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

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

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

OR

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

For the transition period from _______________ to ______________________

Commission File Number: 000-31957

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

Maryland (State or other jurisdiction of incorporation or organization)	32-0135202 (I.R.S. Employer Identification Number)
100 S. Second Avenue, Alpena, Michigan (Address of Principal Executive Offices)	49707 Zip Code

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

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

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

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
YES x. NO ¨.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or nay amendments to this Form 10-K. x.

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

ITEM 1. BUSINESS

Private Securities Litigation Reform Act Safe Harbor Statement

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

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

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

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

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

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

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

First Federal of Northern Michigan Bancorp, Inc.

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

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

First Federal of Northern Michigan

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

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

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

Market Area and Competition

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

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

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

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

Lending Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

$400,000.

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

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

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

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

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

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

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

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

Delinquent Loans, Other Real Estate Owned and Classified Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mortgage Banking Activities

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

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

Insurance Brokerage Activities

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

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

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

Real Estate Development Activities

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

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

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

Investment Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	At December 31, 2010										
	One Year or Less		More than One Year Through Five years		More than Five Years Through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in Thousands)										
Debt Securities:											
U.S. Government and agency securities	$518	5.63%	$2,500	1.75%	$1,500	3.41%	$-	0.00%	$4,518	$4,562	2.75
State agency and municipal obligations	2,376	4.28%	2,182	3.89%	981	4.36%	1,856	4.73%	7,395	7,641	4.29
Mortgage-backed securities											
Fannie Mae	-	0.00%	-	0.00%	296	4.50%	-	0.00%	296	306	4.50
Freddie Mac	1	6.00%	1,066	4.36%	11	1.85%	-	0.00%	1,078	1,095	4.33
Ginnie Mae	-	0.00%	13	5.00%	96	3.41%	24,201	4.12%	24,310	24,291	4.11
Total debt securities	2,895		5,761		2,884		26,057		37,597	37,895	
Marketable equity securities:											
Common Stock	-	0.00%	-	0.00%	-	0.00%					