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

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 2001

OR

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

For the transition period from _______________ to _______________

Commission File Number 0-16023

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

| | |
|---|---|
| Delaware | 38-2929531 |
| (State of incorporation) | (IRS Employer Identification Number) |
| 959 Maiden Lane, Ann Arbor, Michigan | 48105 |
| (Address of principal executive offices) | (Zip Code) |

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

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

Yes X No _____

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

Common Stock, $0.01 par value outstanding at October 31, 2001: 2,092,801 shares



FORM 10-Q

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

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Part I. - Financial Information
Item 1.- Financial Statements

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

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

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

-Continued-



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

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

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

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



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

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

| | | | |
|---|---|---|---|
| Provision for loan losses | 22,500 | 22,500 | 67,50 |
| Net interest income after provision for loan losses | 574,416 | 288,669 | 1,246,41 |
| Other income: | | | |
| Loan origination and other fees | 357,740 | 342,091 | 1,481,15 |
| Loan servicing and subservicing fees | 198,445 | 292,928 | 1,529,71 |
| Gain on sale of mortgage loans | 19,404 | 17,976 | 50,26 |
| Merchant banking/ BIDCO income | -- | -- | -- |
| Insurance and investment fee income | 16,896 | 16,083 | 66,20 |
| Deposit service charges and fees | 25,047 | 14,729 | 60,25 |
| Net security gains (losses) | -- | 20,625 | -- |
| Other | 21,605 | 40,935 | 60,58 |
| Total other income | 639,137 | 745,367 | 3,248,18 |

-Continued-



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

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

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

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



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

| | For the Three Month Period Ended 2001 | 2000 | F 2 |
|---|---|---|---|
| Net income (loss) | ($204,450) | $3,763 | ($12 |
| Other comprehensive income (loss): | | | |
| Unrealized gains/(losses) on securities available for sale | $230,081 | ($16,781) | 1 |
| Less: reclassification adjustment for accumulated losses/(gains) included in net income (loss) | | ($20,625) | |
| Other comprehensive income/(loss), before tax effect | 230,081 | (37,406) | 1 |
| Income tax expense (benefit) | | | |
| Other comprehensive income (loss), net of tax | 230,081 | (37,406) | 1 |
| Comprehensive loss | $25,631 | ($29,348) | ($ |

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



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

(Unaudited)

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

-Continued-



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

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

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



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

(1) General

See Note 1 of Notes to Financial Statements incorporated by reference in the Company's 2000 Annual Report on Form 10-K for a summary of the Company's significant accounting policies.

The unaudited financial statements included herein were prepared from the books of the Company in accordance with generally accepted accounting principles and reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results of operations and financial position for the interim periods. Such financial statements generally conform to the presentation reflected in the Company's 2000 Annual Report on Form 10-K. The current interim periods reported herein are included in the fiscal year subject to independent audit at the end of the year.

Earnings per share are calculated based on the weighted average number of common shares outstanding during each period as follows: 2,092,312 and 2,027,801 for the three months ended September 30, 2001 and 2000, respectively; 2,061,233 and 2,026,378 shares for the nine months ended September 30, 2001 and 2000, respectively. Stock options are considered anti-dilutive for 2001 and 2000, therefore, are not included in earnings per share calculations.

(2) Investment Securities

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

Securities available for sale at September 30, 2001:

| ($ in thousands) | Amortized | Gross Unrealized | Gross Unrealized |
|---|---|---|---|

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

Securities available-for-sale at December 31, 2000

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

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

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

This report contains certain forward-looking statements which reflect the Company's expectation or belief concerning future events that involve risks and uncertainties. Among others, certain forward looking statements relate to the continued growth of various aspects of the Company's community banking, merchant banking, mortgage banking and investment activities, and the nature and adequacy of allowances for loan losses. The Company can give no assurance that the expectations reflected in forward-looking statements will prove correct. Various factors could cause results to differ materially from the Company's expectations. Among these factors are those referred to in the introduction to the Company's Management Discussion and Analysis of Financial Condition and Results of Operations which appear as Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, which should be read in conjunction with this Report.

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

SUMMARY

For the three months ended September 30, 2001, the Company had net loss of $204,450 compared to net income of $3,763 for the three months ended September 30, 2000. The loss was principally the result of a $224,175 special impairment charge to write-down the value of Midwest Loan Services' mortgage servicing rights portfolio during the third quarter of 2001. Net interest income increased to $596,916 the 2001 period from $311,169 in the 2000 period, and other income decreased to $639,137 the 2001 period from $745,367 in the 2000 period. Operating expenses increased to $1,418,003 in the 2001 period from $1,031,025 in the 2000 period. Basic and diluted net loss per common share in the three months ended September 30, 2001 was $(0.11), compared to ($0.00) for the three months ended September 30, 2000.

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

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

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

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

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

RESULTS OF OPERATIONS

Net Interest Income

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

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

Interest income

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

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

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

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

Interest Expense

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

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

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AVERAGE BALANCE SHEET AND INTEREST MARGIN ANALYSIS

The following tables summarize average balances, revenues from earning assets, expenses of interest bearing liabilities, their associated yield or cost and the net return on earning assets for the three and nine months ended September 30, 2001 and 2000.

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

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

(1) Yield is annualized.



| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2001 | | | |
| | Average Balance | Interest Inc(Exp) | Average Yield (1) | Aver Bala |
| Interest Earning Assets: | | | | |
| Loans: | | | | |
| Commercial | $15,552,429 | $1,111,936 | 9.56% | $ 13,25 |
| Real Estate | 16,043,827 | 972,979 | 8.11% | 14,44 |
| Installment/Consumer | 4,879,119 | 370,482 | 10.15% | 4,62 |
| Total Loans | 36,475,375 | 2,455,397 | 9.00% | 32,32 |
| Investment Securities | 2,842,687 | 310,870 | 14.62% | 3,47 |
| Federal Funds & Bank Deposits | 673,834 | 22,968 | 4.56% | 4 |
| Total Interest Bearing Assets | 39,991,896 | 2,789,235 | 9.32% | 35,84 |
| Interest Bearing Liabilities: | | | | |
| Deposit Accounts: | | | | |
| Demand | 3,270,771 | 58,209 | 2.38% | 2,89 |
| Savings | 359,186 | 5,112 | 1.90% | 31 |
| Time | 23,458,076 | 1,016,400 | 5.79% | 15,95 |
| Money Market Accts | 10,314,021 | 278,711 | 3.61% | 12,64 |
| Short-term borrowings | 1,699,141 | 69,585 | 5.48% | 3,47 |
| Long-term borrowings | 913,708 | 47,303 | 6.92% | 1,65 |
| Total Interest Bearing Liabilities | 40,014,903 | 1,475,320 | 4.93% | 36,94 |
| Net Earning Assets, net interest income, and interest rate spread | $ (23,007) | $1,313,916 | 4.40% | $ (1,091 |
| Net yield on interest-earning assets | | | 4.39% | |

(1) Yield is annualized.

Allowance for Loan Losses

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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



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

| | At September 30, 2001 | At December 31, |
|---|---|---|

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

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



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

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

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

Non-Interest Income

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

Total non-interest income increased to $3,248,181 for the nine months ended September 30, 2001 from $1,796,106 for the nine months ended September 30, 2000. The increase was principally a result of increases in loan origination and loan sub-servicing fee income at Midwest Loan Services. During the second quarter, Midwest's largest customer, the mortgage division of one of the top five mortgage firms on Wall Street, decided to significantly scale back the amount of business it was providing to Midwest. As of July 1, 2001, 18,500 loans or 95% of the mortgages sub-serviced by Midwest for this customer had been transferred to other sub-servicers including a subsidiary of this Wall Street firm. As of July 1, 2001, Midwest was sub-servicing approximately 5,600 loans, including 1,000 for this customer.

Midwest has been increasing its emphasis on mortgage loan originations through its credit union customers. In the first quarter of 2001, Midwest originated an average of 26 loans per month. This has increased to an average of 100 loans per month. Management of Midwest expects to be able to replace a substantial portion of the monthly revenue lost from the decreased business from the Wall Street firm with fee income from mortgage originations from its credit union focused Members for Life mortgage origination program. The Wall Street firm generated an average of $154,000 in revenue per month for Midwest in the first quarter of 2001, and an average $209,000 in revenue per month for Midwest in the second quarter of 2001.



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

Non-Interest Expense

Non-interest expense increased to $1,418,003 in the three months ended September 30, 2001 from $1,031,025 for the three months ended September 30, 2000. The increase was primarily the result of a special $224,175 impairment charge for Midwest Loan Services' mortgage servicing rights portfolio due to the decline in long-term interest rates and increased operational expenses, principally personnel costs, at Midwest Loan Services due to the increased mortgage origination volume. At September 30, 2001, the Bank and Midwest owned the rights to service mortgages for Freddie Mac, Fannie Mae and other institutions, most of which was owned by Midwest Loan Services, and the remainder by the Bank. The carrying value of these servicing rights was $474,349 at September 30, 2001. For the three months ended September 31, 2001, servicing rights amortization totaled $225,550 as compared to $26,421 for the same period in 2000. Based on recent comparable sales and indications of market value from industry brokers, management believes that the current market value of the Bank's portfolio of mortgage servicing rights approximates cost. Market interest rate conditions can quickly affect the value of mortgage servicing rights in a positive or negative fashion, as long-term interest rates rise and fall. The amortization of these rights is based upon the level of principal pay-downs received from respective mortgage loan customers of Midwest and the Bank.

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

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

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

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

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



Capital Resources

The table below sets forth the Bank's risk based assets, capital ratios and risk-based capital ratios of the Bank. At September 30, 2001, the Bank was considered "well-capitalized".

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

| | |
|---|---|
| TOTAL AVERAGE ASSETS | |
| Average Total Assets for Leverage Capital Purposes | 46,622 |
| Other identifiable Intangible Assets | (47) |
| Total Average Assets | 46,575 |
| | 35,548 |
| Total Risk-Based Assets | |
| TIER 1 CAPITAL | |
| Total Equity Capital | 2,870 |
| Unrealized losses on available-for-Sale Securities | 217 |
| Minority Interest | 300 |
| Other identifiable Intangible Assets | (47) |
| Total Tier 1 Capital | 3,340 |
| TIER 2 CAPITAL | |
| Allowance for loans & Lease losses | 604 |
| Less: Excess Allowance | (158) |
| Total Tier 2 Capital | 446 |
| Total Tier 1 & Tier 2 Capital | 3,786 |
| CAPITAL RATIOS | |
| Tier 1/Total Average Assets | 7.17% |
| Tier 1/Total Risk-Weighted Assets | 9.40% |
| Tier 1 & 2/Total Risk-Weighted Assets | 10.65% |



Liquidity

Bank Liquidity. The Bank's primary sources of liquidity are customer deposits, scheduled amortization and prepayments of loan principal, cash flow from operations, maturities of various investments, borrowings from correspondent lenders secured by securities, residential mortgage loans and/or commercial loans. In addition, the Bank invests in overnight federal funds. At September 30, 2001, the Bank had cash and cash equivalents of $2,371,864. The Bank has a $6,500,000 line of credit secured by investment securities and residential mortgage loans and a $2,300,000 line of credit secured by commercial loans. In order to bolster liquidity from time to time, the Bank also sells brokered time deposits. At September 30, 2001, the Bank had $9.9 million of these deposits outstanding.

Parent Company Liquidity. In an effort to maintain the Bank's Tier 1 capital to assets ratio above 7% and to increase capital through retained earnings, management does not expect that the Bank will pay dividends to the Company during 2001 or 2002. Management intends to raise additional capital through a stock rights offering currently under way. This capital is needed for the Company's operating expenses and for the expected principal reductions on the Company's long-term borrowings. These borrowings totaled $874,588 and $926,130 at September 30, 2001 at December 31, 2000, respectively. Long-term borrowings at September 30, 2001 also include $184,082 of equity conversion notes of the Company that were converted into common stock on October 30, 2001 pursuant to the Company's rights offering.

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

Impact of Inflation

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



Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Falling long term and short term interest rates tend to decrease the value of Midwest Loan Services' investment in mortgage servicing rights and decrease Midwest Loan Services' current return on such rights by increasing prepayments, by increasing amortization rates on the rights, and in some cases, by impairment of the rights. Falling interest rates tends to increase new mortgage origination activity, positively impacting current income from the retail mortgage banking operations of the Bank and Midwest Loan Services.

Falling interest rates also increases Midwest Loan Services' rate of growth of new subservicing contracts, but decreases the duration of its existing sub-servicing contracts.

The Bank performs a static gap analysis that has limited value as a simulation because of competitive and other influences that are beyond the control of the Bank. The table on the following page details the Bank's interest sensitivity gap between interest-earning assets and interest-bearing liabilities at September 30, 2001. The table is based upon various assumptions of management that may not necessarily reflect future experience. As a result, certain assets and liabilities indicated in the table as maturing or re-pricing within a stated period may, in fact, mature or re-price in other periods or at different volumes. The one-year static gap position at September 30, 2001 was estimated to be ($18,039,000) or (38.02)%.



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

Maturing or Re-pricing in

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

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



PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 5. Other information

Parent Company Financial Information

Certain financial information with respect to University Bancorp, Inc. is presented on pages 26, 27 and 28.

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

(a) Exhibits.

(b) Reports on Form 8-K.

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



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

(Unaudited)

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

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UNIVERSITY BANCORP, INC. (PARENT ONLY)

Condensed Statements of Operations

For the Periods Ended September 30, 2001 and 2000

| | For the Three Month Period Ended 2001 | 2000 |
|---|---|---|
| Dividends from subsidiary | $ - | $ - |
| Interest & dividends on investments | 4 | 4,187 |
| Income from Michigan BIDCO | - | - |
| Gain (loss) on sale of securities | - | 20,625 |
| Total Income | 4 | 24,812 |
| Expense: | | |
| Interest | 13,436 | 25,177 |

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

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

| | 2001 |
|---|---|
| Cash flow from operating activities: | |
| Net loss | $ ( |
| Reconciliation of net income (loss) to net cash used in operating activities: | |
| Gain on sale of securities | |
| Amortization | |
| Decrease/(Increase) in other assets | |
| Increase(Decrease) in other liabilities | |
| Decrease(Increase) investment in Michigan BIDCO | |
| Decrease(Increase) investment in University Bank | |

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



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 14, 2001

/s/ Stephen Lange Ranzini

Stephen Lange Ranzini
President