

First Federal of Northern Michigan Bancorp, Inc.
Form 10-Q
August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

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 (I.R.S. Employer
incorporation or organization) 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**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

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

Common Stock, Par Value \$0.01	Outstanding at August 14, 2015
(Title of Class)	3,727,014 shares

FIRST FEDERAL OF NORTHERN MICHIGAN BANCORP, INC.

FORM 10-Q

Quarter Ended June 30, 2015

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Section 302 Certifications

Section 906 Certifications

When used in this Form 10-Q or future filings by First Federal of Northern Michigan Bancorp, Inc. (the "Company") with the Securities and Exchange Commission ("SEC"), in the Company's press releases or other public or stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "pro" 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.

PART I - FINANCIAL INFORMATION**ITEM 1 - FINANCIAL STATEMENTS****First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheet (in thousands)**

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents:		
Cash on hand and due from banks	\$ 5,332	\$ 11,205
Overnight deposits with FHLB	59	267
Total cash and cash equivalents	5,391	11,472
Deposits held in other financial institutions	8,428	8,429
Securities available for sale	125,584	119,968
Securities held to maturity	745	790
Loans held for sale	121	88
Loans receivable, net of allowance for loan losses of \$1,488 and \$1,429 as of June 30, 2015 and December 31, 2014, respectively	165,612	163,647
Foreclosed real estate and other repossessed assets	2,857	2,823
Federal Home Loan Bank stock, at cost	1,636	2,591
Premises and equipment	6,250	6,336
Assets held for sale	271	478
Accrued interest receivable	1,041	986
Intangible assets	1,165	1,286
Deferred tax asset	863	851
Originated mortgage servicing rights	641	710
Bank owned life insurance	4,791	4,727
Other assets	580	685
Total assets	\$ 325,976	\$ 325,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 269,979	\$ 270,734
Advances from borrowers for taxes and insurance	563	203
Advances from Federal Home Loan Bank	23,217	22,885

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Accrued expenses and other liabilities	1,148	1,509
Total liabilities	294,907	295,331
Stockholders' equity:		
Common stock (\$0.01 par value 20,000,000 shares authorized 4,034,764 shares issued)	40	40
Additional paid-in capital	28,264	28,264
Retained earnings	5,351	4,765
Treasury stock at cost (307,750 shares)	(2,964)	(2,964)
Accumulated other comprehensive income	378	431
Total stockholders' equity	31,069	30,536
Total liabilities and stockholders' equity	\$ 325,976	\$ 325,867

See accompanying notes to consolidated financial statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries**Consolidated Statement of Income and Comprehensive Income (in thousands)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Interest income:				
Interest and fees on loans	\$2,033	\$1,691	\$4,038	\$3,401
Interest and dividends on investments				
Taxable	327	150	621	300
Tax-exempt	30	41	60	83
Interest on mortgage-backed securities	265	143	553	286
Total interest income	2,655	2,025	5,272	4,070
Interest expense:				
Interest on deposits	240	192	475	378
Interest on borrowings	68	67	134	130
Total interest expense	308	259	609	508
Net interest income	2,347	1,766	4,663	3,562
(Recovery of) provision for loan losses	(45)	—	(22)	16
Net interest income after provision for loan losses	2,392	1,766	4,685	3,546
Non-interest income:				
Service charges and other fees	236	188	454	369
Mortgage banking activities	149	128	250	224
Net gain on sale of securities	1	—	1	—
Net (loss) gain on sale of premises and equipment, real estate owned and other repossessed assets	(1)	(21)	90	(26)
Other	102	49	186	114
Total non-interest income	487	344	981	681
Non-interest expense:				
Compensation and employee benefits	1,507	1,110	2,926	2,219
FDIC insurance premiums	55	45	119	91
Advertising	49	44	93	72
Occupancy	267	219	547	456
Amortization of intangible assets	61	10	121	40
Service bureau charges	102	84	205	146
Professional services	137	165	247	294
Collection activity	(6)	11	57	29
Real estate owned & other repossessed assets	28	12	46	29
Other	299	316	570	535

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Total non-interest expense	2,499	2,016	4,931	3,911
Income before income tax expense	380	94	735	316
Income tax expense	—	—	—	—
Net Income	\$380	\$94	\$735	\$316
Other Comprehensive Income:				
Unrealized (loss) gain on investment securities - available for sale securities - net of tax	(293) 161	53	\$434
Reclassification adjustment for gains realized in earnings - net of tax	—	—	—	—
Comprehensive Income	\$87	\$255	\$788	\$750
Per share data:				
Net Income per share				
Basic	\$0.10	\$0.03	\$0.20	\$0.11
Diluted	\$0.10	\$0.03	\$0.20	\$0.11
Weighted average number of shares outstanding				
Basic	3,727,014	2,884,049	3,727,014	2,884,049
Including dilutive stock options	3,727,014	2,884,049	3,727,014	2,884,049
Dividends per common share	\$0.02	\$0.02	\$0.04	\$0.04

See accompanying notes to consolidated financial statements.

First Federal of Northern Michigan Bancorp Inc. and Subsidiaries

Consolidated Statement of Changes in Stockholders' Equity (Unaudited)

(in thousands)

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2014	40	(2,964)	28,264	4,765	431	30,536
Net income	—	—	—	735	—	735
Change in unrealized gain on available-for-sale securities (net of tax of \$140)	—	—	—	—	(53)	(53)
Dividends declared	—	—	—	(149)	—	(149)
Balance at June 30, 2015	40	(2,964)	28,264	5,351	378	31,069

See accompanying notes to the consolidated financial statements.

First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries**Consolidated Statement of Cash Flows (in thousands)**

	For Six Months Ended June 30,	
	2015	2014
	(Unaudited)	
Cash Flows from Operating Activities:		
Net income	\$ 735	\$ 316
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	313	184
(Recovery of) provision for loan loss	(22)	16
Accretion of acquired loans	(5)	—
Amortization and accretion on securities	457	204
Gain on sale of loans held for sale	(139)	(89)
Gain on sale of property and equipment and asset held for sale	(81)	21
Gain on sale of available for sale securities	(1)	—
(Gain) loss on sale of real estate owned and other repossessed assets	(9)	6
Originations of loans held for sale	(8,121)	(5,523)
Proceeds from sale of loans held for sale	8,227	5,406
Net change in:		
Accrued interest receivable	(55)	31
Other assets	190	(9)
Bank owned life insurance	(64)	(58)
Accrued expenses and other liabilities	(362)	(47)
Net cash provided by operating activities	1,064	458
Cash Flows from Investing Activities:		
Net (increase) decrease in loans	(2,435)	965
Proceeds from maturities and calls of available-for-sale securities	14,463	5,570
Proceeds from sale of real estate and other repossessed assets	472	317
Proceeds from sale of available-for-sale securities	1,761	—
Proceeds from sale of property and equipment	288	2
Proceeds from sale of FHLB stock	955	—
Purchase of securities	(22,331)	(16,186)
Purchase of premises and equipment	(106)	(86)
Net cash used in investing activities	(6,933)	(9,418)
Cash Flows from Financing Activities:		
Dividends paid on common stock	(149)	(115)
Net (decrease) increase in deposits	(755)	8,970
Net increase in advances from borrowers	360	232
Advances from Federal Home Loan Bank	8,000	12,055
Repayments of Federal Home Loan Bank advances	(7,668)	(11,711)
Net cash (used in) provided by financing activities	(212)	9,431

Net (decrease) increase in cash and cash equivalents	(6,081)	471
Cash and cash equivalents at beginning of period	11,472	2,766
Cash and cash equivalents at end of period	\$ 5,391	\$ 3,237

Supplemental disclosure of cash flow information:

Cash refunded for taxes paid	\$ 15	\$—
Cash paid during the period for interest	533	509
Transfers of loans to foreclosed real estate and repossessed assets	497	265

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 — BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of First Federal of Northern Michigan Bancorp, Inc. and Subsidiaries and the notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

All adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations and cash flows, have been made. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

Note 2 — PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of First Federal of Northern Michigan Bancorp, Inc., its wholly owned subsidiary First Federal of Northern Michigan (the "Bank"), and the Bank's wholly owned subsidiaries, Financial Services & Mortgage Corporation ("FSMC") and FFNM Financial Services, Inc. FSMC invested in real estate, which includes leasing, selling, developing, and maintaining real estate properties. FSMC was dissolved in the first quarter of 2015 since all real estate properties were sold in 2011. The main activity of FFNM Financial Services, Inc. is to collect commission from the sale of non-insured investment products resulting from investment advisory services offered in our branch network. All significant intercompany balances and transactions have been eliminated in the consolidation.

Note 3 — BUSINESS COMBINATIONS

As of August 8, 2014 (“Merger Date”), the Company completed its merger with Alpena Banking Corporation and its wholly owned subsidiary Bank of Alpena (“Alpena”). Alpena had one branch office and \$102.9 million in assets as of August 8, 2014. The results of operations due to the merger have been included in the Company’s results since the Merger Date. The merger was effected by the issuance of shares of the Company’s common stock to Alpena Banking Corporation shareholders. Each share of Alpena’s common stock was converted into the right to receive 1.549 shares of the Company’s common stock, with cash paid in lieu of fractional shares. The conversion of Alpena’s shares resulted in the issuance of 842,965 shares of the Company’s common stock.

The merger transaction was recorded using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair values on the Merger Date. The following table provides the purchase price calculation as of the Merger Date and the identifiable assets acquired and liabilities assumed at their estimated fair values. These fair value measurements are provisional based on third-party valuations that are currently under review and are subject to refinement for up to one year after the Merger Date based on additional information that may be obtained by us that existed on the Merger Date.

Purchase Price:

(000's omitted)

First Federal of Northern Michigan Bancorp, Inc. common stock issued for Alpena Banking Corporation common shares	843
Price per share, based on First Federal of Northern Michigan Bancorp, Inc. closing price on August 8, 2014	\$5.59
Total purchase price	\$4,712

Preliminary Statement of Net Assets Acquired at Fair Value:

Assets			
Cash and cash equivalents	\$41,650		
Securities	24,008		
Loans	33,051		
Premises and Equipment	1,667		
Core Deposit Intangible	1,392		
Deferred Tax Asset	337		
Other Assets	467		
Total Assets	\$102,572		
Liabilities			
Deposits	95,787		
Other Liabilities	91		
Total Liabilities	\$95,878		
Net Identifiable Assets Acquired		\$6,694	
Bargain Purchase Gain		\$(1,982)	

The following table provides the pro forma information for the results of operations for the three and six months ended June 30, 2015 and 2014, as if the merger had occurred on January 1 of each year. These adjustments reflect the impact of certain purchase accounting fair value measurements, primarily on the loan and deposit portfolios of Bank of Alpena. These pro forma results are presented for illustrative purposes only and are not intended to represent or be indicative of the actual results of operations of the combined banking organizations that would have been achieved had the merger occurred at the beginning of each period presented, nor are they intended to represent or be indicative of future results of the Company.

For the Three Months Ended		For the Six Months Ended	
June 30,		June 30,	
2015	2014	2015	2014

Net interest income	\$ 2,347	\$ 2,953	\$ 4,663	\$ 5,848
Non-interest income	487	632	981	1,232
Non-interest expense	2,499	3,069	4,931	6,089
Net income	380	476	735	897
Net income per basic and diluted share	0.10	0.17	0.20	0.31
Weighted average shares outstanding	3,727	2,884	3,727	2,884

In most instances, determining the fair value of the acquired assets and assumed liabilities required the Company to estimate the cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of those determinations related to the valuation of acquired loans. For such loans, the excess cash flows expected at merger over the estimated fair value is recognized as interest income over the remaining lives of the loans. The difference between contractually required payments at merger and the cash flows expected to be collected at merger reflects the impact of estimated credit losses and other factors, such as prepayments. In accordance with the applicable accounting guidance for business combinations, there was no carry-over of Alpena's previously established allowance for loan losses.

The acquired loans were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC 310-30 ("acquired impaired"), and loans that do not meet the criteria, which are accounted for under ASC 310-20 ("acquired non-impaired"). In addition, the loans are further categorized into different pools based primarily on the type and purpose of the loan.

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Real estate loans:			
Residential mortgages	\$397	\$ 6,992	\$7,389
Commercial Loans:			
	—	109	109
Secured by real estate	3,070	14,721	17,791
Other	1,201	4,213	5,414
Total commercial loans	4,271	19,043	23,314
Consumer loans:			
Secured by real state	30	1,568	1,598
Other	—	750	750
Total consumer loans	30	2,318	2,348
Total loans at acquisition date	\$4,698	\$ 28,353	\$33,051

	Acquired Impaired	Acquired Non-Impaired	Acquired Total
Loans acquired- contractual required payments	\$5,930	\$ 28,587	\$34,517
Non accretable yield	(1,232)	—	(1,232)
Expected cash flows	4,698	28,587	33,285
Accretable yield	—	(234)	(234)
Carrying balance at acquisition date	\$4,698	\$ 28,353	\$33,051

Note 4 — SECURITIES

Investment securities have been classified according to management's intent. The carrying value and estimated fair value of securities are as follows:

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
	(in thousands)			
Securities Available for Sale				
U.S. Treasury securities and obligations of U.S.				
government corporations and agencies	\$33,210	\$157	\$(50) 33,317
Municipal obligations	27,660	330	(108) 27,882

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Corporate bonds & other obligations	1,514	5	—	1,519
Mortgage-backed securities	62,625	374	(139) 62,860
Equity securities	3	3	—	6
Total	\$125,012	\$869	\$(297) \$125,584

Securities Held to Maturity

Municipal obligations	\$745	\$1	\$—	\$746
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December 31, 2014

Amortized Cost (in thousands)	Gross Unrealized Gains	Gross Unrealized (Losses)	Market Value
-------------------------------------	---------------------------	------------------------------	-----------------

Securities Available for Sale

U.S. Treasury securities and obligations
of U.S.

government corporations and agencies	\$31,221	\$58	\$(57) 31,222
Municipal obligations	22,894	369	(129) 23,134
Corporate bonds & other obligations	1,549	12	—	1,561
Mortgage-backed securities	63,648	515	(117) 64,046
Equity securities	3	2	—	5
Total	\$119,315	\$956	\$(303) \$119,968

Securities Held to Maturity

Municipal obligations	\$790	\$118	\$—	\$908
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The amortized cost and estimated market value of securities at June 30, 2015, by contract maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities with no specified maturity date are separately stated.

	June 30, 2015	
	Amortized Cost	Market Value
	(in thousands)	
Available For Sale:		
Due in one year or less	\$2,866	\$2,882
Due after one year through five years	41,333	41,520
Due in five year through ten years	16,953	16,995
Due after ten years	1,232	1,321
Subtotal	62,384	62,718
Equity securities	3	6
Mortgage-backed securities	62,625	62,860
Total	\$125,012	\$125,584
Held To Maturity:		
Due in one year or less	\$45	\$45
Due after one year through five years	210	210
Due in five year through ten years	335	336
Due after ten years	155	155
Total	\$745	\$746

At June 30, 2015 and December 31, 2014, securities with a carrying value and fair value of \$29.9 million and \$35.0 million, respectively, were pledged to secure certain deposit accounts, FHLB advances and our line of credit at the Federal Reserve.

For the six months ended June 30, 2015 there were 2 bonds sold with a carrying value of \$1.8 million at a gain of \$1,000 and there were no sales recorded for the six months ended June 30, 2014.

The following is a summary of securities that had unrealized losses at June 30, 2015 and December 31, 2014. The information is presented for securities that have been in an unrealized loss position for less than 12 months and for more than 12 months. At June 30, 2015 there were 52 securities with unrealized losses totaling \$297,000 and at December 31, 2014, the Company held 72 securities with unrealized losses totaling \$303,000.

	June 30, 2015	
	Gross Unrealized	Gross Unrealized

	Fair Value	Losses <12 months	Fair Value	Losses > 12 months
Available For Sale:				
U.S. Treasury securities and obligations of U.S.				
government corporations and agencies	\$6,344	\$ (22)	\$972	\$ (28)
Municipal obligations	10,227	(80)	2,196	(28)
Mortgage-backed securities	13,381	(52)	4,124	(87)
Equity securities	—	—	—	—
Total	\$29,952	\$ (154)	\$7,292	\$ (143)
Held to Maturity:				
Municipal obligations	\$—	\$ —	\$—	\$ —

	December 31, 2014			
	Fair Value	Gross Unrealized Losses <12 months	Fair Value	Gross Unrealized Losses > 12 months
(in thousands)				
Available For Sale:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies				
	\$13,672	\$ (28)	\$971	\$ (29)
Municipal obligations	9,506	(54)	4,039	(75)
Mortgage-backed securities	9,923	(31)	4,666	(86)
Equity securities	—	—	—	—
Total	\$33,101	\$ (113)	\$9,676	\$ (190)
Held to Maturity:				
Municipal obligations	\$—	\$ —	\$—	\$ —

The unrealized losses on the securities held in the portfolio are not considered other than temporary and have not been recognized into income. This decision is based on the Company's ability and intent to hold any potentially impaired security until maturity. The performance of the security is based on the contractual terms of the agreement, the extent of the impairment and the financial condition and credit quality of the issuer. The decline in market value is considered temporary and a result of changes in interest rates and other market variables.

Note 5 — LOANS

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

	At June 30, 2015	At December 31, 2014
(in thousands)		
Real estate loans:		
Residential mortgage	\$74,937	\$71,828
Commercial loans:		
Construction - real estate	198	1,443
Secured by real estate	63,820	62,163
Other	17,685	19,000
Total commercial loans	81,703	82,606

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Consumer loans:		
Secured by real estate	9,183	9,502
Other	1,531	1,403
Total consumer loans	10,714	10,905
Total gross loans	\$167,354	\$165,339
Less:		
Net deferred loan fees	(254)	(263)
Allowance for loan losses	(1,488)	(1,429)
Total loans, net	\$165,612	\$163,647

As of June 30, 2015 the total outstanding balance and carrying value of acquired impaired loans was \$4.4 million and \$3.2 million, respectively. Changes to the accretable and non-accretable yield for acquired loans were as follows as of June 30, 2015:

	Acquired Impaired Non- <u>Accretable</u>	Acquired Non- Impaired <u>Accretable</u>	Acquired <u>Total</u>
December 31, 2014 balance	\$(1,232)	\$(208)	\$(1,440)
Net discount associated with acquired loans	—	—	—
Accretion of discount for credit spread	—	34	34
Transfer from non-accretable to accretable	25	(25)	—
Loans paid off through June 30, 2015	—	—	—
Loans charged off through June 30, 2015	81	—	81
Total	\$(1,126)	\$(199)	\$(1,325)

The following table illustrates the contractual aging of the recorded investment in past due loans by class of loans as of June 30, 2015 and December 31, 2014:

As of June 30, 2015

Originated Loans:	30 - 59 Days	60 - 89 Days	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90
							Days and Accruing
(dollars in thousands)							
Commercial Real Estate:							
Commercial Real Estate - construction	\$—	\$—	\$—	\$—	\$198	\$198	\$ —
Commercial Real Estate - other	595	82	—	677	48,462	49,139	—
Commercial - non real estate	282	—	—	282	13,794	14,076	—
Consumer:							
Consumer - Real Estate	36	—	7	43	7,485	7,528	—
Consumer - Other	—	—	6	6	1,361	1,367	6
Residential:							
Residential	1,783	231	87	2,101	67,041	69,142	87
Total	\$2,696	\$313	\$ 100	\$3,109	\$138,341	\$141,450	\$ 93

As of June 30, 2015

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Acquired Loans:	Greater				Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	30 - 59 Days Past Due	60 - 89 Days Past Due	than 90 Days Past Due	Total				
(dollars in thousands)								
Commercial Real Estate:								
Commercial Real Estate - construction	\$—	\$—	\$—	\$—	\$—	\$—	\$—	
Commercial Real Estate - other	209	224	187	620	14,061	14,681	51	
Commercial - non real estate	—	398	151	549	3,060	3,609	—	
Consumer:								
Consumer - Real Estate	—	—	—	—	1,655	1,655	—	
Consumer - Other	—	—	—	—	164	164	—	
Residential:								
Residential	—	223	321	544	5,251	5,795	42	
Total	\$209	\$845	\$ 659	\$1,713	\$24,191	\$25,904	\$ 93	

As of December 31, 2014

Originated Loans:	Greater				Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	30 - 59 Days Past Due	60 - 89 Days Past Due	than 90 Days Past Due	Total				
(dollars in thousands)								
Commercial Real Estate:								
Commercial Real Estate - construction	\$—	\$—	\$—	\$—	\$1,443	\$1,443	\$—	
Commercial Real Estate - other	10	195	—	205	46,103	46,308	—	
Commercial - non real estate	—	—	—	—	14,544	14,544	—	
Consumer:								
Consumer - Real Estate	107	4	7	118	7,684	7,802	—	
Consumer - Other	3	—	3	6	1,152	1,158	3	
Residential:								
Residential	1,484	746	386	2,616	62,326	64,942	87	
Total	\$1,604	\$945	\$ 396	\$2,945	\$133,252	\$136,197	\$ 90	

As of December 31, 2014

Acquired Loans:	Greater				Total	Current	Total Loans	Recorded Investment > 90 Days and Accruing
	30 - 59 Days Past Due	60 - 89 Days Past Due	than 90 Days Past Due	Total Past Due				
	(dollars in thousands)							
Commercial Real Estate - construction	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Commercial Real Estate - other	125	128	93	346	15,604	15,950	—	
Commercial - non real estate	—	40	104	144	4,217	4,361	—	
Consumer:								
Consumer - Real Estate	123	—	—	123	1,609	1,732	—	
Consumer - Other	—	—	—	—	213	213	—	
Residential:								
Residential	147	56	461	664	6,222	6,886	225	
Total	\$395	\$224	\$ 658	\$ 1,277	\$27,865	\$29,142	\$ 225	

The Bank uses an eight tier risk rating system to grade its commercial loans. The grade of a loan may change during the life of the loans. The risk ratings are described as follows:

Risk Grade 1 (Excellent) - Prime loans based on liquid collateral, with adequate margin or supported by strong financial statements. Probability of serious financial deterioration is unlikely. High liquidity, minimum risk, strong ratios, and low handling costs are common to these loans. This classification also includes all loans secured by certificates of deposit or cash equivalents.

Risk Grade 2 (Good) - Desirable loans of somewhat less stature than Grade 1, but with strong financial statements. Probability of serious financial deterioration is unlikely. These loans possess a sound repayment source (and/or a secondary source). These loans represent less than the normal degree of risk associated with the type of financing contemplated.

Risk Grade 3 (Satisfactory) - Satisfactory loans of average risk – may have some minor deficiency or vulnerability to changing economic conditions, but still fully collectible. There may be some minor weakness but with offsetting features or other support readily available. These loans present a normal degree of risk associated with the type of financing. Actual and projected indicators and market conditions provide satisfactory assurance that the credit shall perform in accordance with agreed terms.

Risk Grade 4 (Acceptable) - Loans considered satisfactory, but which are of slightly “below average” credit risk due to financial weaknesses or uncertainty. The loans warrant a somewhat higher than average level of monitoring to insure that weaknesses do not advance. The level of risk is considered acceptable and within normal underwriting guidelines, so long as the loan is given the proper level of management supervision.

Risk Grade 4.5 (Monitored) - Loans are considered “below average” and monitored more closely due to some credit deficiency that poses additional risk but is not considered adverse to the point of being a “classified” credit. Possible reasons for additional monitoring may include characteristics such as temporary negative debt service coverage due to weak economic conditions, borrower may have experienced recent losses from operations, declining equity and/or increasing leverage, or marginal liquidity that may affect long-term sustainability. Loans of this grade have a higher degree of risk and warrant close monitoring to insure against further deterioration. In any tables presented subsequently, Risk Grade 4.5 credits are included with Risk Grade 4 credits.

Risk Grade 5 (Other Assets Especially Mentioned) (OAEM) - Loans which possess some credit deficiency or potential weakness, which deserve close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future.

Risk Grade 6 (Substandard) - Loans are “substandard” whose full, final collectability does not appear to be a matter of serious doubt, but which nevertheless portray some form of well defined weakness that requires close supervision by Bank management. The noted weaknesses involve more than normal banking risk. One or more of the following characteristics may be exhibited in loans classified Substandard: (1) Loans possess a defined credit weakness and the likelihood that the loan shall be paid from the primary source of repayment is uncertain; (2) Loans are not adequately protected by the current net worth and/or paying capacity of the obligor; (3) primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees; (4) distinct possibility that the Bank shall sustain some loss if deficiencies are not corrected; (5) unusual courses of action are needed to maintain a high probability of repayment; (6) the borrower is not generating enough cash flow to repay loan principal, however, continues to make interest payments; (7) the Bank is forced into a subordinated or unsecured position due to flaws in documentation; (8) loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to normal loan terms; (9) the Bank is contemplating foreclosure or legal action due to the apparent deterioration in the loan; or (10) there is a significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

Grade 7 (Doubtful) - Loans have all the weaknesses of those classified Substandard. Additionally, however, these weaknesses make collection or liquidation in full, based on existing conditions, improbable. Loans in this category are typically not performing in conformance with established terms and conditions. Full repayment is considered “Doubtful”, but extent of loss is not currently determinable.

Risk Grade 8 (Loss) - Loans are considered uncollectible and of such little value, that continuing to carry them as an asset on the Bank’s financial statements is not feasible.

The following table presents the risk category of commercial loans by class of loans based on the most recent analysis performed and the contractual aging as of June 30, 2015 and December 31, 2014:

As of June 30, 2015			
Originated Loans:			
Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	\$—	\$700	\$27
3	—	15,118	5,753
4	178	22,449	5,837
4.5	20	3,328	1,670
5	—	2,811	135
6	—	4,732	654
7	—	—	—
8	—	—	—
Total	\$198	\$49,138	\$14,076
Acquired Loans:			
Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial

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1-2	\$—	\$251	\$1,046
3	—	2,244	860
4	—	10,202	823
4.5		472	14
5	—	736	415
6	—	777	451
7	—	0	0
8	—	0	0
Total	\$—	\$14,682	\$3,609

As of December 31, 2014

Originated Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	\$—	\$—	\$31
3	—	13,565	6,088
4	1,443	21,757	7,538
4.5	—	3,553	252
5	—	6,040	635
6	—	1,393	—
7	—	—	—
8	—	—	—
Total	\$1,443	\$46,308	\$14,544

Acquired Loans:

Loan Grade	Commercial Real Estate Construction	Commercial Real Estate Other	Commercial
1-2	\$—	\$280	\$1,188
3	—	2,696	876
4	—	10,905	970
4.5	—	337	21
5	—	1,176	1,150
6	—	547	156
7	—	9	0
8	—	—	0
Total	\$—	\$15,950	\$4,361

For residential real estate and other consumer credit the Company also evaluates credit quality based on the aging status of the loan and by payment activity. Loans 60 or more days past due are monitored by the collection committee.

The following tables present the risk category of these loans by class based on the most recent analysis performed as of June 30, 2015 and December 31, 2014:

As of June 30, 2015

	Residential	Consumer - Real Estate	Consumer - Other
Originated Loans:			
Loan Grade:			
Pass	\$68,661	\$7,485	\$1,367
Special Mention	—	—	—
Substandard	481	43	—
Total	\$69,142	\$7,528	\$1,367

Consumer -

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	Residential	Real Estate	Consumer - Other
Acquired Loans:			
Loan Grade:			
Pass	\$5,466	\$1,646	\$137
Special Mention	—	—	—
Substandard	329	9	27
Total	\$5,795	\$1,655	\$164

As of December 31, 2014

	Residential	Consumer - Real Estate	Consumer - Other
Originated Loans:			
Loan Grade:			
Pass	\$64,397	\$7,778	\$1,155
Special Mention	—	—	—
Substandard	545	24	3
Total	\$64,942	\$7,802	\$1,158

	Residential	Consumer - Real Estate	Consumer - Other
Acquired Loans:			
Loan Grade:			
Pass	\$6,335	\$1,731	\$213