FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, October 29, 1943

MEMBER BANK SELECTED OPERATING RATIOS

To Member Banks in the
Eleventh Federal Reserve District:

We are pleased to present a brief report on the operating ratios of member banks in the Eleventh Federal Reserve District during the first half of 1943. This report is designed to supplement the more detailed annual statement of member bank operating ratios and is not a substitute for it. The present study has been confined to eight ratios which were selected on the basis of their importance and because they measure accounts which are showing the most significant changes.

In general, the earnings pattern, which has prevailed during recent years, continued during the first six months of 1943, although some of the trends of other recent years became more pronounced. Interest and discounts on loans continued to account for the major portion of earnings, constituting 82 per cent of all current earnings of member banks having deposits of less than $250,000 and 37 per cent of earnings of member banks having deposits in excess of $25,000,000. The average for all groups of banks was 58 per cent. Although the percentage of current earnings derived from interest and discounts on loans varied inversely with the size of banks, earnings from security holdings varied directly with the size of banks in the district. Among banks having deposits of less than $250,000, interest and dividends on securities accounted for 10 per cent of current earnings, whereas among the group of largest banks, 42 per cent was derived from that source, while the average for all member banks amounted to 25 per cent.

Among most groups of banks salaries and wages absorbed a slightly smaller proportion of current earnings than during 1942, while at all member banks an average of 37 per cent of current earnings was required for the payment of salaries and wages. The ratio of capital accounts to total deposits showed a further slight decline at all groups of banks, ranging from 24 per cent at the group of smallest banks to 5 per cent at the largest group and averaging 10 per cent at all member banks. The ratio of United States Government securities to total earning assets ranged from 30 per cent at the group of smallest banks to 74 per cent at the largest group, and averaged 49 per cent at all member banks.

The ratios for your bank have been inserted in the column on the left in order to facilitate comparison with the experience of banks in your size group. The group averages should not be considered as "standards" of performance, but a study of the figures may provide useful suggestions for further analysis. This report has been prepared principally because of the interest shown by member banks in the annual statement of operating ratios. Since the information has been prepared for its value to you, we shall appreciate suggestions you may wish to offer and will be pleased to provide additional copies of the report on request.

Sincerely yours,

R. R. GILBERT

President

ELEVENTH FEDERAL RESERVE DISTRICT
MEMBER BANK SELECTED OPERATING RATIOS
January - June, 1943

	Your Bank	Banks with Average Deposits (In Thousands of Dollars)								
		Under $250	$250 to $499	$500 to $999	$1,000 to $1,999	$2,000 to $4,999	$5,000 to $9,999	$10,000 to $24,999	$25,000 and Above	All Groups
Number of Banks		24	67	117	154	111	41	31	25	570
RATIOS TO TOTAL EARNINGS										
1. Interest and discounts on loans		81.7	75.8	64.7	56.2	52.6	42.2	39.3	37.2	57.9
2. Interest and dividends on securities		10.2	14.5	20.4	26.3	26.6	33.9	36.7	42.4	24.9
3. Salaries and wages		39.4	36.0	38.4	37.3	37.0	36.5	35.3	30.9	36.9
RATIOS TO TOTAL CAPITAL ACCOUNTS										
4. Net current operating earnings		4.3	5.3	5.3	5.5	5.7	5.8	5.4	5.2	5.4
5. Net profits after taxes		4.1	4.8	5.3	5.7	5.5	5.8	4.9	4.8	5.3
RATIOS TO TOTAL DEPOSITS										
6. Cash assets*		53.0	44.4	47.5	45.8	44.3	44.2	42.5	37.6	45.3
7. Total capital accounts		24.0	16.3	11.4	8.9	7.1	6.5	5.6	5.1	10.0
RATIO TO TOTAL EARNING ASSETS										
8. U. S. Government securities		30.0	32.6	41.8	47.9	54.1	64.0	68.1	73.8	48.7

*Minimum primary reserve requirements (required legal reserve plus necessary till money) for all member banks in the Eleventh District probably average some 14 to 16 per cent of total deposits.

EXPLANATION

The basic data used in the compilation of the ratios have been taken from reports furnished by member banks. The asset and liability items have been taken from member bank condition reports of June 30, 1943. Earnings and expense items are the amounts reported by member banks for the first six months of 1943.

Banks have been grouped according to the amount of their total deposits on June 30, 1943. Group ratios are expressed in percentages, and are averages of the ratios of the individual banks. This procedure prevents the larger banks in a group from exercising an undue influence on the ratios of the group and on the ratios for all banks. It should be remembered that there are about as many banks above the average as there are below it; hence, the group averages should not be considered as "standards" of performance. It is not important that the ratios of your bank conform to the average, but it is important to know the reasons for the differences.

RATIOS TO TOTAL EARNINGS

Ratio No. 1—Interest and discounts on loans

This ratio is computed by dividing your total current operating earnings into earnings from interest and discounts on loans. The ratio shows the percentage of all earnings derived from interest and discounts on loans. For example, if total earnings during the first six months of 1943 amounted to $10,000 and earnings from loans amounted to $6,000, the ratio would be 60 per cent. Most banks in this district having total deposits of less than $5,000,000 derive more than half of their total earnings from loans, whereas larger banks derive somewhat less than half of their total earnings from that source. The ratio tends to become smaller as the size of the bank increases.

Ratio No. 2—Interest and dividends on securities

The ratio is computed by dividing your total earnings into your earnings from interest and dividends on securities, and shows the percentage of total earnings derived from security holdings. At most banks this ratio is showing a substantial increase, due largely to increased holdings of United States Government securities. Member banks in this district having deposits in excess of $25,000,000 derived a larger proportion of total earnings from their security holdings than from loans during the first half of 1943, but at banks having deposits of less than $250,000 the percentage of earnings derived from loans was about eight times as large as that derived from security holdings.

Ratio No. 3—Salaries and wages

This ratio is computed by dividing your total current earnings into the amount spent on salaries and wages of officers and employees, and shows the percentage of total earnings absorbed by the payment of all salaries and wages. Ordinarily, this is the largest item of expense at member banks. If this ratio for your bank is higher than for other banks in your size group, it may mean either that your wage costs are above the average or that your current earnings are below average.

RATIOS TO TOTAL CAPITAL ACCOUNTS

Ratio No. 4—Net current operating earnings

This ratio is computed by dividing your total capital accounts (capital, surplus, undivided profits and reserves, including retirement account for preferred capital) into your net current operating earnings. The ratio shows the rate of earnings on your combined capital accounts. Because this report covers earnings for a half year only and because total capital accounts of most banks will remain relatively fixed throughout the year, the ratio of net current operating earnings to total capital accounts was smaller than during the full year, 1942. If, however, the rate of earnings during the second half of the current year does not fall below that of the first six months, the ratio for the full year, 1943, will be substantially above that of last year at all size groups of banks.

Ratio No. 5—Net profits after taxes

This ratio is computed by dividing your total capital accounts into your net profits after taxes. It is similar to ratio No. 4, above, except that adjustment has been made for losses and recoveries and for the payment of income taxes.

RATIOS TO TOTAL DEPOSITS

Ratio No. 6—Cash assets

This ratio is computed by dividing your total deposits into your cash assets (Item 6 in the call report which includes cash, balances with other banks, including reserve balances, and cash items in process of collection). The ratio shows the percentage of your total deposits which are held in the form of cash. The ratio is largest at the smallest size group of banks and tends to become smaller as the size of the bank increases. The higher this ratio, the greater is the amount of non-income-producing cash held by the bank.

Ratio No. 7—Total capital accounts

This ratio is computed by dividing your total deposits into your total capital accounts and shows total capital accounts as a percentage of total deposits. The rapid growth in deposits since the outbreak of war, resulting from heavy bank purchases of United States Government securities, has not been accompanied by a proportionate increase in total capital accounts. Consequently, this ratio has been declining, with the most rapid declines occurring at the larger banks.

RATIO TO TOTAL EARNING ASSETS

Ratio No. 8—United States Government securities

This ratio is computed by dividing your total earning assets into your holdings of United States Government securities. In this study total earning assets include all loans and all types of security holdings. At the end of June the smallest group of banks had invested 30 per cent of their earning assets in United States Government securities, whereas banks having deposits in excess of $25,000,000 had invested 73.8 per cent of their earning assets in United States Government securities. If this ratio for your bank is below the average for your size group, it may mean that your loan volume is above the average or that your bank has not invested as large a share of its funds in Government securities as other banks of your size.