

FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, August 22, 1950

SELECTED OPERATING RATIOS OF MEMBER BANKS
ELEVENTH FEDERAL RESERVE DISTRICT

To Member Banks of the
Eleventh Federal Reserve District:

There are presented on the inside pages of this letter nine important operating ratios of member banks in the Eleventh Federal Reserve District for the first half of 1950, together with figures for the comparable period in 1949. These ratios, which supplement the more detailed annual statement of member bank operating ratios that is supplied you each year, are the unweighted averages of ratios of individual banks computed from data taken from the reports of condition as of June 30, 1949, and June 30, 1950. For your convenience in making comparisons, the ratios of your bank have been entered on this confidential report.

Averages of ratios of interest on Government securities to total earnings during the first 6 months of 1950 were lower for banks in each deposit size-group, except banks reporting deposits of \$100,000,000 or more, than for the comparable period in 1949. For the period ended June 30, 1950, this relationship ranged from a low of 11.3 percent for banks reporting deposits of less than \$500,000 to a high of 28.3 percent for banks reporting deposits from \$50,000,000 to \$99,999,999.

Ratios of interest and discount on loans to total earnings averaged higher for banks in all size-groups, except the group of banks having deposits of \$100,000,000 or more, for the period ended June 30, 1950, than for the comparable period in 1949. Banks reporting deposits of less than \$500,000 showed the highest average of ratios of interest and discount on loans to total earnings—78.9 percent—for the latest reporting period, while banks in the size-group \$50,000,000 to \$99,999,999 reported 51.9 percent of total earnings from interest and discount on loans.

Salaries and wages, usually representing the largest item of expense at member banks in the District, constituted a somewhat larger proportion of total earnings at the smaller banks. For instance, the average of ratios of salaries and wages to total earnings ranged from 31½ percent to 32½ percent for banks in the three smallest size-groups during the latest reporting period, whereas the ratios for banks in the largest size-group averaged 24.8 percent.

Banks in deposit size-groups of \$10,000,000 or more reported somewhat higher average ratios of net profits after income taxes to total capital accounts during the first 6 months of 1950 than in the comparable period of 1949. Smaller banks, on the other hand, experienced a decline in this relationship.

Ratios of total capital accounts to total deposits for the 6 months ended June 30, 1950, show comparatively little change from the figures reported for the first 6 months of 1949, as the rate of growth in capital accounts was only fractionally lower than the rate of deposit growth.

Averages of ratios of cash assets to total deposits and of United States Government securities to total earning assets increased during the latest reporting period at the smaller banks in the District but showed varying rates of decrease at the District's larger member banks.

Additional copies of this report will be furnished upon request.

Yours very truly,

R. R. GILBERT

President

Selected Operating Ratios of Member Banks

ELEVENTH FEDERAL RESERVE DISTRICT

JANUARY 1950 AND 1949

| | YOUR BANK | | BANKS WITH JUNE 30 DEPOSITS (in thousands of dollars) | | | | | | | | | | | | | | | | All banks | | | | | |
|--|-----------|------|---|-----------|---------------|-----------|-------------------|------------|-------------------|------------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------------|-----------|-------------|-----------|--------------------|------------|--|----|
| | | | 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 | | | |
| | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | 1950 | 1949 | | |
| Number of banks in group | | | 20 | 23 | 61 | 74 | 126 | 137 | 209 | 212 | 102 | 85 | 51 | 45 | 24 | 21 | 10 | 11 | 12 | 10 | 625 | 618 | | |
| RATIOS TO TOTAL EARNINGS | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. Interest and dividends on: | | | | | | | | | | | | | | | | | | | | | | | | |
| a. Government securities..... | | | 11.3 | 11.4 | 16.1 | 17.1 | 20.1 | 20.2 | 22.2 | 23.5 | 20.5 | 22.9 | 22.7 | 27.2 | 24.4 | 29.7 | 28.3 | 32.3 | 24.7 | 22.0 | 20.5 | 22.1 | | 1 |
| b. Other securities..... | | | 3.5 | 3.4 | 4.4 | 4.3 | 5.9 | 6.2 | 6.4 | 7.1 | 6.2 | 7.0 | 6.1 | 5.8 | 5.1 | 4.4 | 2.4 | 3.3 | 4.2 | 3.4 | 5.8 | 6.1 | | a. |
| 2. Interest and discount on loans..... | | | 78.9 | 78.3 | 70.9 | 69.9 | 63.6 | 63.2 | 57.7 | 57.7 | 59.9 | 56.4 | 55.1 | 50.5 | 55.8 | 51.2 | 51.9 | 47.1 | 55.3 | 57.3 | 61.9 | 60.0 | | b. |
| 3. Salaries and wages..... | | | 32.5 | 33.0 | 32.0 | 30.5 | 31.5 | 29.6 | 29.7 | 29.7 | 29.9 | 28.7 | 30.8 | 31.2 | 28.9 | 29.0 | 30.6 | 28.1 | 24.8 | 26.6 | 30.6 | 29.8 | | 2 |
| RATIOS TO TOTAL CAPITAL ACCOUNTS | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. Net current operating earnings before income taxes..... | | | 8.4 | 8.6 | 9.0 | 9.8 | 9.6 | 10.8 | 11.0 | 11.6 | 11.8 | 12.8 | 10.1 | 10.0 | 9.6 | 10.2 | 8.6 | 8.8 | 7.5 | 6.9 | 10.3 | 11.0 | | 4 |
| 5. Net profits after income taxes..... | | | 5.1 | 6.8 | 6.3 | 6.6 | 6.6 | 7.9 | 7.7 | 7.8 | 7.0 | 7.5 | 6.3 | 6.0 | 6.3 | 5.8 | 5.8 | 5.1 | 4.3 | 3.4 | 6.9 | 7.3 | | 5 |
| RATIOS TO TOTAL DEPOSITS | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. Cash assets..... | | | 42.4 | 38.5 | 36.8 | 33.1 | 32.8 | 31.5 | 31.3 | 31.3 | 29.9 | 29.9 | 31.8 | 31.8 | 31.4 | 31.6 | 31.4 | 32.5 | 32.9 | 34.0 | 32.7 | 31.8 | | 6 |
| 7. Total capital accounts..... | | | 15.2 | 14.9 | 11.1 | 11.2 | 8.8 | 8.7 | 7.1 | 7.1 | 6.0 | 6.0 | 6.1 | 6.1 | 5.6 | 5.6 | 5.0 | 5.3 | 6.2 | 6.7 | 7.7 | 7.9 | | 7 |
| RATIOS TO TOTAL EARNING ASSETS | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. U. S. Government securities..... | | | 35.6 | 33.7 | 36.7 | 36.5 | 47.5 | 44.1 | 51.1 | 51.1 | 51.2 | 50.8 | 51.5 | 54.3 | 50.3 | 54.6 | 57.2 | 57.7 | 46.0 | 45.9 | 48.2 | 47.5 | | 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, 1950, and June 30, 1949. Earnings and expense items are the amounts reported by member banks for the first 6 months of each year.

Banks were grouped according to the amount of their total deposits at the end of June of each of the 2 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 1949.

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 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.