

Public Deposit Protection Commission

2018 Report



Office of the

State Treasurer

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A report to the Legislature providing an update on recent events, responses and issues related to modernizing and improving the protection of public deposits in Washington State

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 starting in 2009 provide an accounting of the issues and actions taken by the PDPC and the Treasurer to protect public deposits. Recent reports are available on the [PDPC reports to the Legislature webpage](#). This 2018 report is an update on events and actions taken since December, 2017 when the last report was published.

Washington's public depositories continue to provide secure banking services for state and local government entities. No financial institutions serving government depositors were closed in 2018. By comparison, 12 banks were closed at the height of the banking crisis in 2010.

Five public depository banks were acquired by other institutions and two additional institutions were approved as public depositories in 2018.

As of October 31, 2018, 62 PDPC banks and 17 PDPC credit unions held over \$7 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 Deposits:

As of October 31, 2018, insured deposits in banks represented 4 percent of \$7.3 billion in total deposits. These public depositories have pledged additional collateral to protect uninsured public deposits.

To date, 17 credit unions have been approved to accept public deposits. As of 10/31/2018, fourteen of those credit unions held \$14,486,978 in public deposits, which are either NCUA insured or secured by collateral.

Summary of Closures:

State and federal regulators did not close any Public Depository Banks or Credit Unions in 2018.

Summary of Mergers and Acquisitions:

Five of Washington's Public Depository Banks were acquired by other banks in 2018. The dates of acquisition as well as the individual financial institutions involved are as follows:

1/16/2018: Heritage Bank (Olympia) completed its acquisition of Puget Sound Bank (Bellevue).

10/1/2018: Timberland Bank (Hoquiam) completed its acquisition of South Sound Bank (Olympia).

11/1/2018: Banner Bank (Walla Walla) completed its acquisition of Skagit Bank (Burlington).

11/13/2018: First Interstate Bank (Billings, MT) completed its acquisition of Inland Northwest Bank (Spokane)

11/16/2018: 1st Security Bank of Washington (Mountlake Terrace) completed its acquisition of Anchor Bank (Aberdeen)

Summary of Other Changes:

In addition to participant changes through mergers and acquisitions, the following financial institutions were also approved in 2018 to act as public depositaries:

1/12/2018: Industrial Credit Union of Whatcom County (Bellingham).

10/23/2018: Unitus Community Credit Union (Portland, OR)

Summary of Trustee Changes:

The following entity was approved to act in the capacity of trustee and perform the function of safekeeping securities pledged by public depositaries to protect uninsured public deposits:

3/9/2018: TIB The Independent BankersBank, N.A. (Farmers Branch, TX)

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). In 2018, the Legislature passed Substitute House Bill (SHB) 1209 permitting credit unions to accept public deposits in excess of insured limits from depositors located within a county with a population of three hundred thousand persons or less.

Recovering funds:

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 held by the bank.

The FDIC periodically distributes 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. In 2018, the FDIC distributed \$526,013.03 bringing the total amount recovered and refunded to \$7,804,599.14 (52 percent of the original \$15.144 million assessment).

PDPC Resolutions:

The following PDPC Resolutions were adopted through November 2018.

Resolution 2018-1 extended existing collateral requirements for banks to credit unions in response to the passage of SHB 1209 which permitted credit unions to accept public deposits in excess of insured limits. The resolution 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 ...”. Supersedes Resolution 2016-1.

Resolution 2018-2 re-delegated authority to the State Treasurer to authorize and rescind out-of-state and alien bank accounts requested by state and local government entities and higher education facilities. Supersedes Resolution 2005-7.

Resolution 2018-3 re-delegated authority to the State Treasurer to approve public depository status to eligible financial institutions and to terminate financial institutions status as a public depository. Supersedes Resolution 2010-4.

Resolution 2018-4 re-delegated authority to the State Treasurer to approve eligible trustees and terminate status if a trustee becomes ineligible. Supersedes Resolution 2012-2.

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.