First Federal of Northern Michigan Bancorp, Inc.
Form 10-K
March 31, 2010

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, 2009

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 o.

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 o. NO o.

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 o	Accelerated filer o
Non-Accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). YES o. 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 o. 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, 2009 ($2.20 per share) was $5.5 million.

As of March 31, 2010, there were issued and outstanding 2,884,249 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Proxy Statement for the 2010 Annual Meeting of Stockholders (Parts I and III).
2. Annual Report to Shareholders for the Year Ended December 31, 2009 (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 1995, 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 inc 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 of 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, 2009, First Federal of Northern Michigan Bancorp, Inc. had consolidated assets of $233.5 million, deposits of $158.1 million and stockholders' equity of $23.1 million. As of December 31, 2009, First Federal of Northern Michigan Bancorp, Inc. had 2,884,249 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 location 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 5.7% 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 182,000 in 2008, and has remained relatively stable from 2000 to 2008, but decreased by approximately 1,400, or less than 1%, from 2007 to 2008. The latest available per capita income for our market area was $28,551, which was 22.2% less than the national level, and 15.5% less than the state of Michigan as a whole, reflecting the largely rural nature of our market area and the absence of more densely populated urban and suburban areas. Per capita income levels are not expected to increase in our market area in the near future. The unemployment rate in our primary market area was 15.2% at December 31, 2009, compared to 10.0 nationally and 14.5% 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, 2009, 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. In recent years, additional strong competition for deposits has come from securities brokers. 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, 2009, we had total loans of $175.2 million, of which $81.2 million, or 46.3% were one- to four-family residential real estate mortgage loans, $430,000, or 0.2% of total loans, were residential construction loans, $55.8 million, or 31.9% were commercial real estate loans, and $9.9 million, or 5.6%, were commercial loans. Other loans consisted primarily of home equity loans, which totaled $18.7 million, or 10.7% of total loans, commercial construction loans which totaled $6.6 million or 3.8% of total loans, and other consumer loans which totaled $2.6 million, or 1.5% 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 loans. 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 90% 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 total loan amount to be covered by 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, 2009 approximately $1.1 million of these products remain 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, 2009, we had a total of 209 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, 2009 we did have $8.4 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, 2009, our commercial real estate loans, excluding commercial construction, totaled $55.7 million, or 31.9% of our total loans, and had an average principal balance of approximately $309,000. 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, 2009, our largest commercial real estate relationship consisted of two loans having a total principal balance of $2.6 million, which were performing according to their terms as of December 31, 2009. This loan relationship is secured by three pieces of commercial real-estate. Our largest single commercial real estate loan was a commercial construction loan of $2.1 million, of which $1.0 million has been charged off. This loan is secured by a residential real-estate condominium complex which was still under construction at December 31, 2009. At December 31, 2009, this loan was in non-accrual status due to insufficient cash flows to meet future payment obligations.

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, 2009, consumer and other loans totaled $21.3 million, or 12.2% of our total loan portfolio. At such date, $498,000, or 0.3% of our consumer loans, were unsecured. As of December 31, 2009, home equity loans totaled $18.7 million, or 10.7% of our total loan portfolio, and automobile loans totaled $1.5 million, or 0.9% 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, 2009, we had $9.9 million in commercial loans which amounted to 5.6% 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 $4.5 million at December 31, 2009. 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, 2009, our largest commercial loan was a $2.4 million commercial participation loan collateralized by manufacturing equipment and a related plant facility. At December 31, 2009, the outstanding balance was $2.4 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 $7.0 million, or 4.0% of our total loan portfolio, at December 31, 2009.

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 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. 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,									
	2009		2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
									(Dollars in thousands)	
Real estate loans:										
Residential Mortgages:										
1-4 Family Mortgages	$ 77,851	44.4%	$ 87,179	44.0%	$ 91,433	44.5%	$ 93,520	44.1%	$ 91,979	45.3%
Purchased Mortgage In-State	3,342	1.9%	3,802	1.9%	4,531	2.2%	4,635	2.2%	6,702	3.3%
Purchased Mortgage Out-of-State	-	0.0%	358	0.2%	1,302	0.6%	1,335	0.6%	1,361	0.7%
1-4 Familly Construction	427	0.2%	1,025	0.5%	2,108	1.0%	3,120	1.5%	5,989	3.0%
Home Equity/Junior Liens	18,732	10.7%	22,303	11.3%	24,095	11.7%	24,868	11.7%	21,238	10.5%
Nonresidential Mortgages:										
Nonresidential	43,446	24.9%	42,526	21.5%	44,634	21.7%	44,212	20.9%	40,270	19.7%
Purchased Nonresidential In-State	3,894	2.2%	257	0.1%	-	0.0%	942	0.4%	1,000	0.5%
Purchased Nonresidential Out-of-State	8,428	4.8%	3,141	1.6%	1,295	0.6%	120	0.1%	-	0.0%
Nonresidential Construction	2,816	1.6%	6,635	3.3%	6,184	3.0%	6,286	3.0%	4,041	2.0%
Purchased Construction In-State	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Purchased Construction Out-of-State	3,792	2.2%	9,781	4.9%	4,920	2.4%	-	0.0%	-	0.0%
Non real estate loans:										
Commercial Loans	7,035	4.0%	15,816	8.0%	19,181	9.3%	24,606	11.6%	23,926	11.8%
Purchased Commerical Loans In-State	2,838	1.6%	1,804	0.9%	1,387	0.7%	3,603	1.7%	1,732	0.9%

Purchased Commerical Loans Out-of-State	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Consumer and other loans	2,553	1.5%	3,564	1.8%	4,555	2.3%	4,688	2.2%	4,669	2.3%
Total Loans	$ 175,154	100.00%	$ 198,191	100.00%	$ 205,625	100.00%	$ 211,935	100.00%	$ 202,907	100.00%
Other items:										
Unadvanced construction loans	-		-		-		-		-	
Deferred loan origination costs	12		13		13		20		28	
Deferred loan origination fees	(287)		(287)		(292)		(358)		(336)	
Allowance for loan losses	(3,660)		(5,647)		(4,013)		(2,079)		(1,416)	
Total loans, net	$ 171,219		$ 192,270		$ 201,333		$ 209,518		$ 201,183	

Loan Portfolio Maturities and Yield. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2009. 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,								
2010	$ 1,274	6.01%	$ -	0.00%	$ -	0.00%	$ 427	6.04%
2011	389	7.78%	-	0.00%	-	0.00%	-	0.00%
2012	444	7.38%	-	0.00%	-	0.00%	-	0.00%
2013 to 2014	2,446	6.34%	-	0.00%	-	0.00%	-	0.00%
2015 to 2019	9,411	5.92%	-	0.00%	-	0.00%	-	0.00%
2020 to 2024	9,933	6.61%	-	0.00%	-	0.00%	-	0.00%
2024 and beyond	53,954	6.50%	3,342	4.02%	-	0.00%	-	0.00%
Total	$ 77,851	6.18%	$ 3,342	4.02%	$ -	0.00%	$ 427	6.04%

	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,								
2010	$ 145	6.97%	$ 15,835	5.38%	$ -	0.00%	$ 4,140	5.33%
2011	1,716	5.21%	10,127	6.83%	-	0.00%	-	0.00%
2012	1,026	5.70%	8,523	6.93%	-	0.00%	-	0.00%
2013 to 2014	1,425	6.67%	6,798	6.61%	3,792	5.50%	2,382	7.25%
2015 to 2019	5,464	6.16%	1,289	6.61%	102	7.58%	-	0.00%
2020 to 2024	7,485	5.75%	-	5.75%	-	0.00%	-	0.00%
2024 and beyond	1,471	3.82%	874	7.94%	-	0.00%	1,906	5.23%
Total	$ 18,732	5.81%	$ 43,446	6.10%	$ 3,894	6.35%	$ 8,428	5.85%

	Nonresidential Construction		Purchased Construction In-State		Purchased Construction Out-of-State		Commercial Loans	
	Amount	Weighted Average Rate	Amount	Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due During the Years Ending December 31,								
2010	$ 1,433	4.97%	$ -	0.00%	$ -	0.00%	$ 1,712	7.94%
2011	1,383	3.90%	-	0.00%	1,823	8.35%	1,207	5.42%
2012	-	0.00%	-	0.00%	-	0.00%	765	6.71%

2013 to 2014	-	0.00%	-	0.00%	1,969	8.18%	506	8.03%
2015 to 2019	-	0.00%	-	0.00%	-	0.00%	2,845	5.42%
2020 to 2024	-	0.00%	-	0.00%	-	0.00%	-	0.00%
2024 and beyond	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Total	$ 2,816	4.44%	$ -	0.00%	$ 3,792	8.26%	$ 7,035	6.25%

	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,								
2010	$ 2,371	3.73%	$ -	0.00%	$ 432	7.88%	$ 27,769	5.89%
2011	-	0.00%	-	0.00%	250	8.45%	16,895	6.34%
2012	-	0.00%	-	0.00%	287	8.75%	11,045	6.87%
2013 to 2014	467	6.34%	-	0.00%	323	7.24%	20,108	6.61%
2015 to 2019	-	0.00%	-	0.00%	1,019	9.12%	20,130	6.28%
2020 to 2024	-	0.00%	-	0.00%	242	8.32%	17,660	6.05%
2024 and beyond	-	0.00%	-	0.00%	-	0.00%	61,547	6.04%
Total	$ 2,838	4.16%	$ -	5.98%	$ 2,553	8.64%	$ 175,154	6.37%

Fixed- and Adjustable-Rate Loans. The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2009 that are contractually due after December 31, 2010.

	Due After December 31, 2010		
	Fixed	Adjustable	Total
		(In thousands)	
Residential Mortgages:			
1-4 Family Mortgages	$ 38,286	$ 38,291	$ 76,577
Purchased Mortgage In-State	-	3,342	3,342
Purchased Mortgage Out-of-State	-	-	-
1-4 Family Construction	-	-	-
Home Equity/Junior Liens	9,833	8,754	18,587
Nonresidential Mortgages:			
Nonresidential	22,205	5,406	27,611
Purchased Nonresidential In-State	3,894	-	3,894
Purchased Nonresidential Out-of-State	3,332	956	4,288
Nonresidential Construction	-	1,383	1,383
Purchased Construction In-State	-	-	-
Purchased Construction Out--State	2,552	1,240	3,792
Non real estate loans:			
Commercial Loans	3,390	1,933	5,323
Purchased Commerical Loans In-State	467	-	467
Purchased Commerical Loans Out-of-State	-	-	-
Consumer and other loans	1,702	419	2,121
Total Loans	$ 85,661	$ 61,724	$ 147,385

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, 2009, we had outstanding loan commitments of $26.0 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, 2009, we had $275,000 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 $869,000, $942,000 and $911,000 for the years ended December 31, 2009, 2008 and 2007, 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 $730,000 were included in other assets at December 31, 2009.

Origination, Purchase and Sale of Loans. The table below shows our loan originations, purchases, sales, and repayments of loans for the periods indicated. In 2009, we purchased $4.9 million in commercial real estate loan participations, all of which were located in the State of Michigan.

	Years Ended December 31, 2009	2008	2007
	(In Thousands)		
Loans receivable at beginning of period	$ 198,191	$ 205,625	$ 211,935
Originations:			
Real estate:			
Residential 1-4 family	58,909	30,187	31,496
Commercial and Multi-family	17,254	24,191	21,644
Consumer	3,894	6,543	9,035
Total originations	80,057	60,921	62,175
Loan purchases:			
Residential 1-4 family	-	-	-
Commercial	4,914	5,177	11,125
Total loan purchases	4,914	5,177	11,125
Loan sales	(49,545)	(11,641)	(16,287)
Transfer of loans to foreclosed assets	(6,382)	(2,916)	(1,807)
Repayments	(52,081)	(58,975)	(61,516)
Total loans receivable at end of period	$ 175,154	$ 198,191	$ 205,625

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, 2009, we held $3.6 million in properties that were classified REO and $11,000 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, 2009						
Residential Mortgages	19	$ 1,456	1	$ 89	20	$ 1,545
Commercial Mortgages	7	1,125	3	2,696	10	3,821
Construction	-	-	-	-	-	-
Commercial	3	402	-	-	3	402
Consumer	13	192	9	54	22	246
Total	42	$ 3,175	13	$ 2,839	55	6,014
At December 31, 2008						
Residential Mortgages	26	$ 2,513	2	$ 128	28	$ 2,641
Commercial Mortgages	5	736	-	-	5	736
Commercial	-	-	1	72	1	72
Consumer	26	155	8	17	34	172
Total	57	$ 3,404	11	$ 217	68	3,621
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
At December 31, 2005						

Residential Mortgages	24	$	1,375	19	$	1,684	43	$	3,059
Commercial Mortgages	-		-	4		670	4		670
Construction	1		341	-		-	1		341
Commercial	8		506	2		115	10		621
Consumer	23		197	13		185	36		382
Total	56	$	2,419	38	$	2,654	94		5,073

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

	At December 31, 2009	2008	2007	2006	2005
	(Dollars in thousands)				
Non-Accrual Loans:					
Residential Mortgage	$ 2,944	$ 1,876	$ 697	$ 670	$ 308
Commercial Mortgage	2,204	4,002	3,825	1,395	1,006
Construction	1,433	3,469	3,475	-	-
Purchased Out-of-State	2,113	1,980	-	-	-
Commercial	96	535	433	364	-
Consumer and other	157	90	29	61	39
Total non-accrual loans	$ 8,947	$ 11,952	$ 8,459	$ 2,490	