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PELICAN FINANCIAL INC
Form 10-Q
May 14, 2001

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

Quarterly Report Pursuant To Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the Quarter Ended March 31, 2001

Or

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

Commission file number 000-26601

Pelican Financial, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

58-2298215
(IRS Employer
Identification No.)

315 East Eisenhower Parkway
Ann Arbor, Michigan 48108
(Address of Principal Executive Offices)

734-662-9733
(Registrant's Telephone Number, Including Area Code)

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 equity, as of the latest practicable date:

Common Stock Outstanding as of April 30, 2001

Common stock, \$0.01 Par value 3,992,836 Shares

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PELICAN FINANCIAL, INC. Consolidated Balance Sheets

	March 31, 2001 (Unaudited)

ASSETS	
Cash and cash equivalents	\$ 16,729,54
Accounts receivable, net	7,165,20
Securities available for sale	3,824,56
Federal Reserve & Federal Home Loan Bank Stock	970,00
Loans held for sale	140,698,79
Loans receivable, net	94,315,07
Mortgage servicing rights, net	9,614,30
Other real estate owned	162,58
Premises and equipment, net	986,32
Other assets	2,165,91

	\$ 276,632,31

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LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities

Deposits

NonInterest-bearing

\$ 13,649,82

Interest-bearing

78,497,91

Total deposits

92,147,73

Due to bank

35,069,24

Notes payable

44,902,55

Repurchase agreements

64,066,09

Federal Home Loan Bank borrowings

14,000,00

Other liabilities

5,261,84

Total liabilities

255,447,46

Commitments and contingencies

Shareholders' equity

Preferred stock, 200,000 shares authorized; none outstanding

Common stock, \$.01 par value 10,000,000 shares authorized; 3,992,836

outstanding at March 31, 2001 and December 31, 2000

39,92

Additional paid in capital

13,631,15

Retained earnings

7,530,32

Accumulated other comprehensive income (loss), net of tax

(16,565

Total shareholders' equity

21,184,84

\$ 276,632,31

See accompanying notes to financial statements

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PELICAN FINANCIAL, INC.

Consolidated Statements of Income and Comprehensive Income (Unaudited)

INTEREST INCOME

Loans, including fees

\$ 5,

Investment securities, taxable

Federal funds sold and overnight accounts

Total interest income

5,

INTEREST EXPENSE

Deposits

1,

Other borrowings

2,

Total interest expense

3,

Three Mo
2001

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NET INTEREST INCOME	2,
Provision for loan losses	
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,
Noninterest income	
Service charges on deposit accounts	
Servicing income	
Gain on sales of mortgage servicing rights and loans, net	3,
Other income	
Total noninterest income	3,
Noninterest expense	
Compensation and employee benefits	3,
Occupancy and equipment	
Telephone	
Postage	
Amortization of mortgage servicing rights	
Mortgage servicing rights valuation adjustment	
Other noninterest expense	
Total noninterest expense	5,
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	
Provision for income taxes	
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	
Cumulative effect of change in accounting principle, net of tax	(
NET INCOME (LOSS)	\$ (1
Basic and diluted earnings per share before cumulative effect of change in accounting principle	\$
Per share cumulative effect of change in accounting principle	
Basic and diluted earnings (loss) per share	\$
COMPREHENSIVE INCOME (LOSS)	\$ (1

See accompanying notes to financial statements

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	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Net cash provided (used) by operating activities	\$ (71,388,690)
CASH FLOWS FROM INVESTING ACTIVITIES	
Loans receivable originations, net	(5,501,697)
Proceeds from sales of mortgage servicing rights	6,752,737
Other real estate owned, net	(45,099)
Property and equipment expenditures, net	(198,357)
Proceeds from maturities and principal repayments of securities available for sale	2,063,483
Purchase of Federal Reserve Stock	-
Net cash provided by investing activities	3,071,067
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase (decrease) in deposits	10,139,279
Increase in due to bank	22,561,897
Increase in notes payable due on demand	17,086,840
Advances on Federal Home Loan Bank borrowings	-
Increase in repurchase agreements	25,084,862
Net cash provided by financing activities	74,872,878
Net change in cash and cash equivalents	6,555,255
Cash and cash equivalents at beginning of period	10,174,294
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 16,729,549
CASH AND EQUIVALENTS IS COMPOSED OF:	
Cash and demand deposits due from banks	\$ 4,383,549
Interest-bearing deposits in banks	-
Federal funds sold	12,346,000
Total cash and cash equivalents	\$ 16,729,549
Supplemental cash disclosures	
Interest paid	\$ 3,045,066
Income taxes paid	95,000

See accompanying notes to financial statements

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The unaudited consolidated financial statements as of and for the three month period ended March 31, 2001 and 2000, include the accounts of Pelican Financial Inc. ("Pelican Financial") and it's wholly owned subsidiaries Pelican National Bank ("Pelican National") and Washtenaw Mortgage Company ("Washtenaw") for all periods. All references herein to Pelican Financial include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Assets held in an agency or fiduciary capacity are not assets of Pelican Financial and, accordingly, are not included in the accompanying consolidated financial statements.

NOTE 2 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with generally accepted accounting principles. However, all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for fair presentation of the consolidated financial statements have been included. The results of operations for the period ended March 31, 2001, are not necessarily indicative of the results which may be expected for the entire fiscal year or for any other period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2000 included in Pelican Financial's Form 10-K.

Certain prior year amounts have been reclassified to conform to the 2001 presentation.

NOTE 3 - LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2001
Commercial, financial and agricultural	\$ 573,124
Commercial real estate	30,613,485
Residential real estate	53,531,106
Installment loans	10,159,977
	94,877,692
Deduct allowance for loan losses	(562,622)
Loans receivable, net	\$ 94,315,070

Activity in the allowance for loan losses for the quarters ended March 31, are as follows:

	2001	2000
Balance at beginning of period	\$ 507,513	\$ 373,879
Provision for loan losses	120,000	90,000

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Loans charged-off	(65,438)	(56,666)
Recoveries	546	-
	-----	-----
Balance at end of period	\$ 562,621	\$ 407,213

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PELICAN FINANCIAL, INC.

Notes to the Consolidated Financial Statements (Unaudited)

NOTE 4 - EARNINGS PER SHARE

At March 31, 2001 and 2000, Pelican Financial had 10,000,000 shares of \$.01 par value common stock authorized with 3,992,836 shares issued and outstanding, and 200,000 shares of preferred stock authorized with none issued or outstanding.

The following summarizes the computation of basic and diluted earnings (loss) per share.

	Three Months ended March 31, 2001	Three Months ended March 31, 2000
	-----	-----
Basic earnings (loss) per share		
Net income (loss)	\$ (194,602)	\$ 174,211
Weighted average shares outstanding	3,992,836	3,992,836
	-----	-----
Basic earnings (loss) per share	\$ (0.05)	\$ 0.04
	=====	=====
Diluted earnings (loss) per share		
Net income (loss)	\$ (194,602)	\$ 174,211
Weighted average shares outstanding	3,992,836	3,992,836
Dilutive effect of assumed exercise of stock options	--	--
	-----	-----
Diluted average shares outstanding	3,992,836	3,992,836
	-----	-----
Diluted earnings (loss) per share	\$ (0.05)	\$ 0.04
	=====	=====

NOTE 5 - SEGMENT INFORMATION

Pelican Financial's operations include two primary segments: mortgage banking and retail banking. The mortgage banking segment involves the origination and purchase of single-family residential mortgage loans in approximately 41 states; the sale of such loans in the secondary market, generally on a pooled and securitized basis; and the servicing of mortgage loans for investors. The retail-banking segment involves attracting deposits from the general public and using such funds to originate and purchase existing consumer, commercial, commercial real estate, residential construction, and single-family residential

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mortgage loans, from its offices in Naples, Sarasota and Fort Myers, Florida.

Of the two segments, Pelican National comprises the retail-banking segment, with net interest income from loans, investments and deposits accounting for its primary revenues. Washtenaw comprises the mortgage-banking segment, with gains on sales of mortgage servicing rights (MSR) and loans, as well as loan servicing income accounting for its primary revenues.

The following segment financial information has been derived from the internal financial statements of Pelican National and Washtenaw, which are used by management to monitor and manage the financial performance of Pelican Financial. The accounting policies of the two segments are the same as those of Pelican Financial.

The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary difference between segment amounts and consolidated totals, and are reflected in the "Other" column below, along with minor amounts to eliminate transactions between segments.

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PELICAN FINANCIAL, INC.
Notes to the Consolidated Financial Statements (Unaudited)

NOTE 5 - SEGMENT INFORMATION (CONTINUED)

THREE MONTHS ENDED MARCH 31, 2001	DOLLARS IN THOUSANDS		
-----	Retail Banking	Mortgage Banking	Other
-----	-----	-----	-----
Net interest income	\$ 1,332	\$ 736	\$ (36)
Gain on sales of MSR and loans, net	11	3,065	(46)
Servicing income	3	570	-
Noncash items:			
Provision for loan losses	120	-	-
MSR amortization & valuation	2	955	-
Provision for income taxes	113	58	(48)
Segment profit, before cumulative effect of change in accounting principle	218	100	(92)
Segment assets	116,956	159,669	7
 THREE MONTHS ENDED MARCH 31, 2000			
Net interest income	\$ 1,298	\$ 510	\$ (43)
Gain on sales of MSR and loans, net	4	1,722	-
Servicing income	5	771	-
Noncash items:			
Provision for loan losses	90	-	-
MSR amortization & valuation	-	492	-
Provision for income taxes	193	(53)	(45)
Segment profit, before cumulative effect of change in accounting principle	371	(111)	(86)
Segment assets	82,491	87,648	170

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NOTE 6 - NEW ACCOUNTING PRONOUNCEMENT

Beginning January 1, 2001, a new accounting standard (SFAS No. 133) requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded.

At January 1 and March 31, 2001 derivatives held included forward contracts to deliver loans and mortgage backed securities and U.S. Treasury options. Forward contracts and Treasury options are used to manage interest rate risk on loans held for sale and the pipeline of loans in-process. Under SFAS 133, forward contracts and Treasury options will be carried at fair value, while the change in fair value of loans held for sale will be recorded to offset the value of forward contracts designated as a hedge. The effect of adopting SFAS 133 at January 1, 2001 was a pre-tax expense of \$635,495, consisting of \$689,152 of expense to record the loss on the forward contracts offset by income of \$53,657 on hedged loans held for sale. The expense at adoption was recorded as a cumulative effect of change in accounting principle. During the quarter ended March 31, 2001, an additional pre-tax expense of \$134,438 was recorded under SFAS 133, primarily to reflect the loss on forward contracts, and is included in gain on sales of mortgage servicing rights and loans, net.

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

Forward Looking Statements

Certain information in this Form 10-Q may constitute forward-looking information that involves risks and uncertainties that could cause actual results to differ materially from those estimated. Persons are cautioned that such forward-looking statements are not guarantees of future performance and are subject to various factors that could cause actual results to differ materially from those estimated. These factors include, but are not limited to, changes in general economic and market conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, demand for loan and deposit products and the development of an interest rate environment that adversely affects the interest rate spread or other income from Pelican Financial's investments and operations.

EARNINGS PERFORMANCE

Pelican Financial reported a net loss, including a \$420,000 after tax charge as the result of a cumulative effect of a change in accounting principle, of \$195,000 for the quarter ended March 31, 2001 compared to net income of \$174,000 for the same period in 2000, a decrease of \$369,000. Earnings per share, basic and diluted, was a loss of \$0.05 per share compared to income of \$0.04, per share for the three months ended March 31, 2001 and 2000 respectively.

Net income on operations, before the cumulative effect of change in accounting principle, for the three months ended March 31, 2001 was \$226,000 which, when compared to the same period in 2000, represents an increase of \$52,000 or 30%.

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The cumulative effect of a change in accounting principle is the result of the adoption of a new accounting standard (SFAS No. 133) that requires all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. Forward contracts and Treasury options are used to manage interest rate risk on loans held for sale and the pipeline of loans in-process. Under SFAS 133, forward contracts and Treasury options will be carried at fair value, while the change in fair value of loans held for sale will be recorded to offset the value of forward contracts designated as a hedge. The effect of adopting SFAS 133 at January 1, 2001 was a pre-tax expense of \$635,495, consisting of \$689,152 of expense to record the loss on the forward contracts offset by income of \$53,657 on hedged loans held for sale. The effect of adopting SFAS 133 on earnings from operations for the period ended March 31, 2001 was a pre-tax expense of \$134,438, primarily consisting of expense to record the loss on the forward contracts. This was included as part of the gain on sales of mortgage servicing rights and loans.

For further explanation of the earnings performance, please see the discussion on the retail and mortgage banking segments to follow.

RESULTS OF OPERATIONS

RETAIL BANKING

The following discussion provides information that relates specifically to Pelican Financial's retail banking line of business.

For the three months ended March 31, 2001, Pelican Financial's net income from retail banking activities primarily conducted by Pelican National totaled \$218,000. For the three months ended March 31, 2000 Pelican National's comparable net income was \$371,000. The decrease in net income for the period was primarily attributable to an increase in noninterest expense.

Net Interest Income

Net Interest Income was \$1.3 million for the three months ended March 31, 2001 and 2000, respectively. Net interest income was consistent as the reduction of the interest rate spread from 4.40% at March 31, 2000 to 2.24% at March 31, 2001 was offset by the increase in average loans receivable.

Average Balance Sheet

The following tables summarizes the average yields earned on interest-earning assets and the average rates paid on interest-bearing liabilities for Pelican Financial. With the exception of loans held for sale and other borrowings, the interest earning-assets and interest-bearing liabilities are attributable to Pelican National.

Three months ended March
2001

Average Volume	Interest	Yield/Cost	A V
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ASSETS

Interest-earning assets:

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Federal funds sold.....	\$ 6,882	\$ 100	5.81%	\$
Securities.....	6,368	98	6.16	
Loans held for sale.....	134,141	2,738	8.16	6
Loans receivable, net.....	91,494	2,336	10.21	7
	-----	-----		
Total interest-earning assets.....	238,885	5,272	8.83	14
Non-earning assets.....	21,695			1

Total assets.....	\$260,580			\$16
	=====			=====
 LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest-bearing liabilities:				
NOW accounts.....	\$ 1,988	11	2.21	
Money market accounts.....	3,455	41	4.75	
Savings deposits.....	14,468	161	4.45	1
Time deposits.....	52,200	859	6.58	4
Other borrowings.....	124,688	2,168	6.95	7
	-----	-----		
Total interest-bearing liabilities.....	196,799	3,240	6.59	13
		-----	----	
Noninterest-bearing liabilities.....	43,130			
Stockholders' equity.....	20,651			2

Total liabilities and stockholders' equity.	\$260,580			\$16
	=====			=====
Interest rate spread.....			2.24%	
			=====	
Net interest income and net interest margin....		\$2,032	3.40%	
		=====	=====	

Net interest income represents the excess of income on interest-earning assets over interest expense on interest bearing liabilities. The principal interest-earning assets are federal funds sold, investment securities and loans receivable. Interest-bearing liabilities primarily consist of notes payable, repurchase agreements, time deposits, interest-bearing checking accounts (NOW accounts), savings, deposits and money market accounts. Funds attracted by these interest-bearing liabilities are invested in interest-earning assets. Accordingly, net interest income depends upon the volume of average interest-earning assets and average interest bearing liabilities and the interest rates earned or paid on them.

Noninterest Income

Noninterest income for the three months ended March 31, 2001 was \$42,000 compared to \$22,000 for the same period in 2000, an increase of \$20,000 or 91%. This increase was primarily due to the increase in the number of accounts at Pelican National that are eligible for service charges. The number of accounts has grown due to normal growth and a second full service bank branch in Fort Myers, Florida being opened during 2000.

Noninterest Expense

Total noninterest expense for the three months ended March 31, 2001 was \$923,000, compared to \$667,000 for the same period in 2000, an increase of \$256,000 or 38%. This increase was primarily due to increases in compensation and employee benefits expense of \$124,000 or 39%, occupancy and equipment expense of \$31,000 or 26% and other operating expenses of \$86,000 or 41%. The increases were the result of adding additional support staff due to the growth of the bank and the opening of a loan production office in Sarasota, Florida.

MORTGAGE BANKING

The following discussion provides information that relates specifically to Pelican Financial's mortgage banking line of business.

For the three months ended March 31, 2001, Pelican Financial's net operating income from mortgage banking activities primarily conducted by Washtenaw totaled \$100,000. Including the cumulative effect of a change in accounting principle, the net loss was \$320,000. For the three months ended March 31, 2000 Washtenaw's net loss was \$111,000. The increase in the operating income was primarily attributable to an increase in mortgage loan production as a result of the decrease in mortgage interest rates.

The volume of loans produced for the three months ended March 31, 2001 totaled \$586.0 million as compared to \$262.6 million for the three months ended March 31, 2000, an increase of \$323.4 million or 123%. The decrease in mortgage interest rates increased the amount of loan refinancing that occurred in the first three months of 2001.

Noninterest Income

Total noninterest income for the three months ended March 31, 2001 was \$4.0 million, compared to \$2.7 million for the three months ended March 31, 2000, an increase of \$1.3 million or 48%. This increase was primarily due to a 78% increase in the gain on sales of mortgage servicing rights and loans of \$1.3 million.

The increase in gain on sale of mortgage servicing rights and loans was primarily due to an increase in the overall new loan origination volume in the first three months of 2001. In addition, the gains on sale of mortgage servicing rights and loans was affected by the improved profit margins on each new loan origination as a result of the current interest rate environment. The increase in new loan originations are the result of the decrease in mortgage interest rates and increased market share by Washtenaw primarily in the western part of the United States.

Loan Servicing

At March 31, 2001, Washtenaw serviced \$920.0 million of loans compared to \$1.1 billion at March 31, 2000, a 14% decrease. The decrease in the servicing portfolio reflects the normal portfolio runoff and management's decision to sell the majority of new production in monthly concurrent transfers. In addition, Washtenaw transferred approximately \$100 million of servicing related to a bulk sale during the quarter. This reduced the size of the servicing portfolio and thereby reduced servicing revenue. At March 31, 2001 and 2000, with the exception of servicing related to loans held for sale in Washtenaw's loan portfolio and servicing sold but not yet delivered, all loan servicing was serviced for others. Service fee income, net of amortization was \$212,000 and \$223,000 for the three months ended March 31, 2001 and 2000 respectively.

Noninterest Expense

Total noninterest expense for the three months ended March 31, 2001 was \$4.6 million, compared to \$3.4 million for the same period in 2000, an increase of \$1.2 million or 35%. This increase was primarily due to the increase in employee compensation and benefits expenses of approximately \$779,000 and an increase in the mortgage servicing rights valuation adjustment of \$653,000. The increase in employee compensation and benefits was primarily the result of an increase in personnel and overtime as well as an increase in total commissions paid to the existing sales force as a result of the increase in new loan originations. Washtenaw's sales force is comprised primarily of commission based business consultant's who are paid a percentage of the loan production from their customers. The mortgage servicing rights valuation adjustment increased due to

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the decrease in mortgage interest rates. As mortgage interest rates drop, the value of the mortgage servicing rights asset decreases because of the higher likelihood the loans will be refinanced.

BALANCE SHEET ANALYSIS

The following is a discussion of the consolidated balance sheet of Pelican Financial.

ASSETS

At March 31, 2001, total assets of Pelican Financial equaled \$276.6 million as compared to \$201.2 million at December 31, 2000, an increase of \$75.4 million or 37%. This increase is primarily due to increases in cash and cash equivalents, accounts receivable, loans held for sale and loans receivable.

Cash and Cash Equivalents

Cash and cash equivalents were \$16.7 million at March 31, 2001 compared to \$10.2 million at December 31, 2000. The increase of \$6.5 million or 64% was primarily the result of an increase in federal funds sold of \$5.3. Pelican National had excess liquidity that will be used to fund loan origination's in the future. The excess liquidity was caused by increased payoffs of outstanding loans and the increase of outstanding deposit balances of Washtenaw's custodial accounts at Pelican National.

Accounts Receivable

Accounts receivable were \$7.2 million at March 31, 2001 compared to \$5.5 million at December 31, 2000. The increase of \$1.7 million or 31% was primarily the result of an increase in receivables related to the sale of servicing by Washtenaw. Due to increased production during the first quarter, the amount of receivable related to providing the purchaser of Washtenaw's mortgage servicing rights final documents has increased.

Investment Securities

Pelican National primarily utilizes investments in securities for liquidity management and as a method of deploying excess funding not utilized for investment in loans. Pelican National has invested primarily in U. S. government and agency securities, federal funds, and U. S. government sponsored agency issued mortgage-backed securities. As required by SFAS No. 115, Pelican National classifies securities as held-to-maturity, available-for-sale, or trading. At March 31, 2001 and at December 31, 2000, all of the investment securities held in Pelican National's investment portfolio were classified as available for sale. During the quarter, \$2.1 million of securities were called.

The following table contains information on the carrying value of Pelican National's investment portfolio at the dates indicated. At March 31, 2001, the market value of Pelican National's investment portfolio totaled \$4.8 million. During the periods indicated and except as otherwise noted, Pelican National had no securities of a single issuer that exceeded 10% of stockholders' equity.

	At March 31, 2001 (Dollars in thousand)
U. S. Government agency (1)	\$ 2,002

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Mortgage-backed securities	1,823
Federal Reserve Bank and Federal Home Loan Bank Stock.....	970

Total investment securities.....	\$ 4,795
	=====

Loans Held for Sale

Loans held for sale were \$140.7 million at March 31, 2001 compared to \$80.1 million at December 31, 2000. This increase of \$60.6 million or 76% was caused by the increased refinance activity at Washtenaw resulting from the decrease in mortgage interest rates.

Loans Receivable

Total loans receivable were \$94.3 million at March 31, 2001, an increase of \$4.4 million or 5% from \$88.9 at December 31, 2000. This increase resulted primarily from increases in commercial, residential real estate and boat lending production at Pelican National. This was offset by a higher level of loans that paid in full due to the declining interest rate environment.

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The following table contains selected data relating to the composition of Pelican Financial's loan portfolio by type of loan at the dates indicated. This table includes mortgage loans available for sale and mortgage loans held for investment. Pelican Financial had no concentration of loans exceeding 10% of total loans that are not otherwise disclosed below.

	March 31, 2001		December
	Amount	Percent	Amount
	-----	-----	-----
Real estate loans:			
Residential, one to four units.....	\$191,545	81.13 %	\$128,913
Commercial and industrial real estate...	26,482	11.22	28,662
Construction.....	7,336	3.11	6,339
	-----	-----	-----
Total real estate loans.....	225,363	95.46	163,914
Other loans:			
Business, commercial.....	573	0.24	1,116
Automobile.....	277	0.12	268
Boat.....	6,923	2.93	2,731
Other consumer.....	2,960	1.25	2,249
	-----	-----	-----
Total other loans.....	10,733	4.54	6,364
	-----	-----	-----
Total gross loans.....	236,096	100.00%	170,278
		=====	
Unearned fees, premiums and discounts, net.....	(520)		(775)
Allowance for loan losses.....	(563)		(507)
	-----		-----
Total Loans net (1).....	\$235,013		\$168,996

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(1) Includes loans held for sale and loans receivable, net

Asset Quality

Pelican Financial is exposed to certain credit risks related to the value of the collateral that secures loans held in its portfolio and the ability of borrowers to repay their loans during the term thereof. Pelican Financial's senior officers closely monitor the loan and real estate owned portfolios for potential problems on a continuing basis and report to the Board of Directors of Pelican Financial at regularly scheduled meetings. These officers regularly review the classification of loans and the allowance for losses. Pelican Financial also has a quality control department, the function of which is to provide the Board of Directors with an independent ongoing review and evaluation of the quality of the process by which lending assets are generated.

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The following table sets forth certain information on nonperforming loans and other real estate owned, the ratio of such loans and other real estate owned to total loans and total assets as of the dates indicated.

	At March 31,		At Decem
	2001	2000	20
	(Dollars in thousands)		
Nonaccrual loans.....	\$ 1,885	\$ -	\$
Loans past due 90 days or more but not on nonaccrual.....	483	80	
Total nonperforming loans.....	2,368	80	1
Other real estate owned.....	163	161	
Total nonperforming assets.....	\$2,531	\$241	\$1
Total nonperforming assets to total assets.....	0.91%	0.14%	0
Allowance for loan losses to nonperforming loans	23.78%	508.75%	39
Nonperforming loans to total assets.....	0.86%	0.05%	0

Provision and Allowance for Loan Losses

Pelican National establishes an allowance for loan losses based upon a quarterly or more frequent evaluation by management of various factors inherent in the loan portfolio. These factors include the estimated market value of the underlying collateral, the growth and composition of the portfolio, current delinquency trends and prevailing economic conditions, including property values, employment and occupancy rates, interest rates, and other conditions that may affect the borrowers' ability to comply with repayment terms. If actual losses exceed the amount of the allowance for loan losses, earnings could be adversely affected. As Pelican National's provision for loan losses is based on management's assessment of the general risk inherent in the loan portfolio based

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on all relevant factors and conditions, the allowance for loan losses represents both general and specific reserves. The provision for loan losses for the three months ended March 31, 2001 was \$120,000. The provision for loan losses for the three months ended March 31, 2000 was \$90,000. The increase is due to the increase in the size of the loan portfolio and the increase in total nonperforming loans.

The Comptroller of the Currency, as an integral part of their examination process, periodically reviews Pelican National's allowance for loan losses. They may require Pelican National to make additional provisions for estimated loan losses based upon their judgments about information available to them at the time of their examination. Pelican National will continue to monitor and modify its allowance for loan losses as conditions dictate. While management believes the allowance for loan losses is sufficient to cover losses inherent in its portfolio at this time, no assurances can be given that Pelican National's level of allowance for loan losses will be sufficient to cover loan losses incurred by Pelican National or that adjustments to the allowance for loan losses will not be necessary if future economic and other conditions differ substantially from the current conditions considered by management to determine the amount of the allowance for loan losses.

The allowance for loan losses represented .59% of the loans receivable outstanding as of March 31, 2001 compared with .57% of the loans receivable outstanding as of December 31, 2000. The amount of the provision for loan losses charged to expense in each of these periods represents management's best estimate during those periods of the addition necessary to establish appropriate allowances for estimated, incurred credit losses. Such estimates were based on management's assessment of the current general economic conditions in Pelican National's market areas, the risk levels associated with the particular composition of the loan portfolio during such periods, and Pelican National's past collection experience.

LIABILITIES

At March 31, 2001, the total liabilities of Pelican Financial were \$255.7 million as compared to \$179.9 million at December 31, 2000, an increase of \$75.8 million or 42%. This increase was primarily due to increases in deposits, notes payable and repurchase agreements.

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Deposits

Total deposits were \$92.1 million at March 31, 2001 compared to \$82.0 million at December 31, 2000 an increase of \$10.1 million or 12%. The increase was due to several factors. The primary cause of the increase was due to increased balances in the custodial accounts at Pelican National for Washtenaw's various investors. These accounts are for the principal, interest, taxes and insurance collected from the loans currently being serviced by Washtenaw. The balance in these accounts typically increase as the balance in loans held for sale increases.

Due to Bank

Due to bank was \$35.1 million at March 31, 2001 compared to \$12.5 at December 31, 2000. The increase of \$22.6 million or 180% was due to the increase of mortgage loan production at Washtenaw. Due to Bank represents the drafts provided to fund the loans purchased by Washtenaw that have not yet been presented and cleared the bank.

Notes Payable

Notes payable was \$44.9 million at March 31, 2001 compared to \$27.8 million at December 31, 2000. This increase of \$17.1 million or 62% was primarily caused by

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an increase of loans held for sale balance. Since the notes payable represent the warehouse line of credit that Washtenaw uses to fund its loan production until such time that the loans are sold to the secondary market, the balance will generally move in direct correlation with the loans held for sale balance.

Repurchase Agreements

Repurchase agreements were \$64.1 million at March 31, 2001 compared to \$39.0 million at December 31, 2000. This increase of \$25.1 million or 64% in the repurchase agreements was primarily the result of an increase in the balance of loans held for sale. Washtenaw uses repurchase agreements, in addition to its warehouse line of credit, as a means to fund the loans that it purchases. Therefore, much like the notes payable balance, the repurchase agreements balance will move in direct correlation to the loans held for sale balance.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Management

The objective of liquidity management is to ensure the availability of sufficient resources to meet all financial commitments and to capitalize on opportunities for business expansion. Liquidity management addresses the ability to meet deposit withdrawals either on demand or by contractual maturity, to repay other borrowings as they mature and to make new loans and investments as opportunities arise.

To date Pelican Financial has conducted no business other than managing its investments in Pelican National and Washtenaw. Pelican Financial's source of funds is dividends paid by Washtenaw and Pelican National. Washtenaw's sources of funds include cash from gains on sales of mortgage loans and servicing, net interest income, servicing fees and borrowings. Washtenaw sells its mortgage loans generally on a monthly basis to generate cash for operations. Washtenaw's uses of cash in the short-term include the funding of mortgage loan purchases and originations and purchases of mortgage servicing rights, payment of interest, repayment of amounts borrowed pursuant to warehouse lines of credit, operating and administrative expenses, income taxes and capital expenditures. Long-term uses of cash may also include the funding of securitization activities or portfolios of loan or servicing assets.

Pelican Financial is currently negotiating a \$3.0 million line of credit. This will be used to pay off its existing term loan and fund growth either at Washtenaw or Pelican National. Management anticipates signing the new loan agreement in the second quarter.

Washtenaw funds its business through the use of a warehouse line of credit and the use of agreements to repurchase. The agreements to repurchase typically have terms of less than 90 days and are treated as a source of financing. The warehouse line of credit has a limit of \$80 million, of which \$12.0 million represents a sublimit for servicing under contract for sale, and \$6 million represents a working capital sublimit. Borrowing pursuant to the warehouse line of credit totaled \$43.2 million at March 31, 2001 and \$26.0 million at December 31, 2000. The interest rate on the warehouse line of credit is the Federal Funds Rate plus 1.50% resulting in an effective rate of 6.50% at March 31, 2001 and 8.50% at December 31, 2000. The effective interest rate on the agreements to repurchase was 5.90% at March 31, 2001 and 7.90% at December 31, 2000.

Washtenaw purchases its loans either by wiring funds to the closing agent or sending a draft. The decision is based on the requirements of the state where the loan is being purchased. When a draft is used, Washtenaw begins earning

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interest on the day the draft is issued but does not incur any cost of funds until the draft is presented to bank. When the draft clears the bank, Washtenaw will either borrow money on its warehouse line of credit or through its agreements to repurchase depending on the type of loan. Outstanding drafts totaled \$35.1 million at March 31, 2001 and \$12.5 million at December 31, 2000. The increase is the result of the increase in mortgage lending activity during the quarter.

Pelican National's sources of funds include net increases in deposits, principal and interest payments on loans, proceeds from sales of loans held for sale, proceeds from maturities and sales and calls of available for sale securities.

The liquidity reserve may consist of cash on hand, cash on demand deposits with other correspondent banks, and other investments and short-term marketable securities as determined by the rules of the Office of the Comptroller of the Currency ("OCC"), such as federal funds sold and United States securities and securities guaranteed by the United States. At March 31, 2001, Pelican Financial had a liquidity ratio of 19.37%. Liquidity, as measured in the form of cash and cash equivalents totaled \$16.7 million at March 31, 2001, an increase of \$6.5 million from December 31, 2000 to March 31, 2001. The increase is primarily the result of an \$5.3 million increase in the outstanding federal funds sold at March 31, 2001.

Pelican Financial's ability to continue to purchase loans and mortgage servicing rights and to originate new loans is dependent in large part upon its ability to sell the mortgage loans at par or for a premium or to sell the mortgage servicing rights in the secondary market in order to generate cash proceeds to repay borrowings pursuant to the warehouse facility, thereby creating borrowing capacity to fund new purchases and originations. The value of and market for Pelican Financial's loans and mortgage servicing rights are dependent upon a number of factors, including the borrower credit risk classification, loan-to-value ratios and interest rates, general economic conditions, warehouse facility interest rates and governmental regulations.

Washtenaw generally grants commitments to fund mortgage loans for up to 30 days at a specified term and interest rate. The commitments are commonly known as rate-lock commitments. At March 31, 2001, Washtenaw had outstanding rate-lock commitments to lend \$112.2 million for mortgage loans. Because these commitments may expire without being drawn upon, they do not necessarily represent future cash commitments. Also, as of March 31, 2001, Washtenaw had outstanding commitments to sell \$214.2 million of mortgage loans. These commitments usually are funded within 90 days.

Capital Resources

The Board of Governors of the Federal Reserve System's (FRB) capital adequacy guidelines mandate that minimum ratios be maintained by bank holding companies such as Pelican Financial. Pelican National is governed by capital adequacy guidelines mandated by the OCC.

Based upon their respective regulatory capital ratios at March 31, 2001 Pelican Financial and Pelican National are both well capitalized, based upon the definitions in the regulations issued by the FRB and the OCC setting forth the general capital requirements mandated by the Federal Deposit Insurance Corporation Improvement Act of 1991.

The table below indicates the regulatory capital ratios of Pelican Financial and

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Pelican National and the regulatory categories for a well capitalized and adequately capitalized bank under the regulatory framework for prompt corrective action (all three capital ratios) at March 31, 2001 and December 31, 2000, respectively:

	March 31, 2001	Actual Pelican Financial	December 31, 2000	
Total Equity Capital to risk-weighted assets.....	13.98%	12.60%	14.85%	P
Total Tier 1 Capital to risk-weighted assets.....	13.25%	12.26%	14.14%	Fi
Tier 1 Capital to adjusted total assets	9.55%	8.04%	9.85%	

Item 3: Quantitative and Qualitative Disclosure About Market Risk

For a discussion of Pelican Financial's asset/liability management policies as well as the potential impact of interest rate changes upon the market value of Pelican Financial's portfolio, see Pelican Financial's Annual Report to Shareholders and Form 10-K. Management believes that there has been no material change in Pelican Financial's asset/liability position or the market value of Pelican Financial's portfolio since December 31, 2000.

Part II. Other Information.

Item 1. Legal Proceedings

There has been no material changes to the pending legal proceedings to which Pelican Financial is a party since the filing of the registrants Form 10-K.

Item 2. Changes in Securities and Use of Proceeds

- (a) Not Applicable
- (b) Not Applicable
- (c) Not Applicable
- (d) Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Submission of Matters to a Vote of Shareholders

None

Item 5. Other Information

The Registrant named Robert C. Huffman President of Washtenaw effective January 25, 2001. Mr. Huffman replaces Charles C. Huffman who retained his positions of Chairman of the Board and Chief Executive Officer of Pelican Financial.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

There were no reports on Form 8-K filed during the three month period March 31, 2001.

Pelican Financial, Inc. and Subsidiaries

Signatures

Under 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.

Date: May 10, 2001

/s/ CHARLES C. HUFFMAN

Charles C. Huffman
President and Chief Executive Officer

Date: May10, 2001

/s/ HOWARD M. NATHAN

Howard M. Nathan
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)