



# JOSH MANDEL

## STATE TREASURER OF OHIO

COLUMBUS &dash; Ohio Treasurer Josh Mandel announced today that \$377 million in taxpayer dollars that had been placed at risk of loss due to previous administrations' mistakes are being secured.

A review of depository agreements with banks applying to hold public funds found that prior administrations had failed to comply with federal law when amending agreements. This error meant that there might not have been enough collateral to recoup taxpayer dollars if a bank holding state money had failed. The review also found an administrative error in a contract that mistakenly referenced millions rather than billions and could have cost taxpayers hundreds of millions had it not been fixed.

"As we continue our top-bottom review, we found both a failure to comply with federal law on agreements with banks holding state funds, and a huge administrative error referencing millions rather than billions. We sounded the alarm and took immediate action to correct these mistakes and to secure millions in public funds," said Treasurer Mandel. "Fortunately, we were able to take action to correct these errors that had occurred over a number of years and spanned administrations, averting a \$377 million mistake for Ohio taxpayers."

### Background

In order for financial institutions across Ohio to be deemed qualified public depositories of state money they must complete a depository agreement with the Treasurer's office and comply with numerous state and federal laws. Ohio law requires that any bank holding state money on deposit must secure that deposit with collateral so that the state is protected in the event of a bank failure. State and federal law also requires that certain formal steps to be taken in order for the state to lay claim to this collateral in the event of a bank failure.

The Ohio Revised Code ("ORC") &sect; 135.03 limits the amount of public money a financial institution can hold at any one time to thirty percent of that financial institution's total assets. Periodically, a financial institution may desire to amend its depository agreement to increase the amount of public money it can hold on deposit while still remaining under the maximum amount allowed by Ohio law.

### Problems with Depository Agreements and Applications Identified

As part of the normal response to requests by Ohio banks to increase the amount of state money they could hold on deposit, the Treasurer's office became concerned that procedures were not being correctly followed. Treasurer Mandel initiated a careful review of the process for qualifying whether a bank is eligible to hold state money, which identified substantive errors that exposed the State of Ohio to losing hundreds of millions of dollars in the event of a bank failure.

Specifically, Treasurer Mandel's review revealed that prior Treasurers going back to at least 2007 failed to comply with federal law (12 U.S.C. &sect; 1823(e)(1)), which requires a financial institution's board of directors or loan committee to approve a depository agreement in order for public money to be secured. Prior practice only had a financial institution's board of directors approve of the initial depository agreement, but not the amendments, which effectively left any money approved under amendments unsecured in the case of a bank failure.



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This review revealed problems at the following five financial institutions: Croghan Colonial Bank; First Financial Bank, NA; First National Bank of Bellevue; First National Bank of Dennison; and Savings Bank. It revealed \$755,000 in unsecured collateral at three of these banks.

The review also identified a substantial error in KeyBank's application to hold public funds which erroneously stated a limit on public deposits for an amount of \$31.7 million, instead of \$31.7 billion. As a result of this error, the Treasurer discovered the state was at risk of losing up to \$377 million of public deposits held at KeyBank alone because they were not properly secured. Additionally, a similar error was identified in a 2006 contract with KeyBank.

### Treasurer Mandel Corrects Process

Fortunately, the Treasurer caught this before any money was lost. After identifying the problems in the process and the significant error at KeyBank, Treasurer Mandel's office took immediate steps to protect taxpayer dollars. Treasurer Mandel consulted with the Ohio Attorney General's office and is correcting the flaws in the process, which will effectively secure over \$377 million in at-risk deposits. The office is currently continuing to review this entire process and implement changes to ensure that public moneys are always secure when deposited at financial institutions.

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