September 19, 2002

Mr. James D. Roy
President and CEO
Federal Home Loan Bank of Pittsburgh
601 Grant Street
Pittsburgh, Pennsylvania 15219-4455

RE: Implementation of Federal Home Loan Bank of Pittsburgh Capital Plan (2002-APP-04)

Dear Mr. Roy:

On May 8, 2002, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved the capital plan of the Federal Home Loan Bank of Pittsburgh (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. Finance Board staff has 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 management. Staff also had conversations with the Bank about its risk management policies and market risk model.

The Bank's Strategic Plan and pro forma financial statements for the period 2003 to 2005 indicate [redacted]

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 entitled "Risk Based Capital Modeling Proposal," dated September 4, 2002. This material indicates that, given the Bank's current portfolio and model capabilities currently available to the Bank, the Bank intends to model its interest rate and basis risk, and to take proper account of the optionality of its financial instruments, as required by Finance Board regulations. Finance Board staff provided sample financial instruments to the Bank and compared the Bank's market risk results on these instruments with Finance Board results on the same instruments. [redacted]

Based on the results of staff's review and recommendation, pursuant to 12 C.F.R. § 932.1, and the commitments in your letter of September 16, 2002, the Finance Board approves the Bank's risk assessment procedures and controls and internal market risk model. The Finance Board anticipates that as the Bank undertakes the aforementioned review and the implementation of its capital plan the Office of Supervision will closely monitor the Bank's progress.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director, Office of Supervision