II. Income and Expenses of National Banks

One of the effects of the recession was that total operating income of all National banks fell 3.8 percent during 1975 while net income rose 5.3 percent. Thus, the increase in National bank profits that occurred was not the result of increased operating income, as is usually the case, but was occasioned by the decrease in expenses of National banks during the year by $1,624 million, or 4.6 percent.

Applicable income taxes continued to decrease in 1975 to $1,069 million, a decrease of 4.8 percent for the year. So, despite all the recessionary pressures, net income of National banks actually increased to $4,259 million in 1975 from $4,045 million in 1974, an increase of 5.3 percent. The all important rate of return on assets, 0.77 percent for 1975, was essentially the same as it had been the preceding year. The return on assets was sustained because the rate of increase of net income was somewhat greater than that for total assets.

Interest and fees on loans totaled $25,476 million in 1975, a decrease of 10.4 percent compared to 1974. The recession also affected income on Federal funds sold and securities purchased under agreements to resell; that figure decreased 36.3 percent to $1,384 million. Loan related income fell to 65.5 percent of total operating income. Total revenue from securities holdings were 17.0 percent of total operating income in 1975, compared to 13.8 percent in 1974. That reversed the trend of decreasing income from securities found in previous years.

As holdings in U. S. Treasury securities increased by $17,723 million, interest earned on such securities increased 37.3 percent. Further, the interest earned on U. S. Treasuries was $1,023 million more than the earnings on Federal funds sold and securities purchased under agreements to resell. That also was a reversal of the previous year's trend. Revenues from obligations of States and political subdivisions totaled $2,724 million, showing an increase of 7.6 percent over 1974.

On the expense side, the recession had an extraordinary effect on the total cost of funds. Interest on deposits fell by $1,335 million, or 8.1 percent. The cost of Federal funds purchased and securities sold under agreements to repurchase decreased $2,014 million, or 47.0 percent, between year-end 1974 and 1975. The total savings of $3,618 million in interest and Fed funds costs was enough to sufficiently reduce expenses to make 1975 a profit year. Those costs equalled 53.3 percent of total operating expenses in 1975, compared to 61.1 percent in 1974.

Salaries and wages of officers and employees increased by 8.7 percent during the year. While the proportion of total expense represented by those items, 18.1 percent, was higher than in the previous year, it was still significantly lower than the 1972 figure of 23.1 percent.

One of the largest increases in expenses in 1975 was the additional $832.5 million provided for loan losses; that produced a 59.8 percent rise over the prior year's total. Cash dividends totaling $1.8 billion were paid by National banks during 1975. That was an increase of 9 percent over the previous year. In 1975 dividends reflected a pay-out ratio of 42.8 percent as compared to 41.3 percent in 1974.

Table 2

Income and expenses of National banks, 1974 and 1975*

(Dollar amounts in millions)

	1974		1975		Change, 1974–1975	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent
Number of banks	4,708		4,744		36	0.8
Operating income:						
Interest and fees on loans	$28,418.6	70.26	$25,475.6	65.48	–2,943.0	–10.36
Income on Federal funds sold and securities purchased under agreements to resell	2,173.1	5.37	1,383.6	3.56	–789.5	–36.33
Interest and dividends on investments:						
U.S. Treasury securities	1,752.7	4.33	2,406.8	6.19	654.1	37.32
Obligations of other U.S. Government agencies and corporations	1,018.4	2.52	1,194.9	3.07	176.5	17.33
Obligations of States and political subdivisions	2,531.3	6.26	2,724.4	7.00	193.1	7.63
Other securities	258.9	.64	280.2	.72	21.3	8.23
Trust department income	853.7	2.11	926.4	2.38	72.7	8.52
Service charges on deposit accounts	827.2	2.05	883.5	2.27	56.3	6.81
Other service charges, collection and exchange charges, commissions, and fees	938.5	2.32	1,087.0	2.79	148.5	15.82
Other operating income	1,676.0	4.14	2,544.9	6.54	868.9	51.84
Total operating income	40,448.3	100.00	38,907.4	100.00	–1,540.9	–3.81
Operating expense:						
Salaries and wages of officers and employees	5,593.0	15.87	6,079.4	18.08	486.4	8.70
Pensions and other employee benefits	1,034.0	2.94	1,149.8	3.42	115.8	11.20
Interest on deposits	16,585.0	47.06	15,249.6	45.36	–1,335.4	–8.05
Expense of Federal funds purchased and securities sold under agreements to repurchase	4,277.2	12.14	2,263.4	6.73	–2,013.8	–47.08
Interest on borrowed money	519.3	1.47	248.7	.74	–270.6	–52.11
Interest on capital notes and debentures	147.8	.42	149.8	.45	2.0	1.35
Occupancy expense of bank premises, net	1,146.6	3.25	1,282.2	3.82	135.6	11.83
Furniture and equipment, depreciation, rental costs, servicing, etc.	811.9	2.30	902.3	2.68	90.4	11.13
Provision for loan losses (or actual net loan losses)	1,391.8	3.95	2,224.3	6.62	832.5	59.81
Other operating expenses	3,734.9	10.60	4,068.2	12.10	333.3	8.92
Total operating expense	35,241.4	100.00	33,617.5	100.00	–1,623.9	–4.61
Income before income taxes and securities gains or losses	5,206.9		5,289.9		83.0	1.59
Applicable income taxes	1,122.6		1,068.6		–54.0	–4.81
Income before securities gains or losses	4,084.3		4,221.3		137.0	3.35
Net securities gains (after tax effect)	–42.4		16.0		58.4	137.74
Net income before extraordinary items	4,041.9		4,237.3		195.4	4.83
Extraordinary charges or credits	2.8		21.8		19.0	678.57
Minority interest in consolidated subsidiaries	—		—		—	—
Net income	4,044.5		4,259.0		214.5	5.30
Cash dividends declared:						
On common stock	1,670.2		1,820.6		150.4	9.00
On preferred stock	1.0		.8		–.2	–20.00
Total cash dividends declared	1,671.2		1,821.4		150.2	8.99
Ratio to income before income taxes and securities gains or losses:						
Applicable income taxes		21.56		20.20		
Net securities gains		–.81		.30		
Extraordinary charges or credits		.05		.41		
Ratio to total operating income:						
Salaries and wages		13.83		15.63		
Interest on deposits		41.00		39.19		
All other operating expenses		32.30[R]		31.58		
Total operating expenses		87.13		86.40		
Net income		10.00		10.95		

* Includes all banks operating as National banks at year-end, and full year data for those State banks converting to National banks during the year.

[R] Restated

NOTE: Dashes indicate amounts of less than $500,000. Data may not add to totals because of rounding.

II. Income and Expenses of National Banks

Total income and expenses of the National Banking System reflected the steady recovery in the U.S. economy during 1976. Total income rose 23.4 percent, a reversal of the previous year's decline. Total expenses also increased, by 25.2 percent. National banks' net income increased $332.1 million, or 7.8 percent. That rate was 2.5 percent more than the 5.3 percent increase achieved 1974 to 1975. Applicable income taxes on operating income rose to $1,436.8 million, 34.5 percent more than the previous year. The rate of return on assets was 0.79, slightly more than 1975's 0.77.

Interest and fees on loans increased $5,555.4 million to $31,031.0 million, showing an increase of 21.8 percent. Income from federal funds sold or securities purchased under agreements to resell decreased to $1,383.6 million. Loan-related income fell to 64.6 percent of total operating income, continuing the pattern of previous years. Total revenue from securities holdings (including stock) as a proportion of total revenue declined slightly to 16.2 percent from 1975's 17.0 percent figure.

Holdings of U.S. Treasury securities for investment purposes increased $7,802 million. That produced an increase in interest earned on such securities of $786.5 million, or 32.7 percent. The interest earned on U.S. Treasuries was $1,964.1 million more than the earnings on Federal funds sold and securities purchased to resell. That reinforces the reversal of the previous trend. Prior to 1975, interest earned on U.S. Treasuries had been less that the earnings from Federal funds sold and securities purchased under agreements to resell. Revenues from obligations of states and political subdivisions totalled $2,801.1 million, a small increase over the 1975 figure.

The expense items involving interest payments increased by 37.5 percent. Interest on deposits, the largest expense item, increased to $20,885.8 million, an increase for the year of 37 percent. Salaries and employee benefits increased 18.6 percent, more than double the previous year's increase. Provisions for loan losses increased by $26.1 million, or 1.2 percent. That small increase in the provision for loan losses was important in making 1976 a profit year.

Cash dividends paid totaled $1,821.1 million, almost the same amount paid in 1976. In 1975, the dividend pay-out ratio declined to 39.7 percent. The previous two years' dividend pay-out ratios were 42.8 (1975) and 41.3 (1974) percent.

Table 2

Income and expenses of National banks, December 31, 1976
(Dollar amounts in thousands)

	Amount	*Percent distribution*
4,737 national banks		
Operating income:		
Interest and fees on loans	$31,031,046	64.61
Interest on balances with banks	2,946,656	6.14
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	1,229,182	2.56
Income on securities:	7,696,571	16.03
U.S. Treasury securities	3,193,274	6.65
Obligations of other U.S. government agencies and corporations	1,210,149	2.52
Obligations of states and political subdivisions	2,801,076	5.83
Other bonds, notes and debentures	492,072	1.03
Dividends on stock	62,149	.13
Income from direct lease financing	408,438	.85
Income from fiduciary activities	1,029,203	2.14
Service charges on deposit accounts in domestic offices	911,467	1.90
Other service charges, commissions, and fees	1,441,484	3.00
Other income	1,265,214	2.64
Total operating income	48,021,410	100.00
Operating expenses:		
Salaries and employee benefits	8,575,522	20.37
Interest on time certificates of deposit of $100,000 or more issued by domestic offices	4,327,891	10.28
Interest on deposits in foreign offices	5,962,140	14.16
Interest on other deposits	10,595,809	25.17
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,268,120	5.39
Interest on borrowed money	454,745	1.08
Interest on subordinated notes and debentures	179,190	.42
Occupancy expense of bank premises, net	1,548,312	3.68
Furniture and equipment expense	1,015,489	2.41
Provision for possible loan losses (or actual net loan losses)	2,250,427	5.34
Other expenses	4,925,748	11.70
Total operating expenses	42,103,393	100.00
Income before income taxes and securities gains or losses	5,918,017	
Applicable income taxes (domestic and foreign)	1,436,755	
Income before securities gains or losses	4,481,262	
Securities gains (losses), gross	168,493	
Applicable income taxes (domestic and foreign)	−72,596	
Securities gains (losses), net	95,897	
Income before extraordinary items	4,577,159	
Extraordinary items, net of tax effect	13,891	
Net income	4,591,050	
Cash dividends declared:		
On common stock	1,820,000	
On preferred stock	1,088	
Total cash dividends declared	1,821,088	
Ratio to income before income taxes and securities gains or losses:		
Applicable income taxes		24.28
Net securities gains		1.62
Extraordinary charges or credits		.24
Ratio to total operating income:		
Salaries and wages		17.86
Interest on deposits*		43.49
All other operating expenses		26.33
Total operating expenses		87.68
Net income		9.56

* Includes expenses on all deposits.

NOTE: Data may not add to totals because of rounding. Includes all banks operating as national banks at year-end and full year data for those state banks converting during the year.

II. Income and Expenses of National Banks

Total income and expenses of the National Banking System increased substantially during 1977, reflecting both the continuing increase in national bank assets and a steady rise in interest rates. The continued economic recovery was paralleled by an increase in national banks' net income of $547.7 million, or 11.9 percent. That was the highest rate of increase for net income since 1973, and substantially exceeded last year's increase of 7.8 percent.

During 1977, total operating income increased just over 12 percent, to $53.8 billion. That rate of increase was slightly less than that for consolidated foreign and domestic assets, which increased 13.1 percent from $704.3 billion to $796.9 billion. Total expenses increased 11.5 percent, totalling $47 billion for the year. The faster growth of total operating income produced a $915 million increase in income before taxes and securities gains. The 15.5 percent increase in net operating earnings was trimmed by a sharp increase in applicable income taxes of 23 percent, to $1.8 billion. Also, gains on the sales of securities for the year netted only $36 million, down considerably from the $96 million figure for 1976. The rate of return on assets was 0.79 percent, unchanged from 1976.

Interest and fees on loans totalled $35.4 billion in 1977, an increase of 14.2 percent compared to 1976. That increase roughly parallels the 15.3 percent increase during the year in loans at foreign and domestic offices. As a result, loan-related income rose to 65.9 percent of total operating income. The continuing growth in loan demand carried over to similar credit transactions as reflected in the rapid increase in income from direct lease financing, which jumped 31.6 percent, to $538 million, and in income on Federal funds sold and securities purchased under agreements to resell, which increased 24.6 percent, to $1.5 billion.

Investment securities holdings, which increased slowly during the year, accounted for 14.9 percent of total operating income. That continued the trend of decreasing reliance on income from securities which was interrupted in 1975, by the recession. Although holdings of U.S. Treasury securities actually decreased during 1977, income on those investments rose 3.9 percent; a result of the steadily rising discount rate on Treasury bills. Revenues from obligations of states and political subdivisions totalled $2.9 billion, showing an increase of 4.6 percent over 1976 levels.

On the expense side, steadily rising interest rates during 1977 did not have an apparent effect on the cost of deposits. Total interest expense on deposits was $23.1 billion, an increase of 10.7 percent over 1976. However, year-end 1977 total deposits in domestic and foreign offices of national banks were 12.2 percent higher than the previous December. That less than proportionate increase in expense is due, in part, to the unusual increase in demand deposits at domestic offices. Deposits in foreign offices, which equal just over 20 percent of total deposits, accounted for 30.8 percent of total interest expense for deposits.

Other interest expenses increased more rapidly. The cost of Federal funds purchased and securities sold under agreements to repurchase grew $848 million, or 37.4 percent, during 1977. Also, the $604 million paid in 1977 on borrowed money was 32.8 percent higher than the comparable figure for 1976. Total interest expense, including that on subordinated debt, equalled $27 billion, which is 57.6 percent of total operating expenses.

Salaries and employee benefits increased by 10.6 percent. The proportion of total expenses that item represents declined slightly, to 20.2 percent. The most substantial improvement in expenses was the $265 million decline in the provision for possible loan losses. That item, which increased sharply in 1975 as the result of loan problems arising from the recession, was maintained at a very high level during 1976. After the second full year of economic growth, there has been sufficient improvement in loans to allow for the reduction of that expense.

During 1977, national banks not only enjoyed a substantial growth in net income, but also, the trend toward retaining a larger portion of those earnings was continued. Cash dividends totalling $1,994 million were paid during 1977. Those dividends equalled 38.8 percent of earnings. The comparable pay-out ratio was 39.7 percent in 1976 and 42.8 percent in 1975.

Table 2

Income and expenses of national banks, 1976 and 1977*

(Dollar amounts in thousands)

	1976 4,737 banks		1977 4,655 banks		Change, 1976-1977	
	Amount	*Percent distribution*	*Amount*	*Percent distribution*	*Amount*	*Percent*
Operating income:						
Interest and fees on loans	$ 31,031,046	64.62	$ 35,446,288	65.90	$ 4,415,242	14.23
Interest on balances with banks	2,946,656	6.14	3,243,048	6.03	296,392	10.06
Income on Federal funds sold and securities purchased under agreements to resell in domestic offices	1,229,182	2.56	1,532,133	2.85	302,951	24.65
Income on securities:	7,696,571	16.03	8,040,405	14.95	343,834	4.47
U.S. Treasury securities	3,193,274	6.65	3,319,382	6.17	126,108	3.95
Obligations of other U.S. government agencies and corporations	1,210,149	2.52	1,212,580	2.25	2,431	.20
Obligations of states and political subdivisions	2,801,076	5.83	2,929,628	5.45	128,552	4.59
Other bonds, notes and debentures	492,072	1.03	578,815	1.08	86,743	17.63
Dividends on stock	62,149	.13	61,291	.11	—858	—1.38
Income from direct lease financing	408,438	.85	537,633	1.00	129,195	31.63
Income from fiduciary activities	1,029,203	2.14	1,131,299	2.10	102,096	9.92
Service charges on deposit accounts in domestic offices	911,467	1.90	986,925	1.84	75,458	8.28
Other service charges, commissions, and fees	1,441,484	3.00	1,566,644	2.91	125,160	8.68
Other income	1,265,214	2.63	1,243,253	2.31	—21,961	—1.74
Total operating income	48,021,410	100.00	53,788,919	100.00	5,767,509	12.01
Operating expenses:						
Salaries and employee benefits	8,575,522	20.37	9,486,853	20.20	911,331	10.63
Interest on time certificates of deposit of $100,000 or more issued by domestic offices	4,327,891	10.28	4,031,501	8.59	—296,390	—6.85
Interest on deposits in foreign offices	5,962,140	14.16	7,123,000	15.17	1,160,860	19.47
Interest on other deposits	10,595,809	25.17	11,956,920	25.46	1,361,111	12.85
Expense of Federal funds purchased and securities sold under agreements to repurchase in domestic offices	2,268,120	5.39	3,116,094	6.64	847,974	37.39
Interest on borrowed money	454,745	1.08	603,986	1.29	149,241	32.82
Interest on subordinated notes and debentures	179,190	.42	202,668	.43	23,478	13.10
Occupancy expense of bank premises, net	1,548,312	3.68	1,710,294	3.64	161,982	10.46
Furniture and equipment expense	1,015,489	2.41	1,140,820	2.43	125,331	12.34
Provision for possible loan losses (or actual net loan losses)	2,250,427	5.34	1,985,113	4.23	—265,314	—11.79
Other expenses	4,925,748	11.70	5,598,346	11.92	672,598	13.65
Total operating expenses	42,103,393	100.00	46,955,595	100.00	4,852,202	11.52
Income before income taxes and securities gains or losses	5,918,017	...	6,833,324	...	915,307	15.47
Applicable income taxes (domestic and foreign)	1,436,755	...	1,767,061	...	330,306	22.99
Income before securities gains or losses	4,481,262	...	5,066,263	...	585,001	13.05
Securities gains (losses), gross	168,493	...	52,456	...	—116,037	—68.87
Applicable income taxes (domestic and foreign)	72,596	...	16,000	...	—56,596	—77.96
Securities gains (losses), net	95,897	...	36,456	...	—59,441	—61.98
Income before extraordinary items	4,577,159	...	5,102,719	...	525,560	11.48
Extraordinary items, net of tax effect	13,891	...	36,029	...	22,138	159.37
Net income	4,591,050	...	5,138,748	...	547,698	11.93
Cash dividends declared:						
On common stock	1,820,000	...	1,993,176	...	173,176	9.52
On preferred stock	1,088	...	1,090	...	2	.18
Total cash dividends declared	1,821,088	...	1,994,266	...	173,178	9.51
Ratio to income before income taxes and securities gains or losses:						
Applicable income taxes	...	24.28	...	25.86	...	...
Net securities gains	...	1.62	...	.53	...	...
Extraordinary charges or credits	...	.23	...	.53	...	...
Ratio to total operating income:						
Salaries and wages	...	17.86	...	17.64	...	...
Interest on deposits	...	43.49	...	42.97	...	...
All other operating expenses	...	26.33	...	26.69	...	...
Total operating expenses	...	87.68	...	87.30	...	...
Net income	...	9.56	...	9.55	...	...

*Includes all banks operating as national banks at year-end, and full year data for those state banks converting to national banks during the year.

II. Income and Expenses of National Banks

Total income and expenses of national banks increased greatly during 1978, reflecting both the continuing increase in bank assets and the rapid rise in interest rates. Continuing steady economic expansion is reflected in the rapid increase in national banks' net income by more than $1 billion, or 20 percent. That was the highest rate of increase of net income in the decade, and follows last year's substantial rise of 11.9 percent. It resulted from banks' ability to limit the reduction in their interest rate margins despite the increasing need to rely on purchased funds and the development of higher priced consumer deposits such as the 26-week money market rate certificate.

During 1978, total operating income jumped 26.1 percent to $67.8 billion. That rate was more than double the 12 percent increase in assets over the year, reflecting the ability of banks to adjust their loan rates during a period of rapidly rising interest rates. That is possible because most bank loans are short term and because an increasing proportion are being made on a floating rate basis. The prime rate, the basic commercial lending rate, increased from 7.75 to 11.75 percent during 1978. Total operating expenses increased somewhat more slowly than income, growing 25.6 percent to $59 billion. That produced a $2 billion increase in income before taxes and securities gains. The 29.8 percent increase in net operating earnings was trimmed by a sharp increase in applicable income taxes of 46.6 percent, to $2.6 billion. Also, national banks suffered a net loss, after taxes, of $128 million on sales of securities for the year, a reversal of last year's modest gain of $36 million. That loss was partially offset by net extraordinary gains of $26 million, which left net income for the year at $6.2 billion. The rate of return on assets was 0.69 percent, up significantly from 1977's 0.64 percent.

Interest income, including income from lease financing and corporate stock, increased 26.7 percent over 1977 to reach $61.9 billion; it accounted for more than 91 percent of total operating income. The largest component of that, interest and fees on loans, totalled $46 billion in 1978, an increase of nearly 30 percent over 1977. Thus, in addition to loans increasing 13 percent, national banks were able to increase the average return on their loan portfolio by more than 1 full percentage point during the year. However, interest on balances with depository institutions and income from federal funds transactions jumped even more disproportionately, 36 and 43 percent respectively, reflecting their greater responsiveness to changes in interest rates.

Security holdings, which increased slowly during the year, accounted for less than 13 percent of total operating income. That continued the trend of decreasing reliance on income from securities which was interrupted briefly in 1975, as a result of the recession. Although holdings of U.S. Treasury and government agency securities actually declined during 1978, as they had in 1977, income on those investments rose a modest 4.2 percent as a result of the rising interest rates on government issues. Revenues from obligations of states and political subdivisions totalled $3.25 billion, showing an increase of 11 percent over 1977. Non-interest income, resulting mainly from fees for services, increased just over 20 percent to $5.9 billion.

On the expense side, the rapidly rising interest rates during 1978 had a marked effect on deposit costs. Total interest expense on deposits was $30 billion, an increase of 30 percent over 1977. That increase would have been even more dramatic except for the fact that most bank deposits are still subject to interest rate controls. The expense of deposits which are acquired at a competitive market rate, large time certificates of deposit and deposits in foreign offices, jumped 74 percent and 42 percent respectively, nearly three times the actual increase in those deposits. Deposits at foreign offices, essentially all of which pay interest at market rates, accounted for one-third of the total interest expense for deposits, although they equal less than 22 percent of total deposits.

Other interest expenses, with the exception of those for long term subordinated debt, increased more rapidly than those for deposits. The cost of federal funds purchased and securities sold under agreements to repurchase grew $1.9 billion, or 60 percent, during 1978. Also, the $1 billion paid on borrowed money was nearly 70 percent higher than in 1977. However, that item now includes the expense of demand notes issued to the U.S. Treasury which were introduced late in the year. The full effect of that change will not be shown until 1979. Total interest expense was $36.3 billion, a 34 percent increase over 1977, which is equal to 62 percent of total operating expenses.

Salaries and employee benefits increased by 14.3 percent, slightly greater than the rate of increase for total assets. However, the proportion of total expenses that item represents declined to 18 percent from 20 percent last year. The most substantial improvement in expenses results from the continuing decline in net loan losses which dropped to $1.4 billion in 1978, substantially below the post-recession peak of more than $2 billion in 1975. Therefore, national banks were able to substantially increase their loan loss reserves while only increasing their expense provision by $146 million.

During 1978, national banks not only enjoyed substantial growth in net income, but continued the trend toward retaining a larger portion of those earnings. Cash dividends totalling $2.2 billion were declared in 1978, only a 10 percent increase over 1977. Those dividends equalled less than 36 percent of earnings. The comparable pay-out ratio was 39 percent last year, and nearly 43 percent in 1975. As retained earnings are the primary source of equity capital in banking, high levels of retained earnings and net income are necessary to prevent the decline of current capital ratios. Because of the rapid increase in net income and the slight increase in leveraging, net income to equity capital rose to 12.5 percent from 11.4 percent last year.

Table 2

Income and expenses of national banks, 1977 and 1978

(Dollar amounts in millions)

	1977 4,655 banks		1978 4,564 banks		Change, 1977-1978	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent
Operating income:						
Interest and fees on loans	$35,446.3	65.9	$45,997.7	67.8	$10,551.4	29.7
Interest on balances with depository institutions*	3,243.0	6.0	4,407.3	6.5	1,164.3	35.9
Income on Federal funds sold and securities purchased under agreements to resell	1,532.1	2.8	2,197.8	3.2	665.7	43.5
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	4,532.0	8.4	4,721.6	7.0	159.6	4.2
Interest on obligations of states and political subdivisions in the U.S.	2,929.6	5.4	3,252.1	4.8	322.5	11.0
Income from all other securities (including dividends on stock)	640.1	1.2	693.2	1.0	53.1	8.3
Income from lease financing	537.6	1.0	639.4	0.9	101.8	18.9
Income from fiduciary activities	1,131.3	2.1	1,214.8	1.8	83.5	7.4
Service charges on deposit accounts	986.9	1.8	1,089.5	1.6	102.6	10.4
Other service charges, commissions, and fees	1,566.6	2.9	1,932.2	2.8	365.6	23.3
Other operating income	1,243.3	2.3	1,696.9	2.5	453.6	36.5
Total operating income	53,788.9	100.0	67,842.4	100.0	14,053.5	26.1
Operating expenses:						
Salaries and employee benefits	9,486.9	20.2	10,845.2	18.4	1,358.3	14.3
Interest on time certificates of $100,000 or more (issued by domestic offices)	4,031.5	8.6	7,021.9	11.9	2,990.4	74.2
Interest on deposits in foreign offices	7,123.0	15.2	10,139.7	17.2	3,016.7	42.4
Interest on other deposits	11,956.9	25.5	12,873.9	21.8	917.0	7.7
Expense of federal funds purchased and securities sold under agreements to repurchase	3,116.1	6.6	4,989.6	8.5	1,873.5	60.1
Interest on demand notes issued to the U.S. Treasury and on other borrowed money †	604.0	1.3	1,023.1	1.7	419.1	69.4
Interest on subordinated notes and debentures	202.7	0.4	234.3	0.4	31.6	15.6
Occupancy expense of bank premises, net, and furniture and equipment expense	2,851.1	6.1	3,194.3	5.4	343.2	12.0
Provision for possible loan loss	1,985.1	4.2	2,131.2	3.6	146.1	7.4
Other operating expenses	5,598.3	11.9	6,522.5	11.1	924.2	16.5
Total operating expenses	46,955.6	100.0	58,975.8	100.0	12,020.2	25.6
Income before income taxes and securities gains or losses	6,833.3	...	8,866.6	...	2,033.3	29.8
Applicable income taxes	1,767.1	...	2,591.0	...	323.9	46.6
Income before securities gains or losses	5,066.3	...	6,275.6	...	1,209.3	23.9
Securities gains (losses), gross	52.5	...	−253.5	...	−306.2	−583.2
Applicable income taxes	16.0	...	−125.2	...	−141.2	−832.5
Securities gains (losses), net	36.5	...	−128.3	...	−164.8	−451.5
Income before extraordinary items	5,102.7	...	6,147.3	...	1,044.6	20.5
Extraordinary items, net	36.0	...	26.1	...	−9.9	−27.5
Net income	5,138.7	...	6,173.4	...	1,034.7	20.1
Cash dividends declared on common stock	1,993.2	...	2,194.7	...	201.5	10.1
Cash dividends declared on preferred stock	1.1	...	1.4	...	0.3	27.3
Total cash dividends declared	1,994.3	...	2,196.1	...	201.8	10.1
Recoveries credited to allowance for possible loan losses	503.9	...	685.9	...	177.0	34.8
Losses charged to allowance for possible loan losses	2,179.8	...	2,124.6	...	−55.2	−2.5
Net loan losses	1,670.9	...	1,438.7	...	−232.2	−13.9
Ratio to total operating income:	*Percent*		*Percent*			
Interest on deposits	43.0		44.3			
Other interest expense	7.3		9.2			
Salaries and employee benefits	17.6		16.0			
Other non-interest expense	19.4		17.5			
Total operating expenses	87.3		86.9			
Ratio of net income to:						
Total assets (end of period)	0.64		0.69			
Total equity capital (end of period)	11.4		12.5			

* In 1978, this category was expanded to include all depository institutions, rather than just banks.

† Most demand deposits of the U.S. government were converted to "interest-bearing" demand notes issued to the U.S. Treasury in late 1978.

II. Income and Expenses of National Banks

Total income and expenses of national banks grew even more rapidly in 1979 than during 1978, increasing more than 30 percent and reflecting both the continuing rise in interest rates and a substantial growth in bank assets. However, net income grew at the lower rate of 17 percent, representing a reduction in interest rate margins resulting from an increasing reliance on market rate funds, including the spectacular growth in the 26-week money market certificates. That 17 percent growth in net income, just over $1 billion, was the second largest increase in the last decade, exceeded only by last year's rise of 20 percent.

During 1979, total operating income jumped 32.5 percent to $89.9 billion. That rate was nearly triple the 11.7 percent increase in assets over the year, reflecting the continued ability of banks to adjust their loan rates during a period of rapidly rising interest rates. The prime rate, the basic commercial lending rate, increased from 11.75 to 15.25 percent. All of that increase occurred during the second half of the year and followed an even larger 400-basis point increase during 1978. Total operating expenses increased even more rapidly during the year than income, growing 35.2 percent to $79.7 billion. The result was a $1.3 billion increase in income before taxes and securities gains, well below last year's $2 billion increase. However, applicable income taxes increased only $163 million, or 6.3 percent to $2.7 billion, following last year's growth of 46.6 percent. Net securities losses increased a further $57 million following a $175 million swing last year. Extraordinary income was virtually unchanged and added $26 million to net income. Net income was $7.2 billion, equal to 0.73 percent of end-of-year assets, the second significant yearly increase in return on assets in a row.

Interest income, including income from lease financing and corporate stock, increased 33.9 percent over 1978 to reach $82.9 billion; it accounted for more than 92 percent of total operating income. The largest component of that, interest and fees on loans, totalled $61.8 billion in 1979, an increase of more than 34 percent over 1978. Thus in addition to loans increasing almost 12 percent, national banks were able to increase the average return on their loan portfolio by nearly 2 percentage points over last year. However, interest on balances with depository institutions and income from federal funds transactions jumped even more disproportionately, 57 and 62 percent respectively, reflecting their short-term nature and responsiveness to changes in interest rates.

Security holdings, which increased slowly during the year, accounted for less than 12 percent of total operating income. That continued the trend of decreasing reliance on income from securities, which was interrupted only in 1975 as a result of depressed loan demand during the recession. Although holdings of U.S. Treasury and government agency securities continued to decline as they have since 1976, income on those investments rose nearly 14 percent as older issues were replaced by higher yielding issues. Noninterest income, resulting mainly from fees for services, increased 18 percent to $7 billion.

High and rising interest rates and the success of new market rate instruments in 1979 had a dramatic effect on deposit costs. Total interest expense on deposits was $43.4 billion, an increase of 44 percent. The expense of deposits which have long been acquired at competitive market rates, large time certificates of deposits and deposits in foreign offices, jumped 53 and 67 percent, respectively. The expense of foreign office deposits, which remained the fastest growing source of deposits, grew at more than three times the actual increase in those deposits as it did the previous year and accounted for nearly 40 percent of the total interest expense on deposits, although they equaled 24 percent of total deposits. The rapid growth of 26-week money market certificates during the year helped to push the interest expense on other deposits up 22 percent, three times the rate of increase for last year.

The expense of other short-term market rate funds increased more rapidly than that for deposits. The cost of federal funds purchased and securities sold under agreements to repurchase grew $3.5 billion, or 70 percent over 1978. The 97 percent increase in expense on borrowed money is overstated, in part, because banks were paying interest on federal demand notes, for an entire year. Total interest expense was $54 billion, a 49 percent increase over 1979 and equal to 68 percent of total operating expenses.

Salaries and employee benefits increased 14.4 percent, slightly greater than the rate of increase for total assets. However, because of the effect of rising interest rates, it continued to decline in proportion to total expenses. Net loan losses increased slightly to $1.5 billion, still well below the post-recession peak of more than $2 billion in 1975. As a result the expense for provision for loan losses increased only slightly to $2.3 billion.

National banks declared $2.6 billion in dividends in 1979, equal to 36.6 percent of their net income. That was a slight increase in the payout ratio of 35.6 percent during 1978 but still the second lowest ratio since 1946. That high rate of retention of earnings was important because it was the primary source of equity capital growth. Because of the continued rapid increase in net income and the slight increase in leveraging, net income to equity capital rose to 13.3 percent from 12.5.

Income and expenses of national banks, 1978 and 1979
(Dollar amounts in millions)

	1978 4,564 banks		1979 4,448 banks		Change, 1978-1979	
	Amount	Percent distribution	Amount	Percent distribution	Amount	Percent
Operating income:						
Interest and fees on loans	$45,997.7	67.8	$61,801.9	68.8	$15,804.2	34.4
Interest on balances with depository institutions	4,407.3	6.5	6,931.2	7.7	2,523.9	57.3
Income on federal funds sold and securities purchased under agreements to resell	2,197.8	3.2	3,551.2	4.0	1,353.4	61.6
Interest on U.S. Treasury securities and on obligations of other U.S. government agencies and corporations	4,721.6	7.0	5,367.2	6.0	645.6	13.7
Interest on obligations of states and political subdivisions in the United States	3,252.1	4.8	3,748.2	4.2	496.1	15.3
Income from all other securities (including dividends on stock)	693.2	1.0	754.9	.8	61.7	8.9
Income from lease financing	639.4	0.9	730.5	.8	91.1	14.2
Income from fiduciary activities	1,214.8	1.8	1,345.0	1.5	130.2	10.7
Service charges on deposit accounts	1,089.5	1.6	1,316.1	1.5	226.6	20.8
Other service charges, commissions, and fees	1,932.2	2.8	2,453.0	2.7	520.8	27.0
Other operating income	1,696.9	2.5	1,887.0	2.1	190.1	11.2
Total operating income	67,842.4	100.0	89,886.1	100.0	22,043.7	32.5
Operating expenses:						
Salaries and employee benefits	10,845.2	18.4	12,403.7	15.6	1,558.5	14.4
Interest on time certificates of $100,000 or more (issued by domestic offices)	7,021.9	11.9	10,723.5	13.5	3,701.6	52.7
Interest on deposits in foreign offices	10,139.7	17.2	16,903.5	21.2	6,763.8	66.7
Interest on other deposits	12,873.9	21.8	15,737.0	19.7	2,863.1	22.2
Expense of federal funds purchased and securities sold under agreements to repurchase	4,989.6	8.5	8,498.4	10.7	3,508.8	70.3
Interest on demand notes issued to the U.S. Treasury and on other borrowed money.*	1,023.1	1.7	2,014.7	2.5	991.6	96.9
Interest on subordinated notes and debentures	234.3	0.4	265.4	.3	31.1	13.3
Occupancy expense of bank premises, net, and furniture & equipment expense	3,194.3	5.4	3,571.3	4.5	377.0	11.8
Provision for possible loan losses	2,131.2	3.6	2,251.7	2.8	120.5	5.7
Other operating expenses	6,522.5	11.1	7,356.2	9.2	833.7	12.8
Total operating expenses	58,975.8	100.0	79,725.5	100.0	20,749.7	35.2
Income before income taxes and securities gains or losses	8,866.6		10,160.6		1,294.0	14.6
Applicable income taxes	2,591.0		2,753.7		162.7	6.3
Income before securities gains or losses	6,275.6		7,406.8		1,131.2	18.0
Securities gains (losses), gross	−253.5		−349.4		−95.9	37.8
Applicable income taxes	−125.2		−163.2		−38.0	30.4
Securities gains (losses), net	−128.3		−186.2		−57.9	45.1
Income before extraordinary items	6,147.3		7,220.7		1,073.4	17.5
Extraordinary items, net	26.1		26.0		−.1	−.4
Net income	6,173.4		7,246.7		1,073.3	17.4
Cash dividends declared on common stock	2,194.7		2,648.2		453.5	20.7
Cash dividends declared on preferred stock	1.4		1.5		.1	7.1
Total cash dividends declared	2,196.1		2,649.7		453.6	20.7
Recoveries credited to allowance for possible loan losses	685.9		756.6		70.7	10.3
Losses charged to allowance for possible loan losses	2,124.6		2,296.5		171.9	8.1
Net loan losses	1,438.7		1,539.9		101.2	7.0
Ratio to total operating income:	*Percent*		*Percent*			
Interest on deposits	44.3		48.2			
Other interest expense	9.2		12.0			
Salaries and employee benefits	16.0		13.8			
Other non-interest expense	17.5		14.7			
Total operating expenses	86.9		88.7			
Ratio of net income to:						
Total assets (end of period)	0.69		0.73			
Total equity capital (end of period)	12.5		13.35			

*Most demand deposits of the U.S. government were converted to "interest-bearing" demand notes issued to the U.S. Treasury in late 1978.