Feds seize local bank; N.C. firm sees opening

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UNION-TRIBUNE STAFF WRITER
2:00 a.m. July 27, 2009

The seizure of Temecula Valley Bancorp by federal regulators 10 days ago has given a North Carolina-based community bank an opportunity to greatly increase its presence in Southern California.

Some analysts say the takeover could prove to be highly profitable for First Citizens Bank & Trust Co. of Raleigh when the recession ends and credit flows more freely. Others hold that the acquisition could prove to be a financial drain on the family-operated company.

Rick Levenson, president of Western Financial Corp., an investment firm specializing in community banks, said First Citizens is acquiring troubled Temecula Valley at the bottom of the market.

“It is an interesting play, an interesting way to get into an area that ultimately will come back and be strong and vibrant,” Levenson said. “They clearly saw this as an opportunity for them to get into Southern California in a big way.”

First Citizens was selected for the transaction through a competitive bidding process. It began operating Temecula Valley's 11 branches July 20, following the July 17 seizure by federal regulators. Seven of the branches are in San Diego County.

Temecula Valley's problems stemmed, in part, from its involvement in residential development during the recent real estate boom. It had about $1.5 billion in total assets and $1.3 billion in deposits. First Citizens will take over about $1.3 billion in loans, while the Federal Deposit Insurance Corp. will assume a portion of any losses from the loan portfolio.

Rod Brown, president and CEO of the California Bankers Association, called the acquisition a bold move that will pay off when the recession ends.

Not everyone views the acquisition so positively.

On July 21, Moody's Investors Service said it downgraded the long-term ratings of First Citizens. The rating for long-term bank deposits dropped to A2 from A1 but remained in the upper-medium investment grade. The rating for the bank's financial strength dropped to C-plus from B-minus, however.

The bank's short-term ratings were affirmed at Prime-1, the highest quality, but the outlook was characterized as negative. Moody's said the downgrade was based, in part, on its view that the takeover of Temecula Valley had increased First Citizens' exposure to risk.

Although the acquisition provides strong protection against credit risk, management of Temecula Valley's assets could result in heightened expenses and decrease profitability, Moody's reported.

Moody's said First Citizens' capital, asset quality, and liquidity profile remain strong.

“We are not going to comment about this ratings-service action, other than to say that we are still proud that we were able to acquire this bank due to our strength and stability, and we are proud to be serving new customers in Southern California,” First Citizens spokeswoman Barbara Thompson said.

First Citizens' parent company, First Citizens BancShares, has $17.2 billion in assets and two banking subsidiaries, First Citizens Bank and IronStone Bank. Together they have 410 branches throughout the South and the West. IronStone has branches in La Jolla, University Towne Centre and Solana Beach.

Jeff Adams, a managing director of The Carson Medlin Co., an investment banking firm, works with community banks in the Sun Belt states. Adams said First Citizens has been conservative in its investments, avoiding the type of risky loans that contributed to the seizure of Temecula Valley.

"They (First Citizens) always have been extremely successful, as far as running a community bank franchise," Adams said. "They don't do a lot of speculative lending. When the market was roaring, they were conservative."

In December 2008, First Citizens BancShares was named to Forbes magazine's Platinum 400 list of America's Best Big Companies. Founded in 1898, First Citizens Bank operates in North Carolina, Virginia, West Virginia, Tennessee, Maryland and Southern California.

Temecula Valley is one of two local banks that were seized by regulators this month. California Bank & Trust of San Diego has agreed to take over the deposits of Vineyard Bank of Rancho Cucamonga.

California Bank & Trust's parent company, Zions Bancorp of Utah, last week reported a second-quarter loss of $40.7 million, compared with a profit of $69.7 million one year earlier.

The bank's losses stemmed, in part, from the performance of commercial real estate and commercial industrial loan portfolios. Steven Borg, a spokesman for California Bank & Trust, said the second-quarter loss would have no impact on the takeover of Vineyard Bank.

"Obviously, this has been in the works," Borg said of the takeover. "The FDIC-assisted acquisition of Vineyard Bank is a done deal."

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