FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, August 30, 1947

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. These ratios reflect operations during the first half of 1947; for comparative purposes, figures for the same period in 1946 are presented. This report, which is designed to supplement the more detailed annual statement of member bank operating ratios, has been limited to the eight important ratios which measure changes in the principal financial statement accounts.

During the past year, there was a further sizeable increase in loans of member banks and a substantial decline in holdings of Government securities. In consequence of these developments, the proportion of total earnings derived from interest and discounts on loans rose from 50.2 per cent in the first half of 1946 to 55.2 per cent in the first half of 1947. On the other hand, the proportion derived from interest and dividends on securities declined from 34.6 per cent to 30.8 per cent. These changes occurred at member banks in all deposit size groups. The sharpest decline in the proportion of earnings obtained from interest and dividends on securities occurred at member banks with deposits in excess of $10,000,000. These larger member banks, on the average, experienced the largest decreases in deposits and in holdings of Government securities. The proportion of total earning assets invested in Government securities by all member banks averaged 58.1 per cent on June 30, 1947 as compared with 64 per cent a year earlier. This decline was applicable to member banks in all deposit size groups.

Salaries and wages, the largest single bank operating expense, absorbed 30.4 per cent of total earnings during the first half of 1947, or the same as in the corresponding period of 1946. The experience of banks in the several deposit size groups, however, varied substantially. The largest increase in the ratio occurred at banks with deposits in excess of $25,000,000. Net current earnings represented a slightly larger percentage of total capital accounts in the first half of 1947 than in the same period of 1946. Net profits after income taxes of member banks averaged 7.9 per cent of total capital accounts in the first half of 1947 as compared with 8.7 per cent in the first half of 1946. Member banks in all deposit size groups, except the smallest, experienced a decline in the rate of net profits with the most pronounced decreases being registered by the larger banks.

The cash assets of member banks averaged 35.8 per cent of total deposits on June 30, 1947 as compared with an average of 39.3 per cent on the corresponding date in 1946. A pronounced decline in this percentage occurred at member banks with deposits of less than $10,000,000 while the larger member banks showed a tendency to increase the percentage of deposits held in cash.

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 FEDE[illegible]RESERVE DISTRICT

Selected Member [illegible]k Operating Ratios

JANUARY - [illegible] AND 1946

	Your Bank		[illegible]KS WITH JUNE 30 DEPOSITS (in thousands of dollars)																			
			Under $500		$500 - $999		$1,000 - $1,999		[illegible]0 - $4,999	$5,000 - $9,999		$10,000-$24,999		$25,000-$49,999		$50,000-$99,999		$100,000 and over		All Groups		
	1947	1946	**1947**	1946	**1947**	1946	**1947**	1946	1946	**1947**	1946	**1947**	1946	**1947**	1946	**1947**	1946	**1947**	1946	**1947**	1946	
Number of Banks	Your Bank		**22**	23	**67**	65	**127**	122	218	**80**	69	**49**	52	**17**	18	**10**	10	**10**	11	**596**	588	
RATIOS TO TOTAL EARNINGS																						
1. Interest and discount on loans	....	....	**75.4**	67.5	**67.4**	65.0	**58.3**	55.2	47.7	**53.7**	47.8	**43.9**	36.4	**44.5**	35.0	**38.6**	33.2	**52.3**	39.3	**55.2**	50.2	1
2. Interest and dividends on:																						
a. Government securities	....	....	**13.3**	18.4	**17.9**	24.0	**22.6**	30.8	36.3	**24.5**	35.9	**31.0**	44.6	**35.6**	48.7	**38.8**	48.4	**28.7**	46.3	**24.8**	34.6	2
b. Other securities	....	....	**2.3**		**4.7**		**6.3**			**6.5**		**6.2**		**4.0**		**3.8**		**3.3**		**6.0**		
3. Salaries and wages	....	....	**34.1**	38.4	**30.3**	29.7	**31.3**	30.9	30.3	**29.1**	30.3	**30.2**	29.5	**30.4**	28.9	**28.7**	26.9	**27.4**	23.3	**30.4**	30.4	3
RATIOS TO TOTAL CAPITAL ACCOUNTS																						
4. Net current earnings before income taxes	....	....	**7.4**	6.5	**8.6**	9.3	**10.0**	10.4	10.4	**12.2**	11.9	**9.9**	9.1	**9.1**	9.5	**7.3**	8.6	**6.0**	6.8	**10.2**	10.1	4
5. Net profits after income taxes	....	....	**6.3**	5.9	**7.1**	8.7	**8.3**	8.7	9.2	**8.7**	9.7	**6.8**	7.7	**6.5**	8.5	**4.7**	5.9	**4.1**	6.1	**7.9**	8.7	5
RATIOS TO TOTAL DEPOSITS																						
6. Cash assets*	....	....	**43.3**	52.4	**40.0**	47.3	**36.0**	42.4	38.1	**33.7**	35.5	**34.0**	32.0	**32.8**	33.1	**31.5**	30.5	**35.0**	30.0	**35.8**	39.3	6
7. Total capital accounts	....	....	**14.3**	12.9	**9.8**	9.4	**7.3**	6.5	5.2	**5.1**	4.5	**5.2**	4.9	**4.6**	3.9	**5.2**	4.3	**6.5**	5.8	**6.7**	6.1	7
RATIOS TO TOTAL EARNING ASSETS																						
8. U. S. Government securities	....	....	**44.7**	54.0	**49.9**	52.3	**55.3**	60.4	67.5	**56.7**	65.9	**62.6**	68.3	**67.1**	76.4	**66.6**	72.3	**50.7**	62.4	**58.1**	64.0	8

*Minimum primary reserve requirements (required legal reserve plus necessary till money) for all member banks in the Eleventh District pr[illegible]rage some 14 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, 1947 and June 29, 1946. 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 1947 amounted to $10,000 and earnings from loans amounted to $6,000, the ratio would be 60 per cent.

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.

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 through the year, the ratio of net current operating earnings to total capital accounts was smaller than for the full year, 1946.

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

This ratio is computed by dividing total capital accounts into net profits after income 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 1 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 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 shown a substantial decline over the past several years.

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 include all loans and all types of security holdings. On June 30 this year the smallest group of banks had 44.7 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 67.1 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.