

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3427]
March 24, 1949

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1948

To all Member Banks in the
Second Federal Reserve District:

For all member banks in the Second Federal Reserve District, net profits after all charges, but before dividend payments, averaged 7.0 per cent of total capital accounts in 1948. The comparable figure was 8.1 per cent in 1947. The return on capital funds was unchanged (at 6.1 per cent) in the largest New York City banks, but was lower in all other groups, with the heaviest declines occurring in the largest banks outside the City. In all groups, however, net profits were reduced by substantial charges to earnings for the creation or enlargement of reserves for bad debt losses on loans, as allowed under a Treasury ruling in December 1947. The reserve for bad debt losses on loans is similar to the valuation reserves against loans previously employed by many banks, in that increases in both types of reserves involve charges against current earnings. The added feature of deductibility from income subject to taxation, according to a Treasury formula, however, has caused rather widespread adoption of reserves for bad debt losses, and the resulting charges against 1948 earnings of banks have been relatively heavy.¹ The wide acceptance of the principle involved (namely, the accumulation of tax-free reserves in prosperous years, when actual loan losses are small, for use in years when actual loan losses may be heavy), while it reduces net profits currently, augurs well for a greater degree of stability of bank earnings in the future.

zation (at the end of 1948) of the principle of setting up valuation reserves for possible losses, on either loans or securities, is shown in Table III on the back page of the circular. This table shows that 486 banks, or 62 per cent of all members, had some form of valuation reserves against loan losses while only 211 banks, or 27 per cent, had set up reserves for possible security losses.

Table II indicates the relative amounts charged against current earnings, for losses on loans and on securities in 1948, by various groups of banks and the extent to which such charges represented actual losses taken during the year (net losses excluding transfers to bad debt and other valuation reserves). Net charge-offs for losses on loans, including transfers to reserves for losses, averaged 4.8 per cent of total earnings for all member banks and were generally greatest in the larger banks of the District. The upward trend in total charge-offs on loans by size of bank generally reflected variations in the amount of transfers to reserves for bad debt losses on loans, rather than differences in losses actually sustained during the year. These transfers averaged 4.5 per cent of total earnings for all member banks, and ranged rather steadily upward from an average of 2.1 per cent in the smallest size banks, with deposits of less than \$2,000,000, to 12.3 per cent in the largest central reserve New York City banks. This variation was due principally to the fact that the relative number of banks setting up bad debt reserves for loan losses increased with the size of the banks, rather than to variations among the individual banks in the proportions of income set aside.

Net recoveries and transfers from other valuation reserves on loans, averaged only 0.3 per cent of total

TABLE I
Second Federal Reserve District
Per Cent of All Member Banks in Various Groups Having Reserves for Bad Debt Losses as of December 31, 1948

Group	Banks having specified percentages of loans to total assets					All member banks
	Under 10	10-19.9	20-29.9	30-39.9	40 and up	
Banks outside New York City with deposits of:						
Under \$2,000,000..	7.7%	15.4%	18.6%	53.1%	42.9%	28.4%
\$2 to \$5,000,000..	21.1	34.6	50.8	45.1	56.3	42.9
\$5 to \$20,000,000..	62.5	66.3	74.7	77.4	89.7	73.2
Over \$20,000,000..	66.7	68.8	74.2	87.5	83.3	76.4
Banks in New York City*.....	100.0	83.3	84.6	87.5	100.0	86.8
All member banks.....	35.8	47.6	58.0	64.9	64.6	55.7

* Banks in Manhattan, The Bronx, and Brooklyn.

Table I shows that the proportion of banks having bad debt reserves mounts steadily with the size of the bank. It also indicates that banks with relatively small loan portfolios have been less apt to set up such reserves than banks with relatively large portfolios. The proportion of loans to total assets, as a factor in determining whether to set up loan reserves, becomes less important as the dollar volume of loans, with the attendant risk of loss, increases. Consequently, a high percentage of all large banks set up such reserves regardless of whether their ratio of loans to total assets was large or small.

The broad picture of the extent of member bank utili-

TABLE II
Second Federal Reserve District
Net Charge-offs for Losses on Loans and Securities for Member Banks Adjusted for Transfers To or From Reserves in 1948

Group	Net charge-offs for losses on loans (In per cent of total earnings)		Net losses or recoveries (-) on securities† (In per cent of total earnings)	
	Including transfers to reserves for bad debt losses and other valuation reserves	Excluding transfers to reserves for bad debt losses and other valuation reserves	Including transfers to or from valuation reserves	Excluding transfers to or from valuation reserves
Banks outside New York City with deposits of:				
Under \$2,000,000.....	3.6%	1.5%	+0.2%	0.6%
\$2 to \$5,000,000.....	3.4	0.4	0.8	0.5
\$5 to \$20,000,000.....	5.5	0.2	0.6	0.5
Over \$20,000,000.....	7.7	0.7	+0.2	0.9
Banks in New York City* with deposits of:				
Under \$100 million....	10.7	1.2	2.0	2.0
\$100 million to \$1 billion..	9.1	0.5	+0.3	2.0
Over \$1 billion.....	4.9	—	+1.2	+1.2
All member banks, weighted average.....	4.8	0.6	0.4	0.6

† Recoveries on securities include profits on securities sold.

* Banks in Manhattan, The Bronx, and Brooklyn.

Note: Ratios for individual groups are based on aggregate dollar figures for each group; ratios for all member banks are averages of the individual groups weighted by the number of banks in each group.

¹ Ratios 2, 3, 7, 20, 21, 22, and 27 are all affected this year by transfers to reserves for bad debt losses on loans.

Average Operating Ratios of Member Banks Grouped According to Assets

All ratios are expressed in percentages and are arithmetical averages of the ratios of the member banks in each group.

	YOUR BANK	BANKS LOCATED IN									
		GROUP I—Deposits under \$2,000,000					GROUP II—Deposits \$2,000,000 to \$5,000,000				
		Group Average	Loans to Total Assets, Per cent					Group Average	Loans to Total Assets, Per cent		
	Under 10	10-19.9	20-29.9	30-39.9	40 and up	Under 10	10-19.9	20-29.9	30-39.9	40 and up	
SUMMARY RATIOS	Number of Banks..	155	13	39	43	32	28	245	19	78	65
Percentage of Total Capital Accounts											
1. Net current earnings before income taxes.....		10.4	5.6	9.0	10.3	12.4	12.7	11.2	7.1	9.4	11.2
2. Profits before income taxes.....		9.3	5.5	9.1	9.2	10.6	10.3	9.6	6.3	8.7	9.5
3. Net profits.....		7.4	4.6	7.3	7.2	8.5	8.0	7.4	5.1	7.0	7.4
4. Cash dividends declared.....		1.9	1.6	1.8	1.9	2.2	1.9	2.1	1.3	2.1	2.2
Percentage of Total Assets											
5. Total earnings.....		2.81	1.99	2.46	2.75	3.06	3.48	2.68	2.03	2.39	2.65
6. Net current earnings before income taxes.....		0.94	0.54	0.79	0.92	1.11	1.20	0.86	0.53	0.75	0.85
7. Net profits.....		0.67	0.46	0.64	0.66	0.75	0.74	0.58	0.38	0.56	0.57
SOURCES AND DISPOSITION OF EARNINGS											
Percentage of Total Earnings											
8. Interest on U. S. Government securities.....		33.7	52.7	44.9	33.7	26.7	17.0	35.4	58.9	43.6	36.3
9. Interest and dividends on other securities.....		7.4	15.3	10.6	7.2	3.8	3.6	6.8	11.4	9.5	5.3
10. Earnings on loans ¹		49.6	20.9	35.1	48.9	60.0	72.4	46.5	17.2	35.4	47.1
11. Service charges on deposit accounts.....		5.6	7.1	5.9	5.7	5.6	4.5	6.6	7.5	6.8	6.7
12. Other current earnings.....		3.7	4.0	3.5	4.5	3.9	2.5	4.7	5.0	4.7	4.6
13. Total earnings.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
14. Trust department earnings ² (included in item 12)		2.1	—	—	—	—	—	1.5	1.1	1.4	1.4
15. Salaries and wages.....		29.2	34.0	29.4	29.9	27.7	27.3	29.0	30.0	29.0	29.2
16. Interest on time deposits.....		14.1	15.0	16.4	13.0	12.8	13.6	16.5	21.4	18.1	15.6
17. Other current expenses.....		23.4	24.0	22.2	23.7	23.2	24.6	22.7	22.6	21.9	23.0
18. Total expenses.....		66.7	73.0	68.0	66.6	63.7	65.5	68.2	74.0	69.0	67.8
19. Net current earnings before income taxes.....		33.3	27.0	32.0	33.4	36.3	34.5	31.8	26.0	31.0	32.2
20. Net recoveries and profits ³ (or losses -).....		-2.8	0.2	0.4	-2.7	-5.5	-6.1	-3.8	-3.1	-2.1	-4.7
21. Taxes on net income.....		6.3	4.0	6.4	6.7	6.4	6.6	6.3	4.2	5.4	6.1
22. Net profits.....		24.2	23.2	26.0	24.0	24.4	21.8	21.7	18.7	23.5	21.4
RATES OF RETURN ON SECURITIES AND LOANS											
Return on Securities											
23. Interest on U. S. Government securities.....		2.0	1.8	2.0	2.0	2.0	2.0	1.9	1.8	1.9	1.9
24. Interest and dividends on other securities.....		2.7	2.5	3.2	2.7	2.0	3.1	2.3	2.4	2.4	2.0
25. Net recoveries and profits (or losses -) on total securities.....		†	†	†	†	†	0.1	†	-0.1	†	†
Return on Loans											
26. Earnings on loans ¹		5.5	5.3	5.6	5.5	5.4	5.3	5.2	5.5	5.3	5.1
27. Net recoveries (or losses -) on loans.....		-0.2	0.5	-0.1	-0.2	-0.6	-0.5	-0.3	0.3	-0.2	-0.4
DISTRIBUTION OF ASSETS											
Percentage of Total Assets											
28. U. S. Government securities.....		45.7	57.2	55.9	46.8	40.7	29.9	48.3	65.5	55.7	50.2
29. Other securities.....		7.8	12.6	9.4	8.0	6.1	4.8	8.3	10.2	10.4	7.1
30. Loans.....		26.9	7.7	15.4	24.7	34.1	47.2	25.3	6.4	16.0	24.6
31. Cash assets.....		18.9	21.8	18.7	19.6	18.4	17.3	17.1	17.3	17.0	17.1
32. Real estate assets.....		0.6	0.6	0.5	0.8	0.6	0.7	0.9	0.5	0.8	0.9
CAPITAL AND DEPOSIT RATIOS— in Percentage											
33. Capital accounts to total assets, less Gov'ts and cash assets.....		31.1	55.6	40.9	28.7	23.2	18.8	27.4	55.7	32.5	25.4
34. Capital accounts to total deposits.....		10.8	11.6	10.8	10.7	10.4	11.2	8.9	8.3	9.1	8.9
35. Time deposits to total deposits.....		46.3	40.2	47.2	42.5	47.4	52.7	52.9	55.9	53.1	51.7

1 Interest and discount on loans plus service charges and other fees on loans.

2 Banks not reporting this item or reporting zero amounts were excluded in computing this average, and averages are not shown where there were fewer than 3 banks in a group.

3 Profits on securities sold or redeemed and recoveries on securities and on loans, less all charge-offs other than recurring depreciation on banking house and fixtures (which is included in item 17).

* Includes Manhattan, The Bronx and Westchester. These three groups the subgroups have been omitted from Group V.

† Less than 0.1 per cent.

of Deposits and Proportion of Loans to Total Assets — 1948

ividual banks in each group, rather than ratios based on aggregate dollar figures

OUTSIDE NEW YORK CITY													BANKS IN NEW YORK CITY*			ALL BANKS		
GROUP III—Deposits \$5,000,000 to \$20,000,000							GROUP IV—Deposits over \$20,000,000						GROUP V	GROUP VI	GROUP VII	1947	1948	
Rank	Group Average	Loans to Total Assets, Per cent					Group Average	Loans to Total Assets, Per cent					Deposits under \$100 million	Deposits \$100 million to \$1 billion	Deposits over \$1 billion			
		Under 10	10-19.9	20-29.9	30-39.9	40 and up		Under 10	10-19.9	20-29.9	30-39.9	40 and up						
	269	16	92	79	53	29	72	3	16	31	16	6	18	11	9	792	779	
	12.0	8.8	10.0	12.0	13.0	18.2	10.5	6.8	8.6	10.1	11.5	16.6	10.0	8.5	9.0	10.9	11.2	1
	9.8	8.2	8.6	9.4	11.3	13.0	8.1	7.3	6.4	8.1	9.6	9.8	6.0	4.8	8.1	11.4	9.3	2
	6.9	5.8	6.4	6.7	8.0	7.8	6.2	6.2	4.9	6.3	7.5	5.8	4.0	3.6	6.1	8.1	7.0	3
	2.2	1.9	2.1	2.2	2.3	2.6	2.8	2.7	2.8	2.7	2.9	3.1	1.9	3.1	3.5	2.2	2.2	4
	2.67	2.01	2.32	2.58	2.90	3.96	2.53	1.94	2.18	2.46	2.74	3.58	2.34	2.03	1.71	2.46	2.66	5
	0.82	0.58	0.69	0.82	0.91	1.20	0.72	0.43	0.57	0.68	0.84	1.15	0.68	0.67	0.70	0.78	0.84	6
	0.48	0.38	0.44	0.47	0.56	0.50	0.42	0.39	0.33	0.42	0.54	0.41	0.28	0.38	0.47	0.58	0.54	7
	35.3	59.2	46.3	32.4	25.0	13.7	32.5	52.3	43.5	32.2	24.7	15.7	26.5	34.7	30.8	40.5	34.5	8
	6.0	9.5	6.8	7.0	4.7	1.6	6.4	14.8	7.5	6.1	5.2	4.1	5.2	3.2	4.7	6.6	6.5	9
	44.5	17.4	32.0	46.1	57.0	72.0	43.8	16.0	28.6	44.7	55.7	62.5	47.2	35.2	42.1	40.3	46.0	10
	7.5	7.8	7.3	7.9	7.3	6.8	6.0	6.9	6.4	6.0	5.6	5.1	9.6	5.5	2.5	6.1	6.6	11
	6.7	6.1	7.6	6.6	6.0	5.9	11.3	10.0	14.0	11.0	8.8	12.6	11.5	21.4	19.9	6.5	6.4	12
	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	13
	2.7	2.5	3.0	3.1	1.9	1.4	4.8	3.9	5.6	4.8	4.2	4.9	9.0	15.4	9.7	3.5	3.6	14
	29.4	28.2	29.3	29.8	30.1	28.5	32.5	34.7	33.5	32.7	31.0	30.9	39.9	40.1	34.8	29.2	30.0	15
	15.6	20.1	17.8	15.1	13.6	11.3	13.4	17.5	14.7	12.8	13.0	11.6	4.2	2.1	1.4	15.8	14.7	16
	24.3	22.9	23.5	23.5	24.9	28.2	26.2	25.6	25.8	26.9	25.9	25.5	27.0	25.1	22.7	23.6	23.9	17
	69.3	71.2	70.6	68.4	68.6	68.0	72.1	77.8	74.0	72.4	69.9	68.0	71.1	67.3	58.9	68.6	68.6	18
	30.7	28.8	29.4	31.6	31.4	32.0	27.9	22.2	26.0	27.6	30.1	32.0	28.9	32.7	41.1	31.4	31.4	19
	- 5.1	- 1.7	- 3.9	- 6.5	- 3.9	- 9.6	- 5.9	1.4	- 6.0	- 6.4	- 4.5	-11.1	-11.7	-10.9	- 3.8	1.8	- 4.6	20
	7.3	7.9	6.4	7.0	8.1	9.1	5.0	3.6	4.7	4.4	5.6	7.3	5.6	5.5	9.4	9.4	6.5	21
	18.3	19.2	19.1	18.1	19.4	13.3	17.0	20.0	15.3	16.8	20.0	13.6	11.6	16.3	27.9	23.8	20.3	22
	1.8	1.8	1.8	1.8	1.8	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.4	1.5	1.5	1.8	1.8	23
	2.4	2.0	2.4	2.5	2.3	2.7	2.4	2.5	2.9	2.3	2.3	2.1	2.5	2.9	2.6	2.7	2.4	24
	†	†	†	- 0.1	†	0.1	†	†	- 0.1	†	0.1	†	- 0.2	†	0.1	0.1	†	25
	4.9	4.8	4.8	4.8	4.8	5.9	4.4	3.8	4.1	4.4	4.5	5.0	4.1	2.9	2.3	5.0	5.0	26
	- 0.5	- 0.4	- 0.5	- 0.6	- 0.4	- 0.8	- 0.6	1.2	- 0.5	- 0.7	- 0.8	- 1.2	- 0.8	- 0.9	- 0.4	†	- 0.4	27
	49.2	65.2	59.0	47.6	40.5	29.1	46.8	59.4	56.6	47.3	39.5	31.4	39.7	45.2	36.2	53.2	47.6	28
	7.5	9.7	7.5	8.9	7.1	3.0	7.4	11.4	7.9	7.4	6.7	6.2	5.5	2.8	3.6	6.7	7.6	29
	25.0	7.5	15.7	24.8	34.1	48.8	25.8	8.3	15.4	24.8	34.3	44.7	26.9	23.7	31.2	21.1	25.7	30
	17.2	16.7	16.7	17.6	17.0	17.9	18.4	19.5	18.5	18.8	18.3	15.8	27.0	27.1	27.4	17.9	18.1	31
	0.9	0.7	0.9	0.9	1.1	1.0	1.2	1.0	1.3	1.3	0.9	1.4	0.4	0.6	0.7	0.9	0.8	32
	24.6	42.9	31.7	21.9	17.1	12.8	21.6	30.9	28.2	20.8	17.8	13.1	26.7	31.0	22.9	31.5	26.6	33
	7.8	7.6	7.8	8.0	7.8	7.3	7.6	6.8	7.5	7.5	8.1	7.6	8.4	9.4	9.3	8.4	8.8	34
	51.3	53.9	53.6	49.6	49.7	50.4	42.9	44.5	43.9	40.4	44.3	48.4	15.7	11.0	5.6	47.7	48.1	35

oklyn only. Because of the small number of banks in s to Total Assets" has been omitted. Two banks have extreme ratios due to particular types of business.

Note: Balance sheet figures used as a basis for the ratios are averages of amounts reported for December 31, 1947, June 30, 1948, and December 31, 1948.

earnings for all member banks during 1948, and ranged from zero in the smallest banks to 7.4 per cent in the largest New York City banks. In the New York City banks, a sizable part of the recoveries and transfers from other valuation reserves on loans was used to build up reserves for bad debts on loans, although a part was added to net current earnings because it was no longer deemed necessary as a protection against possible loan losses. Actual net losses charged off on loans by all member banks averaged only 0.6 per cent of total earnings, but losses were sustained in some degree by all groups of banks except the largest New York City banks. Relative to total outstanding loans, actual net losses in 1948 represented a virtually negligible fraction, while bad debt reserves, accumulated through December 31, 1948, were 0.9 per cent of average outstanding loans and all other valuation reserves on loans represented an additional 0.4 per cent.

Charge-offs for net losses on securities averaged only 0.4 per cent of total earnings for all member banks during 1948, but this average included recoveries from valuation reserves averaging 0.2 per cent, so that actual net losses on securities equaled 0.6 per cent of total earnings. Among the various groups of banks the changes in valuation reserves on securities were irregular, but actual net losses on securities were sustained by all but the largest New York City banks, which had a moderate volume of recoveries and profits on security sales.

Total earnings of all groups of member banks in the District increased, the over-all average ratio of gross earnings to total assets (ratio 5) rising from 2.46 per cent in 1947 to 2.66 per cent in 1948. Generally, the widest year-to-year increases in this ratio were shown by the smallest banks, and the gains narrowed as the size of the banks increased. This relationship generally reflected the greater growth of loans (high-income assets) in the smaller banks and the slightly larger reduction in such banks' holdings of lower income-producing United States Government securities.

The continued rise in loan volume, during 1948, greatly increased the number of Second District member banks with ratios of loans to total assets of over 30 per cent, and it was deemed advisable to subdivide the group into banks with ratios up to 40 per cent and banks with ratios of 40 per cent or higher. The banks with the highest proportion of loans, 40 per cent and up, had the highest ratio of net current earnings (before income taxes) to total assets in all size groups, but their net profits, in per cent of total assets, were slightly lower than the groups with the next highest proportion of loans, indicating the effect of higher taxes and higher charge-offs, either for creation of reserves or for actual losses.

Net current earnings before income taxes generally showed a slight dollar increase over 1947 in about two thirds of the member banks of the District. Relative to total (gross) earnings, however, net current earnings before taxes (ratio 19) remained unchanged at 31.4 per cent, indicating that the average growth in expenses was equal to the average growth in total earnings. Net current earnings before income taxes increased slightly relative to capital accounts in most groups of banks, owing to a greater percentage gain in earnings than in capital funds.

Among expense items, the amounts paid for salaries and wages increased at most banks in the District and, except in the two largest size groups of New York City banks, rose proportionately more than total earnings. For all member banks, salary and wage payments increased from 29.2 per cent of total earnings in 1947 to 30.0 per cent in 1948. The growth in interest payments on time deposits lagged behind the increase in total earnings, and the share of total earnings paid out in this form was lower than in 1947 in most groups of banks. Largely reflecting the effect of deductions from taxable income for setting up bad debt reserves on loans, the average ratio of income taxes to total earnings (ratio 21) declined by nearly one third from 9.4 per cent in 1947, to 6.5 per cent in 1948.

The growth in loans and the reduction in Government security holdings of member banks of the District, during 1948, are reflected in a fairly sharp decline, from 31.5 per cent to 26.6 per cent, in the ratio of capital accounts to total assets less Government securities and cash assets. In effect, bank assets carrying a relatively larger degree of risk increased more than the capital funds out of which realized losses, in excess of reserves, would have to be met. Banks which have set up bad debt reserves presumably have sought additional protection through this device. The ratio of capital accounts to deposits rose slightly from 8.4 per cent to 8.8 per cent, in 1948, because of a proportionately greater rise in capital funds than in deposit liabilities.

Dividend payments were maintained at the conservative levels of recent years at most member banks of the District, and averaged about one third of the amounts available for distribution. Relative to capital accounts, dividend payments remained unchanged at 2.2 per cent (ratio 4). Retained earnings, while substantial, diminished further, and the growth in capital accounts was at a lower rate than in any of the previous three years.

ALLAN SPROUL,
President.

TABLE III
Second Federal Reserve District
The Number of Member Banks in Various Deposit Size Groups with Different
Kinds of Valuation Reserves on December 31, 1948

Group	Total number of banks	The number of banks having					
		Reserves for bad debt losses on loans only	Reserves for bad debt losses and other valuation reserves on loans	Other valuation reserves on loans only	No valuation reserves on loans	Valuation reserves on securities	No valuation reserves on securities
Banks outside New York City with deposits of:							
Under \$2,000,000.....	155	38	6	11	100	18	137
\$2 to \$5,000,000.....	245	84	21	18	122	48	197
\$5 to \$20,000,000.....	269	137	60	12	60	83	186
Over \$20,000,000.....	72	29	26	9	8	41	31
Banks in New York City* with deposits of:							
Under \$100 million.....	18	8	7	1	2	8	10
\$100 million to \$1 billion.....	11	2	7	1	1	6	5
Over \$1 billion.....	9	1	8	0	0	7	2
All member banks.....	779	299	135	52	293	211	568

* Banks in Manhattan, The Bronx, and Brooklyn.