

Evidence of Early Withdrawal in Time Deposit Portfolios

Published: March 1999

Volume 15, pages 103–122 (1999) [Cite this article](#)



**Journal of Financial Services
Research**



[James H. Gilkeson¹](#), [John A. List²](#) & [Craig K. Ruff³](#)

197 Accesses 14 Citations 3 Altmetric [Explore all metrics](#) →

Abstract

The embedded options found in some securities are known to have significant impact on product pricing, secondary market valuation, and risk measurement and management. The option to withdraw commonly found in bank deposits is one of the least studied of these. We help to fill this gap by examining the level and interest rate sensitivity of early withdrawals of retail time deposits using panel data from the Thrift Financial Report. We find that longer-maturity time deposit portfolios commonly experience early withdrawals at economically significant levels. Further, we find that depositors respond positively, with increased levels of early withdrawal, to the reinvestment incentive they face when new deposit rates rise. These findings increase our understanding of consumer behavior with regard to financial products and have significant implications for the competitive pricing of deposit products and the management of bank interest rate risk.



This is a preview of subscription content, [log in via an institution](#) to check access.

Access this article

[Log in via an institution](#) →

Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

[View plans](#) →

Buy Now

[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) →

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Banking](#)

[Financial Law](#)

[Financial Economics](#)

[Investments and Securities](#)

[Microfinance](#)

[Risk Factors](#)

References

Athanassakos, George, and R. Waschik. "The Demand for Long-Term Deposits of a Financial Intermediary: Theory and Evidence." *Journal of Economics and Business* 49, (March-April 1997), 127-147.

Berger, Allen N., and Timothy H. Hannan. "The Price-Concentration Relationship in Banking." *Review of Economics and Statistics* 71 (1989), 291-299.

Breeden, Douglas T. "Risk, Return, and Hedging of Fixed-Rate Mortgages." *Journal of Fixed Income* 1 (September 1991), 85-107.

Cooperman, Elizabeth S., Winston B. Lee, and James P. Lesage. "Commercial Bank and Thrift Interdependence and Local Market Competition for Retail Certificates of Deposit." *Journal of Financial Services Research* 4 (March 1990), 37-52.

Cooperman, Elizabeth S., Winston B. Lee, and James P. Lesage. "Geographical Integration and the Retail CD-Pricing Decisions of Large Depository Institutions." *Review of Economics and Statistics* 73 (1991), 546-552.

Cooperman, Elizabeth S., Winston B. Lee, and Glenn A. Wolfe. "The 1985 Ohio Thrift Crisis, the FSLIC's Solvency, and Rate Contagion for Retail CDs." *Journal of Finance* 47 (July 1992), 919-941.

Davis, Richard G., and Leon Korobow. "The Pricing of Consumer Deposit Products—The Non-Rate Dimensions." Federal Reserve Bank of New York, *Quarterly Review* 11 (Winter 1986), 14-18.

Diebold, Francis X., and Steven A. Sharpe. "Post-Deregulation Bank-Deposit-Rate Pricing: The Multivariate Dynamics." *Journal of Business and Economic Statistics* 8 (July 1990), 281-291.

Flannery, Mark J. "Retail Bank Deposits as Quasi-Fixed Factors of Production." *American Economic Review* 72 (June 1982), 527-536.

Gilkeson, James H., and Gary E. Porter. "Large Retail Time Deposits and U.S. Treasury Securities (1986-95): Evidence of a Segmenting Market." *Managerial Finance* 24 (1998), 25-46.

Gilkeson, James H., and Craig K. Ruff. "Valuing the Withdrawal Option in Retail CD Portfolios." *Journal of Financial Services Research* 10 (December 1996), 333-358.

Hannan, Timothy H. "Asymmetric Price Rigidity and the Responsiveness of Customers to Price Changes: The Case of Deposit Interest Rates." *Journal of Financial Services Research* 8 (December 1994), 257-267.

Hannan, Timothy H., and Allen N. Berger. "The Rigidity of Prices: Evidence from the Banking Industry." *American Economic Review* 81 (September 1991), 938-945.

Hanweck, Gerald A., and Stephen A. Rhoades. "Dominant Firms, 'Deep Pockets' and Local Market Competition in Banking." *Journal of Economics and Business* 36 (December 1984), 391-402.

Heckman, James J. "Sample Bias as a Specification Error." *Econometrica* 47 (1979), 153-162.

Heffernan, Shelagh A. "A Computation of Interest Equivalences for Nonprice Characteristics of Bank Products." *Journal of Money, Credit, and Banking* 24 (May 1992), 162-172.

Hempel, George H., Donald G. Simonson, and Alan B. Coleman. *Bank Management: Text and Cases*. New York: John Wiley & Sons. 1994.

Holtz-Eakin, Douglas. "Public Sector Capital and the Productivity Puzzle." *Review*

Hutchison, David E. "Retail Bank Deposit Pricing: An Intertemporal Asset Pricing Approach." *Journal of Money, Credit, and Banking* 27 (February 1995), 217-231.

Hutchison, David E., and George G. Pennacchi. "Measuring Rents and Interest Rate Risk in Imperfect Financial Markets: The Case of Retail Bank Deposits." *Journal of Financial and Quantitative Analysis* 31 (September 1996), 399-417.

Jackson, William E., III, and Jack W. Aber. "The Surprising Importance of Deposit Rate Flexibility." *Journal of Retail Banking* 14 (Spring 1992), 9-14.

Mahoney, Patrick I., Alice P. White, Paul F. O'Brien, and Mary M. McLaughlin. "Responses to Deregulation: Retail Deposit Pricing from 1983-1985." Board of Governors of the Federal Reserve System, *staff study*. January 1987.

Neumark, David, and Steven A. Sharpe. "Market Structure and the Nature of Price Rigidity: Evidence from the Market for Consumer Deposits." *Quarterly Journal of Economics* 107 (1992), 657-680.

Passmore, Wayne, and Roger Sparks. "An Efficiency Model of Deposit Pricing and Rate Rigidity." *Working paper* October 1993.

Richard, Scott F., and Richard Roll. "Prepayments on Fixed-Rate Mortgage-Backed Securities." *Journal of Portfolio Management* 15 (Spring 1989), 74-82.

Wenninger, John. "Responsiveness of Interest Rate Spreads and Deposit Flows to Changes in Market Rates." Federal Reserve Bank of New York *Quarterly Review* 11 (Autumn 1986), 1-10.

Zephirin, M.G. "Switching Costs in the Deposit Market." *Economic Journal* 104 (March 1994), 455-461.

Author information

Authors and Affiliations

Department of Finance, University of Central Florida, Orlando

James H. Gilkeson (Assistant Professor)

Department of Economics, University of Central Florida, Orlando

John A. List (Assistant Professor)

Educational Products, Association for Investment Management and Research, Charlottesville, VA

Craig K. Ruff (Vice President)

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Gilkeson, J.H., List, J.A. & Ruff, C.K. Evidence of Early Withdrawal in Time Deposit Portfolios. *Journal of Financial Services Research* **15**, 103–122 (1999). <https://doi.org/10.1023/A:1008071719082>

Issue date

March 1999

DOI

<https://doi.org/10.1023/A:1008071719082>

Keywords

[Interest Rate](#)

[Deposit Rate](#)

[Panel Data](#)

[Time Deposit](#)

[Risk Measurement](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research