



State of Idaho

DEPARTMENT OF WATER RESOURCES

322 East Front Street, P.O. Box 83720, Boise, ID 83720-0098

Phone: (208) 287-4800 Fax: (208) 287-6700 Web Site: www.idwr.idaho.gov

DIRK KEMPTHORNE
Governor

KARL J. DREHER
Director

January 31, 2006

STERLING SAVINGS BANK
C/O MICHAEL E WILLIAMS
621 SW MORRISON, SUITE 550
PORTLAND OR 97205

RE: Security Interest for Water Rights 63-10666D, 63-31194 (split from 63-10666C) and
63-31885 (split from 63-10780)

Dear Mr. Williams:

On January 12, 2005, the Department of Water Resources copied a letter to you acknowledging a security interest in the name of Sterling Savings Bank for the water rights referenced above. The water rights are listed in the Department's records with Darwin L. McKay as owner.

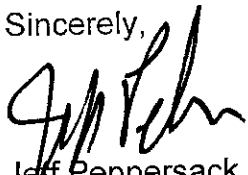
The Notice of Security Interest submitted on January 6, 2005 included a copy of the Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing as evidence of the security interest. The documentation indicates property in T3N, R1E Sec. 33 as the subject of the security interest. For the water rights referenced above, only water right 63-31885 was appurtenant to land in Sec. 33. The other two water rights, 63-10666D and 63-31194 (split from 63-10666C) are not appurtenant to land in Sec. 33 and should not have been included without additional documentation showing a security interest for the property. I am enclosing reports for the water rights for your reference.

Please provide additional documentation showing a security interest for water rights 63-10666D and 63-31194. If the water rights were listed in error on the notice you submitted, please notify us in writing and we will refund the filing fee and remove the security interest from our records. In either case, we will withhold any action for 30 days to allow you time to review this information and to provide additional documentation if you feel it is necessary. If you do not respond in 30 days, we will remove the security interest from our records for water rights 63-10666D and 63-31194.

Water right 63-31885 resulted from a transfer changing a portion of water right 63-10780. That transfer was revoked by order of the Department on October 19, 2005. Sterling Savings Bank has been added to the record for 63-10780 as a security interest. I have enclosed a copy of the order and a report of the water right for your reference.

Please feel free to contact me at 208-287-4948 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Peppersack". The signature is stylized with a large, looped "J" and a cursive "Peppersack".

Jeff Peppersack, Manager
Water Right Permits Section

JP:klt

Enclosure(s)