Office of the Washington State Treasurer

2015 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 2015

Executive Summary:

Washington law, RCW 43.08.300, 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, 2012, 2013 and 2014 provide an accounting of the issues and actions taken by the PDPC and the Treasurer to protect public deposits. This 2015 report is an update on events and actions taken since December, 2014 when the last report was published.

Washington's public depositaries continue to provide secure banking services for state and local government entities. No financial institutions serving government depositors were closed in 2015. By comparison, 12 banks were closed at the height of the banking crisis in 2010.

Three public depositary banks were acquired by other institutions that were already PDPC participants.

As of October 31, 2015, 64 PDPC banks and 15 PDPC credit unions held over $6 billion in public deposits. With 100 percent collateral standing behind all uninsured public deposits, these public funds continue to remain safe and secure.

Reforms enacted by the 2009 Legislature, signed into law by the Governor, 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.

Summary of Bank Closures:

State and federal regulators did not close any Public Depositary Banks in 2015. Although Hometown National Bank (HNB), located in Longview, was closed on October 2nd, HNB has not participated in the public deposit program since July 2014.

Summary of Bank Mergers and Acquisitions:

Three of Washington's Public Depositary Banks were acquired by other banks in 2015. All of the acquiring banks were already PDPC participants.

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

> 9/18/2015: Kitsap Bank (Port Orchard) completed its acquisition of Fife Commercial Bank (Fife).
> 10/1/2015: Banner Bank (Walla Walla) completed its acquisition of AmericanWest Bank (Spokane).
> 10/16/2015: Inland Northwest Bank (Spokane) completed its acquisition of the Bank of Fairfield (Fairfield).

Additionally, the following two Non-PDPC participant banks were acquired:

> 2/28/2015: Bank of Eastern Oregon (Heppner, OR) completed its acquisition of Bank Reale (Pasco).
> 10/16/2015: First Sound Bank (Seattle) completed its acquisition of Eastside Commercial Bank (Bellevue).

Summary of Bank Deposits

As of October 31, 2015, insured deposits in banks represented 5 percent of \$6.3 billion in total deposits. These public depositaries have pledged additional collateral to fully protect all public deposits.

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, 15 credit unions have been approved to accept public deposits. As of 10/31/2015 eleven of those credit unions held $2,393,014 in public deposits, all of which are NCUA insured.

Background

On January 16, 2009, the Bank of Clark County failed and more than $15 million in public funds was temporarily lost due to lack of insurance or sufficient collateral. This temporary 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 the Bank of Clark County. These funds are returned to the PDPC banks that were assessed to cover the public depositor losses in 2009. To date, the total amount recovered and refunded is $7,278,586.11 (48 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:

No PDPC Resolutions were adopted through November 2015.