

Office of the Washington State Treasurer

# 2016 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 2016

## **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](#), [2014](#) and [2015](#) provide an accounting of the issues and actions taken by the PDPC and the Treasurer to protect public deposits. This 2016 report is an update on events and actions taken since December, 2015 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 2016. By comparison, 12 banks were closed at the height of the banking crisis in 2010.

Two public depositary banks were acquired by other institutions in 2016.

As of October 31, 2016, 64 PDPC banks and 15 PDPC credit unions held over \$6 billion in public deposits.

Reforms enacted by the 2009 and 2016 Legislatures, 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 2016.

## **Summary of Bank Mergers and Acquisitions:**

Two of Washington's Public Depository Banks were acquired by other banks in 2016. The dates of acquisition as well as the individual financial institutions involved are as follows:

1/1/2016: ZB, NA (Salt Lake City, UT) completed its acquisition of Commerce Bank of Washington (Seattle).

11/1/2016: Commencement Bank (Tacoma) completed its acquisition of Thurston First Bank (Olympia).

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

8/2/2016: Bank of the Cascades (Bend, OR) completed its acquisition of Prime Pacific Bank (Lynnwood).

9/6/2016: Pacific Continental Bank (Eugene, OR) completed its acquisition of Foundation Bank (Bellevue).

## **Summary of Bank Deposits:**

As of October 31, 2016, insured deposits in banks represented 5 percent of \$6.2 billion in total deposits. These public depositories have pledged additional collateral to protect uninsured 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 10/31/2016, twelve of those credit unions held \$2,353,048 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 funds:

---

The FDIC has periodically distributed dividends from the sale of assets related to the Bank of Clark County failure. These funds have been 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:

---

One PDPC Resolution was adopted on May 31, 2016 to ease collateral requirements on uninsured public deposits held by Well Capitalized public depositaries at their discretion. In exchange, eligible public depositaries choosing to reduce collateral will have their maximum liability related to a bank failure increased.

**Resolution 2016-1** states in part that: “... Well Capitalized public depositaries ... may collateralize uninsured public deposits at no less than fifty percent.” Furthermore, “... public depositaries pledging less than one hundred percent collateral on uninsured public deposits shall have their maximum liability increased to twenty-five percent ...”

Note: Public depositaries not categorized as Well Capitalized pursuant to the Federal Deposit Insurance Act are required to continue to fully collateralize uninsured public deposits.