Q4 2023

BANK EXECUTIVE BUSINESS OUTLOOK SURVEY

IntraFi

WHERE WE'VE **BEEN.** WHERE WE'RE **GOING.**

IntraFi's quarterly Bank Executive Business Outlook Survey is designed to gather and share insights from senior bank executives and decision-makers based on their recent experiences, as well as their expectations for the industry in the coming months.

INTRODUCTION

Welcome to IntraFi's Bank Executive Business Outlook Survey report for the fourth quarter of 2023. This quarter, bank executives have become less pessimistic about the outlook for their institutions. The percentage of respondents who expect funding costs to drop and loan demand to improve rose dramatically. The same can be said for respondent outlook on economic conditions for their bank. But bankers still see challenges ahead—in the form of new regulatory policies and a competitive market for deposits.

We hope the information provided is insightful and helpful. If you have any thoughts or questions, please contact Rob Blackwell, Chief Content Officer & Head of External Affairs, at (866) 776-6426, x3357, or visit IntraFi.com.

Sincerely,

MARK JACOBSEN
Cofounder & CEO
IntraFi

EXECUTIVE SUMMARY

Bank executives are less pessimistic about the economy and the outlook for their institutions. Although they have concerns on the regulatory front and about the competitive market for deposits, the number of bankers who expect loan demand to improve and funding costs to drop increased significantly in this survey. Additionally, the percentage of bankers who think economic conditions for their bank will improve in the coming year more than doubled since last quarter.

Interestingly, there was a notable difference in bankers' views on the largest threats to their institution versus their biggest concern for the industry overall. When asked about their own bank, 42% of executives said margin compression was the biggest worry. Only 8% cited concerns about credit quality at their own bank.

Yet those positions effectively flipped when considering concerns for all institutions. Thirty-four percent said credit quality was the biggest issue facing the industry, while only 22% cited margin compression. Deposit competition, meanwhile, was cited as the second biggest concern for bankers, both when thinking about their own institution (34%) and when considering all institutions (32%).

Bank executives are also worried about a number of regulatory policies under consideration. Forty-one percent of respondents cited the Consumer Financial Protection Board's (CFPB) small business rule as their top concern. The regulation requires banks to collect demographic data on small business loan recipients. Second on the list was a CFPB proposal to limit overdraft fees (21%), followed closely by a Federal Reserve plan to lower debit interchange fees (20%). Both of these changes could impact revenue levels at individual institutions.

When asked if the CFPB's small business rule would cause their bank to cut back on small business lending, 81% of bankers said no. Since community banks are a major source of lending for small businesses, this is important news for small start-ups and entrepreneurs.

↑55% predict an increase in deposit competition | **↓40%** predict a decrease in funding costs | **↑43%** predict an increase in loan demand

One idea that banks unanimously support (99%) is Sen. Elizabeth Warren's call to require crypto companies to comply with the same anti-laundering rules as banks.

If the Federal Reserve cuts rates as predicted in 2024, respondents believe that mortgage demand will grow stronger in 2024. Ninety-one percent think more Americans will apply for mortgages this year.

The percentage of banking executives who expect the economy to improve over the next 12 months more than doubled since last quarter to 26%. This more optimistic outlook for the future was also captured in IntraFi's proprietary Bank Confidence Index (a composite of expectations for access to capital, loan demand, funding costs, and deposit competition for the upcoming 12 months). It hit 50 this quarter, the first time it has moved into positive territory since the fourth quarter of 2021.

OTHER HIGHLIGHTS

Deposit Competition remains tight with 81% noting higher levels during 2023 but only 55% predicting it will continue to rise in 2024.

Funding Costs remain elevated, with 92% of bankers noting the price of funding has increased over the past twelve months. For 2024, 40% of respondents predict funding costs will decrease.

Loan Demand remained flat or declined over the past 12 months, according to 70% of bank executives. But, looking ahead to 2024, 43% see loan demand on the rise.

Access to Capital continues to hold steady, with 74% saying it has remained the same over the past 12 months. Similarly, 72% of respondents believe it will not change in the year ahead.

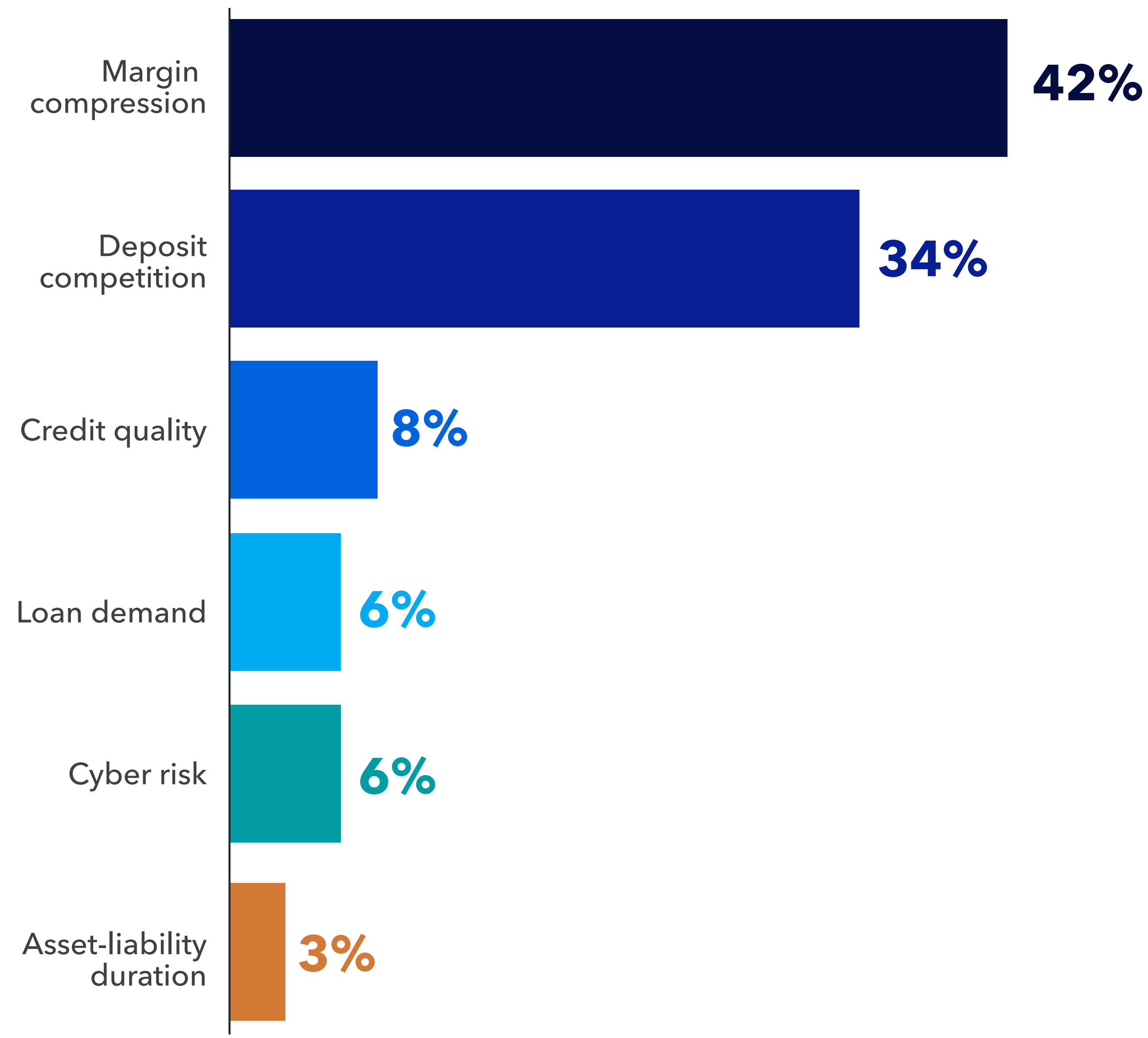
BANKER PERSPECTIVES

Each quarter, we pose a series of questions based on current events affecting the banking sector.

This quarter, we asked a series of questions including what the top concerns for banks are heading into 2024, expectations for mortgage lending, and the impact of several possible regulatory changes.

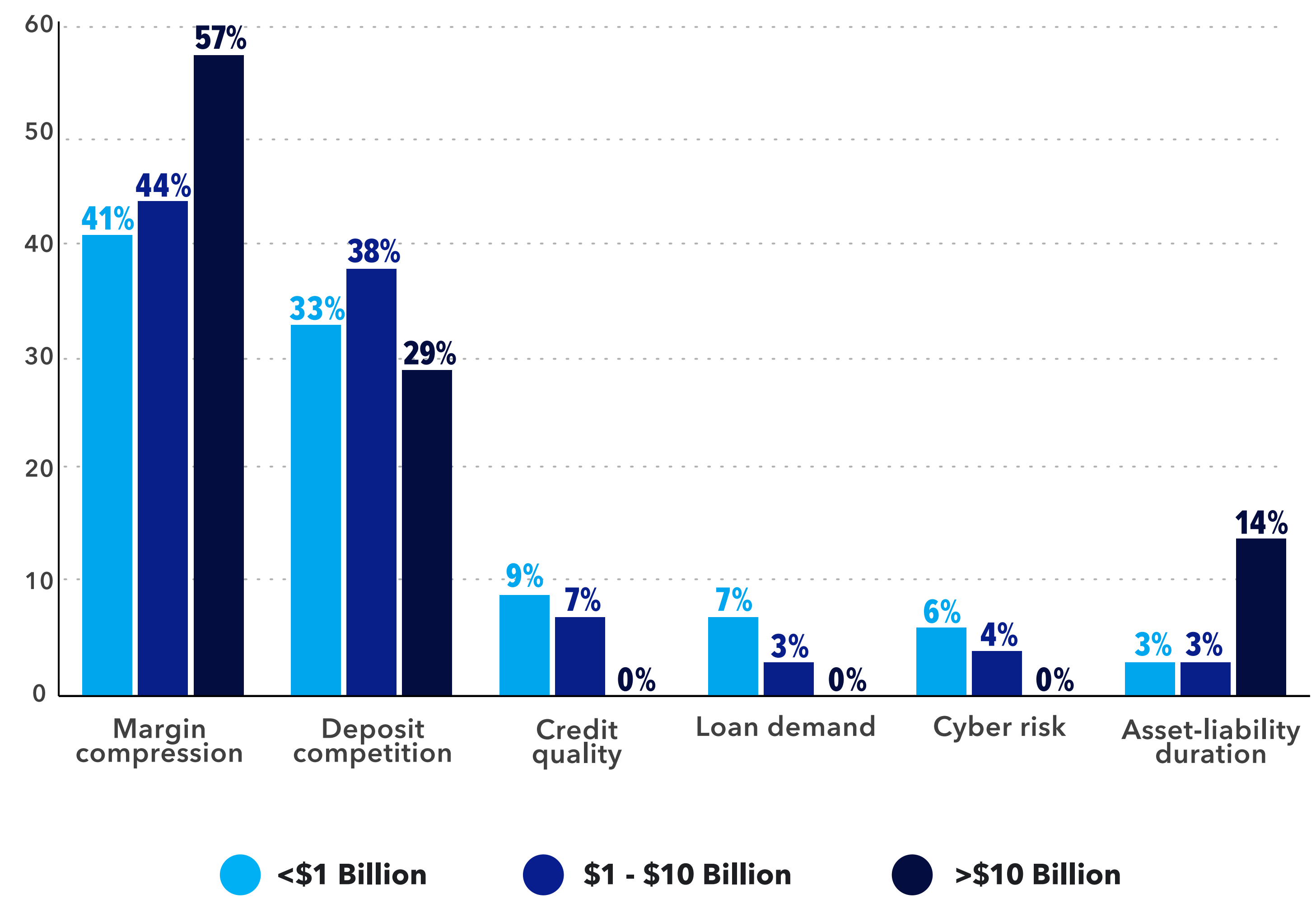
CONCERNS AT INSTITUTIONS

Considering **your own institution** over the next 12 months, what concerns you most?



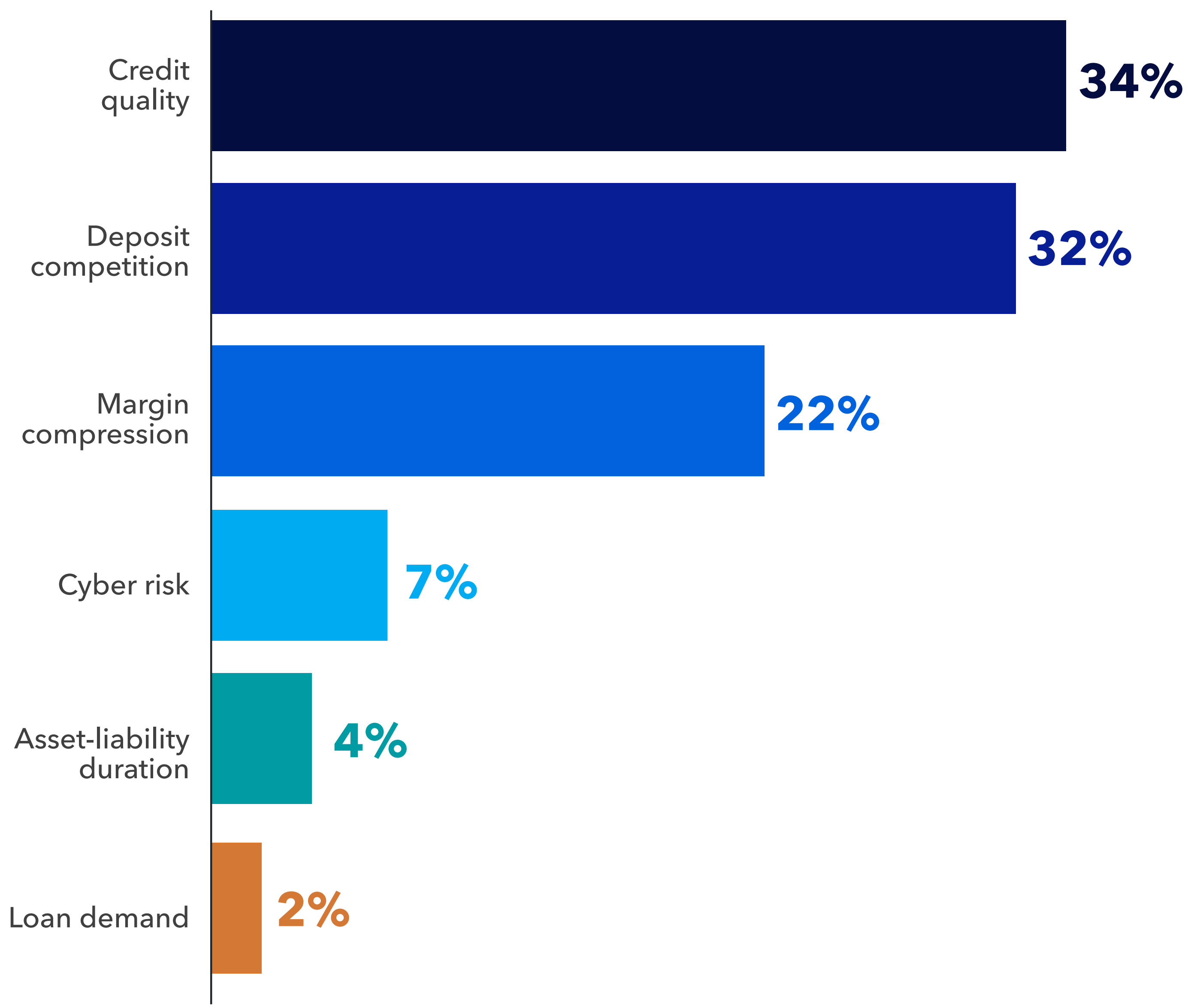
Higher interest rates have helped boost banking industry net interest margins (NIM) as deposit betas have lagged the Federal Reserve rate hikes. But as funding costs have risen (combined with speculation that the Fed could cut rates in 2024), many banks are concerned their NIMs could be squeezed. Forty-two percent of respondents identified margin compression as the top concern for their institution. Thirty-four percent chose deposit composition, while no other issue scored more than single digits.

BREAKOUT BY ASSET SIZE



CONCERNS AT ALL BANKS

Considering **all** banks over the next 12 months, what concerns you most?



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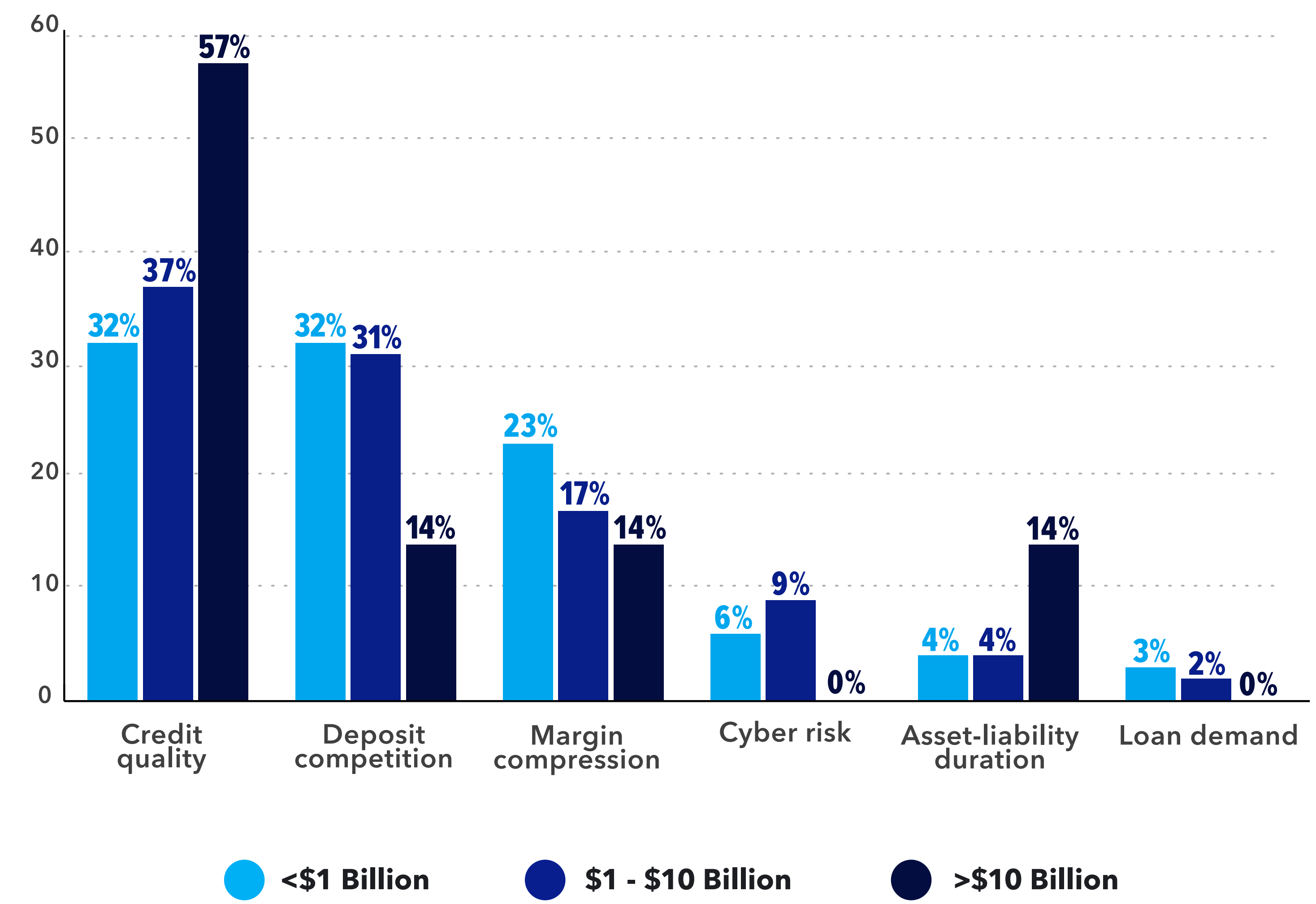
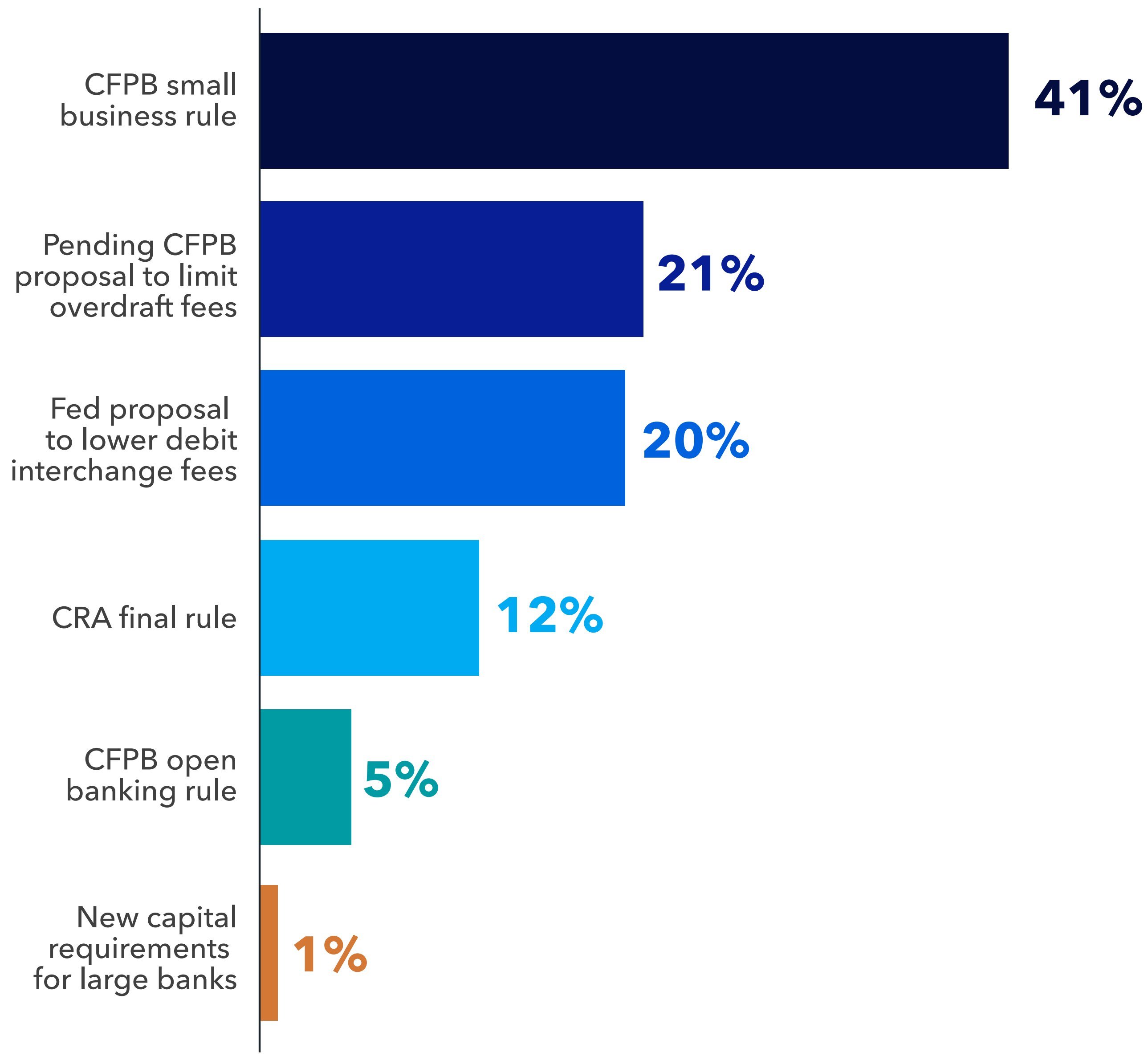


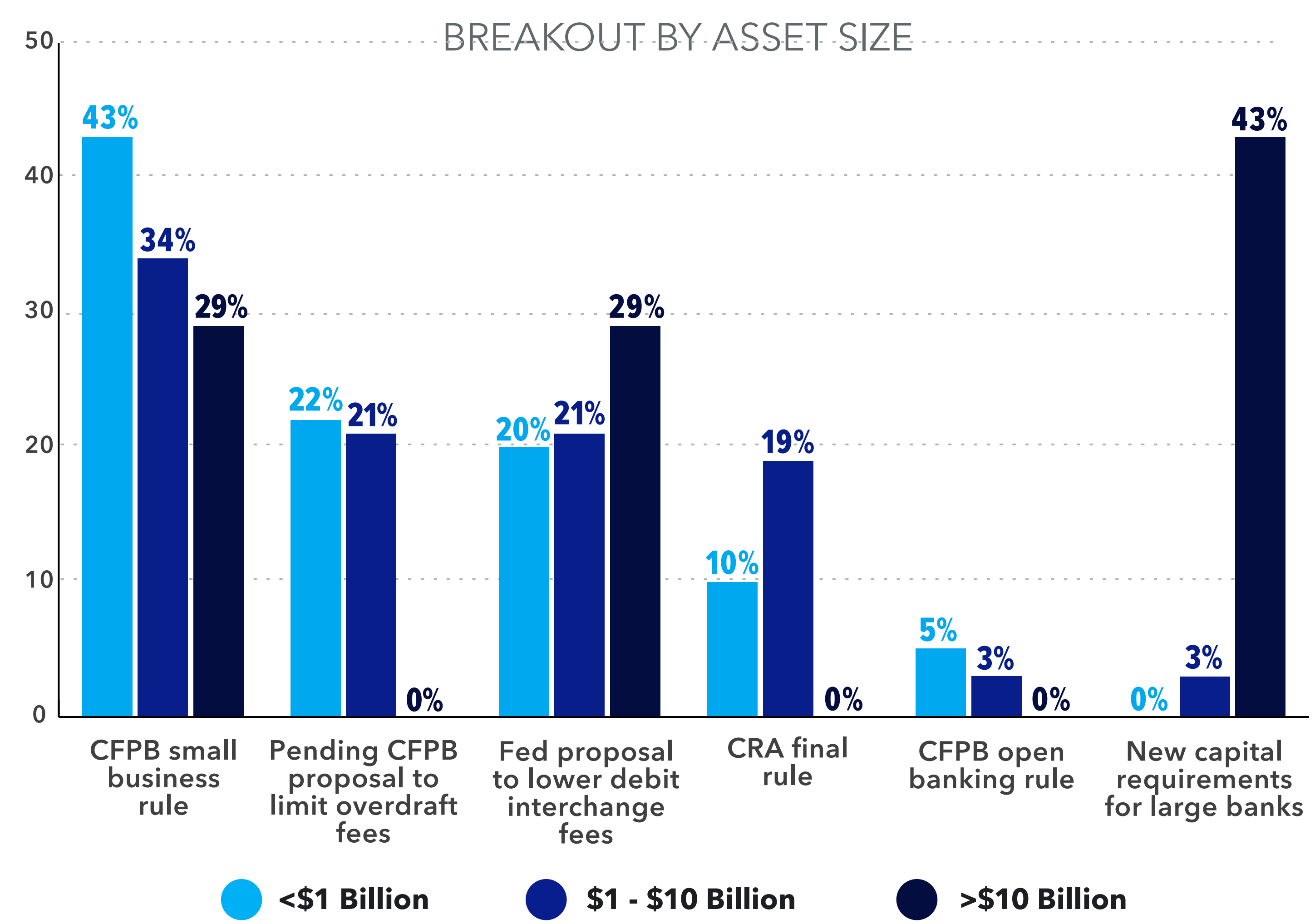
When respondents were asked about their biggest concerns for all institutions, credit quality (34%) and deposit competition (32%) were cited most. Factors driving these numbers could include higher loan charge-offs at some banks and overall fears about the economy. Margin compression landed third with 22% of respondents selecting it as their top concern.

REGULATORY POLICY CONCERNS

Of the regulatory policies listed below, what is **your institution** most concerned about?



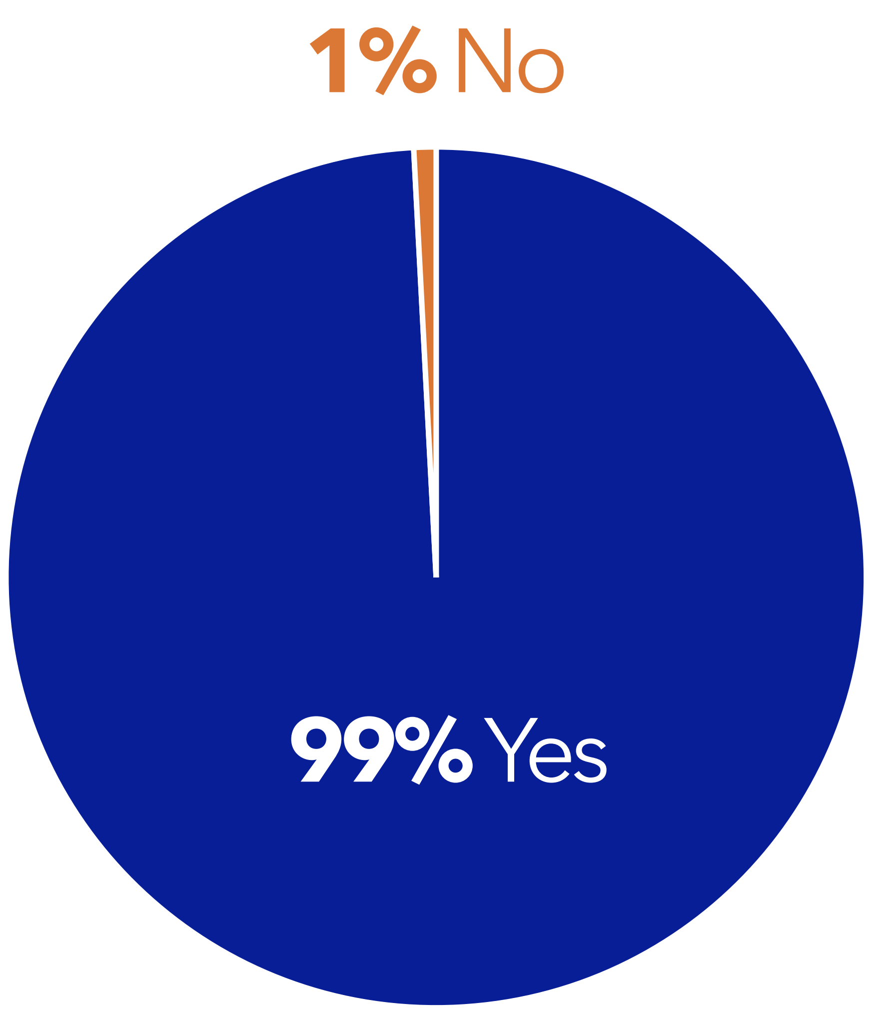
Regulators have put forward an array of policy proposals covering a range of issues, including overdraft fees and bank capital requirements at the largest institutions. But bankers were most worried about a rule by the CFPB to require institutions to collect more data on small business loan applications, a provision required by the Dodd-Frank Act. Forty-one percent listed that rule as their top concern, with 21% selecting the CFPB's proposal to limit overdraft fees as their biggest policy worry.



ANTI-MONEY LAUNDERING RULES FOR CRYPTO

At a December 6 Senate Banking Committee hearing, the top CEOs at eight of the nation's largest banks concurred with Sen. Elizabeth Warren, D-Mass., that crypto companies should be made to comply with the same anti-money laundering rules as banks.

Do you agree?



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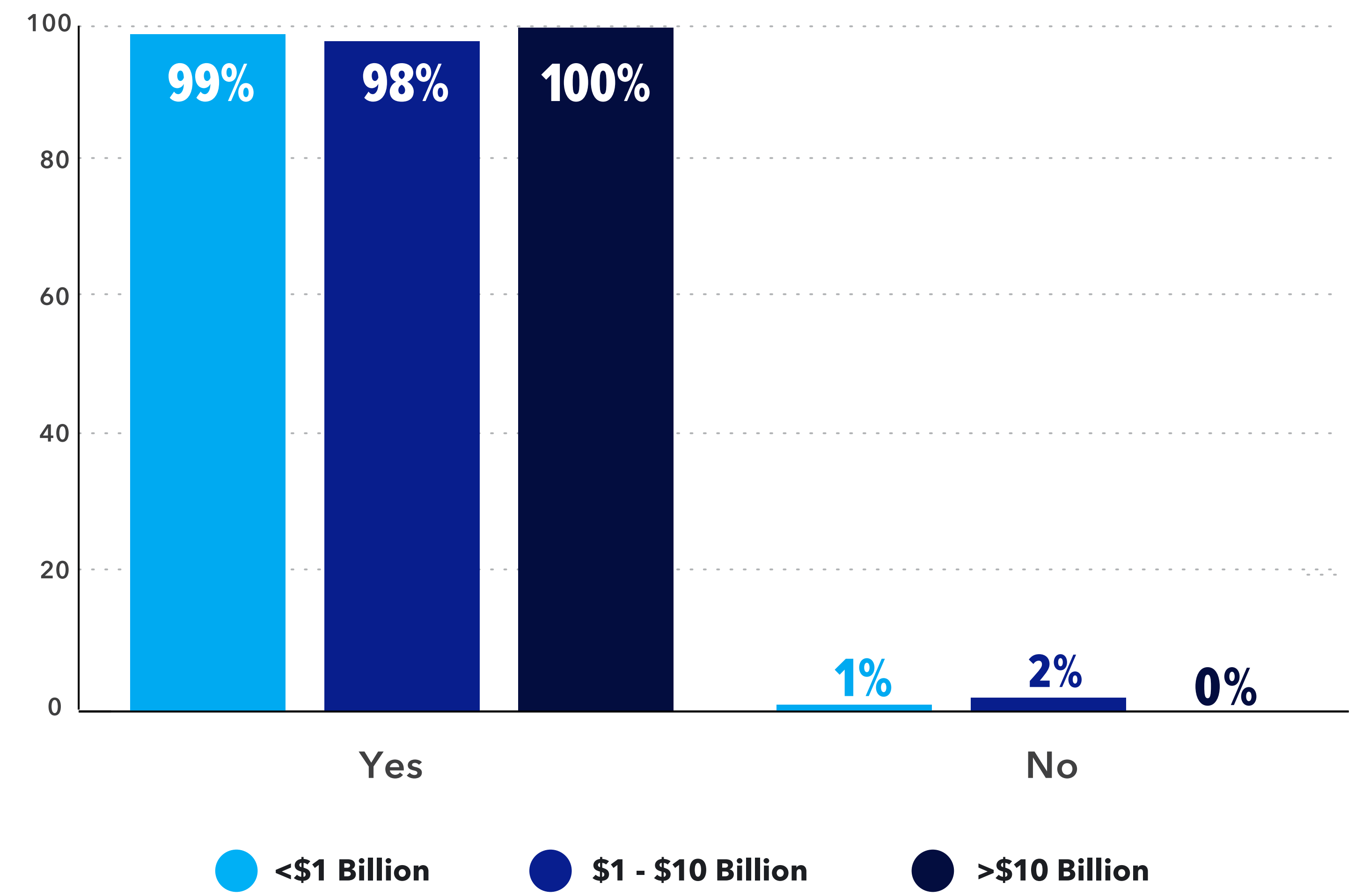
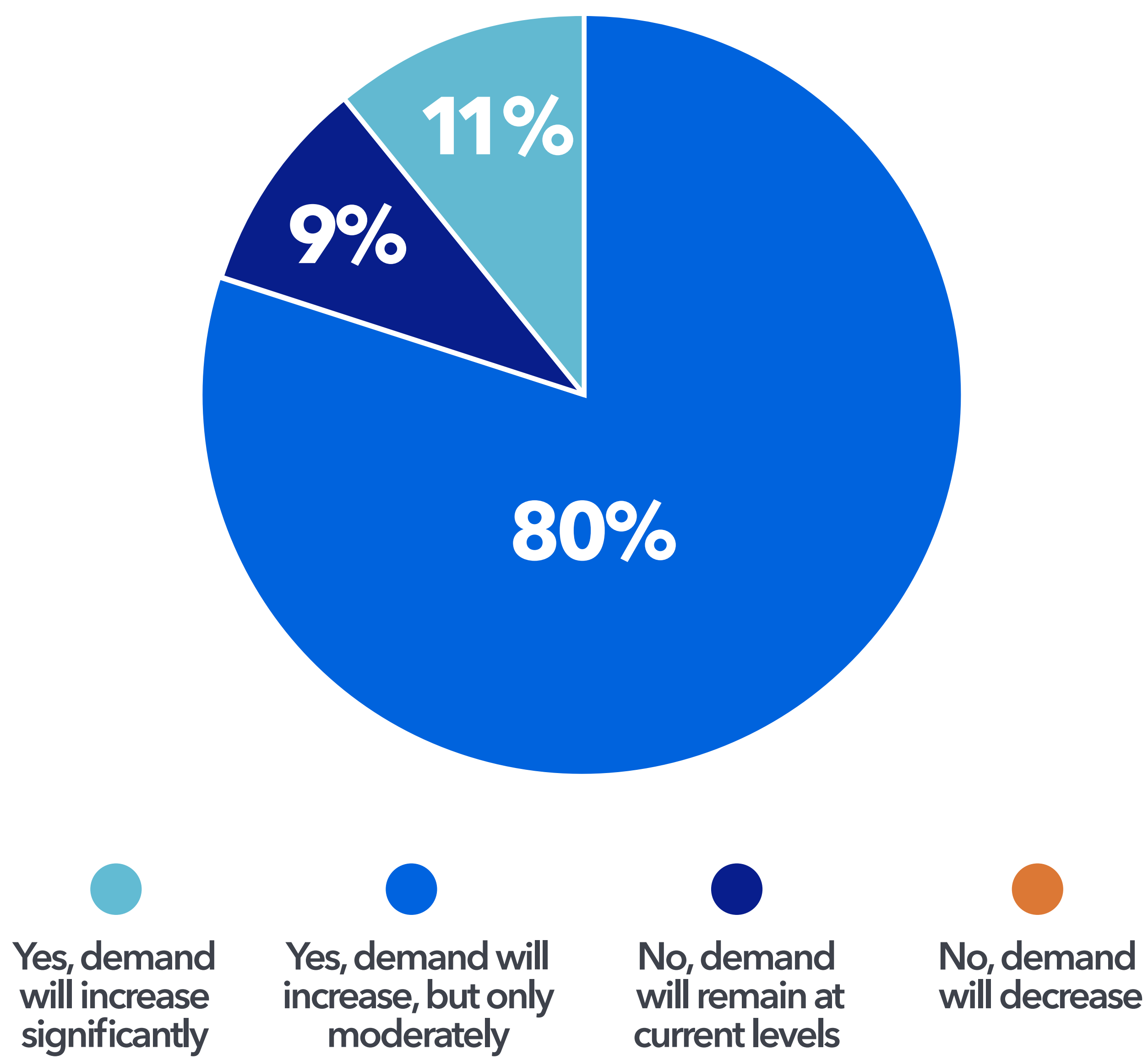


One policy change that is universally supported by bankers (99%) is a proposal to require crypto companies to comply with the same anti-money laundering (AML) rules that currently apply to banks.

DEMAND FOR MORTGAGES

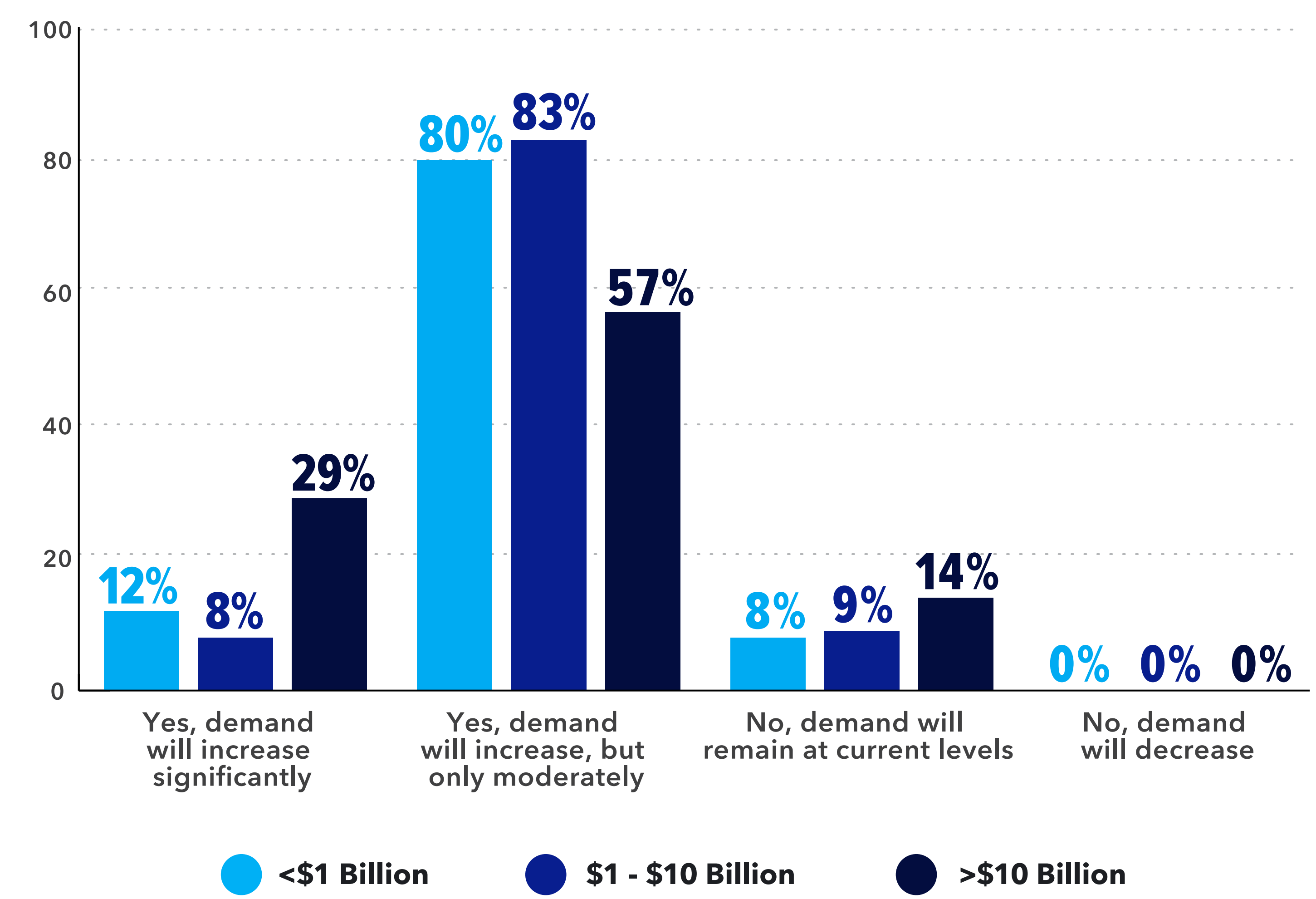
At its December meeting, the Fed held rates steady and noted that they expect to cut the Federal Funds rate three times in 2024.

Assuming the rate cuts occur as predicted by the Fed, do you believe demand for mortgages will increase in 2024?



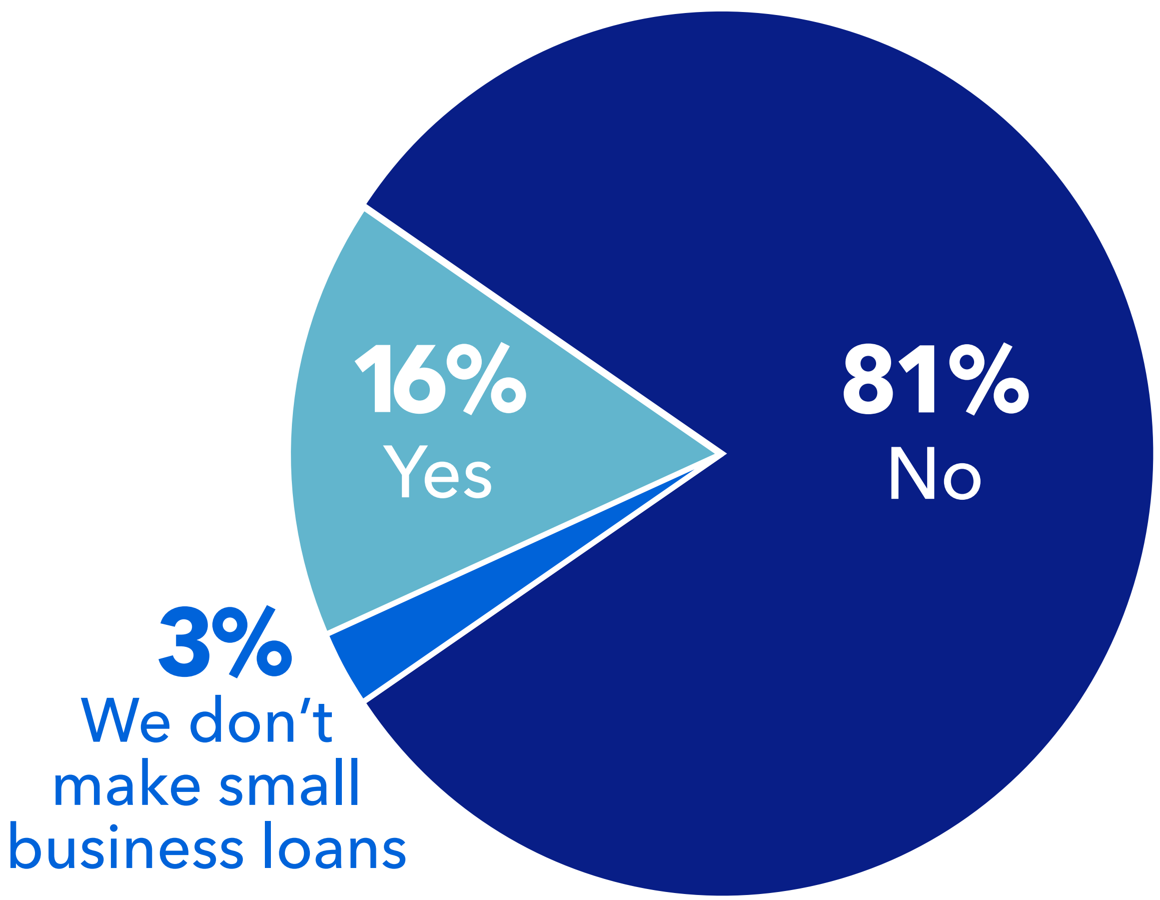
Mortgage rates began easing from two-decade highs during the fourth quarter of 2023 and Fannie Mae is now forecasting that rates will drop below 6% percent by the end of 2024. According to this quarter's survey, bankers expect lower rates will lead to higher demand for mortgage loans. If rate cuts occur, four-fifths (80%) expect demand to increase moderately and an additional 11% predict demand would rise significantly.

BREAKOUT BY ASSET SIZE

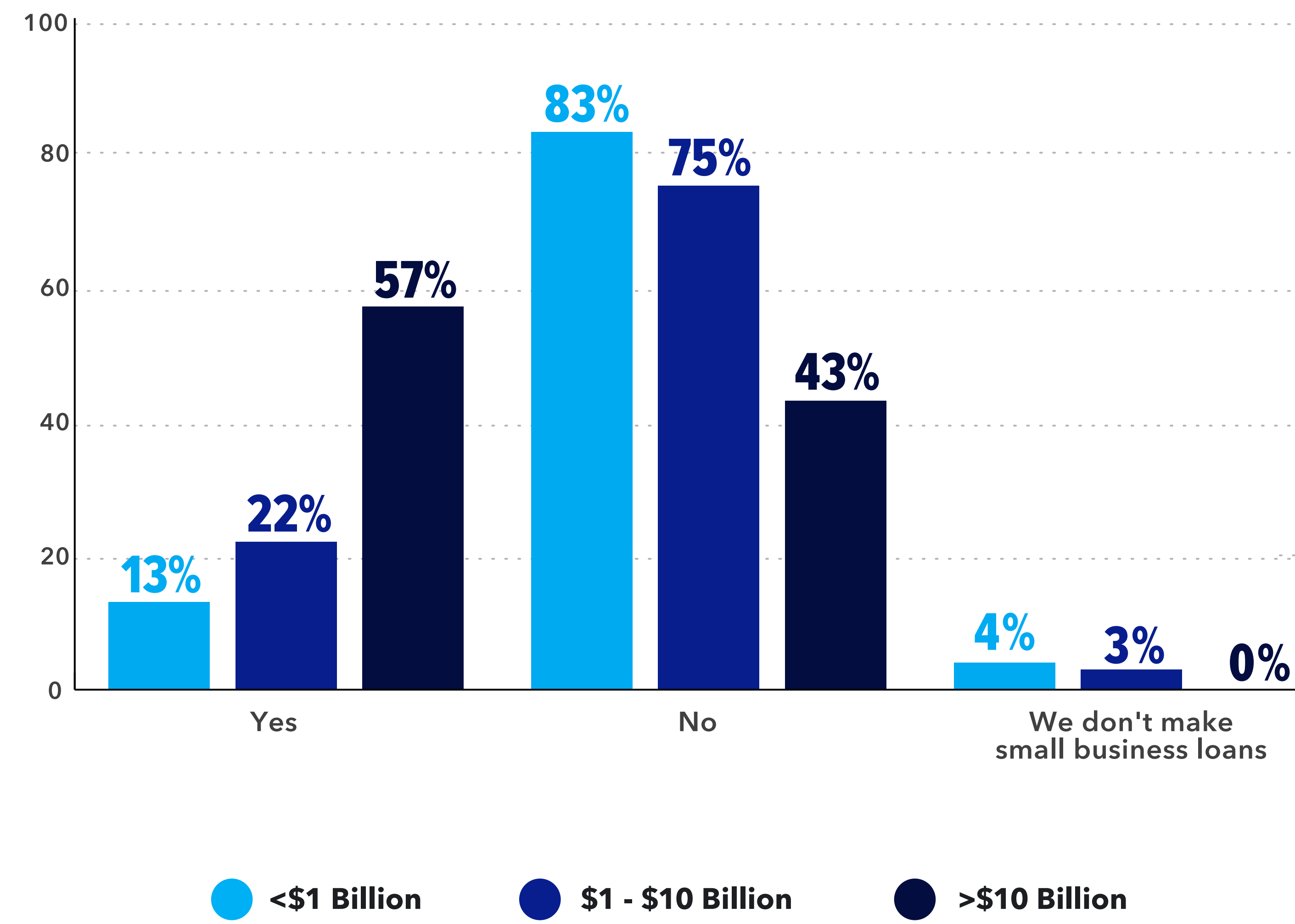


SMALL BUSINESS LENDING

If the CFPB's small business collection rule (implementing Section 1071 of the Dodd-Frank Act) goes into effect as planned on October 1, 2024, do you anticipate your institution would cut back on small business lending?



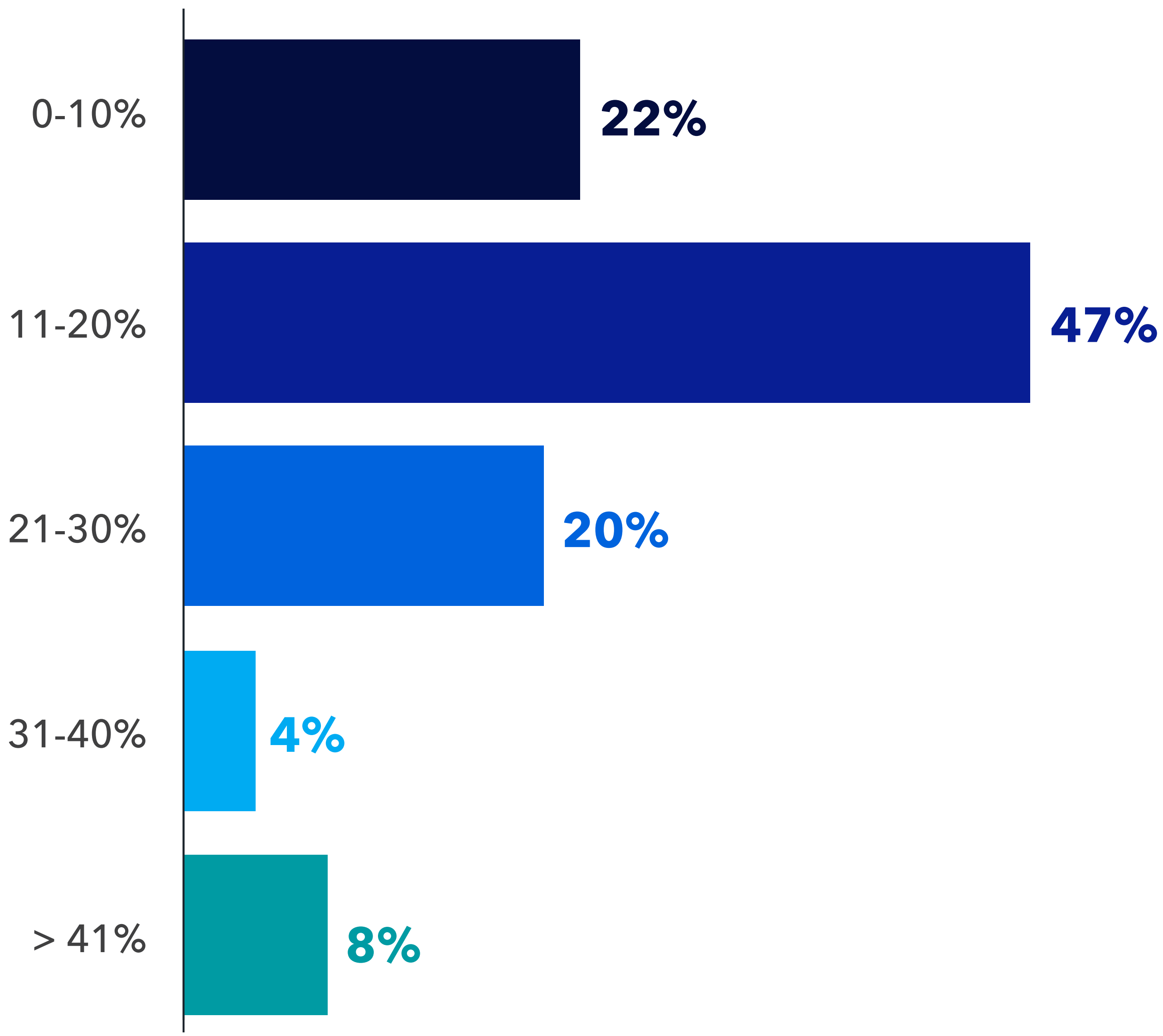
BREAKOUT BY ASSET SIZE



While a plurality of bankers selected the CFPB's proposed final rule on small business lending as their top regulatory concern, four out of five bankers (81%) do not foresee cutting back on their small business lending. However, among larger banks (those with assets above $10 billion), 57% indicated they would reduce their lending to small businesses if the rule goes into effect as expected.

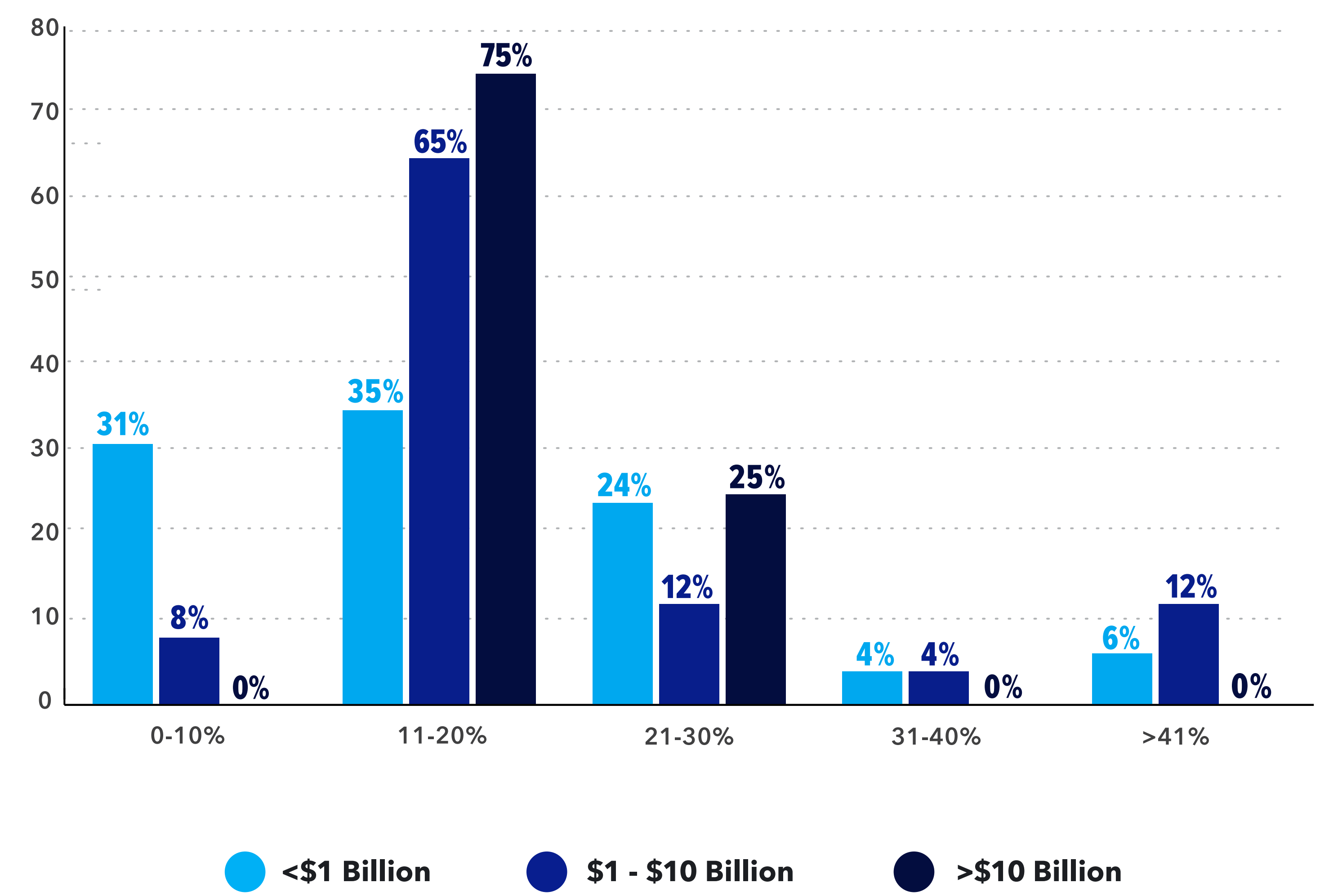
SMALL BUSINESS LENDING

To those who answered "Yes" in the previous question, by how much do you anticipate your institution reducing small business lending?



Among the respondents (16%) who indicated their bank would cut their small business lending portfolios if the CFPB's rule was finalized, almost half (47%) expect a reduction between 11% and 20%. Twenty-two percent predicted a cut of 10% or less while only 12% anticipate small business lending at their institution would be reduced by more than 30%.

BREAKOUT BY ASSET SIZE



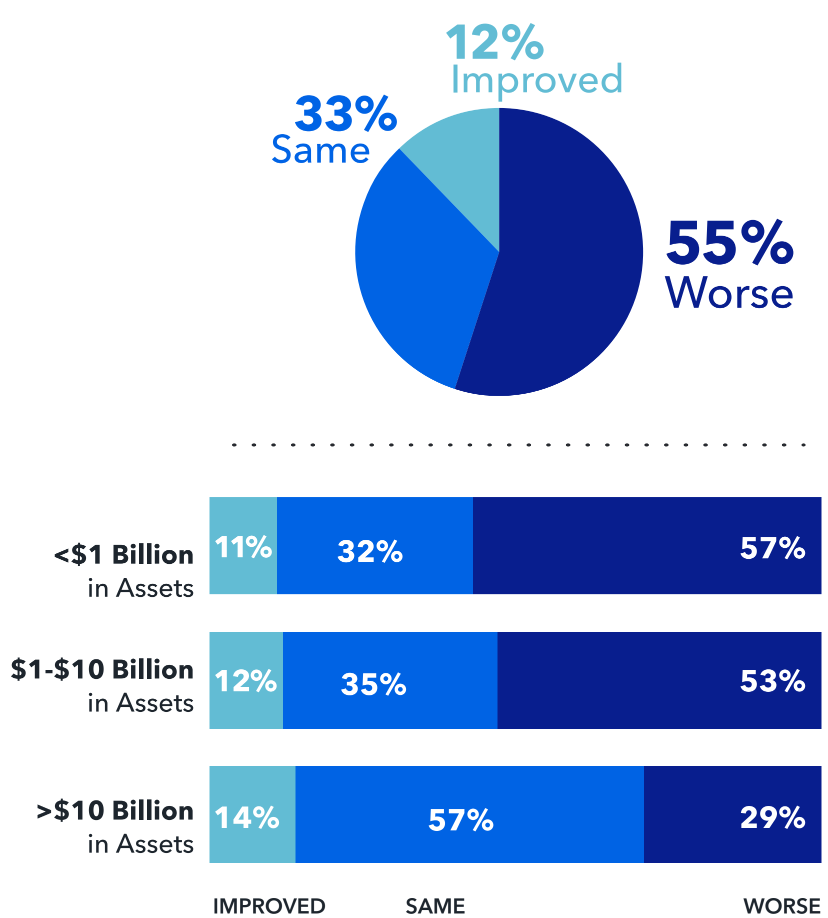
QUARTERLY QUESTIONS

Each quarter, we pose a series of questions to bank executives relating to their access to capital, loan demand, funding costs, deposit competition, and economic outlook.

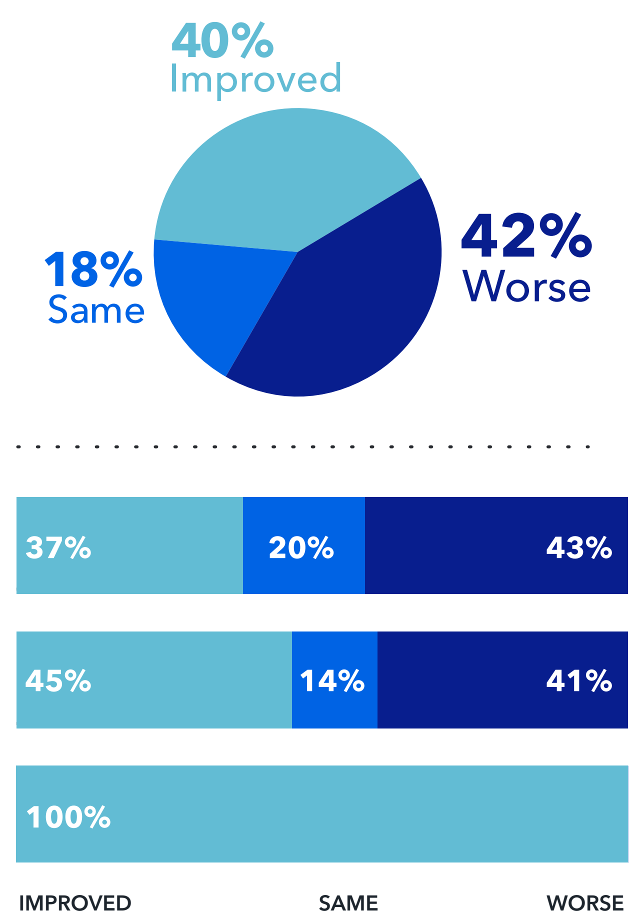
TOPLINES

This is a topline overview of banker expectations for the 12 months ahead in four key categories broken out by asset size.

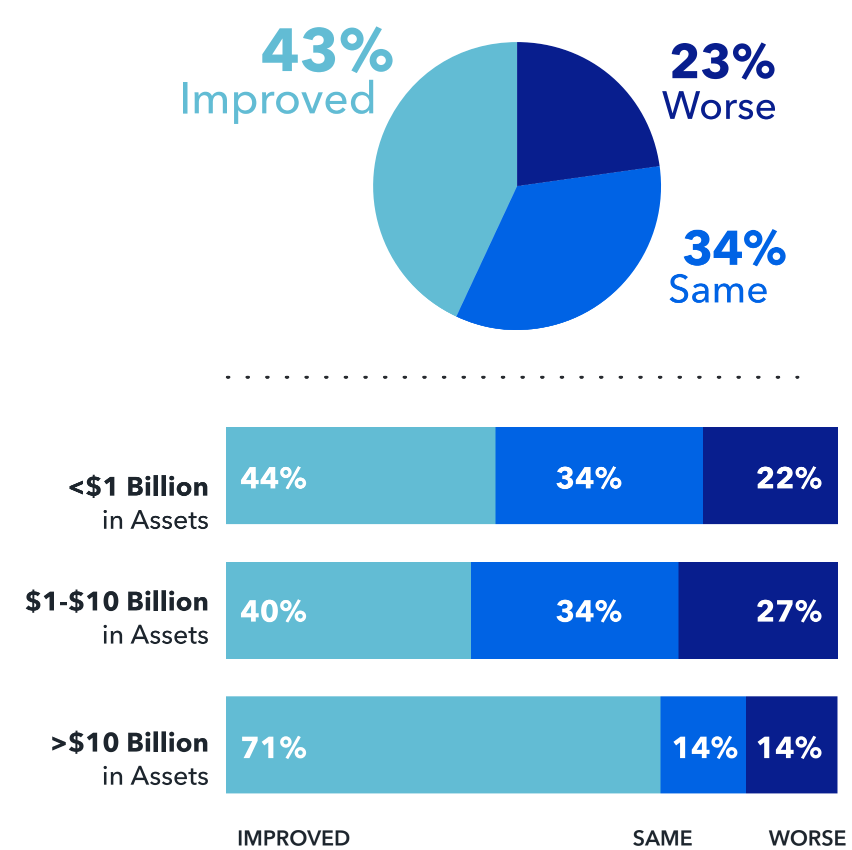
Deposit Competition



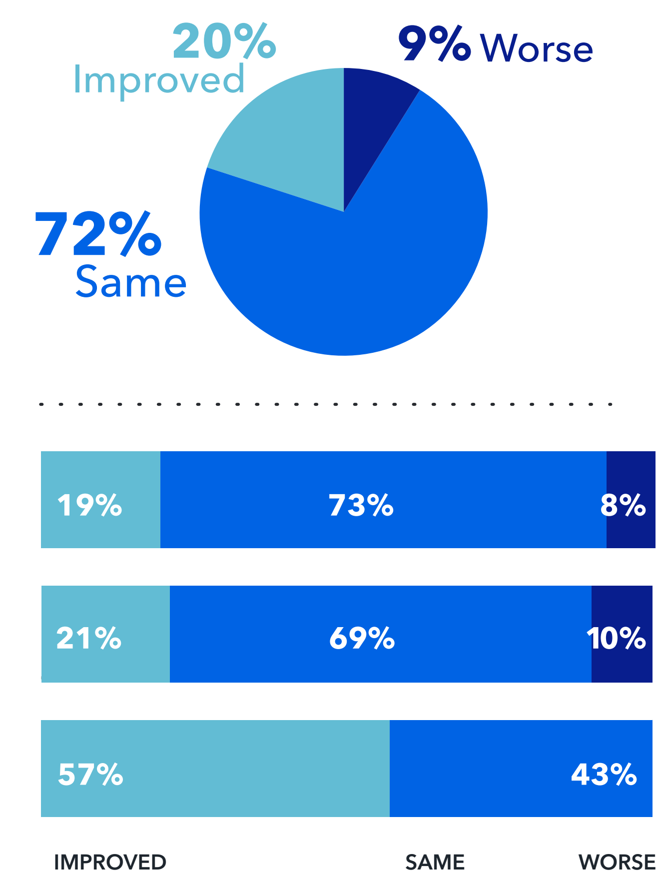
Funding Costs



Loan Demand



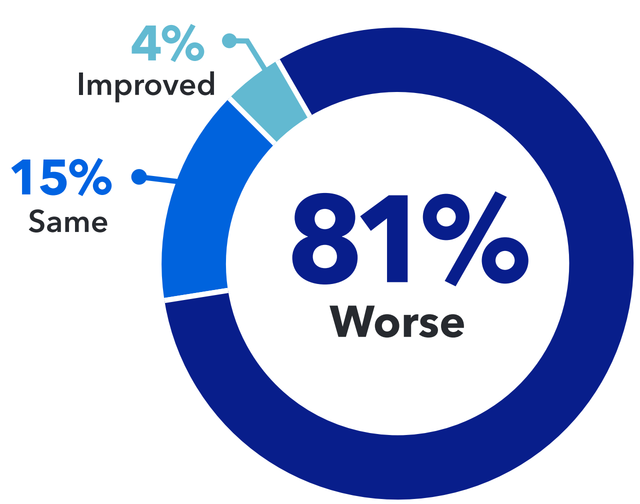
Access to Capital



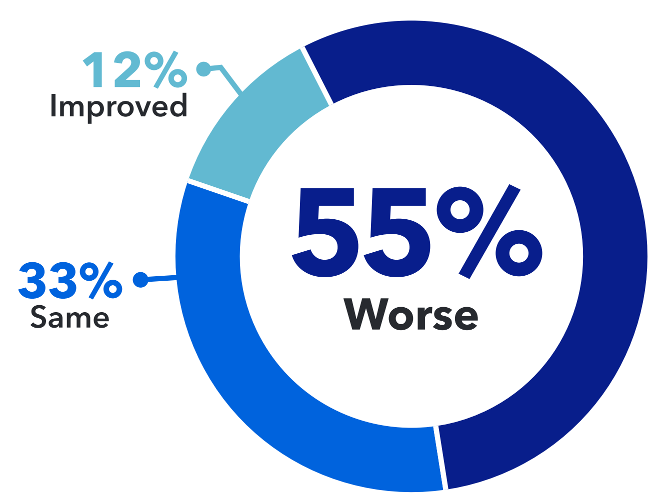
DEPOSIT COMPETITION

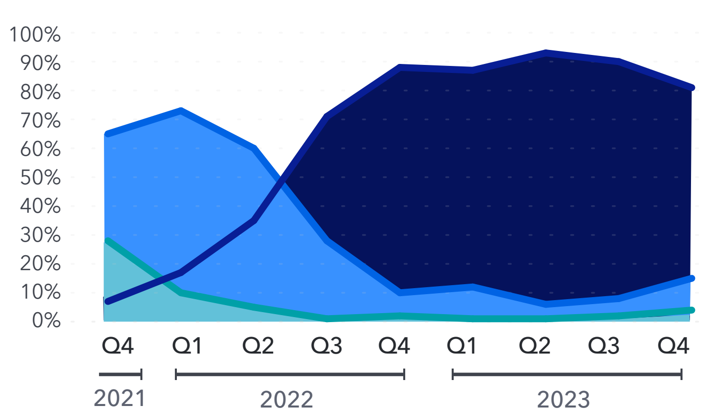
Deposit competition remained tight for banks. Over the past 12 months, 81% of respondents experienced greater competition for deposits (although this represented a nine-point decrease from the prior quarter). With expectations that the Fed will cut rates in 2024, the percentage of banks (55%) projecting that deposit competition will worsen in the year ahead slid significantly. This figure dropped 22 points from the third quarter, and is the lowest total for this category since the fourth quarter of 2021.

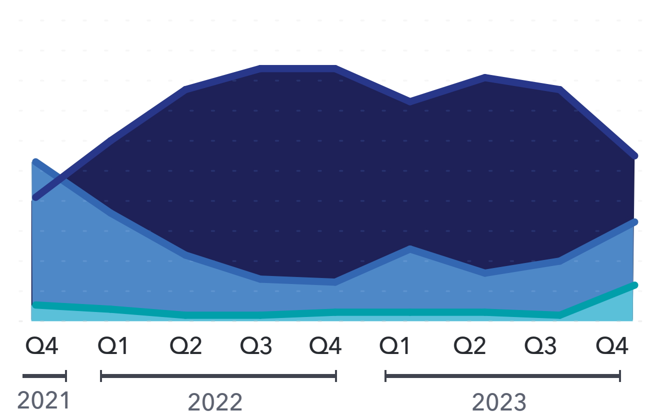
Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead





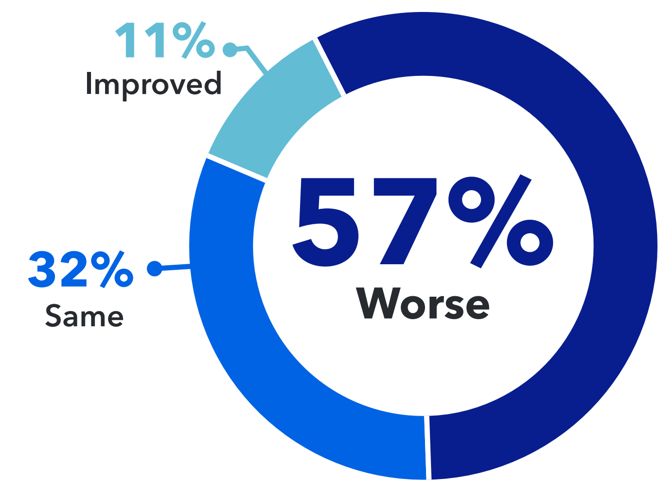


Worse Same Improved

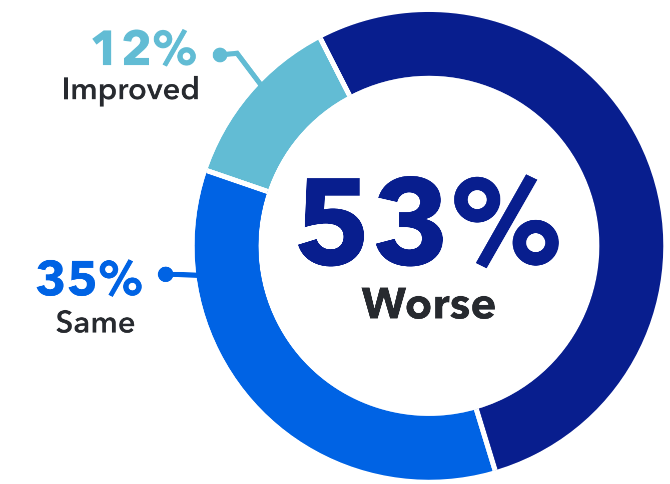
BREAKOUT BY ASSET SIZE

Expectation for deposit competition looking 12 months ahead

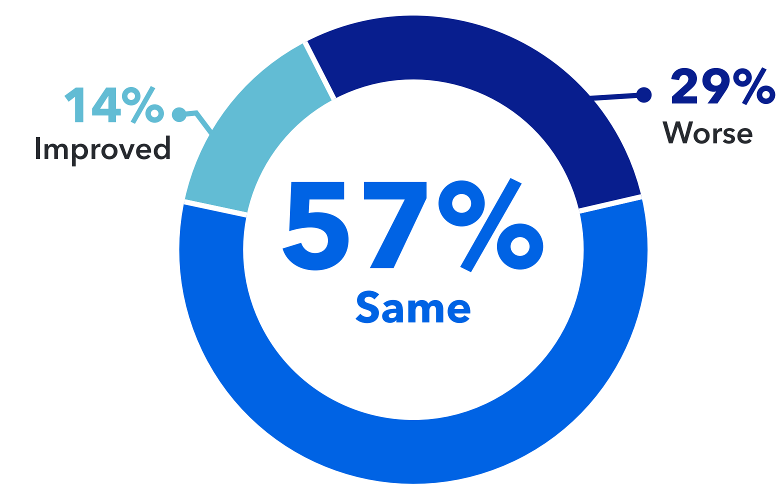
<$1 Billion



$1 - $10 Billion



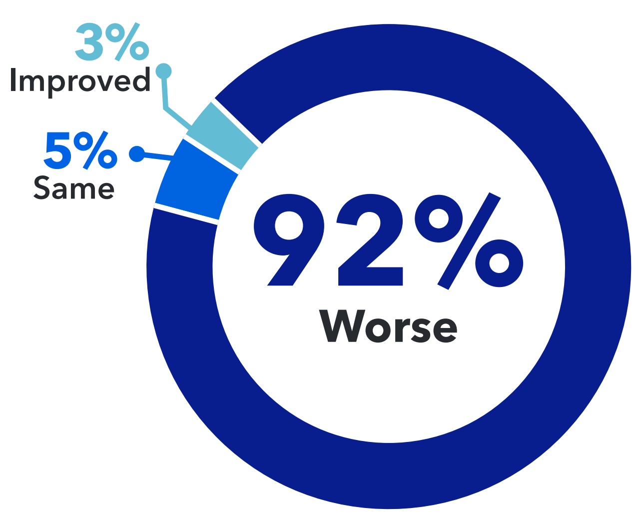
>$10 Billion



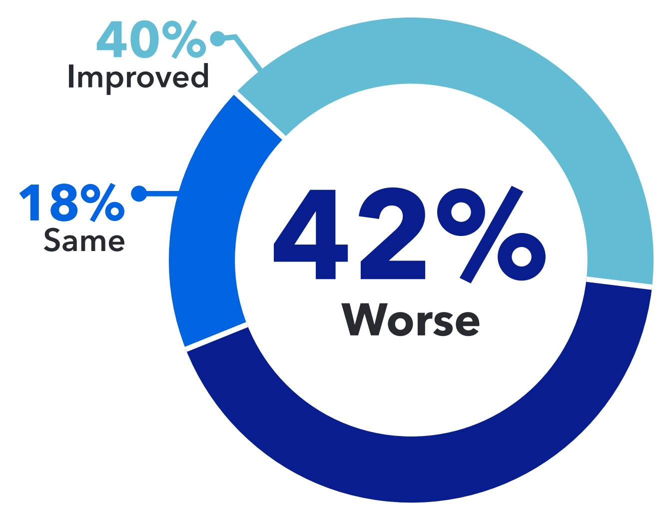
FUNDING COSTS

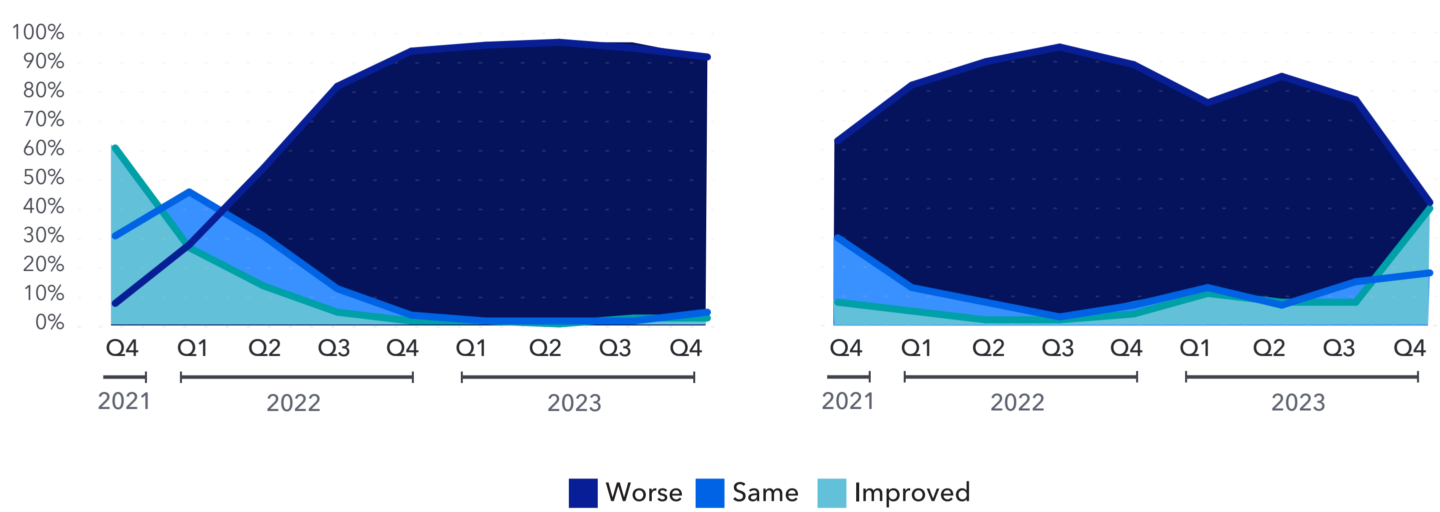
Banks continued to experience higher funding costs, with 92% of respondents reporting an increase over the last 12 months. However, expectations for funding costs greatly improved in this survey. Forty percent of respondents project their bank's funding costs will drop in the 12 months ahead, a 31-point increase from the third quarter and a 35-point bump from the fourth quarter of 2022.

Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead

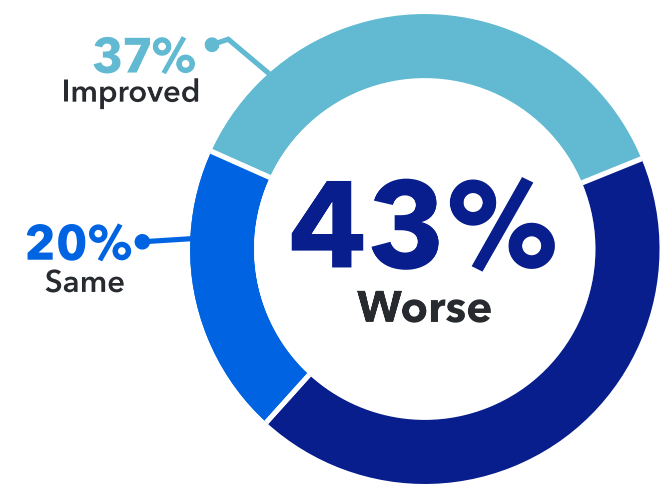




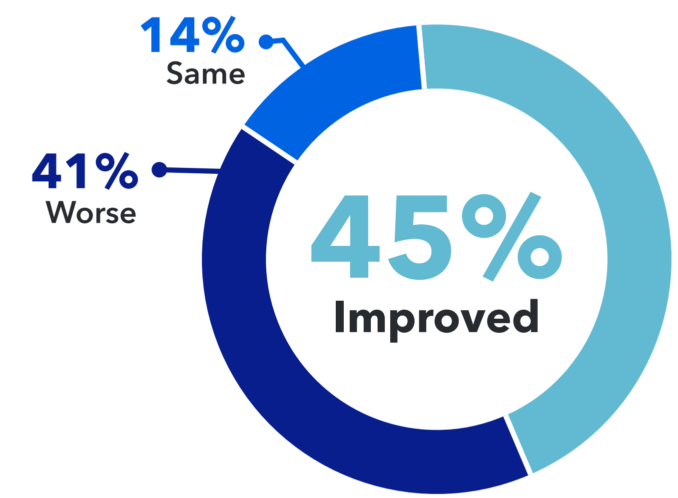
BREAKOUT BY ASSET SIZE

Expectation for funding costs looking 12 months ahead

<$1 Billion



$1 - $10 Billion

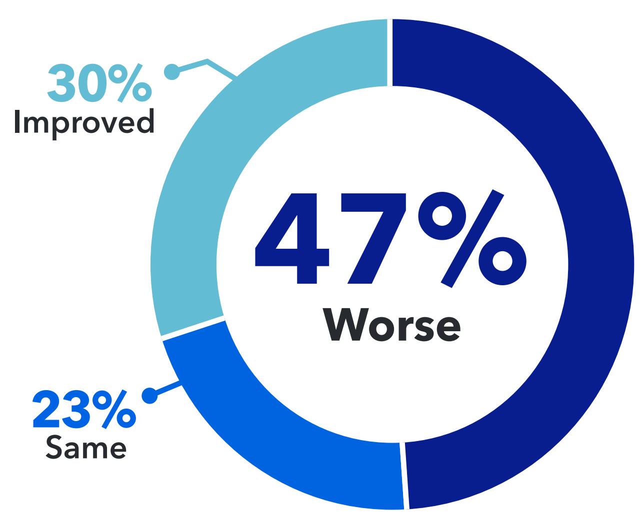


>$10 Billion

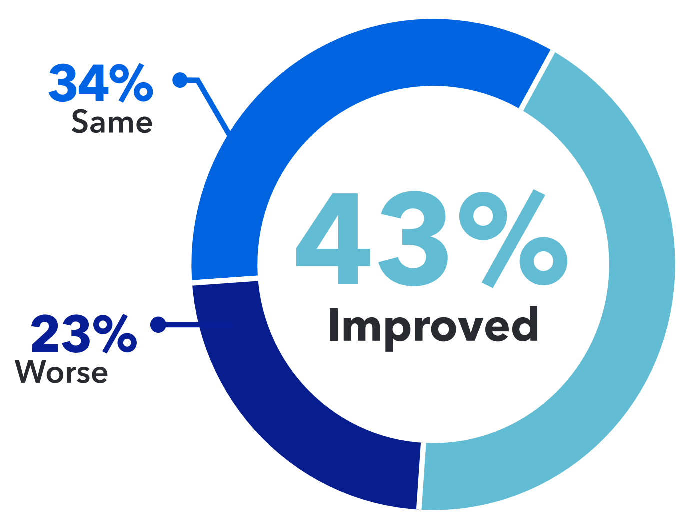
LOAN DEMAND

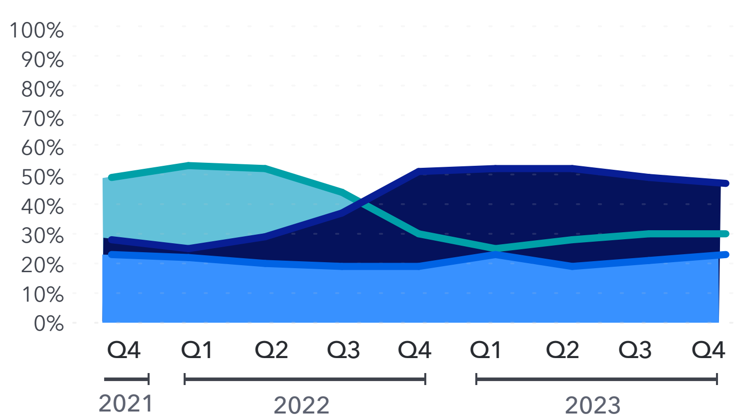
Respondents' experience with loan demand remained steady, with 47% indicating loan demand worsened over the past 12 months, a decline of only four points from one year ago. Expectations for loan demand shifted dramatically this quarter. Forty-three percent of bankers believe loan demand will improve over the next twelve months, a bump of 20-points from a year ago. Pessimism about loan demand in the year ahead also dropped significantly, with 23% of respondents now foreseeing a decline in loan demand (a fall of 30 points from the fourth quarter of 2022).

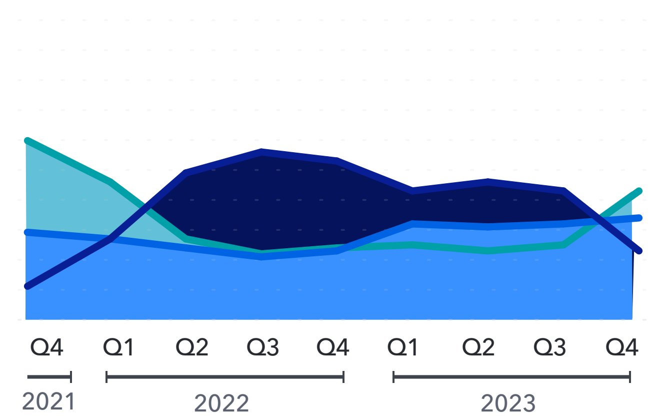
Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead





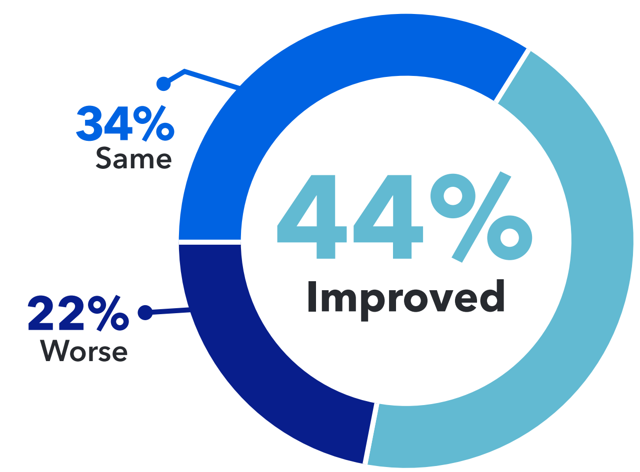


Worse Same Improved

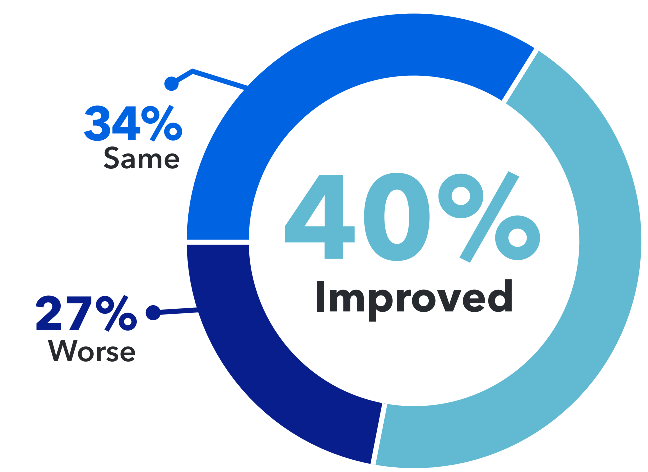
BREAKOUT BY ASSET SIZE

Expectation for loan demand looking 12 months ahead

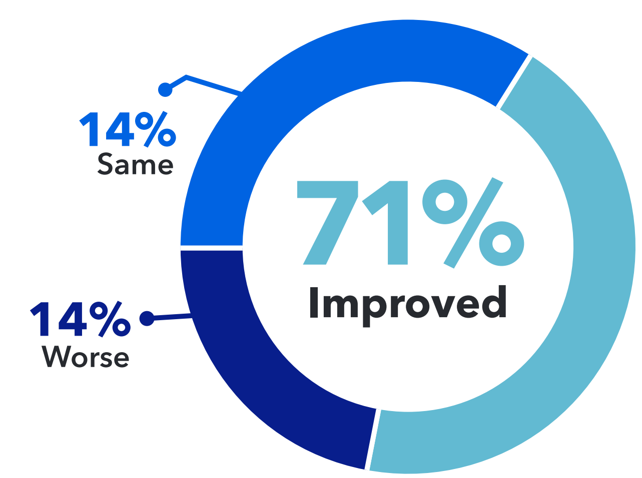
<$1 Billion



$1 - $10 Billion



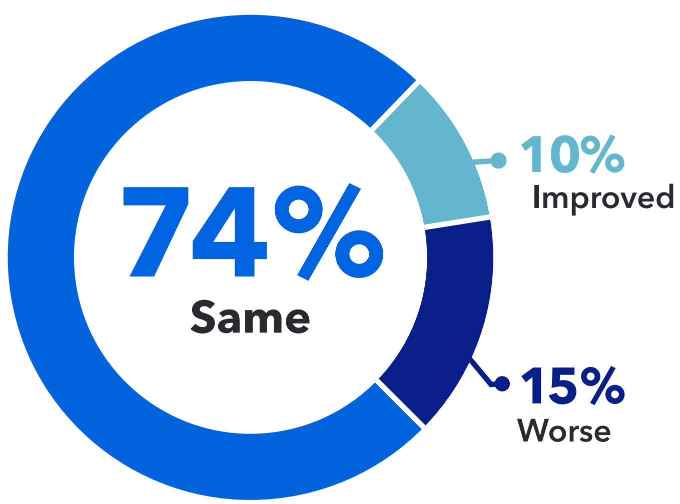
>$10 Billion



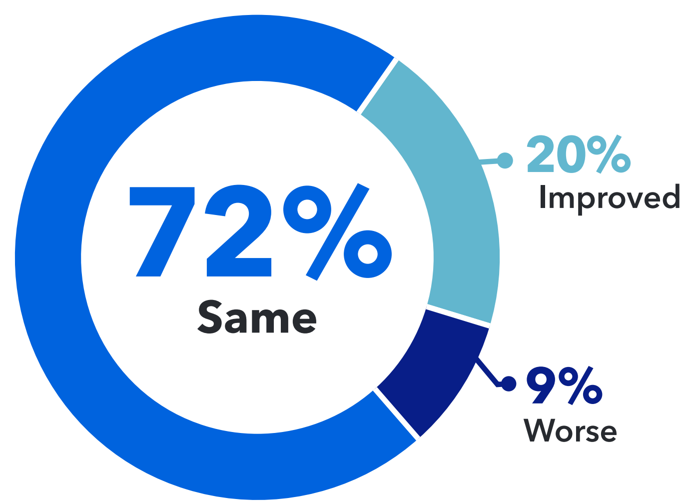
ACCESS TO CAPITAL

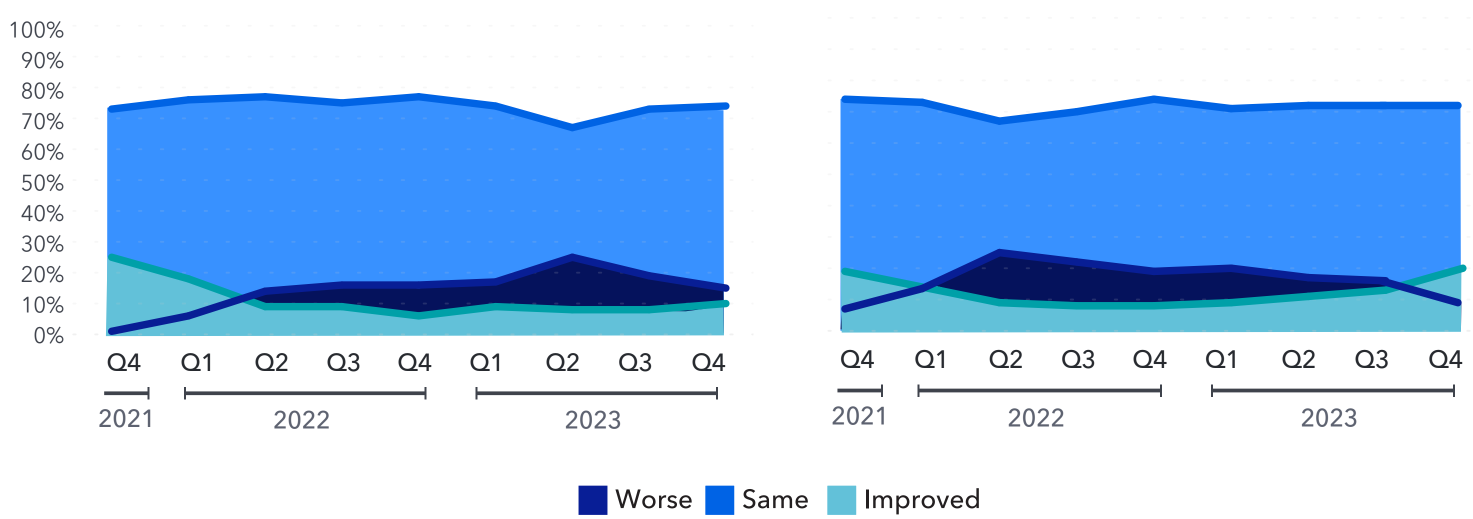
A solid majority of banks continued to experience as well as expect access to capital to remain unchanged. Seventy-four percent of respondents indicate their bank's access to capital held steady over the past 12 months, while 72% expect it to remain the same over the coming year (the sixth consecutive quarter this figure has been in the 70%-range).

Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead

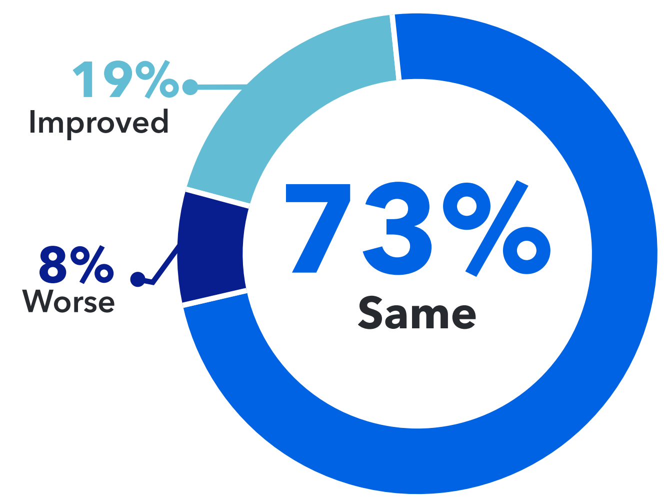




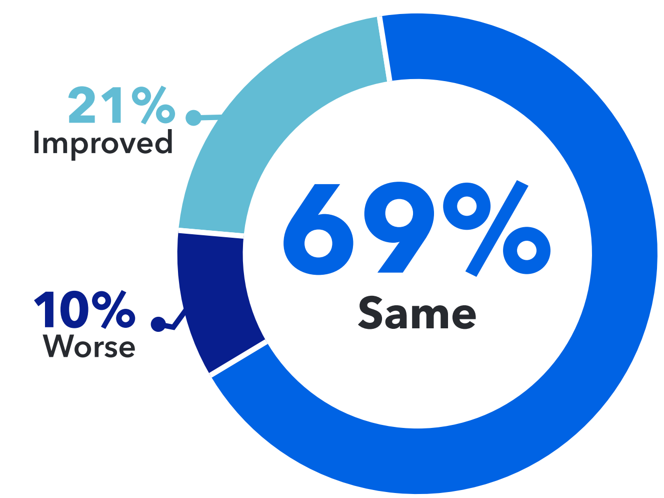
BREAKOUT BY ASSET SIZE

Expectation for access to capital looking 12 months ahead

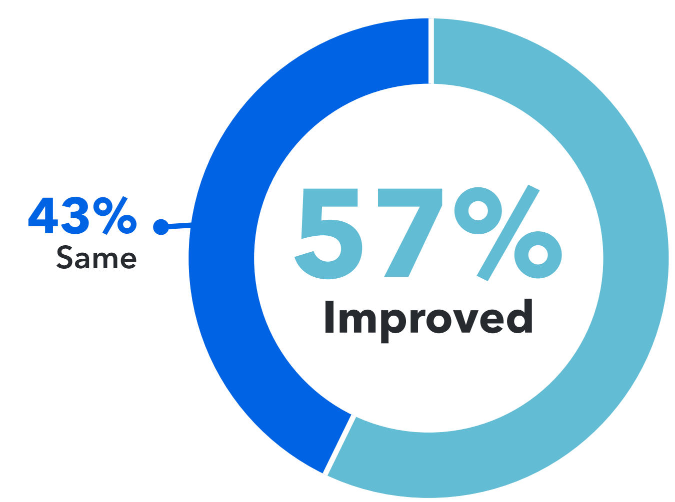
<$1 Billion



$1 - $10 Billion



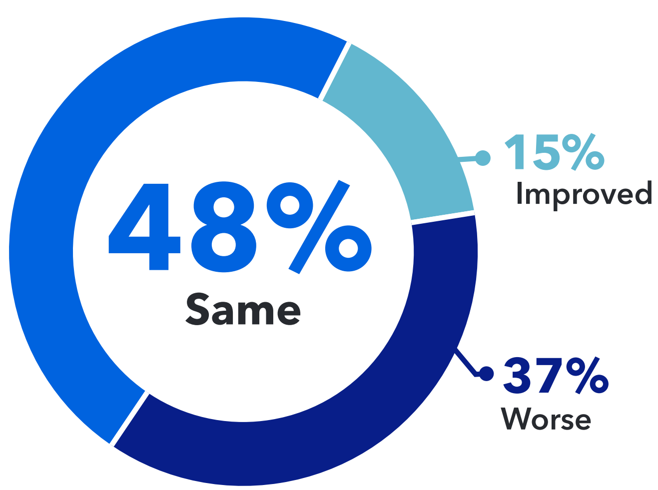
>$10 Billion



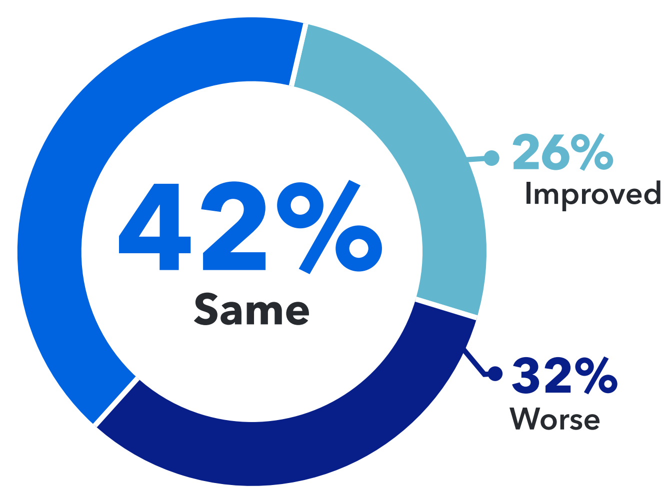
OVERALL ECONOMIC CONDITIONS

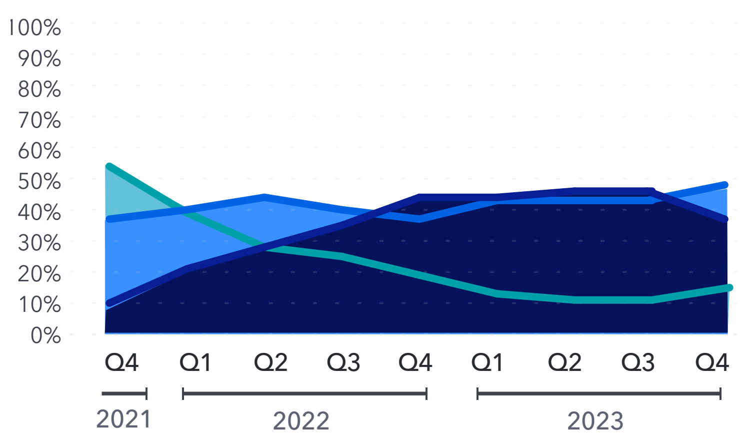
Bankers' views on the overall economic conditions for their bank compared to 12 months ago improved marginally this quarter. Fifteen percent indicated conditions improved, an increase of four points from the third quarter. However, the number of bankers who believe the direction of the economy will improve over the next 12 months jumped 14 points from last quarter to 26%. This was the highest total for this category since the fourth quarter of 2021.

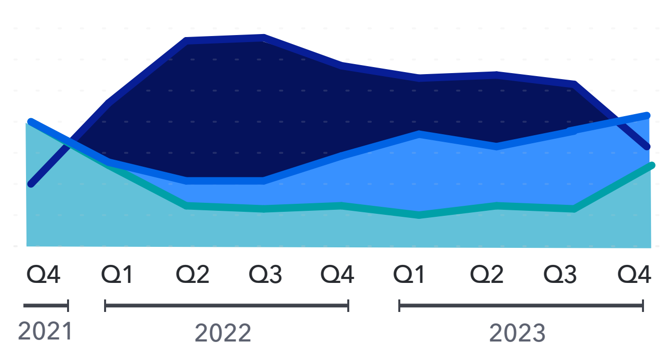
Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead





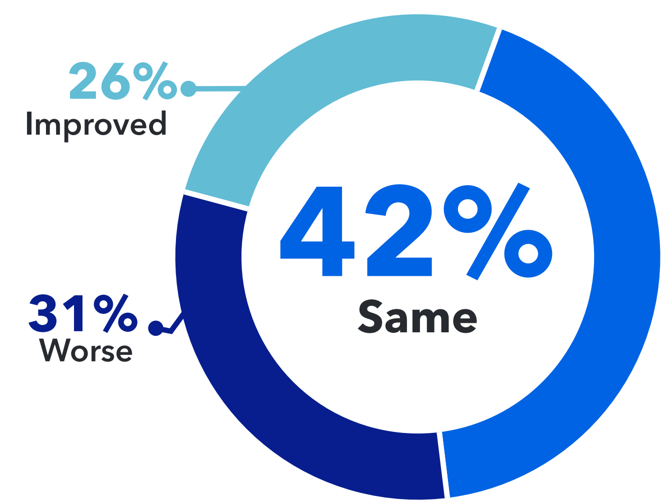


Worse Same Improved

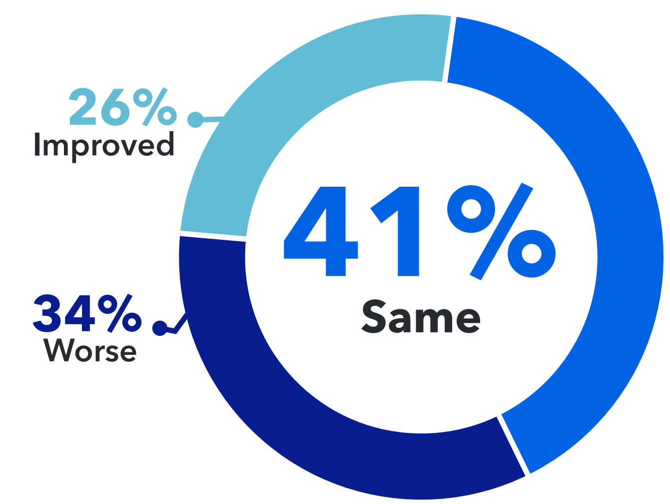
BREAKOUT BY ASSET SIZE

Expectation for overall economic conditions looking 12 months ahead

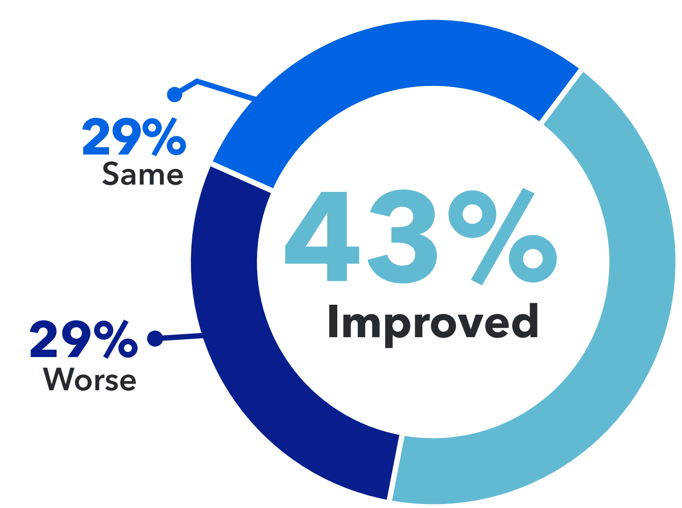
<$1 Billion



$1 - $10 Billion

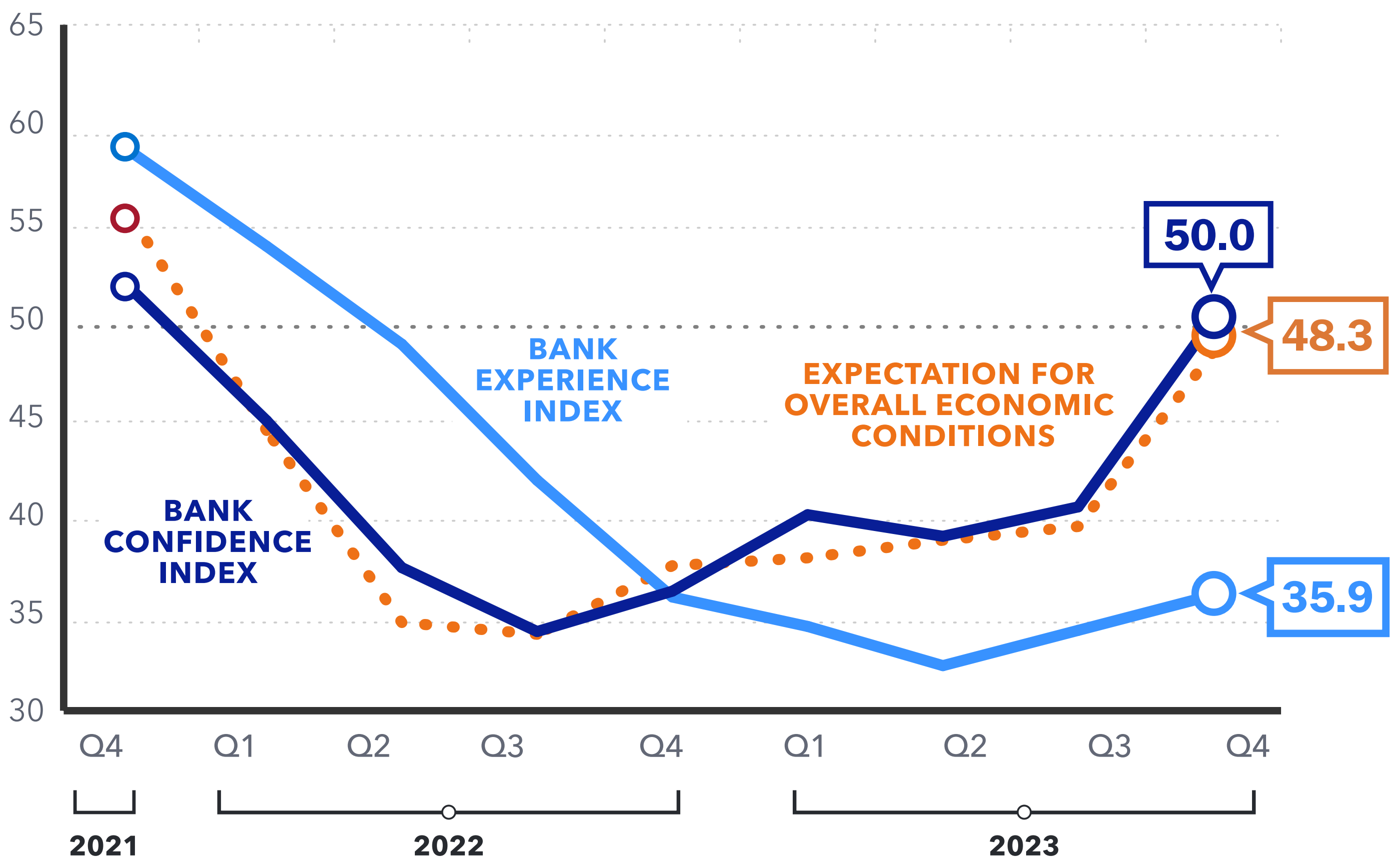


>$10 Billion



INDICES

IntraFi's proprietary Bank Experience Index℠ increased slightly from last quarter, measuring 35.9. Meanwhile, the Bank Confidence Index℠ moved back over 50 for the first time since the end of 2021.



The Bank Experience Index is meant to quantify bankers' experiences looking back over the last 12 months, while the Bank Confidence Index is meant to quantify bankers' forward-looking expectations for the banking industry for the 12 months ahead. The expectation for overall economic conditions is a composite of broad expectations for the next 12 months.

These indices are calculated from responses by CEOs, CFOs, COOs, and presidents to survey questions relating to four key factors: access to capital, loan demand, funding costs, and deposit competition.

Charted on a scale of 0-100, a score of 50 represents the baseline expectation.

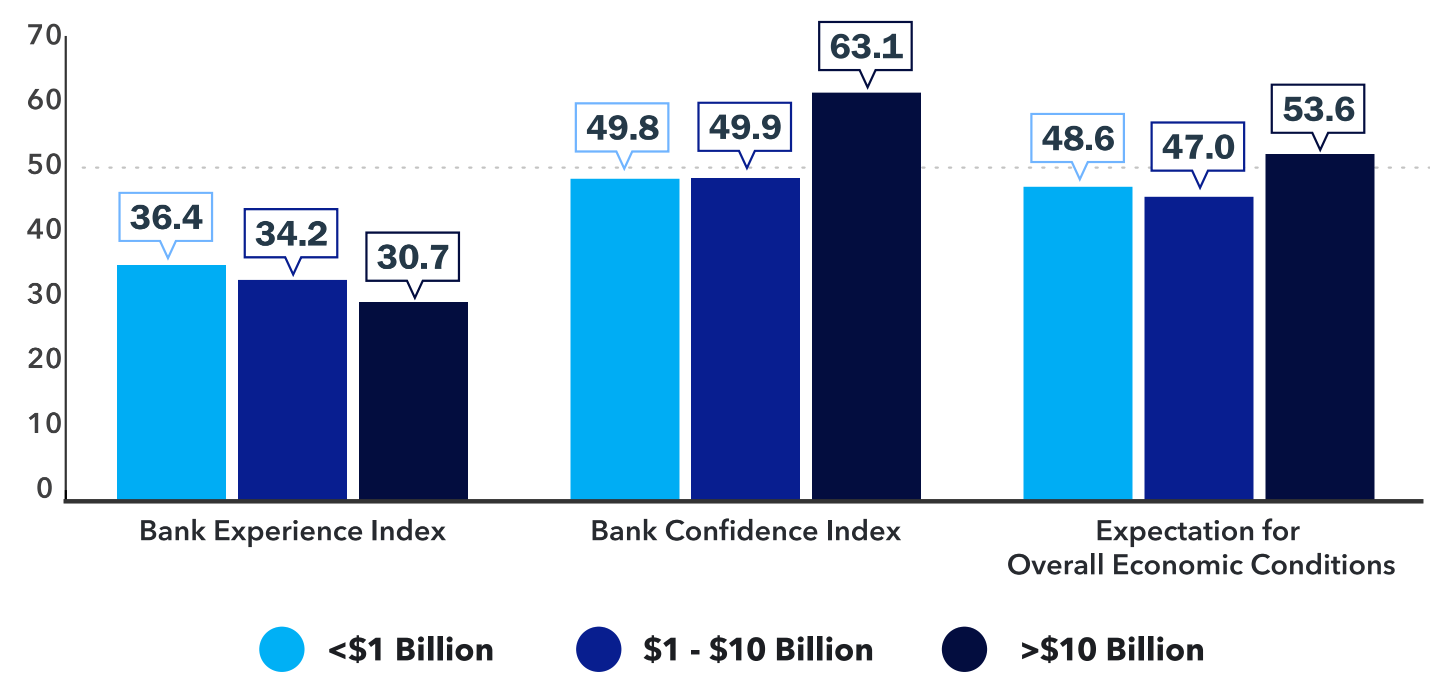
35.9

IntraFi´s Bank Experience Index increased 1.8 points from the previous quarter.

50.0

IntraFi´s Bank Confidence Index increased 9.6 points from the previous quarter.

INDICES BY ASSET SIZE



The Bank Confidence Index and Bank Experience Index are proprietary indices of IntraFi, calculated using IntraFi's proprietary algorithm. Bank Confidence Index and Bank Experience Index are service marks of IntraFi.

METHODOLOGY AND RESPONSE

IntraFi's Bank Executive Business Outlook Survey was conducted online over the course of two weeks from January 2 to January 16, 2024.

The survey was delivered via email to bank CEOs, presidents, CFOs, and COOs. Leaders from 501 unique banks throughout the United States completed the survey. Of these respondents, 180 were CEOs (36%), 39 were presidents (8%), 251 were CFOs (50%), and 31 were COOs (6%).

All percentages have been rounded to the nearest whole number unless reported otherwise.

ABOUT INTRAFI

Chosen by over 3,000 financial institutions, fintechs, and brokerage firms since its founding more than two decades ago, IntraFi® manages the nation's largest bank deposit network. Its services help customers acquire high-value relationships, fund more loans, seamlessly manage liquidity needs, and earn fee income. As the nation's #1 provider of reciprocal deposit solutions and a leading provider of overnight and term funding options, IntraFi delivers large-dollar deposit and liquidity management services.

For more information about this survey, IntraFi, or its solutions, please contact Rob Blackwell, Chief Content Officer & Head of External Affairs, at (866) 776-6426, x3357 or rblackwell@intrafi.com.

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