IntraFi Network

2022, Q1

Bank Executive Business Outlook Survey

INTRODUCTION

Welcome to IntraFi® Network's Bank Executive Business Outlook Survey for the first quarter of 2022. This quarter's survey gives an overview of the regulatory policy issues bankers find most important and reflects their concerns about the health of the economy over the next year.

Once again, I would like to express our appreciation to those of you who take time out of your busy schedules to complete the Survey every three months. As many of you know, IntraFi Network has sent tens of thousands of dollars in contributions to charitable organizations on behalf of our respondents. Because of your generosity of time, we hope to donate tens of thousands of dollars more in the year to come.

As always, we hope the information provided is insightful. 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 Network

IntraFi Network

EXECUTIVE SUMMARY

Bankers are becoming increasingly concerned about funding, deposit competition, and the state of the economy overall. In IntraFi Network's first quarter survey of 422 bank executives, 46% of respondents predict the economic conditions for banks will worsen over the next 12 months, a significant jump of 32 points from a year earlier.

This rising level of pessimism is clear throughout the survey. A majority of respondents (60%) expect competition for deposits to grow—a 32-point increase since the first quarter of 2021.

The percentage of bank executives who experienced higher funding costs more than tripled from the end of 2021 to the first quarter of 2022. And 82% of bankers predict funding costs will rise over the coming year.

And while bankers were becoming more optimistic about an increase in loan demand in the fourth quarter 2021 report, that changed direction in this latest survey. Less than half of first-quarter 2022 respondents expect loan demand to improve over the next 12 months—a 13-point decline from the previous quarter's outlook.

When asked to rate their focus on a series of industry-related policy issues, the top three issues of most concern to respondents were the Consumer Financial Protection Bureau's (CFPB) crackdown on so-called "junk" fees (42% being very focused on the issue), the CFPB's proposed regulations for small business reporting (41%), and the bill to allow banks to provide basic banking service to cannabis firms (31%).

Conversely, bankers continue to place a low priority on issues relating to cryptocurrency, despite that industry's potential to be a major threat to bank profitability over the next decade.

Bankers are not overly vocal on the need to move Fannie Mae and Freddie Mac out of government conservatorship and back to the private sector. Only a slight majority (56%) believe it is important to end their conservatorship.

The survey also signals concern about the Federal Reserve Board's efforts to address inflation by raising interest rates. At the time the survey was taken, the central bank had raised rates by 25 basis points at its March meeting and was widely expected to make another 50-basis-point increase at its May meeting (which it did).

Only 27% of respondents believe the Fed will guide the economy to a "soft landing" and avoid pushing the economy into recession. On the other hand, 52% said they are worried the central bank will raise rates too high and too fast, causing the economy to contract. Another 21% said they don't believe the Fed will act aggressively enough to get inflation under control.

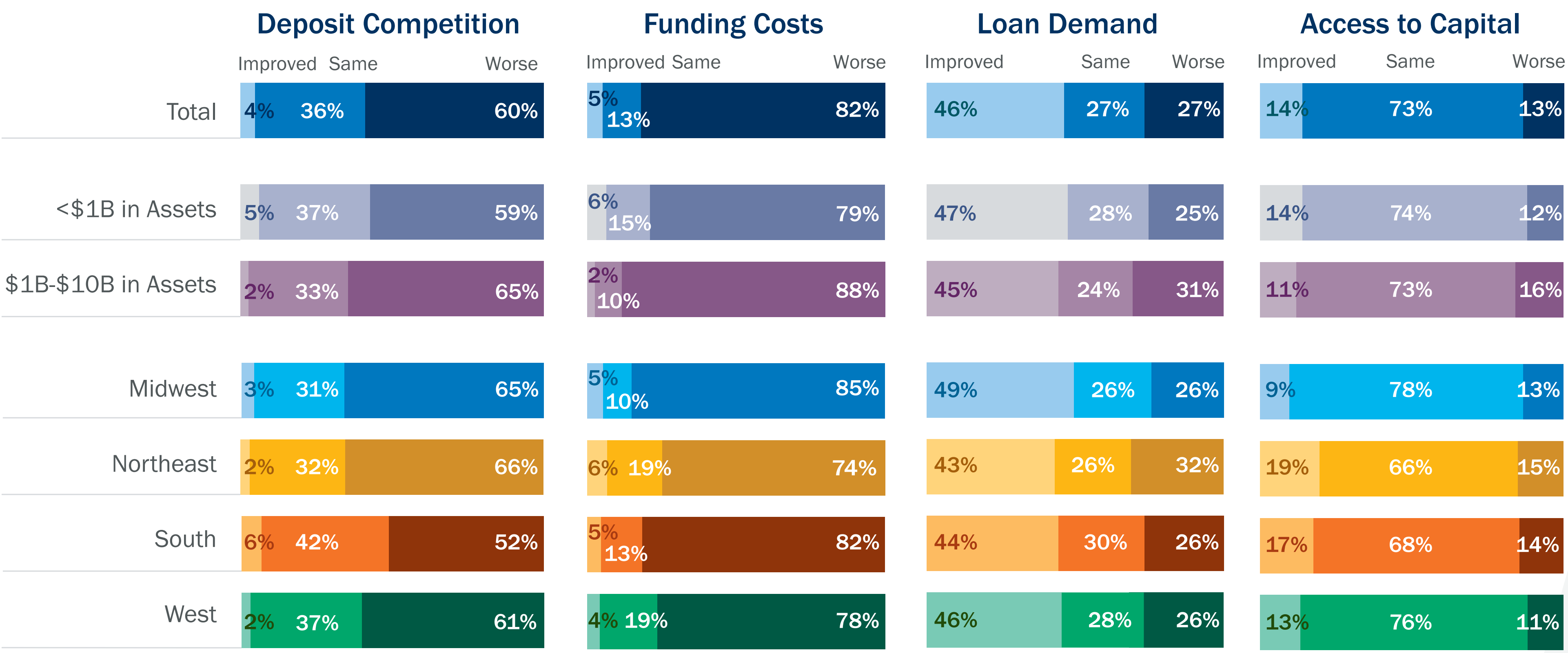
The survey suggests bankers may now be willing to raise rates after the May rate hike. Seventy-two percent of bankers said they would "materially" raise deposit rates once the Fed raised rates by a minimum of 50-75 basis points. Again, this response was gathered prior to the Fed's 50-basis-point hike in early May.

IntraFi's proprietary Bank Experience Index℠ fell almost five points to 53.7. This marks the largest single-quarter decline since the Index was established in 2015. IntraFi's Bank Confidence Index℠ fell almost seven points to 44.8, the first time it has fallen below 50 since the first quarter of 2020.*

* The Bank Experience Index is a composite of reported experience for access to capital, loan demand, funding costs, and deposit competition compared to 12 months prior. The Bank Confidence Index is a composite of expectations for access to capital, loan demand, funding costs, and deposit competition looking 12 months ahead.

TOPLINES

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

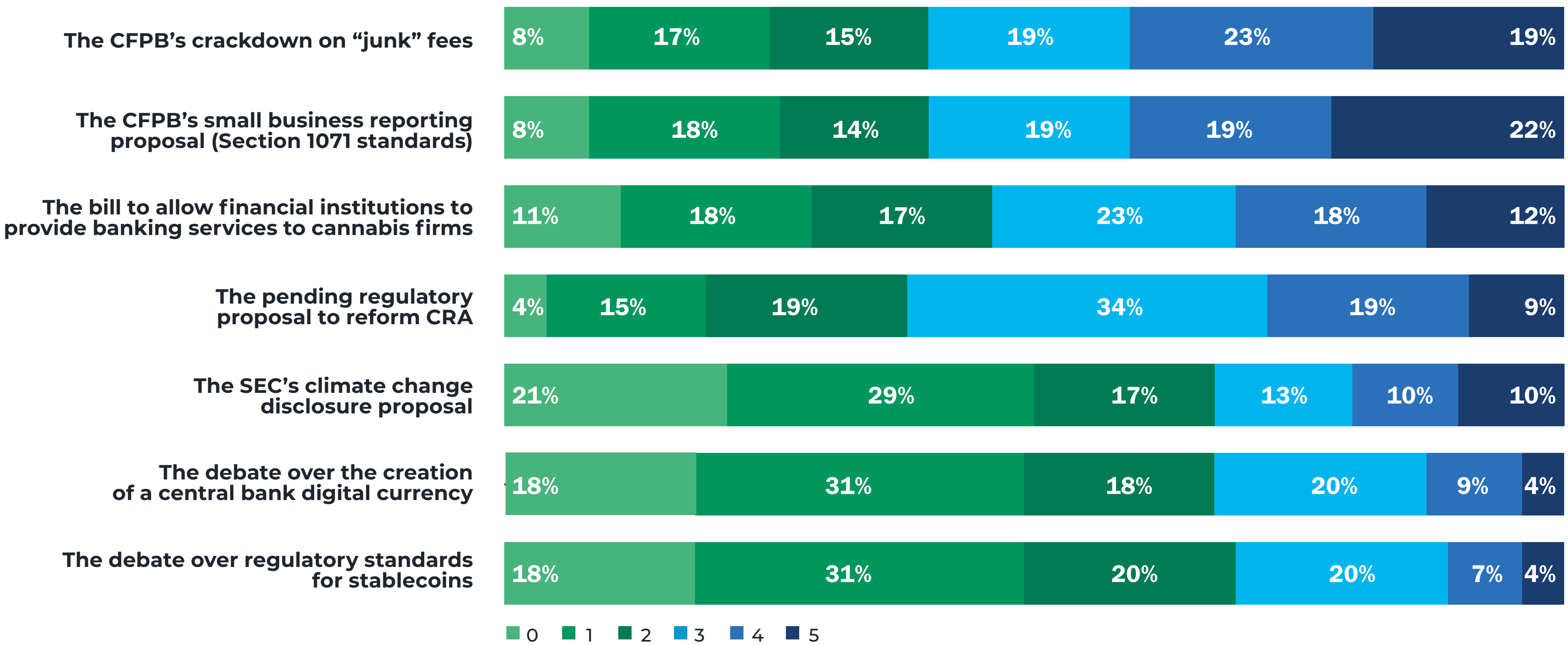


BANKER PERSPECTIVES

Each quarter, we pose a series of questions based on current events and their relevance and impact on the banking sector. This quarter, we asked bankers questions about inflation and its impact on the financial sector, including deposit rates. We also asked about what banking policy issue is most concerning and about the future of Fannie Mae and Freddie Mac.

Bankers are concerned about a wide array of issues. But they place a higher priority on matters of more immediate impact, such as the Consumer Financial Protection Board's (CFPB) crackdown on "junk fees" and reporting standards for small business lending, than on issues like stablecoins and a U.S. digital currency that could fundamentally alter the financial sector over time.

Use the sliding scale attached to each of the following banking policy issues to describe how focused you are on each right now.



A level "zero" (at the far left) being "not focused on this issue at all" and a level "five" (at the far right) being "very focused on this issue right now."

The table below is a breakout of the answers from respondents who reported being "very focused on the issue right now" (those who chose 4-5 on the sliding scale) for each issue.*

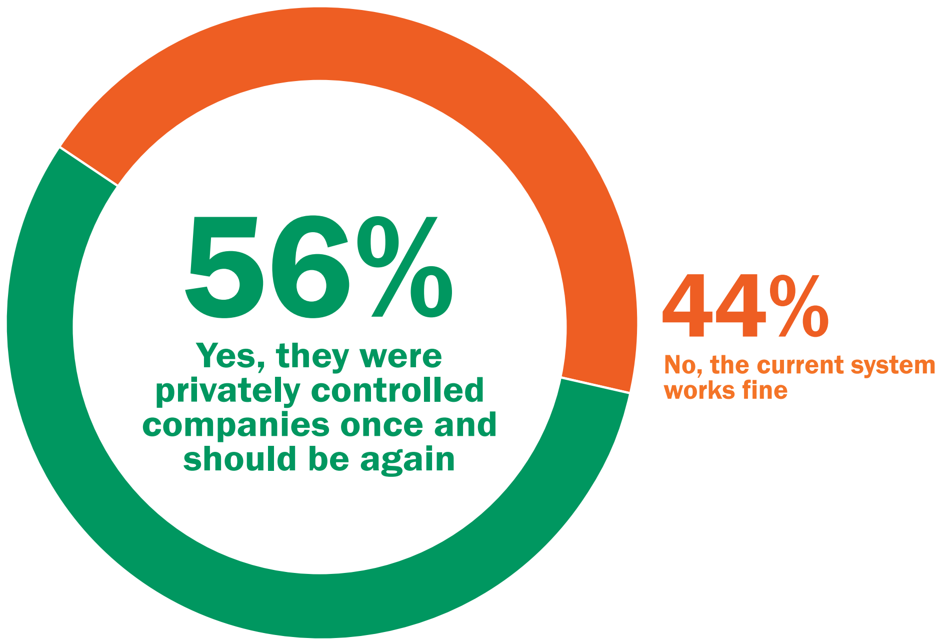
	Total	$1 Billion or less	$1 - 10 Billion	Midwest	Northeast	South	West
The CFPB's crackdown on "junk" fees	**42%**	41%	45%	40%	36%	50%	31%
The CFPB's small business reporting proposal (Section 1071 standards)	**41%**	43%	37%	37%	34%	52%	28%
The bill to allow financial institutions to provide banking services to cannabis firms	**31%**	29%	36%	25%	45%	29%	41%
The pending regulatory proposal to reform CRA	**28%**	26%	31%	25%	30%	29%	32%
The SEC's climate change disclosure proposal	**19%**	17%	26%	17%	26%	23%	11%
The debate over the creation of a central bank digital currency	**13%**	12%	17%	9%	13%	19%	6%
The debate over regulatory standards for stablecoins	**11%**	10%	16%	9%	9%	15%	7%

* Respondents were asked to rate each issue on a scale of 0-5, zero being "not at all focused on right now" and five being "very focused on right now." Each issue was rated independently, rather than ranked, so totals on this chart will not equal 100.

In 2008 (during the financial crisis), the Federal Housing Finance Agency (FHFA) placed Fannie Mae and Freddie Mac into government conservatorship. At the time, it was widely expected that both government-sponsored enterprises (GSEs) would exit conservatorship once their debt to taxpayers had been paid back (which has happened). Yet both Fannie Mae and Freddie Mac remain under government control. While a slight majority of bank respondents (56%) believe it is important for both companies to leave conservatorship, 44% said it is not a priority.

Fannie Mae and Freddie Mac were placed into conservatorship by the government in September 2008.

In your view, do you believe it is important for these companies to exit conservatorship?



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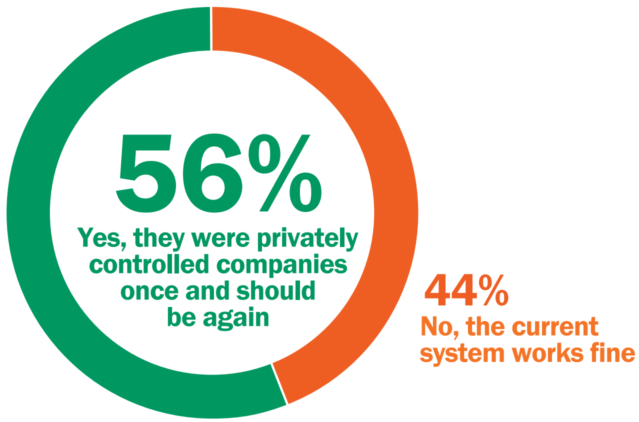
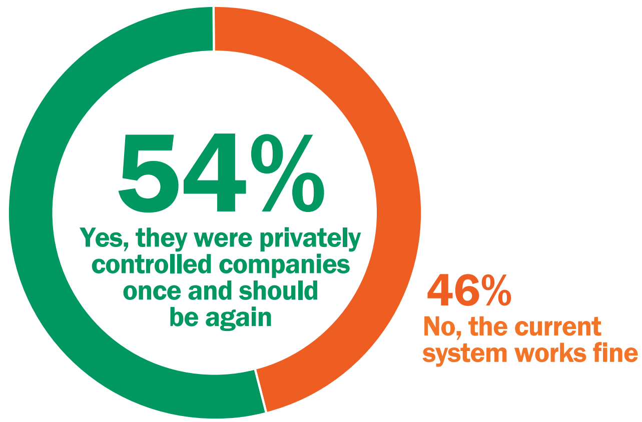
Less Than $1 Billion in Assets



$1 Billion - $10 Billion in Assets



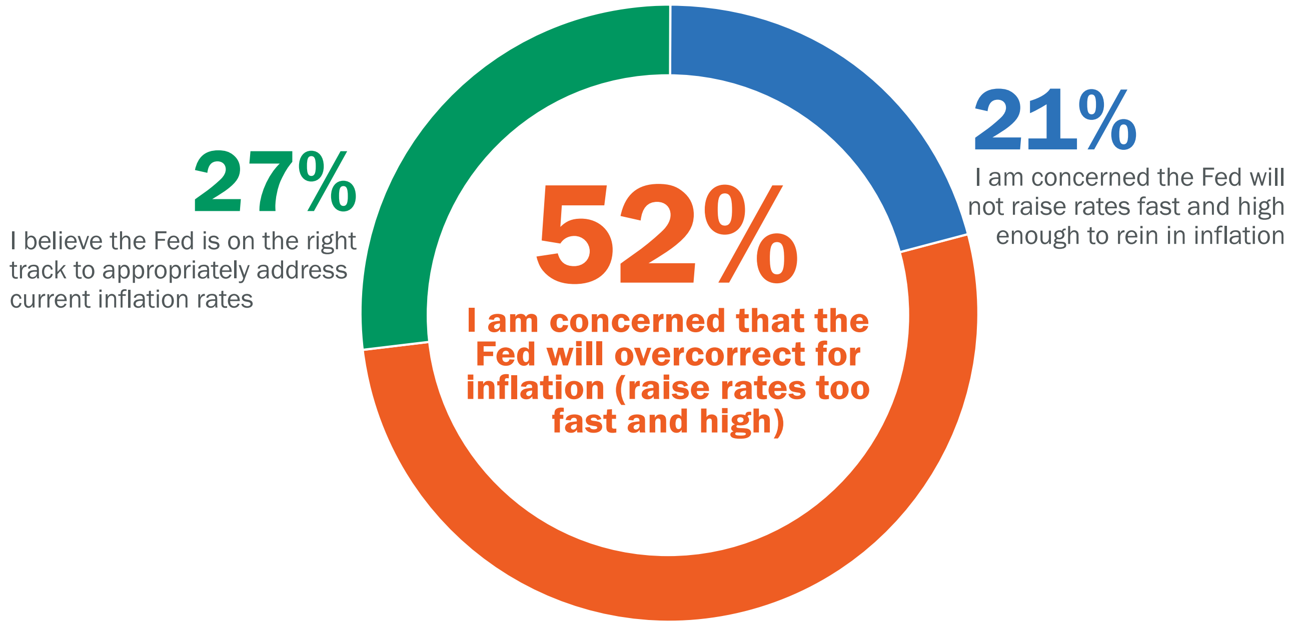
REGIONS BY FEDERAL RESERVE DISTRICTS

Midwest: Chicago, Cleveland, Minneapolis, St. Louis
Northeast: Boston, New York, Philadelphia
South: Atlanta, Dallas, Richmond
West: Kansas City, San Francisco

***Timing note for this topical question:** This survey was fielded in April, so survey respondents answered this question between the Fed's 25-basis-point hike in March and its 50-basis-point hike in May. The respondent views should be read with this information in mind.*

Fed Chairman Jerome Powell said on March 21 that the central bank would move "expeditiously" and possibly "more aggressively" to raise rates depending on economic circumstances.

Of the following statements, which most reflects your view?



[1] https://www.cnn.com/2022/04/21/economy/federal-reserve-jerome-powell/index.html

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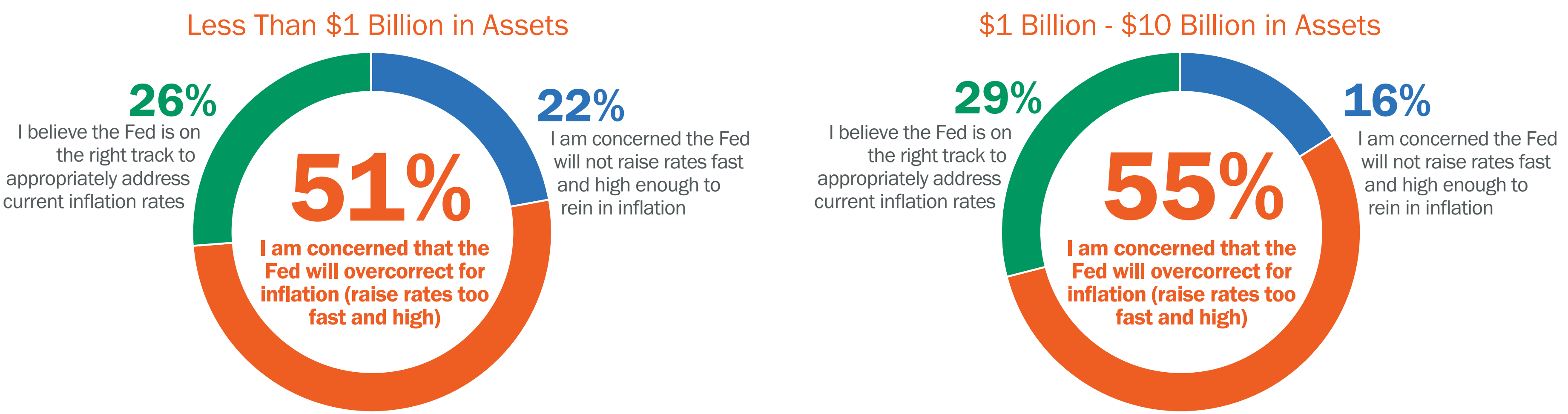

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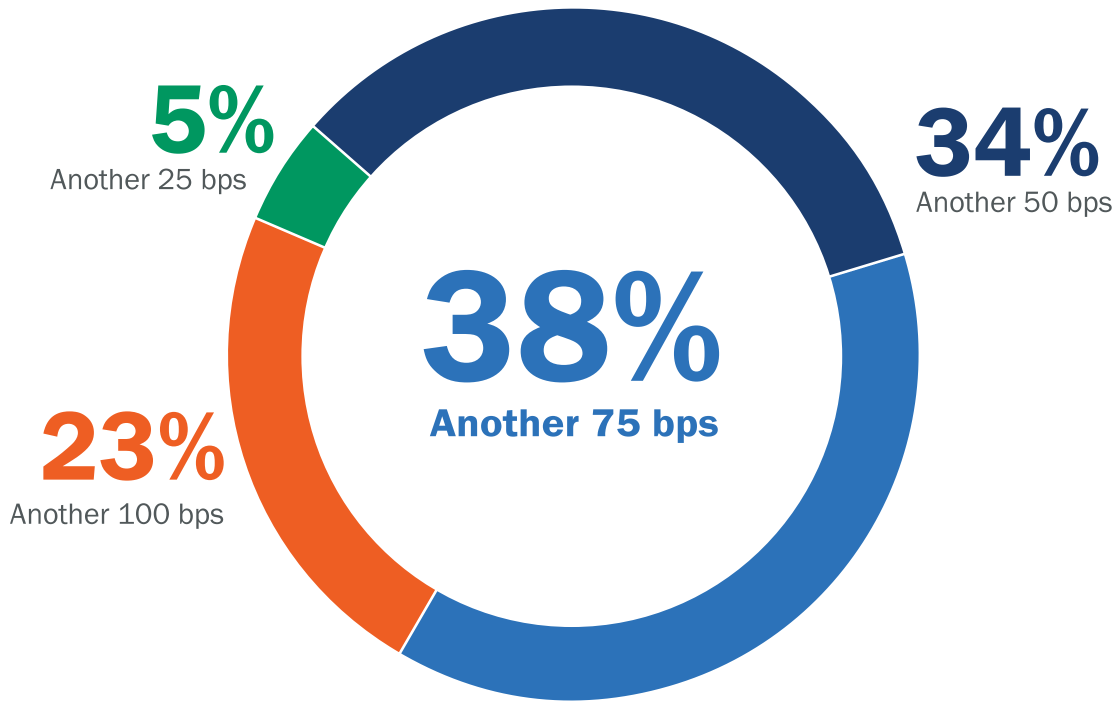
BANKER PERSPECTIVES

Timing note for this topical question: *This survey was fielded in April, so survey respondents answered this question between the Fed's 25-basis-point hike in March and its 50-basis-point hike in May. The respondent views should be read with this information in mind.*

Banks have not had to pay much for deposits in recent years. With the Fed expected to raise rates several times this year, that should change—though the timing is uncertain.

How much does the Fed Funds target rate need to increase before you begin to materially raise your deposit rates?



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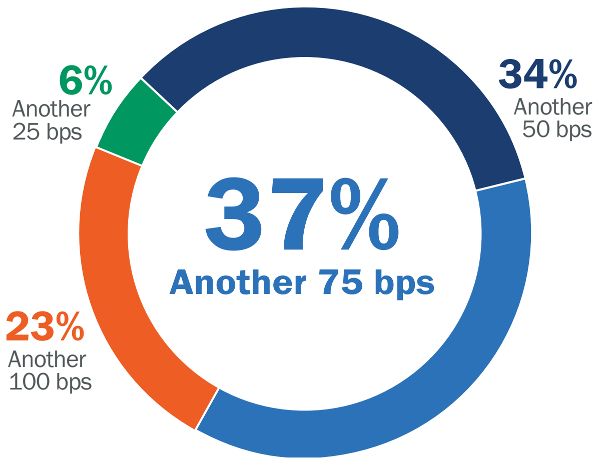
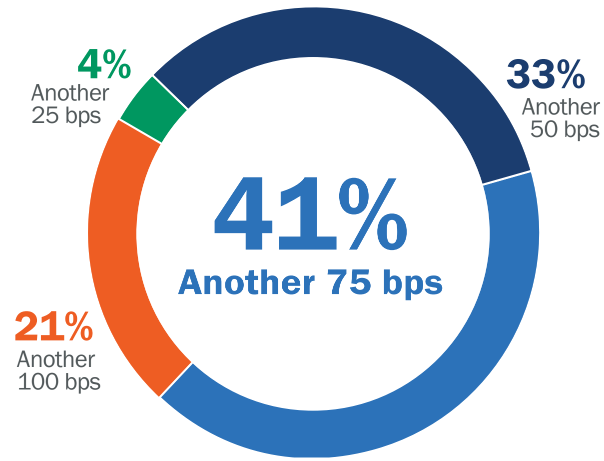
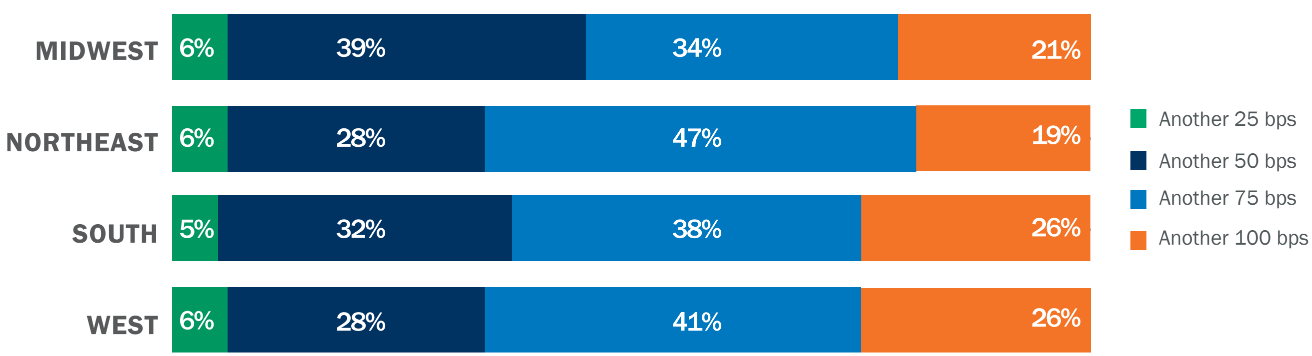
Less Than $1 Billion in Assets



$1 Billion - $10 Billion in Assets





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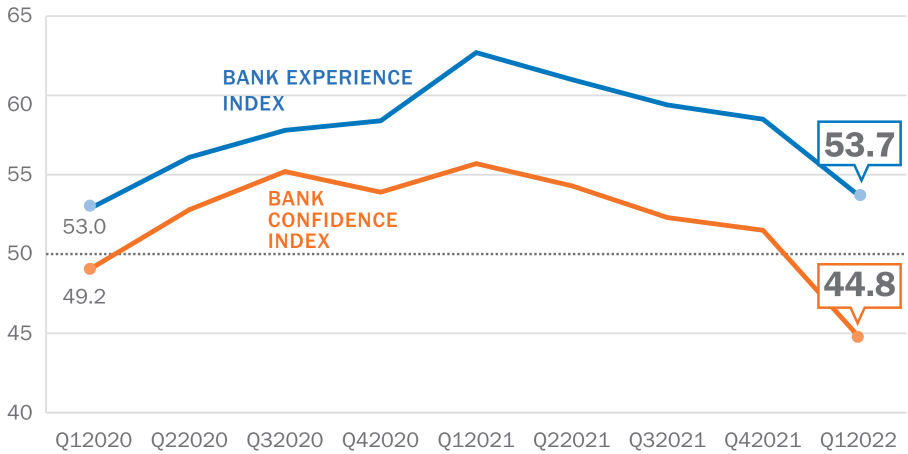
INDICES

The Bank Confidence Index[SM] is meant to quantify bankers' forward-looking expectations for the banking industry for the 12 months ahead, while the Bank Experience Index[SM] is meant to quantify bankers' experiences looking back over the last 12 months. 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, 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.

Bank Confidence Index & Bank Experience Index

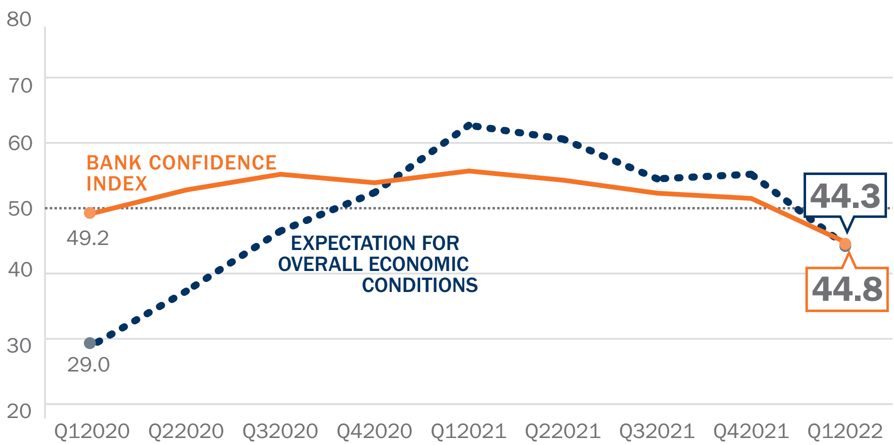


▼ **44.8** Bank Confidence Index
-6.7 over previous quarter
(composite of expectations for core banking conditions looking forward for the next 12 months)

▼ **53.7** Bank Experience Index
-4.8 over previous quarter
(composite of reported experience for core banking conditions looking back over the last 12 months)

▼ **44.3** Expectation for Overall Economic Conditions
-10.9 over previous quarter
(composite of broad expectations for the next 12 months)

Expectation for Overall Economic Conditions



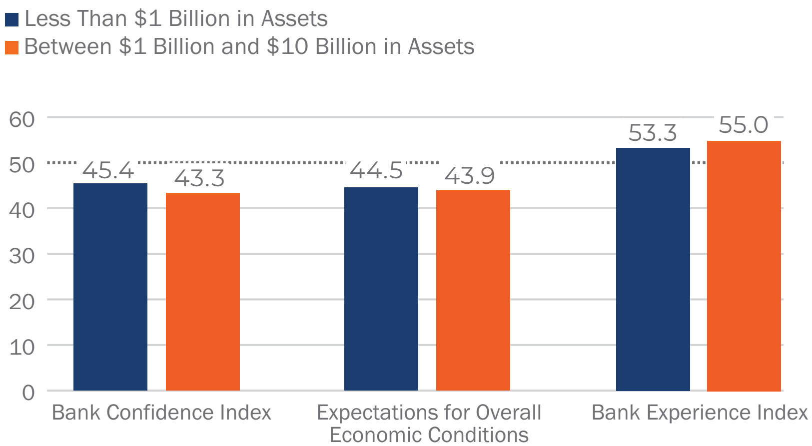
The Bank Confidence Index and Bank Experience Index are proprietary indices of IntraFi Network, calculated using IntraFi Network's proprietary algorithm. Bank Confidence Index and Bank Experience Index are service marks of IntraFi Network LLC.

INDICES - REGIONAL AND ASSET SIZE SEGMENTATIONS

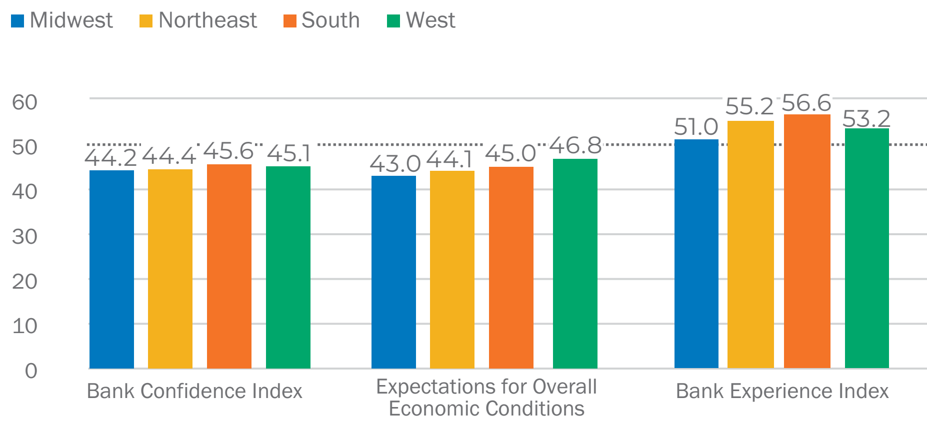
Summary Highlights

IntraFi Network's proprietary Bank Experience Index℠ fell to 53.7, a drop of almost five points (4.8), the largest single-quarter decline since the Index was established in 2015. The drop from the fourth quarter of 2021 to this quarter was even larger (6.7 points) for IntraFi Network's Bank Confidence Index℠ putting the Index below the baseline 50 point mark (44.8) for the first time since the first quarter of 2020. This marks the fourth decline in a row for both indices.

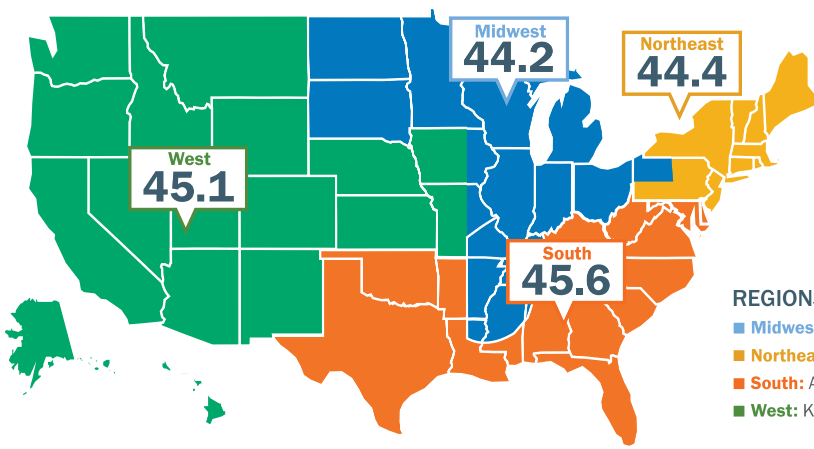
Indices by Asset Size



Indices by Region



Bank Confidence Index



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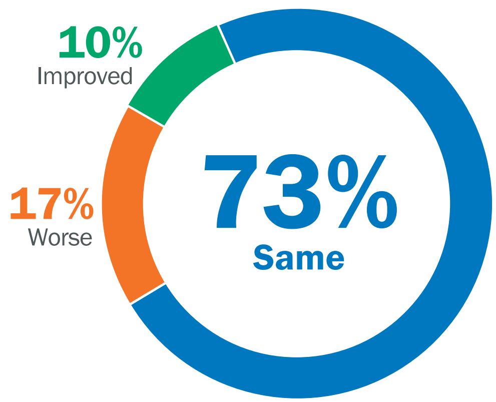
DEPOSIT COMPETITION

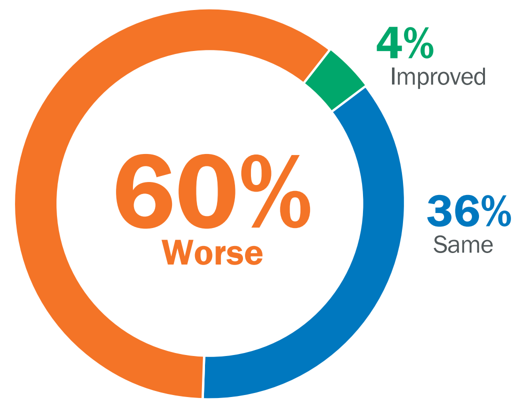
Summary Highlights

An overwhelming majority of bankers (73%) reported deposit competition remained the same over the past 12 months, continuing a shift away from declining competition that accelerated last quarter. Looking ahead, a sizable majority (60%) expect competition for deposits to grow—a 32-point increase since the first quarter of 2021.

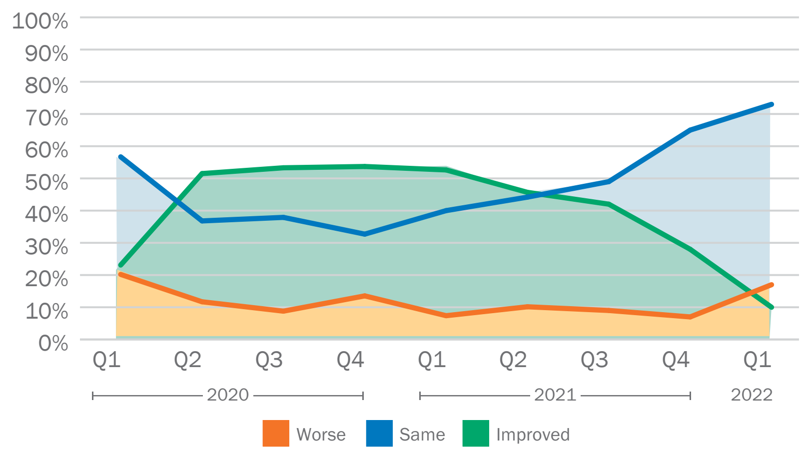
Experience Compared to 12 Months Prior



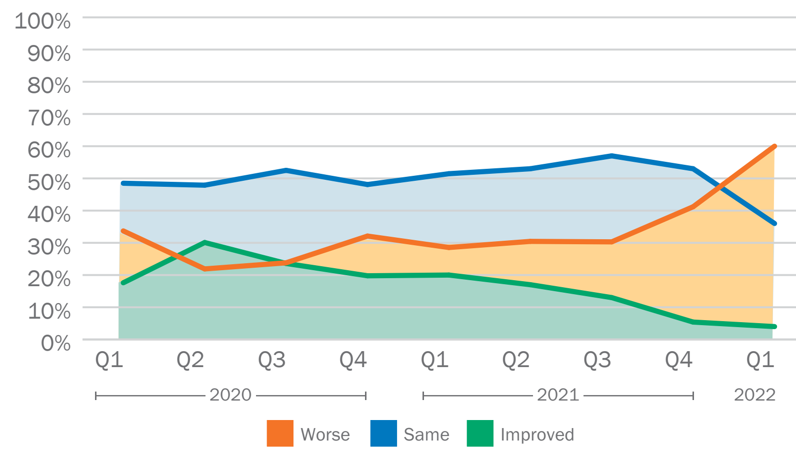
Expectation Looking 12 Months Ahead



Experience Compared to 12 Months Prior



Expectation Looking 12 Months Ahead

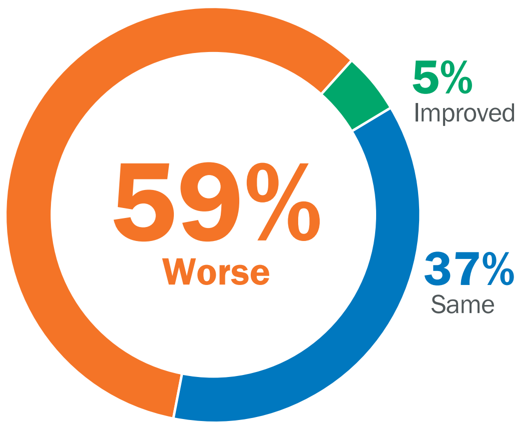


DEPOSIT COMPETITION - KEY SEGMENTATIONS

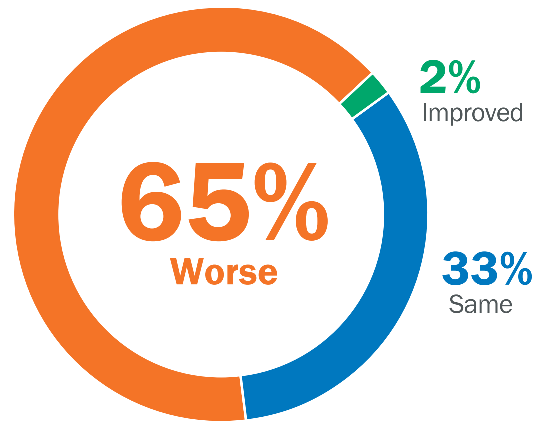
Breakout by Asset Size

Expectation for deposit competition looking 12 months ahead.

Less Than $1 Billion in Assets

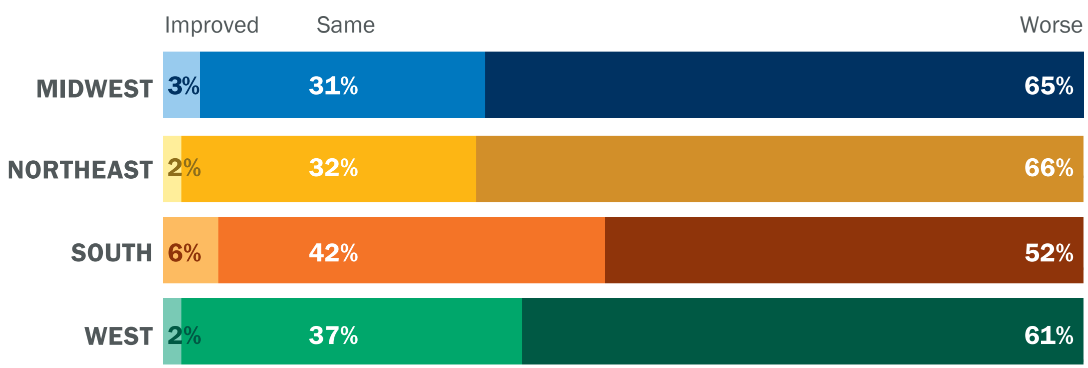


$1 Billion - $10 Billion in Assets



Breakout by Region

Expectation for deposit competition looking 12 months ahead.



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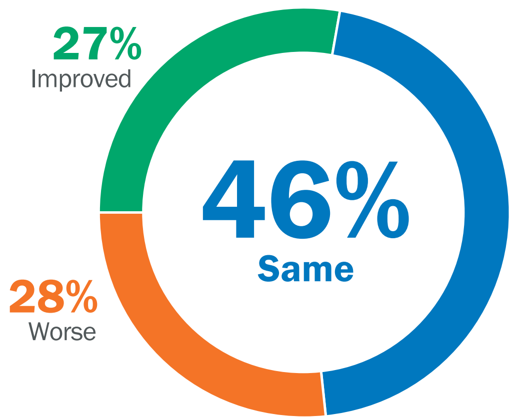
FUNDING COSTS

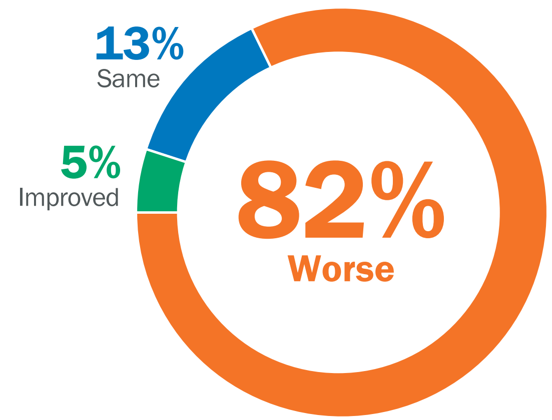
Summary Highlights

The percentage of bank executives who reported higher funding costs (28%) more than tripled from the end of 2021 to the first quarter of 2022. And a sizable majority of bankers (82%) predict funding costs will rise over the coming year.

Experience Compared to 12 Months Prior



Expectation Looking 12 Months Ahead



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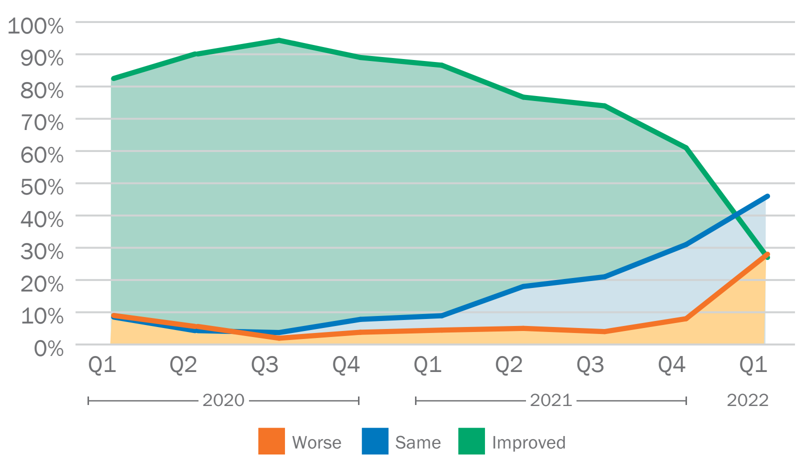
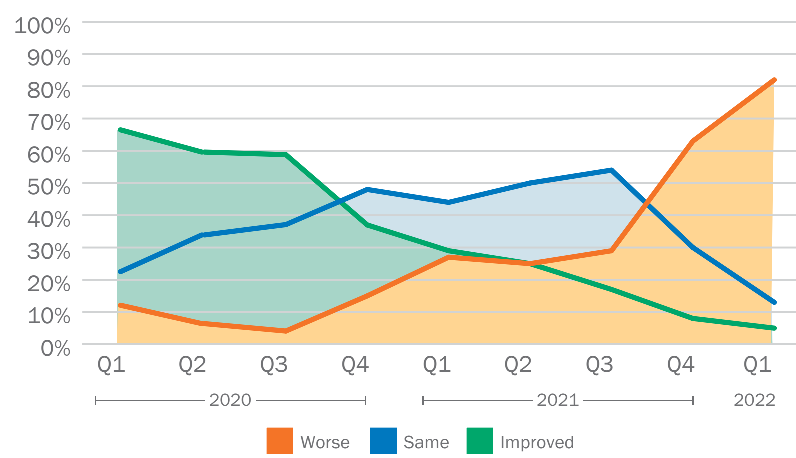


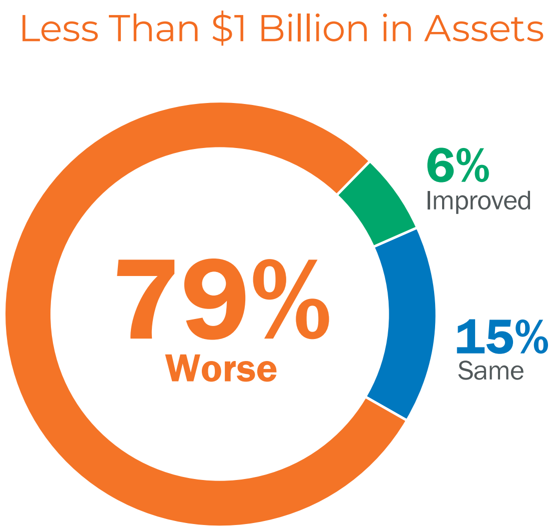
Expectation Looking 12 Months Ahead

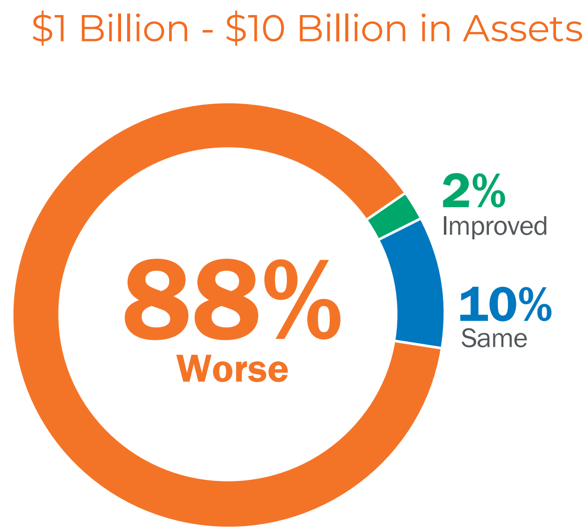


FUNDING COSTS - KEY SEGMENTATIONS

Breakout by Asset Size

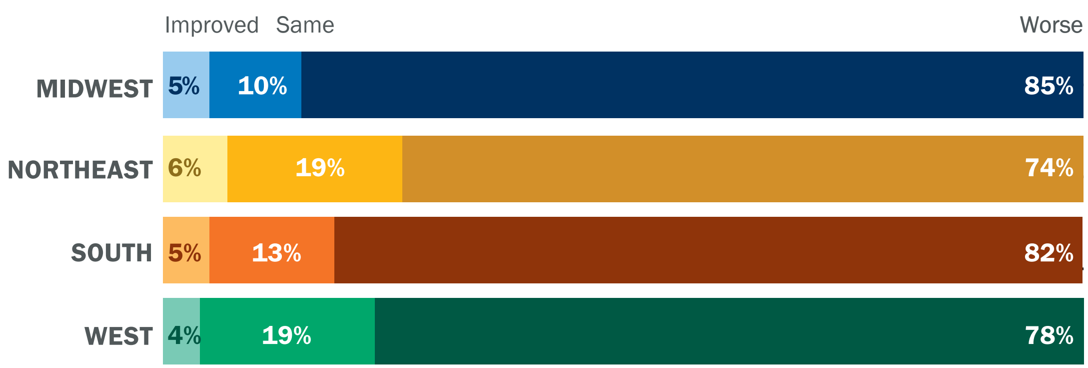
Expectation for funding costs looking 12 months ahead.





Breakout by Region

Expectation for funding costs looking 12 months ahead.



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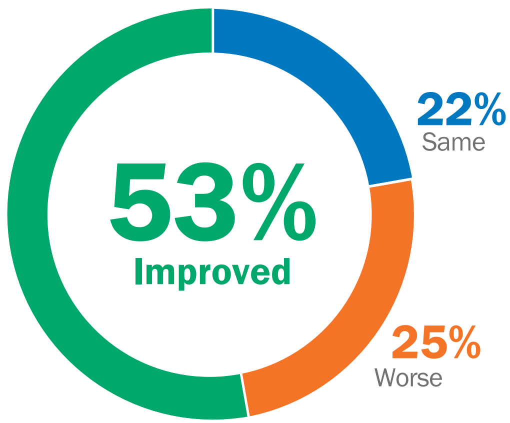
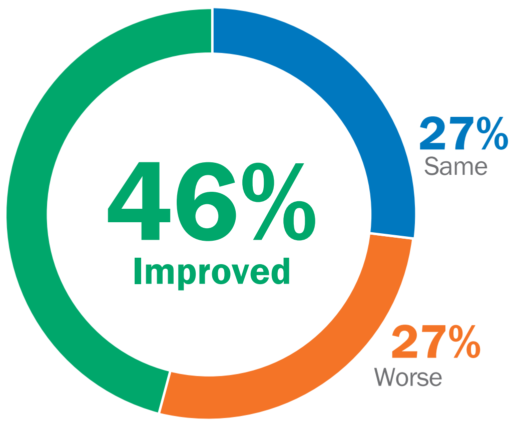
Summary Highlights

Bankers reversed their expectations for loan demand at the start of 2022. A majority of bank respondents noted that loan demand has picked up over the last 12 months, the second increase in a row. But, after rising 11 points from the third to the fourth quarter of 2021, expectations for an increase in loan demand dropped 13 points in this survey.

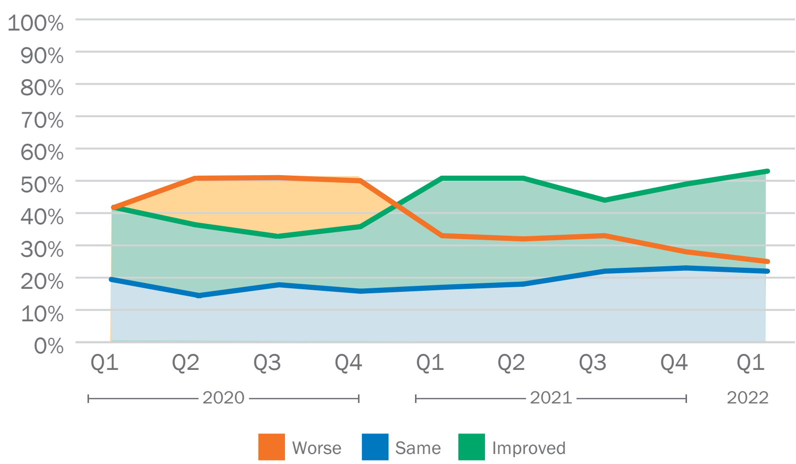
Experience Compared to 12 Months Prior



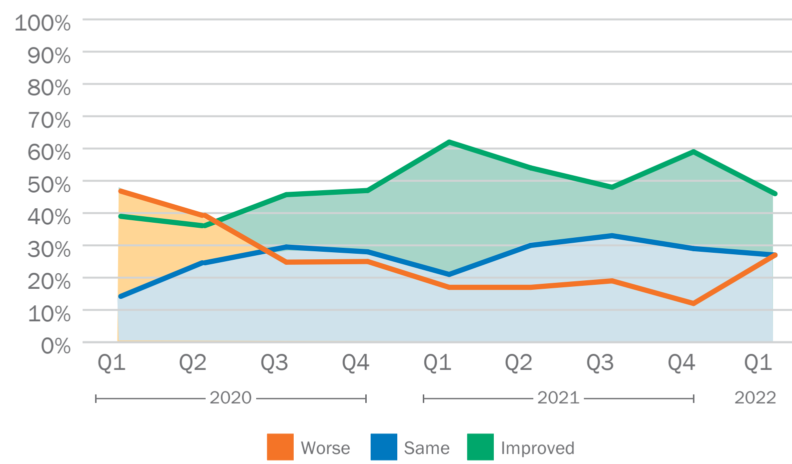
Expectation Looking 12 Months Ahead



Experience Compared to 12 Months Prior



Expectation Looking 12 Months Ahead

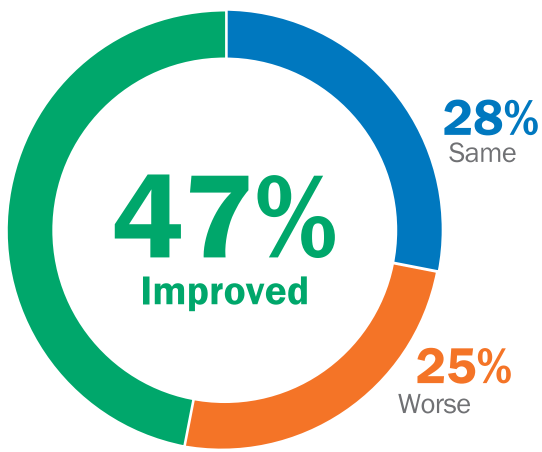


LOAN DEMAND - KEY SEGMENTATIONS

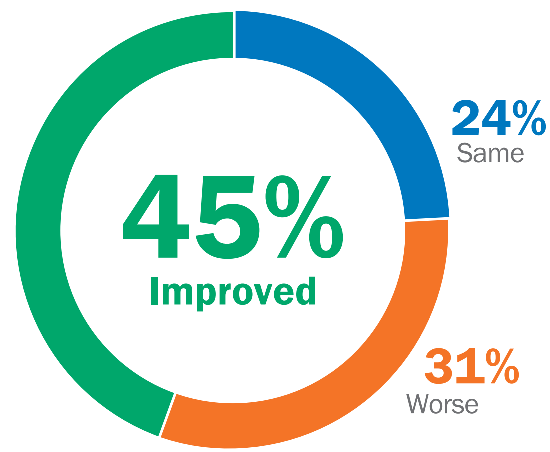
Breakout by Asset Size

Expectation for loan demand looking 12 months ahead.

Less Than $1 Billion in Assets

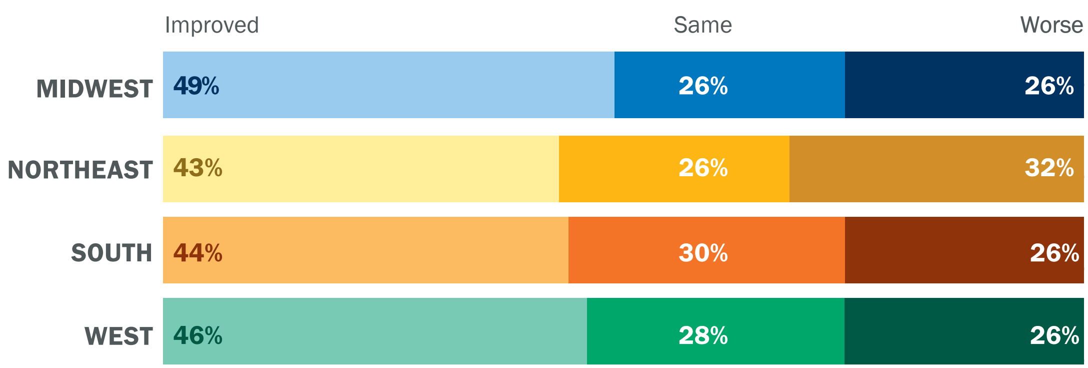


$1 Billion - $10 Billion in Assets



Breakout by Region

Expectation for loan demand looking 12 months ahead.



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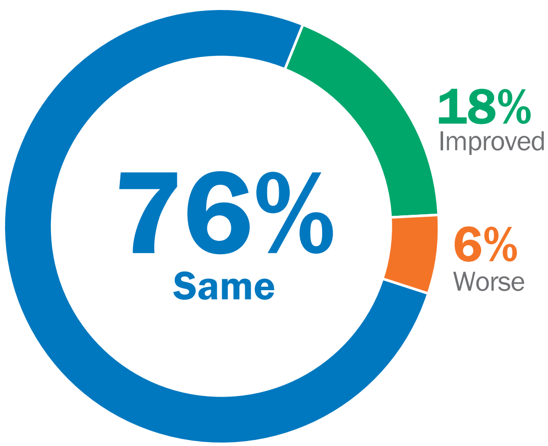
ACCESS TO CAPITAL

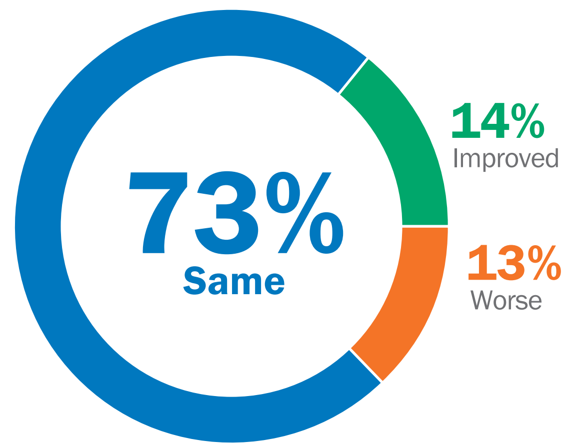
Summary Highlights

Bank access to capital remained relatively stable from the fourth quarter of 2021 to first quarter 2022—with 76% reporting no change from the 12 months prior compared to 73% in the 4th quarter. Expectations for the year ahead look similar with 73% of respondents predicting access to capital will remain the same. This is the eighth straight quarter this number has landed over 70.

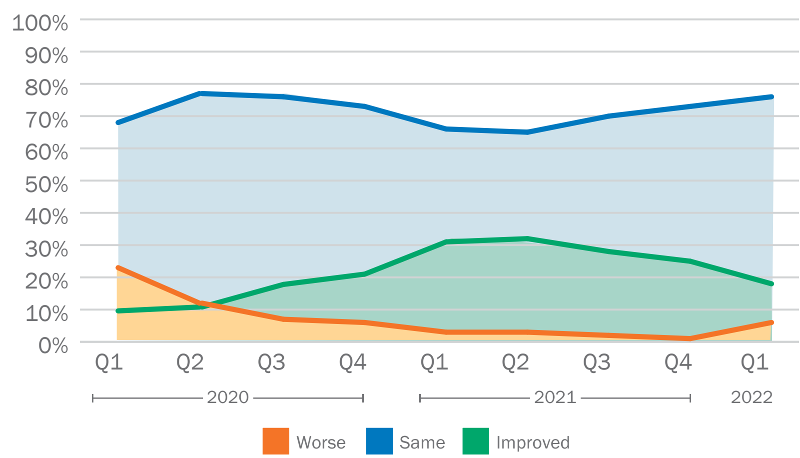
Experience Compared to 12 Months Prior



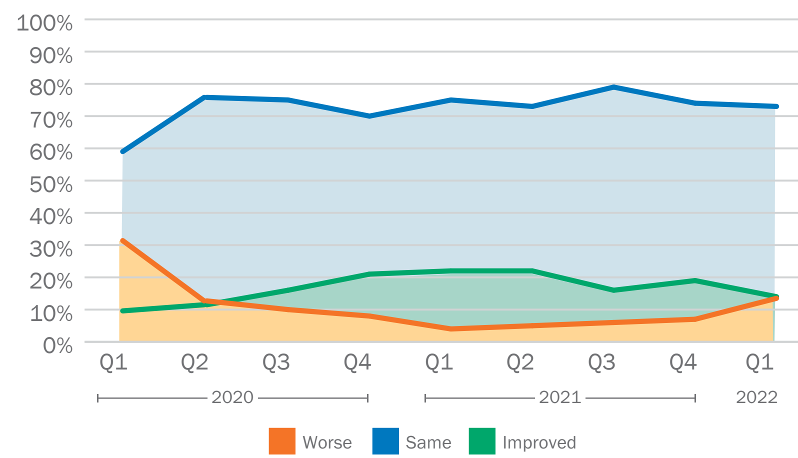
Expectation Looking 12 Months Ahead



Experience Compared to 12 Months Prior



Expectation Looking 12 Months Ahead

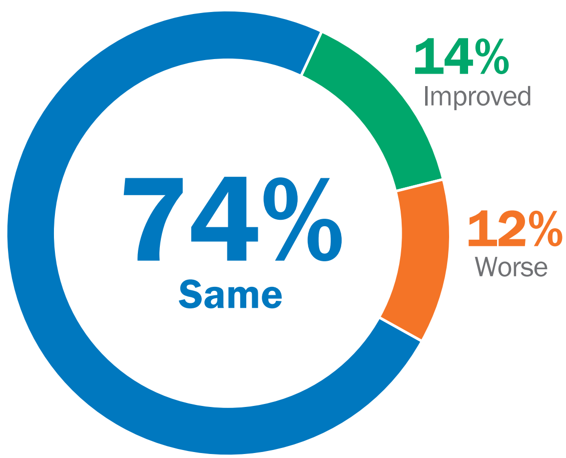


ACCESS TO CAPITAL - KEY SEGMENTATIONS

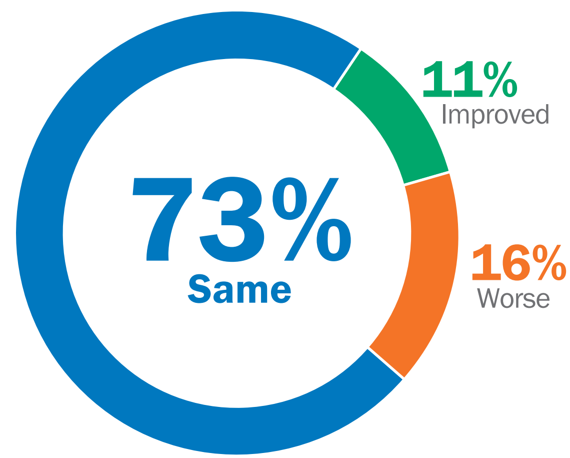
Breakout by Asset Size

Expectation for access to capital looking 12 months ahead.

Less Than $1 Billion in Assets

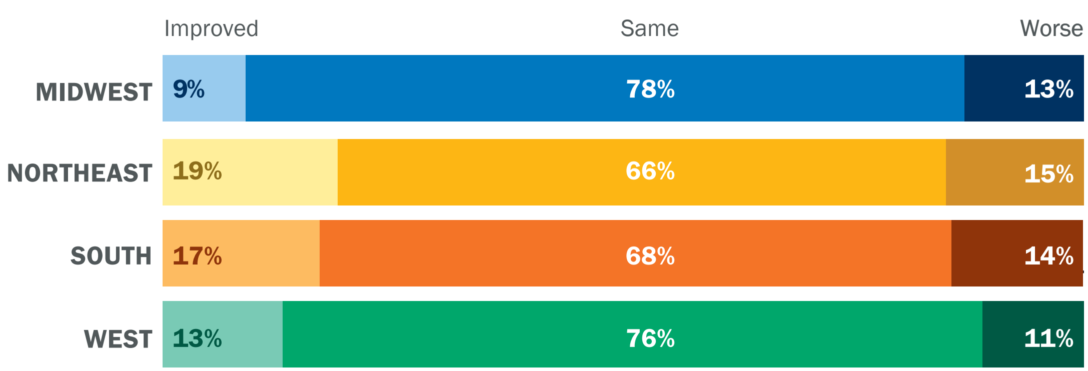


$1 Billion - $10 Billion in Assets



Breakout by Region

Expectation for access to capital looking 12 months ahead.



REGIONS BY FEDERAL RESERVE DISTRICTS

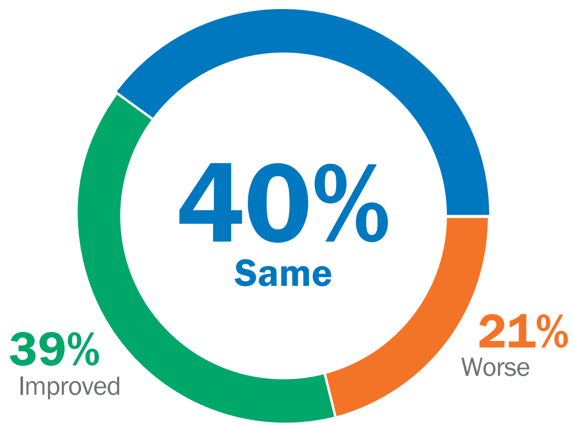
Midwest: Chicago, Cleveland, Minneapolis, St. Louis
Northeast: Boston, New York, Philadelphia
South: Atlanta, Dallas, Richmond
West: Kansas City, San Francisco

OVERALL ECONOMIC CONDITIONS

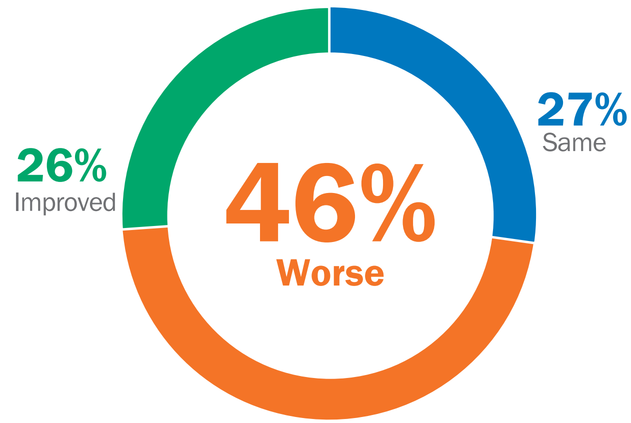
Summary Highlights

Bankers have turned decidedly negative about the state of the U.S. economy and its impact on the financial sector. Only 39% of banks surveyed experienced positive economic conditions over the last 12 months compared to 54% last quarter. This marked the first time this number dropped below 50% since the 4th quarter of 2020. Expectations for the economy in the year ahead also declined significantly—with only 26% of banks forecasting improved conditions (compared to 40% in the 4th quarter of 2021) and 46% predicting worsening conditions (compared to 20% in the prior quarter).

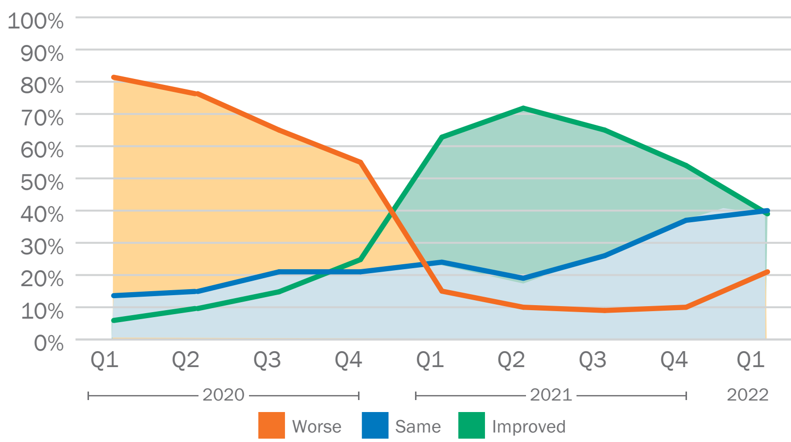
Experience Compared to 12 Months Prior



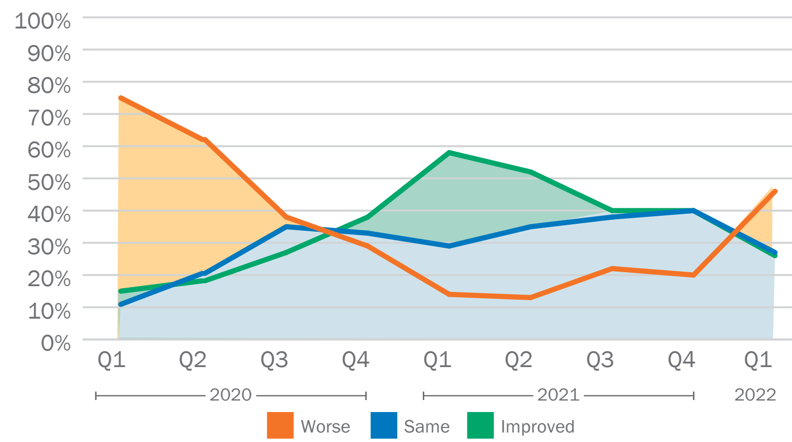
Expectation Looking 12 Months Ahead



Experience Compared to 12 Months Prior



Expectation Looking 12 Months Ahead

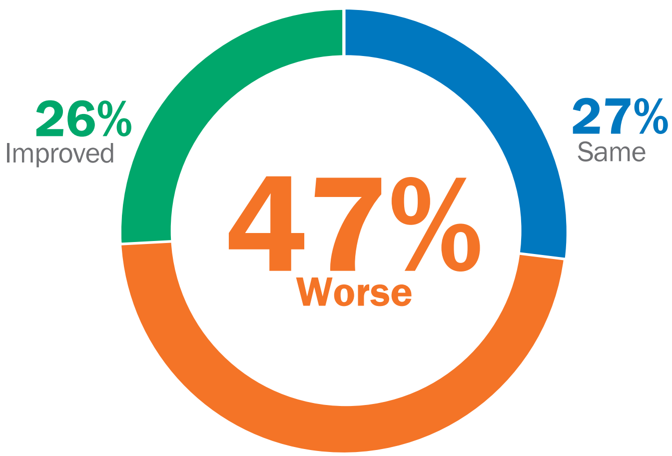


OVERALL ECONOMIC CONDITIONS - KEY SEGMENTATIONS

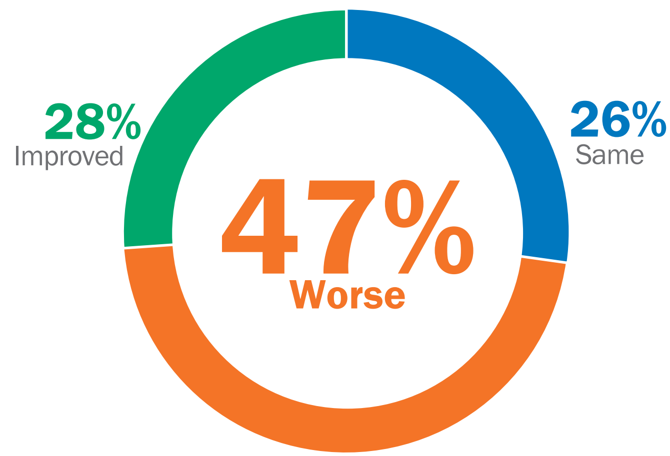
Breakout by Asset Size

Expectation for overall economic conditions looking 12 months ahead.

Less Than $1 Billion in Assets

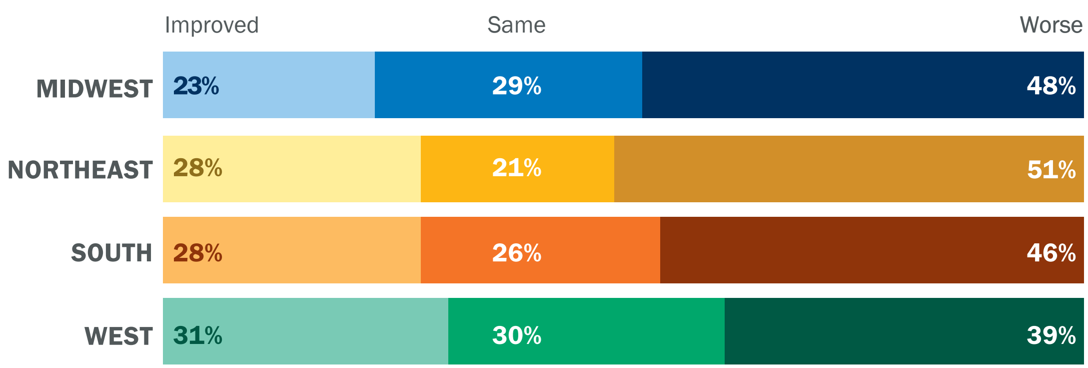


$1 Billion - $10 Billion in Assets



Breakout by Region

Expectation for overall economic conditions looking 12 months ahead.



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METHODOLOGY AND RESPONSE

IntraFi Network's Bank Executive Business Outlook Survey was conducted online over the course of two weeks from April 4 to April 17, 2022.

The survey was delivered via email to bank CEOs, presidents, and CFOs. Leaders from 422 unique banks throughout the United States completed the survey. Of these respondents, 155 were CEOs (37%), 54 were presidents (13%), and 213 were CFOs (50%).

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

ABOUT THE COMPANY

IntraFi® Network℠ is the inventor of reciprocal deposits and the #1 provider of FDIC-insured deposit services. It offers dynamic, all-weather balance sheet and liquidity management solutions to help financial institutions grow franchise value; acquire high-value, local relationships; purchase funding; reduce collateralization costs; and more. Chosen by thousands of banks since its founding nearly two decades ago, the company has assembled the largest bank network of its kind.

IntraFi Network's products include IntraFi Network Deposits℠ (formerly ICS®, CDARS®, and IND® deposit solutions), IntraFi Funding℠ (formerly ICS, CDARS, Insured Overnight Funding®, and IND funding solutions), and IntraFi Repo℠.

For more information about this survey, IntraFi Network, 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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