UNIVERSITY BANCORP INC /DE/
Form 10-Q
November 15, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

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 000-16023

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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

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

Common Stock, $0.01 par value outstanding at October 31, 2004 4,090,548 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
September 30, 2004 (Unaudited) and December 31, 2003

ASSETS		September 30, 2004
Cash and due from banks	$	1,914,909
Securities available for sale, at market		1,218,762
Federal Home Loan Bank Stock		912,000
Loans held for sale, at the lower of cost or market		616,600
Loans		41,109,934
Allowance for loan losses		(454,430)
Loans, net		40,655,504
Premises and equipment, net		999,906
Investment in Michigan BIDCO Inc.		29,258
Investment in Michigan Capital Fund LPI		181,244
Mortgage servicing rights, net		1,025,997
Real estate owned, net		555,338
Accounts receivable		37,125
Accrued interest receivable		177,871
Prepaid expenses		183,857
Goodwill, net		103,914
Other assets		436,229
TOTAL ASSETS	$	49,048,514

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UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets (continued)
September 30, 2004 (Unaudited) and December 31, 2003

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 2004
Liabilities:	
Deposits:	

Demand - non interest bearing	$ 3,467,934
Demand - interest bearing	26,484,402
Savings	461,261
Time	12,447,716
Total Deposits	42,861,313
Short term borrowings	1,908,151
Long term borrowings	67,000
Accounts payable	478,870
Accrued interest payable	50,489
Other liabilities	193,044
Total Liabilities	45,558,867
Minority Interest	427,143
Stockholders' equity:	
Common stock, $0.01 par value; Authorized - 5,000,000 shares; Issued - 4,205,732 shares at September 30 in 2004 and 4,141,732 shares at December 2003	42,057
Additional paid-in-capital	5,800,300
Accumulated deficit	(2,392,251)
Treasury stock - 115,184 shares in 2003 and 2002	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(47,072)
Total Stockholders' Equity	3,062,504
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 49,048,514

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended September 30, 2004 and 2003
(Unaudited)

	For the Three Month Period Ended	
	2004	2003
Interest income:		
Interest and fees on loans	$ 698,834	$ 642,732
Interest on securities:		
U.S. Government agencies	10,514	8,178
Other securities	9,972	19,004
Interest on federal funds and other	267	817
Total interest income	719,587	670,731
Interest expense:		
Interest on deposits:		

Demand deposits	105,105	98,850
Savings deposits	1,153	1,116
Time deposits	83,207	91,812
Short term borrowings	6,830	563
Long term borrowings	1,260	2,227
Total interest expense	197,555	194,568
Net interest income	522,032	476,163
(Credit)Provision for loan losses	(27,500)	22,500
Net interest income after provision for loan losses	549,532	453,663
Other income:		
Loan servicing and sub-servicing Fees	357,322	280,014
Initial loan set up and other fees	310,951	964,637
Gain on sale of mortgage loans	64,982	180,492
Insurance and investment fee income	52,611	45,772
Deposit service charges and fees	32,231	28,851
Net security gains/(losses)	36	(27,623)
(Loss)/Gain on the sale of other real estate owned	(22,667)	130,771
Other	57,118	98,984
Total other income	852,584	1,701,898

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (continued)
For the Periods Ended September 30, 2004 and 2003
(Unaudited)

	For the Three Month Period Ended 2004	2003
Other expenses:		
Salaries and benefits	$ 735,678	$ 897,429
Occupancy, net	98,726	128,151
Data processing and equipment Expense	151,438	139,293
Legal and audit expense	49,896	45,768
Consulting fees	32,192	48,987
Mortgage banking expense	51,835	217,021
Servicing rights amortization	126,002	210,937
Advertising	27,832	39,176
Memberships and training	36,730	34,283
Travel and entertainment	17,852	22,716
Supplies and postage	52,928	70,195
Insurance	30,649	24,026
Other operating expenses	126,647	246,140

Total other expenses	1,538,405	2,124,122
(Loss) income before income taxes	(136,288)	31,439
Income tax expense/(benefit)	80,000	(80,249)
Net (Loss) income	$ (216,288)	$ 111,688
Net (Loss)income) available to common shareholders	$ (216,288)	$ 111,688
Basic and diluted (loss) earnings per share	$ (0.05)	$ 0.03
Weighted average shares outstanding - Basic and diluted	4,090,548	3,951,994

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Periods Ended September 30, 2004 and 2003
(Unaudited)

	For the Three Month Period Ended 2004	2003
Net (loss)income	$(216,288)	$111,688
Other comprehensive income(loss):		
Unrealized (losses)gains on securities available for sale	(27,416)	(115)
Less: reclassification adjustment for accumulated gains (losses) included in net income (loss)	36	(976)
Other comprehensive (loss) income, before tax effect	27,380	(1,091)
Other comprehensive (loss) income, net of tax	27,380	(1,091)
Comprehensive income(loss)	$(188,908)	$110,597

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the nine month periods ended September 30, 2004 and 2003

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Cash flow from operating activities:	
Net (loss) income	$
Adjustments to reconcile net (loss)income to net cash from Operating Activities:	
Depreciation	
Amortization	
Provision for loan losses	
Net gain on mortgage loan sales	
Gain on sale of fixed assets	
Loss on the sale of other real estate owned	
Net accretion on investment securities	
Net (gain)loss on sale of securities	
Originations of mortgage loans	(
Proceeds from mortgage loan sales	
Change in:	
Other assets	
Other liabilities	
Net cash provided by operating activities	
Cash flow from investing activities:	
Purchase of investment securities	
Proceeds from maturities and pay downs of securities Available for sale	
Loans granted, net of repayments	
Proceeds from sales of investment securities	
Proceeds from the sale of other real estate owned	
Premises and equipment expenditures	
Net cash (used in) provided by investing activities	

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows(continued)
For the nine month periods ended September 30, 2004 and 2003

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Cash flow used in financing activities:	
Net increase (decrease) in deposits	
Net increase (decrease) in short term borrowings	
Principal payments on long term borrowings	
Issuance of common stock	
Net cash provided by(used in) financing activities	
Net change in cash and cash equivalents Cash and cash equivalents:	
Beginning of period	
End of period	$
Supplemental disclosure of cash flow information:	
Cash paid for interest	$
Supplemental disclosure of non-cash transactions:	
Mortgage loans converted to other real estate owned	$
Michigan BIDCO Preferred stock exchanged for a 7.5% promissory note	$

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 2003 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 2003 Annual Report on Form 10-K.

(2) Investment Securities

The Bank's available-for-sale securities portfolio at September 30, 2004 had a net unrealized loss of approximately $47,000 as compared with a net unrealized loss of approximately $39,000 at December 31, 2003. 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.

Securities available for sale at September 30, 2004:

(in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
U.S. agency mortgage-backed	$ 1,265	$ _	$ (47)

Securities available for sale at December 31, 2003

	Amortized Cost	Gross Realized Gains	Gross Unrealized Losses
Stocks and other securities	$ 12	$ -	$ -
U.S. agency mortgage-backed	1,676	-	(39)
Total	$ 1,688	$ -	$ (39)

(3) Stock options

At September 30, 2004, the Company had a stock-based employee compensation plan. The Company accounts for this plan 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 (loss) income, as all options granted under this plan 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 47,000 and 54,000 during the nine month period ended September 30, 2004 and 2003, the effect on net (loss) income and (loss) earnings 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.

(4) Michigan BIDCO

At December 31, 2003 University Bancorp owned 6.10% of the BIDCO. The Bank also held $600,000 of 7.5% cumulative preferred stock of the BIDCO. On March 24, 2004, the Bank exchanged its preferred stock in BIDCO for a note from a company in which Stephen Lange Ranzini, the Bank's President, is a shareholder. The note is collateralized by all assets of that company. The note bears interest at 7.5% and is due no later than December 31, 2004. During October, 2004 the outstanding balance was reduced to $323,000.

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

This report includes "forward-looking statements" as that term is used in the securities laws. All statements regarding our expected financial position, business and strategies are forward-looking statements. In addition, the words "anticipates," "believes," "estimates," "seeks," "expects," "plans," "intends," and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. The presentation and discussion of the provision and allowance for loan losses and statements concerning future profitability or future growth or increases, are examples of inherently forward looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and our future prospects include, but are not limited to, changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market area and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included in our other filings with the Securities and Exchange Commission.

SUMMARY

For the three months ended September 30, 2004, the Company had a net loss of $216,288 compared to net income of $111,688 for the three months ended September 30, 2003. In 2003 Community Banking and Midwest Loan Services were both positively impacted by income generated from the high volume of mortgage refinancing stimulated by 45-year low mortgage rates. Community Banking incurred a pretax loss of $41,000 in the third quarter of 2004 as compared with a pretax loss of $8,000 for the same period in 2003. Operations at Community Banking were negatively impacted during the third quarter of 2004 by approximately $97,000 in expenses and loss of income related to the resolution of non performing residential loans and real estate owned. The Bank's subsidiary, Midwest Loan Services reported a net loss of $83,000 for the third quarter of 2004 as compared to net income of $89,000 for the same period in 2003. Operations at Midwest was negatively impacted in the third quarter of 2004 by an $115,000 impairment write down of the mortgage servicing rights. The valuation of mortgage servicing rights is greatly impacted by changes in long term mortgage interest rates.

During the third quarter of 2004, the Company recorded an $80,000 tax expense. This resulted from a reduction in a deferred tax asset which is no longer expected to be realized in future periods. Net income in 2003 included an income tax benefit of $80,249.

The Company incurred a net loss for the first nine months of 2004 of $486,847, versus net income of $199,411 for the same period last year. Community Banking incurred a pretax loss of $249,346 during the current year's first nine months as opposed to a loss of $135,000 from the year before. Community Banking incurred approximately $255,000 in expense related to the resolution of other real estate owned in 2004, including lost interest income and legal fees. The expenses in this category were substantially less in 2003. Community Banking has also incurred approximately $10,000 a month in expenses to grow the Islamic banking program. Midwest Loan Services had a pretax loss of $100,920 in the first half of 2004 compared to pretax income of $365,000 in the same period last year. In 2003, Midwest benefited from a significant volume of income derived from the high level of mortgage refinancing due to lower rates. In 2004, this income was substantially less. Income at Midwest was negatively impacted in the first half of 2004 by investments of about $30,000 a month in overhead intended to grow Midwest's jumbo and non-standard originations through a secondary market conduit established with Lehman Brothers.

The following table summarizes the pre-tax (loss)income of each profit center of the Company for the three months ended September 30, 2004 and 2003 (in thousands):

Pre-tax (loss)income) summary for the three and nine months ended September 30, 2004

	Three Months	Nine Months
Community Banking	$(41)	$(249)
Midwest Loan Services	(83)	(101)
Corporate Office	(12)	(57)
Total	$(136)	$ (407)

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

	Three Months	Nine Months
Community Banking	(8)	$ (135)
Midwest Loan Services	89	365
Corporate Office	(50)	(111)
Total	$ 31	$ 119

RESULTS OF OPERATIONS

Net Interest Income

Net interest income increased to $522,032 for the three months ended September 30, 2004 from $476,163 for the three months ended September 30, 2003. The yield on interest earning assets decreased from 6.93% in the 2003 period to 6.86% in the 2004 period. The cost of interest bearing liabilities decreased from 2.14% in the 2003 period to 1.99% in the 2004 period. The net yield on interest earning assets increased from 4.92% to 4.98%.

Net interest income increased to $1,429,248 for the nine months ended September 30, 2004 from $1,406,078 for the nine months ended September 30, 2003. The yield on average earning assets dropped from 6.93% in 2003 to 6.61% in 2004. The cost of interest bearing liabilities decreased from 2.25% for the 2003 period to 1.97% for the nine months ended September 30, 2004. The net yield on interest earning assets decreased from 4.76% to 4.73%.

Interest income

Interest income increased to $719,588 in the quarter ended September 30, 2004 from $670,731 in the quarter ended September 30, 2003. The average volume of interest earning assets increased to $42,067,645 in the 2004 period from $38,838,345 in the 2003 period. The real estate category accounted for most of the increase in interest earning assets as the average balance increased by over $6,000,000 between the periods. Within that category, the mortgage alternative loan transactions (MALTs) experienced the largest growth. In late 2003, the Community Banking began offering MALTs. These transactions are tailored to meet the religious needs of the large Muslim population in southeast Michigan. The MALTs are typically 5 year adjustable rate instruments. The yield on interest bearing assets declined from 6.93% in 2003 to 6.86% in 2004. The slight decrease was due to an increase in MALTs, which have a lower rate than other loans. The rate on real estate loans decreased to 5.95% for the three month period in 2004 from 6.44% in the third quarter of 2003. In contrast, the rate on commercial loans increased as the prime rate was increased during the quarter.

Interest income decreased to $1,997,801 in the nine months ended September 30, 2004 from $2,046,502 in the nine months ended September 30, 2003. The average volume of interest earning assets increased slightly to $40,234,604 in the 2004 period from $39,472,132 in the 2003 period. The overall yield on interest earning assets decreased to 6.61% from 6.93%. The cause of this decline resulted from the loss of interest on commercial real estate which was foreclosed and reclassified as other real estate owned. In addition, the demand for commercial loans particularly commercial mortgages was lower in the 2004 period than in the 2003. As noted above the demand in the real estate area, which has a lower rate than on other loans, was higher in 2004 than in 2003.

Interest Expense

Interest expense increased to $197,556 in the three months ended September 30, 2004 from $194,568 in the 2003 period. The increase was due to a higher volume of interest bearing liabilities in 2004 than in 2003. The average volume of interest bearing liabilities increased to $39,731,811 in 2004 from $36,391,376 in 2003. The overall rate on interest bearing liabilities declined in 2004 to 1.99% from 2.14% in 2003. The drop in yield resulted from a favorable shift in funding to lower costs liabilities as well as lower rates on time deposits. The decline in the yield on interest rate liabilities resulted despite a rise in the Federal Reserves overnight lending rate.

Interest expense decreased to $568,553 in the nine months ended September 30, 2004 from $640,424 in the 2003 period. The decrease was due to a lower rate on the interest bearing liabilities offset slightly by an increase in the volume of interest bearing liabilities. The yield dropped to 1.97% in 2004 from 2.25% in 2003. After rates dropped in 2003, the liabilities re-priced at lower rates. The volume of interest bearing liabilities increased to $38,506,833 in 2004 from $38,139,634 in 2003.

MONTHLY AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following table summarizes monthly average balances, revenues from earning assets, expenses of interest bearing liabilities, their associated yield or cost and the net return on earning assets for the three months and nine months ended September 30, 2004 and 2003.

	Three Months Ended			Three Mo
	September 30, 2004			
	Average Balance	Interest Inc / Exp	Average Yield (1)	Average Balance
Interest Earning Assets:				
Loans:				

Commercial	16,739,978	332,061	7.96%	$17,767
Real Estate	21,084,891	312,583	5.95%	15,073
Installment/Consumer	2,010,253	54,190	10.81%	1,873
Total Loans	39,835,122	698,834	7.04%	34,713
Investment Securities	2,170,566	20,486	3.79%	3,600
Federal Funds & Bank Deposits	61,957	267	1.73%	523
Total Interest Bearing Assets	42,067,645	719,587	6.86%	38,838
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	6,107,198	15,294	1.00%	6,645
Savings	463,411	1,153	1.00%	387
Time	12,451,278	83,207	2.68%	11,670
Money Market	18,872,936	89,811	1.91%	17,123
Short-term Borrowings	1,751,988	6,830	1.56%	349
Long-term Borrowings	85,000	1,260	5.95%	215
Total Interest Bearing Liabilities	39,731,811	197,555	1.99%	36,391
Net Earning Assets, net interest income, and interest rate spread	2,335,834	522,032	4.87%	$2,446
Net Interest Margin			4.98%	

(1) Yield is annualized.

	Nine Months Ended September 30,			Nine
	2004			
	Average Balance	Interest Inc (Exp)	Average Yield (1)	Aver Bala
Interest Earning Assets:				
Loans:				
Commercial	16,908,602	880,939	6.94%	1
Real Estate	18,750,487	908,474	6.45%	1
Installment/Consumer	1,907,149	120,392	8.41%	
Total Loans	37,566,238	1,909,805	6.77%	3

Investment Securities	2,514,208	86,613	4.59%	
Federal Funds & Bank Deposits	154,158	1,383	1.20%	
Total Interest Bearing Assets	40,234,604	1,997,801	6.61%	3
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	6,296,058	41,517	0.88%	
Savings	444,165	3,591	1.08%	
Time	11,487,242	238,294	2.76%	1
Money Market	19,090,437	268,862	1.88%	1
Short-term borrowings	1,087,431	11,995	1.47%	
Long-term borrowings	101,500	4,294	5.64%	
Total Interest Bearing Liabilities	38,506,833	568,553	1.97%	3
Net Earning Assets, net interest income, and interest rate spread	1,727,771	1,429,248	4.64%	
Net yield on interest-earning assets			4.73%	

(1) Yield is annualized.

Allowance for Loan Losses

The provision to the allowance for loan losses was $17,500 for the nine-month period ended September 30, 2004 and $166,900 for the same period in 2003. The provision decreased due to recoveries and payoffs of classified loans and an overall improvement in credit quality. Net charge-offs totaled $17,188 for the nine-month period ended September 30, 2004 as compared to $172,430 for the same period in 2003. Illustrated below is the activity within the allowance for the nine-month period ended September 30 2004 and 2003, respectively.

	2004	2003
Balance, January 1	$ 454,118	$ 408,219
Provision for loan losses	17,500	166,900
Loan charge-offs	(99,006)	(237,811)
Recoveries	81,818	65,380
Balance, September 30	$ 454,430	$ 402,690

	At September 30, 2004	At December 31, 2003
Total loans (1)	$41,107,029	$34,928,586
Reserve for loan losses	$454,430	$ 454,118
Reserve/Loans % (1)	1.10%	1.30%

The Bank's overall loan portfolio is geographically concentrated in Ann

Arbor, Michigan and the future performance of these loans is dependent upon the performance of this relatively limited geographical area. The growth in the loan portfolio for the nine month period ended September 30, 2004 is primarily in the single family residential area.

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

	At September 30, 2004	At December 31, 2003
Past due 90 days and over		
and still accruing (1):		
Real estate	$ -	$ -
Installment	-	-
Commercial	183,000(2)	-
Subtotal	183,000	-
Nonaccrual loans (1):		
Real estate (including commercial real estate)	552,421	907,599
Installment	_	5,128
Commercial	2,899	204,400
Subtotal	555,320	1,117,127
Other real estate owned	555,338	429,500
Total non-performing assets	$1,293,658	$1,546,627

	At September 30, 2004	At December 31, 2003
Ratio of non-performing assets to total loans (1)	3.15%	4.43%
Ratio of loans past due over 90 days and nonaccrual loans to loan loss reserve	162%	246%

(1) Excludes loans held for sale which are valued at the lower of cost or fair market value. (2) This loan was paid in full in October 2004.

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

Two residential properties, with a carrying value of $435,100 are expected to sell by the end of the year. The carrying values approximate fair market value. A third property currently in other real estate owned is carried at $86,841 and was recently appraised at $179,000 and is listed for sale with a real estate agent at $169,900. The fourth property in other real estate owned is carried at $33,398. No gain can be realized on other real estate owned that has a value in excess of the carrying cost until the property is sold, however any expected losses are recognized immediately.

Non-Interest Income

Total non-interest income decreased to $852,584 for the three months ended September 30, 2004 from $1,701,858 for the three months ended September 30, 2003. The decrease was primarily due to lower mortgage loan origination activity. In 2004, the rates on mortgages were historically low and this spurred an increase in the refinancing 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. During the three month period in 2004, mortgage rates were slightly higher however mortgage refinancing activity was significantly lower.

Total non-interest income decreased to $2,888,556 for the nine months ended September 30, 2004 from $4,719,728 for the nine months ended September 30, 2003. The decrease was principally a result of decreases in loan origination and gain on the sale of mortgage loans at Midwest Loan Services. In 2003, the rates on mortgages were historically low and this spurred an increase in the re-financing market. In 2004, the rates are still relatively low, but the re-financing activity has decreased significantly.

At September 30, 2004, Midwest was subservicing 17,631 mortgages, an annualized increase of 23% from the 15,033 mortgages subserviced at December 31, 2003.

Non-Interest Expense

Non-interest expense decreased to $1,538,404 in the three months ended September 30, 2004 from $2,124,122 for the three months ended September 30, 2003. The decrease was due principally to decreases in salaries and benefits, mortgage banking expense, and amortization of servicing rights. The higher mortgage interest rates in 2004 resulted in lower income from mortgage origination as well as lower expenses.

Following is an analysis of the change the Company's mortgage servicing rights for the periods ended September 30, 2004 and 2003

	2004	2003
Balance, January 1	$1,031,575	$1,014,939
Additions - originated	380,292	738,000
Amortization expense	(317,870)	(365,953)
Adjustment for asset impairment change	(68,000)	(399,000)
Balance, September 30	$ 1,025,997	$987,986

At September 30, 2004, the Bank and Midwest owned the rights to service mortgages for Fannie Mae, Freddie Mac and other institutions, most of which were owned by Midwest, an 80% owned subsidiary of the Bank. The balance of mortgages serviced for these institutions was approximately $117 million. The carrying value of these servicing rights was $1,025,997 at September 30, 2004. Market interest rate conditions can quickly affect the value of mortgage servicing rights in a positive or negative fashion, as long-term interest rates rise and fall. The amortization of these rights is based upon the level of principal pay downs received and expected prepayments of the mortgage loans. The servicing rights are recorded at the lower of cost or market. The impairment reserves at September 30, 2004 and 2003 are $516,000 and $448,000, respectively.

Non-interest expense decreased to $4,707,149 in the nine months ended September 30, 2004 from $5,839,744 for the nine months ended September 30, 2004. The decrease was primarily the result of decreased operating expenses at Midwest Loan Services resulting from low mortgage origination activity.

Capital Resources

Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At September 30, 2004, the Bank was considered "well-capitalized".

	September 30, 2004 (in thousands)
TIER 1 CAPITAL	
Total Equity Capital	$3,119
Less: Unrealized losses on available-for-Sale Securities	(46)
Other identifiable Intangible Assets	(104)
Disallowed servicing assets	(103)
Plus: Minority Interest	427
Total Tier 1 Capital	3,388
TIER 2 CAPITAL	
Allowance for loans & Lease losses	452
Less: Excess Allowance	-
Total Tier 2 Capital	452
Total Tier 1 & Tier 2 Capital	$3,837
CAPITAL RATIOS	
Tier 1/Total Average Assets of $46,744	7.24%
Tier 1/Total Risk-Weighted Assets of $36,456	9.29%
Tier 1 & 2/Total Risk-Weighted Assets of $36,456	10.53%

Liquidity

Bank Liquidity. The Bank's primary sources of liquidity are customer deposits, scheduled amortization and prepayments of loan principal, cash flow from operations, maturities of various investments, borrowings from correspondent lenders secured by securities, residential mortgage loans and/or commercial loans. In addition, the Bank invests in overnight federal funds. At September 30, 2004, the Bank had cash and cash equivalents of $1,914,909. The Bank's lines of credit include the following:

- $4.0 million from the Federal Home Loan Bank of Indianapolis secured by investment securities and residential mortgage loans,
- $5.6 million from the Federal Reserve Bank of Chicago secured by commercial loans.

In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At September 30, 2004, the Bank had $3.1 million of these deposits outstanding.

Bancorp Liquidity. In an effort to increase the Bank's Tier 1 capital to assets ratio through retained earnings, management does not expect that the Bank will pay dividends to the Company during the balance of 2004. Management intends to increase Bancorp's working capital through the exercise of maturing stock options, sale of investments. If deemed necessary, management will issue additional shares of common stock.

At September 30, 2004, $67,000 was payable to another financial institution as compared to $199,000 at September 30, 2003. At September 30, 2004, Bancorp had $30,558 in cash and investments on hand to meet its working capital needs.

Impact of Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Rising long term and short term interest rates tend to increase the value of Midwest Loan Services' investment in mortgage servicing rights and improve Midwest Loan Services'

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

The Bank performs a static gap analysis that has limited value as a simulation because of competitive and other influences that are beyond the control of the Bank. The table on the following page details the Bank's interest sensitivity gap between interest-earning assets and interest-bearing liabilities at September 30, 2004. The table is based upon various assumptions of management that may not necessarily reflect future experience. As a result, certain assets and liabilities indicated in the table as maturing or re-pricing within a stated period may, in fact, mature or re-price in other periods or at different volumes. The one-year static gap position at September 30, 2004 was estimated to be ($15,514,000) or -31.64%.

In addition, management prepares an estimate of sensitivity to immediate changes in short term interest rates. At September 30, 2004, the following impact was estimated on net interest margin in the 12 months following an immediate movement of interest rates:

Rate Change	Effect on Net Interest Margin (% Change)	($ Change)
-1.00%	3.12%	$59,000
+1.00%	-2.41%	($46,000)
+3.00%	-7.24%	($138,000)

A negative 3% change in short-term interest rates is not possible, because the current Fed Funds target rate is set at 1.75%.

UNIVERSITY BANK
Asset/Liability Position Analysis as of September 30, 2004
(Dollar amounts in thousand's)
Maturing or Repricing in

ASSETS	3 Mos or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years
Loans - Net	$10,345	$2,466	$7,069	$17,873
Non-Accrual Loans		-	-	-
Securities	200	500	-	-
Other Assets	-	-	-	-
Cash and Due from Banks	1	-	-	-
TOTAL ASSETS	10,546	2,966	7,069	17,873
LIABILITIES				
Time deposits	3,273	4,740	3,685	357
Demand -interest bearing	9,519	9,519	7,415	-
Demand - non interest	-	-		-
Savings	-	-	461	-
Other borrowings	1,975	-		-
Other Liabilities	-	-	-	-
Equity	-	-	-	-
TOTAL LIABILITIES	14,767	14,259	11,561	357
Gap	(4,221)	(11,293)	(4,492)	17,516
Cumulative gap	($4,221)	($15,514)	($20,006)	($2,490)

Gap percentage	-8.61%	-31.64%	-40.80%	-5.08%

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.
The following three significant deficiencies were identified pursuant to standards established by the Public Company Accounting Oversight Board (PCAOB):

1. The Company lacked formalized accounting policies and procedures, including written procedures for the quarterly preparation of form 10Q in accordance with applicable SEC guidelines;
2. The Company uses spreadsheets to perform consolidations, without appropriate monitoring controls, which could result in errors in the financial statements
3. The Company has insufficient staff in the accounting and financial reporting departments.

The Company's independent registered public accounting firm, Grant Thornton LLP, has indicated that the above significant deficiencies, in the aggregate, constitutes a material weakness in our internal controls pursuant to standards established by the PCAOB.

As part of the Company's effort to ensure compliance with provisions of Sarbanes-Oxley Section 404, the Company has devised a plan and committed the required resources to address and remediate these material weaknesses prior to our attestation of control effectiveness as of June 30, 2005.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, which considered the material weaknesses mentioned above, the Chief Executive Officer and Chief Financial Officer concluded that the operation of these disclosure controls and procedures were effective for gathering, analyzing and disclosing information required to be disclosed in connection with the Company's filing of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

(b) Changes in Internal Controls.
During the period covered by this report, there have been no changes in the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

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

(a) The annual meeting of the registrant's shareholders was held on June 22. 2004

(b) The following seven director nominees were elected at the meeting:

Name	Votes For	Votes Withheld
Stephen Lange Ranzini	3,874,511	45,285
Gary Baker	3,918,896	0
Robert Goldthorpe	3,918,821	75
Charles McDowell	3,918,821	75
Dr. Joseph Lange Ranzini	3,874,511	45,285
Paul Lange Ranzini	3,874,511	45,285
Michael Talley	3,874,511	45,285

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

(a) Exhibits.

None.

31.1 Certificate of the President and Chief Executive Officer of University Bancorp, Inc. pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certificate of the Chief Financial Officer of University Bancorp, Inc. pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of the Chief Executive Officer of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Chief Financial Officer of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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:	November 15, 2004	/s/ Stephen Lange Ranzini Stephen Lange Ranzini President and Chief Executive Officer
Date:	November 15, 2004	/s/Nicholas K. Fortson Nicholas K. Fortson Chief Financial Officer

EXHIBIT INDEX

Exhibit	Description
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Exhibit 31.1

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 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 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 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-15(e) and 15d-15(e)) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Dated: November 15, 2004

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

Exhibit 31.2

I, Nicholas K. Fortson, certify that:

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

2. Based on my knowledge, this 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 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 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-15(e) and 15d-15(e)) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting;

Dated: November 15, 2004

/s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

Exhibit 32.1

I, Stephen Lange Ranzini, President and Chief Executive Officer of University Bancorp, Inc. 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 which this statement accompanies 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of University Bancorp, Inc.

Dated: November 15, 2004

/s/ Stephen Lange Ranzini
Stephen Lange Ranzini
President and Chief Executive Officer

Exhibit 32.2

I, Nicholas K. Fortson, Chief Financial Officer of University Bancorp, Inc. 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 which this statement accompanies 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of University Bancorp, Inc.

Dated: November 15, 2004

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