



Third Quarter 2025 Banking Conditions

by: Mary Bongers

December 02, 2025

Rising margins and capital strength amid modest upticks in noncurrent loan rates

District Banking Conditions publications are produced quarterly and provide a comprehensive view of financial performance data across Tenth District commercial banks compared to national trends.

[Download the full chart pack here](#)

Executive Summary

Banking conditions across the Tenth District (District) have been characterized by expansion of the net interest margin (NIM), which reached 3.85 percent in the third quarter, its highest level since 2019 (see Chart A11). District banks under \$250 million saw the greatest increase, with an aggregate NIM of 4.67 percent (see Chart A11). Improvement has been driven by increased yields on earning assets, which rose by 12 basis points (bps) during the quarter and reached 17-year highs (see Supplemental Chart). At the same time, costs of funds remain relatively stable, increasing only 1 bp during the quarter. As a result of margin expansion, return on average assets (ROAA) increased across District banks, now at 1.28 percent year-to-date, which remains above its 10-year average (see Charts A4 and A6). However, greater earnings improvement was hindered by increased overhead expenses (see Charts A9 and A19).

Asset quality metrics show some signs of deterioration. Problem assets across District banks continue to increase, now representing 0.77 percent of total loans and other real estate, compared to 0.65 percent one year ago (see Chart B7). Smaller District banks, particularly those under \$250 million, have the highest problem asset rates (see Chart B7). Across the major loan types, CRE loans have seen the greatest increase in noncurrent rates in the prior year (see Chart B8). Aggregate District bank allowance levels remain steady at 1.40 percent of loans (see Chart B5). However, District banks under \$250 million significantly increased provisions during the quarter, now at the highest level since 2010, amidst increased charge-offs, higher noncurrent loan levels, and greater loan growth (see Chart B2).

Balance sheet growth during the quarter was largely driven by loans, which increased 1.41 percent quarter-over-quarter across District banks (see Charts C3 and C14). CRE lending saw the greatest growth, followed by agriculture loans (see Chart C16).

Liquid assets remained relatively stable at almost 15 percent of total assets, with declining cash items offset by growth in investment securities and decreased securities pledging (see Charts D7 and D9). Unrealized loss positions on securities continue to improve in line with market rate decreases (see Chart D11).

Capital levels across District banks continue to increase, benefiting from increased earnings and only modest asset growth. The District Tier 1 leverage ratio increased to 10.29 percent during the quarter, which is among historic highs (see Chart A2). District funding profiles benefited from moderate deposit growth, resulting in decreased borrowing levels (see Chart C3), though the trend differs across some banks, particularly smaller District banks. Overall, utilization of noncore and wholesale funds remains above the 10-year average, despite recent declines across some bank sizes (see Chart D14).

Author



Mary Bongers
Advanced Risk Specialist
