

For Immediate Release

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

Ann Arbor, Michigan, August 18, 2004 - University Bancorp, Inc. (NASDAQ: UNIB) reported a net loss for the second quarter of 2004 of \$(86,032), versus net income of \$14,472 for the same period last year. Midwest Loan Services, the Bank's subsidiary, reported net income of \$98,000 for the three month period ended June 30, 2004 as compared to a profit of \$36,000 in the same period in 2003. Income at Midwest was negatively impacted in the second quarter of 2004 by approximately \$30,000 a month in overhead expenses made to grow Midwest's jumbo and non-standard originations through a conduit established with Lehman Brothers. Community Banking incurred a loss of \$(156,000) during the current year's second quarter as opposed to net income of \$10,000 from the year before. Operations at Community Banking were negatively impacted during the second quarter by expenses and loss of income related to the resolution of non performing assets and by investments made to grow the Community Bank's Islamic banking program.

The Company's net loss for the first half of 2004 was \$(270,559), versus net income of \$87,723 for the same period last year. Community Banking incurred a loss of \$(209,000) during the current year's first half as opposed to a loss of \$(127,000) the year before. Community Banking incurred approximately \$190,000 in expense related to the resolution of other real estate owned in 2004, including lost interest income and legal fees. The expenses in this category were substantially less in 2003. Community Banking has also incurred approximately \$10,000 a month in expenses to grow the Islamic banking program. Midwest Loan Services had a net loss of \$(17,000) in the first half of 2004 compared to net income of \$276,000 in the same period last year. In 2003, Midwest benefited from a significant volume of income derived from the high level of mortgage refinancing due to lower rates. In 2004, this income was substantially less. Income at Midwest was negatively impacted in the first half of 2004 by approximately \$30,000 a month in overhead expenses made to grow Midwest's jumbo and non-standard originations through a secondary market conduit established with Lehman Brothers.

Company Investing for the Future

The three and six month results are not necessarily indicative of future results. Management made a decision in the fourth quarter of

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2003 to have Midwest invest in the establishment of a new mortgage conduit with Lehman Brothers and to have Community Banking invest about \$10,000 a month into personnel and marketing to expand the resources committed to the Islamic banking products recently introduced at Community Banking. Both initiatives had a negative impact on earnings in the first half of 2004. We believe that these investments will begin to pay off in the second half of 2004. Community Banking is on target to originate \$12,000,000 in Islamic mortgages and as of July 31, 2004, the portfolio of Islamic mortgages exceeded \$5.125 million. Community Banking's loan portfolio at July 31, 2004 was \$39.45 million, a new all-time high, and an increase of \$7.10 million or 22% from the balance at July 31, 2003. Management currently projects year-end loans will exceed \$43 million and year-end assets will exceed \$50 million.

Total non-performing assets at June 30, 2004 declined to \$1,197,974 and at March 31, 2004, December 31, 2003 and June 30, 2003 were \$1,923,658, \$1,546,627 and \$2,093,273, respectively. Asset quality improvement will remain a top priority throughout 2004. During the quarter we made substantial progress. We closed on the sale of several properties including all of the other real estate owned at March 31, 2004 and expect more sales of the remaining newly foreclosed properties shortly.

Total non-interest income decreased to \$1,072,082 for the three months ended June 30, 2004 from \$1,695,854 for the three months ended June 30, 2003. The decrease was primarily due to lower mortgage loan origination activity. Insurance and investment fee income increased 67.7% year over year during the quarter to \$56,177. Total non-interest income decreased to \$2,035,972 for the six months ended June 30, 2004 from \$3,017,830 for the six months ended June 30, 2003. The decrease was principally a result of decreases in loan origination and gain on the sale of mortgage loans at Midwest Loan Services. In 2003, the rates on mortgages were historically low and this spurred an increase in the re-financing market. Insurance and investment fee income increased 38.3% year over year during the first half to \$112,726.

At June 30, 2004, Midwest was subservicing 17,116 mortgages, an increase of 13.9% from 15,033 mortgages at December 31, 2003. Management currently projects that Midwest will end the year with between 18,500 and 20,000 mortgages subserviced.

Non-interest expense decreased to \$1,594,405 in the three months ended June 30, 2004 from \$2,105,349 for the three months ended June 30, 2003. The decrease was due principally to decreases in salaries and benefits, mortgage banking expense and amortization of servicing rights. The higher mortgage interest rates in 2004 resulted in lower income from mortgage origination as well as lower expenses. The higher mortgage interest rates in 2004 also resulted in a partial reversal of the servicing rights impairment reserve. The adjustment for servicing rights impairment resulted in income of \$57,000 for the six month period ended

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June 30, 2004 and a loss of (\$260,500) for the same period in 2003. The impairment reserves at June 30, 2004 and 2003 are \$391,000 and \$309,500, respectively. Non-interest expense decreased to \$3,168,747 in the six months ended June 30, 2004 from \$3,715,622 for the six months ended June 30, 2003. The decrease was primarily the result of decreased operating expenses at Midwest Loan Services resulting from lower mortgage originations.

At June 30, 2004, the Bank was "well capitalized" according to the FDIC's classification with a Tier 1 leverage capital ratio of 7.91%.

	For the Quarter Ended June 30, (in 000s)		For the Six Months Ended June 30, (in 000s)	
	2004	2003	2004	2003
Net interest income	\$ 459	\$ 462	\$ 907	\$ 930
Provision for loan losses	23	38	45	144
Total securities gains	1	0	0	0
Total other income	1,071	1,696	2,036	3,018
Total other expense	1,594	2,105	3,169	3,716
Income tax	0	0	0	0
Net income (loss)	\$ (86)	\$ 14	\$(271)	\$ 88
Basic and diluted income (loss) per common share	\$(0.02)	\$0.00	\$(0.07)	\$0.02
Average shares outstanding	4,091	3,900	4,074	3,900
Net interest margin	4.55%	4.74%	4.59%	4.71%

Period-end:

Loans & Loans Held for Sale	\$38,847	\$34,061
Allowance for loan losses	471	460
Deposits	40,461	37,233
Assets	45,757	42,969
Equity	3,251	3,303
Book value per share	\$0.79	\$0.85

The following tables summarize the pre-tax income (loss) of each profit center of the Company for the three and six month periods ended June 30, 2004 and 2003 (in thousands):

Three months ended June 30, 2004 and 2003 Income (Loss) Summary

	<u>2004</u>	<u>2003</u>
Community Banking	\$(156)	\$ 10
Midwest Loan Services	98	36
Corporate Office	(28)	(31)
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Total	\$(86)	\$ 15
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Six months ended June 30, 2004 and 2003 Income (Loss) Summary

	<u>2004</u>	<u>2003</u>
Community Banking	\$(209)	\$(127)
Midwest Loan Services	(17)	276
Corporate Office	(45)	(61)
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Total	\$(271)	\$ 88
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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 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 and mortgage origination 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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