



## Highlight: Community bank capital ratios among historic highs

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Tier 1 leverage ratios across community banks continue to increase, though levels vary across banks with differing operational profiles or balance sheet structures.

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- Capital levels across community banking organizations<sup>[1]</sup> (CBOs) have increased significantly in recent years. The aggregate Tier 1 leverage ratio now totals 11.04 percent, a more than 20-year high. Following a substantial decline during the 2020 pandemic, capital ratios increased in almost every quarter of the last four years, benefiting from retained earnings and moderated growth.
- CBOs with a significant concentration<sup>[2]</sup> in agricultural (ag) lending have historically held higher capital ratios on aggregate. Conversely, commercial real estate (CRE) concentrated CBOs operated with lower capital ratios during the financial crisis, but since 2013 have maintained levels that approximate or slightly exceed the overall CBO average. Both groups have seen steady increases in capital levels in recent years with current capital ratios in line with the broader CBO population.
- CBOs with reduced earnings and lower on-balance sheet liquidity have historically operated with lower capital ratios. The Tier 1 leverage ratio for lower profitability and lower liquidity<sup>[3]</sup> CBOs has averaged 34 and 32 basis points (bps) below the CBO average, respectively. This gap has widened to almost 60 bps currently, as capital growth at these banks has been slower than peers in recent years.

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

### Endnotes

[1] Community banking organizations are defined as having less than \$10 billion in total assets.

[2] Concentrated CBOs reflect banks in the top 25th percentile of loans of the segment to total assets. Over the 20-year period, the top 25th percentile averaged 34% or more for CRE loans to assets and 15% or more for ag loans to assets. Note: Ag loans include agricultural production and farmland loans.

[3] Low liquidity reflects CBOs in the bottom 25th percentile of liquid assets (interest-bearing bank balances, federal funds sold and resales, and unpledged securities) as a percent of total assets. Low profitability reflects CBOs in the bottom 25th percentile of quarterly return on average assets.

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