UNIVERSITY BANCORP INC /DE/
Form 10-Q
August 15, 2005

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 June 30, 2005

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.

X Yes No

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

Yes X No

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

Common Stock, $0.01 par value outstanding at July 31, 2005 4,148,878 shares

Page 1 of 30 pages

FORM 10-Q

TABLE OF CONTENTS

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

Part I. - Financial Information

Item 1.- Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2005 (Unaudited) and December 31, 2004

	June 30, 2005
ASSETS	
Cash and due from banks	$ 1,950,651
Securities available for sale, at market	977,307
Federal Home Loan Bank Stock	941,200
Loans held for sale, at the lower of cost or market	1,226,106
Loans	43,812,714
Allowance for loan losses	(358,234)
Loans, net	43,454,480
Premises and equipment, net	2,546,765
Mortgage servicing rights, net	1,113,074
Real estate owned, net	110,437
Accounts receivable	28,854
Accrued interest receivable	181,236
Prepaid expenses	276,885
Goodwill, net	103,914
Other assets	460,191
TOTAL ASSETS	$ 53,371,100

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UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets (continued)
June 30, 2005 (Unaudited) and December 31, 2004

	June 30, 2005
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits:	
Demand - non interest bearing	$ 2,796,925
Demand - interest bearing	29,386,937
Savings	473,764
Time	14,565,617
Total Deposits	47,223,243
Short term borrowings	1,832,845
Long term borrowings	0
Accounts payable	207,384
Accrued interest payable	90,975
Other liabilities	179,076

Total Liabilities	49,533,523
Minority Interest	450,484
Stockholders' equity:	
Preferred stock, $0.001 par value; $1,000 liquidation value; Authorized - 500,000 shares; Issued - 22,750 shares in 2005	227 500
Common stock, $0.01 par value; Authorized - 5,000,000 shares; Issued - 4,264,062 shares in 2005 and	42,641
4,240,641 shares in 2004	5,876,096
Accumulated deficit	(2,389,521)
Treasury stock - 115,184 shares at June 31, 2005 and December 31, 2004	(340,530)
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(29,093)
Total Stockholders' Equity	3,387,093
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 53,371,100

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

4

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended June 30, 2005 and 2004
(Unaudited)

	For the Three Month Period Ended 2005	2004
Interest income:		
Interest and fees on loans	$ 788,452	$ 615,561
Interest on securities:		
U.S. Government agencies	6,998	8,659
Other securities	9,934	18,020
Interest on federal funds and other	8,067	933
Total interest income	813,451	643,173
Interest expense:		
Interest on deposits:		
Demand deposits	118,961	99,173
Savings deposits	1,153	1,264
Time deposits	113,807	80,360
Short term borrowings	5,427	2,407
Long term borrowings	0	1,177
Total interest expense	239,348	184,381

Net interest income	574,103	458,792
Provision for loan losses	2,000	22,500
Net interest income after provision for loan losses	572,103	436,292
Other income:		
Loan servicing and sub-servicing fees	444,554	347,923
Initial loan set up and other fees	346,430	508,175
Gain on sale of mortgage loans	92,900	69,036
Insurance and investment fee income	50,054	56,177
Deposit service charges and fees	26,393	28,869
Other	61,900	61,901
Total other income	1,022,231	1,072,082

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Periods Ended June 30, 2005 and 2004
(Unaudited)

	For the Three Month Period Ended 2005	2004
Other expenses:		
Salaries and benefits	$ 738,443	$ 715,916
Occupancy, net	105,303	100,476
Data processing and equipment Expense	141,193	138,835
Legal and audit expense	51,122	47,537
Consulting fees	37,439	43,031
Mortgage banking expense	68,217	70,298
Servicing rights amortization	227,045	49,411
Advertising	35,440	32,747
Memberships and training	35,937	41,640
Travel and entertainment	34,013	43,208
Supplies and postage	62,194	55,898
Insurance	35,985	34,093
Other operating expenses	81,765	221,315
Total other expenses	1,654,096	1,594,405
Income (loss) before income taxes	(59,762)	(86,032)
Income tax expense (benefit)	0	0
Net Income (loss)	$ (59,762)	$ (86,032)
Preferred stock dividends	3,400	0
Net income (loss) available to common shareholders	$ (63,162)	$ (86,032)

Basic earning/loss per common share	$ (0.02)	$ (0.02)
Diluted earnings/loss per common share	$ (0.02)	$ (0.02)
Weighted average shares outstanding - Basic	4,148,878	4,090,548
Weighted average shares outstanding - Diluted	4,148,878	4,090,548

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Periods Ended June 30, 2005 and 2004
(Unaudited)

	For the Three Month Period Ended 2005	2004
Net (loss)/income	$(59,762)	$ (86,032)
Other comprehensive(loss)income:		
Unrealized (losses)gains on securities Available for sale	15,396	(59,269)
Less: reclassification adjustment for accumulated gains included in net loss	-	-
Other comprehensive (loss)income, before tax effect	15,396	(59,269)
Income tax expense (benefit)	-	-
Other comprehensive (loss)income, net Of tax	15,396	(59,269)
Comprehensive (loss)income	$(44,366)	$(145,301)

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows For the six month periods ended June 30, 2005 and 2004

(Unaudited)

	2005
Cash flow from operating activities:	
Net (loss) income	$ 104,103
Adjustments to reconcile net (loss)income to net cash from Operating Activities:	
Dividend payable	(3,400)
Depreciation	167,035
Amortization	226,190
Provision for loan losses	17,209
Net (gain) on mortgage loan sales	(196,444)
Net (accretion) on investment securities	2,794
Net (gain)loss on sale of securities	0
Gain on the sale of fixed assets	(57,074)
Gain on the sale of other real estate owned	(9,294)
Originations of mortgage loans	(24,855,110)
Proceeds from mortgage loan sales	24,671,848
Change in:	
Real estate owned	11,316
Other assets	(328,906)
Other liabilities	209,781
Net cash used in operating activities	(39,952)
Cash flow from investing activities:	
Purchase of investment securities	0
Proceeds from maturities and pay downs of securities available for sale	148,770
Net (increase)repayments of loans	(1,117,039)
Proceeds from sale of other real estate	713,610
Proceeds from sales of investment securities	0
Premises and equipment expenditures	(1,767,096)
Net cash used in investing activities	(2,021,755)

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UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows For the six month periods ended June 30, 2005 and 2004
(Unaudited)

	2005
Cash flow used in financing activities:	
Net increase in deposits	2,635,444
Net increase in short term borrowings	(583,155)
Principal payments on long term borrowings	(34,000)
Issuance of preferred stock	227,500
Issuance of common stock	35,000

Net cash provided by financing activities		2,280,789
		219,082
Net change in cash and cash equivalents Cash and cash equivalents:		
Beginning of period		1,731,569
End of period	$	1,950,651
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	418,436
Supplemental disclosure of non-cash transactions:		
Mortgage loans converted to other real estate owned	$	292,026
Michigan BIDCO Preferred stock exchanged for a 7.5% promissory note	$	0

See accompanying notes to consolidated financial statements (unaudited).

9

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 2004 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 2004 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.

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding stock options, and are determined using the treasury stock method. Earnings per common share have been computed based on the following:

	For the Three Month Period Ended June 30,	
	2005	2004
Net Income	($59,762)	($86,032)
Less: Preferred stock dividends payable	3,400	0
Net income applicable to common stock	($63,162)	($86,032)

Average Number of common shares outstanding	4,148,878	4,090,548
Effect of dilutive options	0	0
Average Number of common shares outstanding used to calculate diluted earnings per common share	4,148,878	4,090,548

(2) Investment Securities

The Bank's available-for-sale securities portfolio at June 30, 2005 had a net unrealized loss of approximately $29,093 as compared with a net unrealized loss of approximately $51,357 at December 31, 2004.

Securities available for sale at June 30, 2005:

	Amortized Cost	Unrealized Gains	Fair Losses	Value
U.S. agency mortgage-backed securities	$1,006,400	$ -	$(29,093)	$977,307

10

Securities available for sale at December 31, 2004

	Amortized Cost	Unrealized Gains	Fair Losses	Value
U.S. agency mortgage-backed securities	$1,157,964	$ -	$(51,357)	$1,106,607

(3) Stock options

At June 30, 2005, 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 0 and 47,000 during the quarters ended June 30, 2005 and 2004, 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(R), Accounting for Share-Based Compensation to stock-based employee compensation was less than $.01 per share in each of the periods presented. In December 2002, SFAS No. 148, "Stock-Based Compensation," was issued, which requires that the Company illustrate the effect on net income and earnings per share if it had applied the fair value principles included in SFAS No. 123 for both annual and interim financial statements. Accordingly, if the Company had elected to recognize compensation cost based on the fair value of the options at grant date, the Company's earnings and earnings per share from continuing operations, assuming dilution, for the six month periods ended June 30, 2005 and 2004 would have been the pro forma amounts indicated below:

	Six months ended June 30, 2005	2004

Net earnings:		
As reported:	$100,703	($270,559)
Compensation expense	2,989	2,739
Pro forma	$ 97,714	($273,298)
Net earnings per share:		
As reported:		
Basic	$0.02	($0.07)
Diluted	$0.02	($0.07)
Pro forma:		
Basic	$0.02	($0.07)
Diluted	$0.02	($0.07)

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

11

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

Net loss for the Company for the three month period ended June 30, 2005 was $59,762 as compared to a net loss of $86,032 for the same period last year. Community Banking reported net income of $43,000 during the current year's second quarter as opposed to a net loss of $156,000 from the year before. In 2005, Community Banking benefited from an increase in the net interest margin and lower expenses related to non performing assets. The Bank's subsidiary, Midwest Loan Services reported a net loss of $74,000 for the second quarter of 2005 as compared to net income of $98,000 for the same period in 2004. Income at Midwest was negatively impacted in the second quarter of 2005 by an $186,000 impairment charge against the mortgage servicing rights portfolio. At the end of the quarter, the mortgage rates dropped, thus affecting the value of the portfolio.

The Company's net income for the first half of 2005 was $104,103, versus a net loss of $270,559 for the same period last year. Community Banking reported a net income of $43,000 during the current year's first half as opposed to a loss of $209,000 in the prior year. Community Banking benefited from an increase in the net interest margin and lower expenses related to non performing assets. Midwest Loan Services had net income of $76,000 in the first half of 2005 compared to net loss of $176,000 in the same period last year. Income at Midwest was negatively impacted in the first half of 2005 by $91,000 of net impairment charges against the mortgage servicing rights portfolio. Income at Midwest was negatively impacted in the first half of 2004 by approximately $180,000 in overhead expenses incurred 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 June 30, 2005 and 2004 (in thousands):

12

Pre-tax (loss) income summary for the three and six months ended June 30, 2005

	Three Months	Six Months
Community Banking	$ 43	$ 43
Midwest Loan Services	(74)	76
Corporate Office	(29)	(15)
Total	$(60)	$104

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

	Three Months	Six Months
Community Banking	$(156)	$(209)
Midwest Loan Services	98	(17)
Corporate Office	(28)	(45)
Total	$ (86)	$(271)

RESULTS OF OPERATIONS

Net Interest Income

Net interest income increased to $574,103 for the three months ended June 30, 2005 from $458,792 for the three months ended June 30, 2004. Net interest income rose from last year primarily as a result of an increase in net earning assets. Overall, the yield on earning assets increased to 6.88% from 6.38% while the cost of earning liabilities increased to 2.12% from 1.95%. Overall, the net interest income as a percentage of total average earning assets increased from 4.86% from 4.55.

Net interest income increased to $1,155,979 for the six months ended

June 30, 2005 from $907,216 for the six months ended June 30, 2004. Net interest income increased from a year ago as a result of a higher net interest margin and a net increase in earning assets. The yield on interest earning assets increased to 6.92% in the 2005 period from 6.47% in the 2004 period. The cost of interest bearing liabilities increased to 2.04% for the 2005 period from 1.97% for the period ended June 30, 2004. Net interest income as a percentage of total average earning assets increased to 4.95% from 4.59%.

Interest income

Interest income increased to $813,451 in the quarter ended June 30, 2005 from $643,173 in the quarter ended June 30, 2004. The increase resulted from an increase in the yield on and volume of earning assets. The yield on interest bearing assets increased to 6.88% in 2005 from 6.38% in 2004. The increase in yield resulted primarily from an increase in rate on prime rate based loans. The prime rate increased from the prior year. The average volume of interest earning assets increased to $47,394,906 in the 2005 period from $40,435,894 in the 2004 period.

Interest income increased to $1,615,094 in the six months ended June 30, 2005 from $1,278,214 in the six months ended June 30, 2004. This increase resulted from an increase in the yield on and volume of average earning assets. The overall yield on earning assets rose to 6.92% from 6.47% in the six month period ended in 2004. As noted above, the increase in yield resulted primarily from an increase in rate on prime rate based loans. The prime rate increased from the prior year. The average volume of interest earning assets increased to $47,098,149 in the 2005 period from $39,835,428 in the 2004 period.

Interest Expense

Interest expense increased to $239,348 in the three months ended June 30, 2005 from $184,381 in the 2004 period. The rise in interest expense was due to an increase in the yield on and volume of average interest bearing liabilities. The yield increased to 2.12% in 2005 from 1.95% in 2003. In 2004, the rates on deposits were higher than in the three month period in 2004. The average volume of interest bearing liabilities increased to $45,386,260 in 2005 from $38,001,931 in 2004.

Interest expense increased to $459,115 in the six months ended June 30, 2005 from $370,998 in the 2004 period. The rise in interest expense was due to an increase in the yield on and volume of average interest bearing liabilities. The yield increased to 2.04% in 2005 from 1.97% in 2004. In 2004, the rates on deposits were higher than in the six month period in 2004. The average volume of interest bearing liabilities increased to $45,351,064 in 2005 from $37,903,162 in 2004.

MONTHLY AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following table summarizes monthly average balances, revenues from earning assets, expenses of interest bearing liabilities, their associated yield or cost and the net return on earning assets for the three months and six months ended June 30, 2005 and 2004.

	Three Months Ended			Three Mo
	June 30, 2005			June
	Average Balance	Interest Inc / Exp	Average Yield (1)	Average Balance
Interest Earning Assets:				
Commercial Loans	$17,093,411	$358,984	8.42%	$16,997
Real Estate Loans	25,305,250	393,913	6.24%	18,348
Installment/Consumer Loans	1,621,534	35,555	8.79%	2,445
Total Loans	44,020,195	788,452	7.18%	37,790
Investment Securities	1,953,303	16,932	3.48%	2,347
Fed. Funds & Bank Deposits	1,421,408	8,067	2.28%	297
Total Interest Bearing Assets	47,394,906	813,451	6.88%	40,435
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	9,250,713	23,063	1.00%	6,295
Savings	486,012	1,153	0.95%	466
Time	14,524,035	113,807	3.14%	11,662
Money Market	20,456,489	95,898	1.88%	18,802
Short-term Borrowings	669,011	5,427	3.25%	674
Long-term Borrowings	0	0	0.00%	100
Total Interest Bearing Liabilities	45,386,260	239,348	2.12%	38,001
Net Earning Assets, net interest income, and interest rate spread	2,008,646	574,103	4.77%	2,433
Net Interest Margin			4.86%	

(1) Yield is annualized.

15

	Six Months Ended June 30,			S
	2005			
	Average Balance	Interest Inc (Exp)	Average Yield (1)	Aver Bala

Interest Earning Assets:				
Loans:				
Commercial	$17,141,924	$720,628	8.48%	$1
Real Estate	25,295,195	780,689	6.22%	1
Installment/Consumer	1,616,001	72,530	9.05%	
Total Loans	44,053,120	1,573,847	7.20%	3
Investment Securities	1,972,960	28,601	2.92%	
Federal Funds & Bank Deposits	1,072,069	12,646	2.38%	
Total Interest Bearing Assets	47,098,149	1,615,094	6.92%	3
Interest Bearing Liabilities:				
Deposit Accounts:				
Demand	9,148,294	45,365	1.00%	
Savings	490,265	2,397	0.99%	
Time	14,195,470	212,673	3.02%	1
Money Market	20,437,492	190,154	1.88%	1
Short-term borrowings	1,066,791	8,194	1.55%	
Long-term borrowings	12,752	332	5.25%	
Total Interest Bearing Liabilities	45,351,064	459,115	2.04%	3
Net Earning Assets, net interest income, and interest rate spread	1,747,085	1,155,979	4.87%	
Net Interest Margin			4.95%	

(1) Yield is annualized.

Allowance for Loan Losses

The provision to the allowance for loan losses was $17,209 for the six-month period ended June 30, 2005 and $45,000 for the same period in 2004. The provision decreased due to adequate funding of the Allowance for Loan Losses. Net charge-offs totaled $12,099 for the six-month period ended June 30, 2005 as compared to $27,865 for the same period in 2004. Illustrated below is the activity within the allowance for the six-month period ended June 30, 2005 and 2004, respectively.

	2005	2004
Balance, January 1	$353,124	$454,118
Provision for loan losses	17,209	45,000
Loan charge-offs	(20,399)	(94,452)
Recoveries	8,300	66,587
Balance, June 30	$358,234	$471,253

At June 30, 2005 At December 31, 2004

Total loans (1)	$43,812,714	$42,999,800
Reserve for loan losses	$358,234	$ 353,124
Reserve/Loans % (1)	0.82%	0.82%

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

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

	At June 30, 2005	At December 31, 2004
Past due 90 days and over and still accruing (1):		
Real estate	$ -	$ -
Installment	-	36,226
Commercial	-	334,883
Subtotal	-	371,109
Nonaccrual loans (1):		
Real estate (including commercial real estate)	277,506	591,791
Installment	-	16,739
Commercial	-	39,490
Subtotal	277,506	648,020
Other real estate owned	110,437	534,043
Total non-performing assets	$387,943	$1,553,172

	At June 30, 2005	At December 31, 2004
Ratio of non-performing assets to total loans (1)	0.89%	4.40%
Ratio of loans past due over 90 days and nonaccrual loans to loan loss reserve	77%	289%

17

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

Non-accrual loans at June 30, 2005 include one real estate loan totaling $100,000 that is expected to pay off in the third quarter. The home supporting the loan was severely damaged in a fire. Insurance proceeds will be used to pay off the loan.

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

Non-Interest Income

Total non-interest income decreased slightly to $1,022,231 for the three months ended June 30, 2005 from $1,072,082 for the three months ended June 30, 2004. Within this category, in 2005, there was a decline in initial loan set up and other fees and in increase in loan servicing and subservicing fees and gains on the sale of mortgages as compared with the same three month period in 2004. Much of this activity occurs at Midwest.

Total non-interest income increased to $2,045,463 for the six months ended June 30, 2005 from $2,035,972 for the six months ended June 30, 2004. As compared with the six month period in 2004, Midwest has increased its subservicing operations and income generated in this area is offsetting a decline in the initial loan set up and other fees due to a decrease in loan originations. At June 30, 2005, Midwest was subservicing 20,646 mortgages, an increase of 13.2% from 18,233 mortgages subserviced at December 31, 2004. Midwest anticipates having 23,000 mortgages in its subservicing portfolio at Spetember 30, 2005 based on current contractual arrangements.

As a result of a lending relationship with i2 Telecom International (OTCBB : ITUI), the bank received a 3 year option to purchase 250,000 shares of common stock of ITUI at $0.40 per shares.

University Bank purchased a 17,000 square foot building in Ann Arbor, MI just prior to quarter end and applied to the FDIC and State of Michigan Office of Financial and Insurance Services to relocate its headquarters to the new location. University Bank purchased the building for $1.7 mm and estimates that the cost of relocation and minor refurbishment required will cost under $150,000. If the relocation is completed prior to October 15, 2005 University Bank will receive cash incentive payments of $1,000,000 from its current landlord to move out early.

Non-Interest Expense

Non-interest expense increased to $1,654,097 in the three months ended June 30, 2005 from $1,594,405 for the three months ended June 30, 2004, primarily as a result of an increase in the valuation reserve for Midwest is mortgage servicing rights.

18

Non-interest expense decreased to $3,080,129 in the six months ended June 30, 2005 from $3,168,747 for the six months ended June 30, 2004.

Following is an analysis of the change the Company's mortgage servicing rights for the periods ended June 30, 2005 and 2004

	2005	2004
Balance, January 1	$1,097,786	$1,031,575
Additions - originated	241,381	323,106
Amortization expense	(135,092)	(316,868)
Adjustment for asset impairment change	(91,000)	57,000
Balance, December 31	$1,113,075	$1,094,813

=========== ===========

At June 30, 2005, 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 $133 million. The carrying value of these servicing rights was $1,113,075 at June 30, 2005. 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 June 30, 2005 and 2004 are $607,000 and $391,500, respectively.

Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At June 30, 2005, the Bank was considered "adequately capitalized".

	June 30, 2005
TIER 1 CAPITAL	(in thousands)
Total Equity Capital	$3,193
Less: Unrealized losses on available-for-Sale Securities	(29)
Plus: Minority Interest	453
Less: Other identifiable Intangible Assets	216
Total Tier 1 Capital	3,459
TIER 2 CAPITAL	
Allowance for loans & Lease losses	358
Less: Excess Allowance	-
Total Tier 2 Capital	358
Total Tier 1 & Tier 2 Capital	$3,817
CAPITAL RATIOS	
Tier 1/Total Average Assets of $51,961	6.66%
Tier 1/Total Risk-Weighted Assets of $38,472	8.99%
Tier 1 & 2/Total Risk-Weighted Assets of $38,472	9.92%

Liquidity

Bank Liquidity. The Bank's primary sources of liquidity are customer deposits, scheduled payments and prepayments of loan principal, cash flow from operations, maturities of various investments, borrowings from correspondent lenders secured by securities, residential mortgage loans and/or commercial loans. In addition, the Bank invests in overnight federal funds. At June 30, 2005, the Bank had cash and cash equivalents of $1,950,651. 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, and

- $5.2 million from the Federal Reserve Bank of Chicago secured by commercial loans.

At June 30, 2005, the Bank had $1,832,845 outstanding on the Federal Home Loan Bank line of credit.

In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At June 30, 2005, the Bank had $5.2 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 2005. Management expects Bancorp's working capital to be increased as a result of the issuance of additional shares of common and preferred stock.

At June 30, 2005, $0 was payable to another financial institution as compared to $100,000 at June 30, 2004. At June 30, 2005, Bancorp had $6,000 in cash and investments on hand to meet its working capital needs.

Impact of Inflation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

environment, the opposite effect on earnings is true, with earnings rising due to long-term assets repricing downward slower than short-term liabilities.

Rising long term and short term interest rates tend to increase the value of Midwest Loan Services' investment in mortgage servicing rights and improve Midwest Loan Services' current return on such rights by lowering required amortization rates on the rights. Rising interest rates tend 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 tends to increase the duration of its existing subservicing contracts.

The Bank performs a static gap analysis that has limited value as a simulation because of competitive and other influences that are beyond the control of the Bank. The table on the following page details the Bank's interest sensitivity gap between interest-earning assets and interest-bearing liabilities at June 30, 2005. The table is based upon various assumptions of management that may not necessarily reflect future experience. As a result, certain assets and liabilities indicated in the table as maturing or re-pricing within a stated period may, in fact, mature or re-price in other periods or at different volumes. The one-year static gap position at June 30, 2003 was estimated to be ($12,793,000) or -23.97%.

In addition, management prepares an estimate of sensitivity to immediate changes in short term interest rates. At June 30, 2005, the following impact was estimated on net interest margin and mortgage operations in the 12 months following an immediate movement of short term or long term interest rates:

Rate Change	Effect on Net Interest Margin from Short Term Interest Rate Change		Effect on Mortgage Banking Activity from Long Term Interest Rate Change
	(% Change)	($ Change)	($ Change)
-1.00%	2.63%	$61,000	$590,000
-3.00%	7.89%	$182,000	$1,798,000
+1.00%	-1.83%	($42,000)	$268,000
+3.00%	-5.50%	($127,000)	$607,000

UNIVERSITY BANK
Asset/Liability Position Analysis as of June 30, 2005
(Dollar amounts in thousand's)
Maturing or Repricing in

ASSETS	3 or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years	O
Loans - Net	$12,227	$1,724	$9,130	$19,189	
Non-Accrual Loans		-	-	-	
Securities	100	500	-	-	
Other Assets	941	-	-	-	
Cash and Due from Banks	729	-	-	-	
TOTAL ASSETS	13,997	2,224	9,130	19,189	
LIABILITIES					
Time deposits	6,408	4,108	3,182	602	
Demand -interest bearing	8,333	8,332	9,266	3,456	
Demand - non interest	-	-		-	
Savings	-	-	474	-	
Other borrowings	1,833	-	-	-	
Other Liabilities	-	-	-	-	
Equity	-	-	-	-	
TOTAL LIABILITIES	16,574	12,440	12,922	4,058	

Gap	(2,577)	(10,216)	(3,792)	15,131
Cumulative gap	($2,577)	($12,793)	($16,585)	($1,454)
Gap percentage	-4.83%	-23.97%	-31.07%	-2.72%

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

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 June 30, 2005. 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

We own, through Hoover, LLC, a subsidiary of University Bank, a 17,000 ft2 building into which we plan to relocate the Bank's headquarters. Hoover, LLC is a defendant in a lawsuit filed by planitff Dean Solden. The complaint, case No. 5-777-CH, filed in the Circuit Court of Washtenaw County alleges that Hoover, LLC breached a contract to sell the real estate property that it owns to the plaintiff and that Hoover, LLC interfered with the plaintiffs plans to develop the property. Hoover, LLC asserts that the plaintiff did not comply with certain terms of the sales contract before the expiration date of the contract. In the event that the court rules against Hoover, LLC, it will sell the property to Solden for $1,760,000. University Bank purchased Hoover, LLC for $1,700,000.

23

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. 2005

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

Name	Votes For	Votes Withheld
Stephen L. Ranzini	3,569,642	1,225
Gary Baker	3,556,868	14,863
Robert Goldthorpe	3,556,868	14,863
Charles McDowell	3,569,717	1,150
Dr. Joseph L. Ranzini	3,568,042	2,825
Paul L. Ranzini	3,567,629	3,238
Michael Tally	3,568,117	2,750

Item 5. Other information

None

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

(a) Exhibits.

6.1 Material definitve agreement, fourth, fifth and sixth Amendments to Lowertown University Bank sale and lease agreement.

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.

24

SIGNATURES

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

UNIVERSITY BANCORP, INC.

Date: August 15, 2005

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

/s/ Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

25

EXHIBIT INDEX

Exhibit	Description
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26

Exhibit 31.1

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-15(e) and 15d-15(e)) for the registrant and 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 quarterly 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;

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 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, 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 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.

Date: August 15, 2005

/s/Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

27

Exhibit 31.2

10-Q 302 CERTIFICATION

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 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-15(e) and 15d-15(e)) for the registrant and 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 quarterly 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;

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 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, 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 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.

Date: August 15, 2005

/s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

Exhibit 32.1

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on August 15, 2005, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

University Bancorp, Inc

Date: August 15, 2005 By: /s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President and Chief Executive Officer

29

Exhibit 32.2

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

In connection with the quarterly report of University Bancorp, Inc. (the "Registrant") on Form 10-Q for the period ended June 30, 2005 as filed with the Securities and Exchange Commission on August 15, 2005, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

University Bancorp, Inc

Date: August 15, 2005 By: /s/Nicholas K. Fortson

Nicholas K. Fortson
Chief Financial Officer

30