

# Opening the Door to Early Withdrawal



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CEO & Founder

The CorePoint

A Timely Opportunity

Without Downside?

Financial Institution Has  
Complete Control of  
Eligible Accounts

# Unprecedented Reduction of Interest Rates



# Example Term Deposit Pricing History

Historical Term Deposit Offering APYs

Max of APY	Column Labels												
	2019						2020						
Row Labels	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
3	1.60	1.45	1.30	1.30	0.60	0.45	0.45	0.30	0.30	0.25	0.10	0.10	0.10
6	1.60	1.45	1.45	1.45	0.75	0.65	0.65	0.65	0.55	0.50	0.40	0.40	0.40
12	1.75	1.60	1.60	1.60	1.05	1.00	1.00	0.80	0.75	0.70	0.55	0.55	0.50
14	1.60	1.60	1.60	1.60	1.05	1.01							
19	1.75	1.75	1.75	1.75	1.20	1.20	1.05	0.90	0.90	0.75	0.70	0.60	0.55
24	1.95	1.90	1.90	1.90	1.50	1.20	1.20	1.05	1.05	0.85	0.70	0.70	0.65
27	1.90	1.90	1.90	1.90	1.50	1.35							
30	2.09	2.00	2.00	2.00	1.50	1.30	1.30	1.15	1.15	0.90	0.70	0.70	0.65
36	2.15	2.00	2.00	2.00	1.50	1.30	1.30	1.15	1.15	0.95	0.75	0.75	0.70
42	2.00	2.00	2.00	2.00	1.50	1.50	1.40	1.25	1.25	1.00	0.90	0.75	0.70
48	2.15	2.00	2.00	2.00	1.50	1.40	1.40	1.25	1.25	1.05	0.85	0.80	0.75
60	2.15	2.00	2.00	2.00	1.50	1.40	1.40	1.40	1.30	1.11	0.90	0.85	0.80

# Example Situation

One Quarter Annualized Income Analysis--Page 12

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Earnings and Profitability	<u>12/31/2020</u>			<u>9/30/2020</u>			<u>6/30/2020</u>			<u>3/31/2020</u>			<u>12/31/2019</u>		
	BANK	PG 3	PCT	BANK	PG 3	PCT	BANK	PG 3	PCT	BANK	PG 3	PCT	BANK	PG 3	PCT
<b>Total Interest Bearing Deposits</b>	0.63	0.39	86	0.72	0.46	84	0.78	0.57	74	1.02	0.90	65	1.12	1.01	64
Transaction accounts	0.14	0.24	42	0.16	0.29	40	0.21	0.34	41	0.32	0.69	29	0.35	0.83	24
Other Savings Deposits	0.24	0.20	69	0.30	0.22	70	0.34	0.27	69	0.60	0.56	60	0.72	0.64	64
<b>Time Deposits</b>	1.93	1.12	95	2.04	1.30	96	2.12	1.56	93	2.23	1.83	92	2.30	1.96	83
Foreign Office Deposits	N/A	0.81	N/A	N/A	0.74	N/A	N/A	0.88	N/A	N/A	1.57	N/A	N/A	1.85	N/A

Source: UBPR

# Polling Question #1



Neil Stanley

Feb 17, 2021



## How early withdrawal became advantageous for banks

Under normal conditions, bankers offer higher yields on CDs to lock in funds for longer-terms. So, it is intuitive that there should be a penalty for early withdrawal to keep those funds in place on the bank's balance sheet. That is, until interest rates fall dramatically and alternative funding sources can readily replace those deposits for much lower costs without adversely impacting interest rate risk.

As interest rates fell in 2020, a few bankers realized they could "refinance" their highest-cost obligations to long-term depositors for the same terms at much lower interest expense.

\*\*\*\*\*.bai.org/banking-strategies/article-detail/how-early-withdrawal-became-advantageous-for-banks/

# *Unprecedented Environment*

All financial institutions that give this serious consideration today find that:

- The standard early withdrawal penalties embedded in CDs are irrational as market interest rates are significantly below those on accounts in the funding portfolio.

Most find that:

- They already have a surplus of cash.
- Their liquidity continues to increase as PPP accounts are forgiven by SBA.

# ***Do You Have Some Expensive Time Deposits on the Books Like this One?***

***A \$62,804 current CD maturing 11/16/2022 at 2.08% could  
create a financial gain of \$1,229 to financial institution if  
replaced at today's lower cost of funds even while sharing  
\$873 with the depositor.***



# Detailed Example Situation

Current Interest Rate	3.13
Current Balance	157,186.46
Maturity Date	3/13/2024
Date Opened	3/13/2019
Original Term	60
Remaining Term	37
Approximate Value at Maturity	172,806.59
FI's Replacement Expected APY	0.61
Value at Maturity with Expected Replacement APY	160,152.59
Approximate Gross Impact to F.I. Cost of Funds	(12,654.01)
Bonus Offer	6,116.87
Offer Value of Current CD	163,303.33
Value at Maturity with Replacement APY	166,384.88
Cost of Funds Impact	(6,421.72)
Benefit/Volume	3.93%

# Aggregating the Numbers

<b>Benefit / Time Deposit Volume</b>	<b>Sum of Offer Value of Current CD</b>	<b>Count of Positive Net F.I. Benefit to Transfer</b>	<b>Sum of Positive Net F.I. Benefit to Transfer2</b>
0-0.005	41,234,039	191	99,226.52
0.005-0.01	11,378,588	170	87,488.92
0.01-0.015	9,370,843	144	108,917.03
0.015-0.02	3,080,018	57	55,029.41
0.02-0.025	1,181,832	23	26,397.96
0.025-0.03	1,406,708	20	38,047.17
0.03-0.035	2,257,904	57	75,404.49
0.035-0.04	1,641,049	17	60,075.73
0.04-0.045	331,086	2	13,569.72
<b>Grand Total</b>	<b>71,882,067</b>	<b>681</b>	<b>564,156.96</b>

# Rough Estimates of Financial Gain Potential for Select F.I.s

000's Omitted

CD Ref	Bank Name	Bank City	State	Assets	CD Yield in 3rd Qtr 2020	Annualized CD Int. Expense	Total Avg. CD Volume	3/2020 CD with Mat 1-3 years	3/2020 CD with Mat >3 years	3/2020 CD with Mat >1 years	% of Total 9/2020 CDs	Estimated Raw Early Withdrawal Potential	Estimated Gain from 5% Take	Estimated Gain from 25% Take
1072	1ST FINANCIAL BANK USA	Dakota Dunes	SD	633,090	1.11%	4,172	375,834	62,680	250,075	312,755	80%	13,550	677	3,387
58177	SALLIE MAE BANK	Salt Lake City	UT	30,564,341	1.83%	232,572	12,679,446	7,544,426	1,520,519	9,064,945	67%	64,046	3,202	16,011
57056	CELTIC BANK	Salt Lake City	UT	4,286,139	1.81%	13,972	772,525	148,327	344,414	492,741	64%	3,116	156	779
57293	ENERBANK USA	Salt Lake City	UT	3,166,799	1.91%	44,416	2,322,784	785,268	514,678	1,299,946	64%	12,168	608	3,042
57449	MEDALLION BANK	Salt Lake City	UT	1,282,691	2.00%	21,816	1,089,347	480,943	182,111	663,054	62%	6,073	304	1,518
57570	COMENITY CAPITAL BANK	Draper	UT	7,742,592	2.66%	107,232	4,033,512	1,973,586	787,489	2,761,075	62%	36,942	1,847	9,236
35141	BMW BANK OF NORTH AMER	Salt Lake City	UT	11,443,278	1.97%	136,772	6,950,742	3,583,667	573,006	4,156,673	55%	35,100	1,755	8,775
14650	HILLS BANK AND TRUST COMF	Hills	IA	3,778,641	2.04%	14,360	703,229	250,385	123,561	373,946	54%	3,591	180	898
27471	AMERICAN EXPRESS NATIONA	Sandy	UT	134,472,935	2.35%	234,196	9,947,174	5,283,864	748,311	6,032,175	54%	71,420	3,571	17,855
32992	MORGAN STANLEY BANK, NA	Salt Lake City	UT	169,782,000	1.50%	380,000	25,269,000	10,569,000	4,643,000	15,212,000	54%	81,074	4,054	20,268
10988	STEARNS BANK NATIONAL AS	Saint Cloud	MN	2,203,231	2.08%	18,156	873,447	457,812	22,149	479,961	50%	5,518	276	1,380
34519	MERRICK BANK	South Jordan	UT	4,082,462	2.02%	46,168	2,287,831	850,740	334,746	1,185,486	49%	13,469	673	3,367
58267	MARLIN BUSINESS BANK	Salt Lake City	UT	995,738	2.04%	16,620	814,921	313,247	86,207	399,454	45%	4,694	235	1,174
57565	UBS BANK USA	Salt Lake City	UT	77,831,265	2.80%	133,456	4,760,818	1,587,081	775,023	2,362,104	43%	50,281	2,514	12,570
58210	BRIDGEWATER BANK	Saint Louis Park	MN	2,768,373	2.01%	12,820	636,348	157,143	84,054	241,197	39%	3,475	174	869
19600	ACADEMY BANK, NATIONAL A	Kansas City	MO	2,341,128	2.00%	18,992	951,155	341,826	20,554	362,380	39%	5,100	255	1,275
27314	SYNCHRONY BANK	Draper	UT	85,130,000	2.14%	772,000	36,089,000	10,131,000	3,881,000	14,012,000	36%	229,128	11,456	57,282
57803	ALLY BANK	Sandy	UT	174,591,000	2.07%	1,172,000	56,724,000	15,260,000	2,180,000	17,440,000	30%	347,755	17,388	86,939
14843	MIDWESTONE BANK	Iowa City	IA	5,323,604	1.41%	13,096	931,655	224,026	28,316	252,342	25%	3,071	154	768
3511	WELLS FARGO BANK, NATION.	Sioux Falls	SD	1,750,196,000	0.69%	504,000	73,434,000	14,503,000	7,908,000	22,411,000	25%	117,677	5,884	29,419
32489	HOMESTREET BANK	Seattle	WA	7,360,386	1.46%	16,660	1,138,569	232,139	24,825	256,964	22%	4,641	232	1,160
29546	GREAT SOUTHERN BANK	Reeds Spring	MO	5,447,323	1.36%	21,776	1,602,981	267,903	122,339	390,242	22%	5,352	268	1,338
28088	WASHINGTON FEDERAL BANK	Seattle	WA	18,791,384	1.33%	53,520	4,011,159	675,064	187,833	862,897	20%	12,260	613	3,065
953	BANKERS TRUST COMPANY	Des Moines	IA	5,627,849	1.60%	13,940	871,482	186,705	1,144	187,849	20%	4,461	223	1,115
34697	WEX BANK	Midvale	UT	2,459,370	2.18%	17,864	819,949	173,399	-	173,399	17%	5,621	281	1,405

# Polling Question #2

# ***Early Withdrawal Campaign Elements***

Data analytics  
Pricing the option  
Formatting the offer  
Preparing FAQs  
Designating and preparing team  
Delivering the offer  
Handling the responses

# ***Research / Preparations for Issues Include:***

- Exclude brokered, IRAs, and deposit accounts held as collateral
- Partial withdrawals
- Allowing funds to flow out of or back into other bank accounts
- Handling inquiries from depositors about negotiating the option price
- What about account holders that were not granted a bonus offer?
- Written and verbal communications
- Disparate treatment and impact of protected classes
- Handling the expiration of the option
- Using multiple blocks/waves/flights of offers
- Shifting income between years as we expense the exercised offer expense

# Time Deposit Early Withdrawal Offers

## Frequently Asked Questions

In these unusual times we are financially strong and committed to offering our depositors flexible options when and where possible. We have many depositors who committed to time deposits before the pandemic of 2020. Circumstances for many people have changed dramatically since the pandemic was announced. As we consider all the factors of this situation from the perspectives of all stakeholders involved in these time deposits, we believe that the opportunity exists for us to provide a previously unavailable valuable option to our depositors.

Therefore, we are giving depositors who opened accounts before the official pandemic date of 3/11/2020 the option of redeeming their accounts now. These early redemptions deliver to the depositors all their current principal and accrued interest and waive their early withdrawal penalties. In some instances, depending upon the size, term, and interest rates of the deposit, we offer an additional financial incentive or bonus.

These offers will be or have been delivered as letters via U.S. Postal service to the account holders. They will identify the specific account that is eligible for the early redemption financial incentive and the amount of that incentive. They will state an expiration date for this early redemption offer and the means of contacting us to authorize the early redemption.

**Who is designated to handle responses to these offers?** All requests for early redemption bonuses should be handled by our designated team.

# ***Content in Invitations***

- Thank you
- We are exceptionally financially strong
- Times have changed
- We are going above and beyond the terms our depositors agreed to
- There is no obligation on the depositor's part / no strings either
- We are willing to pay depositors a bonus if they want money now
- No pressure / depositors can decide over a few weeks
- Thank you!!!



# *Thank You / Invitations*

Sam Smith  
12000 Lane  
Spencer, IA 51544

Re: Your Time Deposit with a Current Balance of \$105,307.19 and Maturing 10/26/2023

Dear Sam Smith,

**Thank you for banking with us!** We are honored that you have chosen us to help you manage your money. We pride ourselves here in giving our clients more choices than our competitors offer. Our exceptional financial strength today allows us to make offers not available from other financial institutions. Therefore, to accommodate these unique times, we are giving you a new choice with your time deposit referenced above.

**You are welcome to pass on this offer and continue your deposit as previously arranged to maturity.**

As you know, your account disclosure contains a penalty for early withdrawal. Given the current circumstances in our world and your financial situation you may find yourself in a position of wanting or needing access to those funds earlier than your original maturity date.

To accommodate your early withdrawal at this time, we are waiving your early withdrawal penalty and offering to pay you \$2,281.80 if you notify us between now and 3/5/2021 to redeem your time deposit now.

# Polling Question #3

# ***Continuing Implications***

## **Traditional static early withdrawal penalties are dangerous**

- Don't generate benefits in revenue
- Create barriers for deposit growth
- Don't adequately protect the funding portfolio when interest rates are low

## **Financial Institutions that fortify their approach to early withdrawal now will**

- Better protect the future of their funding sources
- Use Enhanced Withdrawal Options to win more properly priced long-term deposit while the rest of the industry appears paralyzed

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# Thank You



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