UNIVERSITY BANCORP INC /DE/
Form 10-K
April 08, 2003
1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 for the fiscal year ended
December 31, 2002
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from ____________ to ___________

Commission file number 0-16023

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

Delaware	38-2929531
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to section 12(b) of the Act: NONE Securities registered pursuant to section 12(g) of the Act:
Common Stock, par value $.010 per share

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The number of shares outstanding of the Registrant's Common Stock as of March 27 2003: 3,899,548 shares. The aggregate market value of the voting stock held by non-affiliates of the Registrant based on $0.975 per share, the average bid and asked price for the Registrant's Common Stock on March 27, 2003, as reported by NASDAQ, was approximately $976,089.

* For purposes of this calculation shares of the Registrant held by directors and officers of the Registrant and by other affiliates have been excluded.

Page 1 of 87 pages
Exhibit index on sequentially numbered page 81

PART I.

Item 1. - Business

General

University Bancorp, Inc. The Company is a Delaware corporation which operates as a bank holding company for its wholly-owned subsidiary, University Bank. The Company changed its name to `University Bancorp, Inc.' from `Newberry Bancorp, Inc.' in 1996, in order to better identify itself with the Bank.

University Bank. The Bank is a state chartered community bank. The Bank was chartered by the state of Michigan in 1908 and began business in 1890. In 1994, we sold the bank's offices in Newberry, Michigan and Sault Ste. Marie, Michigan. As part of a non-compete agreement with the purchaser of the bank's offices, we relocated the Bank's main office to the former offices of its mortgage operation in Sault Ste. Marie, Michigan. In 1995, the Bank changed its name from `The Newberry State Bank' to `University Bank' to more closely identify with its current place of business, Ann Arbor, Michigan. Ann Arbor is a university town, home to the University of Michigan and is the largest city in Washtenaw County, just west of the Detroit Metropolitan Statistical Area. The Bank's primary market area is defined as the City of Ann Arbor and surrounding areas in greater Washtenaw County.

Midwest Loan Services. In 1995, University Bank acquired 80% of the common stock of Midwest Loan Services. Midwest specializes in the origination, servicing and subservicing of mortgage loans for various credit unions, financial institutions and mortgage brokers. Most of their servicing and subservicing portfolio is comprised of residential mortgage loans sold to Fannie Mae, Freddie Mac and other private residential mortgage conduits.

University Insurance & Investment Services. In 1996, University Bank established an insurance and investment products sales agency. This subsidiary of the Bank, called "University Insurance & Investment Services, Inc." (the Agency) is based in the Bank's Ann Arbor office. The Agency is licensed by the State of Michigan to sell insurance as agent for licensed insurance companies. A d/b/a of the Agency, University Insurance Center, commenced business in 1999, adding a full service property and casualty insurance agency offering insurance for homes, autos, apartments and businesses in addition to the original products which included life and health care insurance, annuities and mutual fund sales. Employees of the Agency are also licensed to sell investment products such as annuities and mutual funds, and the President of the Bank, who is also Chairman of the Agency, also offers broker-dealer investment services including money management through a clearing arrangement with Equitas America LLC and Pershing.

Michigan BIDCO. In 1993, Stephen Lange Ranzini and Joseph Louis Ranzini founded a BIDCO, which is a Business and Industrial Development Company, called Michigan BIDCO, Inc. The BIDCO is licensed by the Michigan Office of Financial and Insurance Services under the State of Michigan BIDCO program. Michigan BIDCO (formerly known as Northern Michigan BIDCO) invests in businesses in Michigan with the objective of fostering job growth and economic development. As a result of the recent buyout of the Bank's interest in the BIDCO, University Bancorp currently owns 6.10% of the BIDCO. The Bank also holds $600,000 of 7.5% cumulative preferred stock of the BIDCO.

Northern Michigan Foundation. In 1995, Michigan BIDCO donated $225,000 to capitalize Northern Michigan Foundation, and in 1996, donated an additional $75,000 to the Foundation. The Foundation is an IRS-approved 501c(3) non-profit which is an intermediary lender to rural small businesses under the U.S. Department of Agriculture's Rural Economic Community Development Division's Intermediary Re-lending Program. The Foundation borrowed a total of $2 million from the Intermediary Re-lending Program at 1% interest with a 30-year term because of a $300,000 donation received from Michigan BIDCO. Pursuant to a management services agreement with the BIDCO, the BIDCO and the Foundation share administrative staffs and offices, with the Foundation reimbursing the BIDCO for these management services.

Employees

The Company employed 68 full-time equivalents as of March 27, 2003:

University Bank, Ann Arbor	26
Midwest Loan Services	40
University Insurance & Investment	2

Properties

The Bank owns a building in Ann Arbor, Michigan that is the Bank's main office.

The Bank leases a site that includes a registered historic building in Ann Arbor, at the corner of Washtenaw Avenue and Stadium Boulevard as a ATM drive-through location, a BIDCO office and an off-site storage facility. The minimum lease period ends May 2006 with two optional five-year extensions.

The Bank leases an ATM location in Ann Arbor at the corner of State and Liberty near the University of Michigan Campus. The minimum period of this lease ends December 2005.

The Bank owns a former loan office in Sault Ste. Marie and such space is leased to an unrelated third-party. Management is in negotiations to sell this property.

Midwest Loan Services leases an office in Houghton, Michigan under a year-to-year lease.

The Company believes that the office facilities are adequate to support the anticipated level of future expansion of business.

Lines of Business

Deposit Products & Services

University Bank offers traditional retail savings products and services to its customers. These include demand deposit and NOW interest-bearing checking accounts, money market deposit accounts, regular savings accounts and term deposit certificates ranging in maturity from three to

three hundred months. The Bank also offers free access to 24-Hour ATM machines, telephone banking, internet banking, VISA debit cards and Gold VISA accounts. The Bank is also a member of MasterCard, but currently is not offering a MasterCard product. From time to time to raise liquidity, the Bank relies on brokers to sell CDs. At December 31, 2002, the Bank had approximately $7.9 million in CDs issued through brokers.

Lending Products

University Bank offers a range of traditional lending products, including commercial small business loans, residential real estate mortgage loans, home equity loans, commercial real estate mortgage loans, consumer installment loans, and land development and construction loans.

Classifications of the loan portfolio as of December 31, 2002 are as follows:

	Amount Outstanding(1)	% of Total
Commercial, Real Estate & Other	$16,550,318	49.86%
Residential Construction	2,113,747	6.37%
Residential Real estate	9,758,403	29.40%
Residential Home equity	4,299,329	12.95%
Consumer	374,825	1.13%
Credit Card	95,412	0.29%
Gross Loans	$33,192,034	100.00%

(1) - Excludes loans held for sale.

The Bank's loan portfolio is geographically concentrated in Ann Arbor and Washtenaw County, Michigan. The ability of individual loan customers to honor their debts is partially dependent on the local economy. The Ann Arbor area is primarily dependent on the education, healthcare, services, and manufacturing (automotive and other) industries.

Most of the Bank's commercial loans are secured by commercial real estate. Commercial real estate loans have a loan to value ratio typically less than 80% at the time the loan is originated. In no cases is the loan to value ratio for commercial real estate loans greater than 85%. The primary risk of commercial loans is that the area's economy declines and rents decrease while vacancy increases, thereby decreasing the value of the building. If the guarantor suffers a financial reverse, the Bank is then exposed to a loss.

Residential loans typically have a loan to value ratio less than 80% at the time the loan is originated, unless the borrower's financial position is very strong, in which case a loan to value ratio of up to 90% is considered. To meet the Bank's goals for first time homebuyers, the Bank has originated 97% loan to value residential loans totaling about $3 million, although real estate prices in Washtenaw County where these loans were originated have been rising at 10-12% per year for two years in a row, and most of these loans were originated in 1998 and 1999. Home equity secured residential loans have loan to value ratios of less than 90% at time of origination in the case of fixed rate fully-amortizing loans and 80% for home equity lines of credit, with a few exceptions with higher ratios for borrowers with strong credit. The primary risk of residential lending is that home prices drop (typically this occurs during recessions) and borrowers walk away from their home or file for bankruptcy. All of the Bank's

construction loans, are secured by residential properties with a loan to value ratio of 80% or less. The Bank controls the risk of construction lending by performing inspections prior to disbursing interim construction funds to avoid cost overruns.

The Bank makes very few unsecured loans, typically for borrowers who are multi-millionaires, but even in these cases, the Bank typically takes collateral out of an abundance of caution. Most of the Bank's credit card loans are secured by residential properties. Consumer loans are generally secured by vehicles (primarily cars or trucks). The primary risk of these loans is that the value of the car depreciates faster than the loan balance amortizes, and the borrower loses their job or has a severe medical problem in their family. In these circumstances, the collateral could be insufficient to repay the loan if the borrower files for bankruptcy. In addition, if the economy is soft, used vehicle prices tend to deteriorate creating additional risk of insufficient collateral in the event of a default.

The Bank makes very few business loans that are not secured by real estate. Business Lines of Credit are typically made up to a 50% ratio of inventory and other equipment at current market value, and 70% of current receivables. Business Manager Loans are also structured as Lines of Credit and are secured by individual receivables up to 90% of face value individually purchased with recourse to the borrower and additional insurance to protect the bank against fraud and bankruptcy of the issuer of the account that is receivable to the borrower. The primary risk of this type of lending backed by non-real estate business assets is that if the business suffers a financial reverse, an unscrupulous borrower can easily dissipate the collateral, causing the Bank a loss. For this reason, the Bank de-emphasizes this type of lending.

Typically with respect to all personal and residential loans, a ratio of total debt payments to total income of all borrowers and guarantors less than 42% is required. With respect to commercial real estate and business loans, a ratio of income to all debt payments of greater than 1.25x is required. Therefore, the Bank typically has both income and asset backing to secure its loans. However, there can always exist valid reasons to have exceptions to each rule and the Bank's loan committee retains the power to take unusual circumstances into account when evaluating each loan request versus the Bank's policies. Loans that are lacking current demonstrated income are classified and increased reserves are established for those loans. Loans that are lacking both current demonstrated income and asset backing are allocated even higher reserves equal to the amount estimated to be realized upon the sale of the collateral less all estimated costs.

Mortgage Banking

The Bank and Midwest originate internally or via other financial institutions residential home loans that generally qualify for sale to secondary market investors under the underwriting criteria of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and the Government National Mortgage Association. Loans purchased or originated internally are either sold directly to FHLMC, FNMA or GNMA, or are pooled into mortgage-backed securities and the securities are sold to investors in the secondary market. With the exception of Midwest Loan Services, the Bank is currently selling the servicing rights on all mortgages originated that

are sold to the secondary market. Some residential mortgages are held in the Bank's loan portfolio as an investment.

University Bank became a seller/servicer and began originating Federal Home Loan Mortgage Corporation (FHLMC) insured mortgages in 1991 and became a seller/servicer and began originating Federal National Mortgage Association (FNMA) insured mortgages 1994. The Bank has also been approved as a seller/servicer of Government National Mortgage Association (GNMA) mortgages for many years but only began using our license in 1999 to originate and sell these loans without retaining the servicing rights. Midwest is also licensed with FNMA and FHLMC.

Mortgage Subservicing

Mortgage servicing firms receive monthly payments from loan customers, aggregate and account for these payments, and send the funds to mortgage-backed securities holders, including pension funds and financial institutions. For some mortgage customers, escrow funds are also accumulated, and funds sent to taxing authorities and insurance companies as needed. Mortgage servicers also dun delinquent accounts and foreclose loans, if required. Mortgage servicers receive a fixed monthly fee for performing this service. When these services are performed for the Bank, it is called `servicing'. When these services are performed for other institutions, it is called `subservicing'. The Bank's 80%-owned subsidiary, Midwest Loan Services, specializes in subservicing residential mortgage loans sold to FNMA and FHLMC and other non-agency private conduits for the account of credit unions, other financial institutions and mortgage brokers. Midwest's subservicing activity is regulated by FHLMC and FNMA.

Investment Securities

The Bank maintains surplus available funds in investments consisting of short-term money market instruments, U.S. government bonds, U.S. federal agency obligations, mortgage-backed securities backed by federal agency obligations and obligations of local units of government. The Bank's President, who is a licensed Registered Representative, manages these investments, and purchase/sale decisions are subject to the review and approval of the Asset Liability Committee of the Bank and the Board of Directors. The securities portfolio provides a source of liquidity to meet Bank operating needs. At December 31, 2002, the portfolio had a net unrealized loss of $81,997 versus a net unrealized loss of $167,112 at December 31, 2001, and $335,000 at December 31, 2000.

Information regarding securities where cost exceeded more than 10% of the Company's stockholders' equity at December 31, 2002 are as follows:

Issuer	Coupon	Yield	Final Maturity	Market Value
FHLBI equity (1)	VAR	6.75%	None	$848,400
FNMA CMO 93-205H (2)	PO	4.15%	9/25/23	1,495,356
GNMA (various)	VAR	5.50%	6/20/22	1,552,826
Other	VAR	-	VAR	54,656

(1) The rate varies quarterly. The Bank is required to maintain the investment in Federal Home Loan Bank of Indianapolis common stock in an amount related to the Bank's single family mortgage related assets and FHLBI advances. Shares can be redeemed or sold at par value to the FHLBI as required from time to time.

(2) This Principal Only strip has an expected average life of less than two years. The increase in market value is due to interest rate fluctuations that have shortened the average life of the instrument. Accrued net interest income on this zero coupon bond was increased in 2001 and 2002 to reflect the decreased average life. The bond is rated AAA.

Competition

Community Banking, Ann Arbor

The attraction and retention of deposits depend on the Bank's ability to provide investment opportunities that satisfy the requirements of investors with respect to rate of return, liquidity, risk and other factors. The Bank competes for these deposits by offering personal service and attention, fair and competitive rates, low fees, and a variety of savings programs including tax-deferred retirement programs.

The Bank competes for loan originations primarily through the quality of services provided to the loan customers, competitive interest rates and reasonable loan fees, rapid and local decision-making and the range of services offered. Competition in originating loans comes principally from other commercial banks, credit unions, insurance companies, mortgage banking companies and savings and loans.

The following table shows market share of deposits for Washtenaw County by financial institution for June 2002, June 2001 and June 2000, respectively from the FDIC and National Credit Union Association's annual branch deposit survey.

Washtenaw County Financial Institution Deposits:

	2002	2001	2000
TCF National	15.63%	16.16%	16.19%
National City	12.51%	11.93%	12.53%
Comerica	11.08%	11.92%	11.36%
Bank One	8.89%	9.37%	10.26%
Keybank	6.41%	7.23%	7.82%
Ann Arbor Commerce	5.22%	4.87%	4.83%
University of Michigan CU	5.21%	4.23%	3.82%
Standard Federal	4.95%	6.22%	6.38%
Flagstar	4.91%	5.06%	4.80%
Bank of Ann Arbor	4.59%	3.94%	3.43%
Huron River Area CU	3.36%	3.09%	3.02%
Chelsea State	3.09%	3.10%	3.38%
Citizens	2.61%	2.82%	2.92%
United Bank & Trust	2.56%	1.40%	1.04%
Midwest Financial CU	2.24%	2.10%	2.04%
Republic	2.03%	2.27%	2.22%
Automotive FCU	1.31%	1.33%	1.38%
Bank of Washtenaw	1.05%	0.64%	0.28%
University Bank	0.89%	0.91%	0.89%
Charter One	0.71%	0.67%	0.69%
5 Credit Unions	0.75%	0.74%	0.72%
Total Deposits (in billions)	$4.53	$4.34	$4.00

Total deposits in the county increased 4.4% to $4.53 billion from June 2001 to June 2002. Total deposits in the county increased 8.5% to $4.34 billion from June 2000 to June 2001. In attracting deposits, the Bank's primary competitors for deposits are mutual funds, other commercial banks, credit unions, savings and loans and insurance companies.

The Bank's main office is adjacent to the University of Michigan Hospital complex. The complex employs a total of 7,800 persons. While the Bank competes with all of these financial institutions for loans and deposits and in particular the eight financial institutions that have branch offices in the northeast Ann Arbor market area, the other major competitor in the immediate local deposit market near the Medical Center complex is Midwest Financial Credit Union, formerly known as Hospital & Health Services Credit Union. The Bank's main office was formerly the headquarters of this credit union, which moved its office to a new office building three miles from the Medical Center Complex.

Banks owned by out-of-state holding companies dominate the Ann Arbor banking market. In the city of Ann Arbor, the University of Michigan Credit

Union is the largest locally-owned financial institution. The only locally-owned community financial institutions, excluding University Bank, are University of Michigan Credit Union, Bank of Ann Arbor, Huron River Area Credit Union, Midwest Financial Credit Union, Automotive Federal Credit Union and several smaller credit unions.

Mortgage Banking

The Bank and Midwest's retail mortgage origination operations encounter competition for the origination of residential real estate loans primarily from savings institutions, commercial banks, insurance companies and other mortgage banking firms. Many of these firms have a well-established customer and/or borrower client base. Some competitors, primarily savings institutions, insurance companies and commercial banks, have the ability to create unique loan products from time to time because they are able to hold the loans in their own portfolio rather than sell into the secondary market. The Bank's ability to hold mortgage loans in our portfolio helps us to compete more effectively. Most loans sold into the secondary market, however, go to the same sources, those being FHLMC, FNMA, and GNMA. Most lenders have access to these secondary market sources; therefore, competition often becomes more a matter of service and pricing than that of product. As a mortgage loan originator and a purchaser of mortgage loans through correspondents, we must be able to compete with respect to the types of loan products offered by competitors to borrowers and correspondents, including the price of the loan in terms of origination fees or fee premium or discount, loan processing costs, interest rates, and the service provided by our staff. An important element to competing is master purchase agreements negotiated periodically with FNMA and FHLMC with low and

competitive loan guarantee fees, a wide variety of mortgage programs, and a variety of flexible underwriting criteria. Our ability to secure these master purchase agreements is dependent upon the performance from a quality perspective of loans previously sold to the agencies.

During lower interest rate environments, competition for loans is less intense due to the large number of loans available for origination. As interest rates rise and the number of loans available for origination diminishes, competition becomes quite intense and companies with larger investor bases, flexibility with respect to type of product offered and greater experience in dealing in these types of markets tend to be the most successful.

The Bank also originates residential loans to be held in portfolio, and management believes that this product together with the product offerings from FHLMC, FNMA and GNMA are sufficient for the Bank. The Bank also is licensed as a HUD Title 1 and Multifamily seller/servicer, but has no plans at this time to expand utilization of HUD or GNMA programs.

Mortgage Servicing and Subservicing. Servicing competition is somewhat less intense than the loan origination aspect of mortgage banking. Due to net worth and management requirements, many mortgage origination companies do not have the capacity to service loans. Falling interest rates present competitive challenges for the mortgage servicing operation in that mortgagors are more likely to refinance existing mortgages. The quality of service and the ability of the origination operation to compete on price and service is important in retaining these customers by refinancing them internally, rather than losing the refinancing transaction to a competitor. Increased refinancing activity as a result of falling interest rates should decrease profitability of mortgage servicing by increasing amortization charges on purchased mortgage servicing rights.

In the subservicing business, Midwest Loan Services competes primarily with about 30 firms nationwide, including specialized subservicing units of mortgage banking companies, and specialized firms owned by banks and savings and loans. Most of these companies have substantially larger financial resources than Midwest Loan Services, and some of them are also located in rural areas with low prevailing wages.

Midwest Loan Services is located in Houghton, Michigan in the western upper peninsula of Michigan. Personnel and occupancy costs are the largest costs in a mortgage servicing operation, and the prevailing wages and occupancy costs in the upper peninsula of Michigan are generally lower than the national average. Midwest Loan Services has developed a unique business extranet website for its business partners and their retail customers. Through its website at www.subservice.com, Midwest Loan Services provides the opportunity for all customers to access their mortgage information 24 hours a day 7 days a week in an environment which provides seamless access to all information. Business partners have access to all mortgage data as easily as if it were serviced on their in-house computer system. Customers can access all information about their accounts and perform any type of transaction through the internet. As a result of low personnel costs, its internet technology and the relationships it has developed in the credit union industry over time, the Company believes that Midwest Loan Services' mortgage servicing operation has a competitive advantage.

Regulation

Primary Regulators of University Bancorp. The Company is a bank holding company registered under the Federal Bank Holding Company Act of 1956. The Federal Reserve Bank of Chicago is the Company's primary regulator and the Company is subject to regulation, supervision and examination by the Federal Reserve. The Company is required to file semi-annual reports with the Federal Reserve and other information as required under the rules of the Board of Governors of the Federal Reserve System. Additionally, the Federal Reserve Board possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to bar the payment of dividends by banks and bank holding companies.

Acquisitions. The Company is generally prohibited from engaging in a non-banking activities since it is a bank holding company. The Company cannot acquire more than 5% of the shares of another company engaged in non-banking activities. The Company can only acquire direct or indirect control of more than 5% of the voting shares of a company engaged in a banking related activity with the prior approval by the Federal Reserve Board to acquire these shares or by regulatory exemption. The Federal Reserve Board has identified specific banking related activities in which a bank holding company may engage with notice to the Federal Reserve. The Federal Reserve considers managerial, capital, and other financial factors, including the impact on local competition of any proposal and past performance under the Community Reinvestment Act in acting on acquisition or merger application. Bank holding companies may acquire other banks located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state law, but subject to certain conditions, including limitations on the aggregate amount of deposits that may be held by the acquiring company and all of its insured depository institution affiliates.

Commitments. In connection with obtaining the consent of the Federal Reserve to a 1989 merger transaction when the Company obtained public listing on the NASDAQ Small-Cap Market, certain commitments were made to the Federal Reserve. Management agreed that the Employee Stock Ownership Plan would not purchase more than 10% of the common stock or 5% of any other class of our voting shares, without the prior approval of the Federal Reserve. Management also agreed not to incur additional debt or to have the Bank pay dividends to us without the prior approval of the Federal Reserve.

Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the Company under the Federal Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "Capital Regulations". The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses. The "prompt corrective action" provisions of federal law and regulation authorizes the Federal Reserve to restrict the payment of dividends to us from an insured bank which fails to meet specified capital levels.

Source of Strength. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company may not otherwise wish to do so. Under the Federal Bank Holding Company Act, the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. In addition, if the Commissioner deems our Bank's capital to be impaired, the Commissioner may require the Bank to restore its capital by a special assessment upon us as University Bank's sole stockholder. If the Company were to fail to pay an assessment, the directors of the Bank would be required, under Michigan law, to sell the shares of the Bank's stock owned by the Company to the highest bidder at either a public or private auction and use the proceeds of the sale to restore the Bank's capital.

Financial Holding Companies. Beginning March 11, 2000, bank holding companies may apply to become Financial Holding Companies. We have not applied to become a Financial Holding Company. Financial Holding Companies may engage in a wider range of non-banking activities than Bank Holding Companies, including greater authority to engage in securities and insurance activities. The expanded powers are available to a bank holding company only if the bank holding company and its bank subsidiaries remain well-capitalized and well-managed. The new law also imposes various restrictions on transactions between the depository institution subsidiaries of bank holding companies and their non-bank affiliates. These restrictions are intended to protect the depository institutions from the risks of the new non-banking activities permitted to affiliates.

Primary Regulators of University Bank. The Bank is a Michigan banking corporation and its deposit accounts are insured by the Bank Insurance Fund (BIF) of the Federal Deposit Insurance Corporation (FDIC). As a Michigan-chartered commercial bank, University Bank is subject to the examination, supervision, reporting and enforcement powers of the Commissioner, as the chartering authority for Michigan banks, and the FDIC, as administrator of the BIF. These agencies and the federal and state laws applicable to the Bank and its operations, extensively regulate various aspects of the banking business including, among other things, reserves against loans, capital levels relative to operations, lending activities and practices, collateral for loans, establishment of branches, mergers, acquisitions and consolidations, payment of dividends, internal controls, permissible types and amounts of loans, investments and other activities, interest rates on loans and on deposits, and the safety and soundness and scope of banking practices. As an insured bank, University Bank is also required to file quarterly reports and other information as required with the FDIC.

All subsidiaries of University Bank including Midwest Loan Services and University Insurance & Investment Services are all also subject to all regulations applicable to University Bank itself, including regular on-site examination by both the OFIS and the FDIC.

Other Regulators. As a FHLMC, FNMA, and HUD Title 1 and Title 2 and HUD multifamily seller/servicer, University Bank's mortgage banking operation is subject to regulation and regular on-site examination by FHLMC, FNMA and HUD.

Other Regulations. University Bank and its subsidiaries are also subject to various regulations including:

- the Community Reinvestment Act,
- the Federal Truth-in-Lending Act,
- the Home Mortgage Disclosure Act,
- the Equal Credit Opportunity Act,
- the Fair Credit Reporting Act,
- the Fair Debt Collection Act,
- the Right to Privacy Act,
- the Real Estate Settlement Procedures Act,
- the Bank Secrecy Act,
- the Electronic Funds Transfer Act,
- Federal Reserve regulations,
- State usury laws, and
- Federal laws concerning interest rates.

Also, University Bank may not engage in any activity not authorized by the Michigan Banking Code unless it is authorized by the Commissioner of the OFIS as being closely related to banking.

These laws and regulations are primarily intended to protect depositors and the deposit insurance fund of the FDIC, not the Bank nor the Company's stockholders. The following is a summary of certain statutes and regulations affecting University Bank. The following information is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Various changes to the Federal Deposit Insurance Act (FDIA) are currently proposed in Congress. Any change in applicable laws, regulations or regulatory policies of various governmental regulatory authorities may have a material effect on the Company's business, operations and prospects. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System, the FDIC, the Commissioner of the Michigan Office of Financial and Insurance Services, the Internal Revenue Service, and state taxing authorities. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on future business and earnings.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums, based upon their respective levels of capital and results of supervisory evaluation. Banks classified as well-capitalized, as defined by the FDIC, and considered healthy pay the lowest premium while institutions that are less than adequately capitalized, as defined by the FDIC, and considered to be of substantial supervisory concern pay the highest premium. A risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

The Federal Deposit Insurance Act (FDIA) requires the FDIC to establish assessment rates at levels that will maintain the Deposit Insurance Fund at a mandated reserve ratio of not less than 1.25% of estimated insured deposits.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution or its directors have engaged or are engaging in unsafe or unsound practices, or have violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC, or if the institution is in an unsafe or unsound condition to continue operations. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Commissioner Assessments. Michigan banks are required to pay supervisory fees to the Commissioner to fund the operations of the Commissioner. The amount of supervisory fees paid by a bank is based upon the bank's total assets, as reported to the Commissioner.

FICO Assessments. Pursuant to federal legislation enacted in 1996, University Bank, as a member of the BIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation (FICO). FICO was created in 1987 to finance the re-capitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund (SAIF), which insures the deposits of thrift institutions. Between January 1, 2000 and the maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be less than 0.025% of deposits.

Capital Regulations. The FDIC has established the following minimum capital standards for state-chartered, FDIC-insured non-member banks, like University Bank:

- a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others;
- and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital.

Tier 1 capital consists principally of stockholders' equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock, including additional voting stock, or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from

correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. An institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, core risk-based capital of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. An institution is adequately capitalized if it has a total risk-based capital ratio of not less than 8%, a core risk-based capital of not less than 4%, and a leverage ratio of not less than 4%.

These capital guidelines can affect the Bank in several ways. Capital levels are currently adequate, however, rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change our capital position in a relatively short period of time, making an additional capital infusion necessary. In general, if the FDIC's assessment of a Bank's financial and managerial strength changes negatively, the Bank's cost of FDIC insurance will rise in subsequent semi-annual periods. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Dividends. Under Michigan law, the Bank is restricted as to the maximum amount of dividends it may pay on its common stock. The Bank may not pay dividends except out of net profits after deducting its losses and bad debts. The Bank may not declare or pay a dividend unless the Bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend. If the Bank has a surplus less than the amount of its capital, it may not declare or pay any dividend until an amount equal to at least 10% of net profits for the preceding one-half year (in the case of quarterly or semi-annual dividends) or full-year (in the case of annual dividends) has been transferred to surplus. The Bank may not declare or pay any dividend until the cumulative dividends on any issued preferred stock have been paid in full.

Federal law generally prohibits the Bank from making any capital distribution, including payment of a dividend, or paying any management fee to us if the Bank would thereafter be undercapitalized. The FDIC may prevent the Bank from paying dividends if the Bank is in default of payment of any assessment due to the FDIC. In addition, the FDIC may prohibit the payment of dividends by the Bank, if a payment is determined, by reason of the financial condition of the Bank, to be an unsafe and unsound banking practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by the Federal Reserve Act including any extensions of credit to us, investments in our stock or other securities, and the acceptance of our stock as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to our directors and officers, to our principal stockholders, and to "related interests" of the directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or one of our principal stockholders may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. Federal banking agencies have adopted guidelines to promote the safety and soundness of federally insured depository institutions. These guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. The preamble to the guidelines states that the agencies expect to require a compliance plan from an institution whose failure to meet one or more of the standards is of the severity that it could threaten the safe and sound operation of the institution. Failure to submit an acceptable compliance plan, or failure to adhere to a compliance plan that has been accepted by the appropriate regulator, would constitute grounds for further enforcement action.

State Bank Activities. Under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. Impermissible investments and activities must be divested or discontinued within certain time frames set by the FDIC in accordance with federal law.

Consumer Protection Laws. The Bank's business includes making a variety of types of loans to individuals. In making these loans, the Bank is subject to state usury and regulatory laws, and various federal statutes, including:

- the Equal Credit Opportunity Act,
- the Fair Credit Reporting Act,
- the Truth in Lending Act,
- the Real Estate Settlement Procedures Act, and
- the Home Mortgage Disclosure Act.

Regulations flowing from these laws prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of Midwest Loan Services, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing.

In receiving deposits, the Bank is subject to extensive regulation under State and federal law and regulations, including: o the Truth in Savings Act,

- the Expedited Funds Availability Act,
- the Bank Secrecy Act,
- the Electronic Funds Transfer Act and
- the Federal Deposit Insurance Act.

Violation of these laws could result in the imposition of significant damages and fines upon the Bank and its directors and officers.

Real Estate Lending Regulations. Federal regulators have adopted uniform standards for appraisals of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish maximum loan to value ratio limitations on real estate loans, which generally are equal to or greater than the loan to value limitations established under the Bank's lending policies.

Branching Authority. Michigan banks, including University Bank, have authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals, including approval of the Commissioner and the FDIC. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows banks to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of de novo interstate branches or the acquisition of individual branches of a bank in another state, rather than the acquisition of an out-of-state bank in its entirety, is allowed only if specifically authorized by state law.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allowed individual states to "opt-out" of interstate branching authority by enacting appropriate legislation prior to June 1, 1997. Michigan did not opt out, and now permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits the following in appropriate circumstances and with the approval of the Commissioner:

- acquisition of all or substantially all of the assets of a Michigan-chartered bank by an FDIC-insured bank, savings bank, or savings and loan association located in another state;
- acquisition by a Michigan-chartered bank of all or substantially all of the assets of an FDIC-insured bank, savings bank or savings and loan association located in another state;
- consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting this consolidation, with the resulting organization chartered by Michigan;
- establishment by a foreign bank, which has not previously designated any other state as its home state under the International Banking Act of 1978, of branches located in Michigan
- establishment or acquisition of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting Michigan-chartered banks to establish branches in these jurisdictions.

Further, the Michigan Banking Code permits the following, upon written notice to the Commissioner:

- acquisition by a Michigan-chartered bank of one or more branches, not comprising all or substantially all of the assets, of an FDIC-insured bank, savings bank or savings and loan association located in another state, the District of Columbia, or a U.S. territory or protectorate;
- establishment by Michigan-chartered banks of branches located in other states, the District of Columbia, or U.S.territories or protectorates; and
- consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states, with the resulting organization chartered by one of the other states.

Primary Regulators for Michigan BIDCO. BIDCO is regulated and supervised by the Michigan Department of Commerce, Office of Financial and

Insurance Services, Bank & Trust Division. BIDCO is examined annually by the Bank & Trust Division, and is required to make annual filings of financial statements, to maintain a license from the Bureau and to operate under strict rules on transactions with affiliates. Licensing under the terms of the Michigan BIDCO Act conveys certain exemptions upon BIDCO under Michigan law that are beneficial to the operations and investment flexibility of the BIDCO. Most importantly, BIDCO is partially exempt from the state's usury law. As a result, BIDCO can lend money and take equity participation in the firm it lends to, with the result that BIDCO's overall combined yield on the investment and loan can exceed the state's usury limit. The amount of BIDCO's return from the equity participation or contingent payments is excluded from the calculation to determine compliance with the state's usury limits.

Primary Regulator of Midwest Loan Services. Midwest is an approved seller/servicer of single family mortgage loans for FNMA, FHLMC and HUD Title II (GNMA), and is subject to their rules, regulations and examinations.

Primary Regulator of University Insurance & Investment Services. University Insurance & Investment Services is licensed by the State of Michigan's Office of Financial and Insurance Services, Insurance Division as both a life and health and a property casualty insurance agency, and is subject to their rules, regulations and examinations. University Insurance & Investment Services also sells broker-dealer investment products and it and its licensed employees are subject to the rules, regulations and examinations of the National Association of Securities Dealers, and the Securities & Exchange Commission.

Item 3. - Legal Proceedings

We are not currently involved in any material pending legal disputes.

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

Not applicable.

PART II.

Item 5. - Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock and Dividend Information

Our common stock trades on the NASDAQ Small-Cap Market under the symbol UNIB. The high and low sales prices of our common stock as quoted by NASDAQ, for each quarter since January 1, 2001 are listed below:

	High	Low
2001		
First Quarter	$2.50	$0.50
Second Quarter	2.13	1.50
Third Quarter	2.95	1.70
Fourth Quarter	2.50	0.83
2002		
First Quarter	$1.40	$0.55
Second Quarter	1.10	0.66

Third Quarter	1.08	0.71
Fourth Quarter	1.15	0.56
2003		
First Quarter (to date)	$1.49	$0.62

These quotations represent inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. As of the March 28, 2003 we had approximately 360 stockholders including approximately 200 beneficial owners of shares held by brokerage firms or other institutions.

Our shareholders authorized a 1 for 2 reverse stock split in November 2002, however, management has not yet opted to implement the reverse stock split. No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in the first three quarters of 2003. We plan to reevaluate our dividend policy prior to year-end 2003.

Certain Sales of Equity Securities

Not applicable.

Item 6. - Selected Financial Data

University Bancorp, Inc.
Selected Consolidated Financial and Other Data
(Dollars in Thousands Except Per Share Data)

	2002	2001	2000
Summary of operations (1)			
Interest income	$3,194	$3,543	$3,315
Interest expense	1,039	1,805	2,074
Net interest income	2,155	1,738	1,241
Provision for loan losses	100	40	111
Net interest income after provision for loan losses	2,055	1,698	1,130
Net gain (loss) on securities	70	13	18
Profit(loss)from investment in Michigan BIDCO	-	(115)	235
Other non-interest income	4,441	4,057	2,397
Non-interest expense	6,291	5,960	4,695
Income (loss) before tax	206	(307)	(915)
Income tax expense (benefit)	-	-	-
Net income (loss) from continuing operations	206	(307)	(915)
Net income (loss)	206	(307)	(915)
Selected Year End Balances			
Total assets	46,249	45,623	47,671
Loans, net	32,784	34,447	35,644
Loans, held for sale	1,551	2,138	268
Cash, cash equivalents and			

investment securities	6,521	3,946	5,340
Deposits	41,920	40,198	38,179
Short-term borrowings	-	92	4,094
Long-term borrowings	298	1,658	926
Minority interest	360	305	283
Stockholders' equity	3,156	2,737	2,042
Per Share Data			
Common shares, year-end	3,900	3,753	2,028
Weighted avg shares, year-end	3,859	2,278	2,027
Cash dividends	-	-	-
Net income (loss) from continuing operations	$0.05	($0.13)	($0.45)
Net income (loss)	$0.05	($0.13)	($0.45)
Book value of common shares	$0.81	$0.73	$0.65
Selected Ratios			
Net yield on earning assets	5.30%	4.37%	3.33%
Return on average assets	0.47%	(0.67%)	(2.06%)
Return on average equity	7.43%	(12.49%)	(53.56%)
Average equity to avg. assets	6.26%	5.38%	3.84%

(1) Excludes results from discontinued operations.

Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of the following discussion and analysis is to assist the reader in understanding and evaluating the changes in financial position and results of operations over the past several years. Investors should refer to the consolidated financial statements, the related notes thereto, and statistical information presented elsewhere in this report when reading this section of the report.

The cautionary statements described below are for the purpose of qualifying for the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934.

RISK FACTORS

Our business involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this report before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be materially adversely affected. This could cause the trading price of our common stock to decline, with the loss of all or part of an investment in our common stock.

Described below, are the material risks of investing in University Bancorp's common stock. Investors should carefully consider these prior to purchasing any shares.

If We Are Delisted From The NASDAQ Small-Cap Market the Marketability of Our Shares Could Decrease

NASDAQ has informed management that the Company's common stock would be de-listed from the NASDAQ Small Cap Market if the bid price of the Company's common stock does not trade for at least $1.00 per share for ten consecutive trading days prior to September 2, 2003. If the Company's common stock is de-listed from NASDAQ, the shares will be less marketable in the future and there will be a smaller potential pool of investors for the stock. This would significantly limit the ability of shareholders deciding to sell their shares to do so. If the Company is de-listed, the management of University Bancorp could opt to list its common stock on the NASDAQ Bulletin Board.

You May Not Be Able To Sell Your Shares Upon Demand

Although the Company's common stock is currently listed for trading on the NASDAQ Small-Cap Market, the trading market for University Bancorp historically has been less active than the average trading market for companies listed on the exchange. In addition, the share price of University Bancorp has been volatile and has ranged from $0.56 to $1.49 in the past 12 months. Factors such as the limited number of shares outstanding held by the public, a limited history of earnings and the absence of dividends in the near future mean that there might not be an active and liquid market for the Company's common stock. Even if an active market develops, there can be no assurance that a market will continue. Purchasers of the Company's common stock should carefully consider the potentially illiquid and long-term nature of their investment in the shares.

The Company's Stock Is Controlled By Insiders Of The Company, Which May Not Provide You With The Best Possible Return On Your Investment

Insiders hold a majority of the shares outstanding of the Company. The Ranzini Group (Mr. Stephen Lange Ranzini, Dr. Joseph Lange Ranzini, Mr. Paul Lange Ranzini, Orpheus Capital, L.P. and the Ranzini Family Trust dated 12/20/89) beneficially owns 2,842,250, or 72.89% of the issued and outstanding shares at March 31, 2003. These individuals are able to exert a significant measure of control over University Bancorp's affairs and policies. This control could be used, for example, to help prevent an acquisition of University Bancorp, precluding shareholders from possibly realizing any possible premium that may be offered for the common stock by a potential acquirer.

Your Ownership Of The Company May Be Further Diluted If The Bank Requires Additional Capital

There can be no assurance that the Bank will not need additional capital in the future to support the Bank's growth or to counter operating losses. Funds necessary to meet the Bank's working capital needs and to finance its expansion might not be available. If additional equity securities are needed to finance future expansion, such sale could result in significant dilution to the existing shareholders.

University Bank Has Incurred Significant Start-up Losses And May Never Achieve Sustained Profitability

University Bank's operations were relocated to Ann Arbor in 1996. University Bank has a history of losses and prior to 2002 incurred substantial operating losses. Shareholders are subject to the risks inherent in starting a new business. The Bank's future profitability is not assured. Management of the Bank believes that as the size of loan portfolio and retail deposits increase that the Bank should become more profitable, but there is no assurance that expenses will not rise at a faster rate than expected as the Bank grows. There is no assurance that University Bank will grow to a size that will enable it to sustain profitability. University Bancorp had an accumulated deficit of $1,999,846 at December 31, 2002.

The Small Size Of University Bank Limits Its Ability To Compete With Larger

Financial Institutions

University Bank faces strong competition for deposits, loans and other financial services from numerous Michigan and out-of-state banks, thrifts, credit unions and other financial institutions. Some of the financial institutions with which University Bank competes with are not subject to the same degree of regulation as University Bank is. Many of these financial institutions aggressively compete for business in the Ann Arbor area. Most of the Bank's competitors have been in business for many years, have established customer bases, have numerous branches, have substantially higher lending limits, and offer certain services that we do not provide. The dominant competitors in the Ann Arbor area are TCF National Bank, National City Bank, Comerica Bank, Bank One and Key Bank. There can be no assurance that University Bank will be able to compete effectively with these competitors unless it can continue to grow its operations.

The Year Ended December 31, 2002 Compared to the Years Ended December 31, 2001 and 2000

Summary of Results of Operations

The Company's net income from operations was $205,598 versus a net loss of $306,573 in 2001 and $914,647 in 2000. Earnings (loss) per share from continuing operations for 2002, 2001 and 2000 were $0.05, $(0.13) and $(0.45), respectively.

The Operations of the Company again showed significant progress in 2002 as compared to 2001. Net income increased 167.06% over the 2001 results. Fourth quarter 2002 net income established a new record of $308,130 or $0.08 per share compared to a loss of ($183,906) or ($0.06) per share for the comparable quarter in 2001. Return on average shareholders' equity was 7.43% for the year ended December 31, 2002 compared to a negative 12.49% for the year ended December 31, 2001. Return on average assets for the same comparable years were 0.47% and (0.67%), respectively. The following table summarizes the pre-tax income (loss) of each profit center of the Company for the years ended December 31, 2002 and 2001 (in thousands):

Twelve months ended December 31, 2002 and 2001 Pre-tax Income (Loss) Summary

	2002	2001
Community Banking	$ 20	$(414)
Midwest Loan Services	281	237
Merchant Banking (Michigan BIDCO)	0	(115)
Corporate Office	(95)	(15)
Total	$ 206	$(307)

Company operating results were also greatly improved in 2001 from 2000. The net loss was reduced by $608,074 to $306,573 in 2001 from $914,647 in 2000. The Company benefited from the declining interest rates in 2001 and increased its net interest margin by $497,242 over the previous year. Other income rose by $1,305,081. The operations of Midwest Loan Services contributed significantly to this category as their loan servicing and mortgage origination activity exceeded the prior year. The increase in income was offset partially by an increase in the Company's non-interest expenses. Non-interest expenses increased by $1,265,249 from 2000. Increased salary and benefits at Midwest accounted of the majority of the rise in other expense. Midwest hired additional personnel in 2001 to manage the higher levels of loan servicing and origination.

Twelve months ended December 31, 2001 and 2000 Pre-tax Income (Loss) Summary:

	2001	2000
Community Banking	$(414)	$(1,314)

Midwest Loan Services	237	436
Merchant Banking (Michigan BIDCO)	(115)	235
Corporate Office	(15)	(272)
	------	-----
Total	$(307)	$(915)
	======	======

Barring four sizeable non-recurring items, both University Bancorp and the Bank would have made a profit for the entire 2001 year. Those non-recurring items were:

Midwest Servicing Rights Valuation	$224,175	(Bank)
Foreclosed Real Estate Valuation	$ 66,829	(Bank)
Non-cash Stock Compensation	$ 31,200	(Bank)
BIDCO Loss	$114,551	(Bancorp)

The following non-recurring items negatively impacted the Bank's result:

1) Midwest Servicing Rights Valuation. The Bank's Midwest Loan Services subsidiary took a writedown on its servicing rights of $224,175 because long term rates temporarily dipped to 40-year lows immediately following the terrorist attacks in September (once written down the servicing rights cannot be written up under Generally Accepted Accounting Principles even though long term rates did subsequently rise). The write-down reduced Midwest's basis in servicing rights to $489,770 from $713,935. The risk in the remaining rights is effectively offset by a principal-only mortgage-backed security investment that increased income during 2001 by $120,385;

2) Foreclosed Real Estate Valuation. In early 2001, management engaged an experienced real estate company to develop an other real estate owned site carried on the Bank's books. During 2001, the Bank wrote-down its investment in this property to $200,000, incurring a $66,829 loss. Substantially all approvals for the proposed development have been received and the Bank anticipates closing on the sale of the property at the contracted price of $300,015.

3) Stock Compensation Expense. The Bank expensed $31,200 in non-cash compensation expense related to an incentive we provided as a hiring bonus to a new executive officer in 2001.

The total of these non-recurring items is $322,194. Without these items, the Bank's income would have been $136,876 in 2001.

4) BIDCO Loss. In addition, the bank holding company took a write-down on its investment in Michigan BIDCO of $114,551 to $29,152 as a result of several factors including the writedown of one investment, and research and development expense related to two e-payment patents that were applied for during the year. The Bank's investment in the BIDCO is now $600,000 in 7.5% cumulative preferred stock. A capital restructuring of the BIDCO reduced the Bank's investment in the BIDCO during 2001 by $600,227.

Net Interest Income

Net interest income improved 23.99% year-over-year, rising to $2.2 million for the year ended December 31, 2002 compared to $1.7 million the prior year. For the fourth quarters ended December 31, 2002 and 2001, net interest income was $474,007 and $424,324, respectively, an improvement of 11.71%. While Community Banking experienced a decline in interest on loans during the record low interest rate environment of the past year, it enjoyed a 38.18% increase in interest on securities and a 42.42% savings in interest expense. Expanding the base of core deposits also allowed us to realize a 76.95% reduction in interest expense on other borrowings. The average yield on interest rate liabilities declined 41% to 2.66% in 2002 from 4.54% in 2001. The average yield on interest bearing assets decreased to 7.85% from 8.91% in 2001. The spread between the average yield on rate sensitive assets and liabilities rose from 4.37% in 2001 to 5.19% in 2002. Additionally, the net interest income was positively affected in 2002 by higher volume of earning assets. Total interest bearing assets increased by $0.91 million to $40.67 million in 2002 from $39.76 million in 2001. For the year ended December 31, 2002, the Bank's net interest margin expanded to 5.30% compared to 4.37% for the previous year.

Net interest income increased $.50 million to $1.74 million in 2001 from $1.24 million in 2000. The increase resulted from an increase in the net interest rate spread, plus an increase in earning assets. Net interest income increased primarily due to a lower rate environment in 2001 as compared to 2000. In 2001, the Federal Reserve Bank lowered the short-term

interest rate numerous times in an attempt to stimulate the United States economy. The Company's positioning of rate sensitive assets and liabilities was structured to benefit from a drop in interest rates. The average yield on interest rate liabilities declined 18% from 5.55% in 2000 to 4.54% in 2001. In contrast, the average yield on interest bearing assets increased slightly from 8.90% to 8.91% in 2001. The spread between the average yield on rate sensitive assets and liabilities rose to 4.37% in 2001 from 3.35% in 2000. Additionally, the net interest income was positively affected in 2001 by higher volume of earning assets. Total interest bearing assets increased by $2.51 million to $39.76 million in 2001 from $37.25 million in 2000.

The following tables present for the average balances, the interest earned or paid, and the weighted average yield for the period indicated:

NET INTEREST INCOME

	At 31-Dec-02	200	
	Average Yield	Average Balance	Int Inc
Interest Earning Assets:			
Commercial Loans	6.98%	18,047,370	
Real Estate Loans (1)	6.84%	14,104,750	
Installment Loans	8.24%	3,237,782	
Total Loans	7.06%	35,389,902	
Investment Securities	4.90%	3,809,545	
Federal Funds & Bank Deposits	0.79%	1,470,693	
Total Interest Bearing Assets	6.60%	40,670,140	

Interest Bearing Liabilities:		
Deposit Accounts:		
Demand	1.38%	5,287,117
Savings	1.16%	423,482
Time	3.21%	20,029,396
Money Market Accts	2.33%	12,282,311
Short-term Borrowings	2.95%	472,079
Long-term Borrowings	5.25%	572,547
Total Interest Bearing Liabilities	2.59%	39,066,932
Net earning assets, net interest income, and interest rate spread	4.01%	1,603,208
Net yield on interest-earning assets	4.05%	

1. Actual yields; not adjusted to take into account tax-equivalent yields.

NET INTEREST INCOME

	200	
	Average Balance	Int Inc
Interest Earning Assets:		
Commercial Loans	16,111,575	
Real Estate Loans (1)	15,545,774	
Installment Loans	4,635,651	
Total Loans	36,293,000	
Investment Securities	2,929,515	
Federal Funds & Bank Deposits	538,676	
Total Interest Bearing Assets	39,761,191	

Interest Bearing Liabilities:	
Deposit Accounts:	
Demand	3,346,502
Savings	349,364
Time	23,172,173
Money Market Accts	10,273,959
Short-term Borrowings	1,931,660
Long-term Borrowings	699,398
Total Interest Bearing Liabilities	39,773,056
Net earning assets, net interest income, and interest rate spread	(11,865)
Net yield on interest-earning assets	

2. Actual yields; not adjusted to take into account tax-equivalent yields.

NET INTEREST INCOME

	200	
	Average Balance	Int Inc
Interest Earning Assets:		
Commercial Loans	13,524,876	
Real Estate Loans (1)	14,769,498	
Installment Loans	4,726,444	
Total Loans	33,020,818	
Investment Securities (2)	4,172,915	
Federal Funds & Bank Deposits	59,305	

Total Interest Bearing Assets	37,253,038
Interest Bearing Liabilities:	
Deposit Accounts:	
Demand	2,838,835
Savings	325,536
Time	16,940,251
Money Market Accts	12,210,290
Short-term Borrowings	3,589,958
Long-term Borrowings	1,457,221
Total Interest Bearing Liabilities	37,362,091
Net earning assets, net interest income, and interest rate spread	(109,053)
Net yield on interest-earning assets	

(1) Actual yields; not adjusted to take into account tax-equivalent yields.
(2) The convertible bonds at Michigan BIDCO were converted on May 31,2000, resulting in the deconsolidation of BIDCO related interest earning assets and interest bearing liabilities.

The table above does not specify the average level of non-interest bearing demand deposits, which were $2,432,737, $2,643,856, and $2,827,298 for the years ended December 31, 2002, 2001 and 2000, respectively.

The following table presents information regarding fluctuations in our interest income and interest expense for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate); and (2) changes in rate (changes in rate multiplied by old volume); with the rate/volume variance allocated to changes in rate:

RATE VOLUME TABLE

	2002 - 2001	
	Change Due To Volume	Change Due To Rate

Interest Income:		
Commercial Loans	$168,534	$(204,239)
Real Estate Mortgage Loans	(113,699)	(126,571)
Installment/Consumer Loans	(131,221)	(41,187)
Investment Securities	83,870	17,486
Federal Funds & Bank Deposits	21,324	(22,942)
Total Interest Income	28,808	(377,453)
Interest Bearing Liabilities:		
Demand Deposits	30,117	(42,119)
Savings Deposits	1,113	(2,322)
Time Deposits	(153,498)	(432,204)
Money Market Accounts	56,933	(116,138)
Short-term Borrowings	(47,147)	(28,601)
Long-term Borrowings	(8,243)	(23,585)
Total Interest Expense	(120,725)	(644,969)
Net Interest Income	$149,533	$267,516

RATE VOLUME TABLE

	2001 - 2000	
	Change Due To Volume	Change Due To Rate
Interest Income:		
Commercial Loans	$ 244,047	$ (87,471)
Real Estate Mortgage Loans	66,014	(65,274)
Installment/Consumer Loans	(9,205)	(3,692)
Investment Securities	(74,166)	135,741
Federal Funds & Bank Deposits	20,745	913
Total Interest Income	247,345	(19,783)
Interest Bearing Liabilities:		
Demand Deposits	12,825	(22,692)
Savings Deposits	456	(964)
Time Deposits	355,717	(180,914)
Money Market Accounts	(76,501)	(127,968)
Short-term Borrowings	(90,228)	(64,250)
Long-term Borrowings	(58,923)	(16,148)
Total Interest Expense	143,346	(412,936)

Net Interest Income	$ 104,089	$ 393,153

Information regarding the Bank's loan portfolio as of December 31, 2002 and 2001 is set forth under Note 5 to University Bancorp's consolidated financial statements included with this report.

Provision for Loan Losses

The Bank charges to operations a provision for possible loan losses which is intended to create an allowance for future loan losses inherent in the Bank's portfolio. Each year's provision reflects management's analysis of the amount necessary to maintain the allowance for possible loan losses at a level adequate to absorb anticipated losses. In its evaluation, management considers factors like historical loan loss experience, specifically identified problem loans, composition and growth of the loan portfolio, current and projected economic conditions, and other pertinent factors. A loan is charged-off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

Non-performing loans are defined as loans which have been placed on non-accrual status and loans over 90 days past due as to principal or interest and still in an accrual status. Where serious doubt exists as to the collectibility of a loan, the accrual of interest is discontinued. See Note 5 of the Consolidated Financial Statements for additional information regarding impaired and past due loans. Non-performing loans amounted to $679,560 and $1,265,276 at December 31, 2002 and 2001, respectively.

During 2002, management noted a decrease in delinquencies primarily due to a more aggressive collection effort.

The provision for loan losses in 2002 was $100,000, an increase of $60,000 from the 2001 level, which in turn was in down from the 2000 level of $111,000. Loans charged off, net of recoveries, were $270,894, $23,884 and $80,588 in 2002, 2001 and 2000, respectively. The increase in net loans charged off from 2001 to 2002 resulted primarily to 2 loans charged off in late 2002 that relate to long standing problem loan relationships that were specifically reserved, but not charged off, in prior year periods. The allowance for possible loan losses totaled $408,219, $579,113 and $562,997 at the end of 2002, 2001 and 2000, respectively. The following table summarizes the loan loss expense for the Bank for the years ended December 31, 2002, 2001 and 2000.

Analysis of the Allowance for Loan Losses ($ amounts in thousands)

	2002	2001	2000
Balance at beginning of the period	$ 579	$ 563	$ 533
Chargeoffs - Domestic:			
Commercial loans	270	20	135
Real estate mortgage	-	7	9
Installment loans	17	17	1
Subtotal	287	44	145
Recoveries - Domestic:			
Commercial loans	13	12	27
Real estate mortgage	-	2	21
Installment loans	3	6	16
Subtotal	16	20	64

Net chargeoffs	271	24	81
Provision for loan losses	100	40	111
Balance at end of period	$ 408	$ 579	$ 563
Ratio of net chargeoffs during period to average loans outstanding during period	0.79%	0.07%	0.24%

Analysis of the Allowance for Loan Losses ($ amounts in thousands)

	Allocated portion of allowance at December 31		Percentage of loans in each category to total loans	
	2002	2001	2002	2001
Loan category:				
Domestic:				
Commercial loans	$ 341	$ 337	56.26%	50.9%
Real estate mortgages	42	78	35.05%	38.2%
Installment loans	19	135	8.69%	10.9%
Unallocated	6	29	N/A	N/A
	$ 408	$ 579	100.0%	100.0%

	At December 31, 2002	At December 31, 2001
Total loans (1)	$33,192,034	$35,026,024
Reserve for loan losses	$ 408,219	$ 579,113
Reserve/Loans %	1.23%	1.65%

(1) Excludes loans held for sale.

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. As a result of the ongoing business depression, the Bank's future loss ratios may exceed historical loss ratios.

Management believes that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio, although the ultimate adequacy of the allowance for loan losses is dependent upon future economic factors beyond our control. A downturn in the general nationwide economy will tend to aggravate, for example, the problems of local loan customers currently facing some difficulties. A general nationwide business expansion could result in fewer loan customers being unable to repay their loans.

Non-Interest Income and Non-Interest Expense

Non-interest income. Non-interest income was $4.4 million in 2002 compared to $4.0 million in 2001. Activity throughout the year was brisk at Midwest Loan Services. The Bank's wholly owned insurance and investment subsidiary, University Insurance & Investment Services, also enjoyed a record year, producing $113,870 in fee income compared to $97,489 for the year ended

December 31, 2001, a 16.8% increase. Money under fee management in the brokerage side of the agency increased to over $5 million during the year.

Non-interest income increased to $3.96 in 2001 from $2.65 in 2000, an increase of 49.2%. The increase in 2001 was mainly the result of increased revenues from Midwest Loan Services' loan subservicing and set-up fees, which more than offset a decline in income from merchant banking (BIDCO) income, because the BIDCO's results were deconsolidated after May 1, 2000.

Mortgage banking. Mortgage banking, servicing and origination fees increased to $4,040,363 in 2002 from $3,783,721 in 2001. Midwest had a highly successful year attracting some of the nation's premier credit unions to its "Members for Life" program. During the year, Midwest grew its mortgages subserviced by 66% from 5,057 to 8,372 and to over $1 billion of mortgages subserviced. During the year, Midwest increased its credit union partners so that at year-end 2002 it had credit union partners with a total of 1,421,380 active members, 8,574,813 potential members and aggregate assets of $9.61 billion. In 2002, Midwest originated 1,769 mortgage loans, an increase of 88%. Growth was consistent in each month throughout the year. In the fourth quarter of 2002, a new record of 664 mortgages were originated by Midwest.

Mortgage banking, servicing and origination fees increased from $2,183,209 in 2000 to $3,783,721 in 2001. The increase in mortgage banking fee income was the result of an increase in the number of loans subserviced at Midwest Loan Services. The increases in mortgage banking fee income for 2001 was the result of an increase in the number of loans subserviced at Midwest Loan Services. During 2000, Midwest Loan Services increased its mortgage subservicing contracts by 280% (from $0.5 billion to $1.9 billion) as a result of a new business relationship with one of the top five mortgage banking firms on Wall Street. During the first half of 2001, Midwest reached a peak of $2.7 billion in 1-4 family residential loan servicing. In the third quarter of the year, the loan servicing volume was significantly cut back as Midwest's largest customer 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 firm with the rest transferred the following month. During 2001 Midwest increased its emphasis on mortgage loan originations through its credit union customers. Much of the increase in loan set up and other fees resulted from fee income from mortgage originations generated from member of credit unions. In 2001, Midwest originated 939 mortgage loans. Growth was consistent in each month throughout the year. In January 2001 12 mortgage loans were originated and 135 were originated in December 2001, an 1,125% increase.

Merchant banking. Michigan BIDCO invests in businesses in Michigan with the objective of capital gains while fostering job growth and economic development. As of December 31, 2002, the BIDCO had made thirty investments since its inception in 1993, amounting to a total of $17,108,680 at original cost, before repayments or participations sold. At December 31, 2002, Michigan BIDCO had total assets of $1,464,091 versus $1,125,561 at December 31, 2001 and $3,429,226 at December 31, 2000.

Michigan BIDCO's financial results were consolidated into the results of University Bancorp until May 31, 2000. At that date the outstanding Michigan BIDCO bonds were converted into common stock and thus diluted University Bancorp's equity ownership down to 28.8% from 80.1%. As a result, the BIDCO is no longer consolidated in the financial statements of University Bancorp and the investment is now accounted for under the equity method of accounting. As a result of the repurchase of the BIDCO's shares held by University Bank in 2001, the Company's equity share of BIDCO at December 31, 2001 is 6.10%. Income (loss) realized from the investment in the BIDCO of was $0, $(114,551) and $234,740 in

2002, 2001 and 2000, respectively.

Securities. Proceeds from sales of marketable equity securities included in proceeds from sales of investment securities was $98,625 for the year ended December 31, 2000. Gross gains of $20,625 was realized in this period.

Proceeds from sales of available for sale debt securities were $1,034,160, $541,460 and $1,123,594 for the years ended December 31, 2002, 2001 and 2000, respectively, excluding sales associated with the Bank's mortgage banking operation. There were gross gains of $69,733, $12,639 and $625 on 2002, 2001 and 2000 sales, respectively and a gross loss of $2,839 on 2000 sales.

At December 31, 2002 gross unrealized losses in our available-for-sale securities were $81,764 and gross unrealized gains were $0. At December 31, 2001 gross unrealized losses in our available-for-sale securities were $167,112 and gross unrealized gains were $0.

Non-interest expense. Non-interest expenses increased 5.54% to $6.3 million in 2002 from $6.0 million in 2001. Non-interest expenses during the fourth quarter 2002 increased as Midwest's mortgage origination function expanded. During the 4th quarter Midwest reached a new level of 664 mortgages originated and succeeded in retaining over 80% of all refinanced mortgages in its servicing rights portfolio that paid-off. Non-interest expense for the quarter ended December 31, 2002 was $1.8 million compared to $1.3 million for the fourth quarter in the prior year. Year-end employee performance bonuses increased the fourth quarter 2002 non-operating expenses as well. The increase was primarily the result of increased operational expenses at

Midwest Loan Services, and an increase in state small business tax and the start-up of the Business Manager product at Community Banking, which more than offset cost control efforts in other areas at Community Banking. During the year Community Banking's non-interest expenses increased by $97,189 or 3.6% to $2,773,262 from $2,676,073, and all of the increase was caused by the two categories mentioned above. Midwest's operations were expanded in 2002 due to a substantial increase in mortgage sub-servicing and origination activity. As the volume expanded Midwest increased its workforce to perform the required tasks. Other servicing and sub-servicing related expenses, such as occupancy, supplies and postage increased also. Non-interest expense was also impacted by an increase in the amortization of the mortgage servicing rights due to the low interest rate environment after September 2001.

Non-interest expense increased to $5,960,223 in 2001 from $4,694,974 in 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. During the year the retail bank division's non-interest expenses increased by just $31,226 to $2,676,073 from $2,644,847. Midwest's operations were expanded in 2001 due to a substantial increase in mortgage sub-servicing and origination activity. As the volume expanded Midwest increased its workforce to perform the required tasks. Other servicing and sub-servicing related expenses, such as occupancy, supplies and postage increased also. At the Bank level, a concerted effort was made to reduce its non-interest expenses. Notable improvements were made in the legal and audit expense category. Non-interest expense was also impacted by an increase in the amortization of the mortgage servicing rights due to the low interest rate environment after September 2001.

Liquidity and Capital Resources

Our total assets at December 31, 2002 amounted to $46.25 million compared to $45.62 million at December 31, 2001. Loans receivable, net of reserves and including loans held for sale, decreased by $2.25 million to $34.33 million from $36.58 million. Cash and cash equivalents including Federal Funds sold on an overnight basis at the end of 2002 increased by $1.73 million from the prior year, while securities increased by $0.84 million. At year-end 2002, the Bank had an unused line of credit from the Federal Home Loan Bank of Indianapolis of $3.5 million, and an unused line of credit from the Federal Reserve Bank of Chicago of $4.9 million.

University Bank, as an FDIC-insured bank, is subject to certain regulations that require the maintenance of minimum liquidity levels of cash and eligible investments. The Bank has historically exceeded this minimum as a result of its investments in federal funds sold, U.S. government and U.S. agency securities and cash. In addition, University Bancorp had $212,273 in cash and equity securities at the end of 2002 to meet cash needs, primarily operating expenses and interest and principal reductions on the University Bancorp's note payable. The balance of the loan was $298,000 and $430,000 at year-end 2002 and 2001. The note is a fully amortizing loan maturing in early 2005. Management intends that the cash and securities on hand and possible dividends from the Bank to the University Bancorp to be sufficient to cover the required principal reductions during 2003 on University Bancorp's loan.

During 2001, University Bancorp raised working capital by issuing equity conversion notes, which bear interest at prime rate although all payment of interest is deferred until conversion into common stock or redemption. Notes are redeemable only through the proceeds of a future sale of common stock or preferred stock. The various equity conversion notes that were issued were converted into common stock in November 2001 as part of our rights offering of common stock, which raised $1,659,749 through the sale of 1,659,749 shares, less offering expenses. The equity conversion notes were sold to our President, former Chairman and members of their family.

The Company's total stockholders' equity at December 31, 2002 was approximately $3.16 million (or 6.8% of total assets) compared to $2.74 million (or 6.0% of total assets) at December 31, 2001. The Bank's Tier 1 Capital at December 31, 2002 was $3.54 million or 7.9% of the Bank's total regulatory assets. The risk-adjusted capital ratio of 9.9% exceeded the minimum regulatory risk-based capital requirement of 8% of the risk-adjusted assets for the Bank. The following table provides detailed information about the Bank's risk-adjusted assets and actual capital percentages:

TIER 1 CAPITAL	2002	2001
Total Equity Capital	$3,310	$2,924
Less: Unrealized losses on available-for-Sale Securities	(82)	(167)
Plus: Minority Interest	360	305
Less: Other identifiable Intangible Assets	206	125
Total Tier 1 Capital	3,546	3,271
TIER 2 CAPITAL		
Allowance for loans & Lease losses	408	579
Less: Excess Allowance	-	130
Total Tier 2 Capital	408	449
Total Tier 1 & Tier 2 Capital	$3,954	$3,720
CAPITAL RATIOS		
Tier 1/Total Average Assets	7.89%	7.13%
Tier 1/Total Risk-Weighted Assets	9.98%	9.14%
Tier 1 & 2/Total Risk-Weighted Assets	11.13%	10.38%

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ITEM 7A. MARKET RISK

Impact of Inflation

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

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. This 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 these rights by lowering required amortization rates on the rights and decreasing the opportunity for customers to refinance those loans. Rising interest rates tend to decrease new mortgage origination activity, negatively impacting current income from the Bank's retail mortgage banking operations and Midwest's mortgage banking operations. Rising interest rates also slow Midwest Loan Services' rate of growth, but increases the duration of its existing mortgages being subserviced under contract.

The Bank's securities portfolio is designed to offset a portion of the market value risk associated with the servicing rights. During period of declining interest rates, the estimated duration period for the Bank's FNMA CMO tends to shorten, thus accelerating the income from the accretion of the bond's discount. This income mitigates the rapid amortization of the servicing rights. In a rising rate environment, the accretion of income on the bond tends to lessen.

The table on the following page details our interest sensitivity gap between interest-earning assets and interest bearing liabilities at December 31, 2002. Certain items in the table are based upon various assumptions that may not necessarily reflect future experience, and therefore, certain assets and liabilities may in fact mature or re-price differently from what is illustrated. The one-year static gap position at December 31, 2002 was estimated at ($14.9 million) or (32.17%):

Asset/Liability Position Analysis as of December 31, 2002
(Dollar amounts in Thousands)
Maturing or Repricing in

ASSETS	3 Mos Or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years	Ove Yea
Loans - net	8,268	3,237	3,666	14,634	4,25
Non-accrual loans	-	-	-	-	-
Securities	240	676	615	-	1,57
Other assets	-	600	-	-	-
Cash and Due from banks	1,312	-	-	-	-
Total assets	9,820	4,513	4,281	14,634	5,83
LIABILITIES					
Time deposits	6,126	7,927	3,060	689	39
Demand -interest bearing	7,512	7,512	6,028	-	-
Demand - non interest	-	-	-	-	-
Savings	-	-	474	-	-
Long term borrowings	33	99	166	-	-
Other liabilities	-			-	-
Stockholders' equity	-	-	-	-	-
Total liabilities	13,671	15,538	9,728	689	39
Gap	(3,851)	(11,025)	(5,447)	13,945	5,43
Cumulative gap	(3,851)	(14,876)	(20,323)	(6,378)	(94
Gap percentage	-8.33%	-32.17%	-43.94%	-13.79%	-2.0

The following repricing information is provided for the Bank's investment portfolio, using book values, as of December 31, 2002:

Investment Portfolio Maturities ($ amounts in thousands) and Yield by Type:

	Maturity or Repricing Interval: Less Than One Year	1 Year to 5 Years	5 Years to 10 Years	More Than 10 Years
Government Agencies:				
Amount	$54	$0	$0	$3,048
Yield	0%	0%	0%	4.83%

Additional information regarding the Bank's investments is set forth under Note 4 to the consolidated financial statements.

The following information illustrates maturities and sensitivities of the

Bank's loan portfolio to changes in interest rates as of December 31, 2002:

Loan Portfolio Maturities by Type ($ amounts in thousands):

Maturity Interval:	Less Than One Year	1 Year to 5 Years	More Th 5 Yea
Commercial	$ 5,763	$ 11,113	$1,8
Real Estate Mortgage (1)	$ 2,070	$ 7,960	$1,6
Installment/Consumer	$ 679	$ 831	$1,2
Total	$ 8,512	$ 19,904	$ 4,7

	Maturity Less Than One Year	Maturity More Than One Year	Tot
Total Variable Rate Loans	$6,268	$ 9,847	$ 16,
Total Fixed Rate Loans	$2,244	$ 14,833	$ 17,
Total Loans (1)	$8,512	$ 24,680	$ 33,

(1) Excludes loans held for sale of $1,551 and the allowance for loan losses.

Income Taxes

Income tax expense (benefit) in 2002, 2001 and 2000 was $0. The effective tax (benefit) rate was 0% for all three years. No tax benefit was realized in these years due to loss carryforwards resulting from net losses from operations.

In 1996, the Bank, through a subsidiary, purchased a $1,000,000 interest in a partnership investment in Michigan Capital Fund for Housing Limited Partnership I, a Michigan limited partnership, which invested in federal low-income housing tax credits. The initial investment consisted of a $50,000 equity purchase and the execution by the subsidiary of a $950,000 promissory note held by this Partnership. Additional capital contributions were made over time to reduce the balance of the note, which was paid in full in late 2002. The purchase of the tax credits increased the deferred federal income tax assets in 2002, 2001 and 2000 and is expected to decrease the amount of federal income taxes we would otherwise pay annually through 2005.

At December 31, 2002, the Company had available federal income tax loss carryforwards that could be utilized to shelter approximately $2,500,000 future taxable income. Realization of income tax benefits not recorded in the financial statements is dependent upon generating sufficient future taxable revenue. See footnote 13 to the financial statements

Legal Proceedings

At December 31, 2002 the Company had no outstanding legal proceedings that would have a material affect on the financial statements.

UNIVERSITY BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2002, 2001, 2000

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
University Bancorp, Inc.

We have audited the accompanying consolidated statement of financial condition of University Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 2000 financial statements of Midwest Loan Services, Inc. an 80 percent owned subsidiary, which statements reflect total assets and revenues constituting 5 percent and 33 percent, respectively of the related consolidated totals for the year ended December 31, 2000. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Midwest Loan Services, Inc. for 2000, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of University Bancorp, Inc. and subsidiaries as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years then ended, in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Southfield, Michigan
March 21, 2003

UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets
December 31, 2002 and 2001

ASSETS	December 31, 2002	December 31, 2001
Cash and due from banks	$ 2,569,469	$ 837,550
Securities available for sale, at market	3,102,838	2,260,103
Federal Home Loan Bank Stock	848,400	848,400
Loans held for sale, at the lower of cost or market	1,550,995	2,137,786
Loans	33,192,034	35,026,024
Allowance for loan losses	(408,219)	(579,113)
Loans, net	32,783,815	34,446,911
Premises and equipment, net	1,720,902	1,787,018
Investment in Michigan BIDCO Inc.	629,258	629,258
Investment in Michigan Capital Fund LPI	356,244	456,244
Mortgage servicing rights , net	1,014,939	606,537
Real estate owned, net	853,198	200,000
Accounts receivable	72,786	862,848

Accrued interest receivable	169,811	229,417
Prepaid expenses	214,472	191,700
Goodwill, net	103,914	63,914
Other assets	258,272	65,045
TOTAL ASSETS	$ 46,249,313	$ 45,622,731

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

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2002	December 31, 2001
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 2,197,567	$ 2,390,750
Demand - interest bearing	21,051,588	13,701,011
Savings	473,894	340,341
Time	18,197,407	23,765,478
Total Deposits	41,920,456	40,197,580
Short term borrowings		91,566
Long term borrowings	298,000	1,657,506
Accounts payable	228,062	339,536
Accrued interest payable	97,068	177,407
Other liabilities	189,594	117,398
Total Liabilities	42,733,180	42,580,993
Minority Interest	360,166	305,129
Stockholders' equity:		
Preferred stock, $0.001 par value;		

$1,000 liquidation value; Authorized - 500,000 shares; Issued 725 shares in 2001		
Common stock, $0.01 par value; Authorized - 5,000,000 shares; Issued - 4,014,732 shares in 2002 and 3,867,732 shares in 2001	40,147	38,677
Additional paid-in-capital	5,537,960	5,411,018
Accumulated deficit	(1,999,846)	(2,205,444)
Treasury stock - 115,184 shares in 2002 and 2001	(340,530)	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(81,764)	(167,112)
Total Stockholders' Equity	3,155,967	2,736,609
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 46,249,313	$ 45,622,731

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

UNIVERSITY BANCORP, INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2001, 2000 and 1999

	2002	2001	200
Interest income:			
Interest and fees on loans	$ 2,805,704	$ 3,254,088	$ 3
Interest on securities:			
U.S. Government and agencies	270,127	202,357	
Other securities	96,666	63,080	
Other interest income	21,955	23,572	
Total interest income	3,194,452	3,543,097	3
Interest expense:			
Interest on deposits:			
Demand deposits	330,178	401,385	
Savings deposits	4,825	6,034	
Time certificates of deposit	671,929	1,257,631	1
Short term borrowings	11,556	87,304	
Long term borrowings	20,675	52,503	
Total interest expense	1,039,163	1,804,857	2
Net interest income	2,155,289	1,738,240	1
Provision for loan losses	100,000	40,000	
Net interest income after provision for loan losses	2,055,289	1,698,240	1
Other income:			
Loan servicing and subservicing fees	3,090,838	2,145,619	1
Initial loan set-up and other fees	713,427	1,570,900	1
Gain on sale of mortgage loans	236,098	67,202	

Merchant banking/ BIDCO income		(114,551)	
Insurance & investment fee income	113,870	97,489	
Deposit service charges and fees	92,955	86,135	
Net security gains (losses)	69,733	12,639	
Other	124,098	89,977	
Total other income	4,441,019	3,955,410	2

-Continued-

UNIVERSITY BANCORP, INC.
Consolidated Statements of Operations (continued)
For the Years Ended December 31, 2002 2001 and 2000

	2002	2001	200
Other expenses:			
Salaries and benefits	$ 2,929,540	$ 3,250,713	$ 1
Occupancy, net	349,186	464,183	
Data processing and equipment	433,239	286,200	
Legal and audit expense	173,139	127,212	
Consulting fees	181,545	231,795	
Mortgage banking expense	579,040	132,832	
Servicing rights amortization	529,048	325,091	
Goodwill amortization		15,978	
Advertising	92,944	111,862	
Memberships and training	103,095	64,609	
Travel and entertainment	91,330	104,189	
Supplies and postage	199,338	333,682	
Insurance	87,662	84,772	
Other operating expenses	541,604	427,105	
Total other expenses	6,290,710	5,960,223	4
Income (loss) before income taxes	205,598	(306,573)	(
Income tax expense (benefit)	0	0	
Net income (loss)	$ 205,598	$ (306,573)	$
Preferred stock dividends		52,244	
Net income (loss) available to common shareholders	$ 205,598	$ (358,817)	$
Basic and diluted income (loss) per common share	$ 0.05	$ (0.13)	$
Weighted average shares outstanding	3,859,433	2,278,364	2

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

UNIVERSITY BANCORP, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2002, 2001 and 2000

	2002	2001	200
Net income (loss)	$205,598	($306,573)	($
Other comprehensive income (loss):			
Unrealized gains on securities available for sale	155,081	180,126	
Less: reclassification adjustment for accumulated gains included in net loss	69,733	12,639	
Other comprehensive income	85,348	167,487	
Comprehensive income (loss)	$290,946	($139,086)	($

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

UNIVERSITY BANCORP, INC.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2002, 2001, and 2000

	Preferred Stock $.001 Par Value		Common Stock $.01 Par Value		Treas
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares
Balance December 31, 1999	0	0	2,127,985	$ 21,280	(115,184)
Issuance of common stock at weighted average price of $2.08 per share	-	-	15,000	150	-
Issuance of preferred stock at price of $1,000 per share	725	$ 725,000	-	-	-
Unrealized gain on securities available for sale, net of tax	-	-	-	-	-
Net loss	-	-	-	-	-
Balance December 31, 2000	725	$ 725,000	2,142,985	$ 21,430	(115,184)
Issuance of preferred stock	733	733,000	-	-	-
Conversion of preferred stock to common stock	(1,458)	(1,458,000)	1,458,000	14,580	-
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $114,090			266,747	2,667	
Payment of preferred dividend					
Unrealized gain on securities available for sale, net of tax					
Net loss					
			38,677		
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $18,587			147,000	1,470	
Unrealized gain on securities available for sale, net of tax					
Net loss					
December 31, 2002	-	$ -	4,014,732	$ 40,147	(115,184)

UNIVERSITY BANCORP, INC.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2002, 2001, and 2000

	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	To Stockh Eq
Balance December 31, 1999	$ (931,980)	$(584,898)	$ 1,
Issuance of common stock at weighted average price of $2.08 per share	-	-	
Issuance of preferred stock at price of $1,000 per share	-	-	
Unrealized gain on securities available for sale, net of tax	-	250,299	
Net loss	(914,647)	-	(
Balance December 31, 2000	$(1,846,627)	$(334,599)	$2,
Issuance of preferred stock	-	-	
Conversion of preferred stock to common stock	-	-	-
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $114,090			1
Payment of preferred dividend	$(52,244)		(
Unrealized gain on securities available for sale, net of tax		$167,487	1
Net loss	(306,573)		(3
Balance December 31, 2001	$(2,205,444)	$(167,112)	$ 2,7
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $18,587			1
Unrealized gain on securities			

available for sale, net of tax		85,348	
Net income	205,598		2
December 31, 2002	$(1,999,846)	$ (81,764)	$ 3,1

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

UNIVERSITY BANCORP, INC.
Consolidated Statements of Cash Flows
For the years ended December 30, 2002, 2001 and 2000

	2002	
Cash flow provided by (used in) operating activities:		
Net income (loss)	$ 205,598	$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	195,070	
Amortization	629,048	
Provision for loan loss	100,000	
Gain on sale of mortgages	(236,098)	
Accretion on securities	(259,463)	
Originations of mortgage loans	(70,457,559)	
Proceeds from mortgage loan sales	71,280,448	
Net (gain) on sale of securities	(69,733)	
Net change in:		
Real estate owned	(653,198)	
Other assets	(318,115)	
Other liabilities	(64,580)	
Net cash provided by (used in) operating activities	351,418	
Cash flow provided by (used in) investing activities:		
Purchase of investment securities	(2,139,503)	
Proceeds from sales of investment Securities	1,034,160	
Proceeds from maturities/paydowns of investment securites	651,486	
Net change in Michigan BIDCO equity Investments	0	
Loans granted, net of repayments	1,563,096	
Premises and equipment expenditures, net	(128,954)	
Net cash provided by (used in) investing activities	980,285	
Cash flow provided by (used in) financing activities:		
Change in deposits	1,722,876	

Change in short term borrowings		(91,566)	
Issuance of long term borrowings		0	
Issuance of equity conversion notes		0	
Principal payments on long term borrowings		(1,359,506)	
Payment of preferred dividends		0	(5
Issuance of preferred stock		0	
Issuance of common stock		128,412	
Net cash provided by (used in) financing activities		400,216	
Net change in cash and cash equivalents		1,731,919	
Cash and cash equivalents:			
Beginning of year		837,550	
End of year		$ 2,569,469	$
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	1,119,502	$
Supplemental disclosure of non-cash transactions:			
BIDCO conversion of bonds to common stock			
Preferred stock converted to common stock			$
Equity conversion notes converted to preferred stock			$
De-consolidation of Michigan BIDCO, Inc.:			
Cash (deposits at University Bank)			
Equity investments of Michigan BIDCO, Inc.			
Loans			
Premises & equipment			
Real estate owned			
Other assets			
Long-term borrowings			
Other Liabilities			
Investment in Michigan BIDCO,Inc.			

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

1. Summary of significant accounting policies

Principles of Consolidation and Nature of Operations
The consolidated financial statements of University Bancorp, Inc. (the Company) include the operations of its wholly-owned subsidiary, University Bank (the Bank), the Bank's wholly-owned subsidiary, University Insurance & Investment Services, Inc. (Agency) and an 80% owned subsidiary, Midwest Loan Services, Inc. (Midwest). In 1999, the consolidated financial statements also include an 80% owned subsidiary, Michigan BIDCO (BIDCO). Due to the reduction in the Company's ownership

percentage, this entity is accounted for using the equity method at December 31, 2001 and 2000. The accounts are maintained on an accrual basis in accordance with generally accepted accounting principles and predominant practices within the banking and mortgage banking industries. All significant intercompany balances and transactions have been eliminated in preparing the consolidated financial statements.

The Company is a bank holding company. University Bank, which is located in Michigan, is a full service community bank, which offers all customary banking services, including the acceptance of checking, savings and time deposits. The Bank also makes commercial, real estate, personal, home improvement, automotive and other installment, credit card and consumer loans, and provides fee based services such as annuity and mutual fund sales, stock brokerage and money management, life insurance, property casualty insurance and foreign currency exchange. The Bank's customer base is primarily located in the Ann Arbor, Michigan area. The Bank established its main office in Ann Arbor in February 1996, by relocating from the eastern Upper Peninsula of Michigan.

University Bank's loan portfolio is concentrated in Ann Arbor and Washtenaw County, Michigan. While the loan portfolio is diversified, the customers' ability to honor their debts is partially dependent on the local economy. The Ann Arbor area is primarily dependent on the education, healthcare, services, and manufacturing (automotive and other) industries. Most real estate loans are secured by residential or commercial real estate and business assets secure most business loans. Generally, installment loans are secured by various items of personal property.

University Insurance and Investments Services (Agency) is engaged in the sale of insurance products including life, health, property and casualty, and investment products including annuities, mutual funds, stock brokerage and money management. The Agency is located in the Bank's Ann Arbor main office. The Agency also has a limited partnership investment in low-income housing tax credits through Michigan Capital Fund for Housing Limited Partnership I with financing assistance from the General Partner, Michigan Capital Fund for Housing.

Midwest Loan Services (Midwest) is engaged in the business of servicing and subservicing residential mortgage loans. Midwest

1. Summary of significant accounting policies (continued)

began operations in 1992 and was acquired by University Bank in December, 1995. Midwest is based in Houghton, Michigan, and also originates mortgage loans for itself and other financial institutions, including the Bank (See Note 3).

Use of Estimates in Preparing Financial Statements:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based upon available information. These estimates and assumptions affect the reported amounts and disclosures. Actual results could differ from those estimates.

The significant estimates incorporated into these consolidated financial statements which are more susceptible to change in the near term include the value of mortgage servicing rights, the allowance for loan losses, the identification and valuation of impaired loans, the equity interest in the fair value and the change in the fair value of investments made by the BIDCO, the fair value of financial instruments, and the valuation of deferred tax assets.

Cash flow reporting
For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents is defined to include the cash on hand, non-interest bearing deposits in other institutions, federal funds sold and other investments with a maturity of three months or less when purchased. Net cash flows are reported for customer loan and deposit transactions and interest bearing deposits with other banks.

Securities
Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss. Realized gains are based on specific identification of amortized cost. Securities are written down to fair value when a decline in fair value is not temporary. Interest income includes amortization of purchase premium or discount. Other securities such as Federal Home Loan Bank stock are carried at cost.

Loans
Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days. Payments received on such loans are reported as principal reductions, unless all interest and principal payments in arrears are paid in full.

1. Summary of significant accounting policies (continued)

Mortgage banking activities
Mortgage banking activities includes retail and servicing operations. Mortgage loans held for sale are valued at the lower of cost or market as determined by bid prices for loans in the secondary market. The loans are sold without recourse, except in the event that documentation errors are made during the origination process.

Allowance for loan losses
The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and recoveries and decreased by charge-offs. Management estimates the allowance balance required based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

Premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line method for bank premises and the accelerated method for equipment and land improvements over their estimated useful lives. The Company uses the following useful lives as of December 31, 2002:

Buildings and building improvements	39 years
Land and leasehold improvements	15 years
Furniture, fixtures, and equipment	3-7 years
Software	2-5 years

Other real estate owned

Real estate properties acquired in collection of a loan are recorded at fair value upon acquisition. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss.

1. Summary of significant accounting policies (continued)

After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in other expenses.

Servicing rights

Servicing rights represent both purchased rights and the allocated value of servicing rights retained on loans originated and sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using grouping of the underlying loans as to type, term and interest rates. Any impairment of a grouping is reported as a valuation allowance.

Income taxes

Income tax expense/benefit is the sum of the current year estimated tax obligation or refund per the income tax return, and the change in the estimated future tax effects of temporary differences and carryforwards. Deferred tax assets or liabilities are computed by applying enacted income tax rates to the expected reversals of temporary differences between financial reporting and income tax reporting, and by considering carryforwards for operating losses and tax credits. A valuation allowance adjusts deferred tax assets to the net amount that is more likely than not to be realized.

Retirement plan

The Bank has a 401-k Plan that allows an employee to contribute up to 15% of salary pre-tax, to the allowable limit prescribed by the Internal

Revenue Service. Management has discretion to make matching contributions to the Plan. However, the Bank made no matching contributions for the years ended December 31, 2002, 2001 and 2000.

Employees Stock Ownership Plan (ESOP)
The Company has a noncontributory ESOP covering all full-time employees who have met certain service requirements. The employees' share in the Company's contribution is based on their current compensation as a percentage of the total employee compensation. As shares are contributed to the plan they are allocated to employees and compensation expense is recorded at the shares' fair value. The Company made no contribution in 2002 and 2001.

Stock options
At December 31, 2002, the Company has a stock-based employee compensation plan, which is described more fully in Note 8. 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

1. Summary of significant accounting policies (continued)
common stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Years Ended December 31, 2002	2001	2000
Net income (loss), as reported	$205,578	$(306,573)	$(914,647)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	6,000	72,000	48,603
Pro forma net income (loss)	$199,578	$(378,573)	$(963,250)
Basic and Diluted Earnings (loss) per share:			
As reported	$0.05	$(0.13)	$(0.45)
Pro forma	$0.05	$(0.16)	$(0.46)

Dividend restriction
Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends that may be paid by the bank to the holding company or by the holding company to shareholders. In addition, the Bank cannot pay a dividend until it has net retained earnings or unless it receives a waiver from the State of Michigan banking regulators. The accumulated deficit of the Bank was $1,689,153 and 1,989,826 at December 31, 2002 and 2001, respectively.

Earnings (loss) per share

Basic earnings (loss) per share is net income (loss) of the Company (after the dividend requirement for preferred stock) divided by the weighted average common shares outstanding for the year. Diluted earnings per share includes the effect of any additional dilutive stock options which were not significant in 2002. Stock options outstanding in 2001 and 2000 were considered anti-dilutive and are not included in loss per share calculations. As a result, both basic and diluted earnings per share available to common are equal to net earning (loss) divided by weighted average common shares outstanding.

Comprehensive Income (Loss):

Comprehensive income (loss) includes both the net loss and the change in unrealized gains and losses on securities available for sale.

1.Summary of significant accounting policies (continued)

Segment Reporting

The Company's segments are determined by the products and services offered, primarily distinguished between banking and mortgage banking operations. Loans, investments, and deposits provide the revenues in the banking operation, and servicing fees, underwriting fees and loan sales provide the revenues in mortgage banking. All operations are domestic.

Reclassification

Certain items in the 2001 and 2000 consolidated financial statements and notes have been reclassified to conform to the 2002 presentation.

2. Michigan BIDCO, Inc.

BIDCO was incorporated for the purpose of providing financing to small businesses located in Michigan for the purpose of creating business and industrial development in the State of Michigan. BIDCO is licensed under the Michigan BIDCO Act, and is regulated by the Michigan Office of Financial and Insurance Services, Bank and Trust Division. The President of the Company serves as Chairman and President of BIDCO.

Upon formation, Michigan BIDCO received a $3 million loan from the State of Michigan (Michigan Strategic Fund or MSF). The BIDCO was able to turn this loan into a grant by making investments which the increased or retained the number of jobs and annual sales volume of each investee company. The financial statements of BIDCO are stated using the prescribed accounting practices of investment companies.

On May 31, 2000, BIDCO converted its outstanding convertible bonds into common stock (a few convertible bonds were also redeemed at that time). With the conversion of these convertible bonds, the Company's consolidated ownership in BIDCO dropped from 80.1% to 28.8%. Subsequent to May 31, 2000, the BIDCO has been excluded from the Company's consolidated financial results and the Company's investment in BIDCO was being accounted for using the equity method of accounting. At December 31, 2000, the Company owned 31.5% of BIDCO (of which 27.1% was held by the Bank and 4.4% by the Company). At December 31, 2001, the Bank's shares in the BIDCO were redeemed by the BIDCO in exchange for cash of $153,417 and preferred stock with a liquidation preference of $600,000. The preferred stock accrues 7.5% annual dividends, and it can be retired at par value by the Bank, as cash is available. The company retains a 6.1% ownership of BIDCO's common stock at December 31, 2002 which is held as an investment at cost. Total common shareholders' equity of BIDCO was $673,000 and $478,000 at December 31, 2002 and 2001, respectively.

3. Secondary Market Operations

Midwest Loan Services provides servicing and subservicing of real estate mortgage loans for University Bank and several other financial institutions. The unpaid principal balance of these loans was approximately $1.06 billion, $576 million and $2.2 billion as of December 31, 2002, 2001 and 2000 respectively. Custodial escrow balances maintained in connection with these respective loans was $23.4 million, $18.4 million, and $38.5 million, at December 31, 2002, 2001 and 2000 respectively. The following summarizes the operations of Midwest for the years ended December 31:

3. Secondary Market Operations (continued)

	2002	
Loan servicing and subservicing fees	$ 2,677,966	$ 1,574
Loan set-up and other fees	713,427	1,665
Interest income	45,922	229
Gain on sale of loans	236,098	60
Total income	3,673,413	3,530
Salaries and benefits	1,348,884	1,706
Amortization expense	522,081	312
Interest expense	2,520	2
Other operating expenses	1,365,091	1,148
Total expenses	3,238,576	3,170
Pretax income of Midwest	$ 434,837	$ 360

University Bank sells conforming residential mortgage loans to the secondary market. These loans are owned by other institutions and are not included in the Company's consolidated balance sheets. Such mortgage loans have been sold predominately without recourse or with limited recourse. The unpaid principal balance of these loans was $1.8 million, $2.3 million and $3.6 million at December 31, 2002, 2001 and 2000 respectively.

Following is an analysis of the change the Company's mortgage servicing rights:

	2002	2001	2000
Balance, January 1	$606,537	$582,210	$ 704,164
Additions - originated	937,450	349,348	49,175
Amortization expense	(529,048)	(325,021)	(171,129)
Balance, December 31	$1,014,939	$606,537	$582,210

Included in the amortization expense is a valuation allowance for the years ended December 31, 2002, 2001 and 2000 of $49,326, $224,175 and $62,519, respectively.

4. Securities available for sale

The following is a summary of the amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities available for sale at December 31, 2002 and 2001:

	December 31, 2002			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$3,184,835	$ -	$(81,997)	$3,102,838

	December 31, 2001			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$1,948,376	$ -	$(111,373)	$1,837,003
U.S. Treasury	478,839	-	(55,739)	423,100
Total	$2,427,215	$ -	$(167,112)	$2,260,103

At December 31, 2002 and 2001, the fair value of securities pledged to secure certain borrowings were $3,048,182 and $2,260,103, respectively.

Sales of available for sale securities:	2002	2001	2000
Proceeds	$1,034,160	$541,460	$1,222,219
Realized gains	69,733	12,639	24,126
Realized losses	-	-	6,340

The scheduled maturity date of the securities available for sale at December 31, 2002 is:

	Amortized Cost	Fair Value
2002	$ 53,833	$ 53,833
2003-2006	_	_
2007-2011	-	-
After 2011	3,131,002	3,049,005
	$3,184,835	$3,102,838

5. Loans

Major classifications of loans are as follows as of December 31:

	2002	2001
Commercial	$ 16,550,325	$ 15,088,956
Real estate - mortgage	11,633,060	13,377,240
Real estate -construction	2,113,747	2,683,594
Installment	2,799,490	3,795,288
Credit cards	95,412	80,946
Gross Loans	33,192,034	35,026,024

Allowance for loan losses	(408,219)	(579,113)
Net Loans	$ 32,783,815	$ 34,446,911

Changes in the allowance for loan losses were as follows:

	2002	2001	2000
Balance, beginning of year	$ 579,113	$ 562,997	$ 532,585
Provision charged to operations	100,000	40,000	111,000
Recoveries	16,570	20,058	63,708
Charge-offs	(287,464)	(43,942)	(144,296)
Balance, end of year	$ 408,219	$ 579,113	$ 562,997

Past due and non-accrual loans at December 31 are summarized as follows:

	2002	2001
Past due loans:		
90 days and more and still accruing:		
Real estate	$ -	$ 276,654
Installment loans	-	24,194
Commercial loans	-	194,404
	$ -	$ 495,252
Non accrual loans:		
Real estate - mortgage and construction loans	$ 102,713	$ 770,024
Installment loans	67,546	-
Commercial loans	509,301	-
	$ 679,560	$ 770,024

Information regarding impaired loans for the years ended December 31, is as follows:

Impaired loans:	2002	2001	2000
Loans with no allowance allocated	$ -	$ -	$ -
Loans with allowance allocated	$ 679,560	$ 770,024	$ 72,375
Amount of allowance for loan losses allocated	$ 177,069	$ 76,501	$ 10,774
Impaired loans:			
Average balance during the year	$ 531,823	$ 770,714	$ 72,199
Interest Income recognized thereon	$ 8,412	$ 8,454	$ 5,017
Cash-basis interest income recognized	$ 8,412	$ 8,454	$ -

6. Premises and equipment

Classifications at December 31 are summarized as follows:

	2002	2001	2000
Land	$ 132,931	$ 132,931	$ 132,931
Buildings and improvements	1,157,624	1,134,555	1,030,120
Furniture, fixtures, equipment and software	2,108,391	2,195,652	1,613,445
Construction in process	-	-	6,852

	3,398,946	3,463,138	2,783,348
Less: accumulated depreciation	(1,678,044)	(1,676,120)	(1,407,591)
Net premises and equipment	$ 1,720,902	$ 1,787,018	$ 1,375,757

Depreciation expense amounted to $290,516, $268,529 and $252,726 for the years ended December 31, 2002, 2001 and 2000, respectively.

The Bank leases an ATM drive-thru location in Ann Arbor for approximately $25,000 per year and two off-site ATM locations for $9,000 per year. Midwest leases its office space for approximately $38,000 per year in Houghton, Michigan. Total rental expense for all operating leases was $55,861, $50,995, and $61,892 in 2002, 2001 and 2000. As of December 31, 2002, the Company had no minimum rental commitments under non-cancelable operating leases.

Prior to 2002, the Bank leased part of its main office in Ann Arbor to the University of Michigan. Under this lease agreement (which expired in September 2001), the Bank was reimbursed for 40.4% of its occupancy expense.

The Bank remains contingently liable in the event that the purchaser of one of its branch locations in Sault Ste. Marie does not meet its future obligations to the lessor. As of December 31, 2002, management believes that the purchaser was in compliance with these lease terms. The annual base rent for such branch is currently $32,000, and the future minimum rent due is $26,000.

7. Time deposits

Time deposit liabilities issued in denominations of $100,000 or more were $2,784,947 and $5,499,041 at December 31, 2002 and 2001 respectively.

At December 31, 2002, stated maturities of time deposits were:

2003	$14,052,701
2004	1,984,612
2005	1,075,123
2006	447,016
2007	242,549
Thereafter	395,406
	$18,197,407

7. Time deposits (continued)

The Bank had issued through brokers $7,890,000 and $10,656,000 of time deposits as of December 31, 2002 and 2001, respectively. These time deposits have maturities ranging from one to five months and are included in the table above. These deposits are issued in denominations of less than $100,000.

The Bank had deposits of $1,131,416 and $896,793 from directors, officers and their affiliates as of December 31, 2002 and 2001, respectively.

8. Stock options

In 1993, the Board of Directors approved the grant of options to purchase 60,000 shares of common stock to the non-executive directors. The exercise price of options granted was set at $1.08 per share, which was equivalent to the then current bid price per share as reported by NASDAQ. The options are immediately exercisable and expire July 19, 2003. Under this initial grant, options to purchase 30,000 shares remain outstanding as of December 31, 2002. In 1995, the Company adopted a stock option and stock award plan (the 1995 Stock Plan), which provides for the grant of incentive stock options, as defined in Section 422(b) of the Internal Revenue Code of 1986, as amended, as well as the grant of non-qualified stock options and other stock awards. The plan provides for the grant to officers, directors and key employees of the Company, and independent contractors providing services to the Company, of options to purchase and other awards of common stock. The exercise price of options granted under the plan shall be determined by the Board of Directors, or a compensation committee thereof. Options shall expire on the date specified by the Board of Directors or such committee, but not more than 10 years from the date of grant (or five years from the date of grant for incentive stock options if the grantee owned 10% of the Company's voting stock at the date of grant). Unless amended, the 1995 Stock Plan will terminate on November 15, 2005.

8. Stock options (continued)

The following table summarizes the activity relating to options to purchase the Company's common stock:

	Number of Options	Weighted Average Exercise price
Outstanding at December 31, 1999	151,065	$1.64
Granted - 2000 ($0.65 Fair Value)	74,594	1.08
Exercised - 2000	(15,000)	1.08
Forfeited - 2000	(45,750)	2.11
Outstanding at December 31, 2000	164,909	1.30
Granted - 2001 ($0.72 Fair Value)	100,000	2.00
Exercised - 2001	(5,000)	0.75
Forfeited - 2001	(8,000)	1.00
Outstanding at December 31, 2001	251,909	1.60
Forfeited - 2002	(47,000)	1.61
Granted - 2002 ($0.08 Fair Value)	75,000	1.00
Outstanding at December 31, 2002 2002	279,909	$1.44

At December 31, 2002:

Number of options immediately exercisable	198,909
Weighted average exercise price of immediately exercisable options	$1.21
Range of exercise price of options outstanding	$0.75 - $2.00
Weighted-average remaining life of options outstanding	4.21 years

The following summarizes assumptions used to value stock options.

	2002	2001	2000
Risk-free interest rate	4.13%	5.43%	5.37%
Expected option life	5.0 years	2.6 years	3.6 years
Expected stock price volatility	21.2%	21.6%	24.6%
Expected dividends	$0	$0	$0

9. Employee stock ownership plan (ESOP)

The employees' allocation of ESOP assets is based on their current compensation, after 1 year of service and upon reaching the age of 21. The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the plan are comprised entirely of 77,018 and 91,462 shares of the Company's stock at December 31, 2002 and 2001, respectively, all of which were fully allocated at December 31, 2002. Upon retirement from the plan, participants can receive distributions of their allocated shares of the Company's stock. The assets of the ESOP are held in trust and were valued at approximately $53,000, and $101,000 at December 31, 2002 and 2001, respectively.

10. Minority Interest

The Bank owns an 80% interest in the common stock of Midwest Loan Services, with the remaining 20% owned by the President of Midwest. At December 31, 2002 and 2001, total common stockholders' equity of Midwest was $1,800,830 and $1,525,644 resulting in a $360,166 and $305,129 minority interest reflected on the Company's consolidated balance sheet, respectively. The results of Midwest's operations for 2002, 2001 and 2000 are included in the Company's consolidated statement of operations.

11. Commitments and contingencies

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to buy, sell and fund loans, letters of credit and unused lines of credit. The Bank's exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements. The following is a summary of commitments as of December 31:

	2002	2001
Unused lines of credit	$ 2,094,000	$ 2,808,000
Commitments to fund loans	$ 3,748,000	$ 3,085,000
Total	$ 5,842,000	$ 5,893,000

12. Related party transactions

The Company's President also serves as President and Chairman of Michigan BIDCO. As such, the President is actively involved in the BIDCO's operations, including investment activity and estimation of the fair value of its equity investments.

In July 2000, the Company's former Chairman, now deceased, purchased equity securities from the Company for $58,125, resulting in a gain to the Company of $20,625.

During 2001, the Company issued $733,000 of preferred stock, of which $212,904 was originated from the conversion of equity conversion notes. The preferred shares were issued to the Company's former Chairman, the Chairman's wife, the President and related family trusts. In November

12. Related party transactions (continued)

2001, the preferred shares of $1,458,000 were converted to common stock pursuant to the stock rights offering agreement. In November 2000, the Company issued $725,000 of preferred stock of which $535,000 was originated from the conversion of equity conversion notes. The preferred shares were issued to the Company's former Chairman and his wife, the President and related family trusts

The Bank had loans of $950,513 and $15,830 to related officers and directors at December 31, 2002 and 2001, respectively. During 2002, the Bank originated a construction line of credit for $800,000 and a mortgage note of $269,000. Available lines of credit to related parties at the December 31, 2002 and 2001, totaled $229,487 and $95,170, respectively. These loans were made in the normal course of business and are considered to be performing at December 31, 2002.

13. Income taxes

The Company has recorded no income tax expense in each of the three years ended December 31, 2002 due to the existence of net operating loss carryforwards and a valuation allowance equal to 100% of the net deferred tax assets at December 31, 2002 and 2001.

The net deferred tax asset at December 31, 2002 and 2001 is comprised of the following:

	2002	2001
Allowance for loan losses	$ 212,183	$ 178,183
Net operating loss carry-forward	677,617	582,669
Tax credit carryforward	866,436	743,749
Donation carryforward	43,667	76,666
Other	15,617	44,816
Deferred tax assets	1,815,521	1,626,083
Servicing rights	(353,350)	(206,223)
Deferred tax liabilities	(353,350)	(206,223)
Net deferred tax asset	1,462,171	1,419,861
Valuation allowance for deferred tax assets	(1,462,171)	(1,419,861)
Net deferred tax asset	$ -	$ -

The Company has net operating loss carryforwards of approximately $1,986,000 which expire beginning in 2012; and general business credit carryforwards of approximately $866,000 which expire beginning in 2011. In addition, the Company has an alternative minimum tax (AMT) credit carryforward of approximately $115,000. Under current tax regulations, the AMT credit can be carried forward indefinitely. Management has established an allowance against deferred tax assets that are not considered realizable at December 31, 2002 and 2001.

13. Income taxes (continued)

Financial statement tax expense amounts differ from the amounts computed by applying the statutory federal tax rate of 34% to pretax income because of operating losses and valuation allowances recorded to reduce deferred tax assets as noted above.

14. Short Term Borrowings

The Bank has a line of credit available from the Federal Home Loan Bank (the FHLB) in the amount of $3.5 million and $5 million at December 31, 2002 and 2001, respectively. At December 31, 2002, borrowings are secured by the pledge of specific mortgage loans held for investment with unpaid principal balances of $4.8 million and available-for-sale securities with a balance of $3.0 million.

The Bank has a line of credit available from the Federal Reserve Bank of Chicago (the FRB) in the amount of $4.9 million. There were no amounts outstanding on this line from the FRB at December 31, 2002 and 2001. Borrowings are secured by the pledge of specific commercial loans held for investment with unpaid principal balances of $7.9 million. The following information provides a summary of short-term borrowings for the years indicated:

	2002	2001
Amount outstanding at the end of the year and interest rate	None	$ 91,566 2.95%
Maximum amount of borrowing outstanding at any month end during the year	$2,881,000	$3,505,607
Average amount outstanding during the year and weighted average interest rate	$ 472,079 2.09%	$1,931,660 4.52%

15. Long Term Borrowings

The Company has a note payable to North Country Bank & Trust (NCB&T) secured by the stock of the Bank with a balance of $298,000 and $430,000 at December 31, 2002 and 2001, respectively. The note has a maturity date of February 15, 2005. Interest is payable quarterly at the prime rate (4.25%) of NCB&T plus 1.00 percent. Principal payments required are as follows:

2003	$132,000
2004	$132,000
2005	$ 34,000
Total	$298,000

Dividends by the Bank to the holding company in excess of the prior year's annual net income are not permitted without prior permission from NCB&T under the terms of the Company's credit facility.

University Insurance and Investment Services Inc. has an obligation of $0 and $227,506 at December 31, 2002 and 2001, respectively, payable to the Michigan Capital Fund for Housing Nonprofit Housing Corporation in connection with its investment in a low-income housing limited partnership.

15. Long Term Borrowings (continued)

In December 2001, the Federal Home Loan Bank advanced the Company a $1,000,000, two year fixed rate bullet loan. The loan carried an interest rate of 3.62%. In early 2002, the note was paid off.

University Bancorp issued equity conversion notes in the amount of $212,904 during 2001. The notes were redeemed from the proceeds of the sale of convertible preferred stock. No conversion notes were issued by the Company as of December 31, 2002 and 2001.

16. Regulatory matters

University Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The Bank is also subject to prompt corrective action capital requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain a minimum of total capital and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average total assets (as defined). Management believes, as of December 31, 2002, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2002, the most recent guidelines from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. At December 31, 2001 the Bank was classified as "well capitalized." To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

16. Regulatory matters (continued)

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
As of December 31, 2002:				
Total capital (to risk weighted assets)	$3,954,000	11.1 %	$2,841,000	8.0 %

Tier I capital (to risk weightedassets)	3,546,000	9.9 %	1,421,000	4.0 %
Tier I capital (to average assets)	3,546,000	7.9 %	1,797,000	4.0 %
As of December 31, 2001:				
Total capital (to risk weighted assets)	$3,720,000	10.4 %	$2,870,000	8.0 %
Tier I capital (to risk weighted assets)	3,271,000	9.1 %	1,431,000	4.0 %
Tier I capital (to average assets)	3,271,000	7.1 %	1,834,000	4.0 %

The Bank presently has an agreement with its regulators that the Bank will maintain the ratio of Tier 1 capital to average assets at 7% or more.

17. Management's Plan Regarding Continuing Operations

At December 31, 2002, University Bancorp had an accumulated deficit of $1,999,846 and recurring losses from operations for 4 of the past 5 years. Future operations of University Bancorp are intended to continue. Management has reviewed operating results, prepared projections of possible future results, performed other analyses of its operations to reduce operating costs and divested certain of its unprofitable subsidiaries. Management of the Company has implemented a plan to improve core earnings by adding low-cost deposits, adjusting fees, growing the loan portfolio of the Bank, and eliminating inefficient or redundant costs at the Bank level. Both the Bank and Midwest Loan Services are projected to have profits in 2003, however, the Company's continued existence is dependent upon its ability to maintain profitable operations and retain adequate capital levels.

18. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amount is considered to estimate fair value for cash and short-term instruments, demand deposits, short-term borrowings, accrued interest, and variable rate loans or deposits that reprice frequently and fully. Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer. For fixed rate loans or deposits and for variable rate loan or deposits with infrequent repricing or repricing limits, the fair value is estimated by the discounted cash flow analysis using current market rates for the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analyses of underlying collateral values, where applicable. Fair value of loans held for sale is based on market estimates. Fair value of mortgage servicing rights is estimated using discounted cash flows based on current market interest rates net of estimated costs of servicing loans. Fair value of mortgage subservicing rights is based on a multiple of servicing contract revenue. The fair value of debt is based on currently available rates for similar financing. The fair value of off-balance sheet items is based on the fees or cost that would normally be charged to enter into or terminate such agreements. Fair value of unrecognized financial instruments include commitments to extend credit and the fair value of letters of credit are considered immaterial.

The carrying amounts and fair values of the Company's financial instruments were as follows:

December 31, 2002

Financial Assets	Carrying Amount	Fair Value
Cash and short term investments	$ 2,569,000	$ 2,569,000
Securities available for sale	3,103,000	3,103,000
Federal Home Loan Bank stock	848,000	848,000
Loans held for sale	1,551,000	1,551,000
Loans, net	32,784,000	34,860,000
Mortgage servicing rights	1,015,000	1,015,000
Accrued interest receivable	170,000	170,000
Financial Liabilities		
Deposits	41,920,000	42,102,000
Long term borrowings	298,000	298,000
Accrued interest payable	97,000	97,000

18. Fair Value of Financial Instruments (continued)

	December 31, 2001	
Financial Assets	Carrying Amount	Fair Value
Cash and short term investments	$ 838,000	$ 838,000
Securities available for sale	2,260,000	2,260,000
Federal Home Loan Bank stock	848,000	848,000
Loans held for sale	2,138,000	2,138,000
Loans, net	34,447,000	36,549,000
Mortgage servicing rights	607,000	607,000
Accrued interest receivable	863,000	863,000
Financial Liabilities		
Deposits	40,198,000	40,855,000
Short term borrowings	92,000	92,000
Long term borrowings	1,658,000	1,658,000
Accrued interest payable	177,000	177,000

19. Segment Reporting

The Company's operations include three primary segments: retail banking, mortgage banking, and merchant banking. Through its banking subsidiary's branch in Ann Arbor, the Company provides traditional community banking services such as accepting deposits, making loans, and providing cash management services to individuals and local businesses. Mortgage banking activities includes servicing of residential mortgage loans for others and discontinued operations have been excluded for 1999 (See Note 2). Merchant banking is conducted entirely through Michigan BIDCO, which makes loans to growing businesses. As additional consideration for the loans it makes, BIDCO typically receives equity or options in each business. (See Note 3)

The Company's three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, both the merchant banking segment and mortgage banking segment service a different customer base from that of the retail banking segment.

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss before income taxes, not including nonrecurring gains and losses. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. The Company accounts for transactions between segments at current market prices. Segment profit is measured before allocation of corporate overhead and income tax expense.

19. Segment Reporting (continued)

Information about reportable segments for the year ended December 31, 2002 follows:

	Retail Banking	Mortgage Banking	Totals
Interest income	$3,148,530	$45,922	$3,194,452
Other non-interest income	813,528	3,627,491	4,441,019
Interest expense	1,036,643	2,520	1,039,163
Provision for loan losses	110,000	(11,000)	100,000
Salaries and benefits	1,580,656	1,348,884	2,929,540
Occupancy	185,859	163,327	349,186
Data processing	390,770	42,469	433,239
Legal and audit	127,749	45,390	173,139
Advertising	69,274	23,670	92,944
Other operating expense	658,701	1,643,522	2,302,223
(Loss) income before tax expense	(229,239)	434,837	205,598
Income tax (benefit) expense	(153,665)	153,665	0
Segment (loss) profit	$(75,574)	$281,172	$205,598
Segment assets	$44,078,661	$2,170,652	$46,249,313
Capital expenditures	$22,255	$106,699	$128,954
Depreciation	$75,831	$119,239	$195,070
Amortization	$106,967	$522,081	$629,048

Information about reportable segments for the year ended December 31, 2001 follows:

	Retail Banking	Mortgage Banking	Merchant Banking	Totals
Interest income	$3,313,473	$229,624		$3,543,097
Other non-interest income	769,026	3,300,935	(114,551)	3,955,410
Interest expense	1,804,856	0		1,804,856
Provision for loan losses	40,000	0		40,000
Salaries and benefits	1,543,918	1,706,795		3,250,713
Occupancy	336,109	128,074		464,183
Data processing	247,338	38,862		286,200
Legal and audit	102,028	25,184		127,212
Advertising	85,006	26,856		111,862
Other operating expense	442,635	1,277,420		1,720,055
(Loss) income before tax expense	(552,275)	360,253	(114,551)	(306,573)
Income tax (benefit) expense	(122,830)	122,830		0
Segment (loss) profit	$(429,445)	$237,423	$(114,551)	$(306,573)
Segment assets	$43,955,154	$1,667,577		$45,622,731
Capital expenditures	$288,753	$391,037		$679,790
Depreciation	$159,332	$109,197		$268,529
Amortization	$129,497	$312,233		$441,730

20. Segment Reporting (continued)

Information about reportable segments for the year ended December 31, 2000 follows:

	Retail Banking	Mortgage Banking	Merchant Banking	Totals
Interest income	$3,229,954	$21,977	$63,514	$3,315,445
Other non-interest income	474,721	1,940,712	234,896	2,650,329
Interest expense	2,025,162	7,661	41,624	2,074,447
Provision for loan losses	111,000	0	0	111,000
Salaries and benefits	1,065,556	773,569	88,935	1,928,060
Occupancy	231,873	82,403	5,813	320,089
Data processing	276,937	55,438	3,641	336,016
Legal and audit	368,267	23,758	16,405	408,430
Advertising	59,903	42,252	1,022	103,177
Other operating expense	1,098,755	473,558	26,889	1,599,202
(Loss) income before tax expense	(1,532,778)	504,050	114,081	(914,647)
Income tax (benefit) expense	(204,523)	165,485	39,038	0
Segment (loss) profit	(1,328,255)	$338,565	$75,043	$(914,647)
Segment assets	$45,271,725	$2,398,928	$0	$47,670,653
Capital expenditures	$168,214	$105,783	$0	$273,997
Depreciation	$123,826	$82,935	$6,553	$213,314
Amortization	$17,959	$153,170	$0	$171,129

21. Quarterly Financial Data -Unaudited

The following tables represent summarized data for each of the quarters in 2002 and 2001 (in thousands, except loss per share data).

	2002		
	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30
Interest income	$ 788	$ 838	$ 8
Interest expense	283	252	2
Net interest income	505	586	5
Provision for losses	23	23	
Net interest income after Provision for losses	482	563	5
Loan set-up and other fees	652	471	6
Loan servicing and subservicing fees	259	133	1
Gain on sale of loans	35	20	
Merchant banking/BIDCO	-	-	
Other non-interest income	86	58	1
Non-interest expense			

	1,536	1,483	1,4
Income tax expense	-	-	
Net (loss) earnings available to common shareholders	$ (22)	$ (238)	$ 1
Basic and diluted (loss) earnings per share	$ (0.01)	$ (0.06)	$0.
Weighted average shares outstanding	3,810,326	3,850,130	3,875,5

21.Quarterly Financial Data –Unaudited (continued)

	2001		
	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30
Interest income	$ 944	$ 831	$ 1,015
Interest expense	553	505	418
Net interest income	391	326	597
Provision for losses	22	22	22
Net interest income after Provision for losses	369	304	575
Loan set-up and other fees	494	630	199
Loan servicing and subservicing fees	580	751	358
Gain on sale of loans	9	22	19
Merchant banking/BIDCO	-	-	-
Other non-interest income	54	69	64
Non-interest expense	1,480	1,720	1,418
Income tax expense	-	-	-
Earnings (loss) from continuing operations	26	56	(204)
Preferred stock requirements	11	16	18
Net earnings (loss) available to common shareholders	$ 15	$ 40	$ (222)
Basic and diluted earnings (loss) per share	$ 0.01	$ 0.02	$ (0.11)
Weighted average shares outstanding	2,027,801	2,062,878	2,092,312

22. Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145. SFAS No. 145 requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they meet the criteria defined in APB Opinion No. 30 which are that the extent or transaction is both unusual in nature and infrequent in occurrence. Events considered unusual should have a high degree of abnormality and be clearly unrelated to the Company's normal operations and infrequency is defined as not expected to recur in the foreseeable future. It is not expected that provisions of SFAS No. 145 will have a material impact on the financial position or results of operations of the Company.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which is effective for exit or disposal activities that are initiated after December 31, 2002. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or

22. Recent Accounting Pronouncements (continued)

disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The Company is currently evaluating the effects of adopting this statement and cannot predict whether or not its provisions will have a material impact on its financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45),"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. FIN 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple events. The initial recognition and measurement provisions are effective for all guarantees within the scope of FIN 45 issued or modified after December 31, 2002. The impact of adoption is not expected to have a significant impact on the Company's financial reporting.

23. Parent Company Only Condensed Financial Information

Condensed Balance Sheet

	December 31, 2002	December 31, 2001
ASSETS		

Cash and cash equivalents	$ 212,273	$ 96,045
Securities available for sale	233	233
Investment in University Bank	3,309,617	2,923,596
Investment in Michigan BIDCO	29,258	29,258
Receivable from University Bank	-	286,196
Other assets	3,362	3,107
Total Assets	$ 3,554,743	$ 3,338,435
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	$ 298,000$	430,000
Accounts payable	98,805	168,631
Accrued interest payable	1,972	3,196
Total Liabilities	398,777	601,827
Stockholders' Equity	3,155,966	2,736,609
Total Liabilities and Stockholders' Equity	$ 3,554,743	$ 3,338,435

23 Parent Company Only Condensed Financial Information (continued)

Condensed Statements of Income

	2002	
INCOME:		
Interest and dividends on investments	$ 328	$
Net security gains	-	
Other income	_	(11
Total Income	328	(11
EXPENSES:		
Interest	20,675	5
Amortization of goodwill	-	(13
Salaries and benefits	-	
Public listing	38,202	4
Professional fees	33,513	4
Other miscellaneous	3,014	
Total Expense	95,404	
Loss before federal income taxes and equity in undistributed net loss of subsidiaries	(95,076)	(1
Federal income taxes	-	
Loss before equity in undistributed net income (loss) of subsidiaries	(95,076)	(12
Equity in undistributed net income (loss) of subsidiaries	300,674	(18
Net income (loss)	$ 205,598	$ (30

23. Parent Company Only Condensed Financial Information (continued)
Condensed Statements of Cash Flows

	2002
Cash flow provided by (used in) investing activities:	
Net Income (Loss)	$ 205,598
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Amortization of goodwill	-
Gain on sale of investments	-
Decrease/(increase) in receivable from affiliate	286,196
(Increase)/decrease in other assets	(256)
(Decrease)/increase in other liabilities	(71,050)
(Increase)/decrease investment in subsidiaries	(300,673)
Decrease/(increase) investment in Michigan BIDCO	-
Net cash provided by (used in) operating activities	119,815
Cash flow from investing activities:	
Purchase of available for sale securities	
Proceeds from sale of available for sale securities	-
Net cash (used in) provided by investing activities	
Cash flow from financing activities:	
Principal payment on notes payable	(132,000)
Issuance of equity conversion bonds	-
Conversion of equity conversion bonds	-
Issuance of preferred stock	-
Conversion of preferred stock	-
Payment of preferred dividend	-
Issuance of common stock	128,413
Net cash (used in) provided by financing activities	(3,587)
Net change in cash and cash equivalents	116,228
Cash and cash equivalents:	
Beginning of year	96,045
End of year	$ 212,273
Supplemental disclosure of cash flow information:	
Cash paid during the year for:	
Interest	$ 21,899

Item 8. - Financial Statements and Supplementary Data

The financial statements provided pursuant to this item are listed under Item 14(a) below and appear beginning on page 44.

Item 9. - Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None

PART III.

Item 10. - Directors and Executive Officers of the Registrant

The information required by this item is incorporated by reference herein from the portions of the Company's Proxy Statement for its 2003 Annual Meeting (the "Proxy Statement") to be under the captions:

Election of Directors
Executive Officers
Section 16(a) Beneficial Ownership Reporting Compliance

Item 11. - Executive Compensation

The information required by this item is incorporated by reference herein from the portions of the Company's Proxy Statement to be under the captions:

Executive Compensation
Compensation Plans

Item 12. - Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference herein from the portion of the Company's Proxy Statement to be under the caption:

Security Ownership of Certain Beneficial Owners and Management

Item 13. - Certain Relationships and Related Transactions

The information required by this item is incorporated by reference herein from the portion of the Company's Proxy Statement to be under the caption:

Certain Relationships and Related Transactions

PART IV.

Item 14. - Exhibits, Financial Statement Schedules and Report on Form 8-K

(a) Index of Financial Statements:
The following statements are filed as part of this Report:

Audited consolidated balance sheets as of December 31, 2002 and December 31, 2001, and consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years ended December 31, 2002, 2001, and 2000 of the Company.

(b) Reports on Form 8-K:

None

(c) Exhibits:

(3) Certificate of Incorporation and By-laws:

3.1	Composite Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
3.1.1	Certificate of Amendment, dated June 10, 1998, of the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
3.2	Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989).

(10) Material Contracts.

10.1	Loan Agreement and Promissory Note dated December 31, 1997 issued to North Country Bank & Trust (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.2	University Bancorp, Inc. Employee Stock Ownership Plan (the "ESOP"), as amended November 27, 1990 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990). *
10.2.1	Amendment to the ESOP, effective as of December 31, 1991 (incorporated by reference to Exhibit 10.2.A to the Company's Annual Report on Form 10-K for the year ended December 31, 1991). *
10.3	University Bank 401(k) Profit Sharing Plan, adopted August 1, 1996, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996). *
10.4	Letter regarding grant of options to outside directors, dated as of July 20, 1993 (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for year ended December 31,1993).*
10.5	1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for 1996 Annual Meeting of Stockholders). *
10.5.1	Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the Annual Report on Form 10-K for the year ended December 31, 1995). *
10.6	Letter, dated December 1, 1989, from Federal Reserve Bank

	of Minneapolis (incorporated by reference to Exhibit 10.9).
10.7	Lease Agreement (the "Cascade Lease Agreement") between RG Properties, Inc., as agent for Sault Associates, a Michigan Limited Partnership, and University Bank, dated September 30, 1992 (incorporated by reference to exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992).
10.7.1	First Amendment to the Cascade Lease Agreement, dated January 5, 1993 (incorporated by reference exhibit 10.9.1).
10.8	Federal Income Tax Allocation Agreement Between Newberry State Bank and Newberry Holding Inc. dated March 21, 1992 (incorporated by reference to Exhibit 10.11).
10.8.1	Federal Income Tax Allocation Agreement Between Newberry Holding Inc. and University Bancorp, Inc. dated May 21, 1991 (incorporated by reference to Exhibit 10.11.1).
21	Subsidiaries of Registrant: List of subsidiaries filed herewith.
23.1	Reports of Independent Auditors, Richard C. Woodbury, P.C., dated March 8, 2001 regarding Midwest Loan Services, Inc.

* Denotes a management compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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.

By: /s/Stephen Lange Ranzini
Stephen Lange Ranzini,
President and Chief Executive Officer

Date: April 8, 2003

By: /s/Nicholas K. Fortson
Nicholas K. Fortson
Chief Financial Officer

Date: April 8, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date

/s/Stephen Lange Ranzini Stephen Lange Ranzini	Director, President and Chief Executive Officer	April 8, 2003
/s/Robert Goldthorpe -------------------- Robert Goldthorpe	Director, Chairman	April 8, 2003
/s/Gary Baker ------------- Gary Baker	Director	April 8, 2003
/s/Michael Talley ----------------- Michael Talley	Director	April 8, 2003
/s/Dr. Joseph L. Ranzini ------------------------ Dr. Joseph Lange Ranzini	Director	April 8, 2003
/s/Paul Lange Ranzini --------------------- Paul Lange Ranzini	Director	April 8, 2003

Index of Exhibits

Sequentially
Exhibit Number and Description Numbered Page

(3) Certificate of Incorporation and By-laws:

3.1 Composite Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the June 30, 1996 10-Q").

3.1.1 Certificate of Amendment, dated June 10, 1998, of the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the June 30, 1998 10-Q").

3.2 Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the 1989 10-K).

(10) Material Contracts.

10.1 Loan Agreement and Promissory Note dated December 31, 1997 issued to North Country Bank & Trust (incorporated by reference to Exhibit 10.1 to the 1997 10-K"))

10.2 University Bancorp, Inc. Employee Stock Ownership Plan (the "ESOP"), as amended November 27, 1990 (incorporated by reference to Exhibit 10.2 to the 1990 10-K).

10.2.1 Amendment to the ESOP, effective as of December 31, 1991 (incorporated by reference to Exhibit 10.2.A to the 1991 10-K).

10.3 University Bank 401(k) Profit Sharing Plan, adopted August 1, 1996, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the 1996 10-K).

10.4 Letter regarding grant of options to outside directors, dated as of July 20, 1993 (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (the "1993 10-K")).

10.5 1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for the 1996 Annual Meeting of Stockholders (the "1996 Proxy).

10.5.1 Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the the 1995 10-K).

10.6 Letter, dated December 1, 1989, from Federal Reserve Bank of Minneapolis (incorporated by reference to Exhibit 10.9 to the 1989 10-K).

10.7 Lease Agreement (the "Cascade Lease Agreement") between RG Properties, Inc., as agent for Sault Associates, a Michigan Limited Partnership, and University Bank, dated September 30, 1992 (incorporated by reference to exhibit 10.9 to the 1992 10-K).

10.7.1 First Amendment to the Cascade Lease Agreement, dated January 5, 1993 (incorporated by reference exhibit 10.9.1 to the 1992 10-K).

10.8 Federal Income Tax Allocation Agreement Between Newberry State Bank and Newberry Holding Inc. dated March 21, 1992 (incorporated by reference to Exhibit 10.11 to the 1991 10-K).

10.8.1 Federal Income Tax Allocation Agreement Between Newberry Holding Inc. and University Bancorp, Inc. dated May 21, 1991 (incorporated by reference to Exhibit 10.11.1 to the 1991 10-K).

21 Subsidiaries of Registrant. 83

23 Report of Independent Auditors, Richard C. Woodbury, P.C. 87

Exhibit 21. Subsidiaries of Registrant.

University Bank, a Michigan state chartered bank
University Insurance & Investment Services, Inc., a Michigan Corporation
(100% owned by Bank)
Midwest Loan Services, Inc., a Michigan Corporation
(80% owned by University Bank)

FORM 10-K 302 CERTIFICATION

I, Stephen Ranzini certify that:

1) I have reviewed this annual report on Form 10-K of University Bancorp, Inc.;
2) Based on my knowledge, this annual 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 annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

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

2) 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

3) The registrant's other certifying officers and I have indicated in this annual 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: April 8,2003 /s/Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

FORM 10-K 302 CERTIFICATION

I, Nicholas K. Fortson certify that:

1) I have reviewed this annual report on Form 10-K of University Bancorp, Inc.;

2) Based on my knowledge, this annual 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 annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: April 8,2003 /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 annual report of University Bancorp, Inc. (the

"Registrant") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on April 8, 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: April 8,2003 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 annual report of University Bancorp, Inc. (the "Registrant") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on April 8, 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: April 8, 2003 By: /s/ Nicholas K. Fortson
Nicholas K. Fortson
Chief Financial Officer