FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 2179
February 26, 1941]

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1940 Compared with 1939

To all Member Banks in the
Second Federal Reserve District:

For your information and use there is presented herewith the annual compilation of operating ratios of member banks in the Second Federal Reserve District for the year 1940, with comparable ratios for 1939.

The net return on capital funds for 1940 (ratio 15) was not much changed from the previous year—4.3 per cent compared with 4.0 per cent for 1939. The slight improvement in net profits was chiefly the result of a larger volume of loans outstanding, a larger amount of income from service charges on deposit accounts, and a somewhat smaller proportion of total earnings absorbed by losses and depreciation of assets. There was also a reduction in the amount of interest paid on time and savings deposits in most groups of banks, but total expenses took a slightly larger percentage of total earnings.

The ratio of total current earnings to total assets continued the decline that has been in progress for a number of years. This ratio (item 24) declined from 4.9 per cent in 1932 to 3.5 per cent in 1939, and receded further to 3.3 per cent in 1940. The decline in this ratio during the past year, as in previous years, was attributable partly to an increase in the proportion of idle funds, partly to a further reduction in the average rate of return on investments, and only to a minor degree to a lower rate of return on loans. For the large New York City banks the ratio of total current earnings to total assets was only 1.7 per cent in 1940, compared with 5 per cent or more in the late 1920's.

A new ratio—total expenses to total assets (ratio 25)—has been included in the compilation this year. It was formerly possible to arrive at this ratio by subtracting the ratio of net current earnings to total assets from the ratio of total current earnings to total assets, but because the new figure reflects the cost of banking operations, exclusive of charge-offs for losses and depreciation, it may be of help to have this ratio shown in order to compare it with the gross return on loans and on investments. This ratio has declined practically every year since 1932, when operating ratios were first computed for all member banks in the Second District, owing to the rapid growth in total assets of banks (a substantial part of which has been in cash assets rather than in earning assets), without a corresponding increase in bank expenses. In 1940 the ratio of total expenses to total assets ranged from 2.9 per cent for the smallest banks with large proportions of time deposits, to 1.2 per cent for the big New York City banks. The ratios of expenses to earning assets would run appreciably higher, as all groups of banks had considerable amounts of cash assets that produced no income.

The ratio of total capital accounts to total deposits declined slightly further in 1940, but the ratio of total capital accounts to total loans, securities, and real estate rose slightly in most groups of banks except New York City banks. The diverse movements in these ratios are attributable partly to a small increase in capital funds and partly to reductions in security holdings and a further increase in the proportion of uninvested funds, which are reflected in a further rise in the average ratio of cash assets to total assets for all banks from 24.2 per cent in 1939 to 27.3 per cent in 1940.

As usual, space has been provided at the extreme right of the table for the insertion of the figures of any bank which may wish to compare its operations with the average for other banks of similar size and character of deposits.

A new feature, which has been added this year, is a series of charts on the last page which supplements the average ratios given in the table by showing the distribution of banks in each of the three principal groups outside New York City as to several of the important earnings and expense ratios. For example, while ratio 24 in the table shows that total current earnings of Group I banks averaged 3.7 per cent of their total assets in 1940, the first chart in the series shows the number of banks in Group I whose percentage of total current earnings to total assets was under 2.1 per cent, 2.1-2.5 per cent, 2.6-3.0 per cent, etc. It is thus possible for a Group I bank, whose ratio of total current earnings to total assets is materially higher or lower than the average for all banks in the group, to ascertain approximately how many other banks there were in the group whose gross earnings rate was similar, and approximately how many banks there were in the group that had higher or lower rates of gross earnings.

Allan Sproul,
President.

Average Operating Ratios of Member Banks Grouped According to Size and Character of Deposits

All ratios are expressed in percentages and are arithmetical averages of the ratios of individual banks in each group, rather than ratios based on aggregate dollar figures

	MEMBER BANKS LOCATED OUTSIDE GREATER NEW YORK																												MEMBER BANKS IN GREATER NEW YORK				YOUR FIGURES	
	ALL BANKS		GROUP I BANKS WITH TOTAL DEPOSITS UNDER $1,000,000										GROUP II BANKS WITH TOTAL DEPOSITS $1,000,000 to $5,000,000										GROUP III BANKS WITH TOTAL DEPOSITS OVER $5,000,000										GROUP IV Total Deposits Under $100,000,000		GROUP V Total Deposits Over $100,000,000			
			Group Average		Ratio of Time Deposits to Total Deposits						Group Average		Ratio of Time Deposits to Total Deposits						Group Average		Ratio of Time Deposits to Total Deposits											
					Under 50%		50% to 69.9%		70% and Up				Under 50%		50% to 69.9%		70% and Up				Under 50%		50% to 69.9%		70% and Up							
Year	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940	1939	1940
Number of Banks	745	744	242	234	51	52	158	154	33	28	336	342	46	46	187	216	103	80	116	118	35	42	63	63	18	13	34	33	17	17		
RATIOS TO TOTAL CURRENT EARNINGS:																																
Sources of Earnings																																
1. Interest and discount on loans	47.2	50.8	52.9	56.0	48.9	52.4	54.0	56.7	53.8	58.5	45.7	50.0	48.1	53.2	46.7	50.3	42.8	47.5	42.5	45.5	40.0	43.5	44.1	46.5	41.6	46.7	45.9	51.7	32.8	32.7		
2. Interest and dividends on bonds, stocks, etc.	36.6	32.8	34.9	31.9	38.6	34.2	33.2	31.0	37.2	32.4	39.1	34.2	31.8	25.0	37.2	33.8	45.7	40.6	36.8	34.0	34.6	32.0	35.5	34.3	45.6	39.6	24.6	19.0	34.2	35.3		
3. Service charges on deposit accounts	6.3	6.9	5.9	6.2	7.0	7.8	6.1	6.2	3.5	3.6	6.0	6.8	8.5	9.7	6.6	7.1	3.8	4.4	5.4	6.2	6.1	6.5	5.3	6.1	4.3	5.9	17.0	17.1	3.3	3.6		
4. All other earnings	9.9	9.5	6.3	5.9	5.5	5.6	6.7	6.1	5.5	5.5	9.2	9.0	11.6	12.1	9.5	8.8	7.7	7.5	15.3	14.3	19.3	18.0	15.1	13.1	8.5	7.8	12.5	12.2	29.7	28.4		
Income from Trust department (included in item 4)‡	*4.3*	*4.0*	*3.1*	*0.2*	‡	‡	*3.4*	*2.6*	*1.4*	*1.3*	*2.2*	*2.1*	*2.9*	*2.6*	*2.1*	*2.2*	*1.8*	*1.4*	*5.1*	*4.8*	*6.7*	*6.5*	*5.0*	*4.1*	*1.9*	*1.9*	*13.4*	*13.2*	*17.0*	*16.4*		
Total current earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
Disposition of Earnings																																
5. Salaries and wages	28.7	29.8	29.6	30.4	35.0	36.0	28.8	29.5	24.5	24.6	27.0	28.5	31.5	32.7	27.1	28.1	24.9	26.9	28.2	29.9	30.9	31.6	27.5	29.1	25.6	28.2	37.3	38.3	34.7	34.7		
6. Interest on time and savings deposits	19.8	18.2	19.5	18.4	12.6	11.7	20.4	19.4	26.3	25.3	22.1	19.9	14.3	12.0	20.6	19.5	28.2	25.6	19.5	17.9	13.1	11.9	20.3	19.6	28.9	29.6	9.0	7.5	1.7	1.7		
7. Real estate taxes	3.2	3.1	2.5	2.4	2.7	2.6	2.4	2.5	2.2	1.6	3.5	3.3	3.8	3.4	3.6	3.4	3.2	3.2	4.4	4.0	4.8	4.1	4.3	3.8	4.0	4.4	1.7	1.8	2.7	2.6		
8. Other taxes	2.1	3.0	2.2	3.1	2.2	3.5	2.1	3.0	2.8	2.8	2.1	3.0	1.8	3.8	2.1	2.9	2.1	2.9	1.9	2.6	1.8	2.7	2.0	2.6	1.9	2.5	2.3	3.7	3.6	4.1		
9. All other expenses	20.6	21.2	20.9	21.1	22.1	22.4	21.4	21.4	17.0	17.9	19.3	20.1	22.6	23.4	19.9	20.2	17.0	17.9	20.4	21.1	23.6	23.6	19.4	19.8	17.3	18.7	28.9	30.4	25.1	26.7		
10. Total expenses	74.4	75.3	74.7	75.4	74.6	76.2	75.1	75.8	72.8	72.2	74.0	74.8	74.0	75.3	73.3	74.1	75.4	76.5	74.4	75.5	74.2	73.9	73.5	74.9	77.7	83.4	79.2	81.7	67.8	69.8		
11. Net current earnings	25.6	24.7	25.3	24.6	25.4	23.8	24.9	24.2	27.2	27.8	26.0	25.2	26.0	24.7	26.7	25.9	24.6	23.5	25.6	24.5	25.8	26.1	26.5	25.1	22.3	16.6	20.8	18.3	32.2	30.2		
12. Net charge-offs* (or net recoveries +)	9.5	8.3	9.7	10.1	9.4	6.7	11.1	11.3	3.5	9.3	10.9	9.1	4.3	2.5	13.5	9.4	9.0	11.9	7.1	5.8	7.3	8.4	9.1	6.1	+0.2	+3.8	5.9	2.4	4.0	+1.8		
13. Net profits (after charge-offs, recoveries, etc.)	16.1	16.4	15.6	14.5	16.0	17.1	13.8	12.9	23.7	18.5	15.1	16.1	21.7	22.2	13.2	16.5	15.6	11.6	18.5	18.7	18.5	17.7	17.4	19.0	22.5	20.4	14.9	15.9	28.2	32.0		
RATIOS TO TOTAL CAPITAL ACCOUNTS:																																
14. Net current earnings	7.1	6.8	6.4	6.3	5.4	5.4	6.5	6.5	7.1	7.1	7.5	7.2	7.3	7.0	8.1	7.5	6.7	6.3	7.6	7.0	7.2	7.1	8.2	7.3	6.4	5.2	6.1	5.7	5.7	5.3		
15. Net profits	4.0	4.3	3.6	3.8	2.7	3.8	3.4	3.6	5.8	4.6	3.9	4.4	5.4	5.9	3.5	4.8	4.0	2.6	5.0	4.8	5.1	4.5	4.8	5.0	5.6	4.8	4.4	4.5	4.9	5.5		
16. Cash dividends declared	1.9	1.9	1.6	1.6	1.2	1.3	1.5	1.7	2.5	1.8	1.9	1.9	1.9	2.1	1.9	1.8	2.0	2.1	2.3	2.2	3.0	2.6	1.9	2.1	2.3	1.9	1.5	1.5	4.4	4.2		
RATIOS TO TOTAL LOANS:																																
17. Interest and discount on loans	5.4	5.3	5.8	5.8	5.7	5.8	5.8	5.8	5.9	6.0	5.5	5.4	5.3	5.3	5.4	5.4	5.5	5.4	4.8	4.7	4.4	4.4	5.0	5.0	5.1	4.8	4.9	4.8	2.6	2.6		
18. Recoveries on loans	0.5	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.3	0.5	0.5	0.5	0.4	0.4	0.5	0.6	0.5	0.6	0.6	0.5	0.5	0.7	0.6	0.6	0.5	0.3	0.7	0.4	0.4		
19. Losses on loans	0.9	0.8	0.7	0.7	0.8	0.7	0.7	0.7	0.6	0.7	0.9	0.9	0.7	0.6	0.9	0.9	1.0	1.0	1.1	0.9	1.1	1.0	1.1	0.9	0.8	0.8	0.7	1.2	0.7	0.4		
RATIOS TO TOTAL INVESTMENTS:																																
20. Interest and dividends on bonds, stocks, etc.	3.1	2.9	3.5	3.3	3.7	3.4	3.4	3.2	3.5	3.3	3.1	2.8	2.9	2.8	3.1	2.8	3.1	2.9	2.6	2.5	2.3	2.3	2.7	2.6	2.8	2.7	2.5	2.4	1.8	1.7		
21. Recoveries on securities	0.4	0.5	0.4	0.5	0.3	0.4	0.4	0.5	0.6	0.5	0.4	0.5	0.5	0.4	0.5	0.5	0.4	0.6	0.5	0.4	0.5	0.4	0.6	0.5	0.4	0.2	0.4	0.4	0.5	0.5		
22. Profits on securities sold	1.4	1.2	1.3	0.9	1.5	0.7	1.2	1.0	1.3	0.9	1.4	1.2	2.1	1.3	1.3	1.2	1.3	1.2	1.5	1.1	1.6	1.2	1.4	1.1	1.5	1.1	1.4	2.1	1.1	0.9		
23. Losses on securities	1.9	1.5	2.2	1.6	2.1	1.3	2.4	1.7	1.6	1.5	1.8	1.6	1.8	1.0	1.9	1.6	1.7	2.0	1.7	1.3	1.5	1.3	1.9	1.4	1.5	0.7	1.4	1.2	1.3	1.0		
RATIOS TO TOTAL ASSETS:																																
24. Total current earnings	3.5	3.3	3.8	3.7	3.6	3.5	3.9	3.7	4.0	4.0	3.5	3.3	3.4	3.4	3.5	3.3	3.4	3.2	3.2	3.0	3.0	2.9	3.3	3.0	3.2	2.9	3.5	3.3	1.9	1.7		
25. Total expenses	2.6	2.4	2.8	2.8	2.7	2.6	2.9	2.8	2.9	2.9	2.6	2.4	2.5	2.5	2.5	2.4	2.6	2.4	2.4	2.2	2.2	2.1	2.4	2.2	2.4	2.3	2.8	2.7	1.3	1.2		
26. Net current earnings	0.9	0.9	1.0	0.9	0.9	0.9	1.0	0.9	1.1	1.1	0.9	0.9	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.6	0.7	0.6	0.6	0.5		
27. Loans	31.6	32.6	36.0	36.8	31.5	32.1	37.3	37.6	36.9	40.6	29.9	31.5	31.8	35.3	31.1	31.9	26.9	28.3	28.3	28.7	26.8	28.3	29.6	28.8	26.3	29.6	34.0	36.8	22.5	20.4		
28. Securities	40.1	36.5	37.0	34.5	35.9	33.7	36.7	34.5	40.2	36.3	42.4	38.0	35.4	29.4	41.2	38.1	47.6	42.8	43.3	39.1	41.9	38.0	42.0	39.4	50.6	41.5	31.4	25.7	35.4	34.9		
29. Real estate assets	3.8	3.4	3.3	2.9	3.4	3.3	3.3	2.9	3.0	2.4	4.1	3.7	4.7	4.6	4.3	3.7	3.4	3.3	4.7	3.9	4.7	4.0	5.0	4.0	3.7	3.1	2.2	2.1	1.9	1.6		
30. Cash assets	24.2	27.3	23.6	25.7	29.1	30.8	22.6	24.9	19.8	20.7	23.4	26.6	27.9	30.5	23.2	26.1	21.9	25.4	23.2	27.9	25.7	29.3	23.0	27.5	19.1	25.6	31.4	34.5	39.3	42.4		
CAPITAL RATIOS:																																
31. Total capital accounts to total deposits	16.5	16.0	20.6	20.3	25.6	24.5	19.3	18.9	19.4	19.9	15.1	14.7	15.9	15.6	14.7	14.4	15.4	15.1	13.0	12.4	13.2	12.0	12.9	12.6	13.3	12.7	15.5	13.6	12.5	11.0		
32. Total capital accounts to total loans, securities, and real estate	18.5	18.9	22.2	22.6	28.1	28.1	20.7	21.1	20.0	20.8	17.0	17.6	18.6	19.3	16.6	17.2	17.1	17.8	15.0	15.4	15.7	15.2	14.9	15.7	13.9	15.1	19.4	18.5	18.5	17.5		
33. Real estate assets to total capital accounts	30.9	28.3	21.6	19.5	19.7	19.3	22.4	20.4	20.7	15.1	35.0	32.3	38.3	38.7	38.0	32.5	28.1	27.8	44.4	38.7	44.0	40.3	48.1	39.0	32.4	31.8	17.3	18.2	19.3	17.9		
OTHER RATIOS:																																
34. Time deposits to total deposits	57.0	56.0	56.6	56.5	34.3	35.4	60.2	60.4	74.0	73.9	63.0	61.7	40.9	38.8	61.9	61.9	75.0	74.5	54.6	52.9	37.4	37.5	58.6	58.8	74.4	74.3	31.3	30.4	7.1	6.7		
35. Interest paid on time and savings deposits to amount of such deposits	1.4	1.2	1.5	1.4	1.3	1.1	1.5	1.4	1.6	1.6	1.4	1.2	1.3	1.1	1.3	1.2	1.4	1.2	1.3	1.1	1.2	1.0	1.3	1.1	1.4	1.3	1.1	0.9	0.4	0.4		

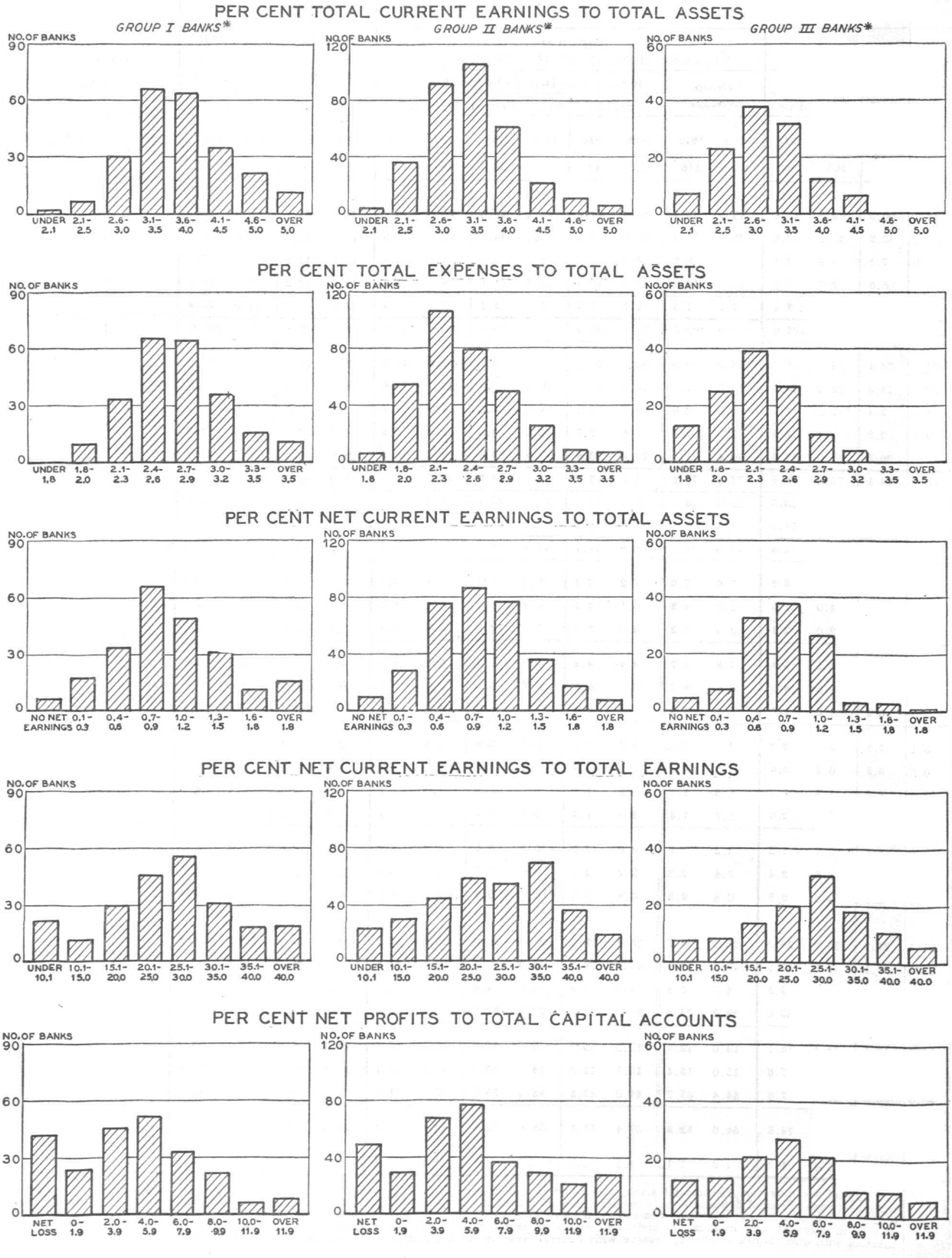
‡ Average covers only those banks having Trust departments and is shown only when there are more than three such banks in the group.

* Total charge-offs (including those on banking house, furniture and fixtures, etc., as well as on loans and investments) less recoveries and profits on securities sold.

Figures for earnings, expenses, losses, recoveries, profits on securities sold, net profits, and dividends declared, used in computation of the ratios, are totals of such items included in the two semiannual earnings and dividends reports submitted by member banks each year. Figures for loans, investments, deposits, cash, real estate, and total capital accounts are averages of amounts shown in the banks' official condition reports for the call dates each year.

Capital accounts comprise capital stock, capital notes and debentures, surplus, undivided profits, reserves for contingencies, and other capital reserves; demand deposits include deposits of other banks, certified and officers' checks outstanding, etc., and Government deposits as well as individual deposits payable on demand; real estate assets include bank premises owned, furniture and fixtures, real estate owned other than bank premises, and investments and other assets indirectly representing bank premises or other real estate; cash assets include cash, balances with other banks (including reserve with Federal Reserve Bank), and cash items in process of collection.

Distribution of Banks in Each of Three Size Groups Outside New York City as to Certain Earnings and Expense Ratios



*BANKS WITH TOTAL DEPOSITS UNDER $1,000,000

*BANKS WITH TOTAL DEPOSITS $1,000,000 TO $5,000,000

*BANKS WITH TOTAL DEPOSITS OVER $5,000,000