

SIXTH DISTRICT BANKING NOTES

Bank Earnings Recover Slightly in 1976

Sixth District member banks took a small step toward a recovery in earnings last year. According to their operating ratios, returns on equity capital advanced to 6.8 percent from 6.3 percent in 1975. Despite the improvement, the earnings rate remained significantly below the 10 percent experienced in the early part of the Seventies.

The earnings advance resulted from expenses rising more slowly than revenues. The ratio of total operating income to total assets actually declined from 7.59 percent to 7.46 percent. But expenses charged against that income dropped even further, from 7.05 percent to 6.84 percent of total assets.

The relative decline in operating income reflected lower rates of return on earning assets. Member banks sharply increased holdings of U. S. Treasury securities, investments that earn much less than loans, to 14 percent of total assets from 9.3 percent in the previous year. At the same time, the interest return on these investments averaged 6.73 percent, down from 7.1 percent in 1975. Because of the shift toward government securities, such interest income comprised nearly 13 percent of total operating income, compared to a 9-percent share in the year before.

Lagging loan demand pulled loan income down from 64.2 percent of operating income to 62.2 percent last year. A reduction in the proportion of earning assets accounted for by lending outweighed a slightly higher rate of return on loans. The importance of total loans diminished despite sustained increases in real estate and consumer loans; commercial and industrial loans continued weak until late in the year.

Operating expenses consumed a smaller proportion of total operating income last year. Reduced interest costs for borrowed money and lower interest payments on deposits contributed to the savings. Average interest paid on time and savings deposits dropped as banks experienced inflows of

lower cost funds. This helped to counter the increased expense of additional interest-bearing deposits. Provisions for loan losses, while still high, were smaller last year. Wage and salary expenses, the second largest bank expense, remained unchanged as a percent of total operating income.

There continues to be considerable variation in earnings among banks in the different Sixth District states. While member banks in the District part of Louisiana still lead the Sixth District in earnings performance, their earnings declined slightly last year. Banks in Alabama, Georgia, and the Sixth District portions of Mississippi and Tennessee posted a moderate earnings gain. However, Florida's member banks had below-average earnings of 3.5 percent, a bit less than in the previous year.

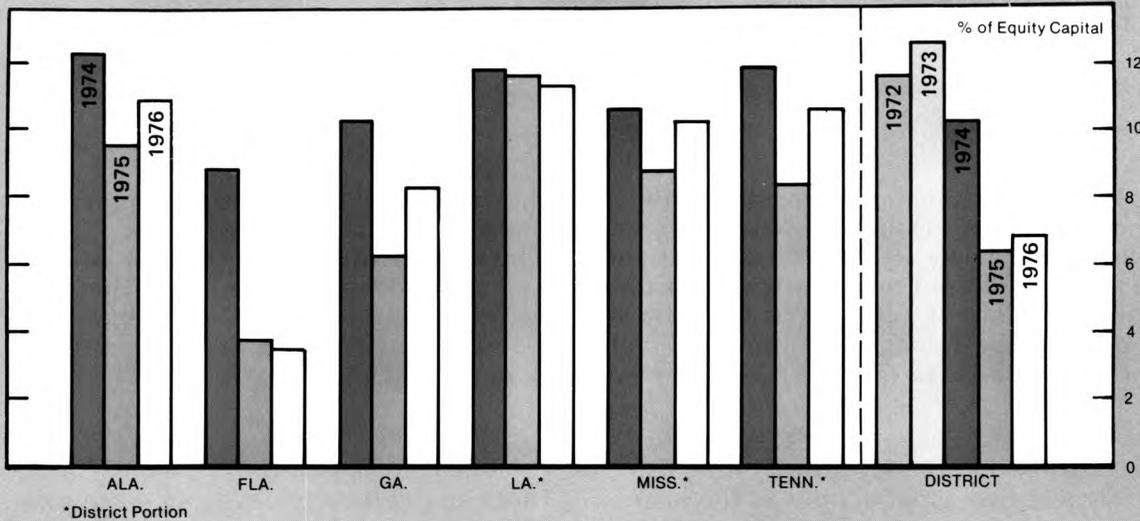
Poor performance by Florida's member banks reflects in part the large number of very small member banks in that state. Smaller banks have tended to earn lower rates of return than medium- and large-sized banks. While the smaller District banks had slightly higher operating income/asset ratios, they also spent significantly more for employees' salaries, occupancy of their facilities, and "all other" operating expenses. Many of these types of expenses are relatively fixed and indivisible, and the larger banks can spread them over a larger asset base. Nearly 50 percent of the Sixth District member banks with assets of less than \$10 million failed to generate sufficient income to meet all of their expenses last year. In contrast, less than 15 percent of banks with total assets of \$10 million to \$50 million earned less than they spent.

Member banks apparently have turned the corner on earnings and, according to preliminary reports for the first half of 1977, are on the way back toward the higher returns of previous years. Sharply improved earnings, however, will depend on banks' ability to expand their most profitable activity, lending, while reducing provisions for loan losses.

John M. Godfrey

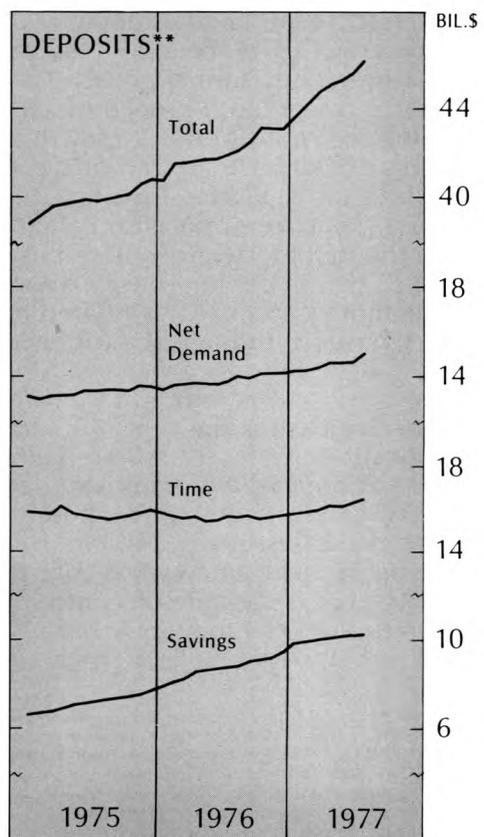
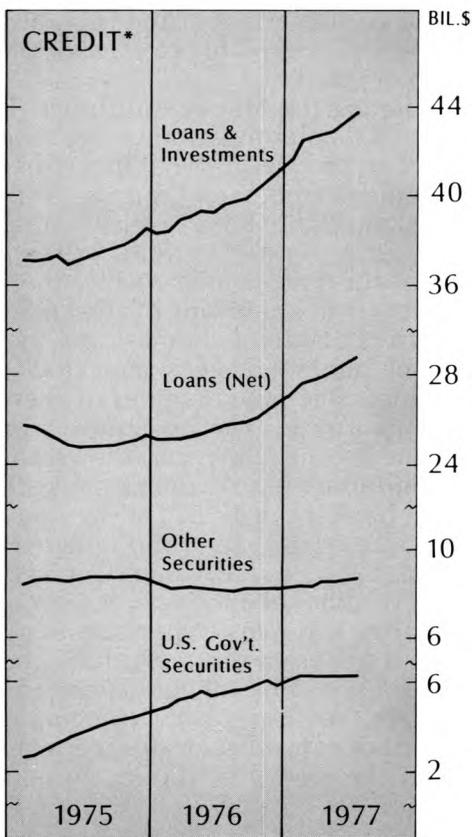
Note. Data based on "1976 Operating Ratios, Sixth District Member Banks" now available upon request.

Income After Taxes



*District Portion

Banking Statistics



LATEST MONTH PLOTTED: JULY

NOTE: Seas. adj. figures covering District member banks

* Figures are for the last Wednesday of each month

** Daily average figures