



November 15, 2002

Mary Lee Widener, Chair
Federal Home Loan Bank of San Francisco
600 California Street, Suite 300
San Francisco, California 94108

RE: Implementation of Federal Home Loan Bank of San Francisco Capital Plan
(2002-APP-05)

Dear Ms. Widener:

On June 12, 2002, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved the capital plan of the Federal Home Loan Bank of San Francisco (Bank) subject to the Bank receiving approvals of its risk assessment procedures and controls and internal market risk model pursuant to 12 C.F.R. § 932.1. We reviewed the materials that the Bank submitted in support of its request for these approvals, as well as supervisory materials related to the Bank's risk exposure and risk management structure. We also had conversations with the Bank about its risk management policies and controls during the recent examination.

Based on the results of our review, pursuant to 12 C.F.R. § 932.1, the Finance Board approves the Bank's risk assessment procedures and controls.¹ This approval is based on the information, representations and commitments made by the Bank. Any material change in the information, representations or commitments made by the Bank, or in the Bank's business plan or operations, prior to the Bank's conversion to its new capital plan, would be a cause for us to modify, change or rescind our approvals.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director
Office of Supervision

cc: Dean Schultz, President and CEO

¹ Pursuant to 12 C.F.R. § 932.1, the Bank also must receive Finance Board approval of its internal market risk model before implementing its capital plan. Review of the Bank's internal market risk model is underway.