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yielding options like Treasury bills and money market funds .

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commercial bank deposits fell last year for the first time since 1948 as net withdrawals hit $278 billion, according to Federal Deposit Insurance Corp. data.

To stem the outflows, banks are finally starting to lift their own rates from rock-bottom levels, particularly on certificates of deposit, or CDs. More than a dozen U.S. lenders, including Capital One, are now offering an annual percentage yield of 5% on CDs maturing in around a year, a rate that would have unspeakably high two years ago. Even the big banks are feeling the heat. At Wells Fargo & Co., 11-month CDs now pay 4%.

The jump in rates on CDs and other bank deposits has been a boon for consumers and businesses, but it's a costly development for the U.S. banking industry, which is bracing for a slowdown in lending and more writedowns, says Barclays Plc analyst Jason Goldberg. And for smaller regional and community banks, losing deposits can be serious and weigh heavily on profitability.

"There are challenges ahead for banks," Goldberg said. "Banks reflect the economy they operate in, and most forecasts call for slowing GDP growth and increasing unemployment."

The very biggest banks can afford to slow-walk their rate increases, simply because they still have relatively high deposit levels. Overall, the average rate on a one-year CD is roughly 1.5%. That's up from 0.25% a week before the Fed began raising rates a year ago, but still well below inflation. After a year of record profits, the foot-dragging has earned banks plenty of ire from politicians globally.

Nevertheless, banks are feeling more pressure to boost rates, which will raise funding costs and crimp profit margins. According to Barclays, the median large-cap bank can expect growth in net interest income, a measure of lending profits, to slow to 11% this year, from 22% last year.

JPMorgan Chase & Co. Chief Executive Officer Jamie Dimon made clear that some

trillion in the third. That's the biggest quarterly jump in at least two decades, according to S&P.

"The money really woke up in the late summer — banks felt pressure to really catch up on funding in a big way," said S&P Global analyst Nathan Stovall. Boosting rates on CDs is one key way to do so, he said.

CDs are just one piece of how banks fund themselves, but funding costs are broadly rising as the Federal Reserve hikes rates. The pressure is also evident in the fed funds market, where banks lend to one another for short periods. Rates there have risen to the highest since November 2007, and trading volume has reached seven-year highs. The three-month London interbank offered rate for dollar, a major global lending benchmark, surpassed 5% for the first time in more than 15 years on Monday.

When the Fed boosts rates, banks usually get higher lending income quickly, as the rates on the loans they've made reset to higher levels. They can be slower to boost payments to depositors. The rising income and lagging growth in expenses mean that banks can see their net interest income soar, as happened last year.

Net interest income last year for the U.S. banking system was $632.9 billion, up 20% from the year before, according to the Federal Deposit Insurance Corp.

The lenders getting hit hardest by rising funding costs are community and smaller regional banks, said Arnold Kakuda, a bank credit strategist at Bloomberg Intelligence.

The largest U.S. banks, and major regional lenders, can often borrow more in bond markets globally when they lose deposits. But smaller regional banks and community lenders have fewer options, and often have to win more deposits or get more funding from the Federal Home Loan Banking System.

The biggest banks probably won't need to change their bond issuance plans, but

A recent Fed survey hinted at strategies banks may be using to recoup lost funds as financing pressures increase. In the questionnaire, financial institutions reported that they would borrow in unsecured funding markets, raise brokered deposits or issue CDs if reserves were to fall to uncomfortable levels. A large majority of domestic banks also cited borrowing advances from Federal Home Loan Banks as "very likely" or "likely."

Ultimately, banks will probably have to continue raising deposit rates as they compete with other kinds of investments that provide more yield, according to Jan Bellens, a global banking and capital markets sector leader with Ernst & Young.

"Banks will just have to pay more for deposits," he said. "Customers will start to gradually move deposits if they are no longer happy with the rates they get, and that's why the banks are very keen to lock in consumers with CD products."

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(With assistance from Max Reyes.)

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