



April 9, 2002

Mr. Norman B. Rice
President and CEO
Federal Home Loan Bank of Seattle
1501 Fourth Avenue, 19th Floor
Seattle, WA 98101-2485

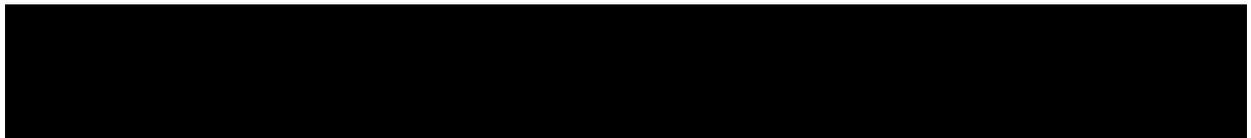
RE: Implementation of Federal Home Loan Bank of Seattle Capital Plan (2002-APP-01)

Dear Mr. Rice:

On March 13, 2002, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved the capital plan of the Federal Home Loan Bank of Seattle (Bank) subject to the Bank receiving approvals of its risk assessment procedures and controls and its internal market risk model pursuant to 12 C.F.R. § 932.1. Finance Board staff has completed its review of the materials that the Bank submitted in support of its request for these approvals, as well as other materials related to the Bank's risk exposure and management. Based on the results of staff's review and recommendation, as discussed below and pursuant to 12 C.F.R. § 932.1, the Bank may proceed with implementation of its capital plan.

Risk Assessment Procedures and Controls

Finance Board staff conducted a review to assess the adequacy of the Bank's risk assessment procedures and controls to be used to manage its credit, market and operations risks, pursuant to section 932.1 of the Finance Board regulations. The materials reviewed included information on the Bank's financial condition and risk profile, Reports of Examination and other related supervisory reports, materials submitted by the Bank to support approval of its capital plan, and materials subsequently submitted to demonstrate the adequacy of the Bank's risk assessment procedures and controls. Staff reviewed these materials to assess the sufficiency of the Bank's current controls to manage the risks it currently faces. Staff also sought to understand the risks that the Bank will be required to manage prospectively, corresponding with the implementation of its capital plan and contemplated future activities, to assess the adequacy of the Bank's risk controls to manage those risks.





Based on the above-described materials, our staff discussions with Bank staff, and the assurances provided by Bank management, Finance Board staff believes that the Bank will establish necessary risk controls on a timely basis so as to adequately manage the risks posed by the Bank's planned activities.

Internal Market Risk Model

Finance Board staff also reviewed the Bank's internal market risk model. As part of its review, staff considered the written description of the model and the modeling process submitted by the Bank. This material indicates that, given the Bank's current portfolio and the modeling capabilities currently available to the Bank, the Bank intends to model its interest rate and basis risk adequately, and to take proper account of the optionality of both its on- and off-balance sheet instruments, as required by Finance Board regulations. Finance Board staff also compared the market risk results of modeling performed by the Bank on the Bank's existing portfolio to market risk results of modeling performed by Finance Board staff on the same portfolio data. These results compared favorably.

Based on its review, Finance Board staff believes that the Bank's internal risk model and modeling process, as proposed, complies with the requirements of 12 C.F.R. § 932.5. The Finance Board may, however, direct the Bank to make adjustments to its model and modeling process in the future to account for improvements in modeling capabilities, changes in the Bank's risk profile, or for other appropriate reasons.

If you have any questions, please contact me at (202) 408-2821.

Sincerely,

/s/ James L. Bothwell

James L. Bothwell
Managing Director