into common stock of Michigan BIDCO, thus diluting the Company's ownership to 28.8%. The BIDCO has agreed to repurchase the shares held by University Bank, but is awaiting regulatory approval to do so. Management of the Bank and BIDCO has already approved the transaction.

Non-Interest Expense

Non-interest expense increased to \$1,418,003 in the three months ended September 30, 2001 from \$1,031,025 for the three months ended September 30, 2000. The increase was primarily the result of a special \$224,175 impairment charge for Midwest Loan Services' mortgage servicing rights portfolio due to the decline in long-term interest rates and increased operational expenses, principally personnel costs, at Midwest Loan Services due to the increased mortgage origination volume. At September 30, 2001, 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 Loan Services, and the remainder by the Bank. The carrying value of these servicing rights was \$474,349 at September 30, 2001. For the three months ended September 31, 2001, servicing rights amortization totaled \$225,550 as compared to \$26,421 for the same period in 2000. Based on recent comparable sales and indications of market value from industry brokers, management believes that the current market value of the Bank's portfolio of mortgage servicing rights 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

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rights is based upon the level of principal pay-downs received from respective mortgage loan customers of Midwest and the Bank.

The increased expenses at Midwest more than offset cost control efforts in other areas at the Bank.

Non-interest expense increased to \$4,617,264 in the nine months ended September 30, 2001 from \$3,205,244 for the nine months ended September 30, 2000. The increase was primarily the result of increased operational expenses at Midwest Loan Services, which more than offset cost control efforts in other areas at the Bank.

Non-interest operating expense for the parent company decreased to \$(35,078) for the three month 2001 period from \$43,109 for the 2000 period. The net credit in 2001 resulted from the adjustment to goodwill amortization. In 2001, the goodwill recorded in the last quarter of 2000 was revised downward to reflect expenses borne by the sellers of Midwest.

Non-interest operating expense for the parent company decreased to \$82,088 for the nine month period September 30, 2001 from \$111,435 for the same period in 2000. The decrease in 2001 resulted primarily from the adjustment of amortization of goodwill. Otherwise, expenses were higher in 2001 as compared with 2000 due to the parent company issuing shares of common stock to a key executive of the Bank as a hiring bonus.

Internet Banking. The Bank has developed an internet banking product and is currently completing compliance testing to make the product available to customers.

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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, 2001, the Bank was considered "well-capitalized".

Balance Sheet Asset Categories	Total Assets -----	Items not Subject to Weighting -----	Allocation by Risk Weight C	
			0% --	20% ---
Cash and Balances due from				
Depository Institutions	2,372	--	396	1,976
Available-for-sale				
Securities	2,324	(217)	526	2,015
Loan Held for Sale	2,788	--		--
Loans	35,005	--	139	--
Allowance for loan losses	(604)	(604)	--	--
All Other Assets	6,412	47	--	848
	-----	-----	-----	-----
Total Assets	47,450	(774)	922	4,978
	=====	=====	=====	=====

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TOTAL AVERAGE ASSETS	
Average Total Assets for Leverage Capital Purposes	46,622
Other identifiable Intangible Assets	(47)

Total Average Assets	46,575
	=====
	35,548
Total Risk-Based Assets	
TIER 1 CAPITAL	
Total Equity Capital	2,870
Unrealized losses on available-for-Sale Securities	217
Minority Interest	300
Other identifiable Intangible Assets	(47)

Total Tier 1 Capital	3,340
TIER 2 CAPITAL	
Allowance for loans & Lease losses	604
Less: Excess Allowance	(158)

Total Tier 2 Capital	446

Total Tier 1 & Tier 2 Capital	3,786
CAPITAL RATIOS	
Tier 1/Total Average Assets	7.17%
Tier 1/Total Risk-Weighted Assets	9.40%
Tier 1 & 2/Total Risk-Weighted Assets	10.65%

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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, 2001, the Bank had cash and cash equivalents of \$2,371,864. The Bank has a \$6,500,000 line of credit secured by investment securities and residential mortgage loans and a \$2,300,000 line of credit secured by commercial loans. In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At September 30, 2001, the Bank had \$9.9 million of these deposits outstanding.

Parent Company 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 2001 or 2002. Management intends to raise additional capital through a stock rights offering currently under way. This capital is needed for the Company's operating expenses and for the expected principal reductions on

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the Company's long-term borrowings. These borrowings totaled \$874,588 and \$926,130 at September 30, 2001 at December 31, 2000, respectively. Long-term borrowings at September 30, 2001 also include \$184,082 of equity conversion notes of the Company that were converted into common stock on October 30, 2001 pursuant to the Company's rights offering.

The Company also has authorized 500,000 shares of preferred stock with a liquidation value of \$1,000. 725 shares or \$725,000 was issued in November 2000 to help boost capital levels, and another 300 shares or \$300,000 was issued in March 2001 and contributed to University Bank. Year-to-date through September 30, 2001, 537 shares of preferred stock were issued. These shares are 6% cumulative, non-voting, and convertible into common stock of the Company. These shares were converted into common stock on October 30, 2001 pursuant to the Company's rights offering.

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.

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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.

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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, 2001. 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, 2001 was estimated to be (\$18,039,000) or (38.02)%.

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UNIVERSITY BANK Asset/Liability Position Analysis as of September 30, 2001 (Dollar amount in Thousand's)

Maturing or Re-pricing in

ASSETS -----	3 Months or Less -----	91 Days to 1 Year -----	1 - 3 Years -----	3 - 5 Years -----
Fed Funds		-	-	-
Loans - Net	9,990	4,309	9,334	9,150
Non-Accrual Loans		-	-	-
Securities	-	-	-	-
Other Assets	-	753	-	-
Cash and Due from Banks	69	-	-	-
TOTAL ASSETS	10,059	5,062	9,334	9,150
LIABILITIES -----				
CD's under \$100,000	6,979	7,563	1,253	126
CD's over \$100,000	1,339	2,864	538	
MMDA	5,447	5,447	-	-
NOW	-	-	3,534	-
Demand and Escrow	-	-	-	-
Savings	-	-	373	-
Other Borrowings	3,387	135	93	-
Other Liabilities		-	-	-
Equity	-	-	-	-
TOTAL LIABILITIES	17,152	16,009	5,791	126
GAP	(7,093)	(10,947)	3,543	9,024
CUMULATIVE GAP	(7,093)	(18,039)	(14,496)	(5,472)

GAP				
PERCENTAGE	-14.95%	-38.02%	-30.55%	-11.53%

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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 26, 27 and 28.

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

(a) Exhibits.

(b) Reports on Form 8-K.

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

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UNIVERSITY BANCORP, INC. (PARENT ONLY)
Condensed Balance Sheets
September 30, 2001 December 31, 2000

(Unaudited)

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	September 30 2001		
	-----		-----
ASSETS			
Cash and cash equivalents	\$	1,740	\$
Securities available for sale		233	
Investment in University Bank		2,870,127	
Investment in Michigan BIDCO		143,809	
Goodwill, net		67,908	
Receivable from University Bank		286,196	
Prepaid expenses		136,126	
Other assets		1,000	
	-----		-----
Total Assets	\$	3,507,139	\$
	=====		=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Notes payable	\$	647,082	\$
Accounts payable		159,784	
Accrued interest payable		18,567	
Other liabilities		46,134	
	-----		-----
Total Liabilities		871,567	
Stockholders Equity		2,635,572	
	-----		-----
Total Liabilities and Stockholders Equity	\$	3,507,139	\$
	=====		=====

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UNIVERSITY BANCORP, INC. (PARENT ONLY)

Condensed Statements of Operations

For the Periods Ended September 30, 2001 and 2000

	For the Three Month Period Ended	
	2001	2000
Dividends from subsidiary	\$ -	\$ -
Interest & dividends on investments	4	4,187
Income from Michigan BIDCO	-	-
Gain (loss) on sale of securities	-	20,625

Total Income	4	24,812
Expense:		
Interest	13,436	25,177

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Compensation	308	-
Goodwill amortization	(61,477)	-
Public listing	6,907	12,604
Legal, audit & consulting	3,796	4,654
Other miscellaneous	1,952	674
	-----	-----
Total Expense	(35,078)	43,109
Income (loss) before federal income taxes (benefit) and equity in undistributed net income (loss) of subsidiaries	35,082	(18,297)
Federal income taxes (benefit)	-	-
	-----	-----
Income (loss) before equity in undistributed net income of subsidiaries	35,082	(18,297)
Equity in undistributed net income (loss) of subsidiaries.	(239,532)	(22,060)
	-----	-----
Net income (loss)	\$ (204,450)	\$ 3,763
	-----	-----
Preferred stock dividends	17,950	-
	-----	-----
	\$ (222,400)	\$ 3,763
	=====	=====
Basic and diluted income (loss) per common share	\$ (0.11)	\$ 0.00
	=====	=====

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UNIVERSITY BANCORP, INC. (PARENT ONLY) Condensed Statement of Cash Flows For the Nine month Periods Ended September 30, 2001 and 2000

Cash flow from operating activities:

Net loss
 Reconciliation of net income (loss) to net cash used
 in operating activities:
 Gain on sale of securities
 Amortization
 Decrease/(Increase) in other assets
 Increase(Decrease) in other liabilities
 Decrease(Increase) investment in Michigan BIDCO
 Decrease(Increase) investment in University Bank

2001

\$ (

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Net cash (used in) operating activities	(
Cash flow from investing activities:	
Contributions of capital to University Bank	(
Purchase of securities available for sale	
Proceeds from sale of securities available for sale	
Net cash provided by (used in) investing activities	(
Cash flow from financing activities:	
Principal payment on notes payable	(
Issuance of equity conversion notes	
Proceeds from sale of preferred stock	
Proceeds from sale of common stock	
Net cash provided by financing activities	
Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	\$
Supplemental disclosure of cash flow information:	
Cash paid during the period for Interest	\$

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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.

Date: November 14, 2001

UNIVERSITY BANCORP, INC.

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President

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