



January 13, 2003

Mr. Henry Flores
Chairman
Federal Home Loan Bank of Dallas
Post Office Box 619026
Dallas, Texas 75261-9026

RE: Implementation of Federal Home Loan Bank of Dallas Capital Plan (2003-APP-02)

Dear Mr. Flores:

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 Dallas (Bank), subject to the Bank receiving approval of its risk assessment procedures and controls and its internal market risk model pursuant to 12 C.F.R. § 932.1. We have reviewed the materials the Bank submitted in support of its request for these approvals. In addition, as part of our regular examination of the Bank that commenced on October 28, 2002, we reviewed the Bank's risk assessment processes and risk control environment.

Pursuant to 12 C.F.R. § 932.1, the Finance Board approves the internal market risk model. 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 approval of the Bank's internal market risk model.

Prior to implementing its capital plan, the Bank also must receive Finance Board approval of its risk assessment procedures and controls. [REDACTED]

Sincerely,

/s/ Stephen M. Cross
Stephen M. Cross
Director, Office of Supervision

cc: Terry C. Smith, President

cc: Christie Sciacca Gwen Grogan
Scott Smith Kari Walter
David Poston Arnold Intrater
Neil Crowley Ellen Hancock
Dallas file