

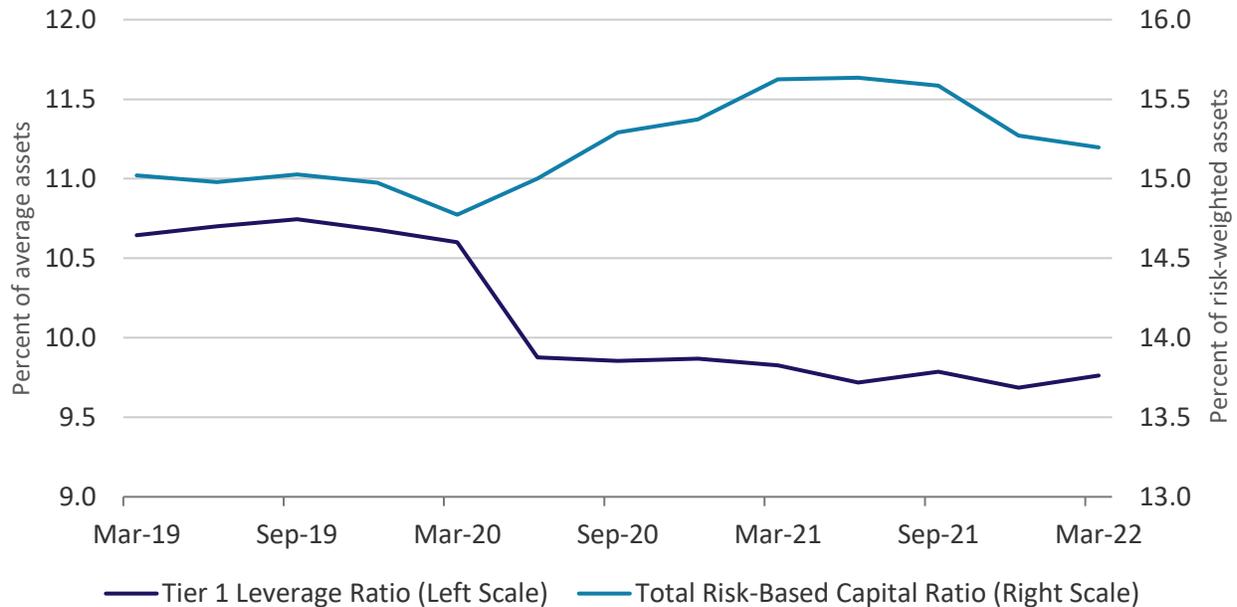
# Community Banking BULLETIN: Highlight

Providing insights on community banking

## Capital adequacy measures diverge during pandemic

Unprecedented asset growth during the pandemic placed downward pressure on leverage capital ratios while total risk-based capital ratios improved.

### Leverage and Risk-Based Capital Ratios for Non-CBLR CBOs



Source: Reports of Condition and Income

In early 2020, the community bank leverage ratio (CBLR) framework<sup>1</sup> allowed eligible community banking organizations<sup>2</sup> (CBOs) to opt in and cease reporting risk-based capital information. For purposes of this Community Banking Bulletin, to assess overall CBO capital adequacy through the pandemic, including risk-based capital, only non-CBLR adopting CBOs (about 60 percent of all CBOs) were included in the data set.

- Stimulus programs substantially expanded balance sheets at the onset of the pandemic and placed downward pressure on leverage capital ratios, which utilizes average assets for the denominator. Capital augmentation was initially insufficient to offset the unprecedented asset growth; however, CBO retained earnings have been sufficient to stabilize the leverage capital ratio since June 2020.
- In contrast, total risk-based capital ratios increased through much of the pandemic as balance sheet composition shifted towards lower risk assets, with two-thirds of asset growth from December 2019 to June 2020 assigned a 0 percent risk-weight. Consequently, the denominator of risk-weighted assets increased incrementally while growth in retained earnings facilitated an increase in the total risk-based capital ratio.
- Total risk-based capital ratios have fallen since September 2021 as CBO balance sheets have shifted toward assets with higher risk-weights. Assets with a 100 percent risk-weight are up 9 percent from June 2021 to December 2021<sup>3</sup>, outpacing growth in capital. Despite the recent declining trend, total risk-based capital ratios remain above pre-pandemic levels.

Questions or comments? Please contact [KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org](mailto:KC.SRM.SRA.CommunityBankingBulletin@kc.frb.org)

<sup>1</sup> See the [CBLR Community Bank Compliance Guide](#) for additional information

<sup>2</sup> Community banking organizations are defined as having \$10 billion or less in total assets

<sup>3</sup> Assets allocation by risk-weight category are reported semiannually by certain institutions in June and December