Why Banks Need to Prepare Now for Greater Costs, Revenues

2021, Q4

BANK EXECUTIVE BUSINESS OUTLOOK SURVEY

The Federal Reserve is winding down its tapering program and eyeing faster rate hikes to curb inflation.

For banks, higher rates mean more revenue potential, but they also mean higher costs. Given this, it’s no surprise that our most recent quarterly survey showed that 63% of bank executives expect funding costs to increase over the next 12 months (a 34-point jump from Q3), and 42% expect competition for deposits to increase (an 11-point jump from Q3).

This anticipated pressure on funding follows a two-year period in which banks have been completely saturated with liquidity.

Meanwhile, 59% of executives anticipate loan demand to increase in 2022 (an 11-point jump from Q3), and 80% expect economic conditions to improve or remain the same.

With the costs of funding soon to rise and the business environment showing signs of improvement, now is the time to begin preparing for the future. Below are two suggestions.

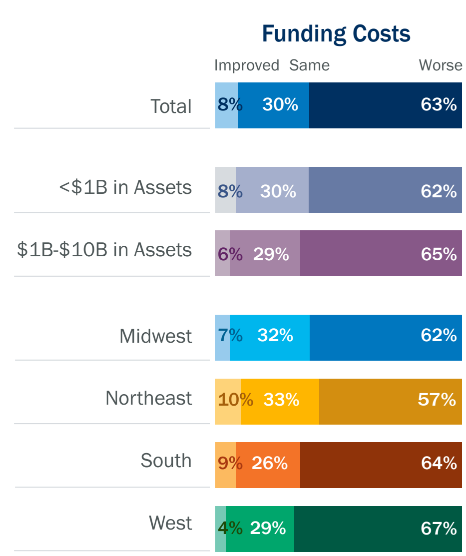
1. Lock in Cheap Funding While You Can

While interest rates in general are expected to rise, the same expectations don’t extend to deposit rates. Recently, both *The Wall Street Journal* and *The New York Times* published stories explaining that, due to excess liquidity, banks won’t be raising rates anytime soon.

Therein lies a tremendous opportunity. By lowering deposit costs and lagging rate increases, banks have the potential to generate more revenues than they have generated in a while. Even if customers leave in search of higher yields, any runoff could be supplemented with wholesale funding—which is currently cheap but may not be for long.

Just imagine if your costs were slightly less—or even the same—as they are now, and rates increased by 50 basis points (for example).

Topline overview of banker expectations for the 12 months ahead, broken out by asset size and region.



2. Increase Your Attractiveness to Customers

With competition for deposits expected to increase, bankers should be thinking of ways to make their services more enticing to prospective customers.

For instance, reciprocal deposits enable banks to offer depositors access to FDIC insurance in amounts greater than $250,000—security that can otherwise be costly or cumbersome to obtain—through a single financial relationship.

Protecting large deposits can give depositors more confidence to bank with local institutions. This helps drive economic growth in communities throughout the U.S.

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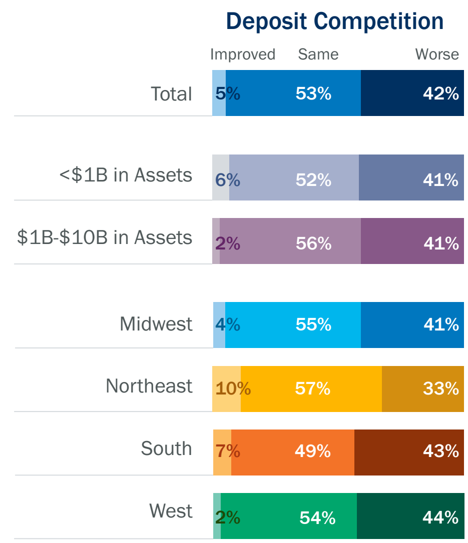

About IntraFi® Network℠

IntraFi Network is a leading provider of overnight and term funding solutions, the #1 provider of FDIC-insured deposit solutions to U.S. financial institutions, and one of the nation's best places to work. The company's network of nearly 3,000 banks—the largest of its kind—brings scale, stability, and the confidence of working with a category leader. Its members include most of the nation's community banks, minority depository institutions, and community development financial institutions.

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