First Federal of Northern Michigan Bancorp, Inc.
Form 10QSB
November 14, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

OR

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

For the transition period from __________ to __________

Commission File Number 000-31957

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

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

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

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

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

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

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

Common Stock, Par Value $0.01	Outstanding at November 14, 2007
(Title of Class)	2,884,924 shares

Transitional Small Business Disclosure Format: Yes No X .

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2007

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

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

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

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

	September 30, 2007 (Unaudited)
ASSETS	
Cash and cash equivalents:	
Cash on hand and due from banks	$ 2,585,836
Overnight deposits with FHLB	600,330
Total cash and cash equivalents	3,186,166
Securities AFS	27,767,690
Securities HTM	2,795,000
Loans held for sale	--
Loans receivable, net of allowance for loan losses of $2,197,253 and $2,079,069 as of September 30, 2007 and December 31, 2006, respectively	207,542,822
Foreclosed real estate and other repossessed assets	1,055,750
Real estate held for investment	135,543
Federal Home Loan Bank stock, at cost	4,196,900
Premises and equipment	7,797,019
Accrued interest receivable	2,044,334
Intangible assets	2,218,738
Goodwill	1,396,854
Other assets	2,386,836
Total assets	$262,523,652
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Deposits	$166,590,112
Advances from borrowers for taxes and insurance	92,384
Federal Home Loan Bank advances and Note Payable	60,068,395
Accrued expenses and other liabilities	1,945,190
Total liabilities	228,696,081
Stockholders' equity:	
Common stock ($0.01 par value 20,000,000 shares authorized 3,191,999 and 3,190,999 shares issued, respectively)	31,920
Additional paid-in capital	24,313,129
Retained earnings	13,901,485
Treasury stock at cost (307,750 and 156,000 shares, respectively)	(2,963,918)
Unallocated ESOP	(986,560)
Unearned compensation	(445,477)
Accumulated other comprehensive loss	(23,008)

Total stockholders' equity	33,827,571
Total liabilities and stockholders' equity	$262,523,652

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Ni Ended Sept
	2007	2006	2007
	(Unaudited)		(Unaudi
Interest income:			
Interest and fees on loans	$3,709,722	$4,045,724	$10,896,898
Interest and dividends on investments	416,676	508,482	1,363,039
Interest on mortgage-backed securities	13,395	48,621	82,730
Total interest income	4,139,793	4,602,827	12,342,667
Interest expense:			
Interest on deposits	1,391,569	1,426,972	4,200,920
Interest on borrowings	708,554	826,375	2,247,734
Total interest expense	2,100,123	2,253,347	6,448,654
Net interest income	2,039,670	2,349,480	5,894,013
Provision for loan losses	110,957	216,357	309,937
Net interest income after provision for loan losses	1,928,713	2,133,123	5,584,076
Non Interest income:			
Service charges and other fees	236,870	280,096	649,844
Mortgage banking activities	77,673	72,779	277,104
Loss on sale of available-for-sale investments	--	--	--
Net loss on sale of premises and equipment, real estate owned and other repossessed assets	(6,691)	(6,971)	(19,109)
Other	12,756	32,863	38,094
Net loss on trading activities	(282,354)	--	(115,554)
Insurance & brokerage commissions	701,520	712,119	2,043,519
Total other income	739,774	1,090,886	2,873,898
Non interest expenses:			
Compensation and employee benefits	1,560,340	1,518,219	4,651,267

SAIF insurance premiums	5,070	5,877	15,936
Advertising	75,301	64,924	160,623
Occupancy	358,052	326,637	1,101,993
Amortization of intangible assets	122,531	124,881	370,725
Service bureau charges	73,593	93,970	237,178
Insurance & brokerage commission expense	245,193	252,757	719,391
Professional services	76,537	38,134	247,443
Other	335,954	309,680	948,952
Other expenses	2,852,571	2,735,079	8,453,508
Income before income tax expense	(184,084)	488,930	4,466
Income tax (benefit) expense	(85,614)	163,275	(62,464)
Net income	$ (98,470)	$ 325,655	$ 66,930
Per share data:			
Basic earnings per share	$ (0.03)	$ 0.11	$ 0.02
Weighted average number of shares outstanding	2,884,010	3,039,173	2,938,665
Diluted earnings per share	$ (0.03)	$ 0.11	$ 0.02
Weighted average number of shares outstanding, including dilutive stock options	2,921,131	3,040,130	2,976,264
Dividends per common share	$ 0.05	$ 0.05	$ 0.15

See accompanying notes to consolidated financial statements.

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

	Common Stock	Treasury Stock	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Unalloca ESOP
Balance at December 31, 2006	$31,910	$(1,565,359)	$24,284,606	$(551,856)	$14,576,468	$(1,059,
Cumulative effect of change in accounting principal (Note 1)	--	--	--	--	(303,938)	
Treasury Stock at Cost (151,750 shares)	--	(1,398,559)	--	--	--	
Stock Options/Awards Expensed	--	--	26,798	114,424	--	
MRP shares awarded (1,500 shares)	15	--	12,855	(12,870)	--	
MRP shares forfeited (500 shares)	(5)	--	(4,820)	4,825	--	
Unallocated ESOP	--	--	(6,310)	--	--	72,

Net income for the period	--	--	--	--	66,930	
Changes in unrealized loss: on available-for-sale securities (net of tax of $124,098)	--	--	--	--	--	
Total comprehensive income	--	--	--	--	--	
Dividends declared	--	--	--	--	(437,975)	
Balance at September 30, 2007	$31,920	$(2,963,918)	$24,313,129	$(445,477)	$13,901,485	$ (986,

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

	For the Nine Months September 30,	
	2007	2
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 66,930	$
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	825,067	
Provision for loan loss	309,937	
Amortization and accretion on securities	8,834	
Loss on sale of securities	--	
Net loss from trading activities	115,554	
Originations of loans held for sale	(10,595,936)	(10,
Principal amount of loans sold	10,667,936	10,
Proceeds from sale of real estate held for sale	74,138	
Gain on sale of real estate held for investment	(937)	
Loss on sale of premises and equipment	23,041	
Change in accrued interest receivable	94,333	(
Change in other assets	163,189	
Change in accrued expenses and other liabilities	(416,383)	(
Stock options/awards expensed	141,222	
Net cash provided by operating activities	1,476,925	2,
Net (increase) decrease in loans	1,665,309	(10,
Proceeds from maturity and sale of available-for-sale securities	15,577,074	8,
Purchase of securities	(1,045,000)	(1,
Proceeds from sale of Federal Home Loan Bank stock	--	
Purchase of premises and equipment	(852,803)	(1,
Net cash provided by (used in) investing activities	15,344,580	(5,

Net decrease in deposits	(10,467,881)	(7,
Dividend paid on common stock	(437,975)	(
ESOP shares committed to be released	66,260	
Net increase in advances from borrowers	47,995	
Additions to advances from Federal Home Loan Bank and notes payable	30,500,000	19,
Repayments of Federal Home Loan Bank advances and notes payable	(36,937,980)	(6,
Stock retired	--	
Proceeds from exercise of stock options	--	
Purchase of treasury shares	(1,398,559)	(1,
Net cash provided by (used in) financing activities	(18,628,140)	3,
Net increase (decrease) in cash and cash equivalents	(1,806,635)	
Cash and cash equivalents at beginning of period	4,992,801	4,
Cash and cash equivalents at end of period	$ 3,186,166	$ 4,
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	$ 25,000	$
Cash paid during the period for interest	$ 6,580,063	$ 6,

See accompanying notes to the consolidated financial statements

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

These interim financial statements are prepared without audit and reflect all adjustments, which, in the opinion of management, are necessary to present fairly the consolidated financial position of the Company at September 30, 2007, and its results of operations and statement of cash flows for the periods presented. All such adjustments are normal and recurring in nature. The accompanying consolidated financial statements do not purport to contain all the necessary financial disclosures required by generally accepted accounting principles that might otherwise be necessary and should be read in conjunction with the consolidated financial statements and notes thereto of the Company included in the Annual Report for the year ended December 31, 2006. Results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

CRITICAL ACCOUNTING POLICIES

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

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

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

estimates about various matters. Historically, we believe our estimates and assumptions have proven to be relatively accurate.

The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze delinquency trends, which have remained stable, general economic conditions and geographic and industry concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. The principal assumption used in deriving the allowance for loan losses is the estimate of loss content for each risk rating. As an example, if recent loss experience dictated that the projected loss ratios would be changed by 10% (of the estimate) across all risk ratings, the allocated allowance as of September 30, 2007 would have changed by approximately $213,000. Actual loan losses may be significantly more than the allowances we have established, which could have a material negative effect on our financial results.

Mortgage Servicing Rights. We sell to investors a portion of our originated one- to four-family residential real estate mortgage loans. When we acquire mortgage servicing rights through the origination and sale of mortgage loans with servicing rights retained, we allocate a portion of the total cost of the mortgage loans to the mortgage servicing rights based on their relative fair value. As of September 30, 2007, we were servicing loans sold to others totaling $132.1 million. We amortize capitalized mortgage servicing rights as a reduction of servicing fee income in proportion to, and over the period of, estimated net servicing income by use of a method that approximates the level-yield method. We periodically evaluate capitalized mortgage servicing rights for impairment using a model that takes into account several variables including expected prepayment speeds and prevailing interest rates. If we identify impairment, we charge the amount of the impairment to earnings by establishing a valuation allowance against the capitalized mortgage servicing rights asset. The primary risk of material changes to the value of the servicing rights resides in the potential volatility in the economic assumptions used, particularly the prepayment speed. We monitor this risk and adjust the valuation allowance as necessary to adequately record any probable impairment in the portfolio. Management believes the estimation of these variables makes this a critical accounting policy. For purposes of measuring impairment, the mortgage servicing rights are stratified based on financial asset type and interest rates. In addition, we obtain an independent third-party valuation of the mortgage servicing portfolio on a quarterly basis. In general, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall. This is because the estimated life and estimated income from a loan increase as interest rates rise and decrease as interest rates fall. The key economic assumptions made in determining the fair value of the mortgage servicing rights at September 30, 2007 included the following:

Annual constant prepayment speed (CPR):	11.48%
Weighted average life remaining (in months):	243
Discount rate used:	9.00%

At the September 30, 2007 valuation, we calculated the value of our mortgage servicing rights to be $1.3 million and the weighted average life remaining of those rights was 46 months. The book value of our mortgage servicing rights as of September 30, 2007 was $513,000 which was $764,000 less than the independent valuation, so there was no need to establish a valuation allowance.

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

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

In connection with our acquisition in 2003 of ICA, we allocated the excess of the purchase price paid over the fair value of net assets acquired to intangible assets, including goodwill. These intangible assets included the ICA customer list and a third-party contract to which ICA is a party. From the date of acquisition through April 30, 2005 we amortized the value assigned to the customer list and contract over a period of 20 years. On May 1, 2005 the former owner of ICA retired. As a result, the amortization period for these intangible assets was reduced to a 10 year period beginning May 1, 2005. Effective January 1, 2006, the exclusive third-party contract between ICA and Blue Cross Blue Shield of Michigan was terminated. Prior to January 1, 2006 the ICA exclusive agent contract with Blue Cross Blue Shield entitled ICA to an override commission of 1.9% on all health premiums written through local Chambers of Commerce in Northeast Michigan. On any health insurance contracts in place as of December 31, 2005, ICA will continue to receive the 1.9% commission; however, there will be no new groups added to this program effective January 1, 2006. Management considered the potential effect this could have on ICA health insurance commissions in future years and made the decision to reduce the amortization period of the third-party contract intangible asset to 5 years effective January 1, 2006.

Goodwill is not amortized. The impairment test of goodwill and identified intangible assets that have an indefinite useful life, performed as of September 30, 2007 and December 31, 2006 in accordance with SSFAS No. 142, did not indicate that an impairment charge was required. If, through testing, we determine that there is impairment based, for example, on significant runoff of the customer list or material changes to the third-party contract, then we may determine to reduce the recorded value of those intangible assets, which would increase expense and reduce our earnings.

In connection with branch office acquisitions, we assigned the excess of the purchase price over the fair value of the assets acquired to a core deposit intangible. The core deposit intangible is tested periodically for impairment. Our original estimates for the expected life of the deposits have proven to be relatively accurate as evidenced by the fact that no impairment has been recorded. If we determine through testing that a significant portion of the acquired customers no longer do business with us, then the asset would be deemed to be impaired thereby requiring a charge to earnings to the extent appropriate given all of the known factors. We amortize core deposit intangibles over a period of between 10 and 15 years.

Financial Accounting Standard Number 159 - The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to specific requirements outlined in the new Statement. Calendar-year companies are able to adopt SFAS 159 for their first quarter 2007 financial statements.

The new Statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities.

The Company early adopted SFAS 159 and SFAS 157 (discussed below) as of January 1, 2007. Upon adoption of SFAS 159, the Company selected the fair value measurement option for various existing financial assets, including certain "available-for-sale" securities and putable FHLB advances.

The available-for-sale securities totaled $4.9 million and represented 10.9% of the Company's securities portfolio. The initial fair value measurement of the securities elected for SFAS 159 resulted in a $140,000 pre-tax cumulative-effect adjustment recorded as a reduction in retained earnings as of January 1, 2007. Under SFAS 159, this one-time charge will not be recognized in current earnings.

As a result of the fair value measurement election for these securities, the Company recorded gains in the first nine months of 2007 of $28,000. The Company has since sold these investments. The Company had originally intended to replace these investments with similiar investments, which were to be recorded at fair value. Our initial assessment was that the adoption of SFAS 159 would have a positive impact on our ability to manage interest rate risk and potentially benefit interest income during the remainder of 2007 as well as future periods.

The Company also elected the adoption of SFAS 159 for $10.0 million in putable Federal Home Loan Bank advances. The initial fair value measurement of the advances resulted in a $320,000 pre-tax, charge to retained earnings. In the first nine months of 2007 the Company recorded $144,000 in pre-tax mark-to-market losses related to these advances.

The above investment securities and advances were chosen for the fair value option based on the desire of the Company to improve its net interest margin and reduce interest rate risk. Subsequent to the adoption of SSFAS 159, the Company had planned on repositioning its balance sheet by obtaining new investment securities and Federal Home Loan Bank advances that improve overall interest rate margin and mitigate future interest rate risk. The Company has since determined that the election of SFAS 159 did not provide the balance sheet management opportunities that were initially anticipated. As of September 30, 2007 the Company no longer has any assets or liabilities carried at fair value and it does not intend to adopt SFAS 159 for eligible financial assets and liabilities in the future.

The following table represents all items in which the fair value option was elected as of January 1, 2007 and the impact on the financial statements.

Par Value	Impact on Retained Earnings Effective 1/1/2007	Impact on Net Income Three Months Ended 9/30/2007	Impact on Net Income Nine Months Ended 9/30/2007
(dollars in thousands)		(dollars in thousands)	

$ 4,856	Investment Securities	($140)	$ 0	$ 28
$10,000	FHLB Advances	($320)	($282)	($144)
		-----	------	------
	Total	($460)	($282)	($116)
	Adjusted for Taxes	($304)	($186)	($77)

Financial Accounting Standard Number 157 Fair Value Measurements. In September 2006, SFASB issued SFAS 157, Fair Value Measurements. This statement establishes a framework for measuring fair value in accordance with generally accepted accounting principles, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Upon adoption of SFAS 159, the Company concurrently adopted the provisions of SFAS 157 as of January 1, 2007. Accordingly, the Company has developed a framework to measure the fair value of financial assets and financial liabilities and expanded disclosures in accordance with the requirements.

The following information pertains to assets and liabilities measured by fair value on a recurring basis:

Description	Fair Value as of January 1, 2007	Change in fair value recognized in other income for the nine month period ended September 30, 2007	Fair Value as of September 30, 2007	Quoted Prices in active markets for Indentical Assets/Liabilities (Level 1)	Signific Other Observab Inputs (Level
			(Dollars in thousands)		
Investments accounted for under FVO	$ 4,864	$ 28	$0	$0	
FHLB advances	$10,000	($144)	$0	$0	

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2006, FASB issued Statement of Financial Accounting Standard No. 156, Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140. SFAS 156 amends SFAS Statement No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. SFAS 156 was adopted by the Company on January 1, 2007 as required by the statement. The adoption of SFAS 156 did not have a material effect on the financial position, results of operations, or cash flows.

In July 2006, the FASB issued SFASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of SFASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. This

Interpretation requires that the Company recognize in the financial statements the impact of a tax position if that position is more likely than not to be sustained on audit based on technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to operating retained earnings. The adoption of FIN 48 did not have a material effect on the financial position, results of operations, or cash flows.

NOTE 2--REORGANIZATION.

On April 1, 2005, we consummated the second-step mutual-to-stock conversion of Alpena Bancshares, M.H.C., in which shares of common stock representing Alpena Bancshares, M.H.C.'s ownership interest in Alpena Bancshares, Inc. were sold to investors. As a result of the conversion and stock offering, Alpena Bancshares, M.H.C. ceased to exist and Alpena Bancshares, Inc. was succeeded by First Federal of Northern Michigan Bancorp, Inc., a Maryland corporation and new holding company for First Federal of Northern Michigan.

The plan of conversion and reorganization of Alpena Bancshares, M.H.C. and the issuance and contribution of cash and common stock to First Federal Community Foundation, a charitable foundation established by the Company, were approved by the stockholders of Alpena Bancshares, Inc. and the members of Alpena Bancshares, M.H.C. on March 23, 2005.

First Federal of Northern Michigan Bancorp, Inc. accepted orders to purchase 1,699,869 shares of common stock at a purchase price of $10.00 per share. As a part of the conversion, public stockholders of the Company as of the consummation date received 1.8477 shares of First Federal of Northern Michigan Bancorp, Inc. common stock in exchange for each of their existing shares of Company common stock. Cash was issued in lieu of any fractional shares. The share exchange occurred on April 1, 2005.

NOTE 3--DIVIDENDS.

Payment of dividends on the common stock is subject to determination and declaration by the Board

of Directors and depends upon a number of factors, including capital requirements, regulatory limitations on the payment of dividends, the Company's results of operations and financial condition, tax considerations and general economic conditions.

On September 18, 2007, the Company declared a cash dividend on its common stock, payable on or about October 19, 2007, to shareholders of record as of September 30, 2007, equal to $0.05 per share. The dividend on all shares outstanding totaled $144,212.

NOTE 4--1996 STOCK OPTION PLAN, 1996 RECOGNITION AND RETENTION PLAN AND 2006 STOCK-BASED INCENTIVE PLAN.

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

During the three months ended September 30, 2007 the Company awarded 500 shares under the Recognition and Retention Plan ("RRP"). Shares issued under the RRP and exercised pursuant to the exercise of the stock option plan may be either authorized but unissued shares or reacquired shares held by the Company as treasury stock.

STOCK OPTIONS - A summary of option activity under the Plan during the nine months ended September 30, 2007 is presented below:

Options	Shares	Weighted-Average Exercise Price	Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	204,532	$9.50		
Granted	6,200	$8.79		
Exercised	0	N/A		
Forfeited or expired	(9,390)	$9.54		
Oustanding at September 30, 2007	201,342	$9.48	8.76	$ 0
Exercisable at September 30, 2007	43,462	$9.29	7.30	-$54,762

As of September 30, 2007 there was $263,000 of total unrecognized compensation cost, net of expected forfeitures, related to nonvested options under the Plan. That cost is expected to be recognized over a weighted-average period of 3.67 years. The total fair value of shares vested during the nine months ended September 30, 2007 was $0.

RESTRICTED STOCK AWARDS - As of September 30, 2007 there was $453,000 of unrecognized compensation cost related to nonvested restricted stock awards under the plan.

NOTE 5 - COMMITMENTS TO EXTEND CREDIT

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

At September 30, 2007, the Company had outstanding commitments to originate loans of $30.4 million. These commitments included $9.2 million for permanent one-to-four family dwellings, $4.1 million for non-residential loans, $665,000 of undisbursed loan proceeds for construction of one-to-four family dwellings, $8.3 million of undisbursed lines of credit on home equity loans, $589,000 of unused credit card lines, $4.4 million of unused commercial lines of credit, $1.3 million of undisbursed commercial construction, $5,000 of unused Letters of Credit and $1.8 million in unused Bounce Protection.

NOTE 6 - SUBSEQUENT EVENTS

Following a management evaluation of the Company's operations from both a financial and customer service perspective, the Board of Directors approved the closure of the Company's branch office in Mancelona, Michigan effective February 1, 2008. The branch accounts for about 2.6% of the Company's deposits. Management believes that a majority of the deposits will not be retained by the Company, and has factored this into its analysis. The Company owns and intends to sell this branch facility. Management believes the costs to exit this market, including any impairment on fixed and intangible assets, will not exceed $25,000.

NOTE 7 - SEGMENT REPORTING

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

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

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NOTE 7 - SEGMENT REPORTING (CONTINUED)

	For the Three Months Ended September 30, 2007 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Total
INTEREST INCOME	$ 4,140	$ 11	$ (11)	$ 4,140

INTEREST EXPENSE	2,108	3	(11)	2,100
NET INTEREST INCOME - Before provision for loan losses	2,032	8	--	2,040
PROVISION FOR LOAN LOSSES	111	--	--	111
NET INTEREST INCOME - After provision for loan losses	1,921	8	--	1,929
OTHER INCOME	28	712	--	740
OPERATING EXPENSES	2,200	653	--	2,853
INCOME - Before federal income tax	(251)	67	--	(184)
FEDERAL INCOME TAX	(109)	23	--	(86)
NET INCOME	$ (142)	$ 44	$ --	$ (98)
DEPRECIATION AND AMORTIZATION	$ 186	$ 86	$ --	$ 272
ASSETS	$258,797	$4,516	$(789)	$262,524
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$ --
Intangible assets	--	--	--	--
Property and equipment	32	--	--	32
TOTAL	$ 32	$ --	$ --	$ 32

	For the Three Months Ended September 30, 2006 (Dollars in Thousands)			
	Bank	ICA	Eliminations	Total
INTEREST INCOME	$ 4,602	$ 8	$ (8)	$ 4,602
INTEREST EXPENSE	2,256	5	(8)	2,253
NET INTEREST INCOME - Before provision for loan losses	2,346	3	--	2,349
PROVISION FOR LOAN LOSSES	217	--	--	217
NET INTEREST INCOME - After provision for loan losses	2,129	3	--	2,132
OTHER INCOME	377	714	--	1,091
OPERATING EXPENSES	2,042	693	--	2,735
INCOME - Before federal income tax	465	24	--	489
FEDERAL INCOME TAX	156	8	--	163
NET INCOME	$ 309	$ 16	$ --	$ 326
DEPRECIATION AND AMORTIZATION	$ 177	$ 86	$ --	$ 263
ASSETS	$282,694	$4,475	$(712)	$286,457

EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$ --
Intangible assets	--	--	--	--
Property and equipment	447	--	--	447
TOTAL	$ 447	$ --	$ --	$ 447

For the Nine Months Ended September 30, 2007 (Dollars in Thousands)

	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 12,343	$ 22	$ (22)	$ 12,
INTEREST EXPENSE	6,463	8	(22)	6,
NET INTEREST INCOME - Before provision for loan losses	5,880	14	--	5,
PROVISION FOR LOAN LOSSES	310	--	--	
NET INTEREST INCOME - After provision for loan losses	5,570	14	--	5,
OTHER INCOME	811	2,063	--	2,
OPERATING EXPENSES	6,441	2,013	--	8,
INCOME - Before federal income tax	(60)	64	--	
FEDERAL INCOME TAX	(85)	22	--	
NET INCOME	$ 25	$ 42	$ --	$
DEPRECIATION AND AMORTIZATION	$ 566	$ 258	$ --	$
ASSETS	$258,797	$4,516	$(789)	$262,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	176	23	--	
TOTAL	$ 176	$ 23	$ --	$

For the Nine Months Ended September 30, 2006 (Dollars in Thousands)

	Bank	ICA	Eliminations	Tot
INTEREST INCOME	$ 12,844	$ 15	$ (15)	$ 12,
INTEREST EXPENSE	6,246	15	(15)	6,

NET INTEREST INCOME - Before provision for loan losses	6,598	--	--	6,
PROVISION FOR LOAN LOSSES	419	--	--	
NET INTEREST INCOME - After provision for loan losses	6,179	--	--	6,
OTHER INCOME	1,069	2,224	--	3,
OPERATING EXPENSES	6,376	2,140	--	8,
INCOME - Before federal income tax	872	84	--	
FEDERAL INCOME TAX	292	28	--	
NET INCOME	$ 580	$ 56	$ --	$
DEPRECIATION AND AMORTIZATION	$ 520	$ 258	$ --	$
ASSETS	$282,694	$4,475	$(712)	$286,
EXPENDITURES RELATED TO LONG-LIVED ASSETS:				
Goodwill	$ --	$ --	$ --	$
Intangible assets	--	--	--	
Property and equipment	1,195	21	--	1,
TOTAL	$ 1,195	$ 21	$ --	$ 1,

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

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

The following discussion compares the consolidated financial condition of the Company at September 30, 2007 and December 31, 2006, and the results of operations for the three- and nine-month periods ended September 30, 2007 and 2006. This discussion should be read in conjunction with the interim financial statements and footnotes included herein.

OVERVIEW

For the quarter ended September 30, 2007, the Company reported a net loss of $98,000 compared to earnings of $326,000 for the year earlier period, a decrease of $424,000. Year to date 2007 net income was $67,000 compared to the first nine months of 2006 when net income was $636,000.

Total assets decreased by $18.4 million, or 6.6% from December 31, 2006 to September 30, 2007. Investment securities available for sale decreased by $15.3 million from December 31, 2006 to September 30, 2007. Net loans receivable decreased $2.0 million during the nine months ended September 30, 2007. Total deposits decreased $10.5 million, or 5.9% from December 31, 2006 to September 30, 2007. Federal Home Loan Bank advances decreased by $6.0 million from December 31, 2006 to September 30, 2007. Equity decreased by $1.6 million, or 4.6% from December 31, 2006 to September 30, 2007.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 2007 AND DECEMBER 31, 2006

ASSETS: Total assets decreased $18.4 million, or 6.6%, to $262.5 million at September 30, 2007 from $281.0 million at December 31, 2006. Investment securities available for sale decreased $15.3 million, or 35.6%, from December 31, 2006 to September 30, 2007, due to the maturity of $8.5 million in AFS investment securities during the nine months ended September 30, 2007, the proceeds of which were used to pay-down high-cost FHLB advances, and due to the sale of $4.7 million in securities which had been reclassified from AFS securities to trading securities in connection with our early adoption of SFAS 159 effective January 1, 2007. Net loans receivable decreased $2.0 million, or 0.9%, to $207.5 million at September 30, 2007 from $209.5 million at December 31, 2006. Total mortgage loans decreased by $700,000 and total commercial loans decreased by $1.2 million as loan originations declined due to economic conditions in our markets.

LIABILITIES: Deposits decreased $10.5 million, or 5.9%, to $166.6 million at September 30, 2007 from $177.1 million at December 31, 2006. The decrease was primarily in statements savings and CD balances reflecting continued competition for deposits and increased pressure on market deposit rates. FHLB advances decreased $6.0 million, or 9.1%, to $60.0 million at September 30, 2007 from $66.0 million at December 31, 2006 due to the pay-down of advances from the maturity of AFS investment securities.

EQUITY: Stockholders' equity decreased to $33.9 million at September 30, 2007 from $35.5 million at December 31, 2006, a decline of $1.6 million. Also impacting the decrease in stockholders' equity from December 31, 2006 to September 30, 2007 was the Company's repurchase of 151,750 shares of its common stock at a total cost of $1,398,558, in connection with its stock repurchase program which was announced and commenced in March 2007. Dividends were $144,000 and $438,000 for the three and nine months ended September 30, 2007, respectively. As mentioned in the previous quarter, the Company chose to restructure its balance sheet through an early adoption of SFAS 159, resulting in a $461,000 one-time cumulative-effect adjustment to retained earnings during the quarter ended March 31, 2007. The unrealized loss on available for sale securities, net

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of tax, was $23,000 at September 30, 2007 as compared to $264,000 at December 31, 2006, an improvement of $241,000. The cumulative loss in value on securities was due to changes in interest rates and was not considered by management to be other than temporary.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

GENERAL: Net income decreased by $424,000 to a loss of $98,000 for the three months ended September 30, 2007 from net income of $326,000 for the same period ended September 30, 2006. During the quarter ended September 30, 2007 the Company experienced a loss of $282,000 on trading activities related to FHLB advances which were recorded at fair value as a result of the Company's early adoption of SFAS 159. In addition, during the quarter ended September 30, 2006 the Company collected a large non-accrual commercial loan relationship which resulting in an additional $279,000 in interest income and $8,000 in late fees for that quarter. The provision for loan loss for the quarter ended September 30, 2007 was $111,000 as compared to $216,000 for the same quarter in 2006.

INTEREST INCOME: Interest income was $4.1 million for the three months ended September 30, 2007, compared to $4.6 million for the comparable period in 2006. The decrease in interest income quarter over quarter was due in large part to the collection of a large commercial non-accrual loan relationship which resulted in an additional $279,000 in interest income for the quarter ended September 30, 2006. In addition, we experienced decreases quarter over quarter in the average balances of every category of interest-earning assets. The average balances of AFS investment securities decreased $14.0 million as securities matured or were called and the proceeds were used to pay-down higher-cost FHLB advances, rather than reinvest in lower-yielding investments securities. The average balances of mortgage loans decreased $2.5 million period over period and the average balances of non-mortgage loans decreased $1.4 million quarter over quarter as we continue to experience a decline in loan originations due to economic conditions nationwide, statewide, and in our market areas.

INTEREST EXPENSE: Interest expense was $2.1 million for the three month period ended September 30, 2007, compared to $2.3 million for the same period in 2006.

NET INTEREST INCOME: Net interest income decreased to $2.0 million for the three month period ended September 30, 2007 compared to $2.3 million for the same period in 2006. For the three months ended September 30, 2007, average interest-earning assets decreased $21.3 million, or 3.4%, to $246.5 million when compared to the same period in 2006. Average interest-bearing liabilities decreased $21.6 million, or 5.2%, to $216.6 million for the quarter ended September 30, 2007 from $238.2 million for the quarter ended September 30, 2006. The yield on average interest-earning assets decreased to 6.69% for the three month period ended September 30, 2007 from 6.84% for the same period ended in 2006, due again in large part to the collection of a large commercial non-accrual loan, and the cost of average interest-bearing liabilities increased to 3.83% from 3.73% for the three month periods ended September 30, 2007 and September 30, 2006, respectively. The decrease in asset yields on interest earning assets combined with the impact of the increase in the cost of funds created a decrease in the net interest margin of 20 basis points to 3.32% for the three month period ended September 30, 2007 from 3.52% for same period in 2006.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The provision for loan losses amounted to $111,000 for the three month period ended September 30, 2007 and $216,000 for the comparable period in 2006. During the quarter ended September 30, 2006, the Company had increased its reserves on certain commercial and mortgage loans based on deterioration of those

credits during the quarter, which accounts for the higher provision in the third quarter of 2006 as compared to 2007.

NON INTEREST INCOME: Non interest income was $740,000 for the three month period ended September 30, 2007, a decrease of $351,000 or 32.2%, from the same period in 2006. The primary reasons for the decrease were a $282,000 net loss on trading activities for the quarter related to our early adoption of SFAS 159 and mortgage banking activities income which was $43,000 lower in the quarter ended September 30, 2007 as compared to year earlier period due to a decline in mortgage activity related to general economic conditions.

NON INTEREST EXPENSE: Non interest expense was $2.9 million for the three month period ended September 30, 2007, an $117,000 or 4.3%, increase from the same period in 2006. The increase was primarily due to increases of $42,000 in compensation and employee benefits, $10,000 in advertising, $31,000 in occupancy and $38,000 in professional services expenses partially offset by a decrease of $20,000 in service bureau expenses.

INCOME TAXES: Federal income taxes decreased to a tax benefit of $86,000 for the three month period ended September 30, 2007 compared to tax expense of $163,000 for the same period in 2006. The decrease for the three month period was attributable to a decrease in pre-tax income as well as an increase quarter over quarter in tax-exempt income.

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006

GENERAL: Net income decreased $569,000 to $67,000 for the nine months ended September 30, 2007 from $636,000 for the same period ended September 30, 2006. The decrease in earnings period over period was primarily attributable to a decline of $419,000 in non-interest income, including $151,000 in service charges and other fees, $116,000 in loss on trading activities, and $176,000 decline in insurance and brokerage commissions. In addition during the nine months ended September 30, 2006 the Company collected $279,000 (approximately $191,000 after tax) in interest and $8,000 in late charges on a non-accrual commercial loan relationship. The income tax expense for the nine months ended September 30, 2007 decreased by $382,000 as compared to the same period in 2006 due to the decrease in pre-tax income period over period and the increase in tax-exempt income period over period.

INTEREST INCOME: Interest income was $12.3 million for the nine months ended September 30, 2007, compared to $12.9 million for the comparable period in 2006. This decrease of $502,000, or 3.9%, in interest income was due in large part to a decrease of $15.9 million in average balances of AFS investment securities to $37.2 million for the period ended September 30, 2007 compared to $53.1 million for the period ended September 30, 2006. In addition, as mentioned above, during the nine-month period ended September 30, 2006, the Company collected a large commercial non-accrual relationship, resulting in an additional $279,000 in commercial loan interest income for that period.

INTEREST EXPENSE: Interest expense was $6.4 million for the nine month period ended September 30, 2007 compared to $6.2 million for the same period in 2006. The 3.2% increase in interest expense was primarily attributable to an increased cost of funds on certificates of deposit for the period ended September 30, 2007 compared to September 30, 2006. The cost of certificates of deposit increased from 3.88% for the nine-month period ended September 30, 2006 to 4.51% for the same period ended September 30, 2007, reflecting upward market pressure on deposit rates period over period. The effect of the increase in cost of deposits was offset by the decline in the average balances of certificates of deposit of $11.2 million period over period as non-relationship customers took certificate of deposit dollars to institutions paying higher deposit rates.

NET INTEREST INCOME: Net interest income decreased by $704,000 for the nine month period ended September 30, 2007 compared to the same period in 2006. For the nine months ended September 30, 2007, average interest-earning assets decreased $15.6 million, or 5.8%, when compared to the same period in 2006. Average interest-bearing liabilities decreased $14.7 million, or 6.2% for the same period. The yield on average interest-earning assets increased to 6.55% for the nine month period ended September 30, 2007 from 6.34% for the same period ended in 2006. The cost of average interest-bearing liabilities increased to 3.87% from

3.52% for the nine month periods ended September 30, 2007 and September 30, 2006, respectively. The net result of the 21 basis point increase in asset yields and 35 basis point increase in the cost of funds was a net interest rate margin decrease of 9 basis points to 3.14% for the nine month period ended September 30, 2007, from 3.23% for the same period in 2006.

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

	SEPTEMBER 30, 2007	DECEMBER 31, 2006
	(Dollars in thousands)	
Total non-accrual loans	$3,040	$2,490
Accrual loans delinquent 90 days or more:		
One- to four-family residential	512	645
Other real estate loans	--	221
Consumer/Commercial	1,030	624
Total accrual loans delinquent 90 days or more	$1,542	$1,490
Total nonperforming loans (1)	4,582	3,980
Total real estate owned-residential mortgages (2)	1,049	437
Total real estate owned-Consumer and other (2)	7	38
Total nonperforming assets	$5,638	$4,455
Total nonperforming loans to loans receivable	2.18%	1.90%
Total nonperforming assets to total assets	2.15%	1.59%

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

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

PROVISION FOR LOAN LOSSES: The provision for loan losses amounted to $310,000 for the nine month period ended September 30, 2007 and $419,000 for the comparable period in 2006. The ratio of nonperforming loans to total loans was

2.18% at September 30, 2007 and 1.90% at December 31, 2006. As a percent of total assets, nonperforming loans increased to 2.15% at September 30, 2007 from 1.59% at December 31, 2006. Total nonperforming assets increased by $1.2 million from December 31, 2006 to September 30, 2007. It should be noted that $888,000 of the $1.2 million increase in non-performing assets related to two matured commercial loans which were in the renewal process at September 30, 2007 and which are well collateralized. Management expects there to be no loss on either of these loans.

NON INTEREST INCOME: Non interest income was $2.9 million for the nine month period ended September 30, 2007, a decrease of $419,000 or 12.7%, from the same period in 2006. The primary reasons for the decrease were decreases of $151,000 in service charges and other fees, $116,000 in loss on trading activities related mainly to FHLB advances, and $176,000 in insurance and brokerage commissions period over period.

NON INTEREST EXPENSE: Non interest expense was $8.5 million for both the nine month periods ended September 30, 2007 and September 30, 2006. There were no notable differences in expense structure nine month period over nine month period.

INCOME TAXES: Federal income tax expense decreased to a benefit of $63,000 for the nine months ended September 30, 2007 compared to expense of $320,000 for the same period in 2006. The decrease for the nine month period was attributable to a decrease in pre-tax income as well as an increase period over period in tax-exempt income.

LIQUIDITY

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

Liquidity represents the amount of an institution's assets that can be quickly and easily converted into cash without significant loss. The most liquid assets are cash, short-term U.S. Government securities, U.S. Government agency securities and certificates of deposit. The Company is required to maintain sufficient levels of liquidity as defined by OTS regulations. This requirement may be varied at the direction of the OTS. Regulations currently in effect require that the Bank must maintain sufficient liquidity to ensure its safe and sound operation. The Company's objective for liquidity is to be above 20%. Liquidity as of September 30, 2007 was $42.9 million, or 25.3%, compared to $55.7 million, or 29.3%, at December 31, 2006. The levels of these assets are dependent on the Company's operating, financing, lending and investing activities during any given period. The liquidity calculated by the Company includes additional borrowing capacity available with the FHLB. This borrowing capacity is based on the FHLB stock owned by the Bank along with pledged collateral. As of September 30, 2007, the Bank had unused borrowing capacity totaling $24.4 million at the FHLB based on the FHLB stock ownership.

The Company intends to retain for its portfolio certain originated residential mortgage loans (primarily adjustable rate, balloon and shorter term fixed rate mortgage loans) and to generally sell the remainder in the secondary market. The Bank will from time to time participate in or originate commercial real estate loans, including real estate development loans. During the nine month period ended September 30, 2007 the Company originated $12.9 million in residential mortgage loans, of which $5.7 million were retained in portfolio while the remainder were sold in the secondary market or are being held for sale. This compares to $24.5 million in originations during the first nine months of 2006 of which $15.1 million were retained in portfolio. The Company also originated $19.7 million of commercial loans and $7.2 million of consumer loans in the first nine months of 2007 compared to $17.9 million of commercial loans and $12.7 million of consumer loans for the same period in 2006. Of total loans receivable, excluding loans held for sale, mortgage loans comprised 48.5% and 48.4%, commercial loans 37.3% and 37.6% and consumer loans 14.2% and 14.0% at September 30, 2007 and December 31, 2006, respectively.

Deposits are a primary source of funds for use in lending and for other general business purposes. At September 30, 2007 deposits funded 63.4% of the Company's total assets compared to 63.0% at December 31, 2006. Certificates of deposit scheduled to mature in less than one year at September 30, 2007 totaled $78.7 million. Management believes that a significant portion of such deposits will remain with the Bank. The Bank monitors the deposit rates offered by competition in the area and sets rates that take into account the prevailing market conditions along with the Bank's liquidity position. Moreover, management believes that the growth in assets is not expected to require significant in-flows of liquidity. As such, the Bank does not expect to be a market leader in rates paid for liabilities.

Borrowings may be used to compensate for seasonal or other reductions in normal sources of funds or for deposit outflows at more than projected levels. Borrowings may also be used on a longer-term basis to support increased lending or investment activities. At September 30, 2007 the Company had $59.0 million in FHLB advances. FHLB borrowings as a percentage of total assets were 22.5% at September 30, 2007 as compared to 23.1% at December 31, 2006. The Company has sufficient available collateral to obtain additional advances of $7.7 million. When this is combined with current FHLB stock ownership the Company could obtain up to an additional $32.1 million in advances from the FHLB.

CAPITAL RESOURCES

Stockholders' equity at September 30, 2007 was $33.9 million, or 12.9% of total assets, compared to $35.5 million, or 12.6% of total assets, at December 31, 2006 (See "Consolidated Statement of Changes in Stockholders' Equity"). The Bank is subject to certain capital-to-assets levels in accordance with OTS regulations. The Bank exceeded all regulatory capital requirements at September 30, 2007. The following table summarizes the Bank's actual capital with the regulatory capital requirements and with requirements to be "Well Capitalized" under prompt corrective action provisions, as of September 30, 2007:

	Actual		Regulatory Minimum		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Dollars in Thousands					

Tier 1 (Core) capital (to risk - weighted assets)	$28,512	11.02%	$10,346	4.00%	$12,932	5.00%
Total risk-based capital (to risk- weighted assets)	$30,775	16.38%	$15,034	8.00%	$18,793	10.00%
Tier 1 risk-based capital (to tangible assets)	$28,512	15.17%	$ 7,517	4.00%	$11,276	6.00%
Tangible Capital (to tangible assets)	$28,512	11.02%	$ 3,880	1.50%	$ 5,173	2.00%

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FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2007

PART I - FINANCIAL INFORMATION

ITEM 3 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported, within the time periods specified by the SEC's rules and forms and in timely alerting them to material information relating to the Company (or its consolidated subsidiaries) required to be included in its periodic SEC filings.

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

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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings:

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

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

Not applicable

Item 3 - Defaults upon Senior Securities:

Not applicable.

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

Not applicable

Item 5 - Other Information:

Not applicable

Item 6 - Exhibits

Exhibit 10.1 Change in Control Agreement for Martin A. Thomson

Exhibit 10.2 Change in Control Agreement for Michael W. Mahler

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

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

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST FEDERAL OF NORTHERN MICHIGAN
BANCORP, INC.

By: /s/ Martin A. Thomson

Martin A. Thomson
Chief Executive Officer

Date: November 14, 2007

By: /s/ Amy E. Essex

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

Date: November 14, 2007