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State Treasurer

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Westsound Bank Closure Illustrates Strength of Public Deposit Protection Reform

The closure of Westsound Bank, a Bremerton-based firm, on Friday proves the effectiveness of recent reforms designed to safeguard public tax dollars and reduce risks for financial institutions. These reforms were spearheaded by State Treasurer James McIntire and supported by the Governor and Legislature.

No public deposits were lost in what is expected to be a seamless takeover and transfer of accounts to Kitsap Bank.

All public deposits at Westsound are either fully insured or fully collateralized. Kitsap Bank already serves as a public depository and can provide the affected local governments' access to their funds on Monday morning.

"It's our job to protect the safety and security of public funds in Washington's banks," McIntire said. "The state and local governments have more than \$5 billion in banks around the state and we've taken aggressive steps to make sure that it is properly collateralized or insured, particularly in today's economic environment."

All deposits will transfer to the new bank with the exception of some brokered deposits that the FDIC will pay out directly; there will be no need to liquidate the collateral for the benefit of the uninsured local government deposits.

In addition to providing robust safeguards for public money, the Public Deposit Protection Commission's new rules, policies, and practices significantly reduced the chances that surviving financial institutions will be required to back uninsured public deposits held in a failing bank.

"We have worked closely with financial institutions to make these changes so that we could avoid either undermining their viability or their ability to accept public deposits," said McIntire, the Commission's chairman.

The seamless takeover and transfer of accounts expected between Westsound Bank and Kitsap Bank illustrates the effectiveness of the reforms he implemented for financial institutions holding public deposits.

Westsound is the second bank failure in Washington since McIntire took office in January. Bank of Clark County's demise in January was the first -- and a call to action.

On his third day on the job, the failure of the Bank of Clark County forced McIntire to recover \$15.1 million of uninsured public deposits by collecting these funds from the 93 public depository banks that made up the state's collateral pool for public deposits.

"We realized that public deposits in Washington banks were under-collateralized in the current financial climate," McIntire said. "It was clear that we needed to move quickly to better secure these deposits and protect Washington banks from future assessments."

Though all public tax-dollars were recovered, the assessment revealed an unacceptably large level of liability for public depositories large and small. Without timely, thoughtful reforms, the system was at risk of further assessments that could have pushed more banks into failure.

McIntire responded by immediately convening meetings with local government leaders, financial institutions, other state treasurers, Washington's federal delegation and state and federal regulators.

He worked with the Legislature and the Governor to update Washington's 40-year-old Public Deposit Protection Act and established new reporting and collateral requirements for troubled banks that accept public deposits.

In less than four months, McIntire has transformed the landscape. All public deposits in the handful of financial institutions with the greatest challenges are now either fully insured or collateralized.

"There is more work yet to be done but we've had great cooperation from county and municipal treasurers, bank regulators and Washington financial institutions to make these important changes," said McIntire

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For information about Westsound Bank and other lenders contact the Washington Department of Financial Institutions:
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