First Federal of Northern Michigan Bancorp, Inc.
Form 10-Q
August 14, 2008

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

OR

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

For the transition period from __________ to __________

Commission File Number 000-31957

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

MARYLAND	32-0135202
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 S. SECOND AVENUE, ALPENA, MICHIGAN	49707
(Address of principal executive offices)	(Zip Code)

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

NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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 in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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

Common Stock, Par Value $0.01	Outstanding at August 6, 2008
(Title of Class)	2,884,249 shares

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-Q
QUARTER ENDED JUNE 30, 2008

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When used in this Form 10-Q or future filings by First Federal of Northern Michigan Bancorp, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or

stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

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

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

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	$ 4,480,257	$ 3,567,858
Overnight deposits with FHLB	2,178,114	1,772,999
Total cash and cash equivalents	6,658,371	5,340,857
Securities AFS	22,936,299	20,680,913
Securities HTM	4,076,769	2,770,000
Loans receivable, net of allowance for loan losses of $2,863,864 and $4,013,454 as of June 30, 2008 and December 31, 2007, respectively	195,083,817	201,333,427
Foreclosed real estate and other repossessed assets	998,229	1,279,543
Federal Home Loan Bank stock, at cost	4,196,900	4,196,900
Premises and equipment	7,310,029	7,619,016
Accrued interest receivable	1,504,977	1,699,706
Intangible assets	1,595,307	2,093,735
Goodwill	1,408,604	1,396,854
Other assets	2,344,398	2,420,340
Total assets	$248,113,700	$250,831,292
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$167,225,179	$164,469,673
Advances from borrowers for taxes and insurance	267,694	729
Federal Home Loan Bank advances and Note Payable	47,968,651	52,683,795
Accrued expenses and other liabilities	706,629	1,173,550

Total liabilities	216,168,153	218,327,747
Stockholders' equity:		
Common stock ($0.01 par value 20,000,000 shares authorized 3,191,999 shares issued)	31,920	31,920
Additional paid-in capital	24,367,111	24,327,466
Retained earnings	11,845,294	12,416,364
Treasury stock at cost (307,750 shares)	(2,963,918)	(2,963,918)
Unallocated ESOP	(908,431)	(958,651)
Unearned compensation	(348,648)	(414,549)
Accumulated other comprehensive (loss) income	(77,781)	64,913
Total stockholders' equity	31,945,547	32,503,545
Total liabilities and stockholders' equity	$248,113,700	$250,831,292

See accompanying notes to consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For the Three Months Ended June 30,		For the Si Ended J
	2008	2007	2008
	(Unaudited)		(Unaud
Interest income:			
Interest and fees on loans	3,143,876	3,601,249	$6,418,423
Interest and dividends on investments	239,668	434,649	516,245
Interest on mortgage-backed securities	107,892	21,558	146,292
Total interest income	3,491,436	4,057,456	7,080,960
Interest expense:			
Interest on deposits	1,241,813	1,377,441	2,536,265
Interest on borrowings	548,412	737,095	1,121,331
Total interest expense	1,790,225	2,114,536	3,657,596
Net interest income	1,701,211	1,942,921	3,423,364
Provision for loan losses	342,264	113,351	367,234
Net interest income after provision for loan losses	1,358,947	1,829,570	3,056,130
Non Interest income:			
Service charges and other fees	237,110	215,961	463,285
Mortgage banking activities	125,912	111,547	230,718
(Loss) gain on sale of available-for-sale investments	--	(96,655)	16,052
Net gain (loss) on sale of premises and equipment, real estate owned and other repossessed assets	25,894	(10,585)	23,093
Other	26,251	13,409	49,281

Insurance & Brokerage Commissions	407,166	649,179	1,017,197
Total non interest income	822,333	882,856	1,799,626
Non interest expenses:			
Compensation and employee benefits	1,432,159	1,522,100	2,909,596
SAIF Insurance Premiums	32,607	5,367	51,795
Advertising	41,500	44,802	81,146
Occupancy	377,690	376,323	723,067
Amortization of intangible assets	100,162	123,314	225,164
Service Bureau Charges	85,716	87,640	168,085
Insurance & Brokerage Commission Expense	87,166	233,398	311,043
Professional Services	109,018	90,627	201,366
Other	292,630	620,555	609,443
Total non interest expenses	2,558,648	3,104,126	5,280,705
Loss before income tax benefit	(377,368)	(391,700)	(424,949)
Income tax benefit	(126,381)	(155,302)	(142,304)
Net loss	$ (250,987)	$ (236,398)	$ (282,645)
Per share data:			
Basic loss per share	$ (0.09)	$ (0.08)	$ (0.10)
Weighted average number of shares outstanding	2,884,249	2,900,329	2,884,249
Diluted loss per share	$ (0.09)	$ (0.08)	$ (0.10)
Weighted average number of shares outstanding, including dilutive stock options	2,884,249	2,900,329	2,884,249
Dividends per common share	$ 0.050	$ 0.050	$ 0.100

See accompanying notes to consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP INC. AND SUBSIDIARIES
Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Una
Balance at December 31, 2007	$31,920	$(2,963,918)	$ 24,327,466	$(414,549)	$12,416,364	$(
Stock Options/Awards Expensed	--	--	53,907	65,901	--	
Unallocated ESOP	--	--	(14,262)	--	--	
Net loss for the period	--	--	--	--	(282,645)	
Changes in unrealized gain: on available-for-sale securities (net of tax of $75,509)	--	--	--	--	--	
Total comprehensive income	--	--	--	--	--	
Dividends declared	--	--	--	--	(288,425)	
Balance at June 30, 2008	$31,920	$(2,963,918)	$ 24,367,111	$(348,648)	$11,845,294	$(

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See accompanying notes to the consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For Six Months En June 30,	
	2008	20
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$ (282,645)	$ (2
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	521,605	5
Provision for loan loss	367,234	1
Amortization and accretion on securities	24,316	
(Gain) or loss on sale of securities	(16,052)	
Originations of loans held for sale	(7,153,244)	(7,2
Principal amount of loans sold	7,223,402	7,0
Proceeds from sale of real estate held for investment	565,265	
Loss or (gain) on sale of real estate held for sale	273,264	
Proceeds from sale of premises and equipment	169,550	
(Gain) or loss on sale of premises and equipment	(23,093)	
Change in accrued interest receivable	194,729	3
Change in other assets	(223,190)	1
Change in accrued expenses and other liabilities	(466,921)	(6
Stock options/awards expensed	119,808	
Net cash provided by operating activities	1,294,028	5
Net decrease in loans	5,882,376	4,9
Proceeds from maturity and sale of available-for-sale securities	14,253,091	11,5
Purchase of securities	(18,039,713)	(1,0
Purchase of premises and equipment	(127,129)	(3
Net cash provided by investing activities	1,968,625	15,1
Net decrease (increase) in deposits	2,755,506	(7,5
Dividend paid on common stock	(288,425)	(2
ESOP shares committed to be released	35,958	
Net increase in advances from borrowers	266,966	2
Additions to advances from Federal Home Loan Bank and notes payable	12,200,000	22,5
Repayments of Federal Home Loan Bank advances and notes payable	(16,915,144)	(29,8
Purchase of treasury shares	--	(1,3
Net cash used in financing activities	(1,945,139)	(16,2
Net increase (decrease) in cash and cash equivalents	1,317,514	(5
Cash and cash equivalents at beginning of period	5,340,857	4,9

Cash and cash equivalents at end of period	$ 6,658,371	$ 4,4
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ --	$ 1
Cash paid during the period for interest	$ 3,800,874	$ 4,3

See accompanying notes to the consolidated financial statements.

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting and include the accounts of First Federal of Northern Michigan Bancorp, Inc. and its wholly owned subsidiary, First Federal of Northern Michigan (the "Bank") and the Bank's wholly owned subsidiaries Financial Service and Mortgage Corporation ("FSMC") and the InsuranCenter of Alpena ("ICA"). FSMC invests in real estate that includes leasing, selling, developing, and maintaining real estate properties. ICA is a licensed insurance agency engaged in the business of property, casualty and health insurance. All significant intercompany balances and transactions have been eliminated in the consolidation.

These interim financial statements are prepared without audit and reflect all adjustments, which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at June 30, 2008, and its results of operations and statement of cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary and should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Annual Report for the year ended December 31, 2007. Results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

CRITICAL ACCOUNTING POLICIES

Our accounting and reporting policies are prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. We consider accounting policies that require significant judgment and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. Changes in underlying factors, assumptions or estimates could have a material impact on our future financial condition and results of operations. Based on the size of the item or significance of the estimate, the following accounting policies are considered critical to our financial results.

Allowance for Loan Losses. The allowance for loan losses is calculated with the objective of maintaining an allowance sufficient to absorb estimated

probable loan losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio and other relevant factors. However, this evaluation is inherently subjective, as it requires an estimate of the loss content for each risk rating and for each impaired loan, an estimate of the amounts and timing of expected future cash flows, and an estimate of the value of collateral.

We have established a systematic method of periodically reviewing the credit quality of the loan portfolio in order to establish an allowance for losses on loans. The allowance for losses on loans is based on our current judgments about the credit quality of individual loans and segments of the loan portfolio. The allowance for losses on loans is established through a provision for loan losses based on our evaluation of the losses inherent in the loan portfolio, and considers all known internal and external factors that affect loan collectibility as of the reporting date. Our evaluation, which includes a review of all loans on which full collectibility may not be reasonably assured, considers among other matters, the estimated net realizable value or the fair value of the underlying collateral, economic conditions, historical loan loss experience, our knowledge of inherent losses in the portfolio that are probable and reasonably estimable and other factors that warrant recognition in providing an appropriate loan loss allowance. Management believes this is a critical accounting policy because this evaluation involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters. Historically, we believe our estimates and assumptions have proven to be relatively accurate.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze delinquency trends, which have remained stable, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. The principal assumption used in deriving the allowance for loan losses is the estimate of loss content for each risk rating. As an example, if recent loss experience dictated that the projected loss ratios would be changed by 10% (of the estimate) across all risk ratings, the allocated allowance as of June 30, 2008 would have changed by approximately $261,000. Actual loan losses may be significantly more than the allowances we have established, which could have a material negative effect on our financial results.

Mortgage Servicing Rights. We sell to investors a portion of our originated one- to four-family residential real estate mortgage loans. When we acquire mortgage servicing rights through the origination and sale of mortgage 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 June 30, 2008, we were servicing loans sold to others totaling $130.1 million. We amortize capitalized mortgage servicing rights as a reduction of servicing fee income in proportion to, and over the period of, estimated net servicing income by use of a method that approximates the level-yield method. We periodically evaluate capitalized mortgage servicing rights for impairment using a model that takes into account several variables including expected prepayment speeds and prevailing interest rates. If we identify impairment, we charge the amount of the impairment to earnings by establishing a valuation allowance

against the capitalized mortgage servicing rights asset. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speed. We monitor this risk and adjust the valuation allowance as necessary to adequately record any probable impairment in the portfolio. Management believes the estimation of these variables makes this a critical accounting policy. For purposes of measuring impairment, the mortgage servicing rights are stratified based on financial asset type and interest rates. In addition, we obtain an independent third-party valuation of the mortgage servicing portfolio on a quarterly basis. In general, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increase as interest rates rise and decrease as interest rates fall. The key economic assumptions made in determining the fair value of the mortgage servicing rights at June 30, 2008 included the following:

Annual constant prepayment speed (CPR):	11.09%
Weighted average life remaining (in months):	243
Discount rate used:	8.00%

At the June 30, 2008 valuation, we calculated the value of our mortgage servicing rights to be $1.3 million and the weighted average life remaining of those rights was 47 months. The book value of our mortgage servicing rights as of June 30, 2008 was $464,000, which was $836,000 less than the independent valuation, so there was no need to establish a valuation allowance.

Impairment of Intangible Assets. Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. The fair value of goodwill is dependent upon many factors, including our ability to provide quality, cost-effective services in the face of competition. Because of these many factors, management believes this is a critical accounting policy. A decline in earnings as a result of business or market conditions or a run-off of customers over sustained periods could lead to an impairment of goodwill that could adversely affect earnings in future periods.

A significant portion of our intangible assets, including goodwill, relates to the acquisition premiums recorded with the purchase of the ICA and certain branches over the last several years. Intangible assets are reviewed periodically for impairment by comparing the fair value of the intangible asset to the book value of the intangible asset. If the book value is in excess of the fair value, impairment is indicated and the intangibles must be written down to their fair value.

In connection with our acquisition in 2003 of ICA, we allocated the excess of the purchase price paid over the fair value of net assets acquired to intangible assets, including goodwill. These intangible assets included the ICA customer list and a third-party contract to which ICA is a party. From the date of acquisition through April 30, 2005 we amortized the value assigned to the customer list and contract over a period of 20 years. Effective May 1, 2005, one of the former owners of ICA retired, requiring an evaluation of the impact that this retirement could have on both the customer list intangible and an exclusive Blue Cross-Blue Shield ("BCBS") contract. Management determined that the retirement could open the door for BCBS to re-negotiate the exclusive contract,

including the possibility that the contract could be terminated. In addition, Management considered the possibility that the customer base could deteriorate as a result of the retirement. Management made assumptions based on this uncertainty and estimated the impact this could have on long-term cash flows. Management did not believe there was uncertainty with respect to near-term cash flows. Based on the guidance of SFAS 142, management prospectively changed the amortization for these assets based on our new expectations. At that point, the remaining useful life of the assets was determined to be 10 years. Despite the decrease in estimated useful lives, cash flows from these assets have not deteriorated. On April 1, 2008, the Company, through its wholly owned subsidiary, the InsuranCenter of Alpena ("ICA"), sold to the Grotenhuis Group (a managing agent for Blue Cross Blue Shield of Michigan) for $300,000 the rights to service insurance contracts and collect commissions on such contracts written through local Chambers of Commerce located in an 11-county area in northeast Michigan. As part of the transaction, certain employees of ICA transferred to the Grotenhuis Group to service the contracts. In connection with this sale, the Company wrote-off the remaining intangible asset related to this contract, which carried a book value of $273,000.

Goodwill was created in both the 2003 ICA transaction and the 2005 customer list purchase. Goodwill will not be amortized but tested annually for impairment. Annual tests of impairment have included obtaining third party sales multiple information for comparable companies. The mean of the multiples is applied to annual net sales of ICA and added to the value of tangible assets less current liabilities. This value is then compared to the current book value of Goodwill, Intangibles, and Investment in ICA. Each year this analysis has indicated no impairment of Goodwill exists. The $900,000 of payments made under the earn-out agreement in the ICA transaction were added to goodwill as was $59,000 in earn-out payments accrued in 2007 and 2006 related to the 2005 customer list purchase.

We have in the past purchased a branch or branches from other financial institutions. Our analysis of these branch acquisitions led us to conclude that in each case, we acquired a business and therefore, the excess of purchase price over fair value of net assets acquired has been allocated to core deposit intangible assets. Our conclusion was based on the fact that in each case we acquired employees, customers and branch facilities. The expected life for core deposit intangibles is based on the type of products acquired in an acquisition. The amortization periods range from 10 to 15 years and are based on the expected life of the products. The expected life was determined based on an analysis of the life of similar products within the Company and local competition in the markets where the branches were acquired. The core deposit intangibles are amortized on a straight line basis. The core deposit intangible is analyzed quarterly for impairment.

FAS 157 -- Fair Value Measurements. The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at June 30, 2008, and the valuation techniques used by the Company to determine those fair values.

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

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

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

asset or liability.

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

Disclosures concerning assets and liabilities measured at fair value are as follows:

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS AT JUNE 30, 2008
(DOLLARS IN THOUSANDS)

	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3
ASSETS			
Investment securities- available-for-sale	$22,936	$--	$--
LIABILITIES			
None			

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets include held-to-maturity investments and loans. For the assets valued using Level 3 inputs, the Company has estimated the fair value using Level 3 inputs using discounted cash flow projections. For the three- and six- months ended June 30, 2008, the Company recognized non-cash impairment charges to adjust these assets to their estimated fair values of $325,000 and $404,000, respectively.

ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS
(DOLLARS IN THOUSANDS)

	BALANCE AT JUNE 30, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TO P JU
ASSETS					
Investments- held-to-maturity	$4,077	$--	$4,077	$ --	
Impaired loans accounted for under FAS 114	$6,679	$--		$6,679	

Impaired loans accounted for under FAS 114 categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. The assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

Other assets, including bank-owned life insurance, goodwill, intangible assets and other assets acquired in business combinations, are also subject to periodic assessments under other accounting principles generally accepted in the United States of America. These assets are not considered financial instruments. Effective February 12, 2008, the FASB issued a staff position, FSP FAS 157-2, which delayed the applicability of FAS 157 to non-financial instruments. Accordingly, these assets have been omitted from the above disclosures.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations ("FAS 141(R)"), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of this standard will have on the Company's results of operations.

In December 2007, the FASB issued FAS No. 160, Non-controlling Interests in Consolidated Financial Statements -- an amendment of ARB No. 51. FAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. FAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the impact the adoption of this standard will have on the Company's results of operations.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11 ("EITF 06-11"), Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. EITF 06-11 applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified non-vested shares, (b) dividend equivalents on equity-classified non-vested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under FAS No. 123R, Share-Based Payment, and result in an

income tax deduction for the employer. A consensus was reached that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified non-vested equity shares, non-vested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of this standard will have on the Company's results of operations.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, to require enhanced disclosures about derivative instruments and hedging activities. The new standard has revised financial reporting for derivative instruments and hedging activities by requiring more transparency about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS No. 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires entities to provide more information about their liquidity by requiring disclosure of derivative features that are credit risk-related. Further, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact the adoption of this standard will have on the Company's results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. generally accepted accounting principles (GAAP). SFAS No. 162 directs the GAAP hierarchy to the entity, not the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to remove the GAAP hierarchy from the auditing standards. We do not expect SFAS No. 162 to have a material effect on our consolidated results of operations or financial position upon adoption.

NOTE 2--DIVIDENDS.

Payment of dividends on the common stock is subject to determination and declaration by the Board of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company's results of operations and financial condition, tax considerations and general economic conditions.

On June 17, 2008, the Company declared a cash dividend on its common stock, payable on or about July 18, 2008, to shareholders of record as of June 30, 2008, equal to $0.05 per share. The dividend on all shares outstanding totaled $144,212.

NOTE 3--1996 STOCK OPTION PLAN, 1996 RECOGNITION AND RETENTION PLAN AND 2006 STOCK-BASED INCENTIVE PLAN.

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

During the three and six months ended June 30, 2008, the Company awarded no shares or options under the Plans. Shares issued under the RRP and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

STOCK OPTIONS - A summary of option activity under the Plans during the six months ended June 30, 2008 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	196,992	$9.48		
Granted	0	N/A		
Exercised	0	N/A		
Forfeited or expired	(4,710)	$9.56		
Oustanding at June 30, 2008	192,282	$9.48	7.76	$0
Exercisable at June 30, 2008	79,118	$9.41	7.46	$0

A summary of the status of the Company's nonvested options as of June 30, 2008, and changes during the six months ended June 30, 2008, is presented below:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2008	154,400	$2.10
Granted	0	N/A
Vested	(36,526)	$2.11
Forfeited	(4,710)	$2.11

Nonvested at June 30, 2008	113,164	$2.10

As of June 30, 2008 there was $247,000 of total unrecognized compensation cost, net of expected forfeitures, related to nonvested options under the Plans. That cost is expected to be recognized over a weighted-average period of 3.0 years. The total fair value of options vested during the six months ended June 30, 2008 was $75,225.

RESTRICTED STOCK AWARDS - As of June 30, 2008 there was $356,000 of unrecognized compensation cost related to nonvested restricted stock awards under the Plans. That cost is expected to be recognized over a weighted-average period of 3.0 years.

NOTE 5 -- COMMITMENTS TO EXTEND CREDIT

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, stand-by letters of credit, and commercial lines of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet. The Company's exposure to credit loss is represented by the contracted amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At June 30, 2008, the Company had outstanding commitments to originate loans of $33.6 million. These commitments included $7.9 million for permanent one-to-four family dwellings, $3.1 million for non-residential loans, $600,000 of undisbursed loan proceeds for construction of one-to-four family dwellings,

$6.5 million of undisbursed lines of credit on home equity loans, $1.4 million of unused credit card lines, $10.8 million of unused commercial lines of credit, $1.5 million of undisbursed loans for commercial construction, $50,000 of unused letters of credit and $1.7 million in unused Bounce Protection.

NOTE 6 -- SEGMENT REPORTING

The Company's principal activities include banking through its wholly owned subsidiary, First Federal of Northern Michigan, and the sale of insurance products through its indirect wholly owned subsidiary, ICA, purchased in 2003. The Bank provides financial products including retail and commercial loans as well as retail and commercial deposits. ICA receives commissions from the sale of various insurance products including health, life, and property. The segments were determined based on the nature of the products provided to customers.

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

segment's financial condition and results of operations if they were independent entities.

	For the Three Months Ended June 30, 2008 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 3,492	$ 13	$ (9)	$ 3,
INTEREST EXPENSE	1,806	(2)	(9)	1,
NET INTEREST INCOME - Before provision for loan losses	1,686	15	--	1,
PROVISION FOR LOAN LOSSES	342	--	--	
NET INTEREST INCOME - After provision for loan losses	1,344	15	--	1,
OTHER INCOME	413	410	--	
OPERATING EXPENSES	2,145	414	--	2,
INCOME (LOSS) - Before federal income tax expense (benefit)	(388)	11	--	
FEDERAL INCOME TAX EXPENSE (BENEFIT)	(130)	4	--	
NET INCOME (LOSS)	$ (258)	$ 7	$ --	$
DEPRECIATION AND AMORTIZATION	$ 187	$ 86	$ --	$
ASSETS	$243,853	$5,459	$(1,198)	$248,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	98	--	--	
TOTAL	$ 98	$ --	$ --	$

	For the Three Months Ended June 30, 2007 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 4,058	$ 5	$ (5)	$ 4,
INTEREST EXPENSE	2,118	2	(5)	2,
NET INTEREST INCOME - Before provision for loan losses	1,940	3	--	1,
PROVISION FOR LOAN LOSSES	114	--	--	
NET INTEREST INCOME - After provision for loan losses	1,826	3	--	1,

OTHER INCOME	226	657	--	
OPERATING EXPENSES	2,425	679	--	3,
LOSS - Before federal income tax benefit	(373)	(19)	--	(
FEDERAL INCOME TAX BENEFIT	(148)	(7)	--	
NET INCOME	$ (225)	$ (12)	$ --	$ (
DEPRECIATION AND AMORTIZATION	$ 189	$ 86	$ --	$
ASSETS	$260,371	$4,468	$(721)	$264,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	255	7	--	
TOTAL	$ 255	$ 7	$ --	$

	For the Six Months Ended June 30, 2008 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 7,081	$ 22	$ (22)	$ 7,
INTEREST EXPENSE	3,680	--	(22)	3,
NET INTEREST INCOME - Before provision for loan losses	3,401	22	--	3,
PROVISION FOR LOAN LOSSES	367	--	--	
NET INTEREST INCOME - After provision for loan losses	3,034	22	--	3,
OTHER INCOME	779	1,021	--	1,
OPERATING EXPENSES	4,217	1,064	--	5,
INCOME - Before federal income tax	(404)	(21)	--	(
FEDERAL INCOME TAX	(135)	(7)	--	(
NET INCOME	$ (269)	$ (14)	$ --	$ (
DEPRECIATION AND AMORTIZATION	$ 375	$ 147	$ --	$
ASSETS	$243,853	$5,459	$(1,198)	$248,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	127	--	--	
TOTAL	$ 127	$ --	$ --	$

	For the Six Months Ended June 30, 2007 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 8,188	$ 11	$ (11)	$ 8,
INTEREST EXPENSE	4,355	5	(11)	4,
NET INTEREST INCOME - Before provision for loan losses	3,833	6	--	3,
PROVISION FOR LOAN LOSSES	199	--	--	
NET INTEREST INCOME - After provision for loan losses	3,634	6	--	3,
OTHER INCOME	520	1,351	--	1,
OPERATING EXPENSES	4,534	1,360	--	5,
INCOME - Before federal income tax	(380)	(3)	--	(
FEDERAL INCOME TAX	(167)	(1)	--	(
NET INCOME	$ (213)	$ (2)	$ --	$ (
DEPRECIATION AND AMORTIZATION	$ 380	$ 172	$ --	$
ASSETS	$260,371	$4,468	$(721)	$264,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	302	23	--	
TOTAL	$ 302	$ 23	$ --	$

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

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

The following discussion compares the consolidated financial condition of the Company at June 30, 2008 and December 31, 2007, and the results of operations for the three- and six-month periods ended June 30, 2008 and 2007. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

OVERVIEW

For the quarter ended June 30, 2008, the Company reported a net loss of $251,000, or $0.09 per basic and diluted share, compared to a net loss of $236,000, or $0.08 per basic and diluted share, for the year earlier period, a decrease of $15,000.

The main issues impacting the quarter ended June 30, 2008 were the level of the Company's non-performing assets coupled with a provision for loan losses of $342,000 for the period.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2008 AND DECEMBER 31, 2007

ASSETS: Total assets decreased $2.7 million, or 1.0%, to $248.1 million at June 30, 2008 from $250.8 million at December 31, 2007. Investment securities available for sale increased $2.2 million, or 10.9% from December 31, 2007 to June 30, 2008. Net loans receivable decreased $6.2 million, or 3.1% to $195.1 million at June 30, 2008 from $201.3 million at December 31, 2007. The decrease in net loans was attributable primarily to shrinkage of the residential mortgage loan portfolio due to paydowns and payoffs.

LIABILITIES: Deposits increased $2.8 million, or 1.7%, to $167.2 million at June 30, 2008 from $164.5 million at December 31, 2007. While we experienced a $20.0 million shift from traditional certificate of deposit (CD) products into our liquid CD product, the increase in deposits was in our money market product as customers sought deposit accounts which did not tie up their funds for long periods of time due to uncertainty about the future of competitive deposit rates. Total FHLB advances decreased $4.7 million to $48.0 million at June 30, 2008 from December 31, 2007 as we paid down advances with funds from loan payments.

EQUITY: Stockholders' equity decreased to $32.0 million at June 30, 2008 from $32.5 million at December 31, 2007, a decline of $558,000. Dividends were $144,000 and $288,000 for the three and six months ended June 30, 2008, respectively. The unrealized loss on available for sale securities, net of tax, was $77,800 at June 30, 2008 as compared to a gain of $66,900 at December 31, 2007, a decline of $142,700. The cumulative loss in value on securities was due to changes in interest rates and was not considered by management to be other than temporary.

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RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2008 COMPARED TO THREE MONTHS ENDED JUNE 30, 2007

GENERAL: Net income decreased by $15,000 to a net loss of $251,000 for the three months ended June 30, 2008 from a net loss of $236,000 for the same period ended June 30, 2007.

INTEREST INCOME: Interest income decreased to $3.5 million for the three months ended June 30, 2008 from $4.1 million for the year earlier period, due to three factors: a decrease of $14.9 million in the average balance of interest-earning assets to $233.1 million for the three month period ended June 30, 2008 from $248.1 million for the three month period ended June 30, 2007; a decrease of 56 basis points in our yield on interest-earning assets period over period, and an increase in the level of our non-performing loans period over period.

INTEREST EXPENSE: Interest expense decreased to $1.8 million for the three months ended June 30, 2008 from $2.1 million for the three months ended June 30, 2007. The decrease in interest expense for the three month period was due primarily to a decrease in our cost of funds related to certificates of deposit and FHLB advances. The cost of funds for certificates of deposit decreased from 4.50% from the three months ended June 30, 2007 to 4.21% for the three months ended June 30, 2008 as higher costing deposits matured and were re-priced at a

lower rate. In addition, the cost of our FHLB advances decreased 38 basis points from 4.89% for the three months ended June 30, 2007 to 4.51% for the three months ended June 30, 2008.

NET INTEREST INCOME: Net interest income decreased to $1.7 million for the three month period ended June 30, 2008 compared to $1.9 million for the same period in 2007. For the three months ended June 30, 2008, average interest-earning assets decreased $14.9 million, or 6.0%, when compared to the same period in 2007. Average interest-bearing liabilities decreased $15.4 million, or 7.0%, to $203.4 million for the quarter ended June 30, 2008 from $218.9 million for the quarter ended June 30, 2007. The yield on average interest-earning assets increased to 6.00% for the three month period ended June 30, 2008 from 6.56% for the same period ended in 2007 and the cost of average interest-bearing liabilities decreased to 3.51% from 3.86% for the three month periods ended June 30, 2008 and 2007, respectively. The net interest margin decreased to 2.93% for the three month period ended June 30, 2008 from 3.15% for same period in 2007.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The provision for loan losses amounted to $342,000 for the three month period ended June 30, 2008 and $113,000 for the comparable period in 2007. The Company does continue to experience a high level of classified assets due to the current somewhat weak economic conditions in the northern Michigan market as well as declining real estate values. Classified assets are monitored quarterly and the loan loss reserve is adjusted as needed to reflect any changes in the status of classified assets.

NON INTEREST INCOME: Non interest income decreased from $883,000 for the three months ended June 30, 2007 to $822,000 for the three months ended June 30, 2008, primarily due to decreases in insurance brokerage income due to the sale of the exclusive BCBS contract to Grotenhuis, as described above.

NON INTEREST EXPENSE: Non interest expense decreased from $3.1 million for the three months ended June 30, 2007 to $2.6 million for the three months ended June 30, 2008. The decrease period over period was mainly the result of prepayment penalties of $293,000 paid on FHLB advances during the three

months ended June 30, 2007, reduction in compensation and benefit expenses due to the closure last year of one of our under-performing branches and other cost-cutting measures, as well as a reduction in insurance brokerage commission expense due to the sale of the exclusive BCBS contract as described above.

INCOME TAXES: The Company had a federal income tax benefit of $126,000 for the three months ended June 30, 2008 due to a pre-tax loss, compared to federal income tax benefit of $155,000 for the same period in 2007.

SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO SIX MONTHS ENDED JUNE 30, 2007

GENERAL: Net income decreased by $68,000 to a net loss of $283,000 for the six months ended June 30, 2008 from a net loss of $215,000 for the same period ended June 30, 2007.

INTEREST INCOME: Interest income decreased by $1.1 million to $7.1 million for the six month period ended June 30, 2008 from $8.2 million for the same six month period in 2007. This decrease was primarily attributed to a decline in the average balance of interest earning assets of $21.2 million to $232.7 million for the six month period ended June 30, 2008 from $253.9 million for the six month period ended June 30, 2007. In addition, we experienced a decrease in the yield on those interest earning assets of 39 basis points to 6.10% six month period over six month period. Notably, the yield on non-mortgage loans decreased 115 basis points six month period over six month period to 6.47% over an average balance of $104.7 million due in part to declining interest rates and in part to an increase in the amount of non-performing loans period over period.

INTEREST EXPENSE: Interest expense for the six months ended June 30, 2008 decreased to $3.7 million from $4.3 million for the six months ended June 30, 2007. The decrease in interest expense for the six month period was due primarily to a decrease in the cost of our certificates of deposit and FHLB advances. The cost of our certificates of deposit decreased from 4.51% for the six months ended June 30, 2007 to 4.29% for the six months ended June 30, 2008, as higher costing deposits matured and were re-priced at lower rates. In addition, the cost of our FHLB advances decreased 35 basis points from 5.00% for the six months ended June 30, 2007 to 4.55% for the six months ended June 30, 2008.

NET INTEREST INCOME: Net interest income decreased by $416,000 for the six-month period ended June 30, 2008 compared to the same period in 2007. For the six months ended June 30, 2008, average interest-earning assets decreased $21.2 million, or 8.4%, when compared to the same period in 2007. Average interest-bearing liabilities decreased $20.7 million, or 9.2%, to $203.6 million for the six-month period ended June 30, 2008 from $224.3 million for the six-month period ended June 30, 2007. The yield on average interest-earning assets decreased to 6.10% for the six month period ended June 30, 2008 from 6.49% for the same period ended in 2007 while the cost of average interest-bearing liabilities decreased to 3.59% from 3.90% for the six-month periods ended June 30, 2008 and 2007, respectively. The net interest margin decreased to 2.96% for the six month period ended June 30, 2008 from 3.05% for same period in 2007.

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

	JUNE 30, 2008	DECEMBER 31, 2007
	(Dollars in thousands)	
Total non-accrual loans	$7,651	$ 8,459

Accrual loans delinquent 90 days or more:		
One- to four-family residential	143	532
Other real estate loans	--	--
Consumer/Commercial	61	145
Total accrual loans delinquent 90 days or more	$ 203	$ 677
Total nonperforming loans (1)	7,854	9,136
Total real estate owned-residential mortgages (2)	994	872
Total real estate owned-Consumer and other (2)	4	408
Total nonperforming assets	$8,852	$10,416
Total nonperforming loans to loans receivable	3.96%	4.54%
Total nonperforming assets to total assets	3.57%	4.15%

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

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

PROVISION FOR LOAN LOSSES: The provision for loan losses amounted to $367,000 for the six-month period ended June 30, 2008 and $199,000 for the comparable period in 2007. The ratio of nonperforming loans to total loans was 3.96% and 4.54% at June 30, 2008 and December 31, 2007, respectively. As a percent of total assets, nonperforming loans decreased to 3.57% at June 30, 2008 from 4.15% at December 31, 2007. Total nonperforming assets decreased to $8.9 million at June 30, 2008 from $10.4 million at December 31, 2007, due in large part to the partial charge-off of one large commercial real-estate loan.

NON INTEREST INCOME: Non interest income decreased from $1.9 million for the six months ended June 30, 2007 to $1.8 million for the six months ended June 30, 2008. The decrease was primarily attributed to a decrease in insurance brokerage commissions during the six months ended June 30, 2008 due to the sale in April 2008 of the exclusive BCBS contract, partially offset by increases in service charges & other fees income and mortgage banking activities income.

NON INTEREST EXPENSE: Non interest expense decreased from $5.9 million for the six months ended June 30, 2007 to $5.3 million for the six months ended June 30, 2008. The decrease period over period was mainly the result of prepayment penalties of $293,000 paid on FHLB advances during the six months ended June 30, 2008, offset by a reduction in compensation and benefit expenses due to the closure last year of one of our under-performing branches and other cost-cutting measures, as well as a reduction in insurance brokerage commission expense due to the sale in April 2008 of the exclusive BCBS contract.

INCOME TAXES: The Company had a federal income tax benefit of $142,000 for the six months ended June 30, 2008 due to pre-tax losses, compared to a federal income tax benefit of $168,000, also due to pre-tax losses, for the same period in 2007.

LIQUIDITY

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

Liquidity represents the amount of an institution's assets that can be quickly and easily converted into cash without significant loss. The most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency securities and certificates of deposit. The Company is required to maintain sufficient levels of liquidity as defined by OTS regulations. This requirement may be varied at the direction of the OTS. Regulations currently in effect require that the Bank must maintain sufficient liquidity to ensure its safe and sound operation. The Company's objective for liquidity is to be above 20%. Liquidity as of June 30, 2008 was $37.9 million, or 21.7% compared to $57.3 million, or 32.1% at December 31, 2007. The decrease in liquidity was due mainly to a change in the way the liquidity ratio was calculated period over period. The Company had previously included in the liquidity ratio calculation the amount of available FHLB borrowing capacity based on Board resolution, however, this amount should have been (and now is) limited to the amount of actual collateral available to pledge for borrowings, which is less than the amount indicated in the Board resolution. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. The liquidity calculated by the Company includes additional borrowing capacity available with the FHLB. This borrowing capacity is based on the FHLB stock owned by the Bank along with pledged collateral. As of June 30, 2008, the Bank had unused borrowing capacity totaling $36.2 million at the FHLB based on the FHLB stock ownership.

The Company intends to retain for its portfolio certain originated residential mortgage loans (primarily adjustable rate, balloon and shorter term fixed rate mortgage loans) and to generally sell the remainder in the secondary market. The Bank will from time to time participate in or originate commercial real estate loans, including real estate development loans. During the six month period ended June 30, 2008 the Company originated $15.4 million in residential mortgage loans, of which $8.3 million were retained in portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to $12.1 million in originations during the first six months of 2008 of which $7.2 million were retained in portfolio. The Company also originated $17.1 million of commercial loans and $3.0 million of consumer loans in the first six months of 2008 compared to $14.9 million of commercial loans and $5.2 million of consumer loans for the same period in 2007. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 47.2% and 49.5%, commercial loans 39.3% and 36.1% and consumer loans 13.5% and 14.4% at June 30, 2008 and June 30, 2007, respectively.

Deposits are a primary source of funds for use in lending and for other general business purposes. At June 30, 2008 deposits funded 67.4% of the Company's total assets compared to 65.6% at December 31, 2007. Certificates of deposit scheduled to mature in less than one year at June 30, 2008 totaled $80.3 million. Management believes that a significant portion of such deposits will remain with the Bank. The Bank monitors the deposit rates offered by competition in the area and sets rates that take into account the prevailing market conditions along with the Bank's liquidity position.

Borrowings may be used to compensate for seasonal or other reductions in normal sources of funds or for deposit outflows at more than projected levels.

Borrowings may also be used on a longer-term basis to support increased lending or investment activities. At June 30, 2008 the Company had $47.2 million in FHLB advances. FHLB borrowings as a percentage of total assets were 19.0% at June 30, 2008 as compared to 20.6% at December 31, 2007. The Company has sufficient available collateral to obtain additional advances of $8.7 million. When this is combined with current FHLB stock ownership the Company could obtain up to an additional $36.2 million in advances from the FHLB.

CAPITAL RESOURCES

Stockholders' equity at June 30, 2008 was $32.0 million, or 12.9% of total assets, compared to $32.5 million, or 13.0% of total assets, at December 31, 2007 (See "Consolidated Statement of Changes in Stockholders' Equity"). The Bank is subject to certain capital-to-assets levels in accordance with OTS regulations. The Bank exceeded all regulatory capital requirements at June 30, 2008. The following table summarizes the Bank's actual capital with the regulatory capital requirements and with requirements to be "Well Capitalized" under prompt corrective action provisions, as of June 30, 2008:

	Actual		Regulatory Minimum		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					
Tangible Capital (to tangible assets)	$27,575	11.26%	$ 3,673	1.50%	$ 4,898	2.00%
Tier 1 (Core) capital (to risk - weighted assets)	$27,575	15.52%	$ 7,106	4.00%	$10,658	5.00%
Total risk-based capital (to risk-weighted assets)	$29,814	16.78%	$14,211	8.00%	$17,764	10.00%
Tier 1 risk-based capital (to tangible assets)	$27,575	11.26%	$ 9,796	4.00%	$12,245	6.00%

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PART I - FINANCIAL INFORMATION

ITEM 3. QUANTITATIVE AND QUALITITIVE DISCLOSURES ABOUT MARKET RISK

General. Because the majority of our assets and liabilities are sensitive to changes in interest rates, our most significant form of market risk is interest rate risk. We are vulnerable to an increase in interest rates to the extent that our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates.

Our interest rate sensitivity is monitored through the use of a net interest income simulation model, which generates estimates of the change in our net interest income over a range of interest rate scenarios. The modeling assumes loan prepayment rates, reinvestment rates and deposit decay rates based on historical experience and current economic conditions.

Net Portfolio Value. The Office of Thrift Supervision (the "OTS") requires the computation of amount by which the net present value of an institution's cash flow from assets, liabilities and off-balance sheet items (the institution's net portfolio value or "NPV") would change in the event of a range of assumed changes in market interest rates. The OTS simulation model uses a discounted cash flow analysis and an option-based pricing approach to measuring the interest rate sensitivity of net portfolio value. The Office of Thrift Supervision provides us with the results of the interest rate sensitivity model, which is based on information we provide to the OTS to estimate the sensitivity of our net portfolio value.

Net Interest Income. In addition to NPV calculations, we analyze our sensitivity to changes in interest rates though an outsourced net interest income model. 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 we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a twelve-month period using historical data for assumptions such as loan prepayment rate and deposit decay rates, the current term structure for interest rates, and current deposit and loan offering rates. The model then calculates what the net interest income would be for the same period in the event of an instantaneous 200 basis point increase or decrease in market interest rates.

As of June 30, 2008, our exposure to interest rate risk has not changed substantially from disclosures included in the Annual Report on Form 10-K for the period ended December 31, 2007, as filed with the SEC.

ITEM 4T - 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.

There were no significant changes made in the Company's internal control over financial reporting or in other factors that could significantly affect the Company's internal controls over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II -- OTHER INFORMATION

Item 1 - Legal Proceedings:

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

Item 1A - Risk Factors:

Not applicable

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

(a) Not applicable

(b) Not applicable

(c) Not applicable

Item 3 - Defaults upon Senior Securities:

Not applicable.

Item 4 - Submission of Matters to a Vote of Security Holders:

The annual meeting of the shareholders of the Company was held on May 21, 2008. The results of the vote were as follows:

1. The following individuals were elected as director for a three (3) year term:

	Votes For	Votes Withheld
James C. Rapin	1,836,140	550,295
Martin A. Thomson	1,845,399	541,036

2. The ratification of the appointment of Plante & Moran, PLLC as independent auditors of the Company for the fiscal year ending December 31, 2008:

	For	Against	Abstain
Number of Votes	2,117,181	261,999	7,255

Item 5 - Other Information:

Not applicable

Item 6 - Exhibits

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

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

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

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

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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: August 14, 2008

By: /s/ Amy E. Essex

Amy E. Essex,
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Date: August 14, 2008