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A Comparison of the Operations of Representative Member Banks in the Second Federal Reserve District For the Year 1924

Federal Reserve Agent

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A YEAR ago a first and experimental report was prepared making available to member banks in the Second District a summary of some of the bank operating data which they currently report to the Reserve Bank. This summary was so arranged that each bank might be able to compare its own operations with those of other banks of similar size or similar kind of business. The first report proved sufficiently useful to a large number of bankers to justify the preparation of a similar report for the year 1924.

The 1924 report contains the same operating ratios as were published last year with the addition of several new ones to show a division of earnings between interest and discount and other sources, and to show losses written off. The report this year also gains added value from the fact that it is now possible to give comparative figures for two years.

A year ago bankers were generally apprehensive concerning the prospect for earnings for the year 1924. Interest rates had reached the lowest levels since the war. The continued flood of gold imports indicated possible further rate recessions. After a temporary improvement in the early months of the year business resumed the decline in activity which had begun early in 1923. The final figures for the full year of 1924 showed, however, that the early apprehensions regarding bank earnings were not realized. As it turned out, all groups of banks, except the large banks in New York City, showed a ratio of gross earnings to loans and investments as high as in 1923, or in some cases higher. Net earnings on capital were slightly lower in banks with less than $5,000,000 of loans and investments, but slightly higher in the three groups of larger banks. When the smaller volume of losses charged off is taken into consideration, every group of banks except one medium sized group shows, in the net, a better earning year than in 1923.

Among the factors in the banking situation which bore most directly on earnings during 1924 may be listed the following:

- Continuous and rapid recovery in business activity in the second half year.
- A large increase in bank deposits amounting for all member banks in the United States to nearly 3 billion dollars in the course of the year, and including an increase of over 1 billion dollars in time deposits.
- An appreciation in security values.
- A heavy volume of new financing and other banking undertakings facilitated by easy money conditions.
- A rise in interest rates from September through the end of the year, reflecting business and financial activity and a turn in the gold movement.

A study of the following tables will reveal the way in which the operating ratios of the member banks have reflected these tendencies. The following may be listed as interesting illustrations:

- The continued rise in time deposits reduced the ratio of demand to gross deposits and increased the amounts of interest payments.
- Larger interest payments reduced net earnings in the smaller banks in spite of better gross earnings.
- Earnings other than interest and discount, largely security profits, were larger than in 1923 in all groups of banks.
- With large increases in deposits, interest on borrowed money was much reduced except in the smaller banks.
- The business recession, in most cases, increased the amount of losses charged off against the loans and discounts.
- Rising security prices diminished in most cases the amount of losses charged off against securities.

Capital Funds

One of the results of the growth in bank deposits during 1924 was to diminish the ratio of capital funds to deposits. For all banks combined this ratio was reduced during the year from 16.1 per cent to 15.6 per cent. Capital represents a margin of protection for bank depositors. Because of a considerable number of bank failures in the past few years and close bank competition bankers and the public generally are paying closer attention to the maintenance of a proper ratio between capital and deposits. The ratio of capital to deposits which is generally regarded as the minimum for prudent banking is a ratio of 1 to 10. In recent months a large number of banks in the district have taken steps to increase their capital in keeping with increases in deposits.

Space for Each Bank's Figures

In the following tables a space has been left for each member bank, if it so desires, to enter its own figures under the group figures in the appropriate columns.

Table 1—Average Operating Ratios of Representative Member Banks in Seven Size Groups *a*

(40 Selected banks in each group)

Read the table as follows: In the banks of Group I (banks with loans and investments under $500,000) capital funds average 22.7 per cent of gross deposits in 1923 and 22.3 per cent in 1924, etc.

Ratios expressed in percentages	Size of groups divided according to amount of loans and investments indicated															
	I Under $500,000		II $500,000 to $999,999		III $1,000,000 to $1,999,999		IV $2,000,000 to $4,999,999		V $5,000,000 to $9,999,999		VI $10,000,000 and up, outside N.Y.C.		VII $10,000,000 and up N.Y.C.		General Average	
	1923	1924	1923	1924	1923	1924	1923	1924	1923	1924	1923	1924	1923	1924	1923	1924
CAPITAL																
1. Capital funds *b* to gross deposits	22.7	22.3	23.5	22.2	14.3	14.8	11.7	11.6	13.1	13.1	13.3	12.7	14.3	12.6	16.1	15.6
Your figures																
LOANS																
2. Loans and investments to total available funds *c*	84.5	84.1	86.9	86.1	88.3	87.5	87.9	87.3	87.6	86.7	83.1	83.7	77.2	75.1	85.1	84.4
Your figures																
3. Loans to loans and investments	47.5	47.8	47.5	48.7	48.9	50.2	56.4	56.8	58.8	59.5	65.7	62.7	73.6	72.7	56.9	56.9
Your figures																
DEPOSITS																
4. Demand deposits to gross deposits	59.3	58.4	53.3	50.6	42.4	40.1	43.2	41.5	50.6	48.8	64.4	61.1	87.1	86.1	57.2	55.2
Your figures																
5. Interest paid on deposits to gross deposits	1.8	2.0	1.9	2.0	2.4	2.5	2.5	2.6	2.5	2.6	2.3	2.4	1.6	1.5	2.1	2.2
Your figures																
EARNINGS																
6. Gross earnings to loans and investments	6.2	6.2	6.1	6.1	6.1	6.2	6.1	6.1	6.2	6.3	6.2	6.2	6.2	5.9	6.2	6.1
Your figures																
7. Gross earnings to total available funds *c*	5.2	5.2	5.3	5.3	5.4	5.4	5.4	5.3	5.4	5.5	5.1	5.2	4.8	4.4	5.2	5.2
Your figures																
8. Net earnings to total available funds *c*	1.6	1.5	1.8	1.7	1.6	1.5	1.5	1.3	1.5	1.6	1.4	1.5	1.5	1.4	1.6	1.5
Your figures																
9. Net earnings to capital funds *b*	10.5	10.3	12.2	11.9	14.7	13.7	15.7	13.8	15.2	16.0	13.4	14.4	13.3	13.5	13.6	13.4
Your figures																
10. Earnings other than interest and discount to gross earnings	7.3	8.4	7.6	8.1	7.7	9.4	8.2	10.1	10.2	11.2	10.4	13.4	15.7	20.1	9.6	11.5
Your figures																
DISPOSITION OF GROSS EARNINGS																
Ratio of the following items to gross earnings																
11. Salaries and wages	23.2	23.8	19.6	20.4	18.4	18.2	16.8	17.4	16.3	16.4	16.6	16.7	20.6	20.8	18.8	19.1
Your figures																
12. Interest paid on borrowed money	1.1	1.2	1.4	1.3	1.2	0.8	1.3	0.8	1.7	0.6	2.5	0.9	2.0	0.4	1.6	0.9
Your figures																
13. Interest paid on deposits	27.2	29.3	28.1	29.9	36.9	38.6	40.8	42.9	39.9	40.5	38.1	39.4	29.3	30.5	34.3	35.9
Your figures																
14. Taxes	5.2	5.2	5.6	6.4	4.1	4.9	3.6	4.2	4.6	4.4	4.6	4.2	5.2	4.7	4.7	4.9
Your figures																
15. Other expenses	13.8	12.4	11.4	10.8	9.8	9.5	10.4	10.2	9.5	8.8	10.8	10.2	12.6	12.5	11.2	10.6
Your figures																
16. Total expenses	70.6	71.8	66.1	68.9	70.2	72.0	72.9	75.5	71.9	70.6	72.6	71.5	69.7	69.0	70.6	71.3
Your figures																
17. Net earnings (before recoveries on previous charge-offs, losses charged off, and dividends)	29.4	28.2	34.2	31.1	29.8	28.0	27.1	24.5	28.1	29.4	27.4	28.5	30.3	31.0	29.5	28.7
Your figures																
LOSSES																
18. Losses charged off on loans and discounts to gross earnings	1.9	2.5	1.9	2.5	2.8	3.3	4.3	4.6	3.5	5.0	6.4	5.6	7.3	6.5	4.0	4.3
Your figures																
19. Losses charged off on securities to gross earnings	6.5	3.1	7.3	2.2	4.6	2.2	3.4	3.3	4.5	2.8	2.4	2.5	1.9	2.2	4.4	2.6
Your figures																

a—Ratios 1 to 9 are computed from the average figures of 4 condition reports and from the total figures of section one of the two semi-annual earnings reports; ratios 10 to 17 are taken from section one of the two semi-annual earnings reports; ratios 18 and 19 are taken from items 5 (a) and 5 (b) of section two and item one of section one of the two semi-annual earnings reports. The same banks were used for both 1923 and 1924, except for a very few substitutions for closed bank s and those which changed their classes.

b—Capital, surplus, and undivided profits. *c*—Capital, surplus, undivided profits, deposits, borrowed money, and notes in circulation.

Table 2—Average Operating Ratios of Representative Member Banks Grouped According to Amount of Time Deposits *a*

Read the table as follows: In banks with no time deposits capital funds average 35.8 per cent of gross deposits in 1923 and 38.9 per cent in 1924; in banks with time deposits equal to less than 25 per cent of their gross deposits, capital funds average 15.7 per cent of gross deposits in 1923 and 14.8 per cent in 1924, etc.

Ratios expressed in percentages	Groups of Banks divided according to the percentage of time deposits to gross deposits									
	0		Under 25		25–49.9		50–74.9		75 and up	
	1923	1924	1923	1924	1923	1924	1923	1924	1923	1924
CAPITAL										
1. Capital funds *b* to gross deposits	35.8	38.9	15.7	14.8	15.9	15.6	14.2	13.8	12.5	13.1
Your figures										
LOANS										
2. Loans and investments to total available funds *c*	83.3	81.0	78.7	77.4	85.0	84.9	87.7	86.8	89.7	88.0
Your figures										
3. Loans to loans and investments	53.7	53.2	72.8	69.5	57.9	60.6	51.9	53.8	37.2	38.8
Your figures										
DEPOSITS										
4. Demand deposits to gross deposits	100.0	100.0	92.3	91.7	59.1	59.5	38.2	38.8	20.7	21.9
Your figures										
5. Interest paid on deposits to gross deposits	0.8	0.9	1.7	1.5	2.1	2.2	2.5	2.5	3.0	3.1
Your figures										
EARNINGS										
6. Gross earnings to loans and investments	5.9	5.9	6.1	5.9	6.1	6.2	6.2	6.2	6.3	6.4
Your figures										
7. Gross earnings to total available funds *c*	4.9	4.8	4.8	4.6	5.2	5.2	5.4	5.4	5.7	5.6
Your figures										
8. Net earnings to total available funds *c*	2.0	1.7	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.5
Your figures										
9. Net earnings to capital funds *b*	10.2	8.7	12.6	12.9	13.3	13.2	14.3	13.9	16.3	14.1
Your figures										
10. Earnings other than interest and discount to gross earnings	7.5	7.8	12.3	15.9	9.4	11.0	8.8	10.1	9.5	12.3
Your figures										
DISPOSITION OF GROSS EARNINGS										
Ratio of the following items to gross earnings										
11. Salaries and wages	26.2	27.6	20.1	21.3	20.2	19.8	17.0	17.8	13.3	14.2
Your figures										
12. Interest paid on borrowed money	2.0	1.9	2.5	0.7	1.5	1.0	1.4	0.9	0.3	0.3
Your figures										
13. Interest paid on deposits	11.4	12.4	29.1	29.1	32.9	34.8	39.3	39.8	46.5	47.0
Your figures										
14. Taxes	7.7	9.8	5.4	5.2	4.7	4.8	4.0	4.3	3.9	4.3
Your figures										
15. Other expenses	12.4	12.5	12.4	11.8	12.8	11.3	10.0	10.1	7.4	7.4
Your figures										
16. Total expenses	59.7	64.1	69.5	68.5	72.0	71.6	71.6	72.9	71.5	73.1
Your figures										
17. Net earnings (before recoveries on previous charge-offs, losses charged off, and dividends)	40.3	35.9	30.5	31.5	28.1	28.4	28.4	27.1	28.5	26.9
Your figures										
LOSSES										
18. Losses charged off on loans and discounts to gross earnings	2.5	1.3	5.9	6.5	4.9	4.5	3.5	4.1	1.4	1.6
Your figures										
19. Losses charged off on securities to gross earnings	4.3	3.5	2.6	2.3	4.2	3.1	5.1	2.3	4.9	3.6
Your figures										
Number of banks in group	17	15	57	56	70	55	120	129	16	25

a—Ratios 1 to 9 are computed from the average figures of 4 condition reports and from the total figures of section one of the two semi-annual earnings reports; ratios 10 to 17 are taken from section one of the two semi-annual earnings reports; ratios 18 and 19 are taken from items 5 (a) and 5 (b) of section two and item one of section one of the two semi-annual earnings reports.

b—Capital, surplus, and undivided profits. *c*—Capital, surplus, undivided profits, deposits, borrowed money, and notes in circulation.