

FEDERAL RESERVE BANK

OF DALLAS

Dallas, Texas, August 24, 1951

SELECTED OPERATING RATIOS OF MEMBER BANKS ELEVENTH FEDERAL RESERVE DISTRICT

To Member Banks of the

Eleventh Federal Reserve District:

Selected operating ratios of member banks in the Eleventh Federal Reserve District for the first half of 1951, with comparative figures for the first half of 1950, are presented on the inside pages of this letter. The nine ratios shown in the statement are the unweighted averages of ratios of individual banks computed from data taken from the reports of condition and of earnings as reported on the June 30, 1950, and June 30, 1951, call dates. The ratios for your bank have been entered on this confidential report, additional copies of which will be furnished upon request.

Ratios of interest on Government securities to total earnings averaged somewhat lower at banks in most deposit size-groups during the first half of 1951 than in the comparable period of 1950. Banks reporting deposits within the range of \$2,000,000 to \$9,999,000, however, showed slight increases. The decrease in the relative importance of earnings from Governments as a source of income is attributable to the substantially greater increase in earnings from loans and discounts, since interest on Government securities showed an increase of approximately 1 percent.

Averages of ratios of interest and discount on loans to total earnings were higher in the first 6 months of 1951 than in the comparable period of 1950 for banks in all size-groups except the \$2,000,000-\$4,999,000 deposit category. In the first half of this year, 79.7 percent of the total earnings of banks with deposits of less than \$500,000 was derived from interest and discount on loans. On the other hand, this source of earnings accounted for 53.8 percent of the total earnings of banks having deposits of \$50,000,000 to \$99,999,000. An increase of 17 percent in interest and discount on loans during the first 6 months of 1951 as compared with the same months in 1950, reflecting the much larger loan volume and slightly higher level of rates, accounts for the increased relative importance of this source of income.

Salaries and wages of officers and employees absorbed a larger share of the earnings of banks in most size-groups in the first half of 1951 than in the first half of 1950, continuing the trend that has been in evidence during the initial 6 months of each year since 1948.

Although net earnings from current operations of all banks in the District during the first 6 months of 1951 were 11 percent higher than during the comparable period in 1950, net profits were 7 percent lower as a result of larger net charge-offs, transfers, and taxes. Consequently, ratios of net profits after income taxes to total capital accounts averaged lower for all except the two smaller deposit size-groups. Also contributing to this result were somewhat larger capital accounts.

Ratios of cash assets to total deposits increased at the larger banks during the latest reporting period but decreased at the smaller banks, while the ratios of United States Government securities to total earning assets decreased substantially at banks in each size-group.

Yours very truly,

R. R. GILBERT

President

Selected Operating Ratios of Member Banks

ELEVENTH FEDERAL RESERVE DISTRICT

JANUARY-JUNE 1951 AND 1950

	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 banks		
	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	1951	1950	
Number of banks in group			23	20	56	61	136	126	16	219	103	102	49	51	23	24	12	10	12	12	630	625	
RATIOS TO TOTAL EARNINGS																							
1. Interest and dividends on:																							
a. Government securities.....			10.5	11.3	13.6	16.1	18.7	20.1	4	21.2	20.7	20.5	22.3	22.7	23.4	24.4	26.1	28.3	18.9	24.7	20.2	20.5	1.
b. Other securities.....			3.0	3.5	4.7	4.4	5.7	5.9	2	6.4	5.9	6.2	5.6	6.1	5.4	5.1	2.6	2.4	5.1	4.2	5.6	5.8	b.
2. Interest and discount on loans.....			79.7	78.9	73.5	70.9	65.2	63.6	3	60.7	60.3	59.9	56.0	55.1	58.0	55.8	53.8	51.9	60.9	55.3	62.5	61.9	2.
3. Salaries and wages.....			33.4	32.5	32.4	32.0	33.2	31.5	3	30.4	31.2	29.9	32.3	30.8	29.2	28.9	30.3	30.6	24.7	24.8	32.1	30.6	3.
RATIOS TO TOTAL CAPITAL ACCOUNTS																							
4. Net current operating earnings before income taxes.....			7.5	8.4	8.8	9.0	9.0	9.6	7	11.0	11.2	11.8	9.4	10.1	9.5	9.6	10.4	8.6	8.4	7.5	9.6	10.3	4.
5. Net profits after income taxes.....			6.0	5.1	6.7	6.3	6.1	6.6	6	7.7	6.4	7.0	4.6	6.3	3.9	6.3	5.6	5.8	4.0	4.3	6.1	6.9	5.
RATIOS TO TOTAL DEPOSITS																							
6. Cash assets.....			38.4	42.4	34.6	36.8	32.0	32.8	1	32.2	30.5	29.9	31.9	31.8	32.9	31.4	31.8	31.4	33.9	32.9	32.0	32.7	6.
7. Total capital accounts.....			16.8	15.2	12.3	11.1	9.3	8.8	7	7.1	6.8	6.0	6.4	6.1	6.2	5.6	5.4	5.0	6.7	6.2	8.4	7.7	7.
RATIOS TO TOTAL EARNING ASSETS																							
8. U. S. Government securities.....			28.5	35.6	34.5	36.7	42.3	47.5	6	50.4	44.5	51.2	47.4	51.5	45.0	50.3	48.5	57.2	37.5	46.0	43.8	48.2	8.

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, 1951, and June 30, 1950. 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 for the first 6 months of 1951 compared with the first 6 months of 1950.

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.