# FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, August 27, 1946

## SELECTED OPERATING RATIOS OF MEMBER BANKS

**To Member Banks in the**
**Eleventh Federal Reserve District:**

There is presented herein the usual mid-year report covering selected average ratios of member banks in the Eleventh Federal Reserve District, which reflect operations during the first half of 1946 with comparative figures for the same period in 1945. This report, which is designed to supplement the more detailed annual statement of member bank operating ratios, has been limited to eight important ratios which were selected because they measure financial statement accounts currently showing the most significant changes.

During the first postwar year, there was an acceleration of the increase in loans and a slowing down in the expansion of holdings of Government securities. In fact, the increase in loans during the year was moderately larger than that in holdings of Government securities. During the first half of 1946, banks in most deposit groups obtained a higher percentage of total earnings from loans than in the corresponding period of 1945, indicating a reversal of the downward trend that had been in evidence during the war years. Banks with deposits of between $1,000,000 and $10,000,000 showed a gain in the percentage of income derived from securities, but banks in other deposit groups showed a decline. The ratio of cash assets to total deposits declined slightly to 39.3 per cent on June 29, 1946 as compared with 41 per cent on the same date last year. This decline was general among banks of all deposit groups except those with deposits less than $1,000,000.

Salaries and wages, the largest single bank operating expense, absorbed a smaller percentage of total earnings during the first half of 1946 than for the corresponding period of 1945. The decline reflected a substantial increase in income, rather than a decrease in wage and salary expenditures. For banks in all deposit groups, the average ratio was 30.4 per cent during the first half of 1946, as compared with 33.1 per cent during the corresponding period of 1945. The net profit ratio for banks in most deposit groups was somewhat higher for the first half of 1946 than for the first half of 1945, the average ratio of all banks rising to 8.7 per cent of total capital accounts from 7.4 per cent. It should be borne in mind that this ratio reflects net profits for a half year only, and if the experience for the second half of 1946 should be the same as that realized during the first six months, the average net profit ratio for all banks for the year would be approximately double that amount.

The ratios for your bank have been inserted in the columns on the left in order to facilitate a comparison with those of banks in your size group. For your convenience the column indicating the size group in which your bank is included has been checked. The group averages should not be considered as "standards" of performance, but a study of the figures may provide useful suggestions for further analysis. We should be glad to provide additional copies of this report upon request.

Yours very truly,

R. R. GILBERT

President

ELEVENTH FEDERAL RESERVE DISTRICT

# Selected Member Bank Operating Ratios

JANUARY - JUNE 1946 AND 1945

| | Your Bank | | BANKS WITH JUNE 29 DEPOSITS (in thousands of dollars) | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Under $500 | | $500 - $999 | | $1,000 - $1,999 | | $2,000 - $4,999 | | $5,000 - $9,999 | | $10,000 - $24,999 | | $25,000 - $49,999 | | $50,000 - $99,999 | | $100,000 and over | | All Groups | | |
| | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | **1946** | 1945 | |
| Number of Banks | Your Bank | | **23** | 32 | **65** | 78 | **122** | 145 | **218** | 193 | **69** | 56 | **52** | 46 | **18** | 17 | **10** | 8 | **11** | 11 | **588** | 586 | |
| **RATIOS TO TOTAL EARNINGS** | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Interest and discount on loans | ............ | ............ | **67.5** | 67.7 | **65.0** | 59.1 | **55.2** | 53.6 | **47.7** | 45.2 | **47.8** | 44.3 | **36.4** | 31.2 | **35.0** | 29.3 | **33.2** | 25.4 | **39.3** | 34.2 | **50.2** | 48.2 | 1 |
| 2. Interest and dividends on securities | ............ | ............ | **18.4** | 19.7 | **24.0** | 26.4 | **30.8** | 29.4 | **36.3** | 35.7 | **35.9** | 35.6 | **44.6** | 45.9 | **48.7** | 50.4 | **48.4** | 52.8 | **46.3** | 49.5 | **34.6** | 33.7 | 2 |
| 3. Salaries and wages | ............ | ............ | **38.4** | 38.1 | **29.7** | 36.6 | **30.9** | 3[illegible] | **30.3** | 32.9 | **30.3** | 30.2 | **29.5** | 30.3 | **28.9** | 30.6 | **26.9** | 27.1 | **23.3** | 25.2 | **30.4** | 33.1 | 3 |
| **RATIOS TO TOTAL CAPITAL ACCOUNTS** | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Net current operating earnings | ............ | ............ | **6.5** | 5.5 | **9.3** | 6.5 | **10.4** | 8.6 | **10.4** | 8.4 | **11.9** | 10.2 | **9.1** | 8.3 | **9.5** | 7.2 | **8.6** | 7.0 | **6.8** | 5.7 | **10.1** | 8.1 | 4 |
| 5. Net profits after taxes | ............ | ............ | **5.9** | 5.0 | **8.7** | 5.9 | **8.7** | 7.5 | **9.2** | 7.6 | **9.7** | 9.5 | **7.7** | 8.6 | **8.5** | 8.8 | **5.9** | 6.0 | **6.1** | 5.3 | **8.7** | 7.4 | 5 |
| **RATIOS TO TOTAL DEPOSITS** | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Cash Assets* | ............ | ............ | **52.4** | 45.3 | **47.3** | 44.2 | **42.4** | 43.9 | **38.1** | 40.2 | **35.5** | 39.1 | **32.0** | 36.0 | **33.1** | 33.2 | **30.5** | 30.6 | **30.0** | 31.4 | **39.3** | 41.0 | 6 |
| 7. Total capital accounts | ............ | ............ | **12.9** | 14.2 | **9.4** | 9.5 | **6.5** | 6.7 | **5.2** | 5.6 | **4.5** | 4.7 | **4.9** | 4.8 | **3.9** | 4.3 | **4.3** | 4.1 | **5.8** | 4.8 | **6.1** | 6.6 | 7 |
| **RATIO TO TOTAL EARNING ASSETS** | | | | | | | | | | | | | | | | | | | | | | | |
| 8. U. S. Government Securities | ............ | ............ | **54.0** | 45.1 | **52.3** | 47.8 | **60.4** | 56.6 | **67.5** | 63.1 | **65.9** | 65.3 | **68.3** | 69.7 | **76.4** | 79.8 | **72.3** | 73.6 | **62.4** | 71.1 | **64.0** | 60.0 | 8 |

*Minimum primary reserve requirements (required legal reserve plus necessary till money) for all member banks in the Eleventh District probably average 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 29, 1946 and June 30, 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 at the end of June 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 1946 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. 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 1946.

### 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, 1945. 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, 1946, 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 54 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 76 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.