FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, August 31, 1945

SELECTED MEMBER BANK OPERATING RATIOS

To Member Banks in the
Eleventh Federal Reserve District:

We are pleased to send you again a brief report presenting selected average ratios of member banks in the Eleventh Federal Reserve District which reflect operations during the first half of 1945 with comparative figures for the same period in 1944. This report is designed to supplement the more detailed annual statement of member bank operating ratios and is not a substitute for that statement. This mid-year study, which was presented for the first time in 1943, has been limited to eight important ratios which were selected because they measured financial statement accounts currently showing the most significant changes.

In general, the ratios indicate a continuation of certain significant trends which have been in evidence since the outbreak of the war. Holdings of Government securities by all member banks were 60 per cent of earning assets on June 30, 1945, as compared with 53 per cent a year earlier. Interest and dividends on securities accounted for 34 per cent of total earnings during the first half of 1945 as compared with 30 per cent for the first six months of 1944, while interest and discount on loans declined from 51 per cent to 48 per cent of total earnings during the same two periods. Largely as a consequence of increased holdings of Government securities, member banks moved closer toward a position of full investment, the ratio of cash assets to total deposits showing a further slight decline.

Wages and salaries, the largest single bank operating expense, absorbed a smaller percentage of total earnings during the first half of 1945 than for the corresponding period of 1944. This decline reflected a substantial increase in income and not a decrease in wage and salary expenditures. The net profit ratio for banks in most size groups was somewhat higher for the first half of 1945 than for the same period in 1944, the average ratio for all banks rising from 6.5 per cent to 7.4 per cent. It should be remembered that this ratio reflects net profits for a half year only. If the experience of the second half of 1945 is the same as was realized during the first six months, the average net profit ratio for all banks for the year would be nearly 15 per cent.

The ratios for your bank have been inserted in the columns on the left in order to facilitate comparison with the experience of banks in your size group. For your convenience, the proper size group has been checked on the table. 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 any suggestions you may wish to offer. We will be pleased to provide additional copies of this report on request.

Yours very truly,

R. R. GILBERT

President

ELEVENTH FEDER[illegible] [illegible]ESERVE DISTRICT

Selected Member B[illegible] Operating Ratios

JANUARY - J[illegible] [illegible]ND 1944

	Your Bank		Under $500		$500 - $999		$1,000 - $1,999		[illegible] - $4,999		$5,000 - $9,999		$10,000 - $24,999		$25,000 - $49,999		$50,000 - $99,999		$100,000 and Over		All Groups		
	1945	1944	**1945**	1944	**1945**	1944	**1945**	1944	[illegible]	1944	**1945**	1944	**1945**	1944	**1945**	1944	**1945**	1944	**1945**	1944	**1945**	1944	
Number of Banks			**32**	58	**78**	101	**145**	152	[illegible]	158	**56**	39	**46**	37	**17**	14	**8**	11	**11**	6	**586**	576	
RATIOS TO TOTAL EARNINGS																							
1. Interest and discount on loans	....	....	**67.7**	73.9	**59.1**	59.4	**53.6**	54.4	[illegible]	46.1	**44.3**	38.5	**31.2**	32.9	**29.3**	31.6	**25.4**	27.8	**34.2**	42.0	**48.2**	51.3	1
2. Interest and dividends on securities	....	....	**19.7**	14.3	**26.4**	25.2	**29.4**	26.8	[illegible]	33.1	**35.6**	37.9	**45.9**	41.4	**50.4**	46.8	**52.8**	53.6	**49.5**	39.7	**33.7**	29.8	2
3. Salaries and wages	....	....	**38.1**	36.5	**36.6**	36.3	**33.5**	35.7	[illegible]	33.5	**30.2**	32.2	**30.3**	33.1	**30.6**	32.3	**27.1**	28.9	**25.2**	24.8	**33.1**	34.6	3
RATIOS TO TOTAL CAPITAL ACCOUNTS																							
4. Net current operating earnings	....	....	**5.5**	6.1	**6.5**	6.0	**8.6**	7.0	[illegible]	7.9	**10.2**	9.0	**8.3**	6.6	**7.2**	6.7	**7.0**	6.6	**5.7**	5.6	**8.1**	7.1	4
5. Net profits after taxes	....	....	**5.0**	5.7	**5.9**	5.8	**7.5**	6.5	[illegible]	7.2	**9.5**	7.3	**8.6**	5.8	**8.8**	6.1	**6.0**	6.5	**5.3**	3.8	**7.4**	6.5	5
RATIOS TO TOTAL DEPOSITS																							
6. Cash assets*	....	....	**45.3**	47.4	**44.2**	45.3	**43.9**	42.6	[illegible]	40.9	**39.1**	38.8	**36.0**	35.8	**33.2**	34.4	**30.6**	33.0	**31.4**	32.2	**41.0**	41.9	6
7. Total capital accounts	....	....	**14.2**	16.0	**9.5**	10.2	**6.7**	7.9	[illegible]	6.4	**4.7**	5.7	**4.8**	5.5	**4.3**	4.3	**4.1**	4.4	**4.8**	5.8	**6.6**	8.2	7
RATIO TO TOTAL EARNING ASSETS																							
8. U. S. Government Securities	....	....	**45.1**	32.3	**47.8**	46.5	**56.6**	49.4	[illegible]	57.8	**65.3**	66.3	**69.7**	69.1	**79.8**	76.3	**73.6**	73.7	**71.1**	67.5	**60.0**	53.2	8

The column groups are headed "[illegible]ANKS WITH JUNE 30 DEPOSITS (in thousands of dollars)".

*Minimum primary reserve requirements (required legal reserve plus necessary till money) for all member banks in the Eleventh District prob[illegible]rage some 16 to 18 per cent of total deposits.

EXPLANATION

The basic data used in the compilation of the ratios were taken from reports furnished by member banks. The asset and liability items were taken from member bank condition reports of June 30, 1944 and 1945. Earnings and expense items are the amounts reported by member banks for the first six months of each year.

Banks were grouped according to the amount of their total deposits on June 30 of each of the two years. Group ratios are expressed in percentages, and are averages of the ratios of the individual banks. This procedure prevents the data for 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.

Ratio No. 1—Interest and discount on loans to total earnings.

This ratio is computed by dividing total earnings into earnings from interest and discount on loans. The ratio shows the percentage of all earnings derived from interest and discount on loans. For example, if total earnings during the first six months of 1945 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 $2,000,000 derive more than half of their total earnings from loans, whereas most of the larger banks derive somewhat less than half of their total earnings from that source.

Ratio No. 2—Interest and dividends on securities to total earnings.

The ratio is computed by dividing total earnings into 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 $10,000,000 derived a larger proportion of total earnings from their security holdings than from loans during the first half of 1945, but at banks having deposits of less than $500,000 the percentage of earnings derived from loans was about three and one-half times as large as that derived from security holdings.

Ratio No. 3—Salaries and wages to total earnings.

This ratio is computed by dividing total 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. The ratio tends to decline as the size of the bank increases. If this ratio for your bank is higher than the average for all 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, or both.

Ratio No. 4—Net current operating earnings to total capital accounts.

The ratio is computed by dividing total capital accounts (capital, surplus, undivided profits and reserves, including retirement account for preferred capital) into net current operating earnings. The ratio shows the rate of earnings on 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 for the full year, 1944. 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, 1945, will be above that of last year.

Ratio No. 5—Net Profits after taxes to total capital accounts.

This ratio is computed by dividing total capital accounts into 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.

Ratio No. 6—Cash assets to total deposits.

The ratio is computed by dividing total deposits into 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 total deposits which is 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 to total deposits.

This ratio is computed by dividing total deposits into total capital accounts; it shows total capital accounts as a percentage of total deposits. The rapid growth of 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 lower ratios being found at the larger banks.

Ratio No. 8—United States Government securities to total earning assets.

This ratio is computed by dividing total earning assets into holdings of United States Government securities. In this study total earning assets includes all loans and all types of security holdings. At the end of last June the smallest group of banks had put 45 per cent of their earning assets in United States Government securities, whereas banks having deposits between $25,000,000 and $50,000,000 had invested approximately 80 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, or both.