First Federal of Northern Michigan Bancorp, Inc.
Form 10-K
March 28, 2011

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2010

OR

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

For the transition period from _______________ to ______________________

Commission File Number: 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 Number)
100 S. Second Avenue, Alpena, Michigan (Address of Principal Executive Offices)	49707 Zip Code

(989) 356-9041
(Registrant's telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share (Title of Class)	The Nasdaq Stock Market LLC (Name of Exchange of Which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or nay amendments to this Form 10-K. x.

Indicate by check mark whether the registrant is a large 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 x
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES ¨. NO x.

Indicate by check mark if the registrant is a well-know seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨. NO x.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sale price on June 30, 2010 ($2.44 per share) was $6.3 million.

As of March 25, 2011, there were issued and outstanding 2,884,049 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2011 Annual Meeting of Stockholders (Parts I and III).
2. Annual Report to Shareholders for the Year Ended December 31, 2010 (Part II).

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PART I

ITEM 1. BUSINESS

Private Securities Litigation Reform Act Safe Harbor Statement

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1955, which can be identified by the use of words such as “estimate,” “project,” “believe,” “intend,” “anticipate,” “plan,” “seek,” ”expect,” “will,” “may,” and words of similar meaning. These forward-looking statements includ but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Form 10-K.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commissions and the Public Company Accounting Oversight Board;

- changes in our organization, compensation and benefit plans;
- changes in our financial condition or results or operations that reduce capital available to pay dividends;
- regulatory changes or actions; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

First Federal of Northern Michigan Bancorp, Inc.

First Federal of Northern Michigan Bancorp, Inc. is a Maryland corporation that owns all of the outstanding shares of common stock of First Federal of Northern Michigan. At December 31, 2010, First Federal of Northern Michigan Bancorp, Inc. had consolidated assets of $215.7 million, deposits of $155.5 million and stockholders' equity of $23.2 million. As of December 31, 2010, First Federal of Northern Michigan Bancorp, Inc. had 2,884,049 shares of common stock issued and outstanding. First Federal of Northern Michigan Bancorp, Inc.'s executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Its phone number at that address is (989) 356-9041.

The Company also maintains a website at www.first-federal.com that includes important information on our Company, including a list of our products and services, branch locations and current financial information. In addition, we make available, without charge, through our website, a link to our filings with the SEC, including copies of annual reports on Form 10-K, quarterly reports in Form 10-Q, current reports in Form 8-K, and amendments to these filings, if any. Information on our website should not be considered a part of this Annual Report.

First Federal of Northern Michigan

First Federal of Northern Michigan is a full-service, community-oriented savings bank that provides financial services to individuals, families and businesses from eight full-service facilities located in Alpena, Cheboygan, Emmett, Iosco, Otsego, Montmorency and Oscoda Counties, Michigan. First Federal of Northern Michigan was chartered in 1957, and reorganized into the mutual holding company structure in 1994. In 2000, First Federal of Northern Michigan became the wholly owned subsidiary of Alpena Bancshares, Inc., our predecessor company, and in April 2005 we completed our "second step" mutual-to-stock conversion and formed our current ownership structure.

First Federal of Northern Michigan's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans, commercial real estate loans, commercial business loans, consumer loans and in investment securities and mortgage-backed securities.

First Federal of Northern Michigan's executive offices are located at 100 South Second Avenue, Alpena, Michigan 49707. Its phone number at that address is (989) 356-9041.

Market Area and Competition

First Federal of Northern Michigan conducts operations through its main office in Alpena, Michigan, which is located in the northeastern lower peninsula of Michigan, and through its seven other branch offices in Michigan. The population of Alpena County, from which the majority of our deposits are drawn, has decreased approximately 5.4% since 2000, and currently is approximately 30,000. The population of our primary market area, which includes Alpena County and seven surrounding counties, was approximately 180,000 according to the 2010 census, a decrease of just over 10% from the estimated 2008 population of approximately 182,000. Household income for the counties which comprised our market area in 2009 ranged from approximately $32,000 to $37,000, with the exception of Otsego County, where 2009 household income was approximately $43,000. Household income for our entire market area was below the national level of $50,221 and the state of Michigan level of $45,254, reflecting the largely rural nature of our market area and the absence of more densely populated urban and suburban areas. Household income levels are not expected to increase in our market area in the near future. The unemployment rate in our primary market area was 14.8% at December 31, 2010, compared to 9.4% nationally and 10.6% for the state of Michigan.

Alpena is the largest city located in the northeastern lower peninsula of Michigan. This area has long been associated with agricultural, wood and concrete industries. Tourism has also been a major industry in our primary market area. All of these industries tend to be seasonal and are strongly affected by state and national economic conditions.

Major employers in our primary market area include various public schools and governmental agencies, Alpena Regional Medical Center, Besser Company (a manufacturer of concrete products equipment), Lafarge Corporation (a limestone mining and cement producer), Panel Processing (a peg board manufacturer), Treetops Sylvan Resort (an operator of resort properties), Garland Resort (an operator of resort properties and golf courses), Otsego Memorial Hospital, Cheboygan Memorial Hospital, Decorative Panels International (a hardboard manufacturer), OMNI Metalcraft Corp. (a diversified manufacturer), and various other small companies.

As of December 31, 2010, First Federal of Northern Michigan was the only thrift institution headquartered in our market area. We encounter strong competition both in attracting deposits and in originating real estate and other loans. Our most direct competition for deposits has historically come from commercial banks, other savings institutions, and credit unions in our market area. Competition for loans comes from such financial institutions. We expect continued strong competition in the foreseeable future, including the "super-regional" banks currently in our markets, from internet banks, and from credit unions in many of our markets. We compete for savings deposits by offering depositors a high level of personal service and a wide range of competitively priced financial products. We compete for real estate loans primarily on the basis of the interest rates and fees we charge and through advertising. Strong competition for deposits and loans may limit our ability to grow and may adversely affect our profitability in the future.

Lending Activities

General. The largest part of our loan portfolio is mortgage loans secured by one- to four-family residential real estate. In recent years, we have sold into the secondary mortgage market most of the fixed-rate conventional one- to four-family mortgage loans that we originate that have terms of 15 years or more. We retain the servicing on a majority of the mortgage loans that we sell. To a lesser extent, we also originate commercial loans, commercial real estate loans and consumer loans. At December 31, 2010, we had total loans of $160.2 million, of which $71.7 million, or 44.8% were one- to four-family residential real estate mortgage loans, $57.5 million, or 35.9% were commercial real estate loans, and $8.8 million, or 5.5%, were commercial loans. Other loans consisted primarily of home equity loans, which totaled $16.6 million, or 10.3% of total loans, construction loans which totaled $3.5 million or 2.2% of total loans, and other consumer loans which totaled $2.1 million, or 1.3% of total loans.

One- to Four-Family Residential Real Estate Lending. Our primary lending activity consists of originating one- to four-family owner-occupied residential mortgage loans, virtually all of which are collateralized by properties located in our market area. We also originate one- to four-family loans that pay interest only during the initial construction period (which generally does not exceed twelve months) and then pay interest and principal for the remainder of the loan term. We generally sell into the secondary mortgage market most of our one- to four-family fixed-rate mortgage loans with terms of 15 years or more and retain the loan servicing on a majority of these mortgage loans. One- to four-family residential mortgage loans are underwritten and originated according to policies and guidelines established by the secondary mortgage market agencies and approved by our Board of Directors. We utilize existing liquidity, deposits, loan repayments, and Federal Home Loan Bank advances to fund new loan originations.

We currently offer fixed rate one- to four-family residential mortgage loans with terms ranging from 15 to 30 years. One- to four-family residential mortgage loans often remain outstanding for significantly shorter periods than their contractual terms because borrowers may refinance or prepay loans at their option. The average length of time that our one- to four-family residential mortgage loans remain outstanding varies significantly depending upon trends in market interest rates and other factors. In recent years, the average maturity of our mortgage loans has decreased significantly because of the declining trend in market interest rates and the unprecedented volume of refinancing activity resulting from such interest rate decreases. Accordingly, estimates of the average length of one- to four-family loans that remain outstanding cannot be made with any degree of certainty.

Originations of fixed rate mortgage loans are regularly monitored and are affected significantly by the level of market interest rates, our interest rate gap position, and loan products offered by our competitors. Our fixed rate mortgage loans amortize on a monthly basis with principal and interest due each month. To make our loan portfolio less interest rate sensitive, fixed-rate loans originated with terms of 15 years or greater are generally underwritten to secondary mortgage market standards and sold. Adjustable rate mortgage loans are generally underwritten to secondary mortgage market standards, but are retained in our loan portfolio.

We have in the past originated some fixed-rate loans that are generally amortized over 15 years but that have “balloon payments” that are due upon the maturity of the loan in five years. As a general rule, we no longer originate this type of mortgage loan. Upon maturity, existing balloon mortgage loans are either underwritten as fixed-rate loans and sold in the secondary mortgage market or rewritten as adjustable rate mortgages at current market rates. While the majority of our balloon mortgage loans amortize over 15 years, some amortize over 10 or 30 years, and a limited number amortize over five years.

Our one- to four-family residential mortgage loans customarily include due-on-sale clauses, which are provisions giving us the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells or otherwise disposes of the underlying real property serving as security for the loan. Due-on-sale clauses are an important means of adjusting the rates on our fixed-rate mortgage loan portfolio, and we have generally exercised our rights under these clauses.

Regulations limit the amount that a savings institution may lend relative to the appraised value of the real estate securing the loan, as determined by an appraisal at the time of loan origination. Such regulations permit a maximum loan-to-value ratio of 100% for residential property and 90% for all other real estate loans. Our lending policies limit the maximum loan-to-value ratio on fixed-rate loans without private mortgage insurance to 80% of the lesser of the appraised value or the purchase price of the property serving as collateral for the loan.

We make one- to four-family real estate loans with typical loan-to-value ratios of up to 90%. However, for one- to four-family real estate loans with loan-to-value ratios of between 80% and 90%, we may require the borrower to purchase private mortgage insurance. In 2005 we began making 80/20 loans and interest-only loans subject to Board-approved dollar limits to limit risk exposure. In late 2007 these products were eliminated; however, at December 31, 2010 approximately $674,000 of these products remained in our portfolio. We require fire and casualty insurance, flood insurance when applicable, as well as title insurance, on all properties securing real estate loans made by us.

Commercial Real Estate Lending. We also originate commercial real estate loans. At December 31, 2010, we had a total of 230 loans secured primarily by commercial real estate properties, unimproved vacant land and, to a limited extent, multifamily properties. Our commercial real estate loans are secured by income-producing properties such as office buildings, retail buildings, restaurants and motels. A majority of our commercial real estate loans are secured by properties located in our primary market area, although at December 31, 2010 we did have $9.9 million in commercial real estate loans located in states other than Michigan. We have originated commercial construction loans that are originated as permanent loans but are interest-only during the initial construction period, which generally does not exceed nine months. At December 31, 2010, our commercial real estate loans, excluding commercial construction, totaled $57.7 million, or 36.0% of our total loans, and had an average principal balance of approximately $322,000. The terms of each loan are negotiated on a case-by-case basis, although such loans typically amortize over 15 years and have a three- or five-year balloon feature. An origination fee of 0.5% to 1.0% is generally charged on commercial real estate loans. We generally make commercial real estate loans up to 75% of the appraised value of the property securing the loan.

At December 31, 2010, our largest commercial real estate relationship consisted of eight loans having a total principal balance of $2.9 million, which were all performing according to their terms as of December 31, 2010. This loan relationship is secured by five pieces of commercial real estate. Our largest single commercial real estate loan was a loan of $3.6 million, of which $1.5 million has been participated to other banks, leaving a net exposure on our books of $2.1 million. This loan is secured by a residential real-estate property, furniture, fixtures and all other assets. At December 31, 2010, this loan was performing according to its terms.

Commercial real estate loans generally carry higher interest rates and have shorter terms than those on one- to four-family residential mortgage loans. However, loans secured by commercial real estate generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the business or the related real estate property. If the cash flow from the business operation is reduced, the borrower's ability to repay the loan may be impaired. This may be particularly true in the early years of the business operation when the risk of failure is greatest. Many of our commercial real estate loans have been made to borrowers whose business operations are untested, which increases our risk.

Consumer and Other Loans. We originate a variety of consumer and other loans, including loans secured by savings accounts, new and used automobiles, mobile homes, boats, recreational vehicles, and other personal property. As of December 31, 2010, consumer and other loans totaled $18.7 million, or 11.7% of our total loan portfolio. At such date, $431,000, or 0.3% of our consumer loans, were unsecured. As of December 31, 2010, home equity loans totaled $16.6 million, or 10.3% of our total loan portfolio, and automobile loans totaled $1.0 million, or 0.7% of our total loan portfolio. We originate automobile loans directly to our customers and have no outstanding agreements with automobile dealerships to generate indirect loans.

Our procedures for underwriting consumer loans include an assessment of an applicant's credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral security, if any, to the proposed loan amount.

Consumer loans generally entail greater risk than residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that tend to depreciate rapidly, such as automobiles, mobile homes, boats and recreational vehicles. In addition, the repayment of consumer loans depends on the borrower's continued financial stability, as repayment is more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy than a single family mortgage loan.

Commercial Loans. At December 31, 2010, we had $8.8 million in commercial loans which amounted to 5.5% of total loans. We make commercial business loans primarily in our market area to a variety of professionals, sole proprietorships and small businesses. Commercial lending products include term loans and revolving lines of credit. The maximum amount of a commercial business loan is our loans-to-one-borrower limit, which was $3.6 million at December 31, 2010. Such loans are generally used for longer-term working capital purposes such as purchasing equipment or furniture. Commercial loans are made with either adjustable or fixed rates of interest. Variable rates are generally based on the prime rate, as published in The Wall Street Journal, plus a margin. Fixed rate commercial loans are set at a margin above the Federal Home Loan Bank comparable advance rate.

When making commercial loans, we consider the financial statements of the borrower, our lending history with the borrower, the debt service capabilities of the borrower, the projected cash flows of the business and the value of the collateral. Commercial loans are generally secured by a variety of collateral, primarily accounts receivable, inventory and equipment, and are supported by personal guarantees. Depending on the collateral used to secure the loans, commercial loans are typically made in amounts of up to 75% of the value of the collateral securing the loan.

Commercial loans generally have greater credit risk than residential mortgage loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial loans generally are made on the basis of the borrower's ability to repay the loan from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. If the cash flow from the business operation is reduced, the borrower's ability to repay the loan may be impaired. This may be particularly true in the early years of the business operation when the risk of failure is greatest. Moreover, any collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value. We seek to minimize these risks through our underwriting standards. At December 31, 2010, our largest commercial loan was a $2.4 million commercial participation loan collateralized by manufacturing equipment and a related plant facility. At December 31, 2010, the outstanding balance was $2.3 million and the loan was performing according to its repayment terms.

Construction Loans. We originate construction loans to local home builders in our market area, generally with whom we have an established relationship, and to individuals engaged in the construction of their residences. We also originate loans for the construction of commercial buildings and, to an extent, participate in construction loan projects originated by other lenders. Our construction loans totaled $3.4 million, or 2.1% of our total loan portfolio, at December 31, 2010.

Our construction loans to home builders are repaid on an interest-only basis for the term of the loan (which is generally six to 12 months), with interest calculated on the amount disbursed to the builders based upon a percentage of completion of construction. These loans typically have a maximum loan-to-value ratio of 80%, based on the appraised value. Interest rates are fixed during the construction phase of the loan. Loans to builders are made on either a pre-sold or speculative (unsold) basis. Most of our construction loans to individuals who intend to occupy the completed dwelling are originated via a "one-step closing" process, whereby the construction phase and end-financing are handled with one loan closing. Prior to funding a construction loan, we require an appraisal of the property from a qualified appraiser approved by us, and all appraisals are reviewed by us.

Construction lending exposes us to greater credit risk than permanent mortgage financing because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. If the estimate of construction costs is inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion is inaccurate, the value of the property may be insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the repayment of the loan depends on the builder's ability to sell the property prior to the time that the construction loan is due. We have attempted to minimize these risks by, among other things, limiting our residential construction lending primarily to residential properties in our market area and generally requiring personal guarantees from the principals of corporate borrowers.

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

	At December 31,														
	2010			2009			2008			2007			2006		
	Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent		Amount	Percent	
	(Dollars in thousands)														
Real estate loans:															
Residential Mortgages:															
1-4 Family Mortgages	$68,298	42.7	%	$77,851	44.4	%	$87,179	44.0	%	$91,433	44.5	%	$93,520	44.1	
Purchased Mortgage In-State	3,243	2.0	%	3,342	1.9	%	3,802	1.9	%	4,531	2.2	%	4,635	2.2	
Purchased Mortgage Out-of-State	-	0.0	%	-	0.0	%	358	0.2	%	1,302	0.6	%	1,335	0.6	
1-4 Familly Construction	156	0.1	%	427	0.2	%	1,025	0.5	%	2,108	1.0	%	3,120	1.5	
Home Equity/Junior Liens	16,547	10.3	%	18,732	10.7	%	22,303	11.3	%	24,095	11.7	%	24,868	11.7	
Nonresidential Mortgages:															
Nonresidential	43,580	27.3	%	43,446	24.8	%	42,526	21.5	%	44,634	21.7	%	44,212	20.8	
Purchased Nonresidential In-State	4,232	2.6	%	3,894	2.2	%	257	0.1	%	-	0.0	%	942	0.4	
Purchased Nonresidential Out-of-State	9,928	6.2	%	8,428	4.8	%	3,141	1.6	%	1,295	0.6	%	120	0.1	
Nonresidential Construction	1,498	0.9	%	2,816	1.6	%	6,635	3.3	%	6,184	3.0	%	6,286	3.0	
Purchased Construction In-State	-	0.0	%	-	0.0	%	-	0.0	%	-	0.0	%	-	0.0	
Purchased Construction Out-of-State	1,772	1.1	%	3,792	2.2	%	9,781	4.9	%	4,920	2.4	%	-	0.0	
Non real estate loans:															
Commercial Loans	7,382	4.6	%	7,035	4.0	%	15,816	8.0	%	19,181	9.3	%	24,606	11.6	
Purchased Commerical Loans In-State	1,466	0.9	%	2,838	1.6	%	1,804	0.9	%	1,387	0.7	%	3,603	1.7	

Purchased Commerical Loans Out-of State	-	0.0 %	-	0.0 %	-	0.0 %	-	0.0 %	-	0.0
Consumer and other loans	2,118	1.3 %	2,553	1.5 %	3,564	1.8 %	4,555	2.3 %	4,688	2.2
Total Loans	$160,220	100.00%	$175,154	100.00%	$198,191	100.00%	$205,625	100.00%	$211,935	100.00
Other items:										
Unadvanced construction loans	-		-		-		-		-	
Deferred loan origination costs	31		12		13		13		20	
Deferred loan origination fees	(276)		(287)		(287)		(292)		(358)	
Allowance for loan losses	(2,831)		(3,660)		(5,647)		(4,013)		(2,079)	
Total loans, net	$157,144		$171,219		$192,270		$201,333		$209,518	

Loan Portfolio Maturities and Yield. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2010. Demand loans, loans having no stated repayment or maturity, and overdraft loans are reported as being due in one year or less.

	1-4 Family Mortgage		Purchased Mortgage In-State		Purchased Mortgage Out-of State		1-4 Family Construction	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During the Years Ending December 31,								
2011	$ 778	4.53 %	$ -	0.00 %	$ -	0.00 %	$ 156	5.50 %
2012	276	7.23 %	-	0.00 %	-	0.00 %	-	0.00 %
2013	1,271	6.19 %	-	0.00 %	-	0.00 %	-	0.00 %
2014 to 2015	751	6.80 %	-	0.00 %	-	0.00 %	-	0.00 %
2016 to 2020	8,028	5.91 %	-	0.00 %	-	0.00 %	-	0.00 %
2021 to 2025	9,141	6.58 %	-	0.00 %	-	0.00 %	-	0.00 %
2026 and beyond	48,053	6.34 %	3,243	3.87 %	-	0.00 %	-	0.00 %
Total	$ 68,298	6.30 %	$ 3,243	3.87 %	$ -	0.00 %	$ 156	5.50 %

	Home Equity/Junior Liens		Nonresidential		Purchased Nonresidential In-State		Purchased Nonresidential Out-of-State	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During the Years Ending December 31,								
2011	$ 1,601	4.70 %	$ 14,360	6.14 %	$ -	0.00 %	$ 2,085	5.58 %
2012	830	5.62 %	11,570	7.02 %	-	0.00 %	-	0.00 %
2013	713	6.24 %	8,156	6.70 %	234	6.34 %	2,000	0.00 %
2014 to 2015	909	7.15 %	7,034	6.26 %	3,998	5.53 %	3,968	6.14 %
2016 to 2020	5,325	6.03 %	1,180	5.80 %	-	0.00 %	-	0.00 %
2021 to 2025	5,435	5.42 %	-	0.00 %	-	0.00 %	-	0.00 %
2026 and beyond	1,734	4.05 %	1,280	6.71 %	-	0.00 %	1,875	5.16 %
Total	$ 16,547	5.73 %	$ 43,580	6.51 %	$ 4,232	5.58 %	$ 9,928	6.01 %

	Nonresidential Construction		Purchased Construction In-State		Purchased Construction Out-of-State		Commercial Loans	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During the Years Ending December 31,								
2011	$ 1,498	6.06 %	$ -	0.00 %	$ 1,482	8.35 %	$ 2,063	5.72 %
2012	-	0.00 %	-	0.00 %	-	0.00 %	1,097	5.64 %
2013	-	0.00 %	-	0.00 %	-	0.00 %	294	6.55 %
2014 to 2015	-	0.00 %	-	0.00 %	290	9.38 %	2,423	6.66 %
2016 to 2020	-	0.00 %	-	0.00 %	-	0.00 %	1,505	6.05 %
2021 to 2025	-	0.00 %	-	0.00 %	-	0.00 %	-	0.00 %

2026 and beyond	-	0.00 %	-	0.00 %	-	0.00 %	-	0.00 %
Total	$ 1,498	6.06 %	$ -	0.00 %	$ 1,772	8.87 %	$ 7,382	5.81 %

	Purchased Commercial Loans In-State		Purchased Commercial Loans Out-of State		Consumer & Other Loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During the Years Ending December 31,								
2011	$ 1,041	2.09 %	$ -	0.00 %	$ 414	7.83 %	$ 25,478	6.03 %
2012	-	0.00 %	-	0.00 %	160	8.37 %	13,933	6.44 %
2013	425	6.34 %	-	0.00 %	253	7.94 %	13,346	6.65 %
2014 to 2015	-	0.00 %	-	0.00 %	242	7.64 %	19,615	7.01 %
2016 to 2020	-	0.00 %	-	0.00 %	908	9.47 %	16,946	6.20 %
2021 to 2025	-	0.00 %	-	0.00 %	141	8.13 %	14,717	6.21 %
2026 and beyond	-	0.00 %	-	0.00 %	-	0.00 %	56,185	6.12 %
Total	$ 1,466	3.32 %	$ -	0.00 %	$ 2,118	8.69 %	$ 160,220	6.27 %

Fixed- and Adjustable-Rate Loans. The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2010 that are contractually due after December 31, 2011.

	Due After December 31, 2011		
	Fixed	Adjustable	Total
	(In thousands)		
Residential Mortgages:			
1-4 Family Mortgages	$ 33,657	$ 33,863	$ 67,520
Purchased Mortgage In-State	-	3,243	3,243
Purchased Mortgage Out-of-State	-	-	-
1-4 Family Construction	-	-	-
Home Equity/Junior Liens	7,672	7,274	14,946
Nonresidential Mortgages:			
Nonresidential	16,232	12,988	29,220
Purchased Nonresidential In-State	3,753	479	4,232
Purchased Nonresidential Out-of-State	4,326	3,517	7,843
Nonresidential Construction	-	-	-
Purchased Construction In-State	-	-	-
Purchased Construction Out--State	-	290	290
Non real estate loans:			
Commercial Loans	3,347	1,972	5,319
Purchased Commerical Loans In-State	425	-	425
Purchased Commerical Loans Out-of-State	-	-	-
Consumer and other loans	1,320	384	1,704
Total Loans	$ 70,732	$ 64,010	$ 134,742

Loan Originations, Purchases, Sales and Servicing. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon borrower demand, market interest rates, borrower preference for fixed- versus adjustable-rate loans, and the interest rates offered on each type of loan by other lenders in our market area. These lenders include competing banks, savings banks, credit unions, internet lenders, mortgage banking companies and life insurance companies that may also actively compete for local commercial real estate loans. Loan originations are derived from a number of sources, including real estate agent referrals, existing customers, borrowers, builders, attorneys, our directors, walk-in customers and our own commercial sales force. Upon receiving a loan application, we obtain a credit report and employment verification to verify specific information relating to the applicant's employment, income, and credit standing. In the case of a real estate loan, we obtain a determination of value of the real estate intended to collateralize the proposed loan. Our residential mortgage lending limits vary by residential mortgage officer but range from $150,000 to $250,000. While certain Senior Bank Officers have residential lending limits up to $400,000, the Officer Loan Committee generally approves residential loans from $250,000 to $400,000 while requests from $400,000 to $500,000 will receive approval from Senior Loan Committee. Residential loan requests over $500,000 must be approved by the Board of Directors. Secured consumer lending limits by officer range from $25,000 to $150,000. For secured commercial loans, the limits range from $250,000 to

$400,000.

A commercial commitment letter specifies the terms and conditions of the proposed loan including the amount of the loan, interest rate, amortization term, a brief description of the required collateral, and required insurance coverage. Commitments are typically issued for 15-day periods. The borrower must provide proof of fire and casualty insurance on the property serving as collateral, which must be maintained during the full term of the loan. A title insurance policy is required on all real estate loans. At December 31, 2010, we had outstanding loan commitments of $27.2 million, including unfunded commitments under lines of credit and commercial and standby letters of credit.

Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand, while declining interest rates may stimulate increased loan demand. Accordingly, the volume of loan originations, the mix of fixed- and adjustable-rate loans, and the profitability of this activity can vary from period to period. One- to four-family residential mortgage loans are generally underwritten to investor guidelines, and closed on standard investor documents. We currently sell loans to Freddie Mac. If such loans are sold, the sales are conducted using standard investor purchase contracts and master commitments as applicable. The majority of one- to four-family mortgage loans that we have sold to investors have been sold on a non-recourse basis, whereby foreclosure losses are generally the responsibility of the purchaser and not First Federal of Northern Michigan.

We are a qualified loan servicer for Freddie Mac. Our policy has historically been to retain the servicing rights for all conforming loans sold, and to continue to collect payments on the loans, maintain tax escrows and applicable fire and flood insurance coverage, and supervise foreclosure proceedings if necessary. We retain a portion of the interest paid by the borrower on the loans as consideration for our servicing activities.

We require appraisals of real property securing loans. Appraisals are performed by independent appraisers, who are approved by our Board of Directors annually. We require fire and extended coverage insurance in amounts adequate to protect our principal balance. Where appropriate, flood insurance is also required. Private mortgage insurance is required for most residential mortgage loans with loan-to-value ratios greater than 80%.

Loan Origination Fees and Costs. In addition to interest earned on loans, we generally receive fees in connection with loan originations. Such loan origination fees, net of costs to originate, are deferred and amortized using an interest method over the contractual life of the loan. Fees deferred are recognized into income immediately upon prepayment or subsequent sale of the related loan. At December 31, 2010, we had $245,000 of net deferred loan origination fees. Such fees vary with the volume and type of loans and commitments made and purchased, principal repayments, and competitive conditions in the mortgage markets, which in turn respond to the demand and availability of money. In addition to loan origination fees, we also generate other income through the sales and servicing of mortgage loans, late charges on loans, and fees and charges related to deposit accounts. We recognized fees and service charges of $804,000, $869,000 and $942,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

To the extent that originated loans are sold with servicing retained, we capitalize a mortgage servicing asset at the time of the sale in accordance with applicable accounting standards (FASB ASC 860, “Transfers and Servicing ”). The capitalized amount is amortized thereafter (over the period of estimated net servicing income) as a reduction of servicing fee income. The unamortized amount is fully charged to income when loans are prepaid. Originated mortgage servicing rights with an amortized cost of $960,000 were included in other assets at December 31, 2010.

Origination, Purchase and Sale of Loans. The table below shows our loan originations, purchases, sales, and repayments of loans for the periods indicated.

	Years Ended December 31,		
	2010	2009	2008
		(In Thousands)	
Loans receivable at beginning of period	$ 175,154	$ 198,191	$ 205,625
Originations:			
Real estate:			
Residential 1-4 family	47,838	58,909	30,187
Commercial and Multi-family	14,841	17,254	24,191
Consumer	3,660	3,894	6,543
Total originations	66,339	80,057	60,921
Loan purchases:			
Residential 1-4 family	-	-	-
Commercial	-	4,914	5,177
Total loan purchases	-	4,914	5,177
Loan sales	(42,151)	(49,545)	(11,641)
Transfer of loans to foreclosed assets	(2,080)	(6,382)	(2,916)
Repayments	(37,042)	(52,081)	(58,975)
Total loans receivable at end of period	$ 160,220	$ 175,154	$ 198,191

Delinquent Loans, Other Real Estate Owned and Classified Assets

Collection Procedures. Our general collection procedures provide that when a commercial loan becomes 10 days past due and when a mortgage or consumer loan become 15 days past due, a computer-generated late charge notice is sent to the borrower requesting payment. If delinquency continues, a second delinquent notice is mailed when the loan continues past due for 30 days. If a loan becomes 60 days past due, the loan becomes subject to possible legal action. We will generally send a “due and payable” letter upon a loan becoming 60 days delinquent. This letter grants the mortgagor 30 days to bring the account paid to date prior to the start of any legal action. If not paid, foreclosure proceedings are initiated after this 30-day period. To the extent required by regulations of the Department of Housing and Urban Development (“HUD”), generally within 30 days of delinquency, a Section 160 HUD notice is given to the borrower which provides access to consumer counseling services. General collection procedures may vary with particular circumstances on a loan by loan basis. Also, collection procedures for Freddie Mac serviced loans follow the Freddie Mac guidelines which are different from our general procedures.

Loans Past Due and Non-Performing Assets. Loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collection of additional interest is doubtful or when extraordinary efforts are required to collect the debt. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income.

Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is deemed real estate owned ("REO") until such time as it is sold. In general, we consider collateral for a loan to be "in-substance" foreclosed if: (i) the borrower has little or no equity in the collateral; (ii) proceeds for repayment of the loan can be expected to come only from the operation or sale of the collateral; and (iii) the borrower has either formally or effectively abandoned control of the collateral, or retained control of the collateral but is unlikely to be able to rebuild equity in the collateral or otherwise repay the loan in the foreseeable future. Cash flow attributable to in-substance foreclosures is used to reduce the carrying value of the collateral.

When collateral, other than real estate, securing commercial and consumer loans is acquired as a result of delinquency or other reasons, it is classified as Other Repossessed Assets ("ORA") and recorded at the lower of cost or fair market value until it is disposed of.

When collateral is acquired or otherwise deemed REO/ORA, it is recorded at the lower of the unpaid principal balance of the related loan or its estimated net realizable value. This write down is recorded against the allowance for loan losses. Periodic future valuations are performed by management, and any subsequent decline in fair value is charged to operations. At December 31, 2010, we held $2.8 million in properties that were classified REO and $20,000 in assets classified as ORA.

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loan Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars In Thousands)			
At December 31, 2010						
Residential Mortgages	23	$ 2,056	34	$ 2,434	57	$ 4,490
Commercial Mortgages	3	488	8	784	11	1,272
Construction	-	-	2	1,772	2	1,772
Commercial	1	6	-	-	1	6
Consumer	10	122	9	207	19	329
Total	37	$ 2,672	53	$ 5,197	90	7,869
At December 31, 2009						
Residential Mortgages	22	$ 1,819	23	$ 1,719	45	$ 3,538
Commercial Mortgages	7	1,125	12	3,705	19	4,830
Construction	2	1,255	1	290	3	1,545
Commercial	3	402	1	80	4	482
Consumer	14	226	14	135	28	361
Total	48	$ 4,827	51	$ 5,929	99	10,756
At December 31, 2008						
Residential Mortgages	26	$ 2,513	13	$ 766	39	$ 3,279
Commercial Mortgages	8	1,359	6	5,879	14	7,238
Construction	-	-	2	1,980	2	1,980
Commercial	1	95	1	72	2	167
Consumer	26	155	10	66	36	221
Total	61	$ 4,122	32	$ 8,763	93	12,885
At December 31, 2007						
Residential Mortgages	24	$ 1,315	6	$ 532	30	$ 1,847
Commercial Mortgages	1	797	-	-	1	797
Construction	-	-	-	-	-	-
Commercial	-	-	1	100	1	100

Consumer	19	181	10	45	29	226
Total	44	$ 2,293	17	$ 677	61	2,969
At December 31, 2006						
Residential Mortgages	22	$ 1,218	9	$ 645	31	$ 1,863
Commercial Mortgages	1	636	2	221	3	857
Construction	1	74	-	-	1	74
Commercial	6	317	10	540	16	857
Consumer	17	105	9	84	26	189
Total	47	$ 2,350	30	$ 1,490	77	3,839

Nonperforming Assets. The following table sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Non-Accrual Loans:					
Residential Mortgage	$ 3,114	$ 2,944	$ 1,876	$ 697	$ 670
Commercial Mortgage	1,148	2,204	4,002	3,825	1,395
Construction	-	1,433	3,469	3,475	-
Purchased Out-of-State	1,772	2,113	1,980	-	-
Commercial	-	96	535	433	364
Consumer and other	206	157	90	29	61
Total non-accrual loans	$ 6,240	$ 8,947	$ 11,952	$ 8,459	$ 2,490
Accrual loans delinquent 90 days or more:					
Residential Mortgage	282	89	128	532	645
Commercial Mortgage	82	2,696	72	-	221
Construction	-	-	-	-	-
Purchased Out-of-State	-	-	-	-	-
Commercial	-	-	-	100	540
Consumer and other	2	54	17	45	84
Total accrual loans delinquent 90 days or more	$ 366	$ 2,839	$ 217	$ 677	$ 1,490
Total nonperforming loans (1)	$ 6,606	$ 11,786	$ 12,169	$ 9,136	$ 3,980
Real Estate Owned and Other Repossessed Assets:					
Residential Mortgage	494	584	686	872	437
Commercial Mortgage	2,304	2,985	882	406	-
Construction	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	20	11	70	2	38
Total real estate owned and other repossesed assets (2)	$ 2,818	$ 3,580	$ 1,638	$ 1,280	$ 475
Total nonperforming assets	$ 9,424	$ 15,366	$ 13,807	$ 10,416	$ 4,455
Total nonperforming loans to total loans receivable	4.37 %	6.73 %	6.14 %	4.54 %	1.90 %
Total nonperforming assets to total assets	4.13 %	6.58 %	5.57 %	4.15 %	1.59 %

(1) All of our loans delinquent 90 days or more are classified as nonperforming.

(2) Represents the net book value of property acquired by us 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.

Interest income that would have been recorded for the year ended December 31, 2010, had non-accruing loans been current according to their original terms amounted to $612,000. Interest of $57,000 was recognized on these impaired loans prior to placing them on non-accrual status, and is included in net income for the year ended December 31, 2010.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets such as debt and equity securities and real estate held for sale considered by the Office of Thrift Supervision to be of lesser quality as “substandard,” “doubtful,” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard,” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated “special mention” by management. Loans designated as special mention are generally loans that, while current in required payments, have exhibited some potential weaknesses that, if not corrected, could increase the level of risk in the future.

The allowance for loan losses represents amounts that have been established to recognize losses inherent in the loan portfolio that are both probable and reasonably estimable at the date of the financial statements. When we classify problem assets as loss, we charge-off such amount. Our determination as to the classification of our assets and the amount of our loss allowances are subject to review by our regulatory agencies, which can order the establishment of additional loss allowances. Management regularly reviews our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of our assets at December 31, 2010, classified assets consisted of substandard assets of $16.5 million. There were no assets classified as doubtful or loss at December 31, 2010.

Allowance for Loan Losses. We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in management's judgment, deserve current recognition in estimating probable losses. Management regularly reviews the loan portfolio and makes provisions for loan losses in order to maintain the allowance for loan losses in accordance with accounting principles generally accepted in the United States of America. The allowance for loan losses consists of amounts specifically allocated to non-performing loans and other criticized or classified loans (if any) as well as general allowances determined for each major loan category. Commercial loans and loans secured by commercial real estate are evaluated individually for impairment. Other smaller-balance, homogeneous loan types, including loans secured by one- to four-family residential real estate and consumer installment loans, are evaluated for impairment on a collective basis. After we establish a provision for loans that are known to be non-performing, criticized or classified, we calculate percentage loss factors to apply to the remaining categories within the loan portfolio to estimate probable losses inherent in these categories of the portfolio. When the loan portfolio increases, therefore, the percentage calculation results in a higher dollar amount of estimated probable losses than would be the case without the increase, and when the loan portfolio decreases, the percentage calculation results in a lower dollar amount of estimated probable losses than would be the case without the decrease. These percentage loss factors are determined by management based on our historical loss experience and credit concentrations for the applicable loan category, which may be adjusted to reflect our evaluation of levels of, and trends in, delinquent and non-accrual loans, trends in volume and terms of loans, and local economic trends and conditions.

We consider commercial and commercial real estate loans and construction loans to be riskier than one- to four-family residential mortgage loans. Commercial and commercial real estate loans have greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy. Construction loans have greater credit risk than permanent mortgage financing because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. If the estimate of construction costs is inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion is inaccurate, the value of the property may be insufficient to assure full repayment. Projects also may be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry more risk because the repayment of the loan depends on the builder's ability to sell the property prior to the time that the construction loan is due. The increased risk characteristics associated with commercial real estate and land loans and construction loans are considered by management in the evaluation of the allowance for loan losses and generally result in a larger loss factor applied to these segments of the loan portfolio in developing an estimate of the required allowance for loan losses. We intend to increase our originations of commercial and commercial real estate loans, and we intend to retain these loans in our portfolio. Because these loans entail significant additional credit risks compared to one- to four-family residential mortgage loans, an increase in our origination (and retention in our portfolio) of these types of loans would, in the absence of other offsetting factors, require us to make additional provisions for loan losses.

The carrying value of loans is periodically evaluated and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, our regulatory agencies periodically review the allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Analysis of the Allowance for Loan Losses. The following table sets forth the activity on our allowance for loan losses for the periods indicated.

	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Allowance at beginning of period	$ 3,660	$ 5,647	$ 4,013	$ 2,079	$ 1,416
(Charge-offs):					
Real Estate:					
Residential Mortgages	(258)	(362)	(342)	(225)	44
Nonresidential Real Estate:					
Commercial Mortgages	(198)	(4,903)	(2,023)	(59)	-
Purchased In-State	-	(2,482)	-	-	-
Purchased Out-of-State	(314)	-	-	-	-
Construction	(751)	-	-	-	-
Purchased In-State	-	-	-	-	-
Purchased Out-of-State	(262)	-	-	-	-
Non Real Estate Loans:					
Commercial	-	(246)	(331)	(4)	1
Consumer and other	(319)	(254)	(141)	(190)	163
Total charge offs	(2,102)	(8,247)	(2,837)	(478)	208
Recoveries:					
Real Estate:					
Residential Mortgages	2	-	-	1	-
Purchased In-State	-	-	-	-	-
Purchased Out-of-State	-	-	-	-	-
Nonresidential Real Estate:					
Commercial Mortgages	85	-	-	-	-
Purchased In-State	-	-	-	-	-
Purchased Out-of-State	-	-	-	-	-
Construction	60	-	-	-	-
Purchased In-State	-	-	-	-	-
Purchased Out-of-State	-	-	-	-	-
Non Real Estate Loans:					
Consumer and other	25	64	50	34	20
Total recoveries	172	64	50	35	20
Net (charge offs) recoveries	(1,930)	(8,183)	(2,787)	(443)	188
Provision for loan losses	1,101	6,196	4,421	2,377	851
Balance at end of year	$ 2,831	$ 3,660	$ 5,647	$ 4,013	$ 2,079
Ratios:					
Net Charge-offs to average loans outstanding	1.14 %	4.58 %	-1.40 %	0.21 %	0.08 %

(annualized)										
Allowance for loan loss to non-performing loans at end of period	42.85	%	31.05	%	46.41	%	43.93	%	52.24	%
Allowance for loan losses to total loans at end of period	1.77	%	2.09	%	2.85	%	1.95	%	0.98	%

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31					
	2010		2009		2008	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
Residential Mortgages:						
1 - 4 family residential	$ 519	42.7 %	$ 634	44.4 %	$ 967	44.0 %
Purchased Mortgages In-State	17	2.0 %	12	1.9 %	11	1.9 %
Purchased Mortgages Out-of-State	-	0.0 %	-	0.0 %	1	0.2 %
1 - 4 family construction	-	0.1 %	3	0.2 %	5	0.5 %
Home Equity & Junior Liens	228	10.3 %	214	10.7 %	231	11.3 %
Nonresidential Mortgages:						
Nonresidential	967	27.3 %	1,055	24.9 %	1,768	21.5 %
Purchased Nonresidential In-State	94	2.6 %	140	2.2 %	3	0.1 %
Purchased Nonresidential Out-of-State	220	6.2 %	175	4.8 %	14	1.6 %
Construction	245	0.9 %	647	1.6 %	7	3.3 %
Purchased Construction In-State	-	0.0 %	-	0.0 %	-	0.0 %
Purchased Construction Out-of-State	290	1.1 %	350	2.2 %	740	4.9 %
Non Real Estate Loans:						
Commercial	192	4.6 %	316	4.0 %	1,795	8.0 %
Purchased Commercial In-State	-	0.9 %	73	1.6 %	18	0.9 %
Purchased Commercial Out-of-State	-	0.0 %	-	0.0 %	32	0.0 %
Consumer	59	1.3 %	41	1.5 %	55	1.8 %
Total	$ 2,831	100.0 %	$ 3,660	100.0 %	$ 5,647	100.0 %

At December 31			
2007		2006	
Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans

Residential Mortgages:								
One to four family residental	$	787	44.5	%	$	182	44.1	%
Purchased Mortgages In-State		5	2.2	%		3	2.2	%
Purchased Mortgages Out-of-State		1	0.6	%		1	0.6	%
1 - 4 family construction		14	1.0	%		6	1.5	%
Home Equity & Junior Liens		171	11.7	%		433	11.7	%
Nonresidential Mortgages:								
Nonresidential		1,374	21.7	%		761	20.9	%
Purchased Nonresidential In-State		-	0.0	%		16	0.4	%
Purchased Nonresidential Out-of-State		5	0.6	%		2	0.1	%
Construction		18	3.0	%		108	3.0	%
Purchased Construction In-State		-	0.0	%		-	0.0	%
Purchased Construction Out-of-State		22	2.4	%		-	0.0	%
Non Real Estate Loans:								
Commercial		1,529	9.3	%		423	11.6	%
Purchased Commercial In-State		9	0.7	%		62	1.7	%
Purchased Commercial Out-of-State		14	0.0	%		-	0.0	%
Consumer		64	2.3	%		82	2.2	%
Total	$	4,013	100.0	%	$	2,079	100.0	%

Mortgage Banking Activities

Our mortgage banking activities involve the origination and subsequent sale into the secondary mortgage market of one- to four-family residential mortgage loans. When loans are sold into the secondary market, we generally retain the rights to service those loans thereby maintaining our customer relationships. We intend to use these customer relationships to cross-sell additional products and services. Loans that we sell are originated using the same personnel and the same underwriting policies as loans that we maintain in our portfolio. The decision whether to sell a loan is dependent upon the type of loan product and the term of the loan. In recent years, we have sold most of our fixed-rate one- to four-family residential loans with maturities of 15 years or greater, and have retained servicing on most of these loans. For a brief period we sold some mortgage loans servicing-released to be able to offer additional products to our customers, however, we currently do not sell loans servicing-released.

Mortgage servicing involves the administration and collection of home loan payments. When we acquire mortgage servicing rights through the origination of mortgage loans and the subsequent sale of those loans with servicing rights retained, we allocate a portion of the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. As of December 31, 2010, we were servicing loans sold to third parties totaling $144.9 million, and the mortgage servicing rights associated with such loans had a book value, at such date, of $960,000. Generally, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall, because the estimated life and estimated income from the underlying loans increase with rising interest rates and decrease with falling interest rates.

Insurance Brokerage Activities

In March 2003, we acquired InsuranCenter of Alpena (“ICA”), a licensed insurance agency, to increase and diversify our sources of non-interest income. In April 2008, ICA sold to a non-related third party the rights to service certain health insurance contracts and collect commissions on the contracts written through the local Chambers of Commerce. This sale resulted in a nominal gain to us, but reduced health insurance revenues. The sale also reduced non-interest expenses and amortization of intangibles.

On February 27, 2009, we sold the majority of the assets of ICA. We retained the residual income stream associated with the April 2008 sale of its wholesale Blue Cross/Blue Shield override business to the third party. The results of operations of ICA are presented separately in our consolidated financial statements as “discontinued operations” through the date of sale. We continue to collect the residual revenue stream associated with this sale through FFNM Agency, the successor company to ICA.

See “-Subsidiary Activity” for a further discussion of ICA and FFNM Agency.

Real Estate Development Activities

On a limited basis, we have purchased real estate for development through our subsidiary Financial Services & Mortgage Corporation. See "—Subsidiary Activity" for a discussion of our real estate development subsidiary, Financial Services & Mortgage Corporation. The last such purchase was a 37 acre lot which we purchased in 1994 for $130,000. As of December 31, 2010, we had sold 39 of the 43 lots comprising this property and two of the smaller lots had been combined into one lot, so that at December 31, 2010 four lots remained unsold. Our investment in land and real estate is “held for sale” and separately stated in the statement of financial condition, net of any allowance for impairment. Management actively marketed the property by using local real estate agents to facilitate the sale of these properties. For reporting purposes, this investment is considered “impaired” under the definition in FASB ASC 360-10, Accounting for Impairment or Disposal of Long-Lived Assets. Accordingly, the investment is recorded at the lower of its cost or fair value less cost to sell, which may include realtor commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred.

Annually, management uses recent sales of comparable property to determine estimated future cash flows. The estimated future cash flows are used as the "fair value." The fair value, less cost to sell, is compared to the net carrying amount. If the fair value, less cost to sell, exceeds the recorded amount, a loss is recognized. Losses recognized for the initial and subsequent write-down to fair value, less cost to sell, are recognized in the "gain (loss) on the sale of real estate" line in the statement of income. A gain is recognized for any subsequent increase in fair value, less cost to sell, but not in excess of the cumulative loss previously recognized. A gain or loss not previously recognized that results from the sale of the property are recognized at the date of sale.

At December 31, 2010, our investment in these properties was approximately $28,000, which was net of an allowance of $137,000. The last four lots were sold in January 2011 at a loss of less than $1,000.

Investment Activities

Our investment securities portfolio comprises U.S. Government, state agency and municipal obligations, mortgage-backed securities, Federal Home Loan Bank stock, and other investments of which $35.3 million, or 93.3%, was available-for-sale and $2.5 million, or 6.7%, of the total portfolio was classified as held-to-maturity. At December 31, 2010, we had no investments in unrated securities. At December 31, 2010, $8.7 million, or 23.0% of our investment portfolio was scheduled to mature in less than five years, and $28.9 million, or 77.0%, was scheduled to mature in over five years. At December 31, 2010, $2.8 million, or 7.7% of our investment portfolio was scheduled to mature in less than one year.

At December 31, 2010, we held U.S. Government and state agency obligations and municipal obligations classified as available-for-sale, with a fair market value of $9.6 million. While these securities generally provide lower yields than other investments such as mortgage-backed securities, our current investment strategy is to maintain investments in such instruments to the extent appropriate for liquidity purposes, as collateral for borrowings, and for prepayment protection.

We invest in mortgage-backed securities in order to: generate positive interest rate spreads with minimal administrative expense; lower credit risk as a result of the guarantees provided by Ginnie Mae and, to a lesser extent, Fannie Mae and Freddie Mac; supplement local loan originations; reduce interest rate risk exposure; and increase liquidity. Our mortgage-backed securities portfolio consists of pass-through certificates. At December 31, 2010, mortgage-backed securities totaled $25.7 million, or 67.9% of total investments. At December 31, 2010, 3.0% of our mortgage-backed securities were secured by balloon loans. All of our pass-through certificates are insured or guaranteed by Freddie Mac, Ginnie Mae or Fannie Mae. Our policy is to hold mortgage-backed securities as available for sale.

We have interests in pools of single-family mortgages in which the principal and interest payments are passed from the mortgage originators, through intermediaries (generally government-sponsored agencies) that pool and repackage loans and sell the participation interest in the form of securities, to investors. These government-sponsored agencies include Freddie Mac, Ginnie Mae, or Fannie Mae. The underlying pool of mortgages can be comprised of either fixed-rate mortgage loans or adjustable-rate mortgage loans. The interest rate risk characteristics of the underlying pool of mortgages, i.e., fixed-rate or adjustable rate, are shared by the investors in that pool.

During 2010 the Company restructured its investment portfolio by selling 16 bonds, mostly issued by Freddie Mac (FHLMC) and Fannie Mae (FNMA). Although these bonds have government guarantees, they are only implied guarantees, hence the bonds are not truly backed by the full faith and credit of the United States. The bonds sold were replaced with Ginnie Mae (GNMA) bonds, which are supported by the full faith and credit of the United States government. By selling the FNMA and FHLMC bonds the Company was able to accomplish two things:

- Reduce its overall credit risk in the investment portfolio.
- Improve its risk-based capital position as bonds sold were 20% risk-weighted while the replacement bonds are 0% risk-weighted.

The Company concluded this move was prudent and necessary due to the following reasons:

- Because of the timing of the restructuring, the Company was able to capture some previously unrealized gains.

- The Company did forego a higher yield (approximately 10bps), but was able to minimize the yield loss by buying longer-term GNMA's, which was possible because of the minimal level of interest-rate risk inherent in the Company's balance sheet.

Our investment policy also permits investment in corporate debt obligations. Although corporate bonds may offer higher yields than U.S. Treasury or agency securities of comparable duration, corporate bonds also have a higher risk of default due to possible adverse changes in the creditworthiness of the issuer.

We are required under federal regulations to maintain a minimum amount of liquid assets that may be invested in specified short term securities and certain other investments. We generally have maintained a portfolio of liquid assets that exceeds regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future, as well as management's projections as to the short term demand for funds to be used in our loan origination and other activities.

FASB ASC 320-10 requires that, at the time of purchase, we designate a security as held to maturity, available for sale, or trading, depending on our ability and intent. Securities available for sale are reported at fair value. As of December 31, 2010, all of our investment securities were designated as available for sale except for $2.5 million in municipal bond investments designated as held to maturity.

Investment Securities Portfolio. The following table sets forth the composition of our investment securities portfolio at the dates indicated.

	At December 31,					
	2010		2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)					
Debt Securities:						
U.S. Government and agency obligations	$ 4,518	$ 4,562	$ 8,220	$ 8,257	$ 5,680	$ 5,768
State agency and municipal obligations	7,395	7,641	11,798	12,143	7,942	7,924
Corporate bonds and other obligations	-	-	1,000	1,002	1,500	1,504
Mortgage-backed securities:						
Pass-through securities:						
Fannie Mae	296	306	8,579	8,887	9,468	9,733
Freddie Mac	1,078	1,095	4,823	4,922	4,419	4,516
Ginnie Mae	24,310	24,291	2,577	2,588	164	167
Total debt securities	37,597	37,895	36,997	37,799	29,173	29,612
Marketable equity securities	3	1	3	4	3	2
Total equity securities	3	1	3	4	3	2
Total investment securities	$ 37,600	$ 37,896	$ 37,000	$ 37,803	$ 29,176	$ 29,614

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2010 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

	At December 31, 2010										
	One Year or Less		More than One Year Through Five years		More than Five Years Through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weigh Avera Yiel
	(Dollars in Thousands)										
Debt Securities:											
U.S. Government and agency securities	$518	5.63%	$2,500	1.75%	$1,500	3.41%	$-	0.00%	$4,518	$4,562	2.7
State agency and municipal obligations	2,376	4.28%	2,182	3.89%	981	4.36%	1,856	4.73%	7,395	7,641	4.29
Mortgage-backed securities											
Fannie Mae	-	0.00%	-	0.00%	296	4.50%	-	0.00%	296	306	4.50
Freddie Mac	1	6.00%	1,066	4.36%	11	1.85%	-	0.00%	1,078	1,095	4.33
Ginnie Mae	-	0.00%	13	5.00%	96	3.41%	24,201	4.12%	24,310	24,291	4.1
Total debt securities	2,895		5,761		2,884		26,057		37,597	37,895	
Marketable equity securities:											
Common Stock	-	0.00%	-	0.00%	-	0.00%	3	0.00%	3	1	0.00
								0.00%			0.00
Total investment securities	$2,895		$5,761		$2,884		$26,060		$37,600	$37,896	

Sources of Funds

General. Deposits are the major source of our funds for lending and other investment purposes. We generate deposits from our eight full-service offices in Alpena, Mio, Cheboygan, Oscoda, Lewiston, Alanson and Gaylord. In addition to deposits, we derive funds from borrowings, proceeds from the settlement of loan sales, the amortization and prepayment of loans and mortgage-backed securities, the maturity of investment securities, and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are influenced significantly by general interest rates and market conditions. Borrowings are used on a short-term basis to compensate for reductions in the availability of funds from other sources or on a longer term basis for general business purposes. We currently are managing liquidity levels and loan funding primarily through secondary mortgage market sales and Federal Home Loan Bank advances.

Deposits. We generate deposits primarily from our market area by offering a broad selection of deposit instruments including NOW accounts, regular savings, money market deposits, term certificate accounts and individual retirement accounts. Deposit account terms vary according to the minimum balance required, the period of time during which the funds must remain on deposit, and the interest rate, among other factors. The rate of interest which we must pay is not established by regulatory authority. The asset/liability committee regularly evaluates our internal cost of funds, surveys rates offered by competing institutions, reviews the cash flow requirements for lending and liquidity, and executes rate changes when deemed appropriate. We have sought to decrease the risk associated with changes in interest rates by offering competitive rates on some deposit accounts and by pricing certificates of deposit to provide customers with incentives to choose certificates of deposit with longer maturities. We also attract non-interest bearing commercial deposit accounts from our commercial borrowers and offer a competitive non-deposit sweep product that is not insured by the FDIC. In recent periods, we generally have not obtained funds through brokers or through a solicitation of funds outside our market area. At December 31, 2010 we had no brokered deposits. We offer a limited amount of certificates of deposit in excess of $100,000 which may have negotiated rates. Future liquidity needs are expected to be satisfied through the use of Federal Home Loan Bank borrowings as necessary. Management does not generally plan on paying above-market rates on deposit products, although from time-to-time we may do so as liquidity needs dictate.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	At December 31,											
	2010				2009				2008			
	Amount	Percent of Total		Weighted Average Interest Rate	Amount	Percent of Total		Weighted Average Interest Rate	Amount	Percent of Total		Weighted Average Interest Rate
Non-interest-bearing	$10,349	6.66	%	NA	$11,074	7.00	%	NA	$10,410	6.28	%	NA
NOW accounts	16,935	10.89	%	0.39%	16,298	10.31	%	0.39%	14,652	8.84	%	0.33%
Passbook	16,785	10.80	%	0.05%	15,722	9.95	%	0.05%	14,857	8.96	%	0.15%
Money market accounts	27,172	17.48	%	1.21%	20,794	13.15	%	1.21%	19,394	11.70	%	2.66%
Time deposits that mature:												
Less than 12 months	52,059	33.49	%	2.47%	60,552	38.30	%	2.47%	68,753	41.47	%	3.72%
Within 12-36 months	24,371	15.68	%	2.79%	29,739	18.81	%	2.79%	34,429	20.77	%	3.95%
Beyond 36 months	7,795	5.01	%	3.30%	3,921	2.48	%	3.30%	3,283	1.98	%	3.78%
Jumbo	-	0.00	%	0.00%	-	0.00	%	0.00%	-	0.00	%	0.00%
Total deposits	$155,466	100.00	%	1.89%	$158,100	100.00	%	1.89%	$165,778	100.00	%	2.79%

Time Deposit Rates. The following table sets forth time deposits classified by rates as of the dates indicated (see Note 7 to our consolidated financial statements contained within Exhibit 13 for a more detailed breakdown by rate range):

	At December 31,		
Rate	2010	2009	2008
		(In Thousands)	
0.50 percent to 0.99 percent	$ 9,852	$ 5,926	$ -
1.00 percent to 1.99 percent	35,119	32,658	8,577
2.00 percent to 2.99 percent	26,573	24,116	11,776
3.00 percent to 3.99 percent	8,718	15,629	42,403
4.00 percent to 4.99 percent	3,488	11,912	38,278
5.00 percent to 8.99 percent	475	3,971	5,431
	$ 84,225	$ 94,212	$ 106,465

Time Deposit Maturities. The following table sets forth the amount and maturities of time deposits at December 31, 2010.

Less Than	1 - Less than 2	2 - Less than 3	3 - Less than 5	5 years and

Rate	One Year	Years	Years	Years	Greater	Total
0.50 percent to 0.99 percent	$ 6,931	$ 2,921	$ -	$ -	$ -	$ 9,852
1.00 percent to 1.99 percent	28,038	6,125	671	271	14	35,119
2.00 percent to 2.99 percent	9,952	5,038	3,560	6,045	1,978	26,573
3.00 percent to 3.99 percent	4,399	434	1,855	1,460	570	8,718
4.00 percent to 4.99 percent	2,272	824	262	46	84	3,488
5.00 percent to 8.99 percent	467	-	-	-	8	475
	$ 52,059	$ 15,342	$ 6,348	$ 7,822	$ 2,654	$ 84,225

As of December 31, 2010, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was $26.7 million. The following table sets forth the maturity of those certificates as of December 31, 2010.

Maturity Period	Certificates of Deposit in excess of $100,000 (In thousands)	
Three months or less	$	2,900
Three through six months		2,607
Six through twelve months		11,545
Over twelve months		9,650
Total	$	26,702

Borrowings. Our borrowings consist primarily of advances from the Federal Home Loan Bank of Indianapolis. At December 31, 2010, we had access to additional Federal Home Loan Bank advances of up to $17.8 million, based upon pledged collateral. The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances and other borrowings at the dates and for the periods indicated.

	Years Ended December 31,								
		2010			2009			2008	
	(Dollars in Thousands)								
Balance at end of period	$	29,000		$	45,031		$	40,969	
Average balance during period		38,187			41,782			47,075	
Maximum outstanding at any month end		45,825			46,750			48,900	
Weighted average interest rate at end of period		2.23	%		3.13	%		4.22	%
Average interest rate during period		2.86	%		3.69	%		4.27	%

Subsidiary Activity

First Federal of Northern Michigan Bancorp, Inc.'s only direct subsidiary is First Federal of Northern Michigan (the Bank).

First Federal of Northern Michigan (the Bank) has two wholly owned subsidiaries as of December 31, 2010. First Federal of Northern Michigan and these subsidiaries have been consolidated in the financial statements and all inter-company balances and transactions have been eliminated in consolidation.

One subsidiary, Financial Services & Mortgage Corporation, leases, sells, develops and maintains real estate properties. For reporting purposes, Financial Services & Mortgage Corporation is included in our banking segment. As of December 31, 2010, First Federal of Northern Michigan's investment in Financial Services & Mortgage Corporation was $310,000. The primary asset of the subsidiary is an investment in land and real estate. See "Real Estate Development Activities." At December 31, 2010, Financial Services & Mortgage Corporation owned four developed building sites which were being offered for sale. These lots were sold in January 2011. Financial Services & Mortgage Corporation is not currently a party to any agreement that is material to First Federal of Northern Michigan Bancorp, Inc. on a consolidated basis.

First Federal of Northern Michigan's second subsidiary, FFNM Agency, Inc., collects the residual income stream associated with the April 2008 sale of the Company's wholesale health insurance override business to a third party.

FFNM Agency is the successor company to the InsuranCenter of Alpena ("ICA"). On February 27, 2009, we sold the majority of the assets of ICA. The results of operations of ICA are presented separately in our consolidated financial statements as "discontinued operations."

Personnel

As of December 31, 2010, First Federal of Northern Michigan had 75 full-time and 19 part-time employees. None of the Bank's employees is represented by a collective bargaining group. The Bank believes its relationship with its employees to be good. First Federal of Northern Michigan Bancorp, Inc., FFNM Agency, Inc. and FSMC have no separate employees.

SUPERVISION AND REGULATION

General

As a federally chartered savings bank, First Federal of Northern Michigan is regulated and supervised by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which we may engage, and is intended primarily for the protection of the Federal Deposit Insurance Corporation's deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. After completing an examination, the federal agency critiques the financial institution's operations and assigns its rating (known as an institution's CAMELS ratings). Under federal law, an institution may not disclose its CAMELS rating to the public. First Federal of Northern Michigan also is a member of, and owns stock in, the Federal Home Loan Bank of Indianapolis, which is one of the twelve regional banks in the Federal Home Loan Bank System. First Federal of Northern Michigan also is regulated, to a lesser extent, by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines First Federal of Northern Michigan and prepares reports for consideration by our board of directors on any operating deficiencies. First Federal of Northern Michigan's relationship with our depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters concerning the ownership of deposit accounts and the form and content of our loan documents.

There can be no assurance that changes to existing laws, rules and regulations, or any other new laws, rules or regulations, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. Any change in these laws or regulations, or in regulatory policy, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on our business, financial condition or operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes in the regulation of federal savings banks such as First Federal of Northern Michigan. Under the Dodd-Frank Act, the Office of Thrift Supervision will be eliminated. Responsibility for the supervision and regulation of federal savings banks will be transferred to the Office of the Comptroller of the Currency, which is the agency that is currently primarily responsible for the regulation and supervision of national banks. The Office of the Comptroller of the Currency will assume responsibility for implementing and enforcing many of the laws and regulations applicable to federal savings banks. The transfer of regulatory functions will take place over a transition period of up to one year from the Dodd-Frank Act enactment date of July 21, 2010, subject to a possible six-month extension. At the same time, responsibility for the regulation and supervision of savings and loan holding companies, such as First Federal of Northern Michigan Bancorp, Inc. will be transferred to the Federal Reserve Board, which currently supervises bank holding companies.

Additionally, the Dodd-Frank Act creates a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau will assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function currently assigned to prudential regulators, and will have authority to impose new requirements. However, institutions of less than $10 billion in assets, such as First Federal of Northern Michigan, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of, their prudential regulator rather than the Consumer Financial Protection Bureau.

In addition to eliminating the Office of Thrift Supervision and creating the Consumer Financial Protection Bureau, the Dodd-Frank Act, among other things, directs changes in the way that institutions are assessed for deposit insurance, mandates the imposition of consolidated capital requirements on savings and loan holding companies, requires originators of securitized loans to retain a percentage of the risk for the transferred loans, regulatory rate-setting for certain debit card interchange fees, repeals restrictions on the payment of interest on commercial demand deposits and contains a number of reforms related to mortgage originations. Many of the provisions of the Dodd-Frank Act are subject to delayed effective dates and/or require the issuance of implementing regulations. Their impact on operations can not yet be fully assessed. However, there is significant possibility that the Dodd-Frank Act will, at a minimum, result in increased regulatory burden, compliance costs and interest expense for First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan.

Certain of the regulatory requirements that are applicable to First Federal of Northern Michigan and First Federal of Northern Michigan Bancorp, Inc. are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on First Federal of Northern Michigan and First Federal of Northern Michigan Bancorp. Inc. and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, First Federal of Northern Michigan may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other loans and assets. First Federal of Northern Michigan also may establish subsidiaries that may engage in activities not otherwise permissible for First Federal of Northern Michigan directly, including real estate investment, securities brokerage and insurance agency services.

The Dodd-Frank Act authorizes the payment of interest on business demand deposits effective July 11, 2011.

Capital Requirements. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for institutions receiving the highest CAMELS rating) and an 8% risk-based capital ratio. The prompt corrective action standards discussed below, in effect, establish a minimum 2% tangible capital standard.

The risk-based capital standard for savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision capital regulation based on the risks inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, allowance for loan and lease losses up to a maximum of 1.25% of risk-weighted assets, and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

Additionally, a savings association that retains credit risk in connection with an asset sale may be required to maintain regulatory capital because of the recourse back to the savings association. In assessing an institution's capital adequacy, the OTS takes into consideration not only thee numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary.

At December 31, 2010, First Federal of Northern Michigan's capital exceeded all applicable requirements. The following table sets forth the Bank's capital position at December 31, 2010 and 2009, as compared to the minimum capital requirements.

	At December 31,			
	2010		2009	
	Amount	Percent of Assets	Amount	Percent of Assets
			(Dollars in Thousands)	
Equity capital	$ 22,272	10.4 %	$ 22,119	9.5 %
Tangible Capital Requirement:				
Tangible capital level	20,931	9.8 %	20,239	8.8 %
Requirement	3,214	1.5 %	3,470	1.5 %
Excess	17,717	8.3 %	16,769	7.3 %
Core Capital Requirement:				
Core capital level	20,931	9.8 %	20,239	8.8 %
Requirement	8,570	4.0 %	9,255	4.0 %
Excess	12,361	5.8 %	10,984	4.8 %
Risk-based Capital Requirement:				
Risk-based capital level	22,763	15.6 %	22,304	13.6 %
Requirement	11,693	8.0 %	13,153	8.0 %
Excess	11,070	7.6 %	9,151	5.6 %

Loans to One Borrower. A federal savings bank generally may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus on an unsecured basis. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2010, First Federal of Northern Michigan was in compliance with the loans-to-one-borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, First Federal of Northern Michigan is subject to a qualified thrift lender, or "QTL," test. Under the QTL test, First Federal of Northern Michigan must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the institution's business.

"Qualified thrift investments" include various types of loans made for residential and housing purposes, investments related to such purposes, including certain mortgage-backed and related securities, and loans for personal, family, household and certain other purposes up to a limit of 20% of portfolio assets. "Qualified thrift investments" also include 100% of an institution's credit card loans, education loans and small business loans. First Federal of Northern

Michigan also may satisfy the QTL test by qualifying as a “domestic building and loan association” as defined in the Internal Revenue Code of 1986.

A savings bank that fails the QTL test must operate under specified restrictions. The Dodd-Frank Act made noncompliance with the QTL test potentially subject to agency enforcement action for violation of law. At December 31, 2010, First Federal of Northern Michigan maintained approximately 85.9% of its portfolio assets in qualified thrift investments, and therefore satisfied the QTL test.

Capital Distributions. Office of Thrift Supervision regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the institution's capital account. A savings bank must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus the savings bank's retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or Office of Thrift Supervision-imposed condition; or
- the savings bank is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings bank that is a subsidiary of a holding company must still file a notice with the Office of Thrift Supervision at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The Office of Thrift Supervision may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if after making such distribution the institution would be undercapitalized.

Liquidity. A federal savings bank is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings banks have a responsibility under the Community Reinvestment Act and related regulations of the Office of Thrift Supervision to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings bank, the Office of Thrift Supervision is required to assess the savings bank's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Office of Thrift Supervision, as well as other federal regulatory agencies and the Department of Justice. First Federal of Northern Michigan received an "Outstanding" Community Reinvestment Act rating in its two most recent federal examination.

Transactions with Related Parties. A federal savings bank's authority to engage in transactions with its "affiliates" is limited by Office of Thrift Supervision regulations and Regulation W of the Federal Reserve Board, which implements Sections 23A and 23B of the Federal Reserve Act. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. First Federal of Northern Michigan Bancorp, Inc. and its non-savings institution subsidiaries will be affiliates of First Federal of Northern Michigan. In general, transactions with affiliates must be on terms that are as favorable to the savings bank as comparable transactions with non-affiliates. In addition, certain types of these transactions are restricted to an aggregate percentage of the savings bank's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from the savings bank. In addition, Office of Thrift Supervision regulations prohibit a savings bank from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary.

First Federal of Northern Michigan's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions require that extensions of credit to insiders (i) be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and (ii) not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of First Federal of Northern Michigan's capital. In addition, extensions of credit in excess of certain limits must be approved by First Federal of Northern Michigan's board of directors.

Enforcement. The Office of Thrift Supervision has primary enforcement responsibility over federal savings banks and has the authority to bring enforcement action against all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the savings bank, receivership, conservatorship or the termination of deposit insurance. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The Federal Deposit Insurance Corporation also has the authority to recommend to the Director of the Office of Thrift Supervision that enforcement action be taken with respect to a particular savings bank. If action is not taken by the Director, the Federal Deposit Insurance Corporation has authority to take action under specified circumstances.

The Office of the Comptroller of the Currency will assume the Office of Thrift Supervision's enforcement authority over federal savings banks as part of the Dodd-Frank restructuring.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. The guidelines address internal controls and information systems, internal audit systems, credit underwriting, loan documentation, interest rate risk exposure, asset growth, compensation, fees and benefits. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the Office of Thrift Supervision is required and authorized to take supervisory actions against undercapitalized savings banks. For this purpose, a savings bank is placed in one of the following five categories based on the savings bank's capital:

- well-capitalized (at least 5% leverage capital, 6% tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4% tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 3% leverage capital, 4% tier 1 risk-based capital or 8% total risk-based capital);
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significantly undercapitalized (less than 3% leverage capital, 3% tier 1 risk-based capital or 6% total risk-based capital); or

- critically undercapitalized (less than 2% tangible capital).

Generally, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings bank that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of Thrift Supervision within 45 days of the date a savings bank receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to the savings bank, including, but not limited to, restrictions on growth, investment activities, capital distributions and affiliate transactions. The Office of Thrift Supervision may also take any one of a number of discretionary supervisory actions against undercapitalized savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At December 31, 2010, First Federal of Northern Michigan met the criteria for being considered “well-capitalized.”

Insurance of Deposit Accounts. First Federal of Northern Michigan is a member of the Deposit Insurance Fund, which is administered by the FDIC. Deposit accounts at First Federal of Northern Michigan are insured by the FDIC, up to a maximum of $250,000 for each separately insured depositor and for self-directed retirement accounts. That level of coverage was made permanent by the Dodd-Frank Act. In addition pursuant to the Dodd-Frank Act, certain noninterest-bearing transaction accounts maintained with depository institutions are fully insured regardless of the dollar amount until December 31, 2012.

The FDIC imposes an assessment against all depository institutions for deposit insurance. That assessment is based on the risk category of the institution and, prior to 2009, ranged from five to 43 basis points of the institution's deposits. On February 27, 2009, the FDIC issued a final rule that altered the way it calculates federal deposit insurance assessment rates beginning in the second quarter of 2009. Under the rule, the FDIC first establishes an institution's initial base assessment rate according to the institution’s risk classification, which is determined through examination and other supervisory information, this initial base assessment rate ranges, depending on the risk category of the institution, from 12 to 45 basis points. The FDIC then adjusts the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate are based upon an institution's levels of unsecured debt, secured liabilities and brokered deposits. The total base assessment rates, including possible adjustments, range from 7 to 77.5 basis points of the institution's deposits.

On May 22, 2009, the FDIC issued a final rule that, due to stress on the Deposit Insurance Fund, imposed a special five basis point assessment on each FDIC-insured depository institution's assets, minus its Tier 1 capital on June 30, 2009, which was collected on September 30, 2009. The special assessment was capped at 10 basis points of an institution's domestic deposits. That special assessment for First Federal of Northern Michigan amounted to $108,000.

The FDIC subsequently adopted a rule pursuant to which all insured depository institutions were required to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. The estimated prepayment assumed a 5% annual growth rate and a 3 basis point assessment increase in 2011 and 2012. That pre-payment, which was due on December 30, 2009, amounted to $1.4 million for First Federal of Northern Michigan. The pre-payment has been recorded as a prepaid expense at December 31. 2009 and will be amortized to expense over three years.

Most recently, the Dodd-Frank Act required the FDIC to revise its assessment procedures to base it on average total assets less tangible capital, rather than deposits. The FDIC has issued a final rule that will implement that directive effective April 1, 2011.

In addition to the FDIC assessments, the Financing Corporation (“FICO”) is authorized to impose and collect, with the approval of the FDIC, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the former Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended December 31, 2010, the annualized FICO assessment was equal to 1.04 basis points of domestic deposits maintained at an institution.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that might lead to termination of our deposit insurance.

Prohibitions Against Tying Arrangements. Federal savings banks are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the savings bank or its affiliates or not obtain services of a competitor of the savings bank.

Federal Home Loan Bank System. First Federal of Northern Michigan is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Indianapolis, First Federal of Northern Michigan is required to acquire and hold shares of capital stock in the Federal Home Loan Bank in specified amounts. As of December 31, 2010, First Federal of Northern Michigan was in compliance with this requirement.

Other Regulations

Interest and other charges collected or contracted for by First Federal of Northern Michigan are subject to state usury laws and federal laws concerning interest rates. First Federal of Northern Michigan's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of First Federal of Northern Michigan also are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;

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- Title III of The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (referred to as the "USA PATRIOT Act"), which significantly expanded the responsibilities of financial institutions, including savings and loan associations, in preventing the use of the American financial system to fund terrorist activities. Among other provisions, the USA PATRIOT Act and the related regulations of the OTS require savings associations operating in the United States to develop new anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Federal Reserve System

Federal Reserve Board regulations require savings banks to maintain non-interest-earning reserves against their transaction accounts, such as negotiable order of withdrawal and regular checking accounts. At December 31, 2010, First Federal of Northern Michigan was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the Office of Thrift Supervision.

The USA PATRIOT Act

The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. Certain provisions of the Act impose affirmative obligations on a broad range of financial institutions, including federal savings banks, like First Federal of Northern Michigan. These obligations include enhanced anti-money laundering programs, customer identification programs and regulations relating to private banking accounts or correspondence accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States).

First Federal of Northern Michigan has established policies and procedures to ensure compliance with the USA PATRIOT Act's provisions, and the impact of the USA PATRIOT Act on our operations has not been material.

Holding Company Regulation

First Federal of Northern Michigan Bancorp, Inc. is a unitary savings and loan holding company, subject to regulation and supervision by the Office of Thrift Supervision. The Office of Thrift Supervision has enforcement authority over First Federal of Northern Michigan Bancorp, Inc. and its non-savings institution subsidiaries. Among other things, this authority permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a risk to First Federal of Northern Michigan. Pursuant to the Dodd-Frank Act regulatory restructuring, the Office of Thrift Supervision's jurisdiction over savings and loan holding companies will be transferred to the Federal Reserve Board on July 21, 2011, subject to a possible six month extension.

Under prior law, a unitary savings and loan holding company generally had no regulatory restrictions on the types of business activities in which it could engage, provided that its subsidiary savings association was a qualified thrift lender. The Gramm-Leach-Bliley Act, however, restricts unitary savings and loan holding companies not existing on, or applied for before, May 4, 1999, to those activities permissible for financial holding companies or for multiple savings and loan holding companies. First Federal of Northern Michigan Bancorp, Inc. is not a grandfathered unitary savings and loan holding company and, therefore, is limited to the activities permissible for financial holding companies or for multiple savings and loan holding companies. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance, incidental to financial activities or complementary to a financial activity. A multiple savings and loan holding company is generally limited to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Office of Thrift Supervision, and certain additional activities authorized by Office of Thrift Supervision regulations.

Federal law prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from acquiring control of another savings institution or holding company thereof, without prior written approval of the Office of Thrift Supervision. It also prohibits the acquisition or retention of, with specified exceptions, more than 5% of the equity securities of a company engaged in activities that are not closely related to banking or financial in nature or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Office of Thrift Supervision must consider the financial and managerial resources and future prospects of the savings institution involved, the effect of the acquisition on the risk to the insurance fund, the convenience and needs of the community and competitive factors.

Unlike bank holding companies, savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments from tier 1 capital, such as trust preferred securities, that are currently includable for bank holding companies. There is a five year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before the capital requirements will apply to savings and loan holding companies. Also, the Federal Reserve Board's existing consolidated capital requirements for bank holding companies generally do not apply to holding companies of less than $500 million in consolidated assets. It is possible that a similar approach will be taken toward the savings and loan holding company capital requirements.

The Dodd-Frank Act also extends the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must promulgate regulations implementing the "source of strength" policy that requires holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted in response to public concerns regarding corporate accountability. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules requiring the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Federal Securities Laws

First Federal of Northern Michigan Bancorp, Inc.'s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. First Federal of Northern Michigan Bancorp, Inc. is subject to the information, proxy solicitation, insider trader restrictions and other requirements under the Securities Exchange of 1934.

First Federal of Northern Michigan Bancorp, Inc. common stock held by persons who are affiliates (generally officers, directors and principal stockholders) of First Federal of Northern Michigan Bancorp, Inc. may not be resold without registration or unless sold in accordance with certain resale restrictions. If First Federal of Northern Michigan Bancorp, Inc. meets specified current public information requirements, each affiliate of First Federal of Northern Michigan Bancorp, Inc. is able to sell in the public market, without registration, a limited number of shares in any three-month period.

TAXATION

Federal Taxation

General. First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to First Federal of Northern Michigan Bancorp, Inc. and First Federal of Northern Michigan.

Method of Accounting. For federal income tax purposes, First Federal of Northern Michigan currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its consolidated federal income tax returns. The Small Business Protection Act of 1996 eliminated the use of the reserve method of accounting for bad debt reserves by savings institutions, effective for taxable years beginning after 1995.

Bad Debt Reserves. Prior to the Small Business Protection Act of 1996, First Federal of Northern Michigan was permitted to establish a reserve for bad debts for tax purposes and to make annual additions to the reserve. These additions could, within specified formula limits, be deducted in arriving at First Federal of Northern Michigan's taxable income. As a result of the Small Business Protection Act, First Federal of Northern Michigan must use the specific charge-off method in computing its bad debt deduction for tax purposes.

Deferred Tax Asset Valuation. The Company records a valuation allowance against its deferred tax assets 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. Realization of the Company's deferred tax assets is primarily dependent upon the generation of a sufficient level of future taxable income. At December 31, 2010 the Company had a valuation allowance against its deferred tax assets of $3.2 million.

Taxable Distributions and Recapture. Prior to the Small Business Protection Act of 1996, bad debt reserves created prior to 1988 were subject to recapture into taxable income if First Federal of Northern Michigan failed to meet certain thrift asset and definitional tests. The Small Business Protection Act of 1996 eliminated these thrift-related recapture rules. However, under current law, pre-1988 reserves remain subject to tax recapture should First Federal of Northern Michigan make certain distributions from its tax bad debt reserve or cease to maintain a bank charter. At December 31, 2010, First Federal of Northern Michigan's total federal pre-1988 reserve was approximately $60,000. This reserve reflects the cumulative effects of federal tax deductions by First Federal of Northern Michigan for which no federal income tax provision has been made.

Minimum Tax. The Internal Revenue Code of 1986, as amended, imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences ("alternative minimum taxable income" or "AMTI"). The alternative minimum tax is payable to the extent such AMTI is in excess of an exemption amount. Net operating losses can, in general, offset no more than 90% of AMTI. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. First Federal of Northern Michigan has not been subject to the alternative minimum tax and has no such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. At December 31, 2010, First Federal of Northern Michigan had a net operating loss of approximately $7.6 million which it may carry forward for federal income tax purposes.

Corporate Dividends. We may exclude from our income 100% of dividends received from First Federal of Northern Michigan as a member of the same affiliated group of corporations.

The federal income tax returns of First Federal of Northern Michigan Bancorp, Inc. and its predecessor, Alpena Bancshares, Inc. have not been audited by the Internal Revenue Service in the last five fiscal years.

State and Local Taxation

During 1999, the State of Michigan enacted legislation that resulted in elimination of the Michigan single business tax by gradually phasing it out over the next 23 years. On August 9, 2006, the Michigan Legislature approved the repeal of the Michigan SBT for tax years beginning after December 31, 2007. The Michigan SBT has been replaced with the

Michigan Business Tax (MBT). Financial Institutions are subject to a component of the MBT, the Financial Institutions Tax, which is based on capital rather than taxable earnings.

Other applicable state taxes include generally applicable sales, use and real property taxes.

As a Maryland business corporation, First Federal of Northern Michigan Bancorp, Inc. is required to file annual returns with and pay annual fees to the State of Maryland.

ITEM 1A. RISK FACTORS

An investment in our common stock involves risk. You should carefully consider the risks described below and all other information contained in this annual report on Form 10-K before you decide to buy our common stock. It is possible that risks and uncertainties not listed below may arise or become material in the future and affect our business.

A Prolonged Economic Downturn, Especially One Affecting Our Geographic Market Area, Could Continue to Materially Affect our Business and Financial Results.

The United States economy entered a recession in the fourth quarter of 2007. Our principal market area, Northern Michigan, has also experienced an economic downturn, which has been more severe than than in the United States generally. Throughout the course of 2008, 2009 and 2010, economic conditions continued to worsen, due in large part to the fallout from the collapse of the sub-prime mortgage market. While we did not originate or invest in sub-prime mortgages, our lending business is tied, in large part, to the housing market. Declines in home prices, increases in foreclosures and higher unemployment have adversely affected the credit performance of real estate-related loans, resulting in the write-down of asset values. The continuing housing slump also has resulted in reduced demand for the construction of new housing, further declines in home prices, and increased delinquencies on our construction, residential and commercial mortgage loans. Further, the ongoing concern about the stability of the financial markets in general has caused many lenders to reduce or cease providing funding to borrowers. These conditions may also cause a further reduction in loan demand, and increases in our non-performing assets, net charge-offs and provisions for loan losses.

The Company's success depends primarily on the general economic conditions of the State of Michigan and the specific local markets in which the Company operates. The local economic conditions in these local markets have a significant impact on the demand for the Company’s products and services as well as the ability of the Company’s customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources. Economic conditions experienced in the State of Michigan have been more adverse than in the United States generally, and these conditions are not expected to significantly improve in the near future. Unemployment has increased significantly. A further economic downturn or continued weak business environment within Michigan could further negatively impact household and corporate incomes. A majority of the Company's loans are to individuals and businesses in Michigan. Consequently, any further or prolonged decline in Michigan’s economy could have a materially adverse effect on the Company's financial condition and results of operations. A significant further decline or a prolonged period without improvement in general economic conditions, whether caused by recession, inflation, unemployment, changes in securities markets, acts of terrorism, other international or domestic occurrences or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Company's financial condition and results of operations.

Future Changes in Interest Rates Could Reduce Our Profits.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and

- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many savings institutions, our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called or prepaid thereby requiring us to reinvest those cash flows at lower interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Management of Interest Rate Risk."

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2010, the fair value of our available-for-sale securities portfolio, consisting of agency securities, mortgage-backed securities, corporate debt obligations and municipal obligations, totaled $35.3 million. Unrealized net gains on these available-for-sale securities totaled $221,000 at December 31, 2010 and are reported as a separate component of stockholders' equity. Decreases in the fair value of securities available for sale in future periods would have an adverse effect on stockholders' equity.

We evaluate interest rate sensitivity using income simulation models that estimate the change in our net interest income over a range of interest rate scenarios. Net income at risk measures the risk of a decline in earnings due to potential short-term and long-term changes in interest rates. At December 31, 2010, the latest date for which such information is available, in the event of an immediate 200 basis point increase in interest rates, the model projects that we would experience a 0.29% decrease in net interest income over the following 24 months, assuming a static balance sheet environment.

As a Result of Our Previous Emphasis on Originating Commercial Real Estate and Commercial Business Loans, Our Credit Risk Has and Will Continue to Increase. Continued Weakness or a Deeper Downturn in the Real Estate Market and Local Economy Could Adversely Affect Our Earnings.

At December 31, 2010, our portfolio of commercial real estate loans totaled $57.7 million, or 36.0% of our total loans, our portfolio of commercial business loans totaled $8.8 million, or 5.5% of our total loans, and our portfolio of commercial construction loans totaled $3.3 million or 2.0% of our total loans. These loans have increased as a percentage of our total loan portfolio in recent years and generally have more risk than one- to four-family residential mortgage loans. Because the repayment of commercial real estate and commercial business loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. Many of our borrowers also have more than one commercial real estate or commercial business loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate or commercial business loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

We Have Participated in Commercial Real Estate, Residential Real Estate and Construction Loans Secured by Real Estate Located Outside of Michigan, Which Expose Us to Increased Lending Risks.

Beginning in 2007, because of weak market conditions and weak demand for loans in our primary market area, and in an effort to diversify our loan portfolio, we began participating in commercial real estate, residential real estate and construction loans originated by other financial institutions and secured by real estate located outside of Michigan. As of December 31, 2010, $11.7 million of our loans were participations in commercial real estate and construction loans secured by real estate outside of Michigan. As of December 31, 2010 $1.8 million of these loans were considered non-performing. Of our $2.1 million in loan charge-offs in 2010, $575,000 were loans secured by real estate located outside of Michigan. Such loans expose us to increased lending risk because, unlike loans that we originate in our market, we may be unfamiliar with the collateral securing such loans and the market conditions affecting the borrower, and we generally do not have face-to-face contact with the borrowers on such loans.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Our allowance for loan losses was 1.77% of total loans and 42.85% of non-performing loans at December 31, 2010, compared to 2.09% of total loans and 31.05% of non-performing loans at December 31, 2009. Material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our financial condition and results of operations.

Financial Reform Legislation Recently Enacted by Congress Will, Among Other Things, Eliminate the Office of Thrift Supervision, Tighten Capital Standards, Create a New Consumer Financial Protection Bureau and Result in New Laws and Regulations That Are Expected to Increase Our Costs of Operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), will significantly change the current bank regulatory structure and affect the lending, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act will eliminate our current primary federal regulator, the Office of Thrift Supervision, and require the Bank to be regulated by the Office of the Comptroller of the Currency (the primary federal regulator for national banks). The Dodd-Frank Act also authorizes the Board of Governors of the Federal Reserve System to supervise and regulate all savings and loan holding companies, like the Company, in addition to bank holding companies which it currently regulates. Bank holding companies with assets of less than $500 million are exempt from these capital requirements. These capital requirements are substantially similar to the capital requirements currently applicable to the Bank, as described in "Supervision and Regulation—Federal Banking Regulation—Capital Requirements." The Dodd-Frank Act also requires the Federal Reserve Board to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository institutions, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. Savings and loan holding companies are subject to a five year transition period before the holding company capital requirements will become applicable. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect today, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as the Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets will be examined by their applicable bank regulators. The new legislation also weakens the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

In addition, the Dodd-Frank Act will increase stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation (although the Company will not be subject to this requirement until 2013) and so-called "golden parachute" payments, and by authorizing the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate and solicit votes for their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

It is difficult to predict at this time what impact the new legislation and implementing regulations will have on community banks, including the lending and credit practices of such banks. Moreover, many of the provisions of the Dodd-Frank Act are not yet in effect, and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be determined at this time, it is expected that the legislation and implementing regulations, particularly those provisions relating to the new Consumer Financial Protection Bureau and mutual holding company dividend waivers, will increase our operating and compliance costs and restrict our ability to pay dividends, respectively.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. We compete for deposits, loans and other financial services with numerous Michigan-based banks, thrifts, credit unions and other financial institutions as well as other entities which provide financial services. Some of these competitors are not subject to the same regulatory restrictions, have advantages of scale due to their size, or have cost advantages due to their tax status. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets.

Our Future Growth May Require Us to Raise Additional Capital in the Future, But That Capital May Not Be Available When It Is Needed.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. We believe that our current capital levels will satisfy our regulatory requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth. Our ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we may be unable to raise additional capital, if and when needed, on terms acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired. In addition, if we decide to raise additional equity capital, your interest in our common stock could be diluted.

We Have Suspended our Common Stock Cash Dividend.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

As of December 31, 2010, First Federal of Northern Michigan owned its main office and all of its branch offices. The following is a list of our locations:

Main Office

100 South Second Avenue
Alpena, Michigan 49707

Main Office – Annex Building

123 S Second Ave
Alpena, MI 49707

Branch Offices

300 South Ripley Boulevard
Alpena, Michigan 49707

2885 South County Road #489
Lewiston, Michigan 49756

6232 River Street
Alanson, Michigan 49706

308 North Morenci
Mio, Michigan 48647

101 South Main Street
Cheboygan, Michigan 49721

201 North State Street
Oscoda, Michigan 48750

1000 South Wisconsin
Gaylord, Michigan 49735

ITEM 3. LEGAL PROCEEDINGS

The Company and the Bank are periodically involved in claims and lawsuits that are incident to their business. At December 31, 2010, neither the Company nor the Bank was involved in any claims or lawsuits material to their respective businesses.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) First Federal of Northern Michigan Bancorp, Inc.'s common stock is traded on the Nasdaq Capital Market under the symbol "FFNM."

As of December 31, 2010 there were 2,884,049 shares of First Federal of Northern Michigan Bancorp, Inc. common stock outstanding. At December 31, 2010, First Federal of Northern Michigan Bancorp, Inc. had approximately 600 stockholders of record. The remaining information required by this item is incorporated by reference to Exhibit 13, the Company's Annual Report to Stockholders.

No equity securities were sold during the year ended December 31, 2010 that were not registered under the Securities Act.

(b) Not Applicable

(c) First Federal of Northern Michigan Bancorp, Inc. did not repurchase any of its equity securities during the quarter ended December 31, 2010.

ITEM 6. SELECTED FINANCIAL DATA

Not required for smaller reporting companies.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated by reference to Exhibit 13, the Company's Annual Report to Stockholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information contained in the section captioned "Financial Statements" is incorporated by reference to Exhibit 13, the Company's Annual Report to Shareholders.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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, is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms and in timely alerting them to material information relating to the Company (or its consolidated subsidiaries) required to be included in its periodic SEC filings.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management of First Federal of Northern Michigan Bancorp, Inc. and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's system of internal control is designed under the supervision of management, including our Chief Executive Officer and Chief Financial Officer, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles ("GAAP").

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are made only in accordance with the authorization of management and the Board of Directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections on any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate.

As of December 31, 2010, management assessed the effectiveness of the Company's internal control over financial reporting based upon the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon its assessment, management believes that the Company's internal control over financial reporting as of December 31, 2010 is effective using these criteria. This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission applicable to smaller reporting companies that permit the Company to provide only management's report in this annual report.

(c) Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Information concerning directors and executive officers is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Proposal I—Election of Directors."

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the Company’s Proxy Statement, specifically the section captioned "Proposal I—Election of Directors.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning security ownership of certain owners and management is incorporated herein by reference from the Company's Proxy Statement, specifically the Section captioned "Proposal I – Election of Directors."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information concerning relationships and transactions is incorporated herein by reference from the Company's Proxy Statement, specifically the section captioned "Transactions with Certain Related Persons".

ITEM 14.PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning principal accountant fees and services is incorporated herein by reference to the Company's Proxy Statement, specifically the section captioned "Proposal II – Ratification of Appointment of Auditors."

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The exhibits filed as a part of this form 10-K are as follows:

3.1	Articles of Incorporation of First Federal of Northern Michigan Bancorp, Inc.*
3.2	Bylaws of First Federal of Northern Michigan Bancorp, Inc.*
4	Form of Common Stock Certificate of First Federal of Northern Michigan Bancorp, Inc.*
10.1	Change in Control Agreements*
10.2	1996 Stock Option Plan*
10.3	1996 Recognition and Retention Plan*
10.4	2006 Stock-Based Incentive Plan**
13	Annual Report to Shareholders
14	Code of Ethics ***
21	Subsidiaries of Registrant
23	Consent of Plante & Moran PLLC
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Incorporated by reference to the Registration Statement on Form SB-2 of First Federal of Northern Michigan Bancorp, Inc. (Registration No. 333-121178), originally filed with the Commission on December 10, 2004.

** Incorporate by reference to the Definitive Proxy materials filed on April 10, 2006 (No. 000-31957).

*** Incorporated by reference to the Annual Report on Form 10-K of Alpena Bancshares, Inc. filed with the Commission on March 30, 2004 (Registration No. 000-31957).

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
Chief Executive Officer

Date: March 25, 2011

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/Michael W. Mahler
Michael W. Mahler, Director and
Chief Executive Officer
(Principal Executive Officer)
Date: March 25, 2011

By: /s/Amy E. Essex
Amy E. Essex, Chief Financial Officer,
Treasurer and
Corporate Secretary
(Principal Financial and Accounting Officer)
Date: March 25, 2011

By: /s/Martin A. Thomson
Martin A. Thomson, Chairman

Date: March 25, 2011

By: /s/Keith Wallace
Keith Wallace, Director

Date: March 25, 2011

By: /s/GaryVanMassenhove
Gary VanMassenhove, Director

Date: March 25, 2011

By: /s/Thomas R. Townsend
Thomas R. Townsend, Director

Date: March 25, 2011

By: /s/James C. Rapin
James C. Rapin, Director

Date: March 25, 2011