

August 14, 2008

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Financial Accounting Standards Board
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LETTER OF COMMENT NO. 27

Comment Letter - File Reference 1590-100

National City Corporation appreciates the opportunity to comment on the FASB's exposure draft on Accounting for Hedging Activities, an amendment of FASB Statement No. 133. National City Corporation is a \$150 billion financial holding company. Managing the interest rate risk of our balance sheet is an important part of our business. We utilize derivative instruments to mitigate interest rate risk inherent in certain portfolio loans, certificates of deposits and long-term debt. SFAS 133 permits us to designate changes in fair value or cash flows attributable to changes in the benchmark interest rate as the hedged item in these relationships. This principle is consistent with how we manage the economics of these hedge relationships.

In this exposure draft, the Board has proposed to eliminate a company's ability to designate individual risks as the hedged risk in either a fair value or cash flow hedge. We believe this proposed change would impair the usefulness of financial statements of financial institutions who are primarily concerned with hedging interest rate risk.

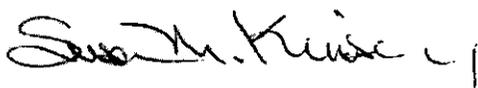
By way of an example, we utilize interest rate derivatives to hedge certain fixed-rate commercial loans issued to small and mid-size businesses. We intend to hold these loans indefinitely so they are classified in our held for investment loan portfolio. These loans are not recognized at fair value on our balance sheet. They are recognized at the unpaid principal amount, plus or minus any basis adjustments. A separate allowance for loan losses is recognized for credit risk. We have no desire to adopt fair value option for these loans since we do not intend to sell them and we do not hedge the credit risk related to these loans with derivative instruments. We believe it would impair the usefulness of our financial statements to carry these loans at fair value. It would be difficult to estimate a market participant's view of the fair value of these loans under any circumstances, but particularly in the current financial markets. Further, accounting for these loans at full fair value and other similar loans at carrying value would only add to the complexity of our financial statements and be inconsistent with how we manage the business.

If we are not permitted to designate the benchmark interest rate risk as our hedged item, we would likely abandon these established hedge strategies. We do not believe that we could design a strategy to effectively hedge the full fair value of these loans. There are no derivative instruments currently available to effectively hedge the credit risk inherent in relatively small commercial loans to a diverse group of borrowers. The proposed

change would compel changes in how we operate our business. If we had wanted to hedge the full fair value, we would have elected fair value option for these loans. However, we did not elect fair value option as we find the principles in SFAS 133 more aligned with our business strategies.

We urge the Board to reconsider whether the proposed changes really accomplish its objectives to simplify the accounting and reporting of hedge activities. In our opinion, it does not accomplish these objectives and adds further complexity. In the appendix to this letter, we provide further comments on issues #2 -10 presented in the exposure draft. However, issue #1 is most significant issue as it has direct implications on how we manage the interest rate risk in our balance sheet. We appreciate the ability to share our comments with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Susan M. Kinsey".

Susan M. Kinsey
Assistant Treasurer

Issue 2: The Board has proposed that companies will still be permitted to designate interest rate risk as the hedged risk on its own debt. We agree with the Board's decision on this matter as we manage our interest rate risk on long-term debt with derivative instruments. However, we believe this proposal is inconsistent with the treatment proposed in Issue #1. If a borrower will be able to designate interest rate risk as the hedged risk on its debt, a lender should also be able to designate interest rate risk on the related loan. Pursuant to the exposure draft, two counterparties to the same transaction would have different accounting treatment depending on whether the instrument was an asset or a liability. This concept does not simplify the accounting for hedge activities.

The Board has also proposed that interest rate risk can only be designated as the hedged risk of long-term debt at the inception of the debt. The exposure draft would not permit a hedge to be designated after inception or a hedge relationship to be removed at a later date. We typically hedge our long-term debt at its issuance date. However, unforeseen changes in the mix of our balance sheet can occur due to acquisitions, dispositions and/or the disruptions in the financial and mortgage markets. We want to preserve the right to designate or de-designate a hedge relationship at a later date to address future changes in our interest rate exposures.

Issue 3: The Board has proposed eliminating the shortcut method and critical terms matching method of assessing hedge effectiveness. We do not object with this proposal as we eliminated the use of the shortcut method a few years ago. We employ long-haul effectiveness tests for all of our hedge relationships.

Issue 4: The proposed Statement would modify the effectiveness threshold for applying hedge accounting from highly effective to reasonably effective. We agree with this proposal as highly effective has been interpreted to be a very high standard. Reasonably effective would provide a more equitable approach. However, we urge the Board to include a definition of reasonably effective in the final standard. Otherwise, its interpretation will likely be determined differently by each public accounting firm which will lead to inconsistent application.

Issue 5: The proposed Statement would require an effectiveness evaluation at the inception of the hedging relationship. After the inception of the hedging relationship, an effectiveness evaluation would only be required only if circumstances suggest that the hedging relationship may no longer be reasonably effective. We do not believe that this proposal will simplify the accounting for hedging activities. New tests would need to be designed and performed on a periodic basis to justify why an effectiveness test was not performed. This proposal appears to add a new layer of complexity to the process. We are concerned that these new tests would be subject to challenge by auditors and regulators. Given that we have already established the infrastructure to perform regular effectiveness tests, it would be simpler for us to continue to perform ongoing effectiveness tests.

Issue 6: The proposed Statement does not completely eliminate ongoing hedge effectiveness testing. We agree that a hedge relationship may not always be reasonably

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effective and periodic testing may be necessary to identify ineffectiveness. As discussed above, we believe it would be simpler to continue ongoing hedge ineffectiveness tests than to create new tests to justify why we did not perform these quantitative tests.

Issue 7: We do not believe that SFAS 133 should be amended to prescribe where in the income statement that hedging gains or losses should be reported. For hedges which are effective under SFAS 133, we classify the derivative gains/(losses) in the same financial statement line item as the hedged risk. We prefer this treatment as it is consistent with our view that the hedge strategies are an integral part of managing the business. SFAS 161, Disclosure about Derivative Instruments and Hedging Activities, will require companies to disclose where in their financial statements that they classify their hedging gains/(losses). We do not believe that grouping all derivative gains/(losses) within one line item in the income statement would enhance the reporting of hedge activities as we have a diverse group of hedged items which flow through various income statement captions.

Issue 8: The Board has proposed an effective date for fiscal years beginning after June 15, 2009. We do not object to the proposed effective date. We would likely discontinue certain hedge strategies if the benchmark interest rate no longer qualifies for hedge accounting treatment. Therefore, we do not expect to need much preparation time as we would not be re-designating many of our hedge strategies.

Issue 9: The proposed Statement did not propose any transition disclosures. We do not feel that any transition disclosures will be necessary beyond what will already be required by SFAS 161.

Issue 10: The Board has proposed a one-time fair value option election under SFAS 156 and SFAS 159 for eligible servicing assets and other eligible financial instruments designated as hedged items immediately prior to the adoption of this new standard. We do not object to this proposal; however, we would not plan to adopt fair value option for any additional financial instruments. We adopted SFAS 156 and SFAS 159 in 2007 and 2008, respectively. We do not plan to adopt fair value option for any other financial instruments. However, other companies may wish to adopt fair value option for certain financial instruments as a result of the proposed hedge accounting changes

Issue 11: We do not feel that the cost of implementing this proposed statement will justify its benefits. A significant cost will be incurred by some companies to re-designate their hedge relationships, establish new tests to monitor the effectiveness of their hedge relationships, and to modify their systems to record hedged financial instruments at full fair value. We do not see any significant benefits in the proposed standard to justify these incremental costs.