DATA DISPATCH

Fixed-rate assets repricing fuels margin expansion at US banks in Q2 2025

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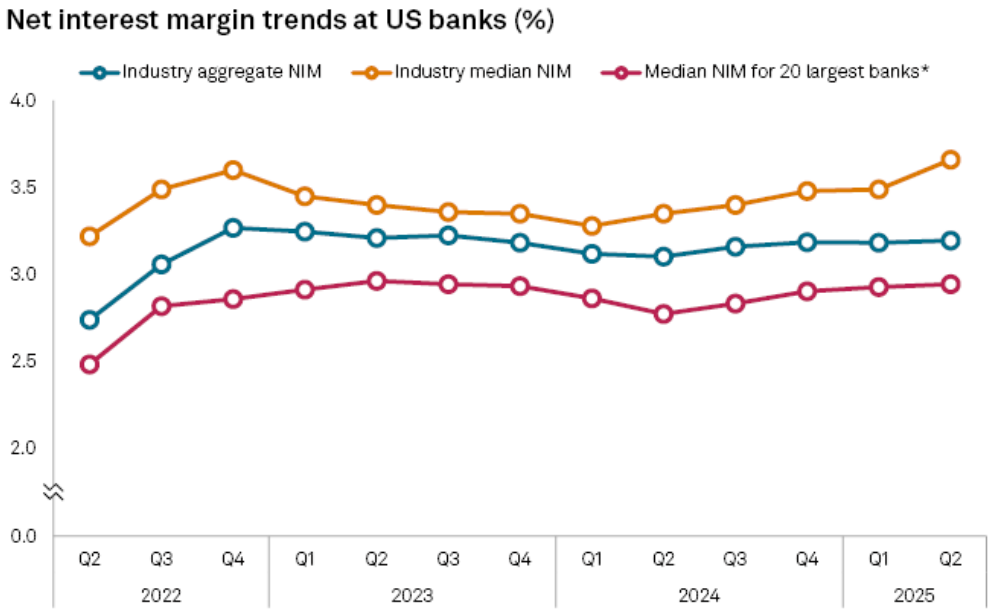
Market Intelligence

In the second quarter, many US banks experienced margin expansion, primarily attributed to the repricing of fixed-rate assets from the low-rate environment, despite minimal improvement in deposit costs.

The aggregate net interest margin (NIM) for the industry increased 1 basis point sequentially to 3.20% during the second quarter, while median NIM rose for the fifth consecutive quarter by 17 basis points to 3.66%, marking the highest level since the fourth quarter of 2019.



Data compiled Aug. 12, 2025.
NIM = net interest margin.
Analysis includes operating and historical US commercial banks, savings banks, and savings and loan associations. Nondepository trusts and companies with a foreign banking organization charter are excluded.
* The 20 largest US banks by total assets as of June 30, 2025, are JPMorgan Chase Bank NA, Bank of America NA, Citibank NA, Wells Fargo Bank NA, U.S. Bank NA, Capital One NA, Goldman Sachs Bank USA, PNC Bank NA, Truist Bank, Bank of New York Mellon, State Street Bank and Trust Co., TD Bank NA, BMO Bank NA, Charles Schwab Bank SSB, Morgan Stanley Bank NA, Morgan Stanley Private Bank NA, First-Citizens Bank & Trust Co., Citizens Bank NA, American Express National Bank and Manufacturers and Traders Trust Co.
Data is fully taxable equivalent, adjusted for major intercompany consolidations and based on regulatory filings.
Source: S&P Global Market Intelligence.
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Banks await further rate cuts

Funding costs had declined during the previous two quarters as numerous banks sought to lower deposit rates late last year to alleviate margin pressures. However, in the absence of further rate cuts from the Federal Reserve, more relief on funding costs is delayed. Higher for longer rates have led to continued deposit competition among banks, Treasurys and money markets. The industry recorded an aggregate growth of 1.0% in deposits and a median growth of 0.1% during the second quarter.

Aggregate cost of deposits fell 2 basis points to 2.09%, while yields on loans and leases remained unchanged at 6.72%. On a median basis, cost of deposits declined by 1 basis point to 1.91%, whereas the yield on loans and leases rose by 16 basis points to 6.50%.

More than 2,000, or roughly 45% of the industry, reported an increase in cost of deposits, while 3,780, or roughly 86%, of the banks reported an improvement in loan yields during the second quarter.

Q2 loan growth may not be sustainable

Loan growth returned for the banking industry during the second quarter after a prolonged period of stagnation, characterized by growth of 1% or less over the previous nine quarters. However, the lingering effects of tariffs may exert additional pressure on loan growth and credit quality in the upcoming quarters. A potential decline in credit quality could prompt banks to adopt a more cautious stance and tighten lending standards.

During the second quarter, loans grew 2.1% on an aggregate basis, the highest since the second quarter of 2022, resulting in revised full-year loan growth estimates, according to an S&P Global Market Intelligence analysis. This uptick in loan growth was partially driven by corporations building inventories in anticipation of price increases due to new trade policies, along with significant lending from large banks to nondepository financial institutions.

Timothy Spence, president and CEO at Fifth Third Bancorp, said during the second-quarter earnings call that while there is potential for improved loan growth, it may not be back at the expected levels as uncertainty remains for manufacturers navigating the current environment. "Do I think that there's a possibility we could do better on the loan growth front? Absolutely. But I also think there's a possibility where the second half of the year could be involved in all sorts of uncertainty," he added.

Banks expect continued margin expansion

Among the largest 20 US banks by assets, only five reported a quarter-over-quarter decline in NIM, led by American Express National Bank and JPMorgan Chase Bank NA with a 13-basis-point and 12-basis-point decline to 7.78% and 2.81%, respectively. Conversely, Capital One NA reported the biggest increase of 57 basis points to 7.60%.

During the second-quarter earnings call, Capital One attributed the improvement in NIM to the partial quarter impact from the Discover Financial Services acquisition, which was completed May 18, as well as a favorable shift in the liability mix toward deposits. "Looking ahead, we expect the full quarter benefit from the Discover acquisition to drive an additional 40 basis point increase to NIM, all else equal," said Andrew Young, CFO at Capital One Financial Corp.

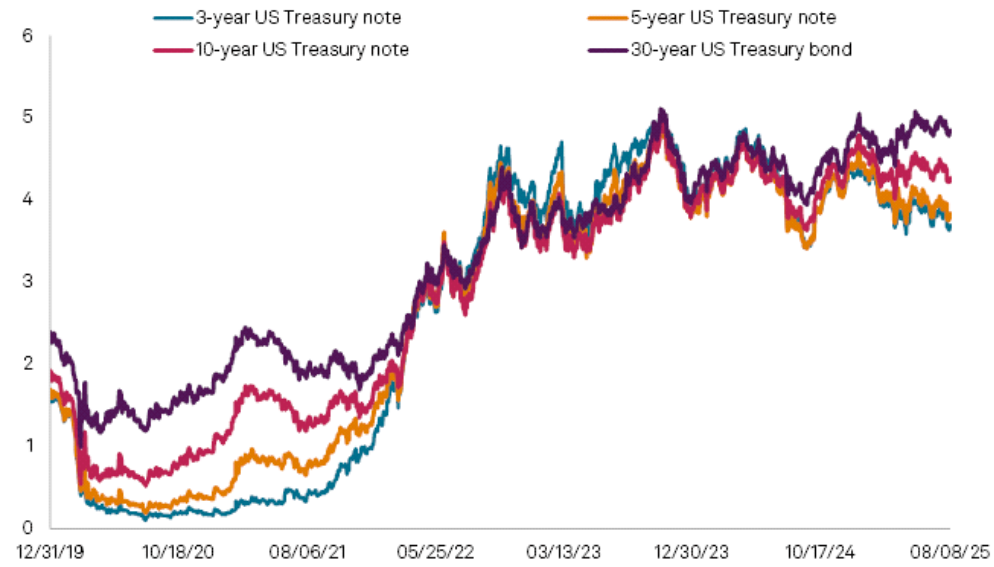
Citizens Financial Group Inc. also expects continued margin expansion and attributed the improvement in margins to "time-based benefits of noncore runoff and reduced drag from terminated swaps as well as favorable fixed asset repricing."

Brendan Coughlin, president and vice chair of Citizens Financial Group, emphasized during the earnings call the ongoing intensity of loan and deposit pricing competition in the banking sector. He noted that while the competitive landscape remains unchanged, the focus is shifting toward strategic responses to potential interest rate declines. Coughlin acknowledged that some competitors might resort to irrational pricing to attract deposits, which could adversely affect margins.

However, he expressed confidence in his team's ability to compete effectively by leveraging strong relationships with clients.

"We're going to stick to our guns there, price loans and deposits that we believe is appropriate for market conditions, and then we'll have to compete and win on relationships," he said.

Yields on Treasury notes and bonds (%)



Data compiled Aug. 12, 2025.
Rate information is from Dec. 31, 2019, to Aug. 8, 2025. When unavailable, the yield from the previous day is shown.
Source: S&P Global Market Intelligence.
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