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Forecasts flip to funding cost increases for US banks after rate path reversal**Thursday, July 16, 2026 8:40 AM ET**

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Market Intelligence

Analysts projected bank funding costs will begin rising in the second quarter as a period of falling short-term interest rates gave way to [increasing deposit pressures](#).

A sequential decline of 26 basis points in the average federal funds rate in the first quarter helped push deposit costs down [more than expected](#). The industrywide cumulative deposit beta, which measures changes in deposit costs relative to underlying interest rates across a cycle, rose to 36.3%, according to S&P Global Market Intelligence data.

Since then, [evaporating market expectations for further Federal Reserve rate cuts](#) have shifted to [expectations for rate hikes](#), and the average fed funds rate was roughly flat in the second quarter. Among publicly traded banks with more than \$10 billion in assets and substantial analyst coverage, the consensus forecast as of July 13 called for a median sequential increase of 1 basis point in the cost of funds in the second quarter, compared with a projected decline of 1 basis point as of May 1. Banks began reporting second-quarter results in the week of July 13.

Still, projections for loan and securities yields have also risen, and forecasts for net interest income (NII) and net interest margin (NIM) through 2027 have held relatively steady.

Investors may tolerate modest NIM fluctuations if banks continue to deliver favorable trends in overall revenue and profitability, BofA Global Research analysts said in a July 12 note.

"The key debate is whether management teams can offset deposit competition with asset repricing, loan growth, fee growth, and operating leverage," they wrote.

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Rising deposit costs

As of July 13, consensus forecasts for the same group of banks anticipated a further median increase of 1 basis point in the cost of funds in the third quarter, followed by a decline of 1 basis point in the fourth quarter.

As of May 1, soon after many banks posted first-quarter results, the consensus called for declines of 1 basis point in the third quarter and 4 bps in the fourth quarter.

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[Timely reads on deposit pricing](#) have picked up some increases. The number of banks marketing one-year, \$10,000 certificates of deposit (CDs) at

rates above 3.5% rose to 649 as of July 3 from 588 on March 27, according to S&P Global Market Intelligence data. The one-year Treasury yield rose 19 bps to 3.96% over the same period.

Maximum offered rates on CDs and savings accounts were "stable to modestly higher, with increases outpacing declines" over the past month across a group of publicly traded large- and mid-cap banks, Jefferies analysts said in a July 13 note.

Asset yields

Providing an offset, consensus forecasts call for the median sequential change in loan yields to range from flat to an increase of 2 bps from the second quarter through the fourth quarter, and for securities yields to rise 1 to 4 bps over the same span.

The industrywide loan yield fell 25 bps sequentially to 6.45% in the first quarter, and the cumulative loan beta rose to 29.8%. Higher loan betas are unfavorable for banks when underlying rates are falling because they mean loan yields are dropping faster.

Still, the cumulative loan beta remained well below the range of 40.1% to 51.9% recorded at the equivalent point in the previous three easing cycles.

Overall loan yields are also subject to shifts in volume among loan categories, which can be influenced by seasonal factors. In the first quarter, aggregate consumer loans, which consistently produce the highest yields, grew just 0.2% sequentially, compared with a 1.4% increase in total average loans.

On a median basis, the cumulative loan beta remained negative at -11.0% in the first quarter, implying rising asset yields across the cycle for most banks.

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Different impacts

Shifts in the rate environment affect banks differently, depending on their rate positioning and business line focus.

For many banks, outperformance on deposit or loan betas as rates fell mirrored underperformance as rates rose.

For instance, most banks with the highest cumulative deposit betas in the most recent easing cycle — meaning they benefited from sharply lower deposit costs — also had betas well above the industry median in the preceding tightening cycle, when they absorbed sharply higher deposit costs.

In second-quarter earnings reports so far, [JPMorgan Chase & Co. raised its forecast for NII this year](#), citing deposit growth and composition. [M&T Bank Corp.](#) said [modest NIM pressure](#) on funding costs is a worthwhile trade-off for supporting NII.

In a July 15 note, Jefferies analysts said, "Money-center banks posted strong overall deposit growth, but underlying cost and mix trends were mixed, with several banks seeing modest [sequential quarterly] increases in interest-bearing deposit costs, a potential signal of incremental deposit cost pressure, and by extension NIM pressure, for smaller banks."

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