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September 30, 2005

Letter of Comment No: 2
File Reference: 1220-001

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Comment Letter - File Reference 1220-001

National City Corporation appreciates the opportunity to comment on the FASB's exposure draft on Accounting for the Servicing of Financial Assets. National City is one of the nation's largest loan servicers with over $175 billion of loans serviced for others and servicing assets of approximately $1.8 billion as of August 31, 2005. We wholeheartedly support the FASB's proposed changes in accounting for servicing assets to allow fair value as the measurement method for servicing assets.

Measuring servicing assets at fair value is the most relevant measurement attribute, consistent with how we manage these assets. CON 6 defines assets as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. In this instance, fair value is the best available measure of probable future economic benefits. Fair value can be objectively determined by either market data, as servicing assets can be bought and sold, or by assessing the discounted cash flows associated with servicing activities.

Measuring certain classes of servicing rights at fair value would greatly simplify the accounting for servicing assets hedged with derivatives. National City protects the economic value of its conforming residential mortgage loan servicing assets by entering into derivative instruments that are expected to increase in value as the value of the related servicing assets falls, and vice versa. The effectiveness tests that must be performed on these designated hedging relationships to achieve special hedge accounting under SFAS 133 are extremely complex and onerous, with a wide diversity of practice among mortgage bankers, based on differing interpretations of the guidance. We engaged statisticians to assist us in our development of our methodology to assess effectiveness. We perform our effectiveness tests on a weekly basis consistent with the hedge designation period. This exercise is very time-consuming due to the size of our portfolio and complexity of the computations. The proposed accounting will allow us to eliminate these tests, and allow us to simply report the economic results; i.e., the total change in value of both the hedge and the hedged item.

Under existing GAAP, when an effectiveness test fails, the associated group of servicing assets must be recorded at lower of cost or fair value while the associated derivative is always recorded at fair value. This dichotomy in the valuation of the derivative and the hedged item can give rise to unnecessary volatility in reported earnings not associated with any economic or market events.

This volatility is solely a product of current accounting standards. This artificial volatility in earnings is misleading to the readers of the financial statements who are trying to understand our results. The proposed accounting for servicing assets will eliminate this artificial volatility in earnings caused by asymmetrical accounting in changes in value of both the servicing assets and derivative will be reported through the income statement.

We concur with the FASB's proposed disclosures on servicing assets and the instruments used to manage the risks inherent in servicing activities. Given that we already disclose much of this information in our financial statements, we do not believe that it will be a significant effort to implement these disclosures.

We also support the FASB's proposal to permit companies a choice in selecting their valuation method by asset class. We intend to elect the amortized cost basis of valuing our servicing assets associated with commercial real estate loans. As commercial real estate loans do not exhibit significant prepayments, the amortized cost of these loans closely approximates their fair value. We do not hedge these servicing rights as they do not experience volatility in fair value. Accordingly, we do not believe that the fair value method provides better information to the readers of the financial statements for this particular asset class.

We would ask the FASB to include in the final statement more guidance on how to define a major asset class being serviced. For instance, could a nonconforming residential mortgage loan be deemed a separate asset class from a conforming residential mortgage loan? Likewise, would residential mortgages be considered a separate asset class from commercial mortgages?

We appreciate the FASB addressing this issue which is of utmost importance to National City and our peers in the mortgage banking industry. We would encourage the FASB to finalize this standard as soon as possible so that it can be implemented effective January 1, 2006.

Sincerely,

Jeffrey D. Kelly
Vice Chairman and Chief Financial Officer