



FIRST NORTHERN BANK

July 28, 2010

Dear Valued Customers:

Thank you for visiting First Northern Bank's newly designed website! We hope you like the changes we've made. Since my last letter, there is still much discussion about what direction the economy is headed. Some experts say we're in a steady, but very slow recovery phase, yet other experts expect we'll experience a double dip recession. In other words, any gains we've seen towards a recovery will be lost to another big drop.

I thought it might be timely and helpful to customers if I provide my responses to some of the frequently asked questions I receive from clients and community members as the President & CEO of their local community bank. *You should not rely on this information when making investment decisions, but rather seek professional advice from a qualified investment advisor.*

There has been some talk about interest rates rising; do you see that happening anytime soon?

Due to fragile nature of the economy, interest rates are not likely to be moving up any time soon. The Federal Open Market Committee (FOMC), headed by the Federal Reserve Chairman, Ben Bernanke, sets policy to influence interest rates. They are charged with two primary responsibilities: 1) job growth, and 2) price stability (commonly referred to as 'controlling inflation'). Our biggest problem remains private sector job growth. While unemployment declined from 9.7% to 9.5% last month, over the past couple of months there have been about two million people drop out of the labor force, and soon we will watch a number of census takers finish their data collection and become unemployed. Based on these data points, we will likely see unemployment increase before the end of this calendar quarter. Meanwhile consumer spending has slowed, as evidenced by a 25 billion dollar decline in consumer credit. On the one hand it is a good thing to see deleveraging of debt, but on the other hand, without spending, we cannot expect much in the way of real job growth.

Inflation is still very tame and deflation remains an important consideration for the FOMC. Both the core rates of inflation for consumer and producer price indexes suggest interest rates are going to stay low for some time. Clearly consumer demand is weak. When spending picks up, we can expect to see both wholesale and retail prices increase. In turn, private sector job growth will also pick up; we will then see interest rates climb back to more traditional levels. At present, however, most rate forecasters do not anticipate any meaningful short-term interest rate increases until the later half of 2011. Long-term interest rates (such as mortgages) may move up sooner.

How does the new Regulatory Financial Reform Bill that the president signed into law (Dodd-Frank Wall Street Reform and Consumer Protection Act) affect First Northern Bank?

The Act represents a dramatic rewrite of the rules governing financial service providers and products and will usher in a new era of regulation --- some good, and some horrendous. Its impact will be felt not only by the banking industry itself, but by the millions of consumers and businesses that rely on financial services every day to meet their saving, borrowing and financing needs. While the core provisions of the Act provide needed reform, it is overloaded with new rules and restrictions that will result in more than 5,000 pages of new regulations on traditional banks and years of uncertainty as to what the massive new rules will mean. I will continue to write about this subject as more information becomes available.

What is First Northern Bank doing to weather the remainder of the recession?

We are committed to remaining focused on our core business of relationship banking, reinvesting in our communities, improving asset quality and controlling operating expenses. While the experts agree that an economic recovery will be slow and prolonged, we believe that staying true to our core values and not straying from our time-tested community banking model should ensure First Northern Bank emerges as an even stronger competitor in the local financial marketplace.

I have heard the FDIC Deposit Insurance coverage has changed. Is that correct?

Yes! Part of the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law on July 21, 2010 permanently raises the current standard maximum deposit insurance amount (SMDIA) to \$250,000. The FDIC insurance coverage limit applies per depositor, and per insured depository institution for each account ownership category. Consumers can find additional information regarding FDIC's deposit insurance coverage through the use of the FDIC's Electronic Deposit Insurance Estimator (EDIE) at <http://www.fdic.gov/edie/>.

In closing, I would like to sincerely thank our customers and communities for your continued support. No doubt about it, the economy and the environment First Northern operates in will continue to change, and the Bank will proactively adapt and evolve like it always has. However, through it all, you can depend on First Northern to stay true to its values: People First, Absolute Integrity, and a Zest for Excellence. Our 100-year history of success is testimony.

Sincerely,



Owen J. Onsum
President & CEO