SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. 0001193125-04-139237

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FILER

HUNTINGTON PREFERRED CAPITAL INC

CIK:**1140657**| State of Incorp.:**OH** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-33243** | Film No.: **04971043**
SIC: **6798** Real estate investment trusts

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
QUARTERLY PERIOD ENDED June 30, 2004

Commission File Number: 000-33243

HUNTINGTON PREFERRED CAPITAL, INC.

Ohio	**31-1356967**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

41 South High Street, Columbus, Ohio 43287

Registrant' s telephone number (614) 480-8300

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 and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2004, 14,000,000 shares of common stock without par value were outstanding, all of which were held by affiliates of the registrant.

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HUNTINGTON PREFERRED CAPITAL, INC.

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Part I. Financial Information
Item 1. Financial Statements
Huntington Preferred Capital, Inc.
Condensed Consolidated Balance Sheets

(in thousands of dollars, except share data)	**June 30, 2004**	**December 31, 2003**	**June 30, 2003**
	(Unaudited)		*(Unaudited)*
Assets			
Cash with The Huntington National Bank	**$234,870**	$ 124,085	$59,191
Interest bearing deposits with The Huntington National Bank	**150,000**	–	423,579
Due from affiliates	**1,315**	13,652	11,616
Loan participation interests:			
Commercial	**140,424**	147,211	233,579
Commercial real estate	**4,060,435**	4,245,092	4,077,395
Consumer	**723,410**	622,575	534,711
Residential real estate	**254,600**	288,190	376,641
Total loan participation interests	**5,178,869**	5,303,068	5,222,326
Allowance for loan losses	**(72,524)**	(84,532)	(110,127)
Net loan participation interests	**5,106,345**	5,218,536	5,112,199

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Premises and equipment	**29,364**	32,126	34,980
Accrued income and other assets	**16,630**	17,579	20,153
Total Assets	**$5,538,524**	$ 5,405,978	$5,661,718
Liabilities			
Allowance for unfunded loan participation commitments	**$3,892**	$−	$−
Dividends payable and other liabilities	**2,496**	−	3,288
Total Liabilities	**6,388**	−	3,288
Shareholders' Equity			
Preferred securities, Class A, 8.000% noncumulative, non- exchangeable; $1,000 par and liquidation value per share; 1,000 shares authorized, issued and outstanding	**1,000**	1,000	1,000
Preferred securities, Class B, variable-rate noncumulative and conditionally exchangeable; $1,000 par and liquidation value per share; authorized 500,000 shares; 400,000 shares issued and outstanding	**400,000**	400,000	400,000
Preferred securities, Class C, 7.875% noncumulative and conditionally exchangeable; $25 par and liquidation value; 2,000,000 shares authorized, issued, and outstanding	**50,000**	50,000	50,000
Preferred securities, Class D, variable-rate noncumulative and conditionally exchangeable; $25 par and liquidation value; 14,000,000 shares authorized, issued, and outstanding	**350,000**	350,000	350,000
Preferred securities, $25 par, 10,000,000 shares authorized; no shares issued or outstanding	−	−	−

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Common stock - without par value; 14,000,000 shares authorized, issued and outstanding	**4,604,978**	4,604,978	4,715,351
Retained earnings	**126,158**	–	142,079
Total Shareholders' Equity	**5,532,136**	5,405,978	5,658,430
Total Liabilities and Shareholders' Equity	**$5,538,524**	$ 5,405,978	$5,661,718

See notes to unaudited condensed consolidated financial statements.

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Huntington Preferred Capital, Inc.
Condensed Consolidated Statements of Income
(Unaudited)

(in thousands of dollars)	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Interest and fee income				
Interest on loan participation interests:				
Commercial	**$1,901**	$2,979	**$3,995**	$6,934
Commercial real estate	**44,751**	45,879	**89,811**	92,836
Consumer	**12,969**	12,388	**24,982**	25,767
Residential real estate	**3,475**	3,000	**7,158**	5,251
Total loan participation interest income	**63,096**	64,246	**125,946**	130,788
Fees from loan participation interests	**652**	2,609	**1,263**	5,342
Interest on deposits with The Huntington				
National Bank	**198**	2,015	**487**	3,869
Total interest and fee income	**63,946**	68,870	**127,696**	139,999
Reduction of allowances for credit losses	**(9,301)**	(15,000)	**(11,564)**	(15,000)

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Interest income after reduction of allowances for credit losses	**73,247**	83,870	**139,260**	154,999
Non-interest income:				
Rental income	**1,853**	1,463	**3,322**	3,269
Collateral fees	**192**	146	**389**	306
Total non-interest income	**2,045**	1,609	**3,711**	3,575
Non-interest expense:				
Servicing costs	**2,199**	1,750	**4,335**	3,326
Depreciation	**1,346**	1,383	**2,699**	2,784
Loss on disposal of fixed assets	**26**	–	**63**	325
Other	**374**	95	**479**	150
Total non-interest expense	**3,945**	3,228	**7,576**	6,585
Income before provision for income taxes	**71,347**	82,251	**135,395**	151,989
Provision for income taxes	**84**	24	**107**	49
Net income	**$71,263**	$82,227	**$135,288**	$151,940
Dividends declared on preferred securities	**(4,488)**	(4,787)	**(9,130)**	(9,861)

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Net income applicable to common shares	**$66,775**	$77,440	**$126,158**	$142,079

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Huntington Preferred Capital, Inc.
Condensed Consolidated Statements of Changes in Shareholders' Equity

(in thousands)	Preferred, Class A		Preferred, Class B		Preferred, Class C	
	Shares	Securities	Shares	Securities	Shares	Securities
Six Months Ended June 30, 2003 ***(Unaudited):***						
Balance, beginning of period	1	$ 1,000	400	$400,000	2,000	$ 50,000
Comprehensive Income:						
Net income						
Total comprehensive income						
Balance, end of period *(Unaudited)*	1	$ 1,000	400	$400,000	2,000	$ 50,000
Six Months Ended June 30, 2004 ***(Unaudited):***						
Balance, beginning of period	**1**	**$ 1,000**	**400**	**$400,000**	**2,000**	**$ 50,000**
Comprehensive Income:						
Net income						
Total comprehensive income						
Balance, end of period ***(Unaudited)***	**1**	**$ 1,000**	**400**	**$400,000**	**2,000**	**$ 50,000**

(in thousands)	Preferred, Class D		Preferred		Common		Retained	
	Shares	Securities	Shares	Securities	Shares	Securities	Earnings	Total

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Six Months Ended June 30, 2003 *(Unaudited)*:								
Balance, beginning of period	14,000	$350,000	–	$ –	14,000	$4,715,351	$–	$5,516,351
Comprehensive Income:								
Net income							151,940	151,940
Total comprehensive income								151,940
Dividends declared on Class A preferred securities							(80)	(80)
Dividends declared on Class B preferred securities							(2,650)	(2,650)
Dividends declared on Class C preferred securities							(1,969)	(1,969)
Dividends declared on Class D preferred securities							(5,162)	(5,162)
Balance, end of period *(Unaudited)*	14,000	$350,000	–	$ –	14,000	$4,715,351	$ 142,079	$5,658,430
Six Months Ended June 30, 2004 *(Unaudited)*:								
Balance, beginning of period	**14,000**	**$350,000**	**–**	**$ –**	**14,000**	**$4,604,978**	**$–**	**$5,405,978**
Comprehensive Income:								
Net income							**135,288**	**135,288**

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Total comprehensive income								**135,288**
Dividends declared on Class A preferred securities							**(80)**	**(80)**
Dividends declared on Class B preferred securities							**(2,260)**	**(2,260)**
Dividends declared on Class C preferred securities							**(1,969)**	**(1,969)**
Dividends declared on Class D preferred securities							**(4,821)**	**(4,821)**
Balance, end of period *(Unaudited)*	**14,000**	**$350,000**	**–**	**$ –**	**14,000**	**$4,604,978**	**$126,158**	**$5,532,136**

See notes to unaudited condensed consolidated financial statements.

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Huntington Preferred Capital, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands of dollars)	Six Months Ended June 30	
	2004	**2003**
Operating Activities		
Net Income	**$135,288**	$151,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Reduction of allowances for credit losses	**(11,564)**	(15,000)
Depreciation	**2,699**	2,784
Deferred income tax benefit	**(472)**	(289)
Loss on disposal of fixed assets	**63**	325
Decrease in accrued income and other assets	**2,896**	17,341
Decrease (increase) in due from affiliates	**12,337**	(4,176)
Increase (decrease) in other liabilities	**26**	(112)
Net Cash Provided by Operating Activities	**141,273**	152,813
Investing Activities		
Participation interests acquired	**(2,411,066)**	(2,961,908)

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Sales and repayments on loans underlying participation interests	**2,537,368**	2,764,742
Net Cash Provided by (Used for) Investing Activities	**126,302**	(197,166)
Financing Activities		
Dividends paid on preferred stock	**(6,790)**	(7,131)
Net Cash Used for Financing Activities	**(6,790)**	(7,131)
Change in Cash and Cash Equivalents	**260,785**	(51,484)
Cash and Cash Equivalents:		
at Beginning of Period	**124,085**	534,254
at End of Period	**$384,870**	$482,770
Supplemental information:		
Income taxes paid	**$690**	$161

See notes to unaudited condensed consolidated financial statements.

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Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1 - Organization

Huntington Preferred Capital, Inc. (HPCI) was organized under Ohio law in 1992 and designated as a real estate investment trust (REIT) in 1998. Three related parties own HPCI' s common stock: HPC Holdings-III, Inc. (HPCH-III), Huntington Preferred Capital II, Inc. (HPCII), and Huntington Bancshares Incorporated (Huntington). HPCI and HPCII are subsidiaries of HPCH-III, which is a subsidiary of Huntington Preferred Capital Holdings, Inc. (Holdings). Holdings is a subsidiary of The Huntington National Bank (the Bank), a national banking association organized under the laws of the United States and headquartered in Columbus, Ohio. The Bank is a wholly owned subsidiary of Huntington. HPCI has one subsidiary, HPCLI, Inc. (HPCLI), a taxable REIT subsidiary formed in March 2001 for the purpose of holding certain assets (primarily leasehold improvements).

Note 2 - Basis of Presentation and New Accounting Pronouncements

The accompanying unaudited condensed consolidated financial statements of HPCI reflect all adjustments consisting of normal recurring accruals, which are, in the opinion of Management, necessary for a fair presentation of the consolidated financial position, the results of operations, and cash flows for the periods presented. These unaudited condensed consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted. The Notes to the Consolidated Financial Statements appearing in HPCI' s 2003 Annual Report on Form 10-K (Form 10-K), which include descriptions of significant accounting policies, as updated by the information contained in this report, should be read in conjunction with these interim financial statements.

HPCI elected to be treated as a REIT for federal income tax purposes and intends to maintain compliance with the provisions of the Internal Revenue Code and, therefore, is not subject to federal income taxes. HPCI' s subsidiary, HPCLI, elected to be treated as a taxable REIT subsidiary and, therefore, a separate provision related to its income taxes is included in the accompanying unaudited condensed consolidated financial statements.

All of HPCI' s common stock is owned by Huntington, HPCII, and HPCH-III and, therefore, net income per common share information is not presented.

Cash and cash equivalents used in the Statement of Cash Flows are defined as the sum of "Cash" and "Interest bearing deposits with The Huntington National Bank".

AICPA Statement of Position No. 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3): In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued SOP 03-3, to address accounting for differences between the contractual cash flows of certain loans and debt securities and the cash flows expected to be collected when loans or debt securities are acquired in a transfer and those cash flow differences are attributable, at least in part, to credit quality. As such, SOP 03-3 applies to such loans and debt securities acquired in purchase business combinations and does not apply to originated loans. The application of SOP 03-3 limits the interest income, including accretion of purchase price discounts, that may be recognized for certain loans and debt securities. Additionally, SOP 03-3 requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield or valuation allowance, such as the allowance for loan losses. Subsequent to the initial investment, increases in expected cash flows generally should be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows should be recognized as impairment. SOP 03-3 is effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004, with early application encouraged. The impact of this new pronouncement is not expected to be material to HPCI' s financial condition, results of operations, or cash flows.

Note 3 - New President, Treasurer and Board Members Named

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On August 9, 2004, Huntington Bancshares Incorporated (Huntington) announced that Donald R. Kimble had been named chief financial officer and controller for Huntington, and that Michael J. McMennamin and John D. Van Fleet had relinquished their positions of chief financial officer and controller, respectively. A further description of this matter is set forth in Huntington' s press release filed with its Form 8-K, dated August 9, 2004, and in Huntington' s quarterly report on Form 10-Q for the quarter ended June 30, 2004. In connection therewith, Mr. McMennamin has also relinquished his positions as President and director for HPCI, and Mr. Van Fleet has also relinquished his positions as Vice President, Treasurer and director for HPCI.

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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

On August 12, 2004, Mr. Kimble was named President of HPCI by its Board of Directors and Thomas P. Reed, currently a Vice President and director for HPCI, was also named Treasurer of HPCI. In addition, Mr. Kimble and Karen D. Roggenkamp, currently a Vice President for HPCI, were elected directors of HPCI to fill the vacancies in those positions.

Note 4 - Participations in Non-Performing Loans and Past Due Loans

Participations in loans in non-accrual status and loans past due 90 days or more and still accruing interest, were as follows:

(in thousands of dollars)	June 30, 2004	December 31, 2003	June 30, 2003
Commercial	**$3,988**	$ 5,176	$16,537
Commercial real estate	**9,218**	12,987	27,376
Residential real estate	**4,900**	4,157	6,316
Total Participations in Non-Accrual Loans	**$18,106**	$ 22,320	$50,229
Participations in Accruing Loans Past Due 90 Days or More	**$10,255**	$ 13,363	$13,513

There were no underlying loans outstanding that would be considered a concentration of lending in any particular industry, group of industries, or business activity. Underlying loans were, however, generally collateralized by real estate. Loans made to borrowers in the four states of Ohio, Michigan, Indiana, and Kentucky comprised 96.4%, 94.8%, and 94.1%, of the portfolio at June 30, 2004, December 31, 2003, and June 30, 2003, respectively.

Note 5 - Allowances for Credit Losses (ACL)

The ACL is comprised of the allowance for loan losses (ALL) and the allowance for unfunded loan participation commitments (AULPC). The following tables reflect activity in the ACL for the three-month and six-month periods ended June 30, 2004, and June 30, 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of dollars)	2004	2003	2004	2003
ALL balance, beginning of period	**$79,842**	$125,884	**$84,532**	$140,353

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Allowance for loan participations acquired	**3,601**	11,740	**9,178**	23,397
Net loan losses	**(2,051)**	(12,497)	**(5,730)**	(38,623)
Reduction of allowances for credit losses	**(9,301)**	(15,000)	**(11,564)**	(15,000)
Net change in AULPC	**433**	–	**(3,892)**	–
ALL balance, end of period	**$72,524**	$110,127	**$72,524**	$110,127
AULPC balance, beginning of period	**$4,325**	$–	**$–**	$–
Net change	**(433)**	–	**3,892**	–
AULPC balance, end of period	**$3,892**	$–	**$3,892**	$–

Effective March 31, 2004, HPCI reclassified $4.3 million of its ALL to a separate liability on the balance sheet titled allowance for AULPC. The AULPC is based on expected loss derived from historical experience. HPCI believes that this reclassification better reflects the nature of this reserve and represents improved financial statement disclosure. For the second quarter 2004, AULPC was reduced by $433 thousand due to lower unfunded loan participation commitment balances. Prior period financial statements have not been revised due to immateriality.

Note 6 - Dividends

Holders of Class A preferred securities, a majority of which are held by HPCH-III and the remainder by current and past employees of the Bank, are entitled to receive, if, when, and as declared by the Board of Directors of HPCI out of funds legally available, dividends at a fixed rate of $80.00 per share per annum. Dividends on the Class A preferred securities, if declared, are payable annually in December to holders of record on the record date fixed for such purpose by the Board of Directors in advance of payment.

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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

The holder of the Class B preferred securities, HPC Holdings-II, Inc., a direct non-bank subsidiary of Huntington, is entitled to receive, if, when, and as declared by the Board of Directors of HPCI out of funds legally available, dividends at a variable rate equal to the three-month LIBOR published on the first day of each calendar quarter times par value. Dividends on the Class B preferred securities, which are declared quarterly, are payable annually and are non-cumulative. No dividend, except payable in common shares, may be declared or paid upon Class B preferred securities unless dividend obligations are satisfied on the Class A, Class C, and Class D preferred securities.

Holders of Class C preferred securities are entitled to receive, if, when, and as declared by the Board of Directors of HPCI out of funds legally available, dividends at a fixed rate of 7.875% per annum, of the initial liquidation preference of $25.00 per share, payable quarterly. Dividends accrue in each quarterly period from the first day of each period, whether or not dividends are paid with respect to the preceding period. Dividends are not cumulative and if no dividend is paid on the Class C preferred securities for a quarterly dividend period, the payment of dividends on HPCI' s common stock and other HPCI-issued securities ranking junior to the Class C preferred securities (*i.e.*, Class B preferred securities) will be prohibited for that period and at least the following three quarterly dividend periods.

The holder of Class D preferred securities, HPCH-III, is entitled to receive, if, when, and as declared by the Board of Directors of HPCI out of funds legally available, dividends at a variable rate established at the beginning of each calendar quarter equal to three-month LIBOR published on the first day of each calendar quarter, plus 1.625% times par value, payable quarterly. Dividends accrue in each quarterly period from the first day of each period, whether or not dividends are paid with respect to the preceding period. Dividends are not cumulative and if no dividend is paid on the Class D preferred securities for a quarterly dividend period, the payment of dividends on HPCI' s common stock and other HPCI-issued securities ranking junior to the Class D preferred securities (*i.e.*, Class B preferred securities) will be prohibited for that period and at least the following three quarterly dividend periods.

A summary of dividends declared by each class of preferred securities follows for periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of dollars)	**2004**	**2003**	**2004**	**2003**
Class A preferred securities	**$−**	$−	**$80**	$80
Class B preferred securities	**1,110**	1,270	**2,260**	2,650
Class C preferred securities	**984**	984	**1,969**	1,969
Class D preferred securities	**2,394**	2,533	**4,821**	5,162
Total dividends declared	**$4,488**	$4,787	**$9,130**	$9,861

Note 7 - Related Party Transactions

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HPCI is a party to a Second Amended and Restated Loan Subparticipation Agreement with Holdings, an Amended and Restated Loan Subparticipation Agreement with HPCH-III, and an Amended and Restated Loan Participation Agreement with the Bank. The Bank is required, under the participation and/or subparticipation agreements, to service HPCI' s loan portfolio in a manner substantially the same as for similar work for transactions on its own behalf. The Bank collects and remits principal and interest payments, maintains perfected collateral positions, and submits and pursues insurance claims. In addition, the Bank provides to HPCI accounting and reporting services as required. The Bank is required to pay all expenses related to the performance of its duties under the participation and subparticipation agreements. All of these participation interests to date were acquired directly or indirectly from the Bank.

The Bank performs the servicing of the commercial, commercial real estate, residential real estate, and consumer loans underlying the participations held by HPCI in accordance with normal industry practice under the amended participation agreements and subparticipation agreements. As of June 1, 2003, the annual servicing fee the Bank charges was 0.125% of the outstanding principal balances of the underlying commercial and commercial real estate loans, 0.320% of the outstanding principal balances of the underlying consumer loans, and 0.2997% of the outstanding principal balances of the underlying residential real estate loans. On an annualized basis, it is expected that this change will increase non-interest expense by approximately $3.0 million. Prior to June 1, 2003, the servicing fee the Bank charged, on an annual basis, was 0.125% with respect to the underlying commercial real estate, commercial, and consumer loan balances and 2.35% of the

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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

interest income collected on residential real estate loans. In its capacity as servicer, the Bank collects and holds the loan payments received on behalf of HPCI until the end of each month. Servicing costs paid to the Bank totaled $2.2 million and $1.8 million for the three-month periods ended June 30, 2004 and 2003, respectively. For the respective six-month periods, the cost was $4.3 million and $3.3 million. Pursuant to the existing participation and subparticipation agreements, the amount and terms of the loan-servicing fee between the Bank and HPCI are determined by mutual agreement from time to time during the terms of the agreements. Effective July 1, 2004, the parties revised the current servicing fee of 0.320% on outstanding principal balances of underlying consumer loan balances to 0.750%, and on residential real estate loans from 0.2997% of the outstanding principal balances to 0.2670%. In lieu of paying higher servicing fees to the Bank with respect to commercial and commercial real estate loans, HPCI waived its right to receive any origination fess associated with participation interests in commercial and commercial real estate loans transferred on or after July 1, 2004, until such time as loan servicing fees are reviewed in 2005.

Huntington' s and the Bank' s personnel handle day-to-day operations of HPCI such as financial analysis and reporting, accounting, tax reporting, and other administrative functions. On a monthly basis, HPCI reimburses the Bank and Huntington for the cost related to the time spent by employees for performing these functions. These personnel costs totaled $263,000 and $58,000 for the three-month periods ended June 30, 2004 and 2003, respectively. For the respective six-month periods, the cost was $355,000 and $98,000.

The following table represents the current ownership of HPCI' s outstanding common and preferred securities:

	Number of Common Shares	Number of Preferred Securities			
Owner at June 30, 2004:		**Class A**	**Class B**	**Class C**	**Class D**
Held by related parties:					
HPC II	4,550,000	–	–	–	–
HPCH-III	9,431,333	891	–	–	14,000,000
HPC Holdings II, Inc.	–	–	400,000	–	–
Huntington	18,667	–	–	–	–
Total held by related parties	14,000,000	891	400,000	–	14,000,000
Other shareholders	–	109	–	2,000,000	–
Total shares outstanding	14,000,000	1,000	400,000	2,000,000	14,000,000

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As of June 30, 2004, 10.9% of the Class A preferred securities were owned by current and past employees of Huntington and its subsidiaries in addition to the 89.1% owned by HPCH-III. The Class A preferred securities are non-voting. All of the Class B preferred securities are owned by HPC Holdings II, Inc., a non-bank subsidiary of Huntington and are non-voting. In 2001, the Class C preferred securities were obtained by Holdings, who sold the securities to the public. Various board members and executive officers of HPCI have purchased a portion of the Class C preferred securities. At June 30, 2004, HPCI board members and executive officers beneficially owned a total of 9,623 shares, or 0.481%, in the aggregate. All of the Class D preferred securities are owned by HPCH-III. In the event HPCI redeems its Class C or Class D preferred securities, holders of such securities will be entitled to receive $25.00 per share plus accrued and unpaid dividends on such shares. The redemption amount may be significantly lower than the then current market price of the Class C or Class D preferred securities. Dividends paid to the Class C and D shareholders in the second quarter of 2004 were approximately $1.0 million and $2.4 million, respectively.

Both the Class C and D preferred securities are entitled to one-tenth of one vote per share on all matters submitted to HPCI shareholders. The Class C and D preferred securities are exchangeable, without shareholder approval or any action of shareholders, for preferred securities of the Bank with substantially equivalent terms as to dividends, liquidation preference, and redemption if the Office of the Comptroller of the Currency (OCC) so directs only if the Bank becomes, or may in the near term become, undercapitalized or the Bank is placed in conservatorship or receivership. The Class C and Class D preferred securities are redeemable at HPCI' s option on or after December 31, 2021, and December 31, 2006, respectively, with prior consent of the OCC.

As related parties hold HPCI' s common stock, there is no established public trading market for the stock.

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Notes to the Unaudited Condensed Consolidated Financial Statements (Continued)

HPCI’ s premises and equipment were acquired from the Bank through Holdings. Leasehold improvements were subsequently contributed to HPCLI for its common shares in the fourth quarter of 2001. HPCLI charges rent to the Bank for use of applicable facilities by the Bank. The amount of rental income received by HPCLI during the quarter ended June 30, 2004 and 2003 was $1.9 million and $1.5 million, respectfully. The amount of rental income received by HPCLI for the six-months ended June 30, 2004 and 2003 was $3.3 million for both periods. Rental income is reflected as a component of non-interest income in the condensed consolidated statements of income.

HPCI has a non-interest bearing receivable from affiliates of $1.3 million at June 30, 2004, $13.7 million at December 31, 2003, and $11.6 million at June 30, 2003.

The Bank is eligible to obtain collateralized advances from various federal and government-sponsored agencies such as the Federal Home Loan Bank. From time to time, HPCI may be asked to act as guarantor of the Bank’ s obligations under such advances and/or pledge all or a portion of its assets in connection with those advances. See Note 8 for further information regarding the pledging of HPCI’ s assets in association with the Bank’ s advances.

HPCI maintains and transacts all of its cash activity through a non-interest bearing demand deposit account with the Bank. In addition, to the extent that it does not jeopardize qualification as a REIT, HPCI may invest available funds in Eurodollar deposits with the Bank for a term of not more than 30 days at market rates.

Note 8 - Commitments and Contingencies

The Bank is eligible to obtain advances from various federal and government-sponsored agencies such as the Federal Home Loan Bank (FHLB). From time to time, HPCI may be asked to act as guarantor of the Bank’ s obligations under such advances and/or pledge all or a portion of its assets in connection with those advances. Any such guarantee and/or pledge would rank senior to HPCI’ s common and preferred securities upon liquidation. Accordingly, any federal or government-sponsored agencies that make advances to the Bank where HPCI has acted as guarantor or has pledged all or a portion of its assets as collateral will have a liquidation preference over the holders of HPCI’ s securities. Any such guarantee and/or pledge in connection with the Bank’ s advances from federal or government-sponsored agencies falls within the definition of Permitted Indebtedness (as defined in HPCI’ s articles of incorporation) and, therefore, HPCI is not required to obtain the consent of the holders of its common or preferred securities for any such guarantee and/or pledge.

The Bank is currently eligible to obtain one or more collateralized advances from the FHLB based upon the amount of FHLB capital stock owned by the Bank. As of June 30, 2004, the Bank’ s total borrowing capacity under this facility was capped at $1.4 billion. As of this same date, the Bank had borrowings of $1.3 billion under this facility. In addition, the FHLB has separately issued a standby letter of credit for the account of a customer of Huntington totaling $18.2 million secured by loans which have been participated to HPCI.

HPCI has entered into an agreement with the Bank with respect to the pledge of HPCI’ s assets to collateralize the Bank’ s borrowings from the FHLB. The agreement provides that the Bank will not place at risk HPCI’ s assets in excess of an aggregate amount or percentage of such assets established from time to time by HPCI’ s board of directors, including a majority of HPCI’ s independent directors. HPCI’ s board has set this limit at $1 billion, which limit may be changed in the future by the board of directors, including a majority of HPCI’ s independent directors. The agreement also provides that the Bank will pay HPCI a monthly fee based upon the pledged collateral held by HPCI. As of June 30, 2004, HPCI’ s pledged collateral was limited to 1-4 family residential mortgages and second mortgage loans. As of that same date, HPCI’ s participation interests in 1-4 family residential mortgages and second mortgage loans pledged as collateral, totalled $615 million. The Bank paid $0.4 million to HPCI in the first six-months of 2004, representing twelve basis points per year on the collateral pledged, as compensation for making such assets available to the Bank as collateral.

Under the terms of the participation and subparticipation agreements, HPCI is obligated to make funds or credit available to the Bank, either directly, indirectly through Holdings, or indirectly through Holdings and HPCH III, so that the Bank may extend credit to any

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borrowers, or pay letters of credit issued for the account of any borrowers, to the extent provided in the loan agreements underlying HPCI' s participation interests. As of June 30, 2004, December 31, 2003, and June 30, 2003, unfunded loan commitments totaled $726.4 million, $923.7 million, and $848.1 million, respectively.

Note 9 - Segment Reporting

HPCI' s operations consist of acquiring, holding, and managing its participation interests. Accordingly, HPCI only operates in one segment. HPCI has no external customers and transacts all of its business with the Bank and its affiliates.

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Item 2. Managements' s Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Huntington Preferred Capital, Inc. (HPCI) is an Ohio corporation operating as a real estate investment trust (REIT) for federal income tax purposes. HPCI' s principal business objective is to acquire, hold, and manage mortgage assets and other authorized investments that will generate net income for distribution to its shareholders.

HPCI was organized under Ohio law in 1992 and designated as a real estate investment trust (REIT) in 1998. HPCI' s common stock is owned by three related parties: HPC Holdings-III, Inc. (HPCH-III), Huntington Preferred Capital II, Inc. (HPCII), and Huntington Bancshares Incorporated (Huntington). HPCI and HPCII are subsidiaries of HPCH-III, which is a subsidiary of Huntington Preferred Capital Holdings, Inc. (Holdings). Holdings is a subsidiary of The Huntington National Bank (the Bank), a national banking association organized under the laws of the United States and headquartered in Columbus, Ohio. The Bank is a wholly owned subsidiary of Huntington. HPCI has one subsidiary, HPCLI, Inc. (HPCLI), a taxable REIT subsidiary formed in March 2001 for the purpose of holding certain assets (primarily leasehold improvements).

HPCI is a party to a Second Amended and Restated Loan Subparticipation Agreement with Holdings, an Amended and Restated Loan Subparticipation Agreement with HPCH-III, and an Amended and Restated Loan Participation Agreement with the Bank. The Bank is required, under the participation and/or subparticipation agreements, to service HPCI' s loan portfolio in a manner substantially the same as for similar work for transactions on its own behalf. The Bank collects and remits principal and interest payments, maintains perfected collateral positions, and submits and pursues insurance claims. In addition, the Bank provides to HPCI accounting and reporting services as required. The Bank is required to pay all expenses related to the performance of its duties under the participation and subparticipation agreements. All of these participation interests to date were acquired directly or indirectly from the Bank.

Forward-looking Statements

This report, including management' s discussion and analysis of financial condition and results of operations, contains forward-looking statements about HPCI. These include descriptions of products or services, plans, or objectives of Management for future operations, and forecasts of revenues, earnings, cash flows, or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts.

By their nature, forward-looking statements are subject to numerous assumptions, risks, and uncertainties. A number of factors could cause actual conditions, events, or results to differ significantly from those described in the forward-looking statements. These factors include, but are not limited to, those set forth under the heading "Business Risks" included in Item 1 of HPCI' s 2003 Form 10-K (Form 10-K) and other factors described in this report and from time to time in other filings with the Securities and Exchange Commission.

Management encourages readers of this report to understand forward-looking statements to be strategic objectives rather than absolute forecasts of future performance. Forward-looking statements speak only as of the date they are made. HPCI assumes no obligation to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements were made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies

Note 1 to HPCI' s consolidated financial statements included in Form 10-K lists critical accounting policies used in the development and presentation of its financial statements. These critical accounting policies, as well as this discussion and analysis and other financial statement disclosures, identify and address key variables and other qualitative and quantitative factors that are necessary for an understanding and evaluation of HPCI, its financial position, results of operations, and cash flows.

Use of Significant Estimates

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires Management to establish critical accounting policies and make accounting estimates, assumptions, and judgments that affect amounts recorded and reported in its financial statements. An accounting estimate requires assumptions about uncertain matters that could have a material effect on the financial statements if a

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different amount within a range of estimates were used or if estimates changed from period to period. Readers of this interim report should understand that estimates are made under facts and circumstances at a point in time and changes in those facts and circumstances could produce actual results that differ from when those estimates were made. HPCI' s Management has identified the most significant accounting estimates and their related application in its Form 10-K.

New President, Treasurer and Board Members Named

On August 9, 2004, Huntington Bancshares Incorporated (Huntington) announced that Donald R. Kimble had been named chief financial officer and controller for Huntington, and that Michael J. McMennamin and John D. Van Fleet had relinquished their positions of chief financial officer and controller, respectively. A further description of this matter is set forth in Huntington' s press release filed with its Form 8-K, dated August 9, 2004, and in Huntington' s quarterly report on Form 10-Q for the quarter ended June 30, 2004. In connection therewith, Mr. McMennamin has also relinquished his positions as President and director for HPCI, and Mr. Van Fleet has also relinquished his positions as Vice President, Treasurer and director for HPCI.

On August 12, 2004, Mr. Kimble was named President of HPCI by its Board of Directors and Thomas P. Reed, currently a Vice President and director for HPCI, was also named Treasurer of HPCI. In addition, Mr. Kimble and Karen D. Roggenkamp, currently a Vice President for HPCI, were elected directors of HPCI to fill the vacancies in those positions.

Summary Discussion of Results

HPCI' s income is primarily derived from its participation in loans acquired from the Bank and Holdings. Income varies based on the level of these assets and their respective interest rates. The cash flows from these assets are used to satisfy HPCI' s preferred dividend obligations. The preferred stock is considered equity and, therefore, the dividends are not reflected as interest expense.

HPCI' s net income was $71.3 million and $82.2 million, respectively, for the three-months ended June 30, 2004 and 2003, while net income available to common shareholders was $66.8 million and $77.4 million, respectively, for the same three-month ended periods. For the six-month period ended June 30, 2004 and 2003, HPCI' s net income was $135.3 million and $151.9 million, respectively, while net income available to common shareholders was $126.2 million and $142.1 million, respectively.

HPCI had total assets and total equity of $5.5 billion at June 30, 2004, a slight increase compared to the December 31, 2003 balance of $5.4 billion and down from $5.7 billion a year earlier. At June 30, 2004, December 31, 2003, and June 30, 2003, an aggregate of $5.2 billion, $5.3 billion, and $5.2 billion respectively, consisted of participation interests in loans. Participation interests in specific underlying loans were as follows:

Table 1 - Loan Participation Interests

(in thousands of dollars)	**June 30, 2004**	**% of Total Assets**	**December 31, 2003**	**% of Total Assets**	**June 30, 2003**	**% of Total Assets**
Gross loan participation interests:						
Commercial	**$140,424**	**2.5**	$147,211	2.7	$233,579	4.1
Commercial real estate	**4,060,435**	**73.3**	4,245,092	78.5	4,077,395	72.0

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Consumer	**723,410**	**13.1**	622,575	11.5	534,711	9.4
Residential real estate	**254,600**	**4.6**	288,190	5.4	376,641	6.7
Total	**$5,178,869**	**93.5**	$5,303,068	98.1	$5,222,326	92.2

HPCI' s participation interests in commercial loans, which represented only 2.5% of total assets as of June 30, 2004, declined 5% from December 31, 2003 and 40% from June 30, 2003. The decrease from June 30, 2003 was due to continued portfolio run off and asset sales in June 2004 and December 2003 of approximately $21.8 million. This decline was partially offset by a reclassification on February 1, 2004, of commercial real estate loan participation interests totaling $62.6 million to commercial loan participation interests. This reclassification was made to better reflect the loan participation interests based on the collateral underlying the loan. Participation interests in commercial real estate loans at June 30, 2004, which represent 73.3% of total assets at the end of the second quarter, decreased slightly over levels compared to the same period last year primarily due to run off, the reclassification, and decreased new loan purchases during the second quarter of 2004. Consumer loan participation interests increased 35% and 16%, respectively, for the reported periods due to purchases of residential home equity loan participations. Residential real estate loan participation interests decreased by $122 million, or 32%, between June 30, 2003 and June 30, 2004 due to portfolio run off.

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Interest-bearing and cash balances on deposit with the Bank were $384.9 million, $124.1 million, and $482.8 million at June 30, 2004, December 31, 2003, and June 30, 2003, respectively. HPCI reduced its purchases of participation interests in the second quarter, which contributed to a $260.8 million increase in interest-bearing and cash balances during the first six-months of 2004. This increase is to be used for dividend distributions at the end of the year. Typically, cash is invested with the Bank in an interest bearing account. These interest-bearing balances are invested overnight or may be invested in Eurodollar deposits with the Bank for a term of not more than 30 days at market rates.

At June 30, 2004, December 31, 2003, and June 30, 2003, amounts due from affiliates and the Bank were $1.3 million, $13.7 million, and $11.6 million, respectively. The decline was related to a payment of rents due between the Bank and HPCLI during the second quarter of 2004. Total liabilities were $6.3 million at June 30, 2004, up from $3.3 million at June 30, 2003. This increase was primarily due to the allowance for unfunded loan participation commitments and dividends payable at June 30, 2004.

Shareholders' equity was $5.5 billion at June 30, 2004, slightly higher than the December 31, 2003 balance of $5.4 billion, but down from $5.7 billion at June 30, 2003. The $0.2 billion decline since June 30, 2003, reflected the return of capital on December 31, 2003, and payment of common and preferred dividends.

QUALIFICATION TESTS

Qualification as a REIT involves application of specific provisions of the Internal Revenue Code relating to various asset tests. A REIT must satisfy six asset tests quarterly: (1) 75% of the value of the REIT's total assets must consist of real estate assets, cash and cash items, and government securities; (2) not more than 25% of the value of the REIT's total assets may consist of securities, other than those includible under the 75% test; (3) not more than 5% of the value of its total assets may consist of securities of any one issuer, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (4) not more than 10% of the outstanding voting power of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; (5) not more than 10% of the total value of the outstanding securities of any one issuer may be held, other than those securities includible under the 75% test or securities of taxable REIT subsidiaries; and (6) a REIT cannot own securities in one or more taxable REIT subsidiaries which comprise more than 20% of its total assets. At June 30, 2004, HPCI met all of the quarterly asset tests.

Also, a REIT must annually satisfy two gross income tests: (1) 75% of its gross income must be from qualifying income closely connected with real estate activities; and (2) 95% of its gross income must be derived from sources qualifying for the 75% test plus dividends, interest and gains from the sale of securities. In addition, a REIT must distribute 90% of the REIT's taxable income for the taxable year, excluding any net capital gains, to maintain its non-taxable status for federal income tax purposes. As of December 31, 2003, HPCI met all annual income and distribution tests.

HPCI operates in a manner that will not cause it to be deemed an investment company under the Investment Company Act. The Investment Company Act exempts from registration as an investment company an entity that is primarily engaged in the business of "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" (Qualifying Interests). Under positions taken by the SEC staff in no-action letters, in order to qualify for this exemption, HPCI must invest at least 55% of its assets in Qualifying Interests and an additional 25% of its assets in real estate-related assets, although this percentage may be reduced to the extent that more than 55% of its assets are invested in Qualifying Interests. The assets in which HPCI may invest under the Internal Revenue Code therefore may be further limited by the provisions of the Investment Company Act and positions taken by the SEC staff. At June 30, 2004, HPCI was exempt from registration as an investment company under the Investment Company Act and intends to operate its business in a manner that will maintain this exemption.

RESULTS OF OPERATIONS

Net income for the second quarter 2004 was $71.3 million, down from $82.2 million for the second quarter 2003. Net income applicable to common shares was $66.8 million for the second quarter of 2004 and $77.4 million for the second quarter of 2003, after dividend

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declarations and payments on preferred stock of $4.5 million and $4.8 million, respectively. Reduced interest rates and lower earning assets adversely impacted the performance of HPCI in the recent quarter.

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Table 2 - Quarterly Statements of Income

(in thousands of dollars)	2004		2003		
	Second	**First**	**Fourth**	**Third**	**Second**
Interest and fee income					
Interest on loan participation interests:					
Commercial	**$1,901**	$2,094	$2,191	$1,917	$2,979
Commercial real estate	**44,751**	45,060	46,321	46,593	45,879
Consumer	**12,969**	12,013	12,027	11,729	12,388
Residential real estate	**3,475**	3,683	4,155	4,689	3,000
Total loan participation interest income	**63,096**	62,850	64,694	64,928	64,246
Fees from loan participation interests	**652**	611	828	1,566	2,609
Interest on deposits with the Bank	**198**	289	1,193	1,193	2,015
Total interest and fee income	**63,946**	63,750	66,715	67,687	68,870
Reduction of allowances for credit losses	**(9,301)**	(2,263)	(7,301)	(18,918)	(15,000)
Interest income after reduction of allowances for credit losses	**73,247**	66,013	74,016	86,605	83,870
Non-interest income:					

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Rental income	**1,853**	1,469	1,456	1,458	1,463
Collateral fees	**192**	197	200	212	146
Total non-interest income	**2,045**	1,666	1,656	1,670	1,609
Non-interest expense:					
Servicing costs	**2,199**	2,135	2,131	2,101	1,750
Depreciation	**1,346**	1,353	1,377	1,378	1,383
Loss on disposal of fixed assets	**26**	37	11	–	–
Other	**374**	106	121	181	95
Total non-interest expense	**3,945**	3,631	3,640	3,660	3,228
Income before provision for income taxes	**71,347**	64,048	72,032	84,615	82,251
Provision for income taxes	**84**	23	24	24	24
Net income	**$ 71,263**	$64,025	$ 72,008	84,591	82,227
Dividends declared on preferred securities	**(4,488)**	(4,642)	(4,562)	(4,488)	(4,787)
Net income applicable to common shares [(1)]	**$ 66,775**	$59,383	$ 67,446	$80,103	$ 77,440

(1) All of HPCI' s common stock is owned by Huntington, HPCII, and HPCH-III and therefore, net income per share is not presented.

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Interest and Fee Income

HPCI' s primary source of revenue is interest and fee income on its participation interests in loans. At June 30, 2004 and 2003, HPCI did not have any interest-bearing liabilities or related interest expense. Interest income is impacted by changes in the level of interest rates and earning assets. The yield on earning assets is the percentage of interest income to average earning assets.

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The table below shows HPCI' s average balances, interest and fee income, and yields for the three-month and six-month periods ending June 30:

Table 3 - Quarterly Average Balance Sheets and Net Interest Margin Analysis

	Three Months Ended June 30,					
	2004			2003		
(in millions of dollars)	Average Balance	Income [1]	Yield	Average Balance	Income [1]	Yield
Loan participation interests:						
Commercial	**$190.0**	**$ 1.9**	**4.01%**	$270.6	$ 3.1	4.54%
Commercial real estate	**4,239.5**	**45.1**	**4.28**	4,005.6	48.0	4.81
Consumer	**720.4**	**13.2**	**7.39**	560.8	12.8	9.14
Residential real estate	**268.0**	**3.5**	**5.19**	215.0	3.0	5.59
Total loan participations	**5,417.9**	**63.7**	**4.73**	5,052.0	66.9	5.31
Interest on deposits in banks	**78.4**	**0.2**	**1.02**	637.6	2.0	1.27
Total	**$5,496.3**	**$ 63.9**	**4.68%**	$5,689.6	$ 68.9	4.85%

(1) Income includes interest and fees.

Table 4 - Quarterly Average Balance Sheets and Net Interest Margin Analysis

	Six Months Ended June 30,					
	2004			2003		
(in millions of dollars)	Average Balance	Income [1]	Yield	Average Balance	Income [1]	Yield
Loan participation interests:						

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Commercial	**$180.4**	**$ 4.0**	**4.48%**	$296.8	$ 7.1	4.85%
Commercial real estate	**4,240.0**	**90.6**	**4.30**	3,949.7	97.2	4.96
Consumer	**673.0**	**25.4**	**7.60**	580.2	26.5	9.20
Residential real estate	**276.2**	**7.2**	**5.18**	180.8	5.3	5.83
Total loan participations	**5,369.6**	**127.2**	**4.76**	5,007.5	136.1	5.48
Interest on deposits in banks	**96.3**	**0.5**	**1.02**	627.7	3.9	1.24
Total	**$5,465.9**	**$ 127.7**	**4.70%**	$5,635.2	$ 140.0	5.01%

(1) Income includes interest and fees.

Interest and fee income was $63.9 million for the three-months ended June 30, 2004, compared with $68.9 million for the year ago quarter. As shown in Table 3, the decline in interest and fee income was largely due to the lower interest rate environment. Approximately 75 % of the portfolio was comprised of variable interest rate loan participations. Although average participation balances increased by $365.9 million, new loans were added with lower yields. As shown in the tables above, the yield on HPCI' s participation interests declined from 5.31% to 4.73% for the the three-months ended June 30, 2004 compared to June 30, 2003. For the six-months ended June 30, 2004 and 2003, the yield declined from 5.48% to 4.76%, while average participation balances increased by $362.1 million. The tables above include interest received on participations in loans that are on a non-accrual status in the individual portfolios.

Allowances for Loan Losses (ALL) and Allowance for Unfunded Loan Participation Commitments (AULPC)

The ALL represents the estimate of probable losses inherent in the loan portfolio at the balance sheet date. Additions to the ALL and AULPC result primarily from an allocation of the purchase price of participations acquired.

It is HPCI' s policy to rely on the Bank' s detailed analysis as of the end of each quarter to estimate the required level of the ALL and AULPC. The Bank' s methodology for establishing these reserves consists of three distinct reserve components. The first component represents transaction reserves. This component is determined using expected historical loss performance. Specifically, the probability-of-default and the loss-in-event-of-default are assigned based on specific characteristics and structure of each loan or loan portfolio. Factors are applied on an individual loan basis for commercial and commercial real estate loans and on a portfolio basis for consumer loans. The second component

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consists of specific reserves. These represent credit-by-credit decisions for commercial and commercial real estate loans when it is determined that the related transaction reserve is insufficient to cover estimated embedded losses on the loan. The third reserve component is the economic reserve designed to take into account losses due to the volatility caused by changes in the economic environment. Beginning in the first quarter of 2004, this reserve component is determined using a more quantitative methodology. Specifically, four economic indicators have been determined to be statistically significant indicators of loss volatility. These are:

The Index of Leading Economic Indicators,

The U.S. Profits Index,

The U.S. Unemployment Index, and

The Current Consumer Confidence Index.

The change in methodology related to the economic reserve has two implications. It will likely result in a more precise and quantitative determination of required reserves, and may well lead to more quarter-to-quarter volatility in reserve levels.

The entire ALL is allocated to individual loans. Management will continue to assess the adequacy of the ALL and AULPC reserve on a quarterly basis.

The levels of the ALL and AULPC are adjusted based on the results of the above-mentioned detailed quarterly analysis. This adjustment may be either an increase (provision) or a reduction. Such adjustments for the three and six-month periods ended June 30, 2004 were reductions of the allowances of $9.3 million and $11.6 million, respectively. These reductions compared to reductions of $15 million for both the three and six-month periods ended June 30, 2003. The continued reduction of the allowances for credit losses was indicative of Management' s judgement regarding the adequacy of those allowances particularly in light of lower net loan losses in the current quarter and lower non-performing asset (NPA) balances at June 30, 2004.

The following table shows the activity in HPCI' s ALL and AULPC for the last five quarters:

Table 5 - Allowance for Credit Loss Activity

	2004		2003		
(in thousands of dollars)	**Second**	**First**	**Fourth**	**Third**	**Second**
ALL balance, beginning of period	**$79,842**	$84,532	$94,738	$110,127	$125,884
Allowance of loan participations acquired, net	**3,601**	5,577	10,391	11,610	11,740
Net loan losses					
Commercial	**(372)**	154	(3,378)	(1,265)	(7,748)
Commercial real estate	**(785)**	(2,388)	(7,636)	(4,538)	(391)

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Consumer	**(885)**	(1,425)	(2,236)	(2,075)	(4,152)
Residential real estate	**(9)**	(20)	(46)	(203)	(206)
Total net loan losses	**(2,051)**	(3,679)	(13,296)	(8,081)	(12,497)
Reduction of allowances for credit losses	**(9,301)**	(2,263)	(7,301)	(18,918)	(15,000)
Net change in AULPC	**433**	(4,325)	–	–	–
ALL balance, end of period	**$ 72,524**	$79,842	$ 84,532	$94,738	$110,127
AULPC balance, beginning of period	**$ 4,325**	$–	$–	$–	$–
Net Change	**(433)**	4,325	–	–	–
AULPC balance, end of period	**$ 3,892**	$4,325	$–	$–	$–

The ALL was $72.5 million at June 30, 2004, down from $84.5 million at December 31, 2003 and down from $110.1 million at June 30, 2003. This represented 1.40%, 1.59% and 2.11% of total loan participations at the end of each respective period. Effective March 31, 2004, HPCI reclassified $4.3 million of its ALL to a separate liability on the balance sheet titled allowance for AULPC. The AULPC is based on expected loss derived from historical experience. HPCI believes that this reclassification better reflects the nature of this reserve and represents improved financial statement disclosure. For the second quarter 2004, AULPC was reduced by $433 thousand due to lower unfunded loan participation commitment balances. Prior period financial statements have not been revised due to immateriality.

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The ALL plus the AULPC was 1.48% of total loan participations at the end of the second quarter 2004 and covered 422% of non-performing assets. This is compared to 1.59% of total loan participations, which covered 379% of non-performing assets, at the end of December 31, 2003. In Management' s judgment, both the ALL and the AULPC are adequate at June 30, 2004, to cover credit losses inherent in the loan participation portfolio. Additional information regarding asset quality appears in the "Credit Quality" section of the 2003 Form 10-K.

Total net charge-offs for the quarter ended June 30, 2004, were $2.1 million, or 0.15% of average loan participation interests, down from $12.5 million, or 0.99%, recorded in the same quarterly period one year ago. For the six-months ended June 30, 2004, total net charge-offs were $5.7 million, or 0.21% of average participation interests, down from $38.6 million, or 1.56%, recorded in the same period in 2003.

Non-Performing Assets

Non-performing assets (NPAs) consist of participation interests in underlying loans that are no longer accruing interest. Underlying commercial and commercial real estate loans are placed on non-accrual status and stop accruing interest when collection of principal or interest is in doubt or generally when the underlying loan is 90 days past due. Underlying residential real estate loans are generally placed on non-accrual status within 180 days past due as to principal and 210 days past due as to interest. When interest accruals are suspended, accrued interest income is reversed with current year accruals charged to earnings and prior year amounts generally charged off as a credit loss. Consumer loans are not placed on non-accrual status; rather they are charged off in accordance with regulatory statutes governing the Bank, which is generally no more than 120 days. The following table shows non-performing assets for the assets at the end of the most recent five quarters:

Table 6 - Quarterly Non-Performing Assets

	2004		2003		
(in thousands of dollars)	**Second**	**First**	**Fourth**	**Third**	**Second**
Participation interests in non-accrual loans					
Commercial	**$ 3,988**	$5,881	$ 5,176	$ 11,677	$ 16,537
Commercial Real Estate	**9,218**	10,820	12,987	25,302	27,376
Residential Real Estate	**4,900**	5,335	4,157	4,795	6,316
Total Non-Performing Assets	**$ 18,106**	$22,036	$ 22,320	$ 41,774	$ 50,229
Participations in Accruing Loans Past Due 90 Days or More	**$ 10,255**	$14,923	$ 13,363	$ 17,252	$ 13,513

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Non-performing assets as a % of total participation interests	**0.35 %**	0.41 %	0.42 %	0.79 %	0.96 %
ALL as a % of non-performing assets	**401 %**	362 %	379 %	227 %	219 %
ALL and AULPC as a % of non-performing assets	**422 %**	382 %	379 %	227 %	219 %

Total NPA' s declined to $18.1 million at June 30, 2004, from $50.2 million at June 30, 2003, representing 0.35% and 0.96% of total participation interests, respectively. In the second quarter of 2004, and the fourth quarter of 2003, the Bank' s credit workout group identified economically attractive opportunities to sell $4.4 million and $47.7 million lower quality loans respectively, including non-performing assets (NPAs), which related to loan participation interests owned by HPCI. Previously established reserves for these loans were sufficient to absorb the related charge-offs, including amounts associated with the NPAs.

Underlying loans past due ninety days or more but continuing to accrue interest decreased to $10.3 million at June 30, 2004, from $13.4 million at December 31, 2003, and $13.5 million at June 30, 2003.

Under the participation and subparticipation agreements, the Bank may, in accordance with HPCI' s guidelines, dispose of any underlying loan that becomes classified, is placed in a non-performing status, or is renegotiated due to the financial deterioration of the borrower. The Bank may, in accordance with HPCI' s guidelines, institute foreclosure proceedings, exercise any power of sale contained in any mortgage or deed of trust, obtain a deed in lieu of foreclosure, or otherwise acquire title to a property underlying a mortgage loan by operation of law or otherwise in accordance with

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the terms of the participation and subparticipation agreement. Prior to completion of foreclosure or liquidation, the participation is sold to the Bank at fair market value. The Bank then incurs all costs associated with repossession and foreclosure.

For a further discussion of "Credit Quality", see HPCI' s 2003 Form 10-K.

Non-Interest Income and Non-Interest Expense

Non-interest income was $2.0 million for the second quarter of 2004 and $1.6 for the comparable quarter a year ago. For the six-months ended June 30, 2004 and 2003, non-interest income was $3.7 million and $3.6 million, respectively. This income primarily represents rental income received from the Bank related to leasehold improvements owned by HPCLI. Rental income was $3.3 million for both the first half 2003 and 2004. Also, non-interest income includes fees from the Bank for use of its assets as collateral for the Bank' s advances from the Federal Home Loan Bank (FHLB). These fees totaled $0.2 million and $0.1 million for the three-month periods ended June 30, 2004, and 2003. For the six-month period, the fees totaled $0.4 million and $0.3 million, respectively. See Note 8 to the unaudited condensed consolidated financial statements for more information regarding use of HPCI' s assets as collateral for the Bank' s advances from the FHLB.

Non-interest expense for the three-months ended June 30, 2004, was $3.9 million compared with $3.2 million for the same period last year. For the six-months ended June 30, 2004 and 2003, non-interest expense was $7.6 million and $6.6 million, respectively. The predominant components of HPCI' s non-interest expense are the fees paid to the Bank for servicing the loans underlying the participation interests and depreciation and amortization on its premises and equipment. Servicing costs amounted to $2.2 million for the first three-months of 2004, up from the $1.8 million recorded in the same period of 2003. The servicing costs for the six-month period ended June 30, 2004 and 2003 totaled $4.3 million and $3.3 million, respectively. The increases are due to higher service fee rates and increased average loan participations. As of June 1, 2003, the annual servicing rates the Bank charged were:

0.125% of the outstanding principal balances of the underlying commercial and commercial real estate loans,

0.320% of the outstanding principal balances of the underlying consumer loans, and

0.2997% of the outstanding principal balances of the underlying residential real estate loans.

Prior to June 1, 2003, the servicing rates the Bank charged were:

0.125% of the outstanding principal balance of the underlying commercial real estate, commercial, and consumer loan balances and

2.35% of the interest income collected on residential real estate loans.

Pursuant to the existing participation and subparticipation agreements, the amount and terms of the loan-servicing fee between the Bank and HPCI are determined by mutual agreement from time to time during the terms of the agreements. Effective July 1, 2004, the parties revised the current servicing fee of 0.320% on outstanding principal balances of underlying consumer loan balances to 0.750%, and on residential real estate loans from 0.2997% of the outstanding principal balances to 0.2670%. On an annualized basis, it is expected that this change will increase non-interest expense by approximately $3.0 million. In lieu of paying higher servicing fees to the Bank with respect to commercial and commercial real estate loans, HPCI waived its right to receive any origination fees associated with participation interests in commercial and commercial real estate loans transferred on or after July 1, 2004, until such time as loan servicing fees are reviewed in 2005.

Provision for Income Taxes

HPCI has elected to be treated as a REIT for Federal income tax purposes and intends to maintain compliance with the provisions of the Internal Revenue Code and, therefore, is not subject to income taxes. HPCI' s subsidiary, HPCLI, elected to be treated as a taxable REIT subsidiary and, therefore, a separate provision related to its income taxes is included in the accompanying unaudited condensed consolidated

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financial statements. The provision for income taxes for the three and six-month periods ended June 30, 2004 was $84,000 and $107,000 respectively. This is compared to $24,000 and $49,000 for the three and six-month periods of the prior year.

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MARKET RISK

Interest rate risk is the primary market risk to which HPCI has exposure. If there is a decline in market interest rates, HPCI may experience a reduction in interest income on its participation interests and a corresponding decrease in funds available to be distributed to shareholders. Assuming a gradual decline in market interest rates by 100 basis points, interest income would be expected to decline by roughly 4.3%. The Bank conducts its interest rate risk management on a centralized basis and does not manage HPCI' s interest rate risk separately.

A key element used in the Bank' s interest rate risk management is an income simulation model, which includes, among other things, assumptions for loan prepayments on the existing portfolio and new loan volumes. Using that model for HPCI as of June 30, 2004, and assuming no new loan participation volumes, interest income for the next 12 month period would be expected to increase by 8.6% based on a gradual 200 basis point increase in rates above the forward rates implied in the June 30, 2004, yield curve. As of June 30, 2004, approximately 75% of the loan participation portfolio has variable rates.

OFF-BALANCE SHEET ARRANGEMENTS

Under the terms of the participation and subparticipation agreements, HPCI is obligated to make funds or credit available to the Bank, either directly, indirectly through Holdings, or indirectly through Holdings and HPC Holdings-III, Inc., so that the Bank may extend credit to any borrowers, or pay letters of credit issued for the account of any borrowers, to the extent provided in the loan agreements underlying HPCI' s participation interests. At June 30, 2004, and December 31, 2003, and June 30, 2003, unfunded commitments totaled $726.4 million, $923.7 million, and $848.1 million, respectively. It is expected that cash flows generated by the existing portfolio will be sufficient to meet these obligations.

LIQUIDITY AND CAPITAL RESOURCES

The objective of HPCI' s liquidity management is to ensure the availability of sufficient cash flows to meet all of its financial commitments, pay its dividends to retain its REIT status, satisfy obligations to make funds or credit available to the Bank, and to capitalize on opportunities for business expansion. In managing liquidity, Management takes into account various legal limitations placed on a REIT.

HPCI' s principal liquidity needs are to acquire additional participation interests as the underlying loans in its portfolio paydown or mature and to pay operating expenses and dividends. Operating expenses and dividends are expected to be funded through cash generated by operations. The acquisition of additional participation interests in loans is intended to be funded with the proceeds obtained from repayment of principal balances by individual borrowers, utilization of existing cash and cash equivalent funds, and if necessary, new capital contributions. HPCI intends to pay dividends on its preferred stock and common stock in amounts necessary to continue to preserve its status as a REIT under the Internal Revenue Code.

At June 30, 2004, December 31, 2003, and June 30, 2003, HPCI maintained interest bearing and cash balances with the Bank totaling $384.9 million, $124.1 million, and $482.8 million, respectively. HPCI maintains and transacts all of its cash activity with the Bank and may invest available funds in Eurodollar deposits with the Bank for a term of not more than 30 days at market rates.

To the extent that the board of directors determines that additional funding is required, Management may raise such funds through retention of cash flow, debt financings, additional equity offerings, or a combination of these methods. However, any cash flow retention must be consistent with the provisions of the Internal Revenue Code requiring the distribution by a REIT of at least 90% of its REIT taxable income, excluding capital gains, and must take into account taxes that would be imposed on undistributed income. HPCI reduced its purchases of participation interests in the second quarter, which contributed to a $260.8 million increase in interest-bearing and cash balances during the first six-months of 2004. This increase is to be used for dividend distributions at the end of the year.

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Item 3. Quantitative And Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures for the current period are found beginning on page 20 of this report, which includes changes in market risk exposures from disclosures presented in HPCI' s Form 10-K.

Item 4. Controls and Procedures

HPCI' s management, with the participation of its President (principal executive officer) and the Vice President (principal financial officer), evaluated the effectiveness of HPCI' s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon such evaluation, HPCI' s President and Vice President have concluded that, as of the end of such period, HPCI' s disclosure controls and procedures are effective.

There have not been any changes in HPCI' s internal control over financial reporting (as such term is defined in Rules 13a-15(f) ad 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2004, to which this report relates that have materially affected, or are reasonably likely to materially affect, HPCI' s internal control over financial reporting.

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PART II. OTHER INFORMATION

In accordance with the instructions to Part II, the other specified items in this part have been omitted because they are not applicable or the information has been previously reported.

Item 4. Submission of Matters to a Vote of Security Holders

Huntington Preferred Capital, Inc. held its annual meeting of shareholders on May 13, 2004. At this meeting, the shareholders approved the following management proposals:

1. Election of directors to serve as Directors until the next Annual Meeting of shareholders as follows:

   Richard A. Cheap, Stephen E. Dutton, R. Larry Hoover, Edward J. Kane, Roger E. Kephart, Michael J. McMennamin, Thomas P. Reed, James D. Robbins, and John D. Van Fleet.

2. Ratification of appointment of Deloitte & Touche LLP to serve as the company' s independent auditor for the year 2004.

There were 13,981,333 votes cast in favor of each nominee for director and for agenda item no. 2. There were no votes against, no abstentions, and no broker non-votes.

Item 5. Other Information

On August 9, 2004, Huntington Bancshares Incorporated (Huntington) announced that Donald R. Kimble had been named chief financial officer and controller for Huntington, and that Michael J. McMennamin and John D. Van Fleet had relinquished their positions of chief financial officer and controller, respectively. A further description of this matter is set forth in Huntington' s press release filed with its Form 8-K, dated August 9, 2004, and in Huntington' s quarterly report on Form 10-Q for the quarter ended June 30, 2004. In connection therewith, Mr. McMennamin has also relinquished his positions as President and director for HPCI, and Mr. Van Fleet has also relinquished his positions as Vice President, Treasurer, and director for HPCI.

On August 12, 2004, Mr. Kimble was named President of HPCI by its Board of Directors and Thomas P. Reed, currently a Vice President and director for HPCI, was also named Treasurer of HPCI. In addition, Mr. Kimble and Karen D. Roggenkamp, currently a Vice President for HPCI, were elected directors of HPCI to fill the vacancies in those positions.

Item 6. Exhibits and Reports on Form 8-K

(a)

3.(i). Amended and Restated Articles of Incorporation (previously filed as Exhibit 3(a)(ii) to Amendment No. 4 to Registration Statement of Form S-11 (File No. 333-61182), filed with the Securities and Exchange Commission on October 12, 2001, and incorporated herein by reference.)

3.(ii). Code of Regulations (previously filed as Exhibit 3(b) to the Registrant' s Registration Statement of Form S-11 (File No. 333-61182), filed with the Securities and Exchange Commission on May 17, 2001, and incorporated herein by reference.)

4. Specimen of certificate representing Class C preferred securities, previously filed as Exhibit 4 to the Registrant' s Amendment No. 1 to Registration Statement of Form S-11 (File No. 333-61182), filed with the Securities and Exchange Commission on May 31, 2001, and incorporated herein by reference.

10. Material Contracts:

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(a) Leasehold Improvements Lease dated August 12, 2004 between HPCLI, Inc. and The Huntington National Bank.

31.1. Sarbanes-Oxley Act 302 Certification – signed by Donald R. Kimble, President.

31.2. Sarbanes-Oxley Act 302 Certification – signed by Thomas P. Reed, Vice President.

32.1. Sarbanes-Oxley Act 906 Certification - signed by Donald R. Kimble, President.

32.2. Sarbanes-Oxley Act 906 Certification - signed by Thomas P. Reed, Vice President.

(b) Reports on Form 8-K

None

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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, on the 12th day of August, 2004.

HUNTINGTON PREFERRED CAPITAL, INC.
(Registrant)

By:	/s/ Donald R. Kimble	By:	/s/ Thomas P. Reed
	Donald R. Kimble		Thomas P. Reed
	President and Director		Vice President and Director
	(Principal Executive Officer)		(Principal Financial and Accounting Officer)

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LEASEHOLD IMPROVEMENTS LEASE

THIS LEASE is made on August 12, 2004, to be effective as of October 15, 2001, between **HPCLI, Inc.**, an Ohio corporation, whose address is 41 South High Street, Columbus, Ohio 43215 ("Lessor"), and **The Huntington National Bank**, a national banking association, whose address is 41 South High Street, Columbus, Ohio 43215 ("Lessee").

1. Definitions.

For the purposes of this Lease, the following terms shall have the following definitions and meanings:

(a) **Commencement Date**: August 12, 2004, to be effective as of October 15, 2001.

(b) **Event of Default**: As set forth in Paragraph 12 below.

(c) **Extended Term**: As set forth in Paragraph 5 below.

(d) **Initial Term**: The period of five years commencing October 15, 2001, and expiring on October 14, 2006.

(e) **Leased Offices**: The specific office locations that are leased by Lessee and used in the conduct of Lessee' s operations, which Lease Offices are identified on Exhibit A attached hereto.

(f) **Leasehold Improvements**: All leasehold improvements designated as nonresidential real property under section 168(c) of the Internal Revenue Code of 1986 existing in the Leased Offices on the date hereof, which Leasehold Improvements are identified on Exhibit A attached hereto.

(g) **Rent**: As set forth in Paragraph 3 below.

(h) **Term**: The Initial Term plus any Extended Terms exercised by Lessee pursuant to Paragraph 5 below.

(i) **Underlying Office Lease**: A lease under which a Leased Office is leased by Lessee.

2. Lease of Leasehold Improvements.

Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Leasehold Improvements for the Term hereof (or for such shorter period of time as hereinafter provided), upon and subject to the terms, covenants, and conditions set forth herein and subject to the Underlying Office Leases.

3. Rent.

(a) Lessee agrees to pay Lessor as rent for the Leasehold Improvements for the Initial Term the amount of $6,300,000 per year, payable in equal monthly installments of $525,000 each (the "Rent"). During any Extended Term, the Rent shall be calculated in accordance with the provisions of Paragraph 5 below.

(b) The Rent shall be paid in twelve (12) equal monthly installments, each in advance by the tenth day of each calendar month during the Term of this Lease, with such payments being pro-rated on a daily basis for any partial month. The first monthly installment of the Rent hereunder shall be due and payable by November 10, 2001, and shall include a pro-rated amount for the partial month of October 2001.

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4. Term.

(a) The Initial Term of this Lease shall be as set forth in Paragraph 1(d) above, unless sooner terminated as hereinafter provided. The Initial Term may be renewed by Lessee for the Extended Terms as set forth in Paragraph 5 below.

(b) Lessor and Lessee acknowledge and agree that from time to time during the Term hereof, certain Underlying Office Leases may terminate or expire prior to the expiration of the Term of this Lease, and such Underlying Office Leases may not be renewed. Upon the occurrence of any such termination or expiration, Lessee' s and Lessor' s respective obligations and rights hereunder shall terminate as to those Leasehold Improvements located at the Leased Office(s) that are subject to such terminated or expired Underlying Office Leases and such Leasehold Improvements shall no longer be subject to the terms of this Lease.

(c) Lessor and Lessee further acknowledge and agree that from time to time during the Term hereof, Lessee may desire to assign its rights under an Underlying Office Lease or sublet a Leased Office where Leasehold Improvements are located to an unrelated entity.

(d) In the event the rights and obligations of the parties hereto are terminated with respect to any Leasehold Improvements as provided in Paragraph 4(b) or 4(c) above (the "Terminated Leasehold Improvements"), then Lessee may transfer to Lessor replacement Leasehold Improvements of equal value to the Terminated Leasehold Improvements, which shall become subject to this Lease, whereupon the parties shall amend Exhibit A attached hereto to identify such replacement Leasehold Improvements and no adjustment shall be made to the Rent as a result of such event.

5. Option to Renew Term.

So long as this Lease is in full force and effect and Lessee is not in material default hereunder, this Lease shall automatically renew for up to four consecutive renewal periods of five years each (individually, the "Extended Term" and collectively, the "Extended Terms"), unless Lessee delivers written notice to Lessor of its intent to terminate this Lease at the end of the then-current Term. The renewal shall be upon the same terms and conditions as herein contained, except that there shall be no provision to extend the Term hereof beyond the fourth Extended Term and except that at the commencement of each Extended Term, the monthly Rent shall be reset at (i) one hundred and ten percent (110%) of the monthly depreciation charge attributable to the Leasehold Improvements as of the first day of the applicable Extended Term, as determined for financial reporting purposes in accordance with generally accepted accounting principles ("GAAP") as the same are applied by Lessor; plus (ii) five percent (5%) of the total fair market value at the date of inception of the Initial Term of this Lease for any Leasehold Improvements that are fully depreciated as of the first day of the applicable Extended Term.

6. Termination of Lease.

(a) Prior to the expiration or termination of this Lease, Lessee shall elect one of the following options with respect to each Improvement then subject to this Lease, which option shall be exercised by providing Lessor with written notice of Lessee' s intention to exercise such option at least forty-five (45) days prior to the termination of this Lease:

(i) purchase all or any of the Leasehold Improvements from Lessor by payment of a purchase price equal to the fair market value of such Leasehold Improvements at the time of such termination, which shall be payable in full, in cash, at the time of such termination; or

(ii) deliver all or any of the Leasehold Improvements to Lessor, subject to the rights of the lessors of the Underlying Office Leases, if any, and assign to Lessor (with the written consent of the lessor under the Underlying Office Lease, if required by such Underlying Office Lease) the Underlying Office Lease for the Leased Office where the Leasehold Improvements are located.

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(b) For the purposes of Paragraph 6(a)(i) above, the term "fair market value" of the Leasehold Improvements shall have the same meaning as set forth in Paragraph 4(d) above. If Lessee exercises the option described in Paragraph 6(a)(i) above, upon payment of the purchase price, Lessor shall deliver a Bill of Sale and such other documentation as is reasonably required to transfer title to the Leasehold Improvements purchased by Lessee.

(c) If Lessee exercises the option set forth in Paragraph 6(a)(ii) above, Lessee shall deliver up the Leasehold Improvements to Lessor in as good condition as such Leasehold Improvements were in at the time when the same were first delivered to Lessee hereunder, ordinary wear and tear and damage by casualty and condemnation excepted.

7. Quiet Enjoyment.

Lessor hereby represents that Lessor has good right and lawful authority to enter into this Lease and that so long as Lessee pays the Rent when due and performs all covenants hereof on its part to be performed, Lessee shall and may peaceably and quietly have, hold and enjoy the Leasehold Improvements throughout the Term hereof and any extensions thereto, for so long as the Leasehold Improvements are located at a Leased Office where the Underlying Office Lease is still in effect. Lessee agrees to accept the Leasehold Improvements in such existing condition and state of repair as the same may be in when the Leasehold Improvements initially become subject to this Lease and without any representation, statement or warranty, express or implied, in respect thereof, or in respect to their condition other than as expressly set forth herein.

8. Maintenance; Alterations.

Lessee shall be responsible for keeping the Leasehold Improvements in good repair and condition during the Term, ordinary wear and tear and damage by casualty and condemnation excepted, in accordance with the terms of the Underlying Office Leases. Lessee may alter or replace all or any part of the Leasehold Improvements from any of the Leased Offices at any time or times during the Term hereof.

9. Insurance.

Lessee will cause to be carried and maintained, at its sole expense, at all times during the Term of this Lease and until the Leasehold Improvements have been returned to Lessor, insurance against those risks of loss or damage, including fire, normally and customarily insured in Lessee' s industry (and in any event not less than Lessee' s own insurance for similar improvements owned or leased by it) in amounts not less than the Improvement' s replacement value. The policies of insurance required under this Paragraph shall be valid and enforceable policies issued by a company or companies authorized to do business in the State of Ohio, and Lessee agrees upon request of Lessor to deliver to and deposit with Lessor such insurance policy or policies or certificates thereof, or any renewals or extensions thereof. Notwithstanding anything contained in this Paragraph, Lessee shall have no obligation to insure those Leasehold Improvements located at a Leased Office where the Underlying Office Lease is no longer in effect.

10. Risk of Loss; Casualty.

(a) Lessee hereby assumes all risk of loss, damage, theft, taking, destruction, confiscation, requisition or condemnation, partial or complete, of the Leasehold Improvements, during the Term hereof. In the event any Improvement is damaged, destroyed, lost, stolen, or title thereto requisitioned or taken by the owner of the Leased Office where the Leasehold Improvements are located or any governmental authority under power of eminent domain or otherwise, Lessee shall continue to pay the Rent for said Improvement in the same amount and at the same times as prescribed herein as if such damage or destruction or taking did not occur.

(b) Further, Lessee hereby covenants that if Lessee receives insurance proceeds or condemnation awards relating to any damaged, destroyed or taken Leasehold Improvements, Lessee shall use such proceeds or awards to repair, replace or restore (to the extent practicable) such Leasehold Improvements. If such Leasehold Improvements cannot practicably be repaired, replaced or restored, Lessee shall either (i) pay to Lessor an amount

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equal to the "Stipulated Loss Value" for such Leasehold Improvements, which amount shall be determined by multiplying the original fair market value of such Leasehold Improvements at the date of inception of the Initial Term of this Lease (as indicated on Exhibit A attached hereto) by the percentage amount identified on Exhibit B attached hereto that corresponds to the month in which such Leasehold Improvements were damaged, destroyed or taken, or (ii) contribute to this Lease replacement Leasehold Improvements of equal value, in which event the parties shall amend Exhibit A attached hereto to identify such replacement Leasehold Improvements.

(c) Lessor hereby assigns and transfers to Lessee all of Lessor' s right, title and interest in and to any and all insurance proceeds or condemnation awards that may be payable as a result of any damage, destruction or taking of the Leasehold Improvements. Lessor further authorizes and appoints Lessee as its attorney in fact to file all such claims, demands, applications, pleadings or any documents that may be necessary or required to obtain such insurance proceeds or condemnation awards in either the name of Lessor or Lessee as may be required.

11. Inspection.

During the Term hereof, Lessee, upon two days' advance written notice, shall permit inspection of the Leasehold Improvements during business hours by Lessor or Lessor' s agents or representatives, and by or on behalf of prospective purchasers; provided, however, that in no event shall Lessor' s inspection interfere with or delay Lessee' s normal operations.

12. Default.

(a) If any installment of the Rent or other payments herein agreed to be paid by Lessee shall remain or be unpaid thirty (30) days after written notice is received by Lessee; or if Lessee shall breach or fail to perform any of the covenants or agreements herein contained by Lessee to be performed, and such breach or nonperformance shall continue for thirty (30) days after written notice is received by Lessee (or, if the default requires more than thirty (30) days to be cured and Lessee shall not have commenced in good faith to cure said breach within such thirty (30) days and diligently prosecuted the same thereafter); or if Lessee shall become insolvent or shall admit in writing the inability of Lessee to pay Lessee' s debts generally as they become due, or shall file a petition in bankruptcy or make an assignment for the benefit of the creditors of Lessee, or shall consent to the appointment of a receiver of all or any part of Lessee' s property or business, or on a petition in bankruptcy filed against Lessee; or if Lessee shall be adjudicated a bankrupt (individually, an "Event of Default" and collectively, "Events of Default"); then and in any of said events, the Lessor may at any time thereafter, in its sole discretion, exercise any one of the remedies listed below:

(i) terminate this Lease, take possession of all Leasehold Improvements wherever located, and for such purpose enter upon any premises to repossess such Leasehold Improvements;

(ii) proceed by appropriate court action to enforce specific performance by Lessee of its obligations contained in this Lease;

(iii) effectuate a sale of the Leasehold Improvements to Lessee, whereupon Lessee shall pay to Lessor an amount equal to the "Stipulated Loss Value" for the Leasehold Improvements as identified on Exhibit B attached to this Lease that corresponds to the month in which such sale occurs; or

(iv) accept an assignment of all or any of the Leasehold Improvements from Lessee by Lessee' s assigning (with the written consent of the lessor under the Underlying Office Lease) the Underlying Office Lease for the Leased Office where the Leasehold Improvements are located, provided such Underlying Office Lease has a remaining term including renewals of at least five (5) years.

(b) Delays occasioned by fire, strikes, embargoes, governmental restrictions, or other cause beyond the reasonable control of Lessee shall not be included in calculating any period of grace provided for herein. The time for the performance of any act required to be done by either party shall be extended by a period equal to any delay caused by or resulting from act of God, war, civil commotion, fire, casualty, labor difficulties, shortages of labor or materials or equipment, governmental regulation, act or default of the other party, or other causes beyond such party' s reasonable control, whether such time be designated by a fixed date, or a fixed time or otherwise.

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(c) In the event that any dispute shall arise between Lessor and Lessee with respect to any claimed default by Lessee and such dispute is referred to arbitration or litigation pursuant to the terms of this Lease, and provided Lessee performs all of the other terms and conditions of this Lease except for the item in dispute, no default shall be deemed to exist on the part of Lessee and no period for the remedying of such alleged default shall be deemed to commence until the day following the determination of such dispute adversely to Lessee.

13. Lessor' s Duty to Mitigate.

In the event that Lessor shall terminate this Lease upon Lessee' s default and/or shall obtain possession by re-entry, dispossession, summary process, or otherwise, then at any time thereafter Lessor shall use reasonable efforts to mitigate its damages by seeking to relet or resell the Leasehold Improvements, and the net proceeds of such reletting or reselling (after deducting reasonable expenses) shall be credited by Lessor against any Rent, or other payments due from Lessee at the time of such termination or re-entry or against any damages payable by Lessee pursuant to law or the terms of this Lease.

14. Assignment; Subletting.

Lessor acknowledges that Lessee may assign its rights under this Lease, or sublet all or any part of the Leasehold Improvements, without the prior written consent of Lessor. Any such assignment or subletting, however, shall not release Lessee from its obligations hereunder.

15. Accounting and Other Management Services.

Accounting services to be provided by Lessee pursuant to this Agreement shall include, but not necessarily be limited to, the following specific services:

(a) Maintaining a set of books and records including a detailed general ledger in accordance with generally accepted accounting principles for Lessor;

(b) Preparing periodic financial statements as requested by Lessor;

(c) Conducting all actions necessary to maintain appropriate accounting controls and maintain all appropriate documentation of such accounting procedures and controls;

(d) Providing all tax preparation services on behalf of Lessor, including but not limited to, preparation of annual federal, state and local income tax returns and estimated payments, sales/use tax returns, and payroll/unemployment filings as deemed necessary;

(e) Maintaining insurance coverage for Lessor' s business activities;

(f) Providing internal audit coverage of Lessor' s business activities and determine whether Lessor' s accounting records are reasonable;

(g) Providing accounts payable services for Lessor, including preparation and disbursement of expenses, tax reporting and maintenance and reconciliation of deposit accounts; and

(h) Providing all external reporting services on behalf of Lessor.

Lessor shall pay fees to Lessee as consideration for the performance of accounting and other management services pursuant to the terms of this Lease an annual management fee of 100 basis points (1%) of the Rent for the Leasehold Improvements. This fee shall be paid on a monthly basis and calculated as 1% of the monthly rental installment paid by Lessee to Lessor.

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16. Notices.

Any notice which may be required to be given under this Lease to Lessor may be given by mailing the same in a registered or certified letter, postage prepaid, or by hand delivery, addressed to Lessor, HPCLI, Inc., 41 S. High Street, Columbus, Ohio 43215, Attention: General Counsel, or at such other place as Lessor may from time to time designate in writing. Any notice which may be required to be given under this Lease to Lessee may be given by mailing the same in a registered or certified letter, postage prepaid, or by hand delivery, addressed to Lessee, The Huntington National Bank, 41 S. High Street, Columbus, Ohio 43215, Attention: General Counsel, or at such other place as Lessee may from time to time designate in writing.

17. No Waiver.

Except as may be otherwise provided in this Lease, no delay or omission by either party hereto to exercise any right or power accruing upon any non-compliance or default by the other party with respect to any of the terms hereof shall impair any such right or power or to be construed to be a waiver thereof, and every such right and power may be exercised at any time during the continuance of such non-compliance or default. It is further agreed that a waiver by either party hereto of any of the covenants or agreements thereof to be performed by the other party hereto shall not be construed to be a waiver of any succeeding breach thereof or of any other covenants or agreements herein contained.

18. Binding Effect.

This Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.

19. Entire Agreement.

This Lease contains the entire agreement between the parties hereto and shall not be modified except in writing signed by both parties.

20. Consents.

Notwithstanding any provision in this Lease to the contrary, any requirement for the consent or approval of either party shall be subject to the further proviso that such consent(s) or approval(s) shall not unreasonably withheld or delayed, and if such consent or approval of either party has not been given within 10 days of the date requested, such consent or approval shall be deemed given.

21. Self-Help.

(a) If either Lessor or Lessee defaults in making any payment to or for the benefit of the other required by this Lease or in the performance of any other obligation imposed on it by this Lease, and shall not cure such default within thirty (30) days after written notice thereof (or, if the default requires more than thirty (30) days to be cured, if the defaulting party does not begin to cure the default within that period and then diligently prosecute the cure to completion), then the aggrieved party (without waiving any claim of breach or for damages) at any time thereafter may make such payment or cure such other default for the account of the defaulting party. If necessary to protect the interest of either party in the Leasehold Improvements, or to prevent the interruption or further interruption of the conduct of business in any Leased Office, or to prevent injury to persons or damage to property, either party may cure a default by the other prior to the expiration of the waiting period but after oral or written notice to the other party.

(b) Any restoration amount paid or contractual liability incurred by a party in the exercise of its rights under this Paragraph shall be reimbursed by the other party. Lessee' s payments hereunder shall be made as a part of the next installment of the Rent coming due after Lessee' s receipt of Lessor' s bill for such payment, and any amount

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due to Lessee hereunder may be offset against all payments due to Lessor under this Lease until Lessee has been fully reimbursed. Lessor agrees that Lessee’ s good faith exercise of rights under this Paragraph, including the withholding of payments to reimburse itself for the cost of such exercise, shall never be deemed to be a default by Lessee in any of its obligations under this Lease.

22. Expenses.

Wherever this Lease requires the performance of an act by either party, such party shall perform the act at its own cost and expense, unless expressly provided to the contrary. Wherever this Lease requires payment of costs and expenses to the other party, including attorneys’ fees, all such costs, expenses and fees shall be reasonable.

23. Captions.

The captions of the several sections of this Lease are not part of the context hereof and shall be ignored in construing this Lease. They are intended only by aids in locating various provisions hereof.

24. Severability.

Each provision contained in this Lease shall be independent and severable from all other provisions contained herein, and the invalidity of any such provision shall in no way affect the enforceability of the other provisions.

25. Governing Law.

The parties agree that all questions of enforceability and interpretation which may arise under this Lease shall be determined by the laws of the State of Ohio.

26. Indemnification.

To the extent the same would not be covered by the insurance required to be provided by Lessee pursuant to Paragraph 9, and only to said extent, Lessee agrees to save Lessor harmless from, and indemnify Lessor against, any and all liability, loss or expense (including without limitation reasonable attorneys’ fees) arising out of or incurred in connection with an Event of Default unless caused by the gross negligence or willful misconduct of Lessor, its employees, agents, and contractors. Likewise, Lessor agrees to save Lessee harmless from, and indemnify Lessee against, any and all liability, loss or expense (including without limitation reasonable attorneys’ fees) arising out of or incurred in connection with a breach of Lessor’ s obligations hereunder.

26. Arbitration.

Any controversy or claim arising out of or relating to this Lease or relating to any breach or claimed breach hereof except for non-payment of the Rent, or any other payment due hereunder, shall be settled by arbitration, in accordance with the rules then pertaining, of the American Arbitration Association. This agreement for arbitration shall be enforceable and judgment upon the award rendered by all or a majority of the arbitrators may be entered in any court for a judicial acceptance of such award and an order of enforcement, as the case may be. Any such arbitration shall be held in Columbus, Ohio.

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In Witness Whereof, this Lease has been duly executed by the parties hereto this 12th day of August, 2004.

HPCLI, INC.

By: /s/ Richard A. Cheap
Richard A. Cheap, Vice President and Secretary

THE HUNTINGTON NATIONAL BANK

By: /s/ Edward J. Kane
Edward J. Kane, Senior Vice President

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EXHIBIT A

List of Leasehold Improvements

(see attached behind)

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EXHIBIT B

STIPULATED LOSS VALUES

Number of Months Since Lease Inception	Percentage Decrease in Value
Month 1 - 12	**15%**
Month 13 - 24	35%
Month 25 - 36	55%
Month 37 - 48	75%
Month 49 - 60	95%

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Exhibit 31.1

CERTIFICATION

I, Donald R. Kimble, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Preferred Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize, and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 12, 2004

/s/ Donald R. Kimble

Donald R. Kimble, President

(chief executive officer)

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Exhibit 31.2

CERTIFICATION

I, Thomas P. Reed, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huntington Preferred Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize, and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 12, 2004

/s/ Thomas P. Reed

Thomas P. Reed, Vice President

(chief financial officer)

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Exhibit 32.1

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Huntington Preferred Capital, Inc. (the “Company”) on Form 10-Q for the quarter ending June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Donald R. Kimble, President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Donald R. Kimble

Donald R. Kimble

(chief executive officer)

August 12, 2004

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Exhibit 32.2

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Huntington Preferred Capital, Inc. (the "Company") on Form 10-Q for the quarter ending June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas P. Reed, Vice President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas P. Reed

Thomas P. Reed

(chief financial officer)

August 12, 2004

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