FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, April 10, 1942

OPERATING RATIOS OF MEMBER BANKS

To the Member Bank Addressed:

There is presented on the following pages the annual compilation of operating ratios of member banks in the Eleventh Federal Reserve District for the year 1941. The current report is similar to those mailed your bank covering operations for each of the years 1937 to 1940, inclusive, although the ratios have been rearranged in the order of their probable interest to the banker.

The items of assets and liabilities upon which the ratios are based represent the averages of the amounts shown on member bank condition reports of December 31, 1940, and April 4, June 30, and September 24, 1941. The data on earnings and expenses were taken from the report of earnings and dividends covering the year ended December 31, 1941.

As in former years, the banks are grouped according to the amount of their deposits. The ratios of each group are the averages of the ratios of individual banks in that group; consequently, the data on the large banks in a group do not have an undue influence on the group averages.

The ratios of your bank have been inserted in the column at the right of the statement in order that they may be readily compared with those of its group. It will be noted that the group in which the figures of your bank are included is indicated by a check mark. A memorandum relating to the use that might be made of the operating ratios statement is printed on the reverse side of this folder.

It is hoped that the information presented herein will be of interest and value to your bank.

Yours very truly,

R. R. GILBERT
President

FOR DEFENSE
BUY
UNITED
STATES
SAVINGS
BONDS
AND STAMPS

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CALENDAR YEAR 1941

AVERAGE OPERATING RATIOS OF MEMBER BANKS IN THE ELEVENTH FEDERAL RESERVE DISTRICT

(GROUPED ACCORDING TO SIZE OF DEPOSITS)

Groups with average deposits of	Up to $250,000	$250,001 to $500,000	$500,001 to $1,000,000	$1,000,001 to $2,000,000	$2,000,001 to $5,000,000	$5,000,001 to $10,000,000	Over $10,000,000	Average All Groups	Your Figures
Number of banks in each group	84	121	147	98	51	23	38	562	
SUMMARY RATIOS									
Percentage of Total Capital Accounts									
1. Net current earnings	8.0	10.8	11.3	11.4	10.6	9.8	8.3	10.4	
2. Net profits	6.0	9.8	10.7	10.3	9.0	8.1	7.9	9.3	
3. Cash dividends declared	3.6	5.3	5.1	5.2	3.7	3.9	3.6	4.6	
Percentage of Total Assets									
4. Total earnings	5.5	4.9	4.4	3.7	3.4	2.9	2.2	4.3	
5. Total expenses	3.8	3.3	2.9	2.5	2.4	2.1	1.6	2.9	
6. Net current earnings	1.7	1.6	1.5	1.2	1.0	.8	.6	1.4	
7. Net profits	1.3	1.5	1.4	1.1	.9	.7	.5	1.2	
SOURCES AND DISPOSITION OF EARNINGS									
Percentage of Total Earnings									
8. Interest and discount on loans	80.6	72.9	67.9	64.5	62.2	54.8	55.5	68.4	
9. Interest and dividends on securities	9.5	14.0	16.7	19.8	20.2	22.9	22.8	16.5	
10. All other earnings	9.9	13.1	15.4	15.7	17.6	22.3	21.7	15.1	
11. Total earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
12. *Service charges on deposit accounts (included in Item 10)*‡	4.8	6.4	6.7	8.0	7.4	7.7	5.8	6.7	
13. *Trust department earnings (included in Item 10)*‡	—	—	—	—	2.2	1.6	3.2	2.6	
14. Salaries and wages	36.2	36.3	34.0	34.0	33.2	31.9	31.9	34.5	
15. Interest on time deposits	2.6	2.6	3.5	4.6	5.9	7.0	6.0	3.9	
16. Taxes other th[illegible]al estate	5.5	5.8	[illegible].8	5.4	5.8	5.8	8.3	[illegible]5.8	
17. All other expe[illegible]	24.1	23.5	[illegible]	23.8	25.6	28.9	26.7	[illegible].5	
18. Net current ear[illegible]gs	31.6	31.8	[illegible].6	32.2	[illegible]29.5	26.[illegible]	27.1	[illegible]1.3	
20. Net charge-offs*	7.4	1.9	1.6	2.7	1.8	3.6	1.2	2.8	
21. Net profits	24.2	29.9	31.0	29.5	27.7	22.8	25.9	28.5	
RATES OF EARNINGS ON LOANS AND SECURITIES									
Percentage of Total Loans									
22. Interest and discount on loans	9.2	8.6	8.1	7.7	7.2	6.3	4.7	7.9	
23. Recoveries on loans	.9	.9	.8	.6	.6	.6	.5	.8	
24. Charge-offs on loans	1.4	.8	.6	.7	.5	.5	.3	.8	
Percentage of Total Securities									
25. Interest and dividends on securities	3.7	3.5	3.1	2.9	2.7	2.5	1.9	3.1	
26. Recoveries on securities	.3	.1	.1	.1	.2	.4	.2	.1	
27. Profits on securities sold	.2	.3	.3	.3	.3	.3	.4	.3	
28. Charge-offs on securities	.2	.2	.4	.3	.4	.8	.4	.3	
DISTRIBUTION OF ASSETS									
Percentage of Total Assets									
29. Loans	48.9	43.3	37.6	32.0	30.0	26.6	26.6	37.7	
30. Securities	13.1	18.2	21.3	23.9	23.3	25.1	24.7	20.4	
31. Real estate assets	2.6	2.2	2.0	1.9	2.3	2.7	2.4	2.2	
32. Cash assets	35.2	36.2	39.0	42.1	44.3	45.4	46.1	39.6	
Percentage of Total Loans									
33. Personal and retail instalment paper	7.8	12.6	12.8	13.6	15.5	10.6	8.2	12.0	
CAPITAL AND DEPOSIT RATIOS—In Percentage									
34. Capital accounts to loans, securities and real estate assets	37.0	26.0	22.3	20.0	19.3	18.1	14.2	23.9	
35. Capital accounts to deposits	32.0	20.0	15.6	13.0	11.6	10.2	8.2	17.5	
36. Time deposits to total deposits	9.1	9.2	10.0	11.1	16.2	20.5	15.8	11.3	
37. *Interest on time deposits to time deposits*‡	2.0	1.8	1.8	1.6	1.4	1.1	.9	1.6	

*Total charge-offs (including those on banking house, furniture and fixtures, etc., as well as on loans and securities) less profits on securities sold and recoveries.

‡Banks reporting zero amounts were excluded in computing this average, and figures are not shown where there were fewer than 3 banks in a group.

NOTE: Balance sheet figures used as a basis for the ratios are averages of amounts reported for December 31, 1940, and April 4, June 30, and September 24, 1941, except that in the case of item 33 (personal and retail instalment paper) only June 30 figures were used.

MEMORANDUM ON

HOW TO USE THE OPERATING RATIOS STATEMENT

During recent years, member bankers in this district have shown an increasing interest in the annual operating ratios statements compiled by the Federal Reserve Bank of Dallas. The purpose of the statements, of course, is to provide a means by which an individual bank may make a comparison of its figures relative to operating results with the averages for banks of approximately the same size. The statement provides information with respect to earning capacity, charge-offs, distribution of assets, and many other factors affecting the successful operation of a bank.

It is recognized that no two banks of the same size have exactly the same problems and it is not expected that all banks would have the same pattern of distribution of earning assets, expenses, deposits, etc. Although some minor variations in operating results may be due to differences in bookkeeping methods, the average operating ratios will point to significant differences between the figures of individual banks and their group averages that may furnish leads for possible improvements in earning power. The following hypothetical data will indicate some of the practical uses that may be made of the ratios:

RATIOS OF EARNINGS TO CAPITAL	Group Average	Individual Bank
(Percentage of total capital accounts)		
Net current earnings	11.3	— 3.6
Net profits	8.7	8.7
DISPOSITION OF EARNINGS		
(Percentage of total earnings)		
Salaries and wages	28.7	59.6
Interest on time deposits	18.3	26.8
Taxes other than real estate	6.6	10.8
Other expenses	18.4	18.3
RATE OF INTEREST PAID ON TIME DEPOSITS	1.5	1.9

It will be noted that the bank in the illustrative case referred to above had the same percentage of net profits on its capital account as the group average for banks of its size, but an analysis of the data shows that this satisfactory result was due to recoveries on previously charged-off assets and not to net current earnings, which were actually "in the red." In studying other ratios which indicate the uses made of earnings, it is observed that salaries and wages consumed more than twice the average percentage of total earnings; interest on time deposits was about one-half higher than the average due chiefly to a higher rate paid on time deposit, and taxes were somewhat higher than the average. Possibly the abnormal conditions revealed by the ratios are beyond the banker's control; nevertheless, the ratios furnish leads for further detailed study, which is all that these operating ratios are designed to do.

The accompanying statement presents your bank's 1941 ratios and the average ratios of member banks in this district in various size groups. While the summary ratios relative to earnings are very important, there are many other ratios which have a significant bearing upon bank operations. Therefore, after reviewing the earning record of your own bank as compared with the average for banks of similar size, the banker may then look to the other groups of ratios for answers to questions such as the following:

1. What were the sources of earnings?
2. What was the disposition of earnings?
3. What was the gross rate of return on loans and securities, and the net return after charge-offs and recoveries? (Care should be exercised in interpreting this ratio since recoveries and charge-offs may reflect the condition of assets in former years.)
4. How have the assets been invested?
5. How large is your capital structure as compared with the size of your bank?
6. How important a factor is interest on time deposits?

While these ratios are useful tools, we do not hold them out as substitutes for mature banking experience and good judgment. The mere fact that a given bank has attained a certain volume of loans or deposits does not necessarily mean that the bank enjoys the same opportunities as other banks of approximately the same size. Moreover, the ratios are merely averages and there are about as many banks above the average as there are below it. Thus, the average should not be considered as a "goal" of performance. It is not important that the ratios of a bank conform to the average, but it is important to know why there are differences. In making comparisons, the individual banker should study the ratios of his bank in the light of operating conditions. While too much emphasis should not be placed on minor differences between the group averages and the ratios of a single bank, it is desirable to look for combinations of factors that may indicate unfavorable trends. A very helpful procedure in studying trends is to compare the 1941 statement with those sent to you for the years 1937 to 1940, inclusive.

NOTE: For the bankers who wish to make a more intensive study of their own particular institutions, we will send on request a detailed list of questions that might be answered about each of the principal ratios.