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Customers at banks under new ownership see CD rates fall

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By LOU HIRSH
The Press-Enterprise

No depositors lost money when the Inland-based Vineyard National and Temecula Valley banks were seized by regulators and acquired by other banking companies earlier this month. But some holders of certificates of deposit saw their interest rates downsized.

Citing federal regulations passed in the late 1980s allowing them to do so, the new owners -- California Bank & Trust and First Citizens Bank and Trust -- sent letters to their respective new customers within a week after the July 17 acquisitions, informing them their CD interest would convert to lower market rates paid to the rest of those banks' customers.

Officials at both banks said customers could withdraw their money at any time without penalty, but if they chose to stay put, their interest rates would reflect the announced changes by month's end.

For instance, just before its seizure, Vineyard was paying 1.9 percent interest on a one-year CD, 2.3 percent for two years and 2.52 percent for three years. As of Tuesday the bank's new owner, California Bank & Trust, adjusted those downward to 1.25 percent, 1.48 percent and 1.88 percent, respectively.

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David Blackford, CEO of San Diego-based California Bank & Trust, which acquired Vineyard's 16 offices, said most Vineyard customers were not impacted.

He said the CD change was not imposed on Vineyard customers who have other relationships with the bank, such as checking and savings accounts.

"It is not uncommon for a troubled bank to offer high CD rates as a way to ease pressure on liquidity," Blackford said in an e-mailed statement, referring to Corona-based Vineyard in its final months.

Similar changes were made by North Carolina-based First Citizens Bank and Trust, after it took over the 11 branches of Temecula-headquartered Temecula Valley Bank.

First Citizens spokeswoman Barbara Thompson said this is the first time the century-old company has ever acquired a failed bank, so it has not had to deal with the CD interest issue until now.

But rates were adjusted to reflect what it pays customers across the country for similar accounts.

For example, a 12-month CD that Temecula Valley advertised at 2.2 percent interest converts to 1.5 percent as of today.

"We have reviewed all of our deposit interest rates in connection with this acquisition, and our rates are still very competitive," Thompson said.

Retiree William Wimberly, 65, who's been banking with Temecula Valley since 1997, is now scouting out new places for his money. He said he was informed earlier this month that his two one-year CDs with the bank, each earning at least 3 percent, would instead be paying 1.5 percent.

"When people who are retirees set up CDs, they're counting on a set rate of return on their money," Wimberly said by phone. "They're figuring out what they're going to need as income."

"The taxpayers help all the banks with those bailouts, and this is what we get in return," he added. "I think that's un-American."

David Barr, a spokesman for the Federal Deposit Insurance Corp., said CD rate adjustments were made possible by national legislation enacted in 1989, in the wake of a savings and loan meltdown that saw several U.S. institutions go under.





Barr said the FDIC does not track how often the clause is exercised. But the intent was to prevent potential acquiring banks from being scared off by the responsibility of paying prohibitively high interest rates enacted by failed institutions in their waning days.

"Theoretically, any time a bank fails and changes hands, you could see those CD rates change," Barr said.

Wimberly said he dealt during the past year with at least three failed banks -- Wachovia, Downey Savings and IndyMac -- but didn't see his CD rates change after new companies took over in any of those cases.

"People go to places like Temecula Valley and Vineyard because they want to deal with local people," he said. "If this is how the new owners are greeting their customers, they're not off to a good start."

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