

FEDERAL RESERVE BANK

OF DALLAS

Dallas, Texas, August 15, 1949

SELECTED OPERATING RATIOS OF MEMBER BANKS

To Member Banks of the
Eleventh Federal Reserve District:

There is presented on the inside pages of this letter the regular midyear report showing selected operating ratios of member banks in the Eleventh Federal Reserve District. This report is limited to nine important ratios reflecting operations during the first half of 1949 and during the comparable period in 1948 and supplements the more detailed annual statement of member bank operating ratios.

Since the end of the war the proportion of total earnings derived from interest on Government securities has been declining steadily, while the proportion of total earnings derived from interest and discount on loans has been increasing. The continuation of these trends is noted in the ratios for the first six months of 1949, as interest on Government securities declined slightly as a percentage of total earnings at all bank size-groups except banks reporting deposits on June 30 of from \$500,000 to \$999,999 and from \$5,000,000 to \$9,999,999 and interest and discount on loans increased as a proportion of total earnings at all bank size-groups except those two noted above. For all member banks in the District, interest on Government securities during the first six months of 1949 was 22.1 percent of total earnings, as compared with 22.8 percent during the same period of 1948; interest and discount on loans rose to 60.0 percent of total earnings during the period January through June 1949, as contrasted with 58.2 percent during the same months of 1948.

Salaries and wages, which usually represent the largest item of expense at member banks, showed comparatively little change as a percentage of total earnings during the first six months of 1949 as compared with the same period in 1948. Several bank size-groups showed an increase in this ratio, but in a substantial majority of these cases the increase was only fractional, and for all bank size-groups salaries and wages represented 29.8 percent of total earnings during the first six months of 1949 as compared with 29.3 percent during the same period in 1948.

Net current operating earnings before income taxes as a percentage of total capital accounts showed no very significant change during the two periods under comparison for the various bank size-groups and for all member banks in the District were 11.0 percent during each period. Net profits after income taxes as a percentage of total capital accounts declined from 7.7 percent for all member banks in the District during the first six months of 1948 to 7.3 percent during the first half of 1949. This ratio varied considerably according to bank size-groups, ranging, for instance, from 3.4 percent during the first half of this year for banks having deposits of over \$100,000,000 to 7.9 percent for banks with deposits between \$1,000,000 and \$1,999,999.

Total capital accounts as a percentage of total deposits rose slightly at banks in all size-groups during the first half of this year as a result of the combination of somewhat larger capital accounts and a declining volume of deposits. During the 6-month period ended June 30, 1949, total capital accounts of all member banks in the District represented 7.9 percent of total deposits, as compared with a ratio of 7.0 percent during the first half of 1948. Cash assets as a percentage of total deposits declined for banks in all size-groups except banks reporting deposits on June 30 of \$50,000,000 to \$99,999,999. Reflecting the continued shift in the character of earning assets of member banks in the District, United States Government securities as a proportion of total earning assets declined to 47.5 percent from 53.4 percent during the two periods under comparison, a trend that was reported by banks in all size-groups except those having deposits on June 30 in excess of \$100,000,000.

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

Selected Operating Ratios of Member Banks

ELEVENTH FEDERAL RESERVE DISTRICT

JANUARY 1949 AND 1948

	YOUR BANK		BANKS WITH JUNE 30 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	
	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948	1949	1948		1949	1948
Number of Banks			23	21	74	70	137	122	212	219	85	88	45	51	21	19	11	10	10	11	618	611	
RATIOS TO TOTAL EARNINGS																							
1. Interest and dividends on:																							
a. Government securities.....			11.4	12.3	17.1	16.0	20.2	21.2	3.5	24.4	22.9	22.4	27.2	28.0	29.7	33.4	32.3	34.1	22.0	25.3	22.1	22.8	1
b. Other securities.....			3.4	3.9	4.3	3.2	6.2	6.9	7.1	6.7	7.0	6.3	5.8	6.2	4.4	3.6	3.3	2.7	3.4	4.0	6.1	5.9	b.
2. Interest and discount on loans.....			78.3	76.4	69.9	71.1	63.2	60.6	7.7	55.4	56.4	57.2	50.5	48.4	51.2	47.7	47.1	45.1	57.3	55.9	60.0	58.2	2
3. Salaries and wages.....			33.0	32.7	30.5	29.1	29.6	29.8	19.7	29.3	28.7	28.6	31.2	29.5	29.0	28.9	28.1	28.1	26.6	25.8	29.8	29.3	3
RATIOS TO TOTAL CAPITAL ACCOUNTS																							
4. Net current operating earnings before income taxes.....			8.6	8.7	9.8	9.7	10.8	10.4	7.6	11.7	12.8	12.8	10.0	10.6	10.2	10.5	8.8	8.5	6.9	6.9	11.0	11.0	4
5. Net profits after income taxes.....			6.8	7.8	6.9	7.7r	7.9	7.7	7.8	8.6	7.5	7.5	6.0	6.4	5.8	5.7	5.1	3.5	3.4	2.5	7.3	7.7r	5
RATIOS TO TOTAL DEPOSITS																							
6. Cash assets.....			38.5	43.0	33.1	35.2	31.5	33.7	11.3	32.3	29.9	31.3	31.8	31.9	31.6	32.9	32.5	31.9	34.0	34.9	31.8	33.2	6
7. Total capital accounts.....			14.9	14.7	11.2	10.4	8.7	7.7	7.1	6.2	6.0	5.4	6.1	5.4	5.6	4.7	5.3	4.8	6.7	6.2	7.9	7.0	7
RATIOS TO TOTAL EARNING ASSETS																							
8. U. S. Government securities.....			33.7	38.9	36.5	45.0	44.1	50.8	7.1	57.3	50.8	53.7	54.3	57.3	54.6	60.5	57.7	61.9	45.9	45.1	47.5	53.4	8

r—Revised.

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, 1949, and June 30, 1948. 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 1948.

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, 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.

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

The ratio is computed by dividing total earnings assets into holdings of United States Government securities. In this study, total earning assets include all loans and all types of security holdings.