

For Immediate Release

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**UNIVERSITY BANCORP REPORTS FIRST QUARTER LOSS  
DUE TO INVESTMENTS**

Ann Arbor, Michigan, May 19, 2004 – University Bancorp, Inc. (NASDAQ: UNIB) reported a net loss for the first quarter of 2004 of \$(184,528), versus net income of \$73,252 for the same period last year. Midwest Loan Services, the Bank's subsidiary, incurred a loss of \$115,000 for the three month period March 31, 2004 as opposed to a profit of \$137,000 in the same period in 2003. Income at Midwest from loan origination was down due to lower mortgage re-financing activity. Additionally, management recorded a temporary impairment on the mortgage servicing rights investment portfolio due to a temporary drop in the mortgage rates during March 2004. Subsequent to March 31<sup>st</sup> mortgage rates rose. If the impairment had been measured as of May 15, 2004, a gain would have been realized rather than the \$156,000 impairment loss recorded as of March 31, 2004. Management anticipates that this will result in additional income in the second quarter of 2004. Community Banking incurred a loss of \$53,000 during the current year's first quarter a decrease from a loss of \$137,000 in the prior year. The reduced loss is attributed to management taking aggressive action to reduce expenses, particular in the salary and benefit category, partly offset by expenses to liquidate foreclosed real estate of \$39,279 during the first quarter.

**Company Investing for the Future**

Management made a decision in the fourth quarter of 2003 to have Midwest invest in the establishment of a new mortgage conduit with Lehman Brothers that was established in December 2003. The conduit gives Midwest the capability to be the only mortgage origination and subservicing company to be able to offer the credit union industry the ability to originate any type of mortgage loan, jumbo, substandard or conforming and to service this loan in the name of the credit union for the life of the loan. About \$30,000 a month in extra expenses are being incurred in extra personnel, travel and training expenses to establish the conduit and to get the credit unions up and running with the program. Community Banking is also making investments of about \$10,000 a month into personnel and marketing to expand the Islamic banking products recently introduced at Community Banking which are gaining market acceptance. Both the Lehman Brothers conduit and the higher expenses associated with the Islamic banking program are having a negative impact on earnings in the short run. We believe that these investments will pay off later in 2004. The potential upside is

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compelling. For example, we have established a goal of originating \$12,000,000 in Islamic mortgages. If we accomplish this goal we estimate that our net interest income will rise by \$480,000 and our expenses by just an additional \$5,000 a year, which is the fee for Midwest to subservice these loans. For every \$100 million of loans we originate through the new Lehman Brothers conduit, this will generate at least \$400,000 in origination income and \$200,000 a year in servicing revenue.

Total non-performing assets at March 31, 2004, December 31, 2003 and March 31, 2003 were \$1,923,658, \$1,546,627 and \$1,499,596, respectively. We have adopted a much more aggressive stance regarding delinquencies. While Washtenaw County is somewhat insulated from some of the statewide economic problems because of the stabilizing factor of the University of Michigan, we need to be vigilant and proactive given the current economic depression. Asset quality improvement will remain a top priority throughout 2004. On the positive side all of the eight foreclosed real estate and non-performing loans at March 31, 2004 were residential properties and seven of them were located in Washtenaw County. Subsequent to quarter-end we made substantial progress and have since closed on the sale of three properties including all of the other real estate owned at March 31, 2004 (including the one home in Oakland County), have one more sale pending and expect more sales or payoffs via redemption or foreclosure of the remaining four properties shortly.

Total non-interest income decreased 27.1% to \$963,890 for the three months ended March 31, 2004 from \$1,321,976 for the three months ended March 31, 2003. The decrease was primarily due to lower mortgage loan origination activity. In 2004, the rates on mortgages rose from historically low environment in 2003 and this resulted in a decrease in the re-financing market. Loans subserviced at Midwest Loan Services grew from 15,033 to 16,295 during the quarter. Insurance and investment fee income increased to \$56,549 from \$48,048 in year to year comparisons. During the quarter, we agreed to sell our investment in Michigan BIDCO. When the sale is finalized, this is anticipated to result in a gain of approx. \$25,000.

Non-interest expense decreased 2.2% to \$1,574,342 in the three months ended March 31, 2004 from \$1,610,272 for the three months ended March 31, 2003. The decrease was due principally to lower salaries and benefits and mortgage banking expenses. In general, these expenses declined due to a slow down in the mortgage re-financing market. The reduction in these categories was offset to a large degree by an increase in the amortization of servicing rights. Servicing rights amortization increased due to a \$156,000 impairment charge. This charge resulted from a valuation lower than carrying cost. During March 2004, mortgage rates dipped for a short period of time. This drop significant impacted the valuation. After quarter-end, the rates rose

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and if the impairment would have been measured as of May 15, 2004, it would have resulted in a gain of rather than the loss of \$156,000.

At March 31, 2004, the Bank was "well capitalized" according to the FDIC's classification with a Tier 1 leverage capital ratio of 8.24%.

	For the Quarter Ended	
	March 31,	
	(in 000s)	
	2004	2003
Net interest income	\$ 448	\$ 467
Provision for loan losses	23	106
Total securities gains	1	0
Total other income	963	1,322
Total other expense	1,574	1,610
Income tax	0	0
Net income (loss)	\$(184)	\$ 73
Basic and diluted loss		
per common share	\$(0.05)	\$0.02
Average shares outstanding	4,058	3,901
Period-end:		
Loans & Loans Held for Sale	\$36,575	\$34,312
Allowance for loan losses	\$522	\$399
Deposits	\$37,600	\$40,434
Assets	\$44,019	\$44,802
Equity	\$3,397	\$3,246
Book value per share	\$0.84	\$0.83

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the quarters ended March 31, 2004 and 2003 (in thousands):

Three months ended March 31, 2004 and 2003 Income (Loss) Summary

	<u>2004</u>	<u>2003</u>
Community Banking	\$ ( 53)	\$ (137)
Midwest Loan Services	(115)	240
Corporate Office	(17)	(30)
	-----	-----
Total	\$(185)	\$ 73
	=====	=====

Ann Arbor based University Bancorp owns 100% of University Bank. University Bank is an FDIC-insured, locally owned and managed Community Bank primarily serving the cities of Ann Arbor and Ypsilanti of Washtenaw County. The Community Banking operation focuses on local businesses, minorities and the non-profit communities. University Bank

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is the only financial institution located in Washtenaw County to be rated "Outstanding" by the FDIC for Community Service and Community Reinvestment. Other Community Banking specialties include highly competitive deposit products for business owners, residential mortgages, commercial real estate lending and insurance, investments and money management through its wholly-owned subsidiary University Insurance & Investments, Inc. In addition to its Community Banking operations, University Bancorp specializes in mortgage subservicing primarily serving the credit union industry through the Bank's Houghton-based 80%-owned subsidiary, Midwest Loan Services.

Any prediction of the future is inherently not assured. Investors should read the risk factors listed on pages 21 and 22 in the Company's report on Form 10K for the year ended December 31, 2003 and any prediction in this release is intended to be covered by the Safe Harbor provisions of Section 21E of the Securities Exchange Act of 1934.

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