

TABLE 17.—*Conversions of national banks, by number of banks, type of conversion, and total resources, 1950-62, inclusive*

[Dollar amounts in millions]

Number of banks	Type	Total resources
98	State chartered banks converted into national banks	\$1, 546
40	National banks converted into state chartered banks	303
138	Total	1, 849

9. Income and Expenses of National Banks

Net income before dividends of national banks rose modestly (2.6 percent) in 1962 to \$1,069 million. Current operating revenue rose almost 11 percent reflecting increases in all categories of revenue. But these increases in income (\$642 million) were offset by increases in current operating expenses (\$641 million), with the result that net current operating earnings were unchanged between 1961 and 1962.

There were rises in all classes of expenses, but the sharpest rise (37.1 percent) was in interest on time and savings deposits. This percent increase was twice that which took place for the period 1960-61. It reflects the fact that national banks have been receiving large amounts of new savings and time deposits (an \$8.3 billion increase between the end of

December 1961 and December 1962), and paying higher rates of interest on these deposits. Over the past 3 years there has been a steady increase in the ratio of current operating expenses to current operating revenue. This ratio rose from 64.4 percent in 1960, to 66.8 percent in 1961, and to 70.0 percent in 1962.

As a result of various recoveries and losses, which are added to net operating earnings to obtain net income before taxes, there was a decline of \$61 million, or 3.4 percent, in net income before taxes. Between 1960-61 this category rose by \$30 million.

Cash dividends on common stock rose by 6.5 percent, to a level of \$518 million. The relationship of these cash dividends to the capital accounts was the same as in 1960 and 1961, while there was a slight rise in the relationship to capital stock.

TABLE 18.—*Current operating revenue, and expenses, and dividends of national banks, end of 1961 and 1962, and dollar and percent changes 1961-62*

[Dollar amounts in millions]

	1962	1961	Change 1961-62	
			Dollar	Percent
Number of banks ¹	4, 503	4, 513	-10	-. 22
Capital stock (par value) ²	3, 672. 5	3, 466. 2	+206. 3	5. 95
Capital accounts ³	12, 289. 3	11, 470. 9	+818. 4	7. 13
Current operating revenue:				
Interest and dividends on—				
U.S. Government obligations	1, 136. 5	1, 030. 7	+105. 8	10. 26
Other securities	414. 9	338. 2	+76. 7	22. 68
Interest and discount on loans	4, 134. 5	3, 759. 3	+375. 2	9. 98
Service charges on deposit accounts	380. 4	351. 5	+28. 9	8. 22
Other current operating revenue	530. 1	475. 0	+55. 1	11. 60
Total	6, 596. 4	5, 954. 7	+641. 7	10. 78

See footnotes at end of table.

TABLE 18.—Current operating revenue, and expenses, and dividends of national banks, end of 1961 and 1962, and dollar and percent changes 1961-62—Continued

[Dollar amounts in millions]

	1962	1961	Change 1961-62	
			Dollar	Percent
Current operating expenses:				
Salaries, wages, and fees ¹	1,646.0	1,547.4	+98.6	6.37
Officer and employee benefits ²	221.2	203.3	+17.9	8.80
Interest on time and savings deposits.....	1,588.7	1,158.6	+430.1	37.12
Net occupancy expense of bank premises.....	286.0	264.9	21.1	7.97
Other current operating expenses.....	874.3	801.4	72.9	9.10
Total.....	4,616.2	3,975.6	+640.6	16.11
Net current operating earnings.....	1,980.2	1,979.1	+1.1	.06
Recoveries, transfers from valuation reserves, and profits:				
On securities:				
Profits on securities sold or redeemed.....	128.1	243.2	-115.1	-47.33
Recoveries.....	3.4	5.1	-1.7	-33.33
Transfers from valuation reserves.....	41.7	56.4	-14.7	-26.06
On loans:				
Recoveries.....	8.1	7.9	+2	2.53
Transfers from valuation reserves.....	27.3	29.3	-2.0	-6.83
All other.....	40.4	29.7	+10.7	36.03
Total.....	249.0	371.6	-122.6	-32.99
Losses, chargeoffs, and transfers to valuation reserves:				
On securities:				
Losses and chargeoffs.....	40.4	39.4	+1.0	2.54
Transfers to valuation reserves.....	59.1	154.3	-95.2	-61.70
On loans:				
Losses and chargeoffs.....	13.5	16.7	-3.2	-19.16
Transfers to valuation reserves.....	292.2	260.4	+31.8	12.21
All other.....	67.1	62.0	+5.1	8.23
Total.....	472.3	532.8	-60.5	-11.36
Net income before related taxes.....	1,756.9	1,817.9	-61.0	-3.36
Taxes on net income:				
Federal.....	637.7	734.6	-96.9	-13.19
State.....	50.3	41.1	+9.2	22.38
Total.....	688.0	775.7	-87.7	-11.31
Net income before dividends.....	1,068.9	1,042.2	+26.7	2.56
Cash dividends declared:				
On common stock.....	517.5	486.0	+31.5	6.48
On preferred stock.....	.2	.1	+1	100.00
Total.....	517.7	486.1	+31.6	6.50
Memoranda items:				
Recoveries credited to valuation reserves (not included in recoveries above):				
On securities.....	2.9	5.6	-2.7	-48.21
On loans.....	51.3	44.5	+6.8	15.28
Losses charged to valuation reserves (not included in losses above):				
On securities.....	7.6	11.8	-4.2	-35.59
On loans.....	143.6	148.1	-4.5	-3.04
Stock dividends (increases in capital).....	94.1	165.6	-71.5	-43.18
Ratios:	Percent	Percent	Percent	
Current operating expenses to current operating revenue.....	69.98	66.76	+3.22	
Net income before dividends to capital accounts.....	8.70	9.09	-.39	
Cash dividends to capital stock.....	14.10	14.02	+1.08	
Cash dividends to capital accounts.....	4.21	4.24	-.03	

¹ Number at end of period. Remaining figures include earnings, expenses, etc., of those banks which were in operation a part of the year but were inactive at the close of the year.

² Figures are averages of amounts reported for the June and December call dates in the year indicated and the December call date in the previous year.

³ Exclusive of building employees.

IV. Income and Expenses of National Banks

The composition of earning assets continued to shift from securities to loans during 1964, and deposits shifted from demand to time. An analysis of the income and dividend statements for national banks reflects these changes. While loans and discounts have higher yields than securities, the additional supply of funds raised through time deposits has been more costly. This price-cost relationship between loans and time deposits has led banks to search for other sources of funds. One source is the debenture. The phenomenal growth of this form of financing during 1964 readily attests to its usefulness.

During 1964, net income of national banks increased by \$7.4 million (see table 12) to a level of \$1,213 million. Operating revenue for 1964 exceeded the 1963 level by \$845 million, an 11.6 percent increase. Interest and discount on loans accounted for \$610 million, or 72.2 percent, of this \$845 million increase. Earnings on U.S. Government securities increased 1.6 percent, while earnings from other securities (mostly State and local issues) increased \$97 million, or 19.2 percent.

Operating expenses for 1964 rose 12.9 percent from the 1963 level of \$5,229 million. Of this \$676 million increase, 51 percent (\$345 million) represented the

cost of interest on time and savings deposits; this was 18.0 percent above the 1963 level—less than the 20.7 percent increase registered in 1963. Salaries and wages expense rose by 7.9 percent from 1963. Net current operating earnings increased to \$2,243 million in 1964, \$169 million above the 1963 level.

Net income before related taxes dropped to \$1,854.7 million in 1964, from \$1,893.9 in 1963. This 2.1 percent decline from 1963 can be traced to a net change of \$208.5 million in profits, recoveries, losses, and transfers to valuation reserves. Profits on securities sold decreased \$44.8 million, or 50.9 percent, from 1963. Transfers from valuation reserves fell \$85.7 million, or 81.6 percent, from 1963. Conversely, transfers to valuation reserves increased \$36.0 million to \$365.6 million. The net result was a \$388.3 million reduction in operating earnings. After deduction of \$10.2 million for interest paid on capital notes and debentures, taxable income was reduced to \$1,844.5 million.

In 1964, Federal income taxes decreased \$57.4 million from the 1963 level. The factors behind this change were a lower corporate tax rate, and a greater share of income derived from tax-exempt sources.

TABLE 12.—Current operating revenue, expenses, and dividends of national banks, December 1963 and 1964, and dollar and percent changes, 1963-64

[Dollar amounts in millions]

Item	December 1963	December 1964	Change 1963-64	
			Dollar	Percent
Number of banks ¹	\$4, 615	\$4, 773	158	3.42
Capital stock (par value) ²	3, 886. 0	4, 163. 1	277. 1	7. 13
Capital accounts ²	13, 102. 0	14, 297. 8	1, 195. 8	9. 13
Current operating revenue:				
Interest and dividends on—				
U.S. Government obligations	1, 171. 3	1, 189. 7	18. 4	1. 57
Other securities	504. 9	601. 7	96. 8	19. 17
Interest and discount on loans	4, 621. 6	5, 232. 4	610. 8	13. 22
Service charges on deposit accounts	408. 8	441. 4	32. 6	7. 97
Other current operating revenue	596. 0	682. 5	86. 5	14. 51
Total	7, 302. 5	8, 147. 7	845. 2	11. 57
Current operating expenses:				
Salaries, wages, and fees ³	1, 770. 0	1, 909. 1	139. 1	7. 86
Officer and employee benefits ³	242. 6	266. 0	23. 4	9. 65
Interest on time and savings deposits	1, 917. 3	2, 262. 7	345. 4	18. 01
Net occupancy expense of bank premises	313. 6	350. 8	37. 2	11. 86
Other current operating expenses	985. 3	1, 116. 1	130. 8	13. 28
Total	5, 228. 8	5, 904. 7	675. 9	12. 93
Net current operating earnings	2, 073. 7	2, 243. 0	169. 3	8. 16

See footnotes at end of table.