



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Conditional Approval #224
December 1996

November 27, 1996

Mr. Frank V. Riolo
President and CEO
Borrego Springs Bank
547 Palm Canyon Drive
P.O. Box 866
Borrego Springs, California 92004

Re: Borrego Springs Bank's Letter of Intent to convert to a national bank charter
Application Control Number: 96-WE-01-0006

Dear Mr. Riolo:

The Office of the Comptroller of the Currency (OCC) has reviewed the July 17, 1996 request of Borrego Springs Bank, Borrego Springs, California, to convert to a national bank. After a thorough review of all information available, we found that the bank's request meets the requirements for preliminary approval to convert to a national banking association as follows:

Title: Borrego Springs National Bank

Location: 547 Palm Canyon Drive
Borrego Springs, California

The conversion is authorized pursuant to 12 U.S.C. § 35. Approval of the conversion is subject to following special conditions:

1. The Viejas Band of Kumeyaay Indians ("the Band") must immediately consummate the change in bank control proposal and inject \$2.4 million of new capital into the bank. This condition shall be deemed to be "a condition imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 U.S.C. § 1818(b)(1).

2. Prior to the conversion, the Band must waive its sovereign immunity insofar as it relates to bank transactions, and commit to the application of affiliate and insider laws and regulations. This is necessary as the unique circumstances of tribal sovereignty relative to the regulation and supervision of national banks has not been judicially tested. Therefore, it is possible that the OCC's regulatory and supervisory actions might be impaired, absent the waiver. The Band provided the OCC a draft commitment letter covering the waiver of sovereign immunity and the application of affiliate and insider laws and regulation. This condition can be satisfied by the Viejas formally executing the commitment letter and submitting it to the OCC's Western District Office.

Prior to, or as of the date of the conversion:

1. Directors must purchase qualifying shares in conformance with 12 U.S.C. § 72 and 12 CFR 7.2005.
2. The bank must purchase the required amount of stock in the Federal Reserve in accordance with 12 CFR 209.
3. The bank must have a full-time cashier or otherwise provide for the cashier's duties to be assigned (see 12 CFR 7.2015).
4. The bank shall have adequate excess fidelity insurance covering all officers and employees (see 12 CFR 7.2013).
5. The institution's directors must engage an independent, external auditor to perform an audit according to generally accepted auditing standards. The audit must be of sufficient scope to enable the auditor to render an opinion on the institution's financial statements. The engagement must provide that the audit period beginning on the date that the institution converts to a national bank and may end on any calendar quarter-end no later than 12 months after conversion.
6. If the bank sells credit life insurance to loan customers, all income from that activity must be credited to the bank for the benefit of all shareholders. The institution's directors must select a means of marketing the insurance to accomplish that objective and comply with federal and state banking and insurance laws.
7. The converting institution must obtain any other required regulatory approvals.

8. If the conversion is not consummated within six months from the date of the decision, preliminary approvals will automatically terminate unless the OCC grants an extension of the time period.
9. The board of directors must adopt and have in place written policies and procedures to ensure the safe and sound operation of the bank. A description of the minimum policies and procedures applicable to national banks is enclosed.
10. Our Western District Office should be advised, in advance, of the desired effective date for the transactions so that the OCC may issue the necessary certification and authorization letters.

Upon completion of the above procedures, please submit to the Western District Office a letter certifying that you have completed all steps required to convert to a national banking association. Your notification should include, as attachments, the following documents: A Secretary's Certificate certifying shareholder approval of the proposed conversion; Articles of Association; Bylaws; Organization Certificate properly signed and executed; Oath(s) of directors; List of directors; and Certification that you have purchased the required amount of stock in the Federal Reserve System in accordance with 12 CFR 209.

When the institution has satisfactorily completed all of the above steps, the OCC will issue a letter officially authorizing the institution to commence business as a national banking association. At that time, you will receive the charter certificate.

OCC Handbooks and Manuals and a set of current OCC issuances will be sent to you under separate cover.

All correspondence regarding this application should reference the application control number. If you have any questions concerning this letter, please contact me at (202) 874-5060 or National Bank Examiner Zack J. Barbieri at (415) 545-5920.

Sincerely,

/s/

Stephen A. Lybarger
NBE/Senior Bank Structure Analyst
Bank Organization and Structure

Enclosure: Minimum Policy and Procedures