Introduction to the Public Deposit Protection Act

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The PDPA is a Colorado law, administered by the Division of Banking (Division), enacted to protect Colorado public funds placed in bank deposit accounts. The purpose is to ensure expedited repayment of public funds held as deposits in the event of default or liquidation of the bank holding the deposits. Under PDPA, the Division currently regulates:

- Colorado State-Chartered Banks
- Inter-State Banks
- National Banks

- Public funds must be deposited at a Division-approved bank
- Bank must be "Adequately-Capitalized" and have a composite CAMELS rating of "3" or Higher (or face stricter requirements or possible revocation of certificate)
- Uninsured public funds must be collateralized; and Collateral must be held in safekeeping at an approved escrow institution
- Banks provide Monthly Report & Annual Directors’ Examination
- Division performs PDPA Examination
Where are Colorado public funds deposited?

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- National: $3,513,404,046 (54.0%)
- State Chartered: $2,322,128,942 (36.0%)
- Inter-State: $677,814,951 (10.0%)

Grand Total of Public Funds: $6,513,347,939 as of 03/31/2019
Section 330.15 of the FDIC’s regulations governs the insurance coverage of public unit accounts. The “Official Custodian” of the public funds is insured as the depositor, up to $250,000.

The PDPA protects funds above FDIC insurance limits by requiring each bank to deliver readily marketable assets, “Collateral” to an approved escrow institution to be held in safekeeping and pledged to the Division.

In the event of a bank failure, the Division will take possession of collateral and distribute the funds to public units and entities with deposits above FDIC limits.

- **102%** collateralization of uninsured deposits at **all times** (or higher depending on bank capital and/or rating)
- Held in safekeeping at an **approved** escrow institution
- Common collateral types include: Government sponsored securities, municipal bonds, Letter of Credit
Division of Banking

Are Colorado public funds adequately collateralized?

![Graph showing uninsured amount and market value of collateral over time.](image-url)
PDPA Examinations are performed on a 36 month schedule (will shorten based on size/risk factors)

PDPA Escrow Examinations are performed on a 24 month schedule

The Division performs an average of 41 PDPA and Escrow examinations per year, including those for state-charted banks.

PDPA examinations for state-charted banks are performed concurrently with the Safety and Soundness examination.

What is examined?

- Capital Level
- Pledged Collateral
- Annual Directors’ Examination
- Policy and Procedure
- Trial Balance Review

Violations

- The most common violation is of PDP7(A) – Unreported Accounts

Overall, our Banks are in compliance with the PDPA, receptive to examiner findings and recommendations and work closely with the Division when issues arise.
Beginning in 2017, the PDPA program underwent several changes and enhancements:

**Procedures**

- Banks may now electronically submit all required forms and reports
- Digitized internal documents into an electronic record-keeping system
- Streamlined internal procedures with electronic collateral process

**Proposed Rule Amendments**

- PDP1 – Capital ratio alignment with Federal guidelines
- PDP3 – Addition of new securities from the Single Security Initiative to the eligible collateral list
- PDP4 – Assign a market value to the new securities in PDP3
- PDP5 – Capital ratio alignment with Federal guidelines; streamline pledging requirements
- PDP7 – Simplified monthly reporting requirements
- PDP8A – Define “Independent Person(s)” for purposes of the Directors’ Examination

**Legislature**

- Participated in discussions relative to House Bill 19-1179 Concerning the Financial Risk Profiles of Legal Investments of Public Funds