UNIVERSITY BANCORP INC /DE/
Form 10-Q
May 14, 2003
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Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2003

OR

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

For the transition period from _______________ to _______________

Commission File Number 0-16023

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

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

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

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

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

Yes X No

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

Common Stock, $0.01 par value outstanding at April 30, 2003: 3,899,548 shares

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

Part I. - Financial Information

Item 1.- Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2003 (Unaudited) and December 31, 2002

ASSETS	March 31, 2003	December 31, 2002
Cash and due from banks	$ 1,841,039	$ 2,569,469
Securities available for sale, at market	2,731,539	3,102,838
Federal Home Loan Bank Stock	848,400	848,400
Loans held for sale, at the lower of cost or Market	1,274,852	1,550,995
Loans	33,036,881	33,192,034
Allowance for loan losses	(399,012)	(408,219)
Loans, net	32,637,869	32,783,815
Premises and equipment, net	1,682,284	1,720,902
Investment in Michigan BIDCO Inc.	629,258	629,258
Investment in Michigan Capital Fund LPI	331,244	356,244
Mortgage servicing rights , net	1,165,866	1,014,939
Real estate owned, net	718,102	853,198
Accounts receivable	131,322	72,786
Accrued interest receivable	121,786	169,811
Prepaid expenses	189,007	214,472
Goodwill, net	103,914	103,914
Other assets	402,275	258,272
TOTAL ASSETS	$ 44,808,757	$ 46,249,313

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

LIABILITIES AND STOCKHOLDERS' EQUITY	March 31, 2003	December 31, 2002
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 1,390,887	$ 2,197,567
Demand - interest bearing	22,429,122	21,051,588
Savings	443,113	473,894
Time	16,170,397	18,197,407
Total Deposits	40,433,519	41,920,456
Long term borrowings	265,000	298,000
Accounts payable	365,936	228,062
Accrued interest payable	79,435	97,068
Other liabilities	22,042	189,594
Total Liabilities	41,165,932	42,733,180
Minority Interest	396,692	360,166
Stockholders' equity:		
Common stock, $0.01 par value; Authorized - 5,000,000 shares; Issued - 4,014,732 shares in 2003 and 3,947,732 shares in 2002	40,147	40,147
Additional paid-in-capital	5,537,960	5,537,960
Accumulated deficit	(1,926,594)	(1,999,846)

Treasury stock - 115,184 shares in 2003 and 2002	(340,530)	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(64,850)	(81,764)
Total Stockholders' Equity	3,246,133	3,155,967
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 44,808,757	$ 46,249,313

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three Month Periods Ended March 31, 2003 and 2002
(Unaudited)

	2003	2002
Interest income:		
Interest and fees on loans	$ 631,339	$ 745,429
Interest and dividends on securities:		
U.S. Government agencies	35,284	11,312
Other securities	23,250	25,566
Interest on federal funds and other	4,987	5,239
Total interest income	694,860	787,546
Interest expense:		
Interest on deposits:		
Demand deposits	91,506	67,281
Savings deposits	1,281	1,089
Time deposits	131,067	207,760
Short term borrowings	-	1,041
Long term borrowings	3,558	5,868
Total interest expense	227,412	283,039
Net interest income	467,448	504,507
Provision for loan losses	105,900	22,500
Net interest income after provision for loan losses	361,548	482,007
Other income:		
Loan servicing and subservicing fees	200,711	258,742
Initial loan set-up and other fees	822,085	652,056
Gain on sale of mortgage loans	183,705	34,884
Insurance and investment fee income	48,048	29,263
Deposit service charges and fees	28,127	15,211
Other	39,300	41,487
Total other income	1,321,976	1,031,643

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (continued)
For the Three Month Periods Ended March 31, 2003 and 2002
(Unaudited)

	2003	2002
Salaries and benefits	$ 785,308	$ 723,265
Occupancy, net	88,897	90,325
Data processing and equipment	108,226	109,844
Legal and audit expense	37,774	37,417
Consultant fees	33,438	51,168
Mortgage banking expense	169,563	179,265
Servicing rights amortization	102,173	49,439
Goodwill amortization	-	-
Advertising	25,963	17,161
Memberships and training	21,118	22,913
Travel and entertainment	27,178	17,202
Supplies and postage	45,946	48,849
Insurance	21,574	20,424
Other operating expenses	143,114	168,342
Total other expenses	1,610,272	1,535,614
Income (loss) before income taxes	73,252	(21,964)
Income tax expense (benefit)	-	-
Net income (loss)	$ 73,252	$ (21,964)
Basic and diluted income (loss) per common share	$ 0.02	$ (0.01)
Weighted average shares outstanding	3,899,548	3,810,326

See accompanying notes to consolidated financial statements (unaudited).

UNIVERSITY BANCORP, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Three Month Periods Ended March 31, 2003 and 2002
(Unaudited)

	2003	2002
Net income (loss)	$ 73,252	($21,964)
Other comprehensive income (loss):		
Unrealized gains/(losses) on securities available for sale	16,914	(165,169)

Less: reclassification adjustment for accumulated (losses)/gains included in net income (loss)	-	-
Other comprehensive income/(loss), before tax effect	16,914	(165,169)
Income tax expense (benefit)	-	-
Other comprehensive income (loss), net of tax	16,914	(165,169)
Comprehensive income(loss)	$90,166	($187,133)

See accompanying notes to consolidated financial statements (unaudited).

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the three month periods ended March 31, 2003 and 2002

	2003	2002
Cash flow from operating activities:		
Net income (loss)	$ 73,252	$ (21,964)
Adjustments to reconcile net income (loss) to net cash from Operating Activities:		
Depreciation	73,653	72,908
Amortization	127,173	(92,650)
Provision for loan losses	105,900	22,500
Gain on mortgage loan sales	(183,705)	(34,884)
Originations of mortgage loans	(37,251,962)	(13,775,807)
Proceeds from mortgage loans sales	37,711,810	14,999,962
Net accretion on investment securities	(10,887)	(11,312)
Change in:		
Real estate owned	135,096	(63,138)
Other assets	(382,149)	179,634
Other liabilities	(10,785)	(25,237)
Net cash provided by operating activities	387,396	1,250,012
Cash flow from investing activities:		
Purchase of investment securities	(92,567)	
Proceeds from maturities/paydowns of investment securites	491,667	47
Loans granted, net of repayments	40,046	(380,050)
Premises and equipment expenditures	(35,035)	(87,138)
Net cash provided by (used in) investing activities	404,111	(467,141)

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the three month periods ended March 31, 2003 and 2002

	2003	2002
Cash flow used in financing activities:		
Net (decrease) increase in deposits	(1,486,937)	751,896
Net (decrease) in short term borrowings	-	(91,566)
Principal payments on long term borrowings	(33,000)	(1,033,000)
Issuance of common stock	-	80,000
Net cash used in financing activities	(1,519,937)	(292,670)
Net change in cash and cash equivalents	(728,430)	490,201
Cash and cash equivalents:		
Beginning of period	2,569,469	837,550
End of period	$ 1,841,039	$ 1,327,751
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 245,045	$ 604,843

See accompanying notes to consolidated financial statements (unaudited).

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

(1) General

See Note 1 of the Financial Statements incorporated by reference in the Company's 2002 Annual Report on Form 10-K for a summary of the Company's significant accounting policies.

The unaudited financial statements included herein were prepared from the books of the Company in accordance with generally accepted accounting principles and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's 2002 Annual Report on Form 10-K. The current interim periods reported herein are included in the fiscal year subject to independent audit at the end of the year.

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period as follows: 3,899,548 and 3,810,326 for the three months ended March 31, 2003 and 2002, respectively.

(2) Investment Securities

The Bank's available-for-sale securities portfolio at March 31, 2003 had a net unrealized loss of approximately $64,000 as compared with a net unrealized loss of approximately $82,000 at December 31, 2002.

Securities available for sale at March 31, 2003(in thousands):

	Amortized Cost	Gross Realized Losses	Gross Unrealized Losses	Fair Value
Stocks and other securities	$ 93	$ (11)	$ 0	$ 82
U.S. agency mortgage-backed	2,714	0	(64)	2,650
Total	$2,807	$ (11)	$ (64)	$ 2,732

Securities available for sale at December 31, 2002

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$ 3,185	$ 0	$ (82)	$ 3,103

(3) Stock options

At March 31, 2003, the Company has a stock-based employee compensation plan. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price greater than or equal to the market value of the underlying common stock on the date of grant. As new options granted were only 10,000 and 0 during the quarters ended March 31, 2003 and 2002, the effect on net income (loss) and earnings

(loss) per share if the Corporation had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended by FASB Statement No. 148, to stock-based employee compensation was less than $.01 in each of the periods presented.

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

This report contains certain forward-looking statements which reflect the Company's expectation or belief concerning future events that involve risks and uncertainties. Among others, certain forward looking statements relate to the continued growth of various aspects of the Company's community banking, merchant banking, mortgage banking and investment activities, and the nature and adequacy of allowances for loan losses. The Company can give no assurance that the expectations reflected in forward-looking statements will prove correct.

Various factors could cause results to differ materially from the Company's expectations. Among these factors are those referred to in the introduction to the Company's Management Discussion and Analysis of Financial Condition and Results of Operations which appear as Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which should be read in conjunction with this Report.

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

SUMMARY

Net income (loss) for the Company for the first quarter of 2003 was $73,252, versus ($21,964) for the same period last year. Community Banking incurred a loss of $137,000 during the current year's first quarter as opposed to a loss of $101,000 from the year before. Compared to the first quarter of 2002, profits at the Bank's subsidiary, Midwest Loan Services, increased 133% in the first quarter of 2003 to $240,000 from $103,000 last year. Income at Community Bank was negatively impacted by an extra $83,000 loan loss allowance and the reversal of $25,000 of income related to some real estate mortgages placed on non-accrual. Income at Midwest Loan Services increased with rapidly increasing mortgage originations and mortgage loans subserviced.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the three months ended March 31, 2003 and 2002 (in thousands):

	2003	2002
Community Banking	$ (137)	$ (101)
Midwest Loan Services	240	103
Corporate Office	(30)	(24)
Total	$ 73	$ (22)

RESULTS OF OPERATIONS

Net Interest Income

Net interest income decreased 7.3% to $467,448 for the three months ended March 31, 2003 from $504,507 for the three months ended March 31, 2002. Net interest income declined primarily because of a lower earning asset base and lower rates on those assets. The net interest spread decreased from 4.96% in the 2002 to 4.75% in 2003.

Interest income

Interest income decreased 11.8% to $694,860 in the quarter ended March 31, 2003 from $787,546 in the quarter ended March 31, 2002. An increase in non-accrual loans and other real estate owned was a major component in the decline. Additionally, the rate environment was lower in the first quarter of

2003 than in the same period in 2002. The overall yield on Total Interest Bearing Assets was 7.03% in 2003 as compared to 7.89% in the same period in 2002. The average volume of interest earning assets decreased by $390,722 to $40,086,558 in the 2003 period from $40,477,280 in the 2002 period.

Interest Expense

Interest expense decreased 19.7% to $227,412 in the three months ended March 31, 2003 from $283,036 in the 2002 period. The decrease was due to principally to a shift from higher cost Time Deposits to lower cost Money Market Accounts. Over the last year, management of the Bank has aggressively pursued building its core deposit base and reducing its dependence on brokered funds. At March 31, 2003 the Bank had $5.9 million in brokered time deposits as compared to $9.9 million at March 31, 2002. The cost of funds decreased to 2.28% in the 2003 period from 2.94% in the 2002 period.

MONTHLY AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following table summarizes monthly average balances, revenues from earning assets, expenses of interest bearing liabilities, their associated yield or cost and the net return on earning assets for the three months ended March 31, 2003 and 2002.

	Three Months Ended			Th
	March 31, 2003			
	Average Balance	Interest Inc(Exp)	Average Yield (1)	Average Balance
Interest Earning Assets:				
Commercial Loans	$ 18,998,030	$ 357,987	7.64%	$ 17,64
Real Estate Loans	12,465,046	217,937	7.09%	14,19
Installment/Consumer Loans	2,500,759	55,415	8.99%	3,66
Total Loans	33,963,835	631,339	7.54%	35,50
Investment Securities	4,346,189	58,534	5.46%	3,70
Federal Funds & Bank Deposits	1,776,534	4,987	1.14%	1,27
Total Interest Bearing Assets	40,086,558	694,860	7.03%	40,47
Interest Bearing Liabilities:				
Demand Deposits	6,558,035	11,894	0.74%	3,81
Savings Deposits	459,433	1,281	1.13%	37
Time Deposits	17,498,374	131,067	3.04%	23,07
Money Market Accts	15,208,816	79,612	2.12%	10,84
Short-term Borrowings	472,079	0	0.00%	33
Long-term Borrowings	281,500	3,558	5.13%	66
Total Interest Bearing Liabilities	40,478,237	227,412	2.28%	39,10

Net Earning Assets, net interest

income, and interest rate spread	$(391,679)	$ 467,448	4.75%	$1,36
Net Interest Margin			4.73%	

(1) Yield is annualized.

Allowance for Loan Losses

The provision to the allowance for loan losses was $105,900 for the quarters ended March 31, 2003 and $22,500 for the same period ended in 2002. Net charge-offs totaled $115,107 for the three month period ended March 31, 2003 as compared to $1,820 for the same period in 2002. In 2003, management charged off two non-performing commercial loans with impaired collateral. Illustrated below is the activity within the allowance for the quarter ended March 31 2003 and 2002, respectively.

	2003	2002
Balance, January 1	$ 408,219	$ 579,113
Provision for loan losses	105,900	22,500
Loan charge-offs	(117,342)	(4,168)
Recoveries	2,235	2,348
Balance, March 31	$ 399,012	$ 599,793

	At March 31, 2003	At December 31, 2002
Total loans (1)	$33,036,881	$33,192,034
Reserve for loan losses	$ 399,012	$ 408,219
Reserve/Loans % (1)	1.21%	1.23%

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

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

	At March 31, 2003	At December 31, 2002
Past due 90 days and over and still accruing (1):		
Real estate	$ -	$ -
Installment	-	-
Commercial	-	-
	-	-
Subtotal	-	-
Nonaccrual loans (1):		
Real estate	550,778	102,713
Installment	12,716	67,546
Commercial	218,000	509,301
Subtotal	781,494	679,560

Other real estate owned	718,102	853,198
Total nonperforming assets	$1,499,596	$1,532,758

	At March 31, 2003	At December 31, 2002
Ratio of non-performing assets to total loans (1)	4.54%	4.62%
Ratio of loans past due over 90 days and non-accrual loans to loan loss reserve	196%	166%

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

Other real estate owned at March 31, 2003 and December 31, 2002 includes a commercial development site in Sault Ste. Marie, Michigan. The property is being carried at a value of $150,000. The Bank has a sales contract with a commercial developer who is planning a major development on the site. There is no assurance that a sale of the property will be consummated. A $24,000 single family lot is also under contract to sale. At March 31, 2003, the remaining balance of $544,102 consists of single-family houses. The Bank is anticipating about $40,000 in loan recoveries on prior charge-offs in the near future.

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

Total non-interest income increased 28.1% to $1,321,976 for the three months ended March 31, 2003 from $1,031,643 for the three months ended March 31, 2002. The increase was primarily due to higher mortgage loan origination activity. In 2003, the rates on mortgages were historically low and this spurred an increase in the re-financing market. Management at the Bank and Midwest aggressively pursued this activity and was able to increase income from initial loan set up and other fess and gain on the sale of mortgage loans.

At March 31, 2003, the Bank and Midwest owned the rights to service mortgages for Fannie Mae, Freddie Mac and other institutions, most of which was owned by Midwest, an 80% owned subsidiary of the Bank. The balance of mortgages serviced for these institutions was approximately $88 million. The carrying value of these servicing rights was $1,165,866 at March 31, 2003. Based on recent comparable sales and indications of market value from industry brokers, management believes that the current market value of the mortgage servicing rights portfolio approximates cost. Market interest rate conditions can quickly affect the value of mortgage servicing rights in a positive or negative fashion, as long-term interest rates rise and fall. The amortization of these rights is based upon the level of principal pay downs received and expected prepayments of the mortgage loans.

At March 31, 2003, Midwest was subservicing 9,769 mortgages, an increase of 16.9% from 8,372 mortgages at December 31, 2002. During the first quarter of

2003, Midwest originated 619 mortgages, an increase of 32.8% from mortgages in first quarter of 2002.

Non-Interest Expense

Non-interest expense increased 4.9% to $1,610,271 in the three months ended March 31, 2003 from $1,535,614 for the three months ended March 31, 2002. The increase was due principally to salaries and benefits and the amortization of servicing rights. Servicing rights amortization increased to $102,173 during the three month period ended March 31, 2003 from $49,439 in the same period in 2002. The increase results from a higher volume of servicing rights and due to higher amortizations impacted by the high level of loan principal pay offs due to loan refinancing activity. Midwest was able to refinance 80% of the loans that paid off during the first quarter of 2003, which is substantially better than typical industry experience.

Income Taxes

Income tax expense (benefit) was $0 in 2003 and 2002. The effective tax rate was 0% for both three month periods ended March 31 due to existence of loss carryforwards resulting from prior years net operating losses. Future tax benefits have not been recognized as their realization is not considered more likely than not.

Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At March 31, 2003, the Bank was considered "well-capitalized".

	March 31, 2003
TIER 1 CAPITAL	(in $000s)
Total Equity Capital	$3,431
Less: Unrealized losses on available-for-Sale Securities	(65)
Plus: Minority Interest	397
Less: Other identifiable Intangible Assets	221
Total Tier 1 Capital	3,672
TIER 2 CAPITAL	
Allowance for loans & Lease losses	399
Less: Excess Allowance	-
Total Tier 2 Capital	399
Total Tier 1 & Tier 2 Capital	$4,071
CAPITAL RATIOS	
Tier 1/Total Average Assets of $45,387	8.09%
Tier 1/Total Risk-Weighted Assets of $34,190	10.74%
Tier 1 & 2/Total Risk-Weighted Assets of $34,190	11.90%

Liquidity

Bank Liquidity. The Bank's primary sources of liquidity are customer deposits, scheduled amortization and prepayments of loan principal, cash flow from operations, maturities of various investments, borrowings from correspondent lenders secured by securities, residential mortgage loans and/or commercial loans. In addition, the Bank invests in overnight federal funds. At March 31, 2003, the Bank had cash and cash equivalents of $1,841,039. The Bank has a line of credit for $3.5 million from the Federal Home Loan Bank of Indianapolis secured by investment securities and residential mortgage loans and a line of credit for $4.9 million from the Federal Reserve Bank of Chicago secured by commercial loans. In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At March 31, 2003, the Bank had $5,926,000 of these deposits outstanding.

Bancorp Liquidity. In an effort to maintain the Bank's Tier 1 capital to assets ratio above at current levels and to increase capital through retained earnings, management does not expect that the Bank will pay dividends to the Company during the first half of 2003, though a dividend may begin in the second half of the year.

At March 31, 2003, $265,000 in debt was outstanding as compared to $397,000 at March 31, 2002. Long-term borrowings at March 31, 2002 also includes $227,506 of a note payable to another financial institution with respect to a low-income housing partnership investment by University Insurance and Investment Services. This obligation was paid in full by the end of 2002. At March 31, 2003, Bancorp had $84,129 in cash and investments on hand to meet its working capital needs.

Impact of Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

The Bank performs a static gap analysis which has limited value as a simulation because of competitive and other influences that are beyond the control of the Bank. The table on the following page details the Bank's interest sensitivity gap between interest-earning assets and interest-bearing liabilities at March 31, 2003. The table is based upon various assumptions of management which may not necessarily reflect future experience. As a result, certain assets and liabilities indicated in the table as maturing or re-pricing within a stated period may, in fact, mature or re-price in other periods or at different volumes. The one-year static gap position at March 31, 2003 was estimated to be ($13,044,000) or -29.11%.

In addition, management prepares an estimate of sensitivity to immediate changes in short term interest rates. At March 31, 2003, the following impact was estimated on net interest margin in the 12 months following an immediate movement of interest rates:

Rate Change	Effect on Net Interest Margin
-1.00%	3.51%
+1.00%	-3.06%
+3.00%	-9.17%

Asset/Liability Position Analysis as of March 31, 2003
(Dollar amounts in Thousands)
Maturing or Repricing in

ASSETS	3 Mos Or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years
Loans - net	$ 9,476	$ 2,896	$ 2,211	$14,835
Non-accrual loans		-	-	-
Securities	340	569	226	-
Other assets	-	600	-	-
Cash and Due from banks	1,103	-	-	-
Total assets	10,9190	4,065	2,437	14,835
LIABILITIES				
Time deposits	7,350	5,006	2,740	674
Demand -interest bearing	7,770	7,770	6,889	-
Demand - non interest	-	--		-
Savings	-	-	443	-
Long term borrowings	33	99	133-	

Other liabilities	-			-
Stockholders' equity	-	-	-	-
Total liabilities	15,153	12,875	10,205	674
Gap	(4,234)	(8,810)	(7,768)	14,161
Cumulative gap	$(4,234)	$(13,044)	$(20,812)	$(6,651)
Gap percentage	-9.45%	-29.11%	-46.45%	-14.84%

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 5. Other information

None

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

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

SIGNATURES

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

UNIVERSITY BANCORP, INC.

Date: May 14, 2003

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

/s/ Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

10-Q 302 CERTIFICATION

I, Stephen Lange Ranzini certify that:

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

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

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

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

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Date: May 14, 2003

/s/Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

10-Q 302 CERTIFICATION

I, Nicholas K. Fortson certify that:

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

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

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

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

11) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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

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

Date: May 14, 2003 /s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on May 13, 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: May 14, 2003
By: /s/ Stephen Lange Ranzini
Stephen Lange Ranzini
President and Chief Executive Officer

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended March 31, 2003 as filed with the Securities and Exchange Commission on May 13, 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: May 14, 2003
By: /s/ Nicholas K. Fortson
Nicholas K. Fortson
Chief Financial Officer