BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 2, 1943

To Chairman Eccles

Subject:

From Woodlief Thomas

The attached table gives in brief form a picture of the change in earnings positions of banks between 1942 and 1941. Since we do not have figures for the country as a whole tabulated, I have selected the New York district and the Minneapolis district, for which data are available. The trend shown in these two districts appears from a quick survey of the other districts that are available to be fairly typical.

It is evident from the table that small banks showed a rather marked decline in net profits in 1942 as compared with 1941, whereas the large banks showed only slight declines. An important reason for this difference is the decline during the year in loans, upon which small banks depend more largely for their earnings than do large banks. The decline was particularly great in types of loans which bear higher rates of interest. One reason for the difference is that small banks had somewhat greater increases in expenses than the large banks. It appears that although the small banks had larger increases in deposits, additional expenses involved and the decline in loans resulted in a decrease in net profits.

Some of these and other factors accounting for the decline in profits at banks, and the differentials among groups of banks, are well stated in the attached circular from the Federal Reserve Bank of New York.

W. T.

Attachment

Mr Thomas

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 2600
March 27, 1943]

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1942

To all Member Banks in the Second Federal Reserve District:

Wartime developments are plainly reflected in the record of operations of member banks in this District during the past year. Large increases in holdings of United States Government securities, reduced loans, lower average rates of income on earning assets, increased expenses, and smaller net profits for a large majority of the banks of the District, all reflect the impact of the early stages of this country's participation in the war.

As the data on the following pages indicate, the average ratio of net profits to total capital funds for all member banks declined by 1/5 from 1941 to 1942, even though they enlarged their holdings of Government securities considerably; the average rate was 4.4 per cent in 1942 as compared with 5.5 per cent in 1941 (item 2). The reduction in net profits appears to have been chiefly the result of increased expenses—larger disbursements for salaries and wages, some increase in taxes, and increases in other expenses, including Federal Deposit Insurance Corporation assessments against the increased volume of deposits—which were only partially offset by reduced interest payments on time deposits (items 13-17). Another factor was a considerable reduction in recoveries and profits taken on securities sold, reflecting the more stable market conditions which prevailed during 1942, especially for Government securities (items 22 and 23).

Bank earnings were affected also by a lower average rate of return on their assets (item 4), which for many groups of banks more than offset the effects of an increased volume of earning assets. There were repayments of loans, on which relatively high interest rates had been received, especially by the smaller banks, while the increased investments in Government securities yielded lower rates of return. As a result of this type of shift in earning assets, the most severe shrinkage in net current earnings and in net profits appeared in the smallest banks. The large banks in New York City and in other parts of the District were an exception to the general rule; their average rates of income on earning assets, which were already at low levels, showed little further shrinkage, and their expense ratios did not increase as much as those of the smaller banks. Furthermore, the loan volumes of the large New York City banks were well maintained (probably because of substantial participations in large loans to war contractors). Consequently, contrary to the general trend, New York City banks with deposits over $100 million showed an increase from 5.6 to 6.0 per cent in the ratio of net profits to total capital funds, and banks outside New York City with deposits over $20 million showed an increase in their average rate of profits from 4.5 to 5.4 per cent.

Average net current earnings for all groups of banks, before charge-offs, declined from 7.1 per cent of capital funds in 1941 to 6.1 per cent in 1942, the lowest figure in the 11 years for which this ratio has been computed. The ratio of net current earnings to total assets also declined to a new low level, falling from 0.9 per cent in 1941 to 0.6 per cent in 1942. Here again the smaller banks showed the largest reductions in these ratios.

Member banks in this District generally showed a tendency to follow conservative policies with respect to their dividend declarations in 1942. The large New York City banks and the largest banks outside New York City, which in recent years had been paying the highest dividend rates on their capital funds, reduced their dividend disbursements in the aggregate in 1942. In other groups of banks, where dividend disbursements already were at lower rates, there was little change.

The rapid growth in the percentage of total assets invested in securities (items 28 and 29) was accompanied by a further decline in the proportion of cash assets (item 32), despite the reduction in loans (item 30). This expansion in investments and the accompanying growth in deposits are reflected in further declines in the ratios of capital accounts to earning assets (item 33), and to deposits (item 35).

It will be noted that a few new items have been added this year: item 15, showing taxes on net income; item 28, showing the per cent of total assets invested in Government securities; and item 34, showing the ratio of capital accounts to "risk assets" (assets other than cash and Government securities).

The ratios for your bank have been inserted in the last column of the table in order that you may readily compare your figures with the average ratios for banks whose size and operations are similar to yours—the group checked in red.

Allan Sproul, *President.*

Average Operating Ratios of Member Banks Grouped According to Size of Deposits and Proportion of Loans to Total Assets — 1942

All ratios are expressed in percentages and are arithmetical averages of the [illegible]s of indiv[illegible] banks in each group, rather than ratios based on aggregate dollar figures

	ALL BANKS		MEMBER BANKS LOCATED OUTSIDE GREATER NEW YORK																					MEMBER BANKS IN GREATER NEW YORK		YOUR FIGURES	
			GROUP I—Deposits under $500,000					GROUP II—Deposits $500,000 to $2,000,000					GROUP III—Deposits $2,000,000 to $5,000,000					GROUP IV—Deposits $5,000,000 to $20,000,000					GROUP V Banks with Deposits over $20,000,000	GROUP VI Deposits under $100,000,000	GROUP VII Deposits over $100,000,000		
			Group Average	Loans to Total Assets, Per cent				Group Average	Loans to Total Assets, Per cent				Group Average	Loans to Total Assets, Per cent				Group Average	Loans to Total Assets, Per cent								
	1941	1942		Under 20	20–29.9	30–39.9	40 and up		Under 20	20–29.9	30–39.9	40 and up		Under 20	20–29.9	30–39.9	40 and up		Under 20	20–29.9	30–39.9	40 and up					
SUMMARY RATIOS Number of Banks	772	786	58	8	18	15	17	330	81	105	68	76	193	49	70	42	32	122	31	50	25	16	31	34	18		
Percentage of Total Capital Accounts																											
1. Net current earnings	7.1	6.1	3.9	2.6	2.7	3.4	6.1	5.7	4.9	5.4	5.5	6.7	6.7	5.5	6.3	7.2	8.6	6.8	4.7	6.5	8.2	9.2	7.8	5.9	6.1		1
2. Net profits	5.5	4.4	2.0	2.7	1.2	1.6	3.1	4.3	4.0	4.5	3.6	4.9	4.9	4.7	4.8	4.7	5.8	4.6	4.5	4.4	4.2	6.1	5.4	3.9	6.0		2
3. Cash dividends declared	1.9	1.8	1.3	1.5	1.6	1.0	1.3	1.7	1.6	1.6	1.8	1.8	1.8	1.7	1.9	1.6	2.0	2.1	1.7	2.3	1.7	2.8	2.4	1.8	3.7		3
Percentage of Total Assets																											
4. Total earnings	3.3	2.9	3.3	2.9	3.0	3.3	3.8	3.1	2.7	2.9	3.2	3.6	2.9	2.6	2.8	3.0	3.6	2.8	2.2	2.8	3.0	3.4	2.4	3.0	1.6		4
5. Net current earnings	0.9	0.6	0.6	0.5	0.5	0.5	0.9	0.7	0.7	0.6	0.7	0.8	0.7	0.6	0.7	0.7	0.8	0.6	0.5	0.7	0.7	0.9	0.7	0.6	0.5		5
6. Net profits	0.7	0.5	0.4	0.6	0.2	0.2	0.5	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.3	0.5	0.4	0.4	0.5		6
SOURCES AND DISPOSITION OF EARNINGS																											
Percentage of Total Earnings																											
7. Interest and dividends on securities	31.1	36.1	33.9	54.9	44.4	28.6	17.6	36.6	57.2	39.6	28.9	17.5	37.0	56.6	38.9	26.0	17.1	35.9	51.2	36.0	28.4	17.8	38.6	24.6	42.8		7
8. Interest and discount on loans	52.7	47.9	54.6	30.2	45.0	57.7	73.3	50.0	30.5	46.7	57.2	69.2	46.5	28.3	44.2	57.7	65.1	44.7	29.1	43.5	53.8	64.5	40.2	49.3	31.6		8
9. Service charges on deposit accounts	7.2	7.0	5.5	8.0	4.2	7.2	4.3	6.5	6.0	6.9	6.3	6.5	7.6	6.9	7.5	8.2	8.1	7.5	8.0	6.9	8.5	7.1	5.1	14.3	3.2		9
10. All other earnings	9.0	9.0	6.0	6.9	6.4	6.5	4.8	6.9	6.3	6.8	7.6	6.8	8.9	8.2	9.4	8.1	9.7	11.9	11.7	13.6	9.3	10.6	16.1	11.8	22.4		10
11. Total earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		11
12. *Trust department earnings (included in item 10)*[1]	4.0	3.8	....	....	....	....	....	2.1	2.6	1.2	2.4	2.2	2.1	1.8	2.5	1.5	2.3	3.9	4.1	4.8	2.4	3.1	5.3	11.6	13.5		12
13. Salaries and wages	30.5	31.5	34.0	42.1	34.0	34.1	30.2	31.0	32.0	31.7	30.3	29.3	30.3	29.5	30.2	31.7	29.9	31.7	33.8	32.4	29.5	28.7	30.6	39.2	33.5		13
14. Interest on time deposits	16.2	15.1	16.0	9.0	18.6	17.5	15.3	16.5	16.9	16.4	16.1	16.6	16.1	19.2	15.8	15.8	12.5	14.8	16.4	14.3	15.6	11.9	10.5	6.0	1.1		14
15. Taxes on net income	}27.7	2.4	2.5	1.6	2.2	2.6	3.3	2.4	1.6	1.9	2.6	4.0	2.0	1.8	1.5	1.9	3.7	2.0	1.5	1.7	2.1	3.8	1.8	4.2	6.1		15
16. All other expenses[2]		28.4	29.3	30.7	29.0	30.1	28.2	27.8	26.3	[illegible]	28.8	[illegible]	28.2	26.4	28.5	27.8	30.9	28.8	28.6	28.3	28.4	31.8	29.9	32.5	26.6		16
17. Total expenses[2]	74.4	77.4	81.8	83.4	83.8	84.3	77.0	77.7	76.8	77.8	77.8	[illegible]	76.6	76.9	76.0	77.2	77.0	77.3	80.3	76.7	75.6	76.2	72.8	81.9	67.3		17
18. Net current earnings	25.6	22.6	18.2	16.6	16.2	15.7	23.0	22.3	23.2	22.2	22.2	21.6	23.4	23.1	24.0	22.8	23.0	22.7	19.7	23.3	24.4	23.8	27.2	18.1	32.7		18
19. Net charge-offs[3] (net recoveries +)	5.1	5.7	8.0	+ 1.6	9.7	8.7	10.1	5.2	3.6	3.3	8.0	6.8	5.7	3.7	4.9	8.4	7.0	6.8	0.1	7.3	13.5	7.9	7.5	4.8	0.8		19
20. Net profits	20.5	16.9	10.2	18.2	6.5	7.0	12.9	17.1	19.6	18.9	14.2	14.8	17.7	19.4	19.1	14.4	16.0	15.9	19.6	16.0	10.9	15.9	19.7	13.3	31.9		20
RATES OF EARNINGS ON SECURITIES AND ON LOANS																											
Percentage of Total Securities																											
21. Interest and dividends on securities	2.6	2.3	2.8	3.4	2.9	2.6	2.6	2.4	2.6	2.5	2.5	2.3	2.2	2.4	2.2	2.2	2.1	2.0	2.0	2.1	2.0	2.1	1.9	1.9	1.4		21
22. Recoveries on securities	0.5	0.2	0.3	0.3	0.3	0.1	0.5	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.2	0.1	0.1	0.1		22
23. Profits on securities sold	0.8	0.2	0.2	0.1	0.3	0.4	0.1	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.2	0.2		23
24. Charge-offs on securities	1.1	0.5	0.7	0.3	0.9	0.7	0.7	0.5	0.5	0.5	0.6	0.5	0.5	0.5	0.4	0.6	0.6	0.6	0.4	0.6	0.8	0.5	0.2	0.4	0.2		24
Percentage of Total Loans																											
25. Interest and discount on loans	5.3	5.0	5.6	5.6	5.5	5.5	5.9	5.4	5.6	5.4	5.2	5.3	5.0	5.1	5.0	5.1	5.0	4.7	4.7	4.8	4.7	4.5	3.9	4.5	2.3		25
26. Recoveries on loans	0.5	0.5	0.4	0.2	0.4	0.4	0.6	0.5	0.7	0.4	0.4	0.4	0.5	0.6	0.4	0.4	0.3	0.5	0.6	0.6	0.4	0.3	0.4	0.2	0.2		26
27. Charge-offs on loans	0.6	0.6	0.7	0.3	0.6	0.8	1.2	0.6	0.7	0.5	0.6	0.6	0.6	0.5	0.5	0.8	0.6	0.8	0.6	0.8	0.9	0.6	1.0	0.6	0.3		27
DISTRIBUTION OF ASSETS																											
Percentage of Total Assets																											
28. U. S. Government securities	}36.5	30.8	22.9	21.6	25.9	27.5	16.2	28.6	40.7	30.2	23.1	18.4	32.6	44.2	34.7	25.4	19.7	34.8	44.8	36.5	29.3	19.0	38.5	28.3	40.7		28
29. Other securities		13.2	14.9	26.9	19.9	9.0	9.2	14.7	18.7	16.7	14.1	8.3	13.5	17.0	14.4	11.3	8.9	11.7	12.7	11.8	12.8	7.4	8.2	6.7	6.5		29
30. Loans	33.0	28.7	32.5	15.3	24.4	35.1	47.1	29.7	14.6	25.2	34.9	47.3	27.8	14.2	24.8	34.4	46.8	27.0	14.1	24.8	34.1	47.7	23.8	33.0	20.9		30
31. Real estate assets	3.1	2.5	2.2	2.4	1.5	2.5	2.5	2.4	2.2	2.2	2.8	2.5	2.8	2.3	3.1	3.0	2.9	2.9	2.6	3.3	2.7	3.0	2.9	1.5	1.2		31
32. Cash assets	27.2	24.6	27.4	33.8	28.3	25.9	24.9	24.5	23.7	25.6	25.0	23.4	23.1	22.1	22.8	25.8	21.5	23.2	25.6	23.1	20.8	22.6	26.0	29.8	30.2		32
CAPITAL AND DEPOSIT RATIOS—In Percentage																											
33. Capital accounts to securities, loans, and real estate assets	18.1	16.0	23.4	26.8	25.9	21.9	20.3	17.5	18.2	17.5	18.1	16.2	14.4	15.1	15.0	14.5	12.3	13.0	13.2	13.4	12.4	12.2	11.4	13.7	12.5		33
34. Capital accounts to risk assets[4]	**	28.7	34.9	39.4	40.5	36.0	25.8	30.3	41.7	30.4	26.4	21.4	27.1	37.2	28.0	21.8	16.6	26.0	35.6	26.0	20.3	16.2	24.3	24.5	30.6		34
35. Capital accounts to deposits	15.3	13.9	20.8	23.0	23.3	19.6	18.0	15.4	16.3	15.2	16.0	14.3	12.6	13.4	13.1	12.0	10.8	11.1	10.8	11.5	11.0	10.4	9.2	10.8	9.6		35
36. Time deposits to total deposits	54.0	48.9	47.4	28.5	46.5	51.1	54.0	52.4	[illegible]	[illegible]	51.7	[illegible]	54.6	57.9	53.8	53.0	53.3	48.4	48.2	47.9	49.3	48.8	33.3	24.7	5.2		36
37. Interest on time deposits to time deposits	1.1	1.0	1.3	0.9	1.3	1.4	1.3	1.1	1.0	1.0	1.1	[illegible]	1.0	1.0	1.0	1.0	0.9	0.9	0.8	0.9	1.0	0.9	0.8	0.7	0.5		37

[1] Banks not reporting this item or reporting zero amounts were excluded in computing this average, and figures are not shown where there were fewer than 3 banks in a group.
[2] Includes charge-offs for recurring depreciation on banking house, furniture, and fixtures for 1942—previously included in item 19.
[3] All charge-offs other than recurring depreciation on banking house, furniture, and fixtures, less profits on securities sold and recoveries.
[4] Total assets less U. S. Government securities and cash assets.
** Not computed.

Note: Balance sheet figures used as a basis for the ratios are averages of amounts reported for December 31, 1941, and April 4, June 30, and December 31, 1942.

Prepared by

Financial Statistics Division
Research Department

Federal Reserve Bank
of New York