

First Federal of Northern Michigan Bancorp, Inc.
Form 10-Q
May 17, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 000-31957

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

32-0135202
(I.R.S. Employer
Identification No.)

100 S. Second Avenue, Alpena, Michigan 49707
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (989) 356-9041

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Stock, Par Value \$0.01
(Title of Class)

Outstanding at May 14, 2010
2,884,249 shares

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-Q
Quarter Ended March 31, 2010

INDEX

| | PAGE |
|--|------|
| PART I – FINANCIAL INFORMATION | |
| ITEM 1 - UNAUDITED FINANCIAL STATEMENTS | |
| Consolidated Balance Sheet at March 31, 2010 and December 31, 2009 | 3 |
| Consolidated Statements of Income for the Three Months Ended March 31, 2010 and March 31, 2009 | 4 |
| Consolidated Statement of Changes in Stockholders' Equity for the Three Months Ended March 31, 2010 | 5 |
| Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2010 and March 31, 2009 | 6 |
| Notes to Unaudited Consolidated Financial Statements | 7 |
| ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | |
| | 16 |
| ITEM 3 - QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK | |
| | 23 |
| ITEM 4 - CONTROLS AND PROCEDURES | |
| | 23 |
| Part II - OTHER INFORMATION | |
| ITEM 1 - LEGAL PROCEEDINGS | |
| | 24 |
| ITEM 1A - RISK FACTORS | |
| | 24 |
| ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | |
| | 24 |
| ITEM 3 - DEFAULTS UPON SENIOR SECURITIES | |
| | 24 |
| ITEM 4 - OTHER INFORMATION | |
| | 24 |
| ITEM 5 - EXHIBITS | |
| Section 302 Certifications | 24 |
| Section 906 Certifications | |

When used in this Form 10-Q or future filings by First Federal of Northern Michigan Bancorp, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions, changes in levels of market interest rates, credit and other risks of lending and investment activities and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Balance Sheet

| | March 31, 2010 (Unaudited) | December 31, 2009 |
|---|----------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents: | | |
| Cash on hand and due from banks | \$ 1,900,416 | \$ 2,583,131 |
| Overnight deposits with FHLB | 957,583 | 515,927 |
| Total cash and cash equivalents | 2,857,999 | 3,099,058 |
| Securities AFS | 33,036,832 | 33,712,724 |
| Securities HTM | 3,925,900 | 3,928,167 |
| Loans held for sale | 78,600 | 51,970 |
| Loans receivable, net of allowance for loan losses of \$3,488,356 and \$3,660,334 as of March 31, 2010 and December 31, 2009, respectively | 168,447,089 | 171,219,105 |
| Foreclosed real estate and other repossessed assets | 3,618,759 | 3,579,895 |
| Federal Home Loan Bank stock, at cost | 4,196,900 | 4,196,900 |
| Premises and equipment | 6,435,712 | 6,563,683 |
| Accrued interest receivable | 1,230,488 | 1,230,287 |
| Intangible assets | 846,644 | 919,757 |
| Prepaid FDIC Premiums | 1,225,090 | 1,314,850 |
| Deferred Tax Asset | 458,531 | 559,235 |
| Other assets | 3,188,349 | 3,130,063 |
| Total assets | \$ 229,546,893 | \$ 233,505,694 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | \$ 156,612,187 | \$ 158,099,809 |
| Advances from borrowers for taxes and insurance | 276,519 | 105,419 |
| Federal Home Loan Bank Advances | 42,200,000 | 44,400,000 |
| Note Payable | - | 630,927 |
| REPO Sweep Accounts | 5,596,791 | 5,407,791 |
| Accrued expenses and other liabilities | 1,583,097 | 1,809,266 |
| Total liabilities | 206,268,594 | 210,453,212 |
| Stockholders' equity: | | |
| Common stock (\$0.01 par value 20,000,000 shares authorized 3,191,999 shares issued) | 31,920 | 31,920 |
| Additional paid-in capital | 23,744,409 | 23,722,767 |
| Retained earnings | 2,202,566 | 2,000,264 |
| Treasury stock at cost (307,750 shares) | (2,963,918) | (2,963,918) |
| Unearned compensation | (130,516) | (161,678) |
| Accumulated other comprehensive income | 393,838 | 423,127 |
| Total stockholders' equity | 23,278,299 | 23,052,482 |

| | | |
|--|----------------|----------------|
| Total liabilities and stockholders' equity | \$ 229,546,893 | \$ 233,505,694 |
|--|----------------|----------------|

See accompanying notes to consolidated financial statements.

3

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Statement of Income

| | For the Three Months Ended March 31, | |
|--|---|--------------|
| | 2010 | 2009 |
| | (Unaudited) | |
| Interest income: | | |
| Interest and fees on loans | \$ 2,540,413 | \$ 2,942,340 |
| Interest and dividends on investments | | |
| Taxable | 132,563 | 143,802 |
| Tax-exempt | 52,812 | 53,596 |
| Interest on mortgage-backed securities | 156,533 | 150,826 |
| Total interest income | 2,882,321 | 3,290,564 |
| Interest expense: | | |
| Interest on deposits | 637,824 | 1,060,286 |
| Interest on borrowings | 318,582 | 428,559 |
| Total interest expense | 956,406 | 1,488,845 |
| Net interest income | 1,925,915 | 1,801,718 |
| Provision for loan losses | 11,088 | 264,230 |
| Net interest income after provision for loan losses | 1,914,827 | 1,537,488 |
| Non-interest income: | | |
| Service charges and other fees | 204,174 | 214,872 |
| Mortgage banking activities | 248,092 | 449,205 |
| Gain on sale of available-for-sale investments | 49,430 | - |
| Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets | 11,176 | 71,542 |
| Other | 65,613 | 62,617 |
| Total non-interest income | 578,485 | 798,236 |
| Non-interest expense: | | |
| Compensation and employee benefits | 1,170,942 | 1,147,802 |
| FDIC Insurance Premiums | 94,200 | 79,564 |
| Advertising | 19,889 | 17,550 |
| Occupancy | 312,576 | 302,418 |
| Amortization of intangible assets | 73,113 | 89,117 |
| Service bureau charges | 79,582 | 91,959 |
| Professional services | 103,111 | 102,904 |
| Other | 335,683 | 306,500 |
| Total non-interest expense | 2,189,096 | 2,137,814 |
| Income from continuing operations before income tax expense (benefit) | 304,216 | 197,911 |
| Income tax expense from continuing operations | 101,913 | 51,412 |
| Net income from continuing operations | 202,303 | 146,499 |
| Discontinued Operations: | | |
| Loss from discontinued operations, net of income tax benefit of \$0 and \$43,209 | - | (83,875) |

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| | | |
|--|------------|------------|
| Gain on sale of discontinued operations, net of income tax expense of \$0 and \$19,585 | - | 38,017 |
| Loss from discontinued operations | - | (45,858) |
| Net Income | \$ 202,303 | \$ 100,641 |
| Per share data: | | |
| Income per share from continuing operations | | |
| Basic | \$ 0.07 | \$ 0.05 |
| Diluted | \$ 0.07 | \$ 0.05 |
| Loss per share from discontinued operations | | |
| Basic | \$ - | \$ (0.02) |
| Diluted | \$ - | \$ (0.02) |
| Net income per share | | |
| Basic | \$ 0.07 | \$ 0.03 |
| Diluted | \$ 0.07 | \$ 0.03 |
| Weighted average number of shares outstanding | | |
| Basic | 2,884,249 | 2,884,249 |
| Including dilutive stock options | 2,884,249 | 2,884,249 |
| Dividends per common share | \$ - | \$ - |

See accompanying notes to consolidated financial statements.

First Federal of Northern Michigan Bancorp Inc. and
Subsidiaries
Consolidated Statement of Changes in Stockholders'
Equity (Unaudited)

| | Common Stock | Treasury Stock | Additional Paid-in Capital | Unearned Compensation | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|--|-----------------|-------------------|----------------------------------|--------------------------|----------------------|---|---------------|
| Balance at December 31, 2009 | \$ 31,920 | \$ (2,963,918) | \$ 23,722,767 | \$ (161,678) | \$ 2,000,263 | \$ 423,127 | \$ 23,052,481 |
| Stock Options/MRP shares expensed | - | - | 21,642 | 31,162 | - | - | 52,804 |
| Net income for the period | - | - | - | - | 202,303 | - | 202,303 |
| Change in unrealized gain: on available-for-sale securities (net of tax of \$15,088) | - | - | - | - | - | (29,289) | (29,289) |
| Total comprehensive income | - | - | - | - | - | - | 173,014 |
| Balance at March 31, 2010 | \$ 31,920 | \$ (2,963,918) | \$ 23,744,409 | \$ (130,516) | \$ 2,202,566 | \$ 393,838 | \$ 23,278,299 |

See accompanying notes to the consolidated
financial statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries
Consolidated Statement of Cash Flows

| | For Three Months Ended March 31, | |
|--|-------------------------------------|--------------|
| | 2010 | 2009 |
| | (Unaudited) | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 202,303 | \$ 100,641 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 207,170 | 198,114 |
| Provision for loan loss | 11,088 | 264,230 |
| Amortization and accretion on securities | 31,596 | 12,471 |
| Gain on sale of investment securities | (49,430) | - |
| ESOP contribution | - | 3,294 |
| Stock awards/options | 52,804 | 52,803 |
| Gain on sale of loans held for sale | (93,199) | (195,778) |
| Originations of loans held for sale | (6,947,064) | (17,351,274) |
| Proceeds from sale of loans held for sale | 7,013,633 | 16,257,368 |
| Gain on sale of fixed assets | - | (43,807) |
| Net change in: | | |
| Accrued interest receivable | (201) | (14,524) |
| Other assets | (82,065) | (17,397) |
| Prepaid FDIC insurance premiums | 89,760 | - |
| Deferred income tax benefit | 100,704 | (657,470) |
| Accrued expenses and other liabilities | (226,169) | 967,048 |
| Net cash provided by (used in) operating activities | 310,930 | (424,281) |
| Cash Flows from Investing Activities: | | |
| Net decrease in loans | 2,760,929 | 319,016 |
| Proceeds from maturity and sale of available-for-sale securities | 5,249,241 | 1,423,900 |
| Proceeds from sale of property and equipment | - | 306,772 |
| Net change in discontinued operations | - | 1,533,942 |
| Purchase of securities | (4,597,624) | (5,172,882) |
| Purchase of premises and equipment | (6,086) | (10,768) |
| Net cash provided by (used for) investing activities | 3,406,460 | (1,600,020) |
| Cash Flows from Financing Activities: | | |
| Net decrease in deposits | (1,487,622) | (1,381,391) |
| Net increase in Repo Sweep accounts | 189,000 | (1,875,510) |
| Net increase in advances from borrowers | 171,100 | 170,701 |
| Additions to advances from Federal Home Loan Bank and notes payable | 10,025,000 | 8,600,000 |
| Repayments of Federal Home Loan Bank advances and notes payable | (12,855,927) | (4,450,000) |
| Net cash provided by (used for) financing activities | (3,958,449) | 1,063,800 |
| Net increase (decrease) in cash and cash equivalents | (241,059) | (960,501) |
| Cash and cash equivalents at beginning of period | 3,099,058 | 3,470,311 |
| Cash and cash equivalents at end of period | \$ 2,857,999 | \$ 2,509,810 |

Supplemental disclosure of cash flow information:

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| | | | | |
|--|----|-----------|----|-----------|
| Cash paid during the period for income taxes | \$ | - | \$ | - |
| Cash paid during the period for interest | \$ | 1,006,607 | \$ | 1,479,994 |

See accompanying notes to the consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

All adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations and cash flows, have been made. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Note 2— PRINCIPLES OF CONSOLIDATION AND DISCONTINUED OPERATIONS

The consolidated financial statements include the accounts of First Federal of Northern Michigan Bancorp, Inc., First Federal of Northern Michigan, and the Bank's wholly owned subsidiary, Financial Services & Mortgage Corporation ("FSMC"). FSMC invests in real estate, which includes leasing, selling, developing, and maintaining real estate properties. All significant intercompany balances and transactions have been eliminated in the consolidation.

In accordance with Statement of Financial Accounting Standards No. 144, on February 27, 2009 First Federal of Northern Michigan Bancorp, Inc. announced that it had sold the InsuranCenter of Alpena ("ICA") for \$1,635,000. In accordance with Financial Accounting Standard 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which became effective for the Company on January 1, 2002, the financial position and results of operations of ICA are removed from the detail line items in the Company's condensed consolidated financial statements and presented separately as "discontinued operations." For further information, please refer to Note 15 of the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

As a result of the transaction, the Company reduced its full-time employees by 14 positions, or 13% of the Company's workforce. The Company recorded a gain of approximately \$57,000 upon the closing of the sale. The Company retained the residual income stream associated with the April 2008 sale of its wholesale Blue Cross/Blue Shield override business to the Grotenhuis Group.

Note 3—LOANS

The following table sets forth the composition of our loan portfolio by loan type at the dates indicated.

| | At March 31, 2010 | At December 31, 2009 |
|---------------------------|-------------------------|-------------------------------|
| | (in thousands) | |
| Real estate loans: | | |
| Residential mortgage | \$ 79,634 | \$ 81,620 |
| Commercial loans: | | |
| Secured by real estate | 62,528 | 62,376 |
| Other | 9,835 | 9,873 |
| Total commercial loans | 72,363 | 72,249 |
| Consumer loans: | | |
| Secured by real estate | 17,838 | 18,732 |
| Other | 2,358 | 2,553 |
| Total consumer loans | 20,196 | 21,285 |
| Total gross loans | \$ 172,193 | \$ 175,154 |
| Less: | | |
| Net deferred loan fees | (258) | (275) |
| Allowance for loan losses | (3,488) | (3,660) |
| Total loans, net | \$ 168,447 | \$ 171,219 |

The following table sets forth the analysis of the allowance for loan losses for the periods indicated:

| | As of March 31 2010 | As of December 31, 2009 |
|------------------------------------|---------------------------|----------------------------------|
| | (Dollars in thousands) | |
| Allowance at beginning of period | \$ 3,660 | \$ 5,647 |
| Charge-offs: | | |
| Real Estate: | | |
| Residential Mortgages | 104 | 362 |
| Nonresidential Real Estate: | | |
| Commercial Mortgages | 15 | 4,903 |
| Purchased Out-of-State | - | 2,482 |
| Non Real Estate Loans: | | |
| Commercial | - | 246 |
| Consumer and other | 70 | 254 |
| Total charge offs | 189 | 8,247 |
| Recoveries: | | |
| Non Real Estate Loans: | | |
| Consumer and other | 6 | 64 |
| Total recoveries | 6 | 64 |
| Net (charge offs) recoveries | (183) | (8,183) |
| Provision for loan losses | 11 | 6,196 |
| Balance at end of year | \$ 3,488 | \$ 3,660 |

Note 4—DIVIDENDS

We suspended our quarterly dividend effective for the quarter ended December 31, 2008. We are dependent primarily upon the Bank for our earnings and funds to pay dividends on our common stock. The payment of dividends also is subject to legal and regulatory restrictions. Any reinstatement of dividends in the future will depend, in large part, on the Bank's earnings, capital requirements, financial condition and other factors considered by our Board of Directors.

Note 5—STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (Revised) "Shareholder Based Payments", which requires that the grant-date fair value of awarded stock options be expensed over the requisite service period. The Company's 1996 Stock Option Plan (the "1996 Plan"), which was approved by shareholders, permits the grant of share options to its employees for up to 127,491 shares of common stock (retroactively adjusted for the exchange ratio applied in the Company's 2005 stock offering and related second-step conversion). The Company's 2006 Stock-Based Incentive Plan (the "2006 Plan"), which was approved by shareholders on May 17, 2006, permits the award of up to 242,740 shares of common stock of which the maximum number to be granted as Stock Options is 173,386 and the maximum that can be granted as Restricted Stock Awards is 69,354. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on five years of continual service and have ten year contractual

terms. Certain options provide for accelerated vesting if there is a change in control (as defined in the Plans).

During the three months ended March 31, 2010 no shares were awarded under the Recognition and Retention Plan (“RRP”). Shares issued under the RRP and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

Stock Options - A summary of option activity under the Plans during the three months ended March 31, 2010 is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---------------------------------------|---------|------------------------------------|--|---------------------------------|
| Outstanding at January 1, 2010 | 188,132 | \$ 9.47 | | |
| Granted | 0 | N/A | | |
| Exercised | 0 | N/A | | |
| Forfeited or expired | (200) | \$ 9.20 | | |
| Outstanding at March 31, 2010 | 187,932 | \$ 9.47 | 6.01 | \$ 0 |
| Options Exercisable at March 31, 2010 | 121,516 | \$ 9.43 | 5.92 | \$ 0 |

A summary of the status of the Company's non-vested shares as of March 31, 2010, and changes during the quarter, is presented below:

| Nonvested Shares | Shares | Weighted-Average Grant-Date Fair Value |
|------------------------------|---------|--|
| Nonvested at January 1, 2010 | 73,476 | \$ 2.11 |
| Granted | 0 | N/A |
| Vested | (6,860) | \$ 1.94 |
| Forfeited | (200) | \$ 1.94 |
| Nonvested at March 31, 2010 | 66,416 | \$ 2.12 |

As of March 31, 2010 there was \$97,000 of total unrecognized compensation cost, net of expected forfeitures, related to non-vested options under the Plans. That cost is expected to be recognized over a weighted-average period of 1.2 years. The total fair value of shares vested during the three months ended March 31, 2010 was \$10,839.

Restricted Stock Awards - As of March 31, 2010 there was \$131,000 of unrecognized compensation cost related to non-vested restricted stock awards under the Plans. That cost is expected to be recognized over a weighted-average period of 1.2 years.

Note 6— COMMITMENTS TO EXTEND CREDIT.

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend

credit, stand by letters of credit, and commercial lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contracted amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At March 31, 2010, the Company had outstanding commitments to originate loans of \$33.3 million. These commitments included \$8.6 million for permanent one-to-four family dwellings, \$9.9 million for non-residential loans, \$128,000 of undisbursed loan proceeds for construction of one-to-four family dwellings, \$4.6 million of undisbursed lines of credit on home equity loans, \$1.2 million of unused credit card lines, \$7.3 million of unused commercial lines of credit, \$680,000 of undisbursed commercial construction, \$5,000 of unused Letters of Credit and \$1.7 million in unused Overdraft Protection.

Note 7 – SEGMENT REPORTING

The Company's principal activities include banking and, prior to February 2009, the sale of insurance products through its indirect wholly owned subsidiary, ICA. The Company sold the majority of the assets of ICA on February 27, 2009 (see Note 1). The Bank provides financial products including retail and commercial loans as well as retail and commercial deposits. ICA received commissions from the sale of various insurance products including health, life, and property. The segments were determined based on the nature of the products provided to customers.

The financial information for each operating segment is reported on the basis used internally to evaluate performance and allocate resources. The allocations have been consistently applied for all periods presented. Revenues and expenses between affiliates have been transacted at rates that unaffiliated parties would pay. The only transaction between the segments related to a deposit on behalf of ICA included in the Bank. The interest income and interest expense for this transaction has been eliminated. All other transactions are with external customers. The performance measurement of the operating segments is based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The information presented is also not necessarily indicative of the segment's financial condition and results of operations if they were independent entities.

As noted above, the majority of the assets of the Company's segment, ICA, were sold on February 27, 2009; therefore no segment information is reported for the three-month period ended March 31, 2010.

| | For the Three Months Ended March 31, 2009 (Dollars in Thousands) | | | |
|--|--|---------|--------------|------------|
| | Bank | ICA | Eliminations | Total |
| Interest Income | \$ 3,290 | \$ 4 | \$ (4) | \$ 3,290 |
| Interest Expense | 1,489 | 4 | (4) | 1,489 |
| Net Interest Income - Before provision for loan losses | 1,801 | - | - | 1,801 |
| Provision for Loan Losses | 264 | - | - | 264 |
| Net Interest Income - After provision for loan losses | 1,537 | - | - | 1,537 |
| Other Income | 1,038 | 191 | - | 1,229 |
| Operating Expenses | 2,346 | 292 | - | 2,638 |
| Income (Loss) - Before federal income tax | 229 | (101) | - | 128 |
| Federal Income Tax | 61 | (34) | - | 27 |
| Net Income (Loss) | \$ 168 | \$ (67) | \$ - | \$ 101 |
| Depreciation and amortization | \$ 191 | \$ 42 | \$ - | \$ 233 |
| Assets | \$ 249,757 | \$ - | \$ - | \$ 249,757 |
| Expenditures related to long-lived assets: | | | | |
| Goodwill | \$ - | \$ - | \$ - | \$ - |
| Intangible assets | - | - | - | - |
| Property and equipment | 11 | - | - | 11 |
| Total | \$ 11 | \$ - | \$ - | \$ 11 |

Note 8-FAIR VALUE MEASUREMENTS

FASB ASC 820-10 – Fair Value Measurements. The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2009, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosures concerning assets and liabilities measured at fair value at March 31, 2010 and 2009 are as follows:

Assets and Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2010
(Dollars in Thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at March 31, 2010 |
|---|---|---|--|---------------------------------|
| Assets | | | | |
| Investment securities- available-for-sale | \$ - | \$ 33,037 | \$ - | \$ 33,037 |
| Liabilities | | | | |
| None | | | | |

Assets and Liabilities Measured at Fair Value on a Recurring Basis at March 31, 2009
(Dollars in Thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at March 31, 2009 |
|---|---|---|--|---------------------------------|
| Assets | | | | |
| Investment securities- available-for-sale | \$ - | \$ 33,713 | \$ - | \$ 33,713 |
| Liabilities | | | | |
| None | | | | |

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include non-homogenous loans that are considered impaired and real estate owned. For impaired loans accounted for under FASB ASC 310-10, the Company has estimated the fair value using Level 3 inputs using discounted cash flow projections. Other Real Estate Owned consists of property received in full or partial satisfaction

of a receivable. The Company utilizes independent appraisals or broker price opinions to estimate the fair value of these properties.

Assets Measured at Fair Value on a Nonrecurring Basis at March 31, 2010

| | Balance at March 31, 2010 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Change in fair value for the three-month period ended March 31, 2010 |
|---|---------------------------------|---|---|--|---|
| Impaired loans accounted for under FASB ASC 310-10 | \$ 5,677 | \$ - | \$ - | \$ 5,677 | \$ - |
| Other real estate owned -residential mortgages | \$ 691 | \$ - | \$ - | \$ 691 | \$ 10 |
| Other Real estate owned - commercial | \$ 2,928 | \$ - | \$ - | \$ 2,928 | \$ - |
| Total change in fair value | | | | | \$ 10 |

Assets Measured at Fair Value on a Nonrecurring Basis at March 31, 2009

| | Balance at March 31, 2009 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Change in fair value for the three-month period ended March 31, 2009 |
|---|---------------------------------|---|---|--|---|
| Impaired loans accounted for under FASB ASC 310-10 | \$ 10,077 | \$ - | \$ - | \$ 10,077 | \$ 26 |
| Other real estate owned -residential mortgages | \$ 606 | \$ - | \$ - | \$ 605 | \$ - |
| Other Real estate owned - commercial | \$ 818 | \$ - | \$ - | \$ 818 | \$ 47 |
| Total change in fair value | | | | | \$ 73 |

Impaired Loans: The Company does not record loans at fair value on a recurring basis. However, on occasion, a loan is considered impaired and an allowance for loan loss is established. A loan is considered impaired when it is probable that all of the principal and interest due under the original terms of the loan may not be collected. Once a loan is identified as individually impaired, management measures impairment in accordance with FASB ASC 310-10, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted

cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820-10, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other Real Estate Owned: At the time of acquisition, other real estate owned is recorded at fair value, less estimated costs to sell, which becomes the property's new basis. Subsequent write-downs to reflect declines in value since the time of acquisition may occur from time to time and are recorded in other expense in the consolidated statements of operations. The fair value of the property used at and subsequent to the time of acquisition is typically determined by a third party appraisal of the property (nonrecurring Level 3).

Mortgage Servicing Rights: Mortgage servicing rights represent the value associated with servicing residential mortgage loans. The value is determined through a discounted cash flow analysis which uses prepayment speed, interest rate, delinquency level and other assumptions as inputs. All of these assumptions require a significant degree of management judgment. Adjustments are only made when the discounted cash flows are less than the carrying value. As such, the Company classifies mortgage servicing rights as nonrecurring Level 3.

Mortgage Loans Held For Sale: Mortgage loans held for sale are recorded at the lower of carrying value or fair value. The fair value of mortgage loans held for sale is determined through forward commitments which the Company enters to sell these loans to secondary market counterparties. As such, the Company classifies mortgage loans held for sale as nonrecurring Level 2.

The estimated fair values and related carrying or notional amounts of the Company's financial instruments are as follows:

| | March 31, 2010 | | December 31, 2009 | |
|-------------------------------------|---------------------|-------------------------|---------------------|-------------------------|
| | Carrying Amounts | Estimated Fair Value | Carrying Amounts | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 2,858 | \$ 2,858 | \$ 3,099 | \$ 3,099 |
| Securities available for sale | 33,037 | \$ 33,037 | \$ 33,713 | \$ 33,713 |
| Securities held to maturity | 3,926 | 4,057 | 3,928 | 4,084 |
| Loans and loans held for sale - Net | 168,526 | 169,076 | 171,271 | 171,544 |
| Federal Home Loan Bank stock | 4,197 | 4,197 | 4,197 | 4,197 |
| Accrued interest receivable | 1,230 | 1,230 | 1,230 | 1,230 |
| Financial liabilities: | | | | |
| Customer deposits | 156,612 | 157,641 | 158,100 | 159,081 |
| Federal Home Loan Bank advances | 42,200 | 43,221 | 44,400 | 45,552 |
| Note payable | - | - | 631 | 634 |
| REPO sweep accounts | 5,597 | 5,428 | 5,210 | 5,210 |
| Accrued interest payable | 272 | 272 | 322 | 322 |

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC 825-10 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

Securities: Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market prices. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Investment Securities Held to Maturity: The Company does not record investment securities held to maturity at fair value on a recurring basis. Therefore, when certain securities held to maturity were measured at fair value as discussed below, the Company's municipal bonds classified as held to maturity are fair valued using a discount rate adjustment technique utilizing an imputed discount rate between current market interest rate spreads and market interest rate spreads at the approximate last date an active market existed for these securities. Relevant inputs to the model include market spread data in consideration of credit characteristics, collateral type, credit rating and other relevant features. Where quoted prices are not available, fair values are measured using independent matrix pricing models, or other model-based valuation techniques such as the present value of future cash flows, requiring adjustments for factors such as prepayment speeds, liquidity risk, default rates, credit loss and the security's credit rating. In instances where market action is inactive or inputs to the valuation are more opaque, securities are classified as nonrecurring Level 3 within the valuation hierarchy. Therefore, when management determines the fair value of an impaired held to maturity security through utilization of this type of model, the Company records the impaired security as nonrecurring Level 3.

Loans Held for Sale: Fair values of mortgage loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans Receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one- to four-family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial, and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities: The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

REPO Sweep Accounts: The fair values disclosed for REPO Sweeps are equal to the amount payable on demand at the reporting date (i.e., their carrying amounts).

Long-term Borrowings: The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest: The carrying amounts of accrued interest approximate fair value.

Note 9 – RECENT ACCOUNTING PRONOUNCEMENTS.

In June 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162. SFAS No. 168 establishes the FASB Accounting Standard Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP). All guidance contained in the Codification carries an equal level of authority. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. On the effective date of SFAS No. 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of the Codification during the year ended December 31, 2009 had no impact on the Company's results of operations or financial position. However, as a result of implementation of the Codification, previous references to new accounting standards and literature are no longer applicable. All future references to authoritative accounting literature in our consolidated financial statements will be referenced in accordance with the Codification.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

PART - FINANCIAL INFORMATION

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS
OF OPERATIONS

The following discussion compares the consolidated financial condition of the Company at March 31, 2010 and December 31, 2009, and the results of operations for the three-month periods ended March 31, 2010 and 2009. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

OVERVIEW

The Company currently operates as a community-oriented financial institution that accepts deposits from the general public in the communities surrounding its 8 full-service banking centers. The deposited funds, together with funds generated from operations and borrowings, are used by the Company to originate loans. The Company's principal lending activity is the origination of mortgage loans for the purchase or refinancing of one-to-four family residential properties. The Company also originates commercial and multi-family real estate loans, construction loans, commercial loans, automobile loans, home equity loans and lines of credit, and a variety of other consumer loans.

For the quarter ended March 31, 2010, the Company had net income from continuing operations of \$202,000, or \$0.07 per basic and diluted share, compared to \$147,000, or \$0.05 per basic and diluted share, for the year earlier period, an increase of \$55,000.

Total assets decreased by \$3.9 million, or 1.7%, from \$233.5 million as of December 31, 2009 to \$229.6 million as of March 31, 2010. Investment securities available for sale decreased by \$676,000 and net loans receivable decreased \$2.8 million during this time period. Total deposits decreased \$1.5 million from December 31, 2009 to March 31, 2010 while Federal Home Loan Bank advances decreased by \$2.2 million and equity increased by \$226,000.

CRITICAL ACCOUNTING POLICIES

As of March 31, 2010, there have been no changes in the critical accounting policies as disclosed in the Company's Form 10-K for the year ended December 31, 2009. The Company's critical accounting policies are described in the Management's Discussion and Analysis and financial sections of its 2009 Annual Report. Management believes its critical accounting policies relate to the Company's securities, allowance for loan losses, mortgage servicing rights and intangibles.

Management has determined that the valuation of deferred tax assets represented an additional critical accounting policy at March 31, 2010. Deferred tax assets and liabilities represent differences between when a tax benefit or expense is recognized for financial reporting purposes and on our tax return. Deferred tax assets are periodically assessed for recoverability. The Company records a valuation allowance if it believes, based on available evidence, that it is "more likely than not" that the future tax assets recognized will not be realized before their expiration. The amount of the deferred tax asset recognized and considered realizable could be reduced if projected taxable income is not achieved due to various factors such as unfavorable business conditions. If projected taxable income is not expected to be achieved, the Company records a valuation allowance to reduce its deferred tax assets to the amount that it believes can be realized in its future tax returns. As of March 31, 2010, the Company had recorded a valuation allowance of \$3.4 million related to its deferred tax assets.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2010 AND DECEMBER 31, 2009

ASSETS: Total assets decreased \$3.9 million, or 1.7%, to \$229.6 million at March 31, 2010 from \$233.5 million at December 31, 2009. Net loans receivable decreased \$2.8 million, or 1.6%, to \$168.4 million at March 31, 2010 from \$171.2 million at December 31, 2009. The decrease in net loans was due to adjustable-rate or balloon mortgage loans that have paid off or been refinanced and sold into the secondary market, consumer loan balances that have declined due to normal pay-downs, and limited originations of loans to be held in the Company's portfolio. Investment securities decreased \$676,000 from December 31, 2009 to March 31, 2010 due in part to the sale of a \$1 million municipal security because of the perceived credit risk inherent in the security.

LIABILITIES: Deposits decreased \$1.5 million, or 1.0%, to \$156.6 million at March 31, 2010 from \$158.1 million at December 31, 2009. Most of the decrease in deposits was in non-interest bearing personal and business checking accounts due to usage of funds in customers' accounts as opposed to closing of accounts. Total FHLB advances decreased \$2.2 million to \$42.2 million at March 31, 2010 as our asset base shrunk during the quarter.

EQUITY: Stockholders' equity increased \$226,000 to \$23.3 million at March 31, 2010 from \$23.1 million at December 31, 2009. The increase was due mainly to the net earnings for the period of \$202,000.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

General: Net income from continuing operations increased by \$55,000 to \$202,000 for the three months ended March 31, 2010 from \$147,000 for the same period ended March 31, 2009. The major factors affecting earnings during the quarter were a decrease of \$253,000 in the provision for loan losses and improvements to our net interest margin, partially offset by a decrease in non-interest income of \$220,000 quarter over quarter.

Interest Income: Interest income decreased to \$2.9 million for the three months ended March 31, 2010, from \$3.3 million for the comparable period in 2009. The average balance of interest earning assets decreased by \$17.2 million

from \$233.1 million for the three months ended March 31, 2009 to \$215.9 million for the three months ended March 31, 2010 and the average yield on interest earning assets decreased 31 basis points over that same time period from 5.68% to 5.37%. The yield on our mortgage loan portfolio decreased by 22 basis points to 6.18% from 6.40% for the three month period ended March 31, 2010 and 2009 respectively. The average balance of our mortgage loan portfolio decreased by \$10.3 million to \$80.5 million during that time period. The average balance of our non-mortgage loan portfolio decreased \$11.9 million to \$95.0 million for the three months ended March 31, 2010 and the yield on these assets decreased to 5.53% from 5.65% period over period.

Interest Expense: Interest expense decreased to \$956,000 for the three months ended March 31, 2010 from \$1.5 million for the three months ended March 31, 2009. The decrease in interest expense for the three-month period was due in part to a \$10.8 million decrease in the average balance of our interest-bearing liabilities and a decrease in our overall cost of funds of 94 basis points period over period. Most notably, the average balance of our certificates of deposit decreased \$13.3 million from the three-month period ended March 31, 2009 to the same period in 2010 and the cost of our certificates of deposits decreased 119 basis points period over period.

The following table sets forth information regarding the changes in interest income and interest expense of the Bank during the periods indicated.

| | Quarter ended March 31, 2010 Compared to Quarter ended March 31, 2009 Increase (Decrease) Due to: | | |
|---|--|--------------|--------------|
| | Volume | Rate | Total |
| | (In thousands) | | |
| Interest-earning assets: | | | |
| Loans receivable | \$ (319) | \$ (83) | \$ (402) |
| Investment securities | (5) | 4 | (1) |
| Other investments | (2) | (3) | (5) |
| Total interest-earning assets | (326) | (82) | (408) |
| Interest-bearing liabilities: | | | |
| Savings Deposits | - | (4) | (4) |
| Money Market/NOW accounts | 12 | (42) | (30) |
| Certificates of Deposit | (150) | (239) | (389) |
| Deposits | (138) | (285) | (423) |
| Borrowed funds | 14 | (123) | (109) |
| Total interest-bearing liabilities | (124) | (408) | (532) |
| Change in net interest income | \$ (202) | \$ 326 | \$ 124 |

Net Interest Income: Net interest income increased by \$124,000, to \$1.9 million for the three-month period ended March 31, 2010 from \$1.8 million for the same period in 2009. For the three months ended March 31, 2010, average interest-earning assets decreased \$17.2 million, or 7.4%, to \$215.9 million when compared to the same period in 2009. Average interest-bearing liabilities decreased \$10.8 million, or 5.3%, to \$194.2 million for the quarter ended March 31, 2010 from \$205.0 million for the quarter ended March 31, 2009. The yield on average interest-earning assets decreased to 5.37% for the three month period ended March 31, 2010 from 5.68% for the same period ended in 2009. In addition, the cost of average interest-bearing liabilities decreased to 2.00% from 2.94% for the three month periods ended March 31, 2010 and 2009, respectively. Our interest rate spread increased by 64 basis points to 3.38% while our net interest margin increased by 48 basis points to 3.58% for the three month period ended March 31, 2010 from 3.10% for same period in 2009.

Delinquent Loans and Nonperforming Assets. The following table sets forth information regarding loans delinquent 90 days or more and real estate owned/other repossessed assets of the Bank at the dates indicated. As of the dates indicated, the Bank did not have any material restructured loans within the meaning of SFAS 15.

| | March 31, 2010 | December 31, 2009 |
|---|------------------------|-------------------------|
| | (Dollars in thousands) | |
| Total non-accrual loans | \$ 8,375 | \$ 8,947 |
| Accrual loans delinquent 90 days or more: | | |
| One- to four-family residential | 225 | 89 |
| Other real estate loans | - | 2,696 |
| Construction | - | - |
| Purchased Out-of-State | - | - |
| Commerical | - | - |
| Consumer & other | 3 | 54 |
| Total accrual loans delinquent 90 days or more | \$ 228 | \$ 2,839 |
| Total nonperforming loans (1) | 8,603 | 11,786 |
| Total real estate owned-residential mortgages (2) | 688 | 584 |
| Total real estate owned-Commercial (2) | 2,928 | 2,985 |
| Total real estate owned-Consumer & other repossessed assets (2) | 3 | 11 |
| Total nonperforming assets | \$ 12,222 | \$ 15,366 |
| Total nonperforming loans to loans receivable | 5.00% | 6.73% |
| Total nonperforming assets to total assets | 5.32% | 6.58% |

(1) All of the Bank's loans delinquent more than 90 days are classified as nonperforming.

(2) Represents the net book value of property acquired by the Bank through foreclosure or deed in lieu of foreclosure. Upon acquisition, this property is recorded at the lower of its fair market value or the principal balance of the related loan.

Provision for Loan Losses: The allowance for loan losses is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The provision for loan losses amounted to \$11,000 for the three month period ended March 31, 2010 and \$264,000 for the comparable period in 2009. The ratio of nonperforming loans to total loans was 5.00% and 6.73% at March 31, 2010 and December 31, 2009, respectively. As a percent of total assets, nonperforming assets decreased to 5.32% at March 31, 2010 from 6.57% at December 31, 2009.

Total non-performing loans and total non-performing assets decreased by \$3.1 million from December 31, 2009 to March 31, 2010 primarily due to \$2.7 million in commercial loans which were more than 90 days delinquent at December 31, 2009, but became current prior to March 31, 2010.

The following table sets forth the details of our loan portfolio at the dates indicated:

| | Portfolio Balance (Dollars in thousands) | Delinquent Loans Over 90 Days | Non-Accrual Loans |
|---|--|--|----------------------|
| At March 31, 2010 | | | |
| Real estate loans: | | | |
| Construction | 7,154 | - | 3,542 |
| One - to four - family | 79,270 | 225 | 2,532 |
| Commercial Mortgages | 55,738 | - | 2,051 |
| Home equity lines of credit/ Junior liens | 17,838 | - | 166 |
| Commercial loans | 9,835 | - | 84 |
| Consumer loans | 2,358 | 3 | - |
| Total gross loans | \$ 172,193 | \$ 228 | \$ 8,375 |
| Less: | | | |
| Net deferred loan fees | (258) | (1) | (6) |
| Allowance for loan losses | (3,488) | (1) | (707) |
| Total loans, net | \$ 168,447 | \$ 226 | \$ 7,662 |
| At December 31, 2009 | | | |
| Real estate loans: | | | |
| Construction | 9,019 | - | 3,546 |
| One - to four - family | 81,193 | 89 | 2,944 |
| Commercial Mortgages | 53,784 | 2,697 | 2,204 |
| Home equity lines of credit/Junior liens | 18,732 | 21 | 157 |
| Commercial loans | 9,873 | - | 96 |
| Consumer loans | 2,553 | 32 | - |
| Total gross loans | \$ 175,154 | \$ 2,839 | \$ 8,947 |
| Less: | | | |
| Net deferred loan fees | (275) | (1) | (11) |
| Allowance for loan losses | (3,660) | (80) | (954) |
| Total loans, net | \$ 171,219 | \$ 2,758 | \$ 7,982 |

Non Interest Income: Non interest income was \$578,000 for the three month period ended March 31, 2010, a decrease of \$220,000 or 27.5%, from the same period in 2009. The results reflected a decrease in mortgage banking activities income to \$248,000 for the three months ended March 31, 2010 as compared to \$449,000 for the same period in 2009. During 2009, and continuing into 2010, many homeowners in the Company's markets took the opportunity to refinance their mortgages due to lower market interest rates. The majority of these loans were sold into the secondary market, generating mortgage banking activities income for the Company. This refinance activity peaked in March 2009. Mortgage refinances were considerably lower for the three-month period ended March 31, 2010 as compared to the prior year period.

Non Interest Expense: Non interest expense increased slightly from \$2.1 million for the three months ended March 31, 2009 to \$2.2 million for the three months ended March 31, 2010. Our FDIC premiums increased by \$15,000, or 18.4% period over period as the Company's assessment rate increased. Other expenses increased by \$29,000, or 10.0% (mostly expenses related to credit quality and repossessed properties).

Income Taxes: The Company had federal income tax expense of \$102,000 for the three months ended March 31, 2010, compared to \$51,000 for the same period in 2009 due to the increase in pre-tax net income period over period.

20

LIQUIDITY

The Company's current liquidity position is more than adequate to fund expected asset growth. The Company's primary sources of funds are deposits, FHLB advances, proceeds from principal and interest payments, prepayments on loans and mortgage-backed and investment securities and sale of long-term fixed-rate mortgages into the secondary market. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit flows, mortgage prepayments and sale of mortgage loans into the secondary market are greatly influenced by general interest rates, economic conditions and competition.

Liquidity represents the amount of an institution's assets that can be quickly and easily converted into cash without significant loss. The most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency securities and certificates of deposit. The Company is required to maintain sufficient levels of liquidity as defined by OTS regulations. This requirement may be varied at the direction of the OTS. Regulations currently in effect require that the Bank must maintain sufficient liquidity to ensure its safe and sound operation. The Company's objective for liquidity is to be above 20%. Liquidity as of March 31, 2010 was \$30.3 million, or 25.1% compared to \$27.5 million, or 22.4% at December 31, 2009. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. The liquidity calculated by the Company includes additional borrowing capacity available with the FHLB. This borrowing capacity is based on pledged collateral. As of March 31, 2010, the Bank had unused borrowing capacity totaling \$9.2 million at the FHLB based on pledged collateral.

The Company intends to retain for its portfolio certain originated residential mortgage loans (primarily adjustable rate and shorter term fixed rate mortgage loans) and to generally sell the remainder in the secondary market. The Bank will from time to time participate in or originate commercial real estate loans, including real estate development loans. During the three month period ended March 31, 2010, the Company originated \$8.1 million in residential mortgage loans, of which \$1.2 million were retained in portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to \$37.9 million in originations during the first three months of 2009 of which \$1.9 million were retained in portfolio. The Company also originated \$3.4 million of commercial loans and \$779,000 of consumer loans in the first three months of 2010 compared to \$7.1 million of commercial loans and \$1.0 million of consumer loans for the same period in 2009. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 46.3% and 44.8%, commercial loans 42.0% and 42.8% and consumer loans 11.7% and 12.4% at March 31, 2010 and March 31, 2009, respectively.

Deposits are a primary source of funds for use in lending and for other general business purposes. At March 31, 2010 deposits funded 68.2% of the Company's total assets compared to 67.7% at December 31, 2009. Certificates of deposit scheduled to mature in less than one year at March 31, 2010 totaled \$51.6 million. Management believes that a significant portion of such deposits will remain with the Bank. The Bank monitors the deposit rates offered by competition in the area and sets rates that take into account the prevailing market conditions along with the Bank's liquidity position. Moreover, management believes that growth in assets is not expected to require significant in-flows of liquidity. As such, the Bank does not expect to be a market leader in rates paid for liabilities, although we may from time to time offer higher rates than our competitors, as liquidity needs dictate.

Borrowings may be used to compensate for seasonal or other reductions in normal sources of funds or for deposit outflows at more than projected levels. Borrowings may also be used on a longer-term basis to support increased lending or investment activities. At March 31, 2010 the Company had \$42.2 million in FHLB advances. FHLB borrowings as a percentage of total assets were 18.4% at March 31, 2010 as compared to 19.0% at December 31, 2009. The Company has sufficient available collateral to obtain additional advances of \$9.2 million.

CAPITAL RESOURCES

Stockholders' equity at March 31, 2010 was \$23.3 million, or 10.1% of total assets, compared to \$23.1 million, or 9.9% of total assets, at December 31, 2009 (See "Consolidated Statement of Changes in Stockholders' Equity"). The Bank is subject to certain capital-to-assets levels in accordance with OTS regulations. The Bank exceeded all regulatory capital requirements at March 31, 2010. The following table summarizes the Bank's actual capital with the regulatory capital requirements and with requirements to be "Well Capitalized" under prompt corrective action provisions, as of March 31, 2010:

| | Actual | | Regulatory Minimum | | Minimum to be Well Capitalized | |
|--|----------------------|--------|-----------------------|-------|-----------------------------------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | Dollars in Thousands | | | | | |
| Tier 1 (Core) capital (to adjusted assets) | \$ 20,537 | 9.03% | \$ 9,102 | 4.00% | \$ 11,378 | 5.00% |
| Total risk-based capital (to risk- weighted assets) | \$ 22,550 | 14.07% | \$ 12,819 | 8.00% | \$ 16,024 | 10.00% |
| Tier 1 risk-based capital (to risk weighted assets) | \$ 20,537 | 12.82% | \$ 6,410 | 4.00% | \$ 9,614 | 6.00% |
| Tangible Capital (to tangible assets) | \$ 20,537 | 9.03% | \$ 3,413 | 1.50% | \$ 4,551 | 2.00% |

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company's internal control over the financial reporting during the Company's first quarter of fiscal year 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-Q
Quarter Ended March 31, 2010

PART II – OTHER INFORMATION

Item 1 - Legal Proceedings:

There are no material legal proceedings to which the Company is a party or of which any of its property is subject. From time to time the Company is a party to various legal proceedings incident to its business.

Item 1A - Risk Factors:

Not applicable to smaller reporting companies

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds:

- (a) Not applicable
- (b) Not applicable
- (c) Not applicable

Item 3 - Defaults upon Senior Securities:

Not applicable.

Item 4 - Other Information:

Not applicable

Item 5 - Exhibits

Exhibit 31.1 Certification by Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification by Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Statement of Chief Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Statement of Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-Q
Quarter Ended March 31, 2010

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

FIRST FEDERAL OF NORTHERN MICHIGAN
BANCORP, INC.

By: /s/ Michael W. Mahler
Michael W. Mahler
President and Chief Executive Officer

Date: May 17, 2010

By: /s/ Amy E. Essex
Amy E. Essex, Chief Financial Officer
(Principal Financial and Accounting
Officer)

Date: May 17, 2010