Office of the Washington State Treasurer

2013 Report to the Washington State Legislature on Actions Taken by the Public Deposit Protection Commission

An update on recent events, responses and issues related to modernizing and improving the protection of public deposits in Washington State

December 2013

Executive Summary:

Washington's public depositaries continued to provide secure banking services for state and local government entities in a financial environment that has greatly improved since the economic downturn in 2009. Only one financial institution serving government depositors was closed in 2013. By comparison, 12 banks were closed at the height of the banking crisis in 2010.

Notably, nine public depositary banks were acquired by other institutions, the majority of which were Public Deposit Protection Commission (PDPC) participants.

At the end of 2013, 69 PDPC banks and 12 PDPC credit unions held more than $5 billion in public deposits. With 100 percent collateral standing behind all uninsured public deposits, these public funds remain safe and secure.

Reforms enacted by the 2009 Legislature, signed into law by the Governor, and overseen by the Public Deposit Protection Commission, and implemented by the State Treasurer were highly effective at protecting all public deposits in Washington State. These safeguards continue to protect all public deposits.

Washington law requires the State Treasurer to report annually to the Legislature on actions taken by the Public Deposit Protection Commission (PDPC) and the Treasurer regarding public deposit protection. Reports issued in 2009, 2010, 2011 and 2012 provide an accounting of the issues and actions taken by the PDPC and the Treasurer to protect public deposits. This 2013 report is an update on events and actions taken since December, 2012 when the last report was published.

Summary of Bank Closures:

State and federal regulators closed Westside Community Bank (University Place) in January. It was Washington's only Public Depositary Bank closed by the FDIC in 2013.

Though Sunwest Bank (Irvine, CA) acquired substantially all of Westside Community Bank's deposits and assets, Sunwest chose not to participate in the PDPC.

Summary of Bank Mergers and Acquisitions:

Nine of Washington's Public Depositary Banks were acquired by other banks in 2013. All but one of the acquiring banks were PDPC participants.

The dates of acquisition as well as the individual financial institutions involved are as follows:

1/10/2013: Heritage Bank (Olympia) completed its acquisition of Northwest Commercial Bank (Lakewood).
2/21/2013: BBCN Bank (Los Angeles, CA) completed its acquisition of Pacific International Bank (Seattle). BBCN chose not become a PDPC participant.
4/01/2013: Columbia Bank (Tacoma) completed its acquisition of West Coast Bank (Lake Oswego, OR).
6/14/2013: Puget Sound Bank (Bellevue) completed its acquisition of Core Business Bank (Bellevue).
6/20/2013: Heritage Bank (Olympia) completed its acquisition of Central Valley Bank (Toppenish).
7/15/2013: Heritage Bank (Olympia) completed its acquisition of Valley Bank (Puyallup).
7/31/2013: Glacier Bank (Kalispell, MT) completed its acquisition of North Cascades National Bank (Chelan).
11/1/2013: HomeStreet Bank (Seattle) completed its acquisition of Fortune Bank (Seattle).
11/1/2013: HomeStreet Bank (Seattle) completed its acquisition of Yakima National Bank (Yakima).

Credit Unions

Effective July 1, 2011, the Legislature allowed state-chartered credit unions to take public deposits. Then, in 2012 the Legislature also allowed qualifying federally-chartered credit unions to accept public deposits and increased the deposit limits for all PDPC credit unions from $100,000 to $250,000 to match maximum deposit insurance limits provided by the National Credit Union Administration (NCUA).

To date, 12 credit unions have been approved to accept public deposits. As of 10/31/2013 seven credit unions hold $787,116 in public deposits, all of which are NCUA insured.

Insured Deposits and FDIC Issues

In response to the global financial crisis in 2008, the Federal Deposit Insurance Corporation (FDIC) enacted the Transaction Account Guarantee (TAG) program as an important tool to resuscitate financial markets and help restore confidence in the banking system.

TAG provided a way for insured institutions to keep taking public deposits for local governments by providing an unlimited guarantee of such funds should the institution fail.

In 2009, more than half of the public deposits in Washington were insured by the FDIC through TAG and therefore did not require collateral at a time when this source of liquidity was critical to our banking system.

TAG was originally slated to expire December 31, 2009, which would have forced banks struggling with the collapse of the real estate market to dramatically increase their collateral to secure public deposits at one hundred percent. However, at the urging of a coalition of businesses, community banks and state treasurers the FDIC Board of Directors extended TAG – first on August 27, 2009 and again on April 13, 2010.

Then in July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which further extended TAG by an additional two years to cover all deposits in noninterest-bearing transaction accounts.

TAG expired as scheduled on December 31, 2012.

As of October 31, 2013, insured deposits represented 7 percent of total deposits versus 43 percent on October 31, 2012. Public depositaries have pledged additional collateral to protect public deposits.

Background

On January 16, 2009, Bank of Clark County failed and more than $15 million was lost due to lack of insurance or sufficient collateral. This potential loss of public deposits triggered a first-ever assessment on other public depositaries to recover the public funds. Though the 40-year-old Public Deposit Protection Act served its purpose by allowing the recovery of the public tax-dollars that would have been lost, this caused grave concern among private financial institutions participating in the collateral pool that stands behind all public deposits. This unfortunate event drove home the need for reforms that gave the Public Deposit Protection Commission and the State Treasurer the ability to act quickly to impose collateral requirements on financial institutions holding public deposits. Inaction would have jeopardized $8 billion in public deposits and the state's financial institutions.

Swift and prudent action by the Legislature, Governor, the State Treasurer and regulators eliminated the systemic risk to public deposits and the financial system. By June 30, 2009, all public deposits that previously could have been lost were either fully insured or fully collateralized. By working together, we created better protections for public deposits while also reducing risks and liabilities for financial institutions.

Recovering lost funds:

The FDIC continues to distribute dividends from the sale of assets related to Bank of Clark County. These funds are immediately returned to the PDPC banks that were assessed to cover the public depositor losses in 2009. In 2013, the FDIC distributed $991,279.31 bringing the total amount recovered and refunded to $6,672,507.29 (44 percent of the original $15.144 million assessment).

Looking Ahead:

The Office of the State Treasurer continues to work with state and federal regulators to keep up with changing conditions in public depositaries as the national and state economies continue to regain their footing.

PDPC Resolutions:

One PDPC Resolution was adopted on November 25, 2013 to expand the types of collateral that financial institutions are allowed to pledge. It says:

Resolution 2013-1: The Commission approved negotiable certificates of deposit, purchased from federally insured financial institutions in an amount not to exceed federal insurance limits, as a security eligible to qualify as collateral for public deposits.