

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, August 18, 1948

SELECTED OPERATING RATIOS OF MEMBER BANKS

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

The usual mid-year report showing selected operating ratios of member banks in the Eleventh Federal Reserve District is presented on the inside pages of this letter. This report, which supplements the more detailed annual statement of member bank operating ratios, is limited to nine important ratios reflecting operations during the first half of 1948; figures for the first six months of 1947 are shown for comparative purposes.

The proportion of total earnings derived from interest on Government securities declined at member banks in all size-groups during the first half of 1948 as compared with the same period of 1947, while interest and discounts on loans represented a larger part of total earnings of all size-groups of member banks in this District. These trends have been in evidence during the postwar years and are an out-growth of several factors. There has been a substantial increase in loans of member banks in the District during the period, accompanied by an increase in interest rates. The average interest rate on Government securities also has risen, but holdings of Government securities by member banks in this District have declined. For all member banks in the District, interest on Government securities during the first half of 1948 was 22.8 percent of total earnings as contrasted with 24.8 percent during the same period of 1947; interest and discounts on loans rose to 58.2 percent of total earnings during the first six months of 1948 from 55.2 percent during the same months of 1947.

Salaries and wages as a percentage of total earnings declined at member banks in all size-groups, resulting in a decline for all member banks in the District from 30.4 percent to 29.3 percent between the two six-month periods under comparison.

Although net current earnings before income taxes as a percentage of total capital accounts increased at member banks in all size-groups during the first half of 1948 as compared with the relationship during the period January-June 1947, net profits after income taxes represented a smaller percentage of total capital accounts at member banks in all size-groups except the two groups of smallest banks and the group of banks with deposits from \$2,000,000 to \$4,999,999. The sharpest decline in the ratio of net profits after income taxes to total capital accounts occurred at the largest member banks in the District. This group of banks, reporting deposits in excess of \$100,000,000, experienced a decline in this ratio from 4.1 percent during the first six months of 1947 to 2.5 percent during the same period in the current year.

Cash assets of member banks in the District averaged 33.2 percent of total deposits on June 30, 1948, as compared with 35.8 percent on June 30, 1947. This percentage declined at member banks in all size-groups except those two groups including member banks with deposits between \$25,000,000 and \$49,999,999 and \$50,000,000 and \$99,999,999. The average increases at banks in these groups, however, were comparatively insignificant, as was the average decrease for banks in the largest size-group with deposits in excess of \$100,000,000. Member banks in these three large size-groups with deposits in excess of \$25,000,000 showed no marked tendency to change the percentage of deposits held in cash assets, whereas most of the groups of smaller banks showed decreases in the percentage.

The ratios for your bank have been inserted in columns on the left of the report to facilitate comparison with the ratios of banks in your size-group. For your convenience, the column indicating the size-group in which your bank is included has been checked. Additional copies of this report will be provided upon request.

Yours very truly,

R. R. GILBERT

President

ELEVENTH FEDERAL RESERVE DISTRICT
Selected Member Bank Operating Ratios
JANUARY - JUNE 1948 AND 1947

	BANKS WITH JUNE 30 DEPOSITS (in thousands of dollars)																						
	Your Bank		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		
	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948	1947	1948		1947	1948	1947
Number of Banks			21	22	70	67	122	125	219	214	88	80	51	49	19	17	10	10	11	10	611	596	
RATIOS TO TOTAL EARNINGS																							
1. Interest and dividends on:																							
a. Government securities.....			12.3	13.3	16.0	17.9	21.2	22.6	24.4	26.3	22.4	24.5	28.0	31.0	33.4	35.6	34.1	38.8	25.3	28.7	22.8	24.8	1
b. Other securities.....			3.9	2.3	3.2	4.7	6.9	6.3	6.7	6.8	6.3	6.5	6.2	6.2	3.6	4.0	2.7	3.8	4.0	3.3	5.9	6.0	b.
2. Interest and discount on loans.....			76.4	75.4	71.1	67.4	60.6	58.3	54.4	52.3	57.2	53.7	48.4	43.9	47.7	44.5	45.1	38.6	55.9	52.3	58.2	55.2	2
3. Salaries and wages.....			32.7	34.1	29.1	30.3	29.8	31.7	29.3	30.3	28.6	29.1	29.5	30.2	28.9	30.4	28.1	28.7	25.8	27.4	29.3	30.4	3
RATIOS TO TOTAL CAPITAL ACCOUNTS																							
4. Net current earnings before income taxes.....			8.7	7.4	9.7	8.6	10.4	10.0	11.7	10.8	12.8	12.2	10.6	9.9	10.5	9.1	8.5	7.3	6.9	6.0	11.0	10.2	4
5. Net profits after income taxes.....			7.8	6.3	7.3	7.1	7.7	8.3	8.6	8.4	7.5	8.7	6.4	6.8	5.7	6.5	3.5	4.7	2.5	4.1	7.6	7.9	5
RATIOS TO TOTAL DEPOSITS																							
6. Cash assets*.....			43.0	43.3	35.2	40.0	33.7	36.0	2.3	35.3	31.3	33.7	31.9	34.0	32.9	32.8	31.9	31.5	34.9	35.0	33.2	35.8	6
7. Total capital accounts.....			14.7	14.3	10.4	9.8	7.7	7.5	6.2	5.8	5.4	5.1	5.4	5.2	4.7	4.6	4.8	5.2	6.2	6.5	7.0	6.7	7
RATIOS TO TOTAL EARNING ASSETS																							
8. U. S. Government securities.....			38.9	44.7	45.0	49.9	50.8	55.3	7.3	62.3	53.7	56.7	57.3	62.6	60.5	67.1	61.9	66.6	45.1	50.7	53.4	58.1	8

*Minimum primary reserve requirements (required legal reserve plus necessary till money) for all member banks in the Eleventh District probably average between 14 and 18 percent 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, 1948, and June 30, 1947. 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. Inasmuch as there should be about as many banks above the average as there are below it, 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. 1a—Interest on Government securities to total earnings

The ratio is computed by dividing total earnings into earnings from interest on Government securities and shows the percentage of total earnings derived from that source of income.

Ratio No. 1b—Interest and dividends on other securities to total earnings

The ratio is computed by dividing total earnings into earnings from interest and dividends on other securities and shows the percentage of total earnings derived from other security holdings.

Ratio No. 2—Interest and discount on loans to total earnings

The ratio is computed by dividing total earnings into earnings from interest and discount on loans and shows the percentage of total earnings derived from interest and discount on loans.

Ratio No. 3—Salaries and wages to total earnings

The 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.

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 and shows the rate of earnings on total capital accounts. Because this report covers earnings for a half year only and because total capital accounts of most banks remain relatively fixed through the year, the ratio of net current operating earnings to total capital accounts shown in this report is smaller than for the full year 1947.

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

The 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 held in the form of cash assets.

Ratio No. 7—Total capital accounts to total deposits

The ratio is computed by dividing total deposits into total capital accounts and shows total capital accounts as a percentage of total deposits. During the war years, the rapid growth of deposits resulting from heavy bank purchases of Government securities was not accompanied by a proportionate increase in total capital accounts, and consequently the ratio declined substantially during that period. Since the end of the war, the percentage has shown a slight rising trend.

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

The 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.