

Lucas Phillips

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A Comparison of the Operations of Representative Member Banks in the Second Federal Reserve District For the Year 1925

FOLLOWING the procedure of the past two years the accompanying tables have been prepared to make available to member banks in the second district some of the bank operating data which they report currently to the Reserve Bank. The tables are so arranged that each bank may compare its own operating figures with the figures for banks of the same size, or with those of banks having about the same proportion of time deposits to gross deposits.

The operating figures for the calendar year 1925 show no very striking changes as compared with 1924. The general tendency toward an increase in time deposits as compared with demand deposits has been continued and is reflected in somewhat larger interest payments. Accompanying the greater business activity of the year 1925 the larger banks increased their loans relative to their investments, but this tendency was not noticeable in the smaller banks.

Earnings

Gross earnings in 1925 were in general larger than in 1924 in relation to total loans and investments. The increase may be accounted for in part by a somewhat higher interest rate level and in part by larger earnings from sources other than interest and discount.

For most of the groups of banks, expenses consumed a somewhat smaller proportion of gross earnings than in 1924 and as a consequence of this and of somewhat larger gross earnings net earnings were better. Losses charged off were smaller and hence net additions to profits were in general well above 1924. These favorable results of the year's operations in banking coincided with profitable operations in most fields of business.

Table 1—Average Operating Ratios of Representative Member Banks in Seven Groups ^a
(40 Selected banks in each group)

Read the table as follows: In the banks of Group I (banks with loans and investments under \$500,000) capital funds averaged 22.3 per cent of gross deposits in 1924 and 20.1 per cent in 1925.

Ratios expressed in percentages	Size of groups divided according to amount of loans and investments indicated																
	I Under \$500,000		II \$500,000 to \$999,999		III \$1,000,000 to \$1,999,999		IV \$2,000,000 to \$4,999,999		V \$5,000,000 to \$9,999,999		VI \$10,000,000 and up, out- side N.Y.C.		VII \$10,000,000 and up N.Y.C.		General Average		
	1924	1925	1924	1925	1924	1925	1924	1925	1924	1925	1924	1925	1924	1925	1923	1924	1925
CAPITAL																	
1. Capital funds <i>b</i> to gross deposits <i>Your figures</i>	22.3	20.1	22.2	21.3	14.8	14.5	11.6	11.8	13.1	13.8	12.7	12.2	12.6	13.6	16.1	15.6	15.3
LOANS																	
2. Loans and investments to total available funds <i>c</i> <i>Your figures</i>	84.1	84.0	86.1	86.3	87.5	86.7	87.3	88.6	86.7	87.4	83.7	85.9	75.1	74.8	85.1	84.4	84.8
3. Loans to loans and investments <i>Your figures</i>	47.8	46.7	48.7	49.2	50.2	47.9	56.8	55.9	59.5	62.1	62.7	62.9	72.7	73.5	56.9	56.9	56.9
DEPOSITS																	
4. Demand deposits to gross deposits <i>Your figures</i>	58.4	56.3	50.6	50.9	40.1	40.2	41.5	42.0	48.8	45.8	61.1	60.5	86.1	85.4	57.2	55.2	54.4
5. Interest paid on deposits to gross deposits <i>Your figures</i>	2.0	2.0	2.0	2.1	2.5	2.5	2.6	2.6	2.6	2.6	2.4	2.4	1.5	1.6	2.1	2.2	2.3
EARNINGS																	
6. Gross earnings to loans and investments <i>Your figures</i>	6.2	6.4	6.1	6.1	6.2	6.4	6.1	6.0	6.3	6.3	6.2	5.9	5.9	6.0	6.2	6.1	6.2
7. Gross earnings to total available funds <i>c</i> <i>Your figures</i>	5.2	5.3	5.3	5.2	5.4	5.5	5.3	5.4	5.5	5.5	5.2	5.1	4.4	4.6	5.2	5.2	5.2
8. Net earnings to total available funds <i>c</i> <i>Your figures</i>	1.5	1.6	1.7	1.6	1.5	1.7	1.3	1.5	1.6	1.6	1.5	1.5	1.4	1.5	1.6	1.5	1.6
9. Net earnings to capital funds <i>b</i> <i>Your figures</i>	10.3	11.6	11.9	11.2	13.7	14.7	13.8	15.6	16.0	15.0	14.4	14.4	13.5	13.4	13.6	13.4	13.7
10. Earnings other than interest and discount to gross earnings <i>Your figures</i>	8.4	11.8	8.1	7.6	9.4	11.2	10.1	10.6	11.2	12.3	13.4	11.5	20.1	20.7	9.6	11.5	12.2
DISPOSITION OF GROSS EARNINGS																	
Ratio of the following items to gross earnings																	
11. Salaries and wages <i>Your figures</i>	23.8	22.3	20.4	20.3	18.2	17.1	17.4	17.3	16.4	16.1	16.7	16.3	20.8	20.1	18.8	19.1	18.5
12. Interest paid on borrowed money <i>Your figures</i>	1.2	1.0	1.3	1.2	0.8	0.7	0.8	0.8	0.6	0.8	0.9	1.2	0.4	1.2	1.6	0.9	1.0
13. Interest paid on deposits <i>Your figures</i>	29.3	30.3	29.9	32.2	38.6	37.8	42.9	42.4	40.5	40.8	39.4	40.5	30.5	29.6	34.3	35.9	36.2
14. Taxes <i>Your figures</i>	5.2	4.7	6.4	5.8	4.9	4.7	4.2	3.5	4.4	4.3	4.2	3.7	4.7	5.0	4.7	4.9	4.5
15. Other expenses <i>Your figures</i>	12.4	12.4	10.8	10.8	9.5	9.1	10.2	9.3	8.8	9.0	10.2	9.9	12.5	12.7	11.2	10.6	10.5
16. Total expenses <i>Your figures</i>	71.8	70.7	68.9	70.3	72.0	69.5	75.5	73.3	70.6	71.1	71.5	71.6	69.0	68.5	70.6	71.3	70.7
17. Net earnings (before recoveries on pre- vious charge-offs, current charge-offs, and dividends) <i>Your figures</i>	28.2	29.3	31.1	29.7	28.0	30.5	24.5	26.7	29.4	28.9	28.5	28.4	31.0	31.5	29.5	28.7	29.3
LOSSES																	
18. Losses charged off on loans and discounts to gross earnings <i>Your figures</i>	2.5	2.2	2.5	3.0	3.3	2.8	4.6	3.9	5.0	2.6	5.6	5.7	6.5	5.7	4.0	4.3	3.7
19. Losses charged off on securities to gross earnings <i>Your figures</i>	3.1	1.4	2.2	2.6	2.2	2.7	3.3	1.8	2.8	1.4	2.5	2.2	2.2	1.7	4.4	2.6	2.0

^a—Ratios 1 to 9 are computed from the average figures of 4 condition reports and from the total figures of section one of the two semi-annual earnings reports; ratios 10 to 17 are taken from section one of the two semi-annual earnings reports; ratios 18 and 19 are taken from items 5 (a) and 5 (b) of section two and item 1 of section one of the two semi-annual earnings reports. The same banks were used in each year, except for a very few substitutions for those which changed their classes.

^b—Capital, surplus, and undivided profits. ^c—Capital, surplus, undivided profits, deposits, borrowed money, and notes in circulation.

Table 2—Average Operating Ratios of Representative Member Banks Grouped According to Amount of Time Deposits *a*

Read the table as follows: In banks with no time deposits capital funds averaged 38.9 per cent of gross deposits in 1924 and 36.9 per cent in 1925; in banks with time deposits equal to less than 25 per cent of their gross deposits, capital funds averaged 14.8 per cent of gross deposits in 1924 and 15.3 per cent in 1925.

Ratios expressed in percentages	Groups of Banks divided according to the percentage of time deposits to gross deposits									
	0		Under 25		25-49.9		50-74.9		75 and up	
	1924	1925	1924	1925	1924	1925	1924	1925	1924	1925
CAPITAL										
1. Capital funds <i>b</i> to gross deposits <i>Your figures</i>	38.9	36.9	14.8	15.3	15.6	14.9	13.8	14.0	13.1	13.4
LOANS										
2. Loans and investments to total available funds <i>c</i> <i>Your figures</i>	81.0	79.3	77.4	79.1	84.9	83.5	86.8	88.0	88.0	87.9
3. Loans to loans and investments <i>Your figures</i>	53.2	52.9	69.5	67.9	60.6	60.7	53.8	52.7	38.8	42.4
DEPOSITS										
4. Demand deposits to gross deposits <i>Your figures</i>	100.0	100.0	91.7	88.8	59.5	59.0	38.8	38.7	21.9	20.8
5. Interest paid on deposits to gross deposits <i>Your figures</i>	0.9	0.9	1.5	1.7	2.2	2.1	2.5	2.6	3.1	3.0
EARNINGS										
6. Gross earnings to loans and investments <i>Your figures</i>	5.9	5.8	5.9	5.9	6.2	6.3	6.2	6.2	6.4	6.2
7. Gross earnings to total available funds <i>c</i> <i>Your figures</i>	4.8	4.8	4.6	4.7	5.2	5.3	5.4	5.5	5.6	5.4
8. Net earnings to total available funds <i>c</i> <i>Your figures</i>	1.7	1.8	1.5	1.5	1.5	1.6	1.5	1.5	1.5	1.6
9. Net earnings to capital funds <i>b</i> <i>Your figures</i>	8.7	8.8	12.9	12.8	13.2	14.4	13.9	14.1	14.1	14.7
10. Earnings other than interest and discount to gross earnings <i>Your figures</i>	7.8	8.6	15.9	14.6	11.0	13.7	10.1	10.7	12.3	12.6
DISPOSITION OF GROSS EARNINGS										
Ratio of the following items to gross earnings										
11. Salaries and wages <i>Your figures</i>	27.6	26.6	21.3	20.5	19.8	19.8	17.8	17.1	14.2	14.1
12. Interest paid on borrowed money <i>Your figures</i>	1.9	1.4	0.7	1.2	1.0	0.9	0.9	1.0	0.3	0.4
13. Interest paid on deposits <i>Your figures</i>	12.4	13.9	29.1	30.2	34.8	33.7	39.8	40.4	47.0	45.6
14. Taxes <i>Your figures</i>	9.8	7.9	5.2	5.1	4.8	4.4	4.3	4.2	4.3	4.0
15. Other expenses <i>Your figures</i>	12.5	12.3	11.8	11.5	11.3	11.3	10.1	9.8	7.4	7.9
16. Total expenses <i>Your figures</i>	64.1	62.0	68.5	68.6	71.6	70.4	72.9	72.4	73.1	72.0
17. Net earnings (before recoveries on previous charge-offs, current charge-offs, and dividends) <i>Your figures</i>	35.9	38.0	31.5	31.4	28.4	29.7	27.1	27.6	26.9	28.0
LOSSES										
18. Losses charged off on loans and discounts to gross earnings <i>Your figures</i>	1.3	1.5	6.5	5.3	4.5	3.9	4.1	3.3	1.6	2.5
19. Losses charged off on securities to gross earnings <i>Your figures</i>	3.5	0.9	2.3	1.8	3.1	1.8	2.3	1.9	3.6	3.5
Number of banks in group	15	11	56	60	55	57	129	128	25	24

a—Ratios 1 to 9 are computed from the average figures of 4 condition reports and from the total figures of section one of the two semi-annual earnings reports; ratios 10 to 17 are taken from section one of the two semi-annual earnings reports; ratios 18 and 19 are taken from items 5 (a) and 5 (b) of section two and item 1 of section one of the two semi-annual earnings reports.

b—Capital, surplus, and undivided profits. *c*—Capital, surplus, undivided profits, deposits, borrowed money, and notes in circulation.

Ratio of Capital to Deposits

One feature of bank operations which deserves attention is the change in recent years, in the ratios of capital funds to gross deposits. For some years past bank deposits have grown more rapidly than capital funds (that is, capital, surplus, and undivided profits) and as a consequence the ratio of capital funds to gross deposits has been steadily diminishing. As table I indicates, the average ratio of capital funds to gross deposits in the 280 banks included in the studies was 16.1 per cent in 1923, 15.6 per cent in 1924, and 15.3 per cent in 1925.

A decline in the capital ratios of banks is not a new thing but has been going on for 50 years here and abroad. A considerable part of this decline undoubtedly reflects the greater safety in conducting banking today than in previous decades. The ratio of a bank's capital funds to its deposits continues, however, to be one of the important indexes of sound management and one to which careful bankers are giving close attention.

In order to give a comprehensive view of the relation of capital funds to deposits in the banks of this district a study has been made of the capital ratios of 850 member banks. The results are presented in the following diagram, which gives a classification of the member banks of the district according to their capital ratios. The figures at the top of each of the black columns show how many banks had a ratio of 4 per cent, how many 5 per cent, etc.

The diagram indicates that a large majority, in fact 84 per cent, of the banks of the district have a capital ratio of 10 per cent or more and the average ratio for the banks of the district is 16 per cent. In the past five years more than 200 banks in the district have increased their capital other than through mergers.

