

Q3 2023

BANK EXECUTIVE BUSINESS OUTLOOK SURVEY

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 third quarter of 2023. Interest rates and what the Federal Reserve will do next remain important topics. Survey respondents believe the nation's central bank will likely raise the federal funds target rate one more time this year, and that lower rates are at least a year away. Bankers also shared their thoughts about the industry's appetite for mergers and acquisitions and who will benefit from proposed higher capital requirements for the largest banks.

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](https://www.intrafi.com).

Sincerely,

MARK JACOBSEN
Cofounder & CEO
IntraFi

EXECUTIVE SUMMARY

Although credit quality continues to hold steady, bankers are pessimistic about economic conditions for their institutions and are not expecting the Federal Reserve to begin lowering interest rates anytime soon.

In our third-quarter survey of nearly 600 unique bank respondents, bankers continue to be skeptical about economic conditions despite some signs the U.S. economy has remained resilient. Nearly half said economic conditions for their institutions deteriorated over the past 12 months, and only 12% said they expect that to improve in the year ahead.

Their views hold even though they have not seen a decline in credit quality so far. Fifty-nine percent of bank respondents said they do not expect to see higher delinquencies in the third quarter compared to the previous quarter, while nearly three-quarters said they do not expect higher charge-offs.

Of those who experienced declines, 17% expect higher delinquencies on residential mortgages, and 13% expect emerging problems in office-related commercial real estate. These numbers remain low despite widespread concern among top regulators that credit quality could be an issue going forward.

With the Federal Reserve still focused on fighting inflation, most bankers do not expect it to start decreasing interest rates anytime soon. Sixty percent of survey respondents said the central bank would begin lowering rates in the second half of 2024. An additional 22% said the Fed would not decrease rates until 2025 or later.

Meanwhile, bankers delivered a surprising verdict on a plan to raise capital requirements at the largest banks. Large banks are lobbying hard against the plan, which would raise requirements by roughly 20%. They have argued it could impede access to credit and drive business to nonbanks outside the regulatory system.

But when asked which institutions would benefit the most if the plan went into effect, 39% of respondents cited regional and super-regional banks, while an additional 37% said community banks would be the biggest beneficiaries. Only 19% said fintechs would see the most benefit from the plan, while another 5% pointed to other nonbanks.

Other topics covered in this quarter's survey include mergers and acquisitions and

overdraft fees. Only a quarter of bank respondents are looking to acquire another institution in the next 12 months, while 4% said they were hoping to be acquired in that time.

Even though revenue from overdraft fees is down by 50% from the period prior to the COVID-19 pandemic, only 15% of banks said they have reduced these fees since the start of 2023.

OTHER HIGHLIGHTS

Deposit Competition—Ninety percent of bankers experienced more competition for deposits, and 77% foresee tougher competition through the third quarter of 2024.

Funding Costs—Ninety-five percent of banks reported higher funding costs over the past 12 months, with 77% projecting higher costs next year.

Loan Demand—Nearly half of bankers said they saw less loan demand in the third quarter than a year prior, and 43% said they expect demand to drop in the next 12 months.

Access to Capital—Nearly three-quarters of banks reported no change in their access to capital, and 72% expect no change over the next 12 months.

↑ 77%
predict increase in
deposit competition

↑ 77%
predict increase in
funding costs

↓ 43%
predict decrease in
loan demand



BANKER PERSPECTIVES

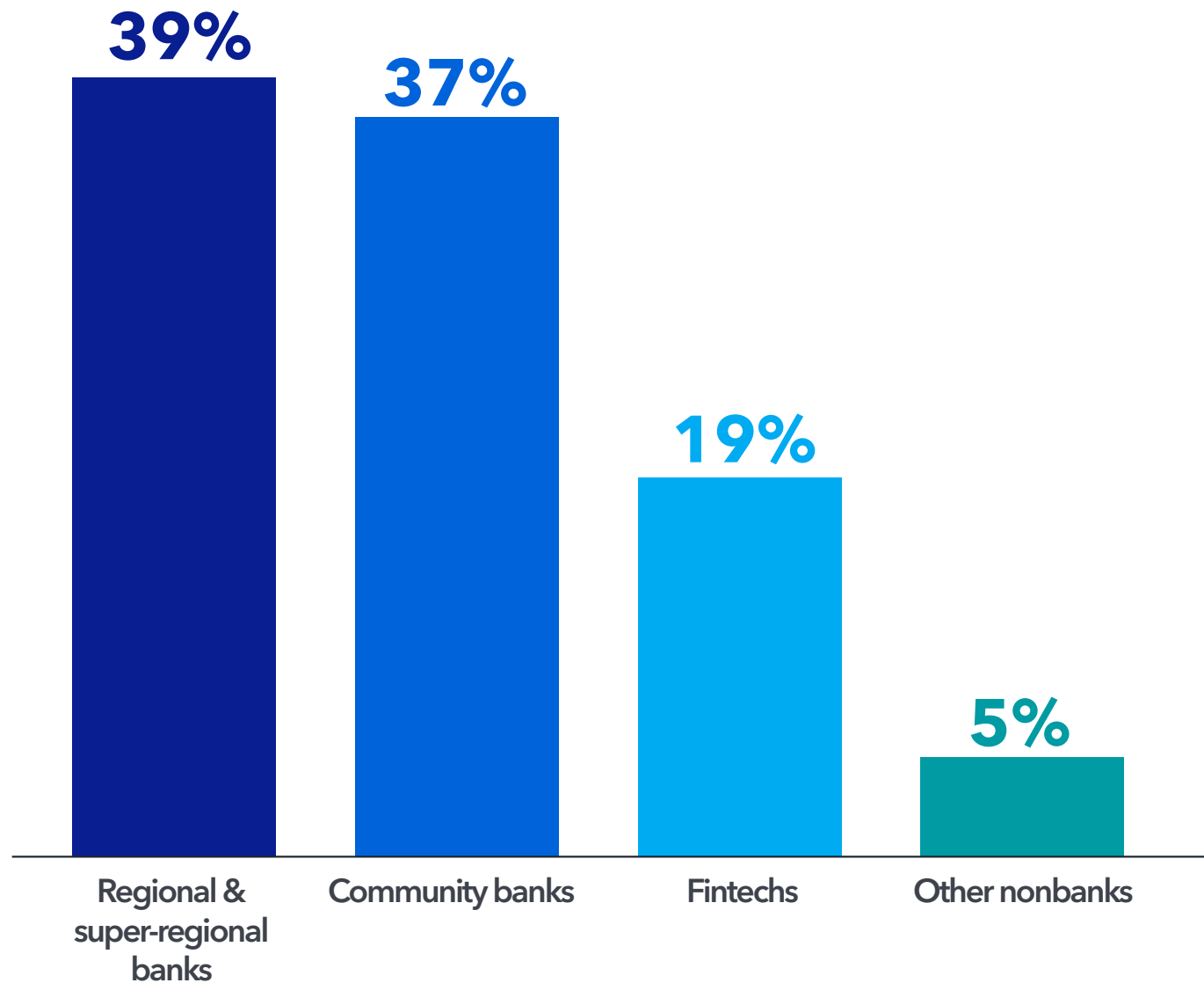
Each quarter, we ask questions based on current events affecting the banking sector.

This quarter, we posed a series of questions regarding the proposed new bank capital requirements, expectations regarding Fed interest rate policy, and whether banks are open to merger proposals or looking to be acquired.

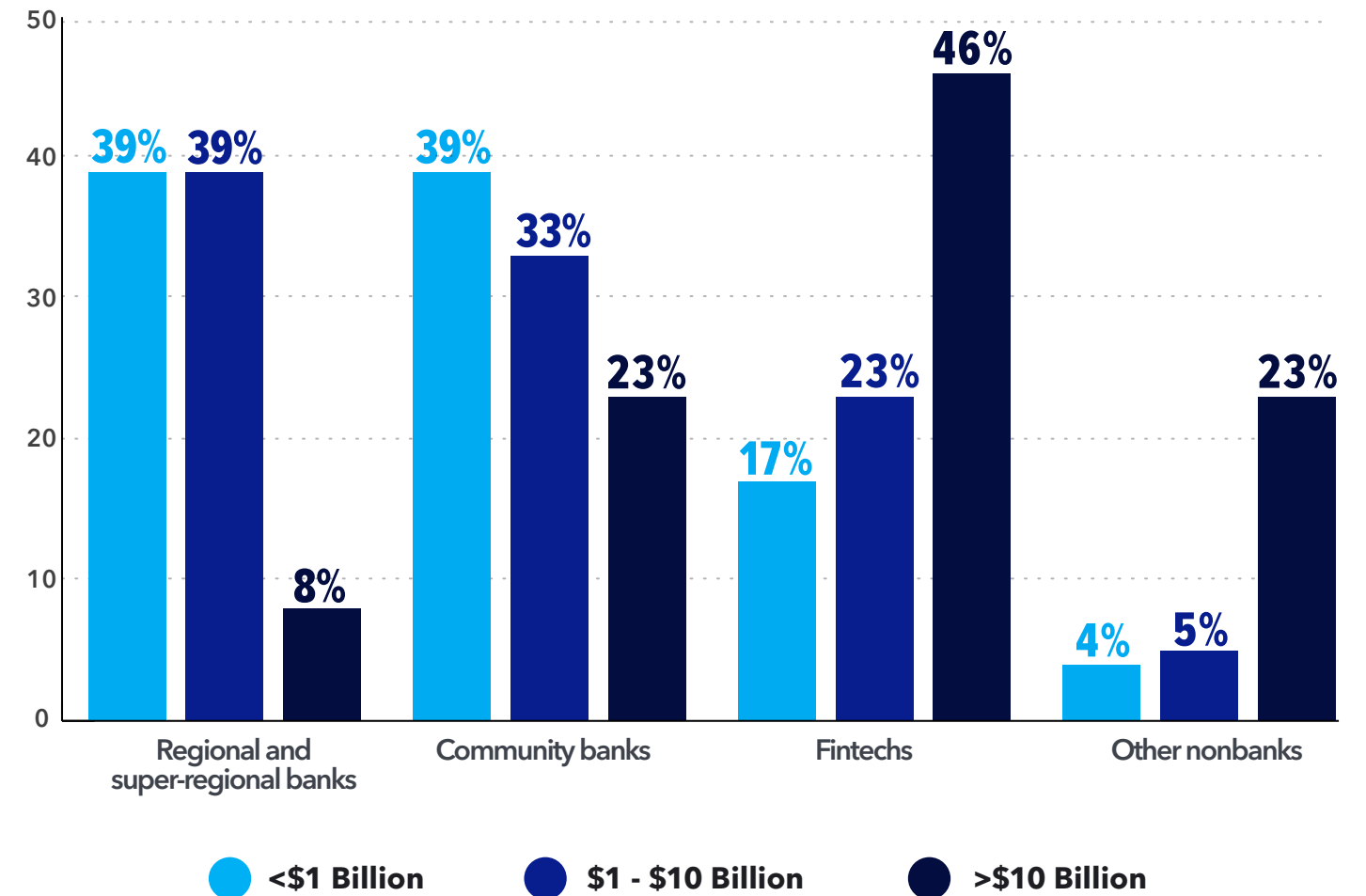
CAPITAL REQUIREMENTS

Under a proposal by federal regulators, some of the largest banks could see their capital requirements increase by as much as 20%, which could reduce their lending activity.

If this plan is finalized as proposed, which institutions do you believe will benefit the most?



BREAKOUT BY ASSET SIZE

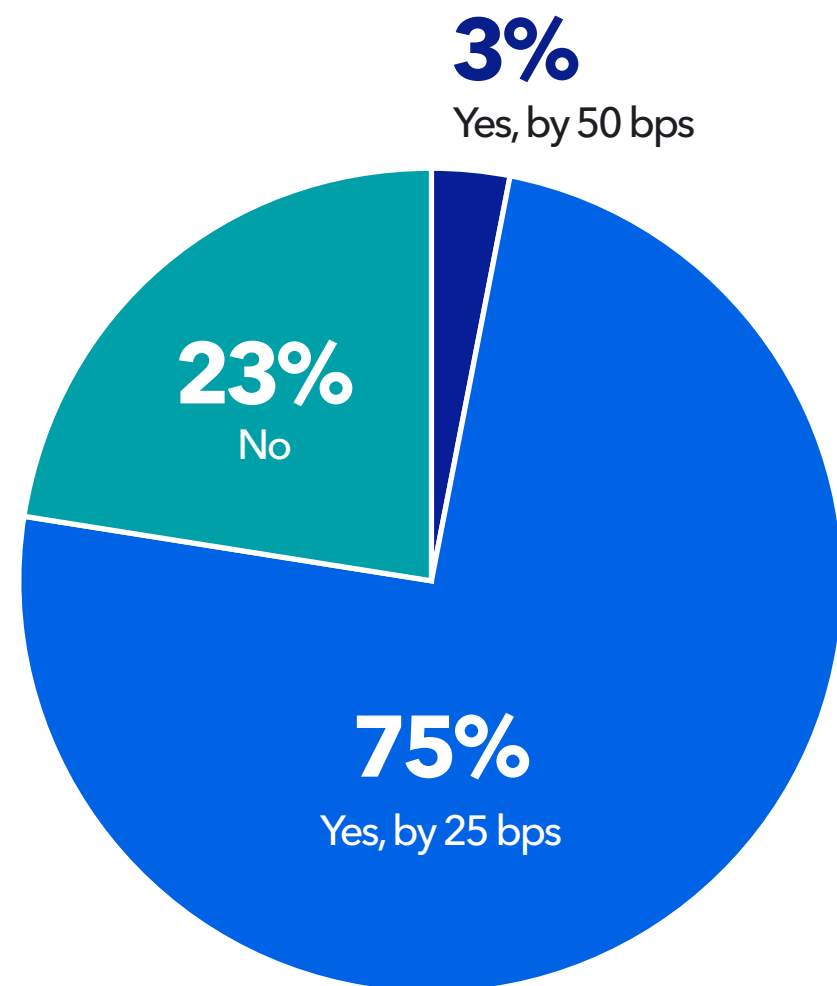


Although most bankers in our second quarter survey said the proposal to hike capital requirements for the largest banks was “not appropriate,” this quarter’s survey indicates that many of those same institutions said they will benefit the most if the higher standards are finalized. Seventy-six percent of respondents expect community, regional, and super-regional banks will be the biggest benefactors.

WILL FED RAISE RATES BY YEAR-END?

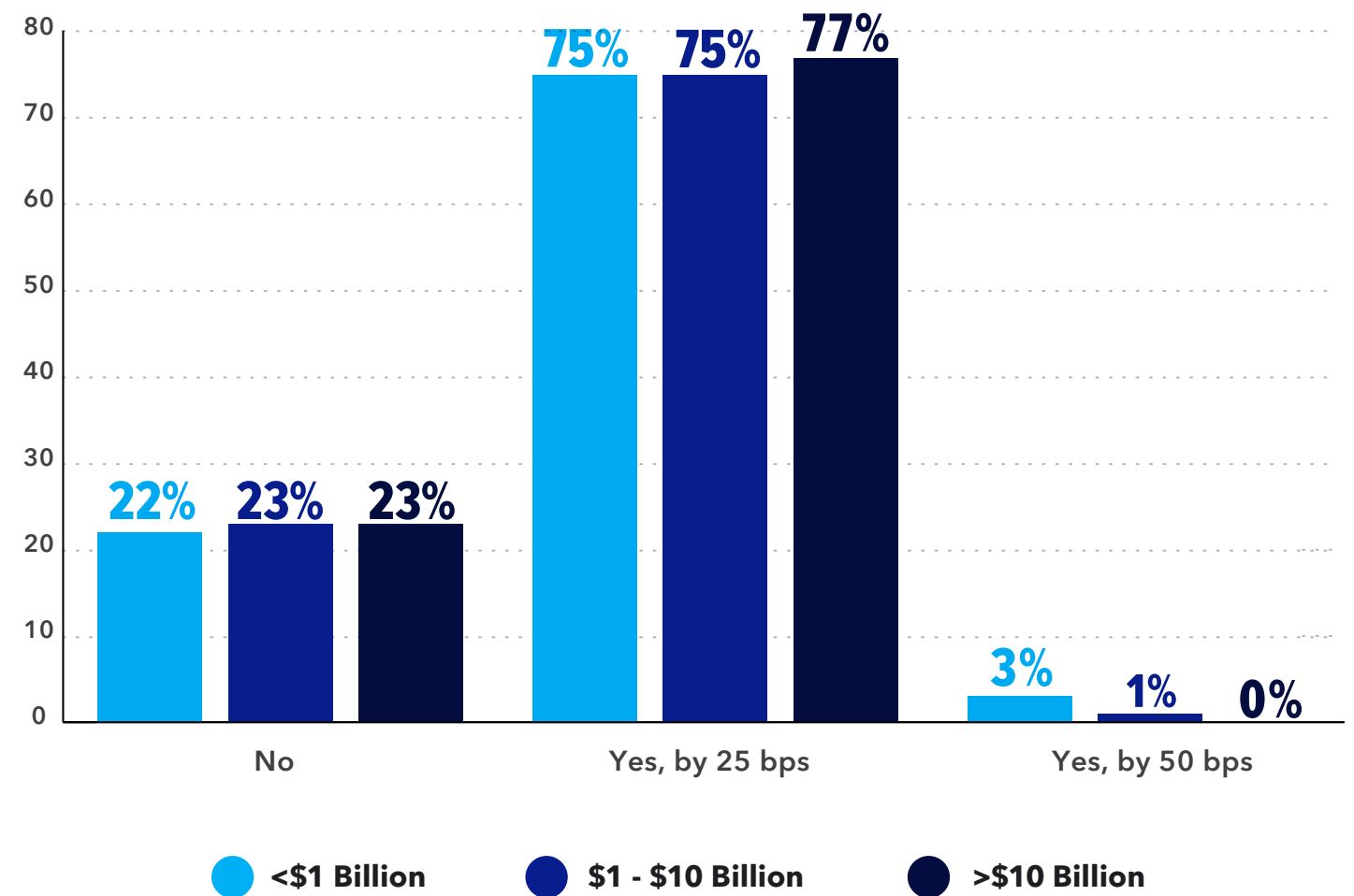
At its September 19-20 meeting, the Federal Open Market Committee voted to keep its benchmark overnight interest rate unchanged.

Given current economic conditions, do you expect the Fed to raise rates higher by year-end?



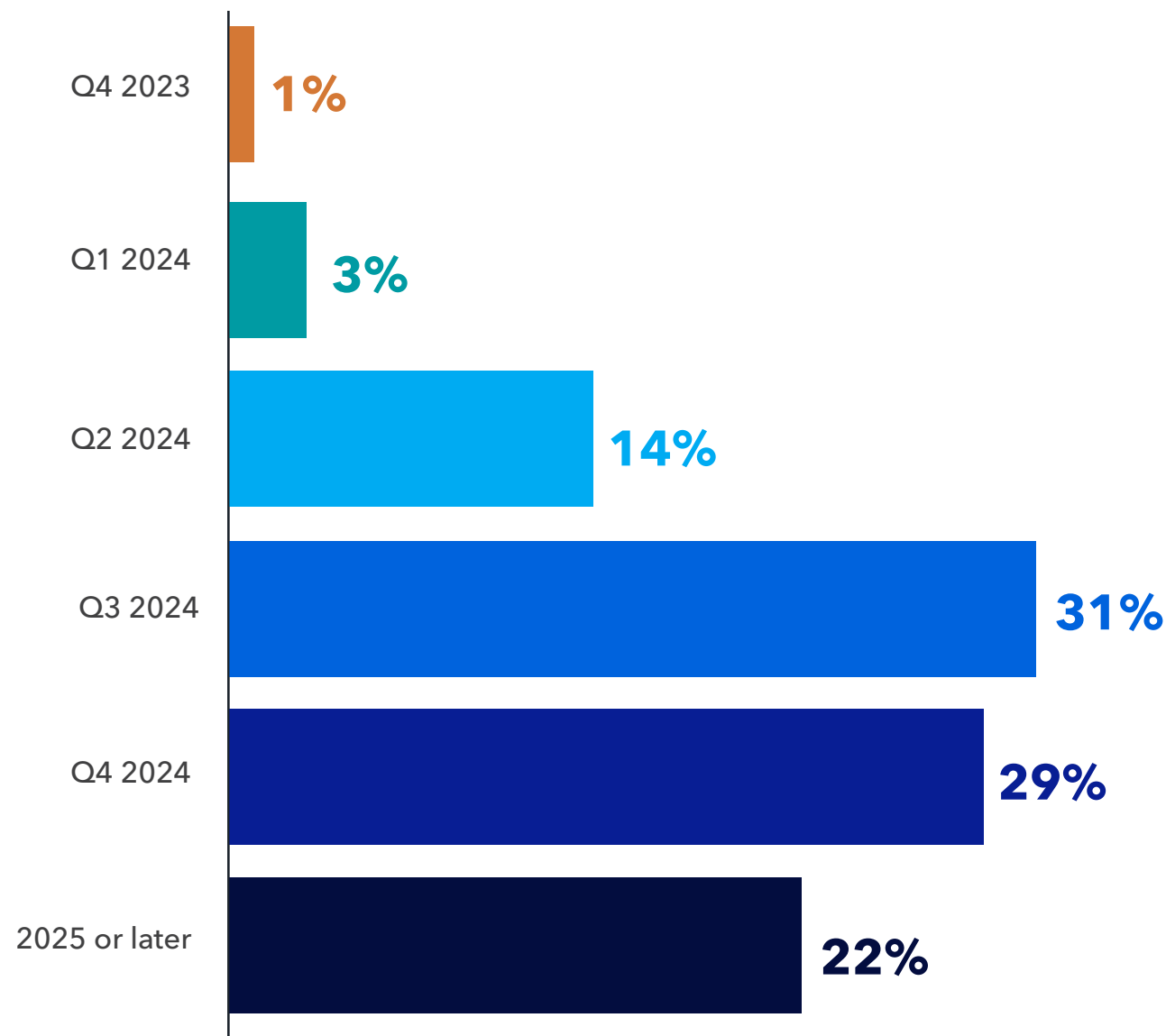
According to the central bank's *September Summary of Economic Projections* (the dot plot), 12 policymakers forecasted that the Fed will raise rates by 25 basis points, one more time in 2023. Three-quarters of bankers agree, while only 23% expect the Fed to hold rates steady.

BREAKOUT BY ASSET SIZE



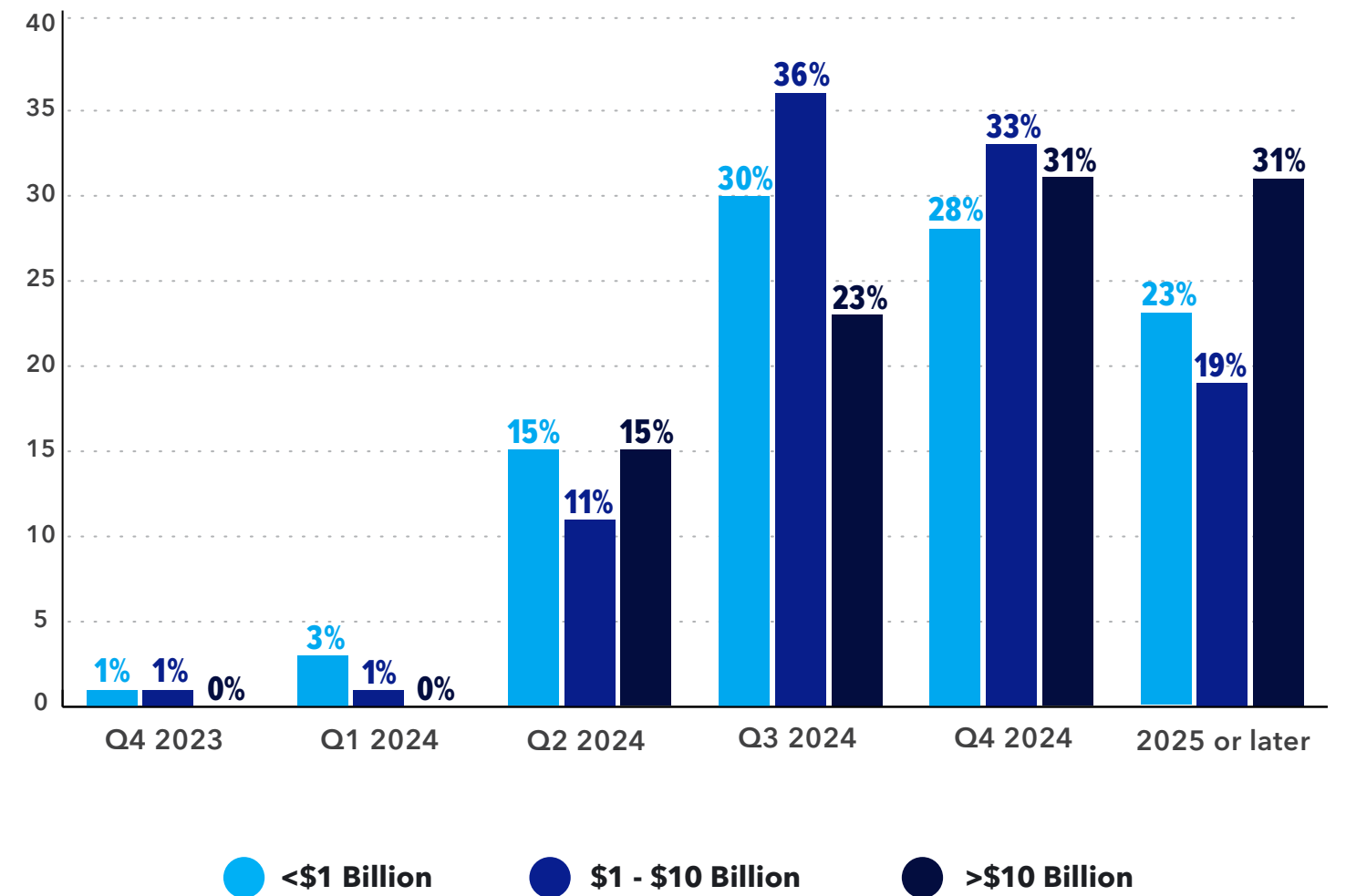
WHEN WILL FED START LOWERING RATES?

When do you expect the Fed to start decreasing interest rates?



Sixty percent of banks said the Fed will not start cutting rates until the second half of next year, while an additional 22% said the central bank will not drop rates until 2025 at the earliest.

BREAKOUT BY ASSET SIZE

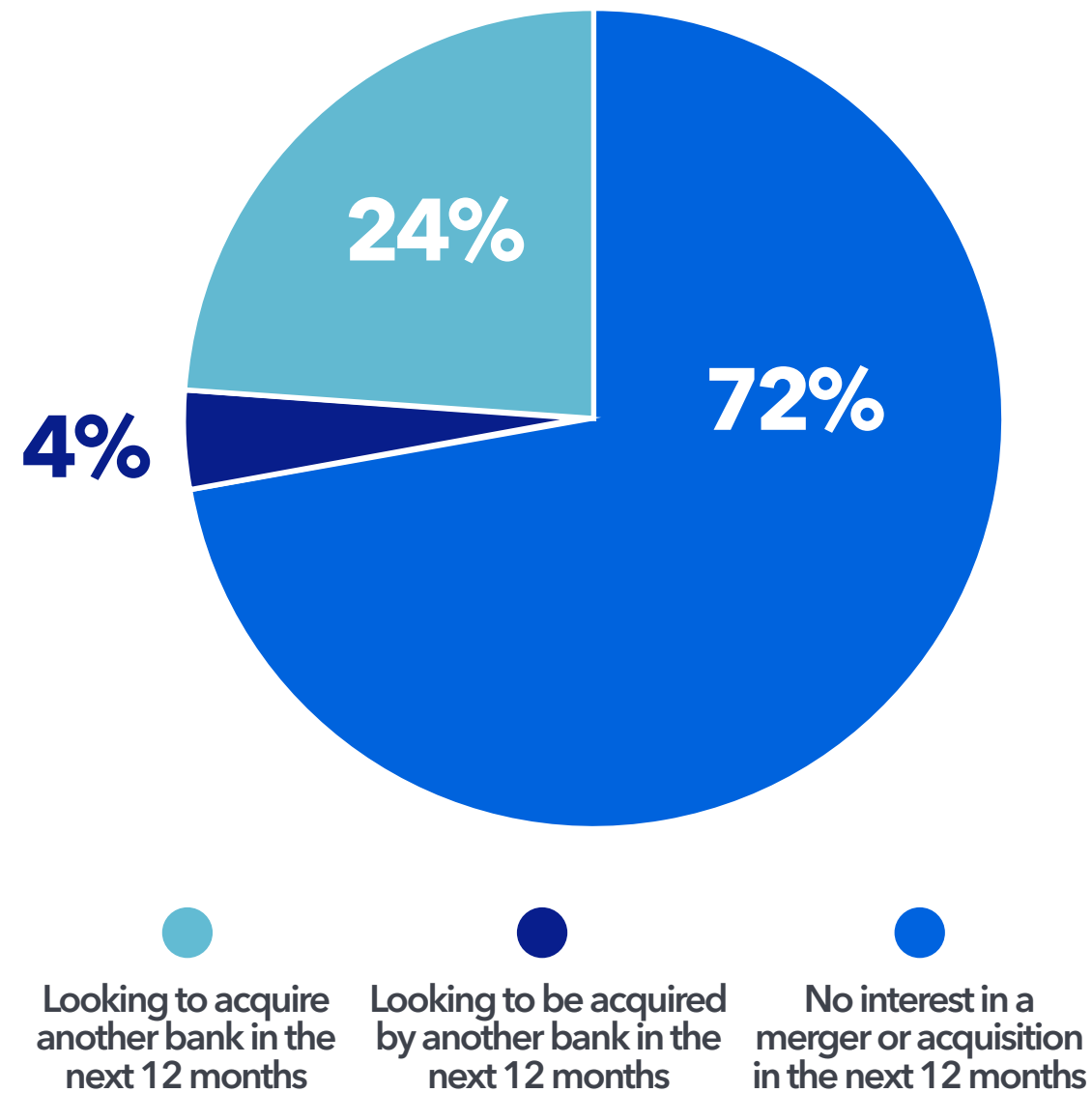


MERGERS & ACQUISITIONS

August was the biggest month in over a year for bank mergers and acquisitions.

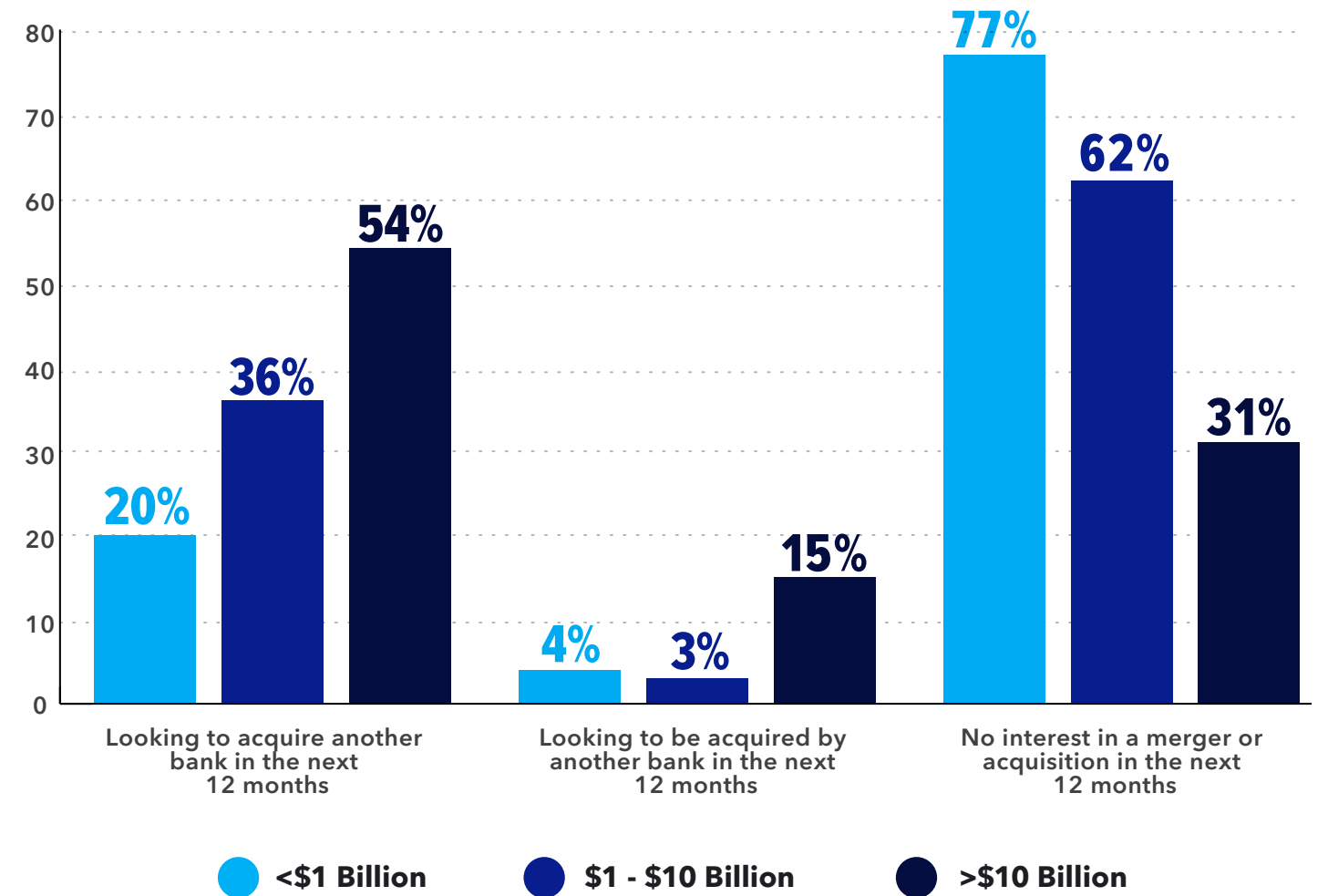
Which of the following best describes your bank's position?

(Select all that apply)



More than a quarter of banks surveyed (28%) are open to being acquired by or acquiring another bank in the next 12 months. Among banks with less than \$1 billion in assets, 24% are interested in either being acquired by or acquiring another bank in the year ahead.

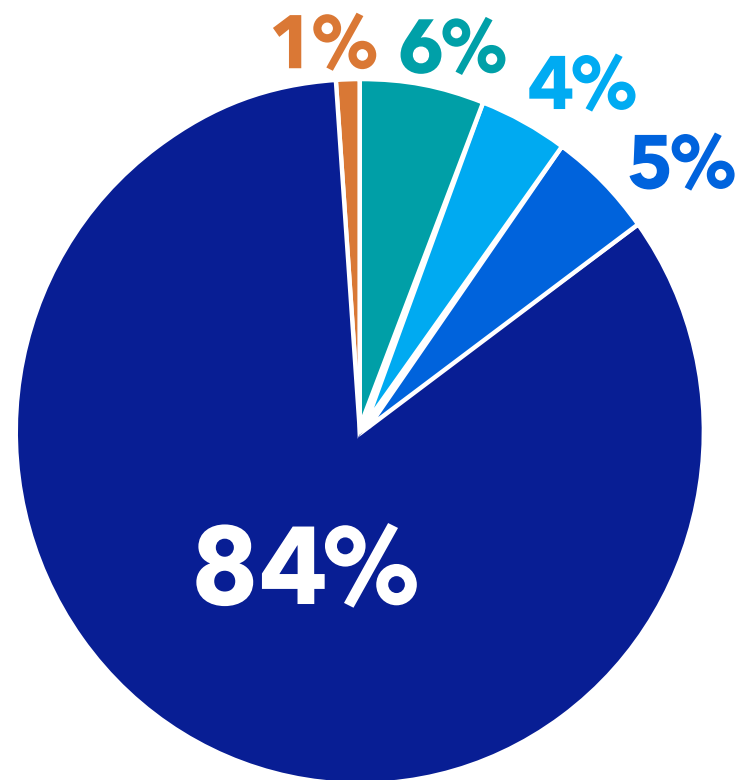
BREAKOUT BY ASSET SIZE



OVERDRAFT FEES

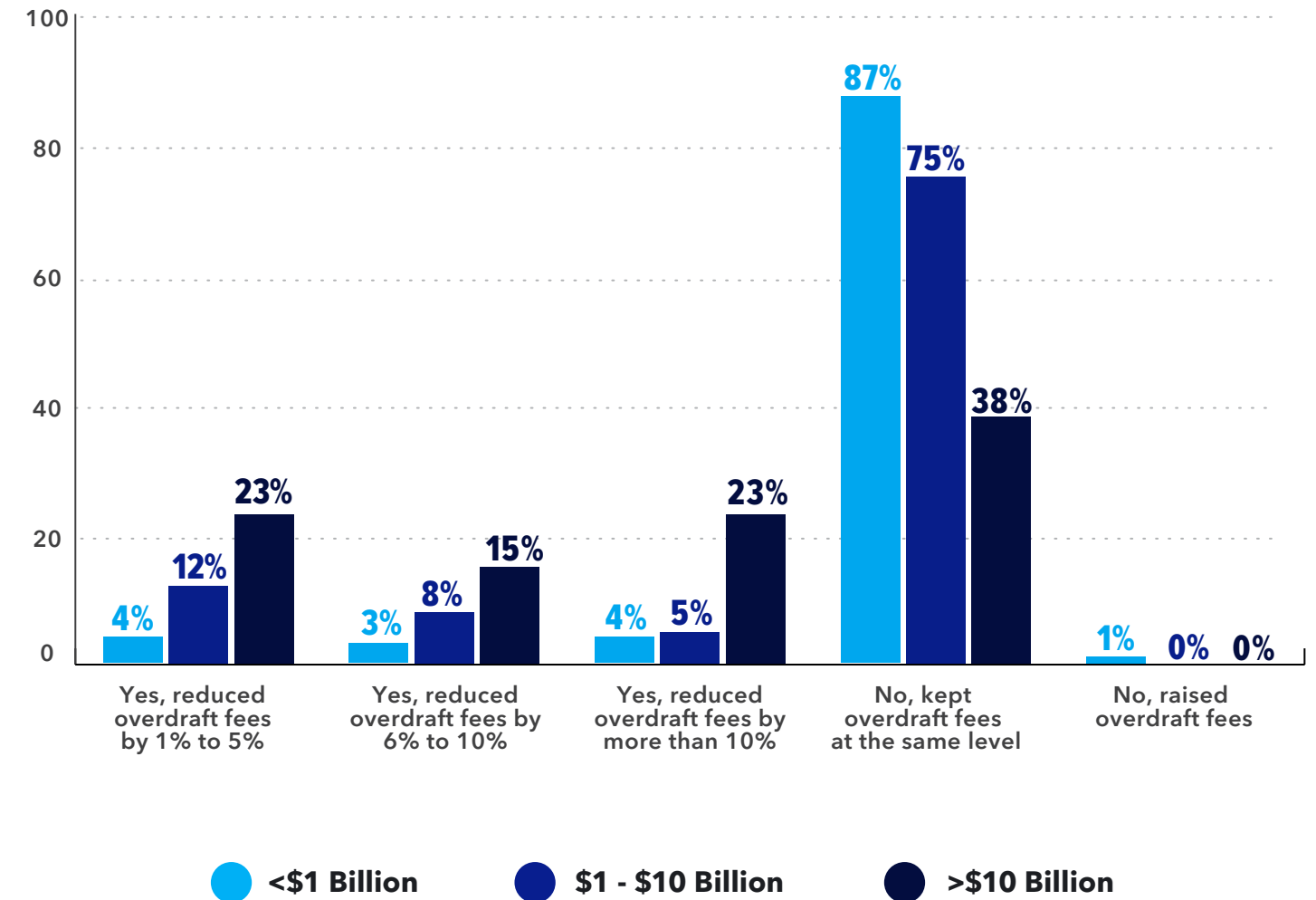
According to a recent survey, the average cost of consumer overdraft fees has dropped by 11% this year.

Has your institution reduced overdraft fees since the start of this year?



- Yes, reduced overdraft fees by 1-5%
- Yes, reduced overdraft fees by 6-10%
- Yes, reduced overdraft fees by >10%
- No, kept overdraft fees at the same level
- No, raised overdraft fees

BREAKOUT BY ASSET SIZE



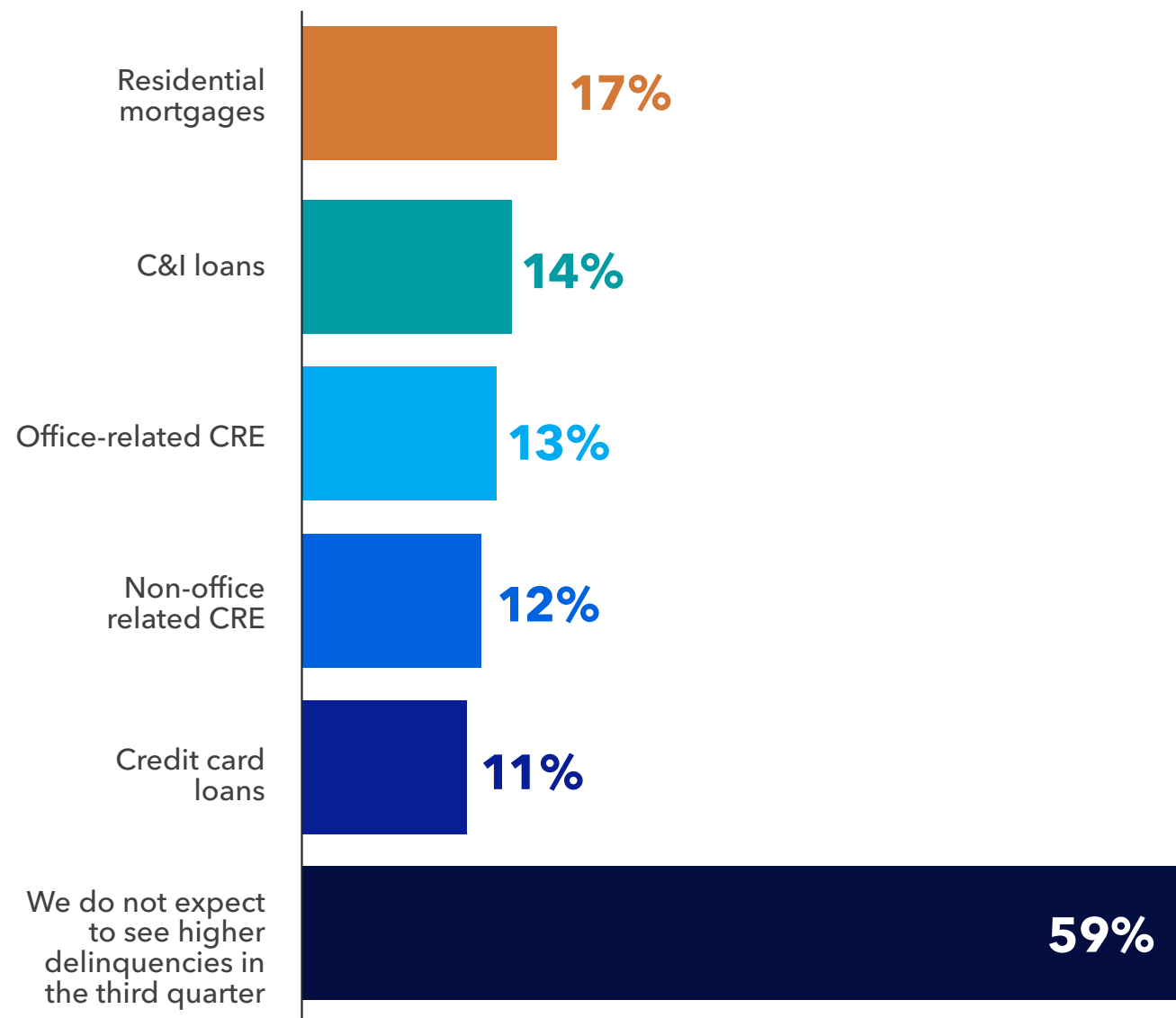
- <\$1 Billion
- \$1 - \$10 Billion
- >\$10 Billion

According to the Consumer Financial Protection Board (CFPB), Overdraft/Non-Sufficient Fund (NSF) revenue is down nearly 50% versus pre-pandemic levels. But 84% of respondents in this survey said their bank has not reduced overdraft fees since the start of this year.

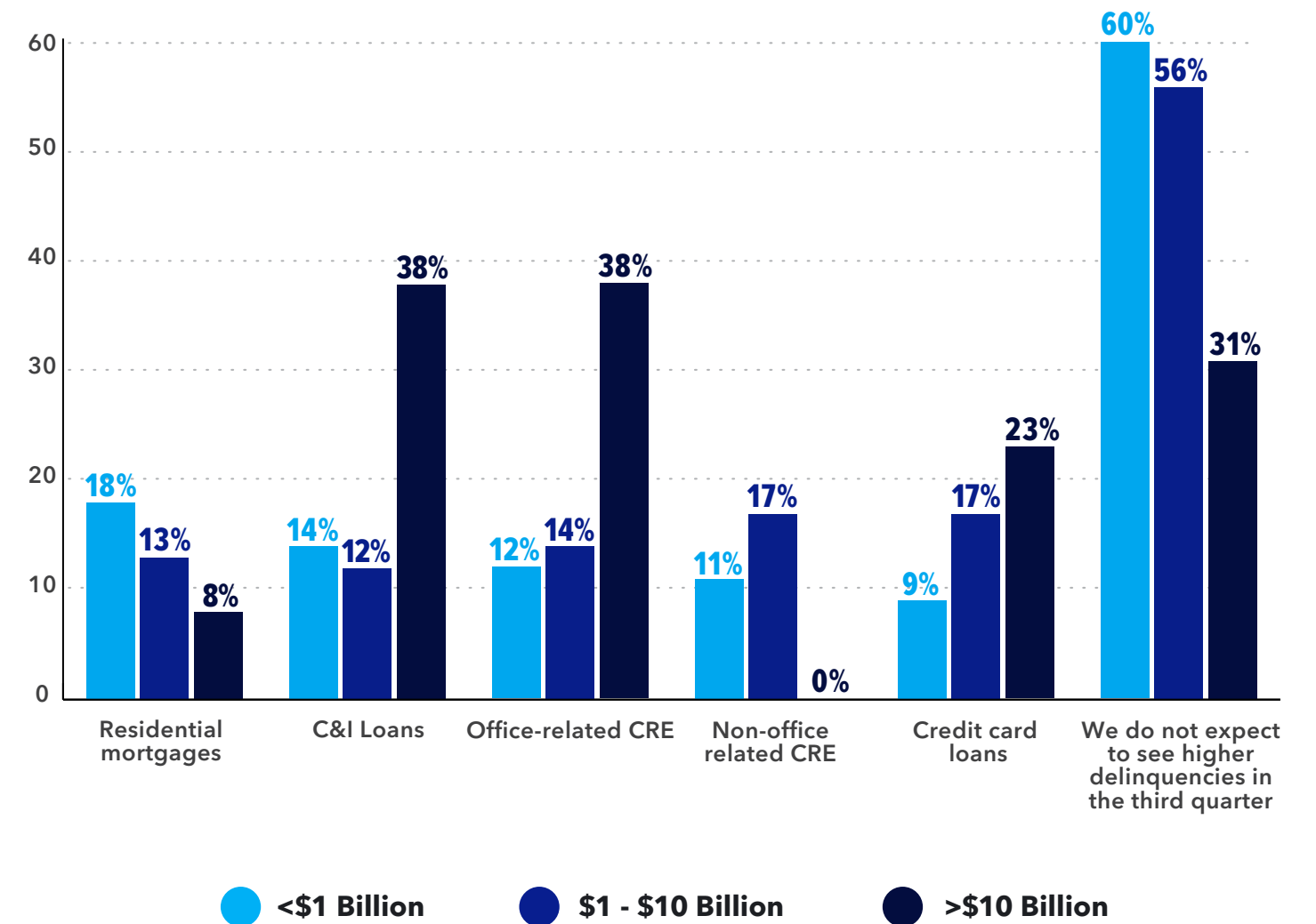
HIGHER DELINQUENCIES

In what areas do you expect your bank to see higher delinquencies in the third quarter compared to Q2?

(Select all that apply)



BREAKOUT BY ASSET SIZE

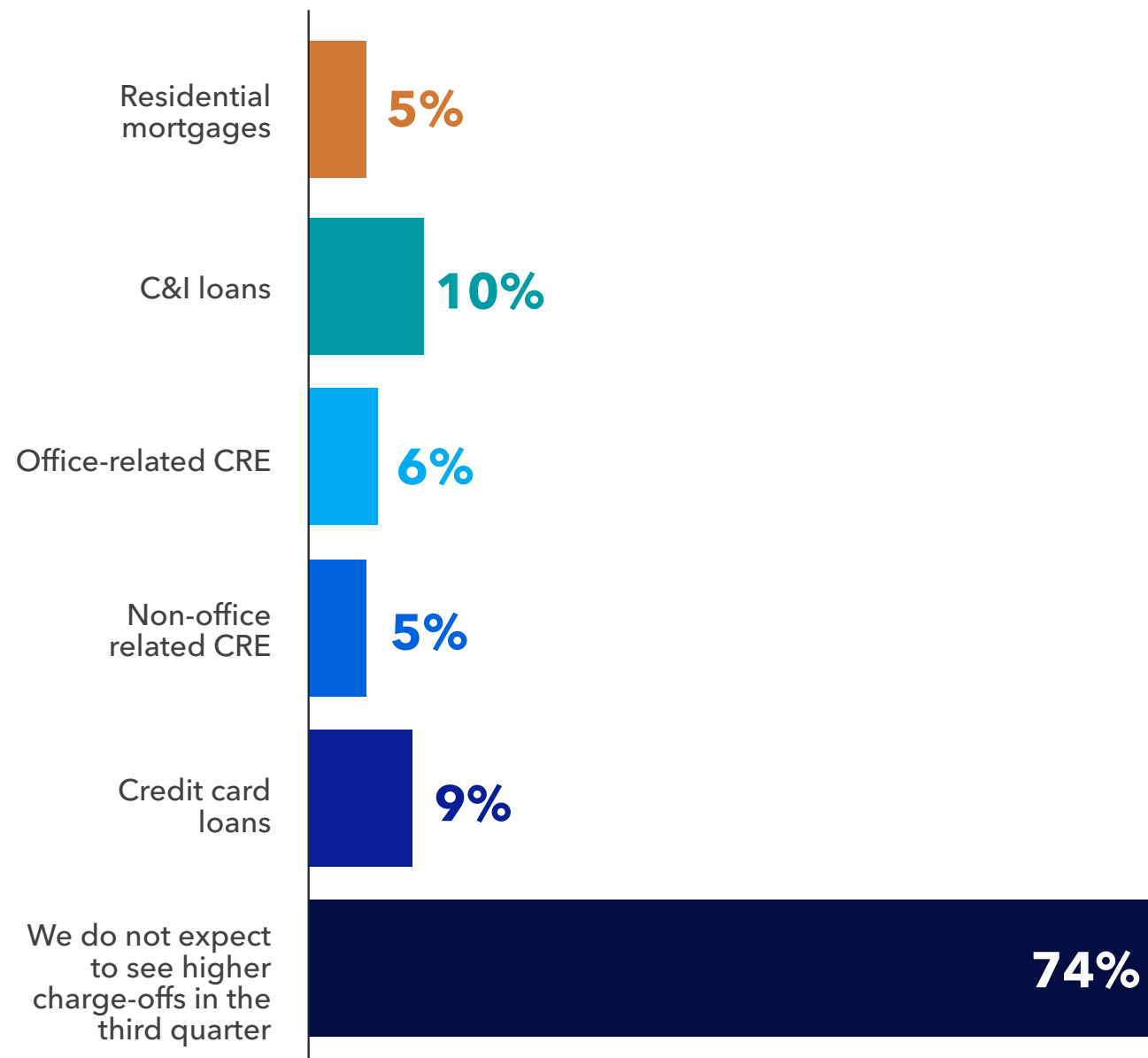


Although a majority of bankers are pessimistic about the economic conditions at their institutions, most bank respondents (59%) indicated they do not foresee higher delinquencies in the third quarter compared to the second quarter.

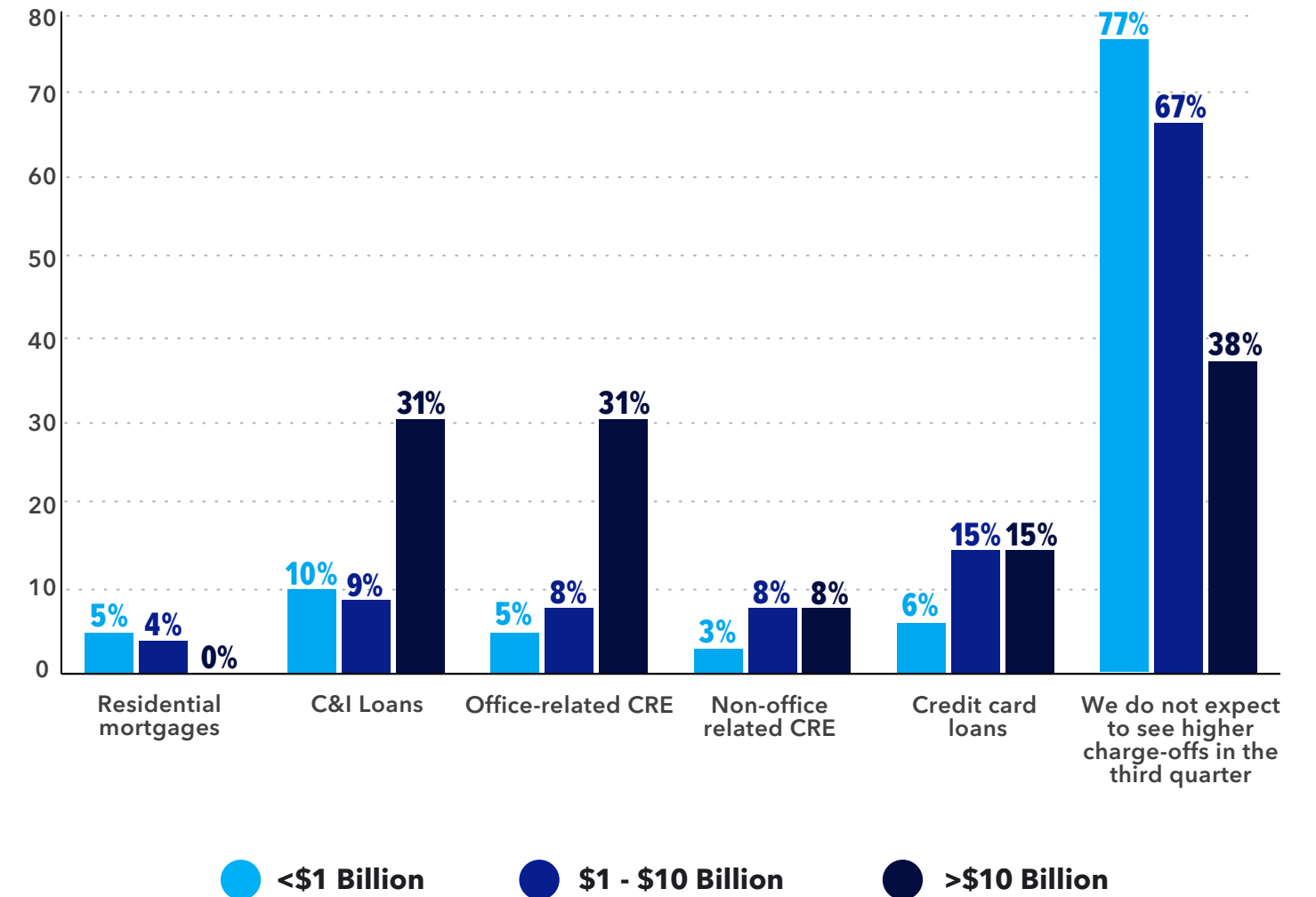
HIGHER CHARGE-OFFS

In what areas do you expect your bank to see higher charge-offs in the third quarter compared to Q2?

(Select all that apply)



BREAKOUT BY ASSET SIZE



Few bank executives (26%) expect higher charge-offs in the third quarter compared to the prior quarter. Among those that do, 10% predicted higher charge-offs in C&I loans, 9% for credit card loans, and 6% for office-related CRE.

QUARTERLY QUESTIONS

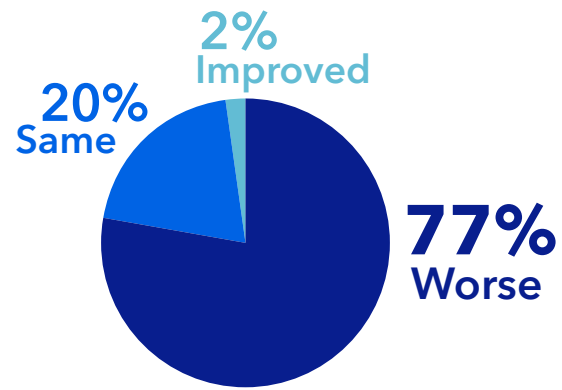
Each quarter, we pose a series of questions to bank executives relating to their access to capital, loan demand, funding costs, deposit competition, and economic outlook.



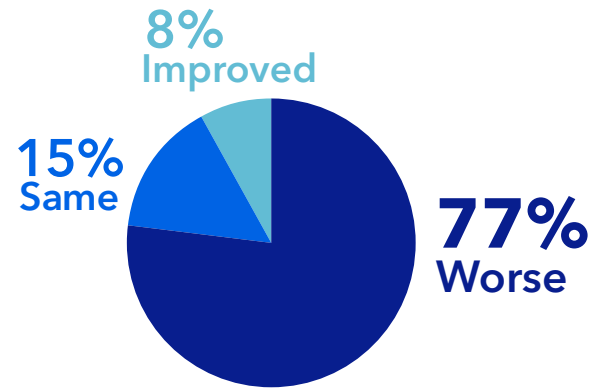
TOPLINES

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

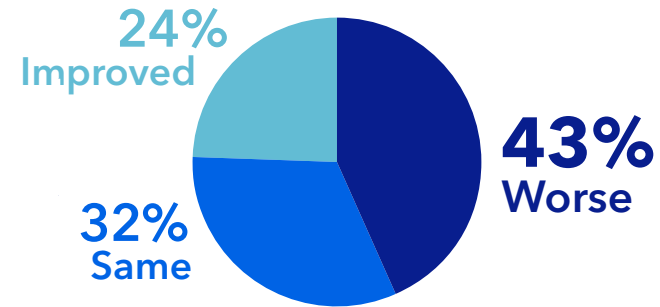
Deposit Competition



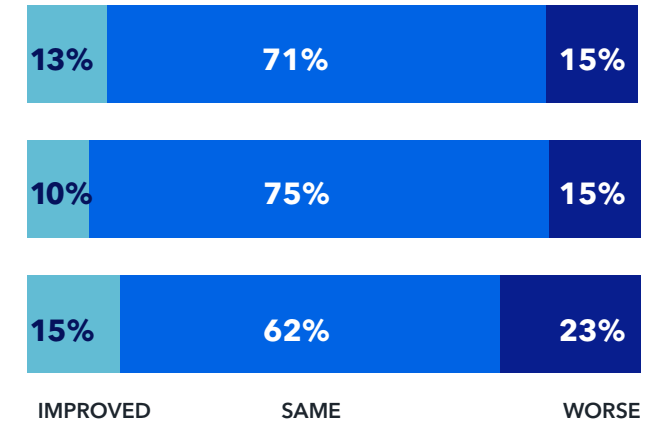
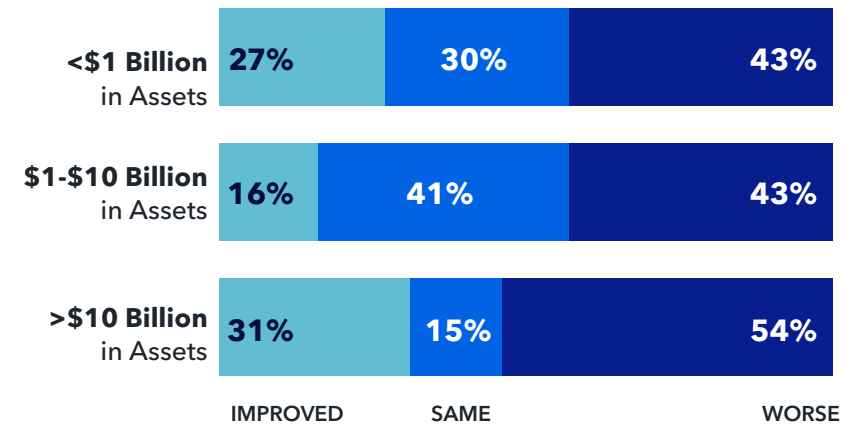
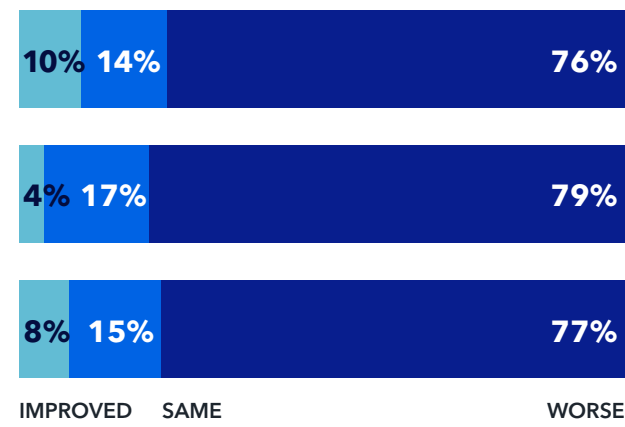
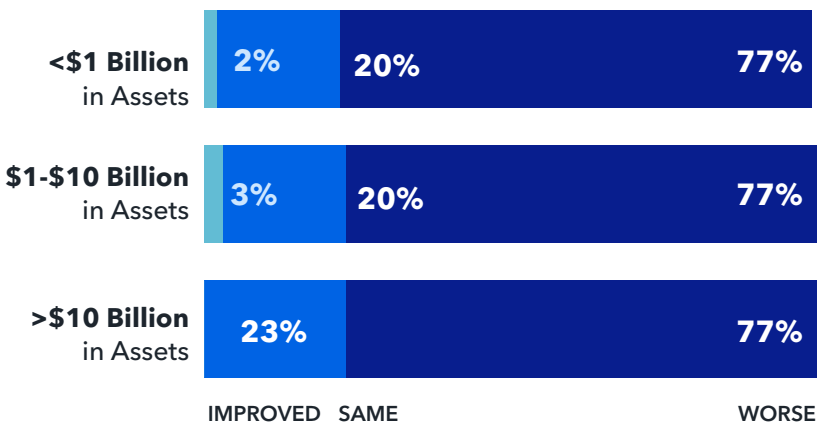
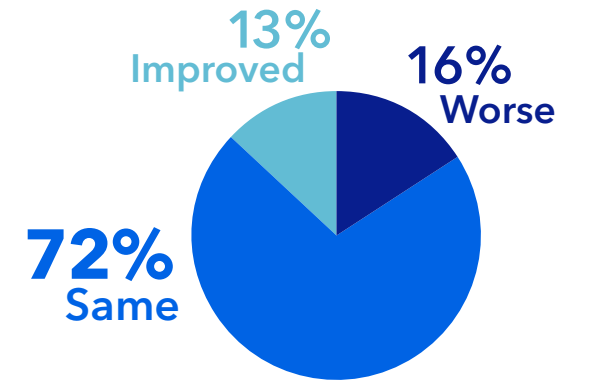
Funding Costs



Loan Demand



Access to Capital

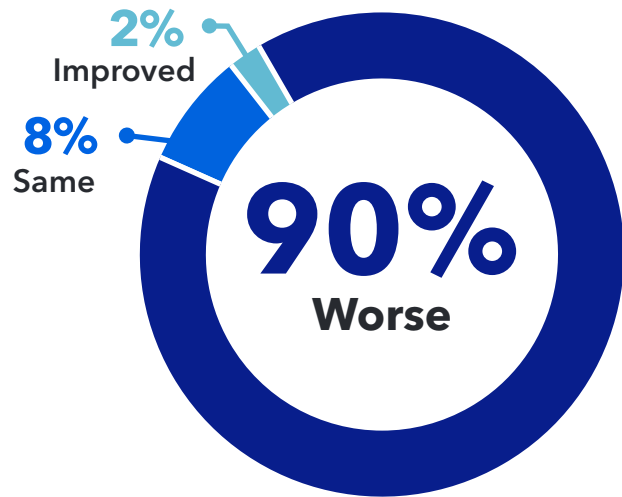


DEPOSIT COMPETITION

For the second time this year, the percentage of respondents experiencing greater competition for deposits reached the 90% threshold. Looking ahead 12 months, 77% of bankers are projecting competition will decrease, down four points from the second quarter survey.

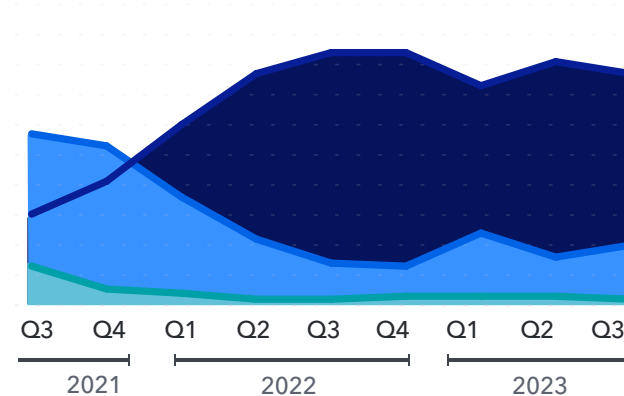
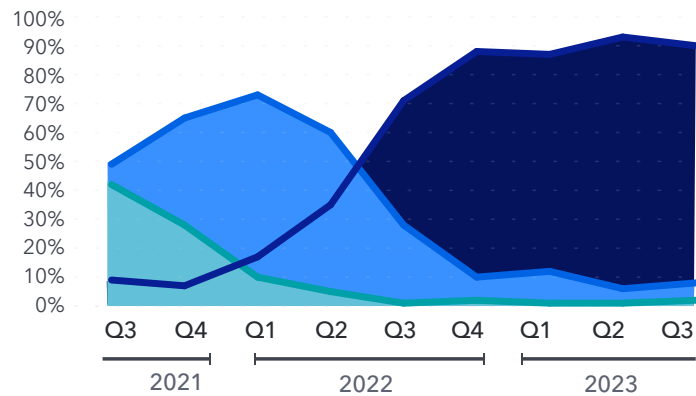
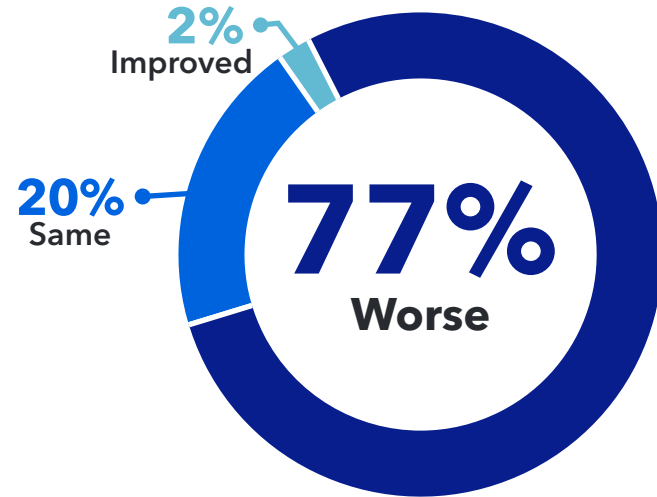
Experience

Compared to 12 Months Prior



Expectation

Looking 12 Months Ahead

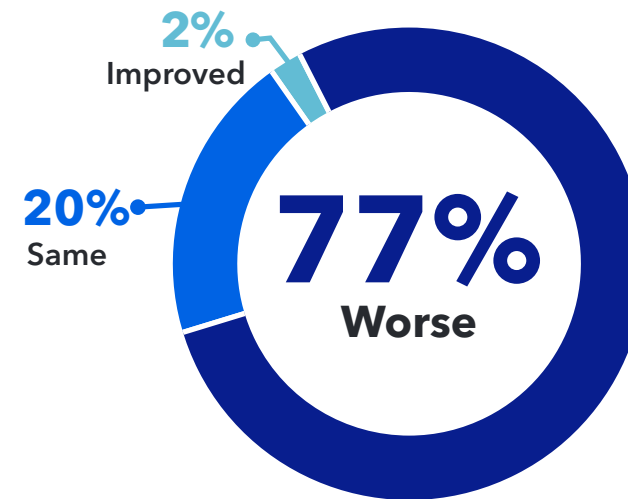


■ Worse ■ Same ■ Improved

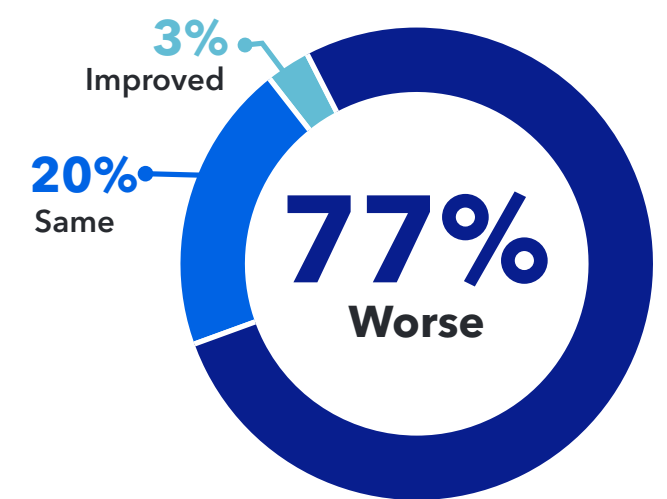
BREAKOUT BY ASSET SIZE

Expectation for deposit competition looking 12 months ahead

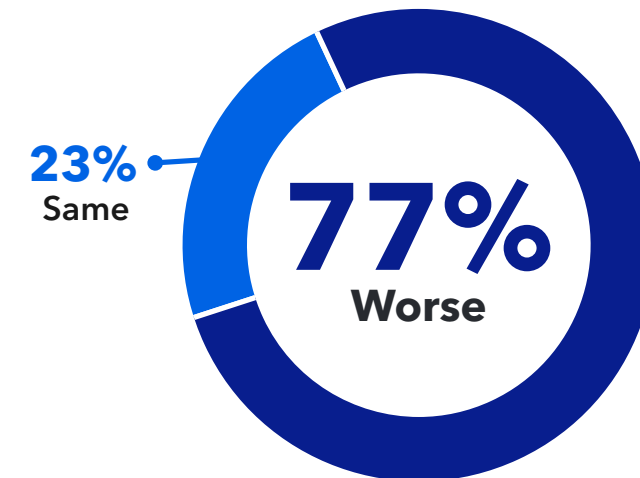
<\$1 Billion



\$1 - \$10 Billion



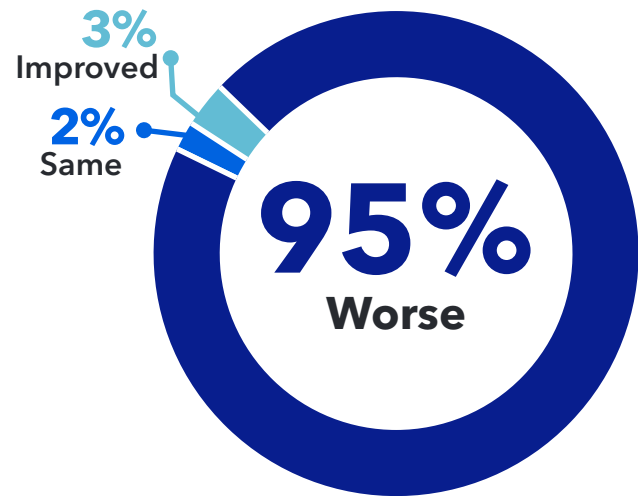
>\$10 Billion



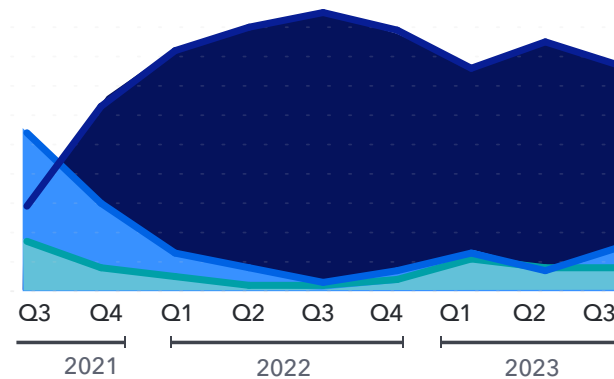
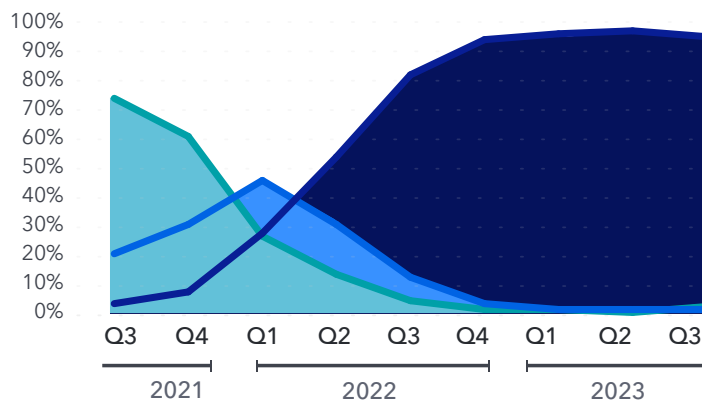
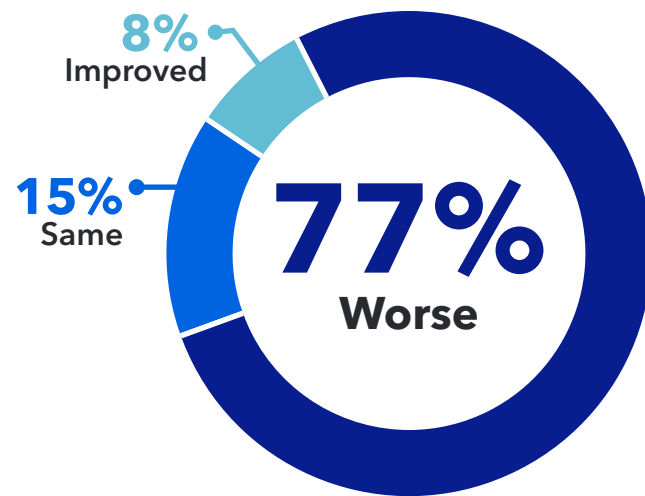
FUNDING COSTS

Even though the Federal Reserve has slowed the pace and size of rate increases over the last several months, 95% of respondents stated their bank's funding costs have risen—with 71% saying costs have increased significantly. The percentage who said funding costs will continue to climb over the next 12 months (77%) also remained high, but was 8 points lower than the previous quarter.

Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead

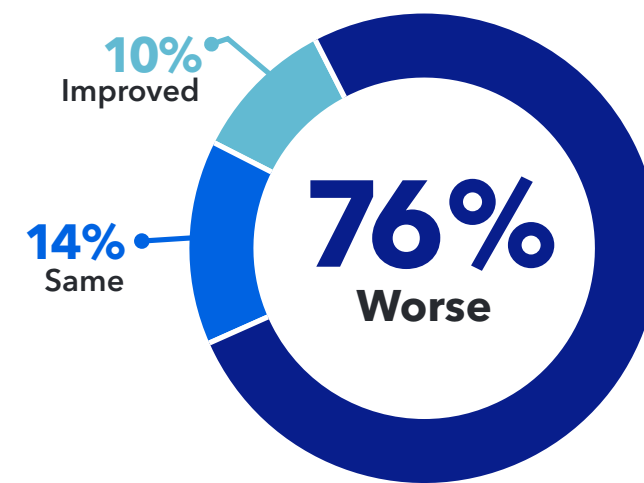


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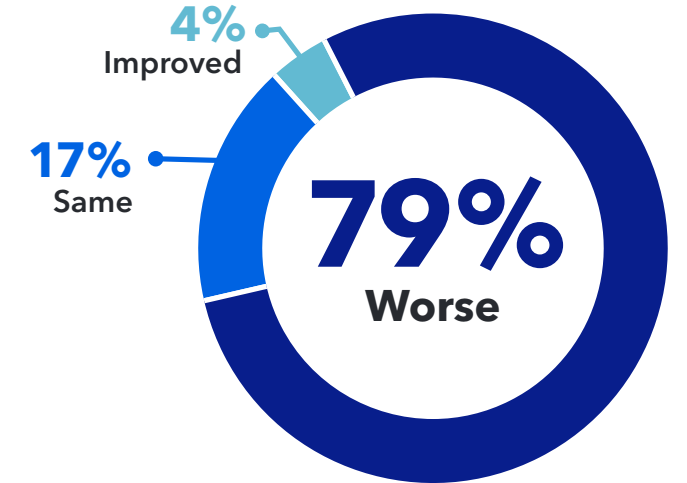
BREAKOUT BY ASSET SIZE

Expectation for funding costs looking 12 months ahead

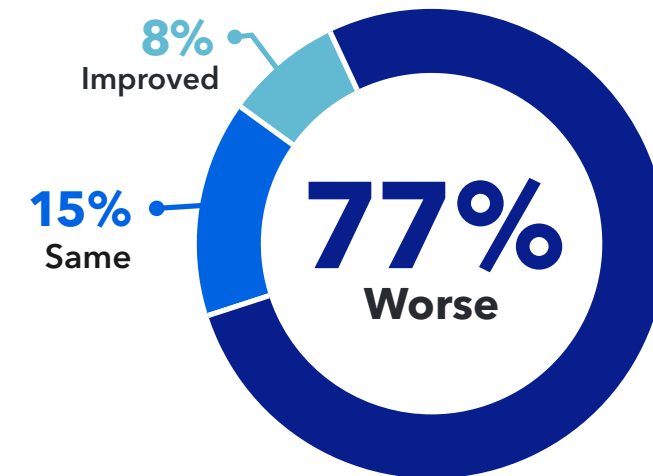
<\$1 Billion



\$1 - \$10 Billion



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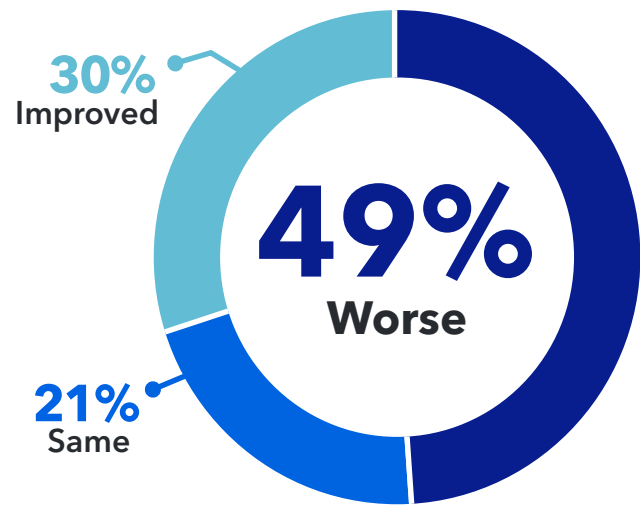


LOAN DEMAND

Only 30% of banks experienced an increase in loan demand over the past 12 months. Looking ahead, 24% of banks believe loan demand will rise, the sixth consecutive quarter this number has remained below 30%.

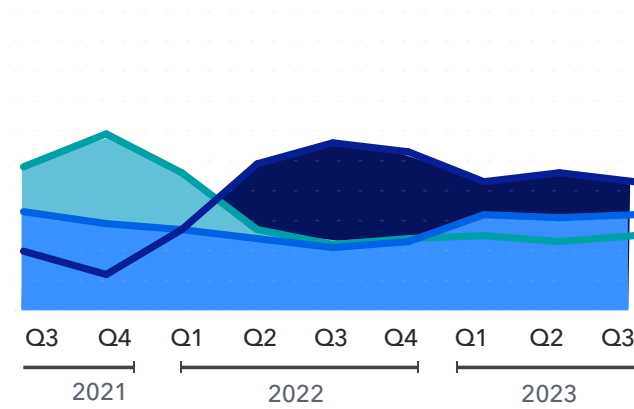
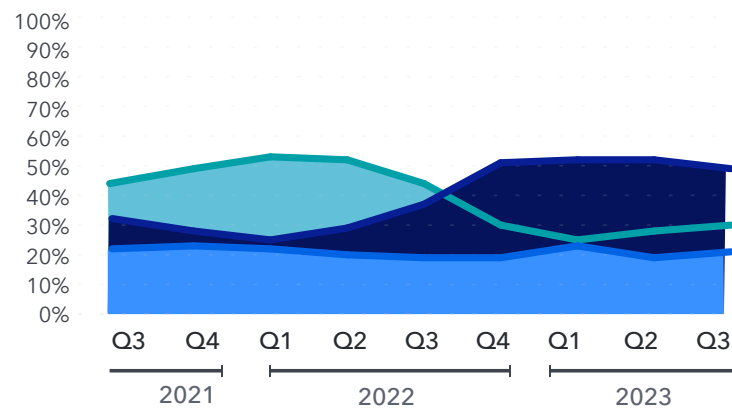
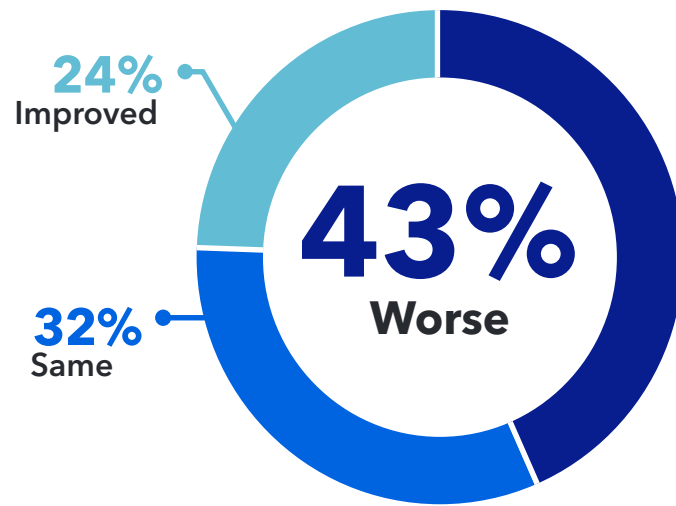
Experience

Compared to 12 Months Prior



Expectation

Looking 12 Months Ahead

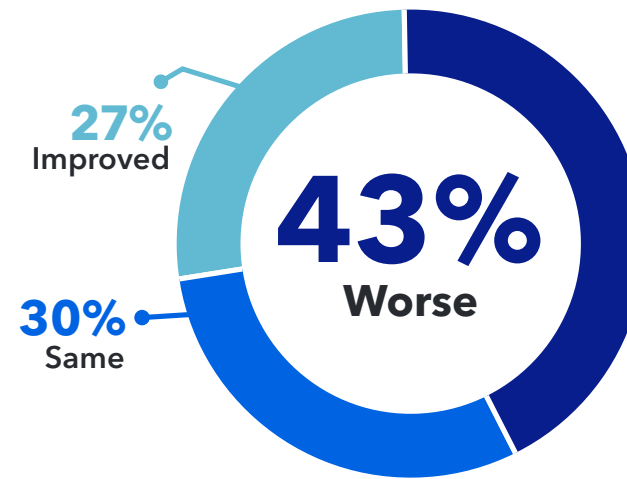


Worse Same Improved

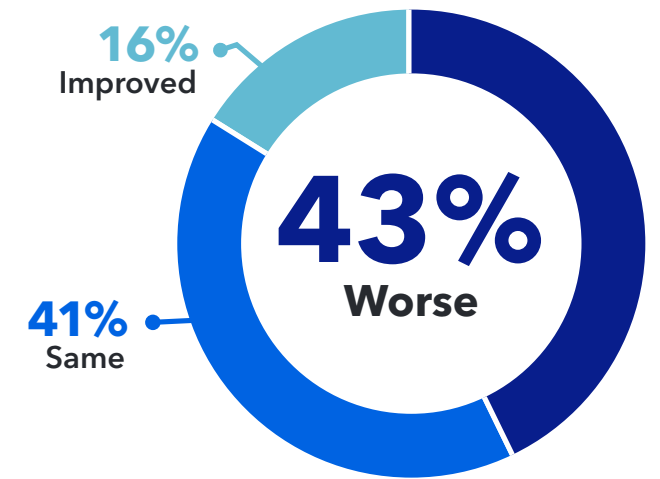
BREAKOUT BY ASSET SIZE

Expectation for loan demand looking 12 months ahead

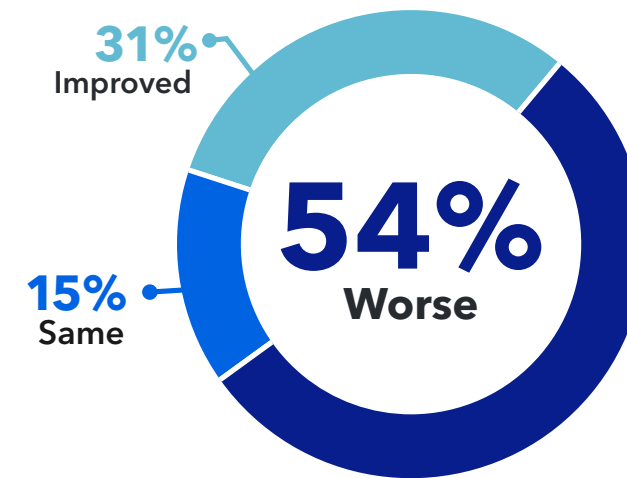
<\$1 Billion



\$1 - \$10 Billion



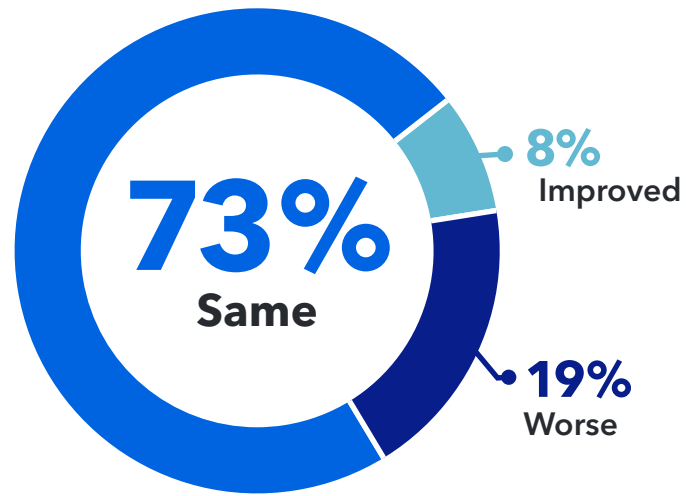
>\$10 Billion



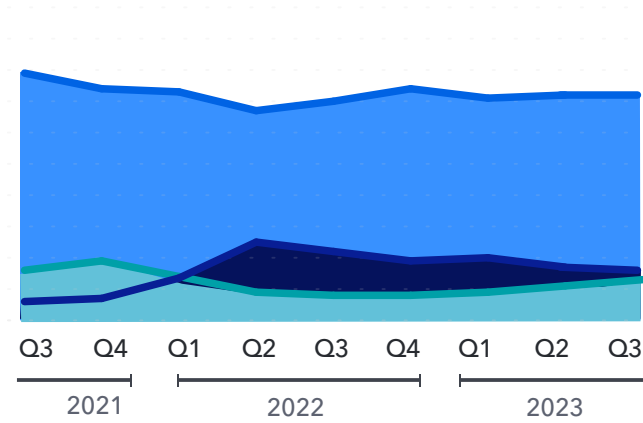
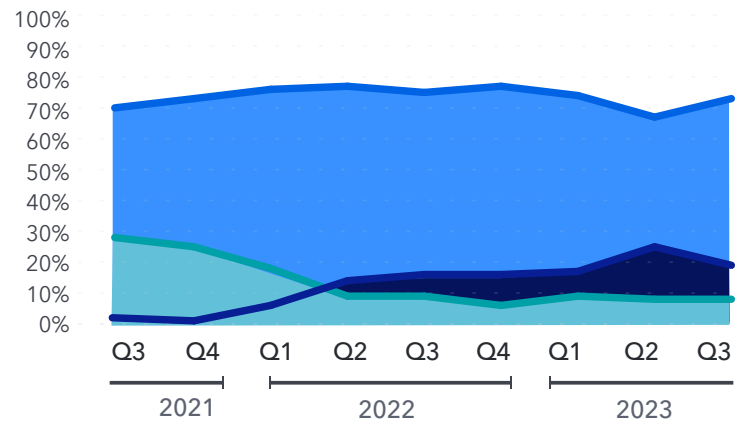
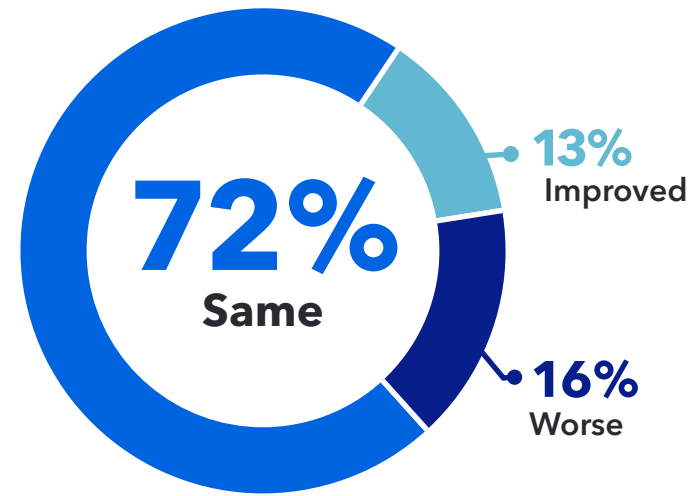
ACCESS TO CAPITAL

Access to capital remains steady with 73% of bankers reporting that it has remained the same over the last 12 months. This figure has been 70% or more for eight of the last nine surveys. Seventy-two percent said it will remain the same over the next 12 months.

Experience
Compared to 12 Months Prior



Expectation
Looking 12 Months Ahead

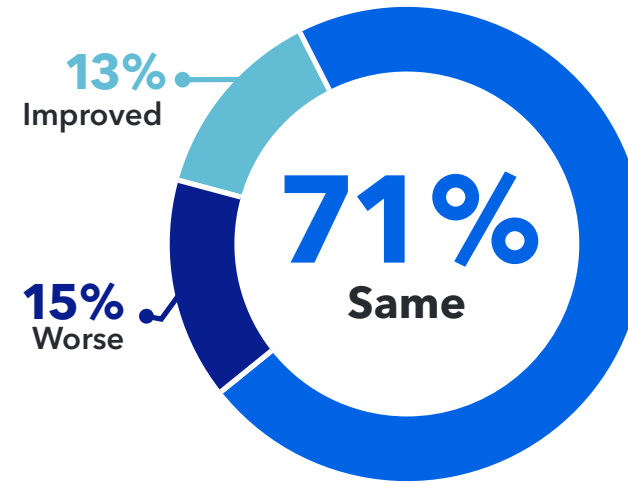


Worse Same Improved

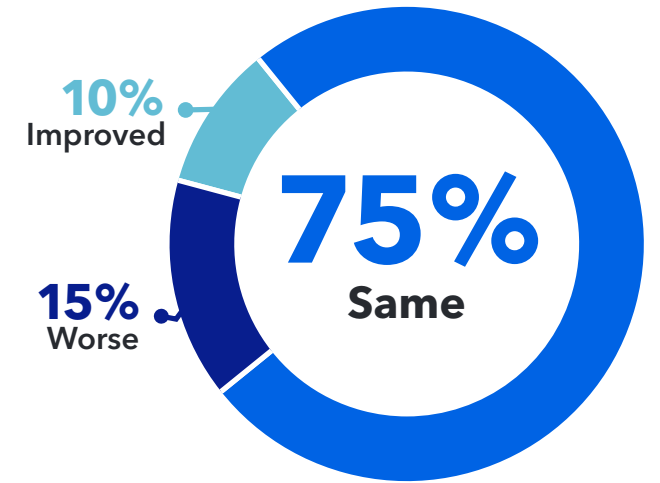
BREAKOUT BY ASSET SIZE

Expectation for access to capital looking 12 months ahead

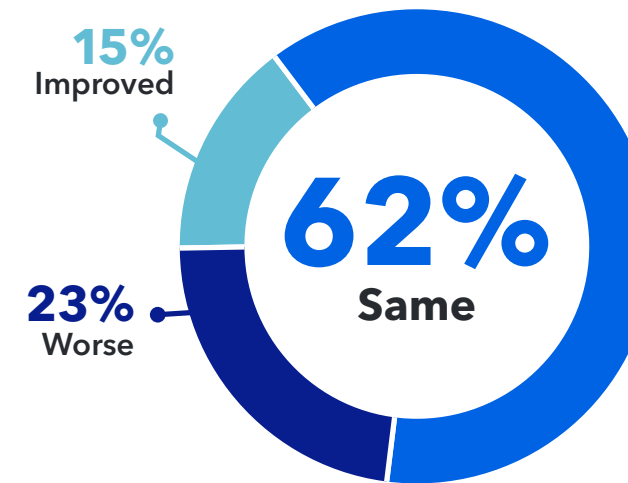
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\$1 - \$10 Billion



>\$10 Billion

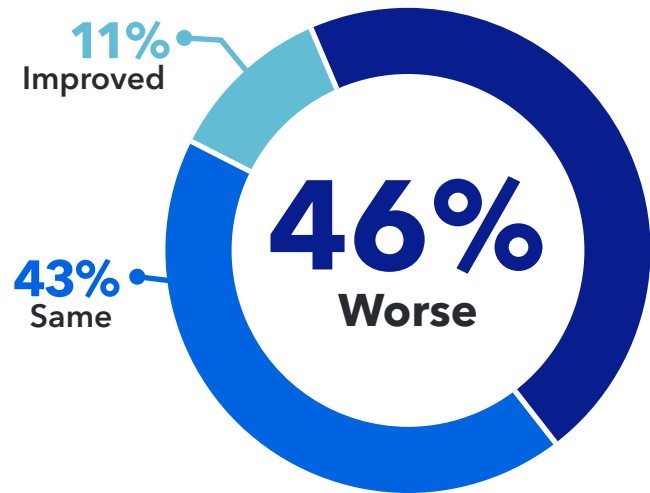


OVERALL ECONOMIC CONDITIONS

Bankers continued to be pessimistic when it comes to economic conditions at their institutions. Just 11% said conditions improved from 12 months earlier, a 14-point decline from a year ago. Looking ahead, more than half (52%) of respondents said economic conditions will decline.

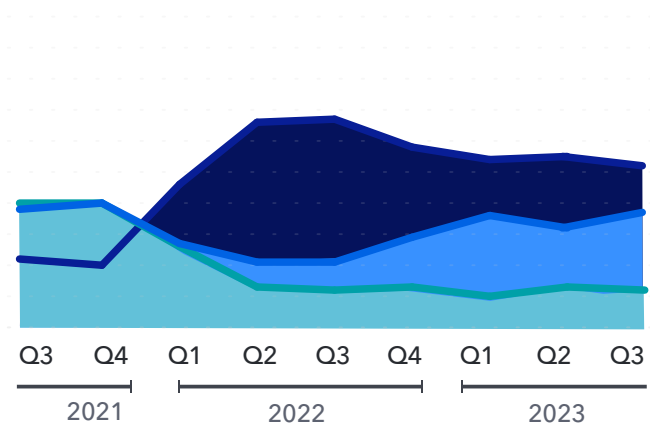
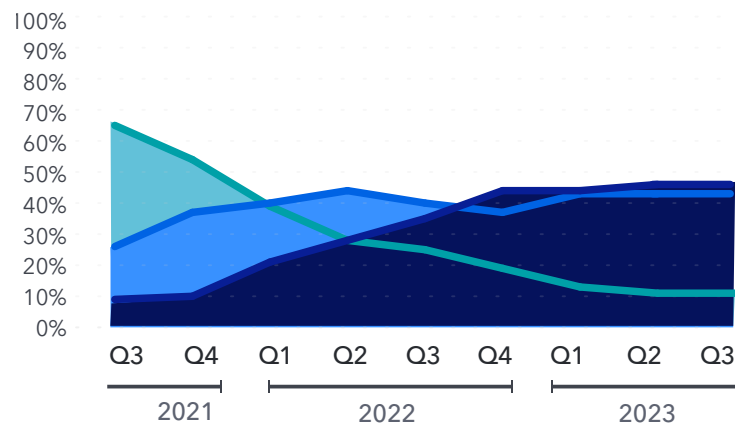
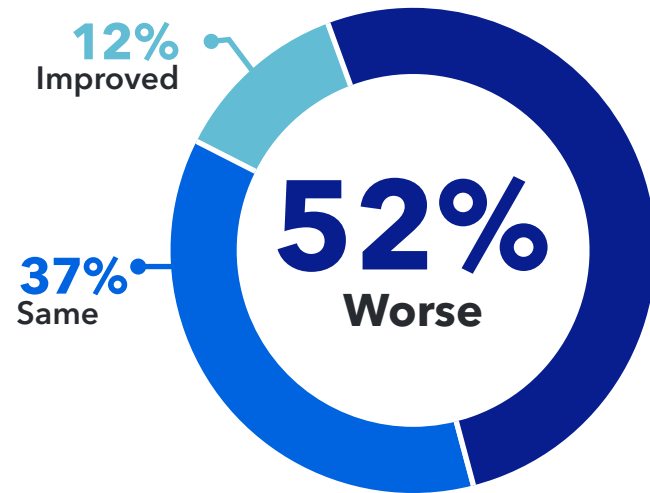
Experience

Compared to 12 Months Prior



Expectation

Looking 12 Months Ahead

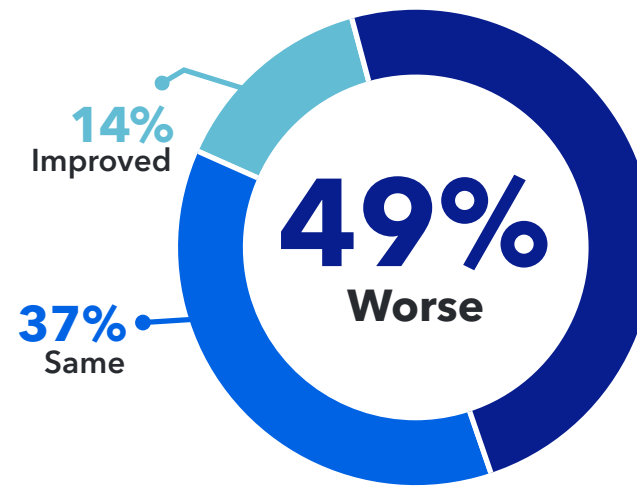


■ Worse ■ Same ■ Improved

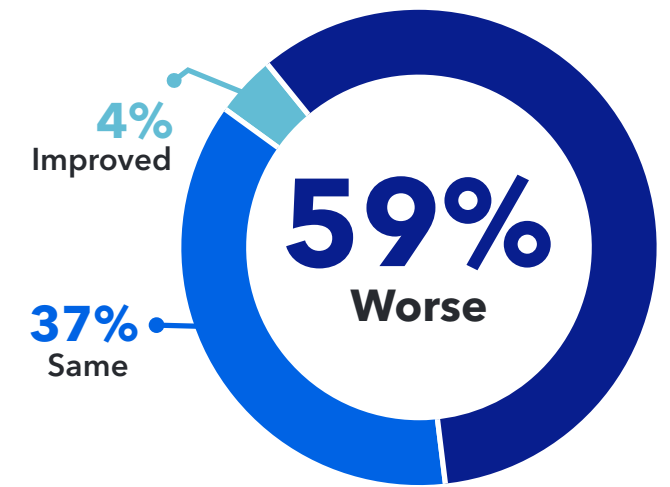
BREAKOUT BY ASSET SIZE

Expectation for overall economic conditions looking 12 months ahead

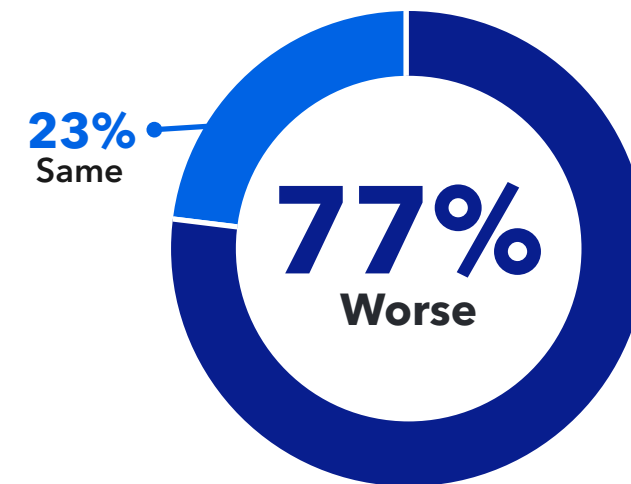
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\$1 - \$10 Billion

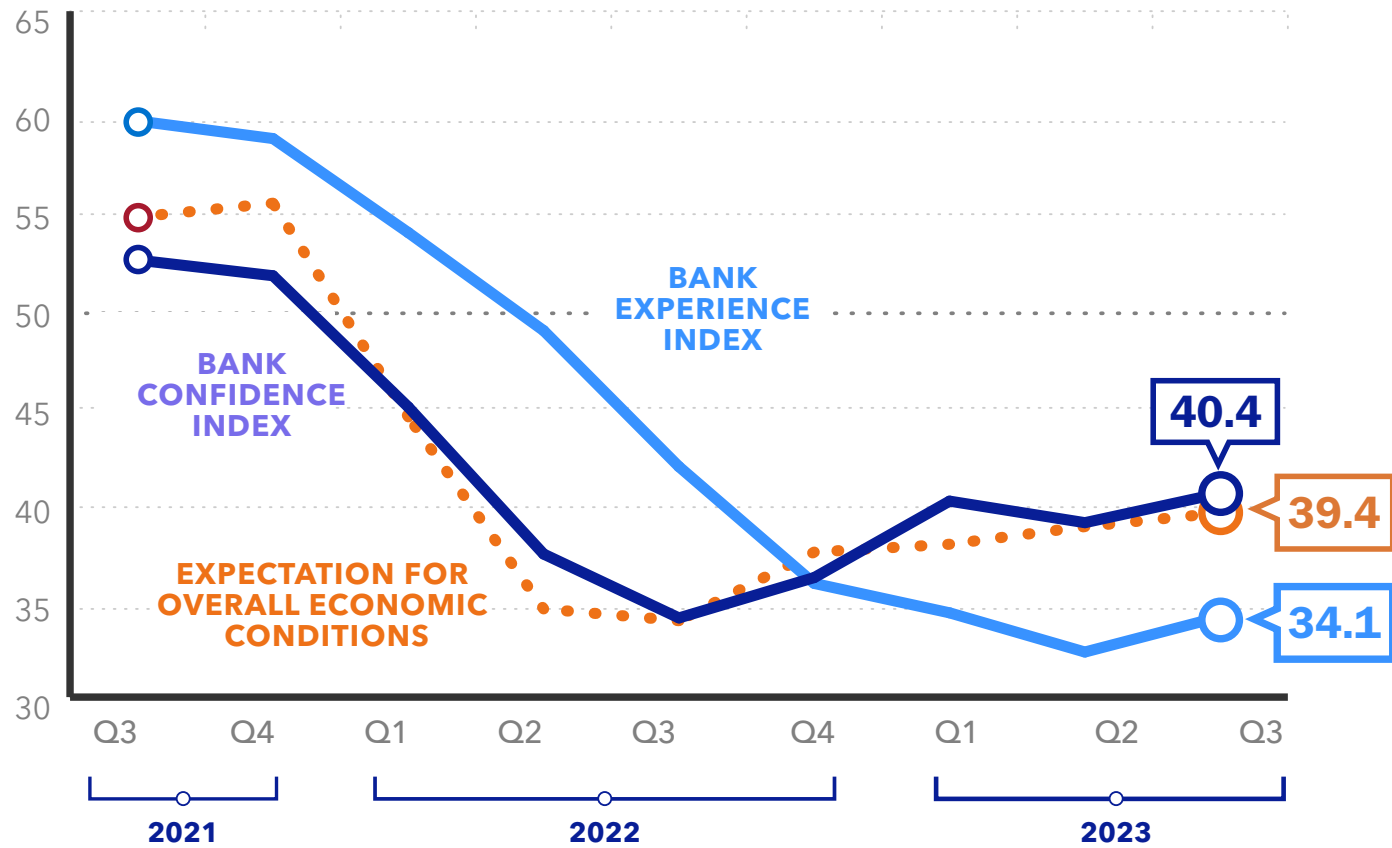


>\$10 Billion



INDICES

IntraFi's proprietary Bank Experience IndexSM increased for the first time since the first quarter of 2021, measuring 34.1. After declining the previous quarter, the Bank Confidence IndexSM crossed back over 40. This represented a 1.5-point increase from last quarter.



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.

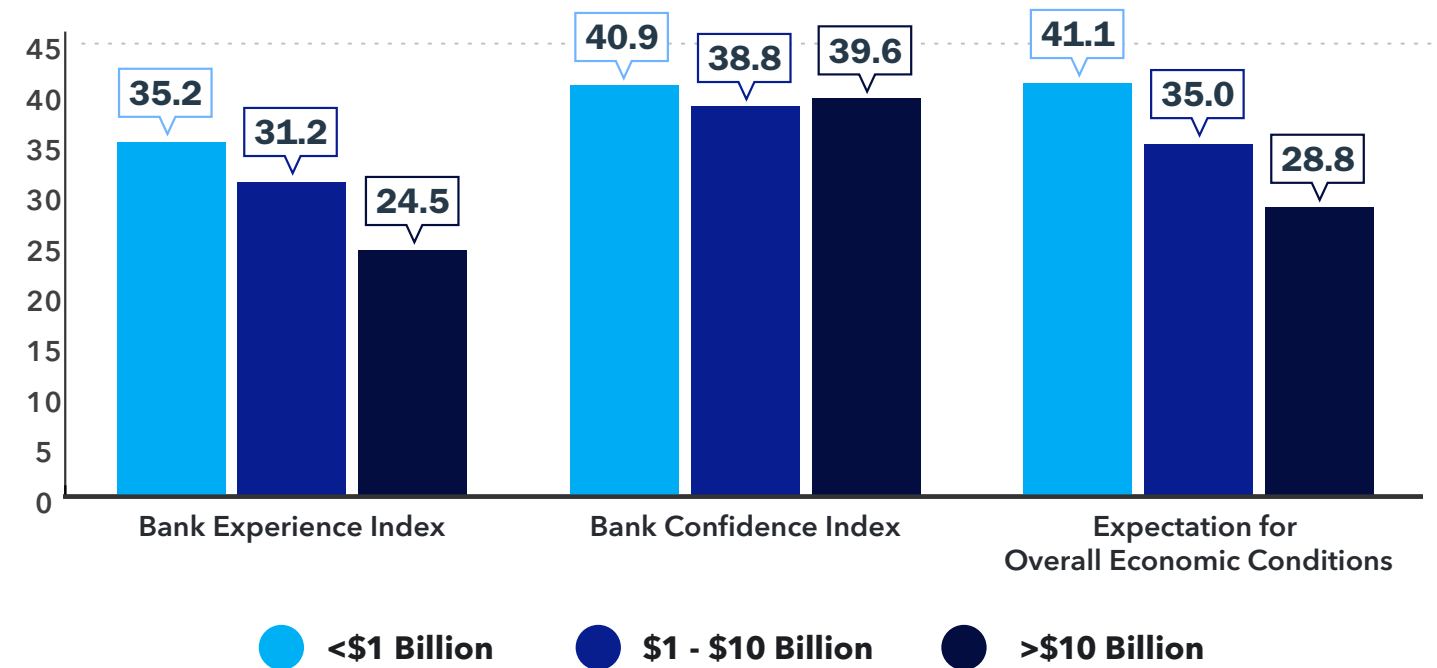
34.1

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

40.4

IntraFi's Bank Confidence Index increased 1.5 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 October 3 to October 15, 2023.

The survey was delivered via email to bank CEOs, presidents, CFOs, and COOs. Leaders from 597 unique banks throughout the United States completed the survey. Of these respondents, 206 were CEOs (35%), 50 were presidents (8%), 289 were CFOs (48%), and 52 were COOs (9%).

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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