DATA DISPATCH

US banks' funding costs flatline in Q2, ending run of steep declines

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By Harry Terris and Hussain Shah
Market Intelligence

US banks' cost of funds flattened out in the second quarter, ending a trend of steep declines following Federal Reserve rate cuts in 2024.

The cost of savings accounts across the industry ticked up 5 basis points sequentially to 1.81% while the overall cost of funds held steady at 2.28%, according to data from S&P Global Market Intelligence. Deposit levels continued to grow during the period, driven by transaction balances.

During earnings conference calls some banks said deposit competition was heating up, with relatively robust lending creating demand for funding. Others highlighted that maturing time deposits will continue to deliver a source of funding cost relief.

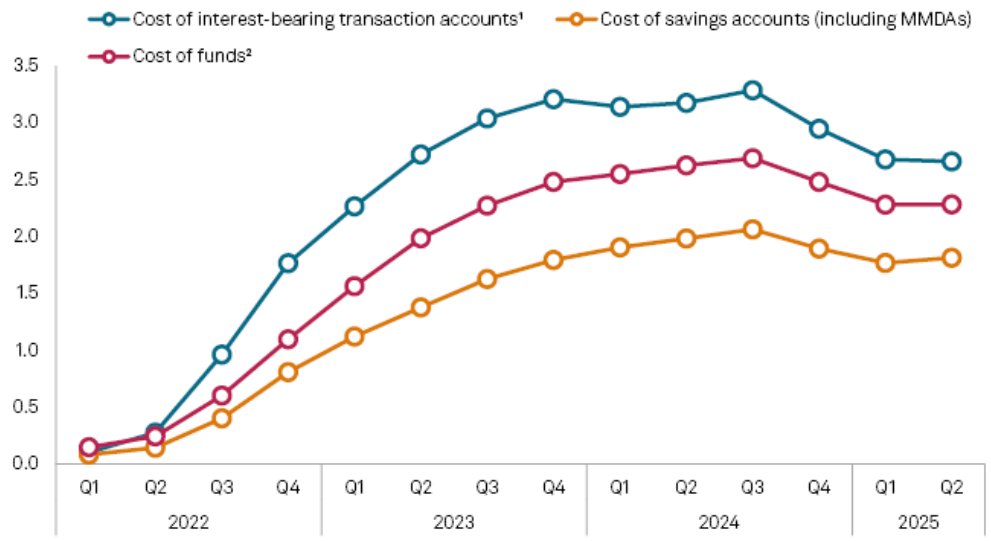
Broadly, expectations for further substantial declines in funding costs center on the outlook for additional Fed cuts, while customer rotation into higher-yielding deposits has largely subsided.

The deposit market is "rationally competitive," Truist Financial Corp. CFO Michael Maguire said during an earnings call. The bank reported that its average deposits increased $8.28 billion, or 2.1% sequentially, and that its total cost of deposits rose 6 basis points sequentially to 1.85%, including the impact of about $10.9 billion of high-rate, short-term, M&A-related client deposits that were withdrawn in July.

Maguire said the bank expects deposit costs to decrease in the third quarter after the exit of the unusual deposits and with the help of an anticipated Fed cut late in the period, in September.

"We think we might have some ability to get a touch ahead of that," Maguire said. "Then in the fourth quarter, we would expect continued momentum. If we get that second cut in the fourth quarter, maybe you start to see a little bit better rotation into some of the checking products, continued momentum on the production side in consumer and in wholesale."

Funding costs at US banks (%)



Data compiled Aug. 8, 2025.
MMDA = money market deposit account.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking charter are excluded.
[1] Interest-bearing transaction accounts include negotiable order of withdrawal accounts and demand deposit accounts.
[2] Cost of funds is the total interest expense as a percentage of average interest-bearing liabilities and average noninterest-bearing deposits.
Data based on regulatory filings.
Excludes foreign deposits.
Source: S&P Global Market Intelligence.
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Deposit competition

The cost of interest-bearing transaction accounts declined 2 basis points sequentially to 2.66%, far less than the decline of 27 basis points in the first quarter and 34 basis points in the fourth quarter of 2024.

Competition for deposits is more intense than it has been "in a long time," Jared Wolff, chairman, president and CEO at Banc of California Inc., said during an earnings call. "Part of it is that there's less liquidity and a lot of demand for loans."

Banc of California, which focuses on commercial clients, reported that the average cost of interest checking deposits increased 9 basis points sequentially to 2.73%. Its average cost of total deposits increased 1 basis point sequentially to 2.13%.

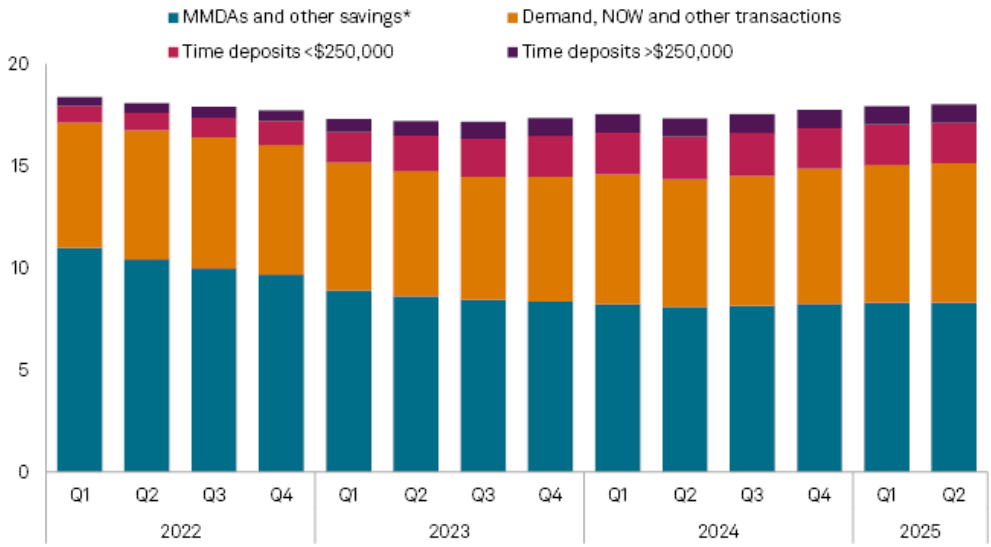
"We think the kind of heat around deposits is going to slow down when rates come down," Wolff said. "If they come down, although we don't have it in our forecast."

Competition for commercial deposits has picked up, KeyCorp CFO Clark Khayat said during an earnings call. Meanwhile, it has been a "mixed bag" on the consumer side, with some banks offering high teaser rates while some large banks have moved rates down for new deposits, according to the executive.

KeyCorp reported that its cost of deposits declined 7 basis points sequentially to 1.99% and that its average deposits declined 0.7% to $147.45 billion. Executives said that a low loan-to-deposit ratio allowed it to focus on deposit costs and that its price performance relative to underlying rates now matched its performance for the full cycle when rates were increasing most recently.

The bank made some "active" decisions not to match competing offers on high-end commercial deposits, as well as allowing some expensive retail certificates of deposits to exit, Khayat said. Nevertheless, retail client retention is better than expected, he added. "I'd argue maybe consumers aren't chasing 25 basis points at these levels."

Deposit composition at US banks ($ trillion)



Data compiled Aug. 8, 2025.
MMDA = money market deposit account; NOW = negotiable order of withdrawal.
Analysis includes US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking charter are excluded.
* Other savings represent deposits or accounts that do not permit transfers by check, draft, debit card or similar order made by the depositor and payable to third parties.
Data based on regulatory filings.
Excludes foreign deposits.
Source: S&P Global Market Intelligence.
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Steady growth

Total deposits across the industry increased $100.66 billion, or 0.6% sequentially, with transaction balances increasing $107.61 billion, or 1.6%.

Bank of America Corp. reported that average deposits increased $15.43 billion sequentially to $1.974 trillion, including growth of $4.44 billion in the consumer segment and $28.23 billion in the global banking segment, and a decline of $9.57 billion in the wealth management segment.

The global banking growth included "shorter-term deposits from deal-related activity," CFO Alastair Borthwick said during an earnings call. "That allowed us to outpace the tax-payment-related declines in our wealth business as well as corporate CD placements that matured with our institutional clients."

Year-over-year deposit growth across domestically chartered commercial banks has closely tracked loan growth since early 2024, according to weekly data from the Fed.

During weeks that ended during the second quarter, year-over-year deposit growth ranged from 2.8% to 4.0%. In the first five weeks that have ended in the third quarter for which data is available so far, growth has ranged from 3.0% to 4.1%.

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