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# Evidence of Early Withdrawal in Time Deposit Portfolios



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## 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.

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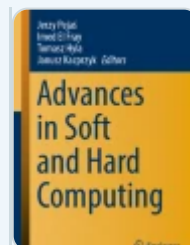
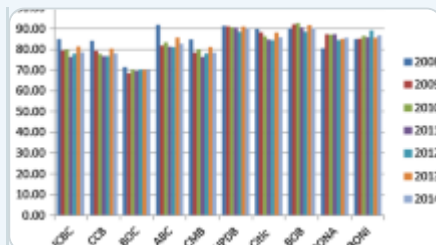
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