FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 3541
March 2, 1950]

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1949

To all Member Banks in the Second Federal Reserve District:

Net profits for all member banks in the Second Federal Reserve District increased to an average of 7.9 per cent of capital funds in 1949 from 7.0 per cent in 1948 (ratio 3 in table), thus reversing the downtrend which had reduced the average return by two fifths from the peak in 1945. Except for the largest New York City banks, almost all groups had higher net profits than in the previous year.[1] The greatest gains were recorded by the largest banks outside New York City and the medium-sized banks in the City, both of which had substantial increases in security profits and recoveries. The reduction in net profits of the big New York City banks was due almost entirely to transfers of earnings to reserves for losses on loans.

Generally, the higher net profits were occasioned by a continuance of the growth in net current operating earnings before income taxes and the favorable effect of rising security prices in the last half of 1949 upon security profits and recoveries. Additions to bad-debt reserves were smaller than in 1948 in many banks, because transfers to such reserves in the earlier year covered both 1947 and 1948. Charges against the year's profits, for this purpose, were fully as great as in 1948, however, since there was not the same possibility in 1949 that there had been in 1948, of using other already existing valuation reserves, and recoveries from over-accrued income tax reserves, to build up bad-debt reserves. In the largest New York City banks, however, the net additions to total valuation reserves for loan losses in 1949 were larger than in 1948 and were mainly from current net earnings, whereas in 1948 they were entirely offset by recoveries from previously established valuation reserves and from accrued tax reserves.

Total earnings increased in all groups of banks and relative to total assets (ratio 5) rose from 2.66 per cent in 1948 to 2.80 per cent in 1949. Higher loan income again was the principal factor increasing gross income and reflected both higher rates and somewhat greater average volumes in most groups of banks. Service charges on deposit accounts continued the uptrend in effect more or less continuously for nearly two decades; they still accounted for only a small part of total earnings, but the ratio of such charges to total earnings advanced moderately in all major groups of banks. A partial offset to these increases occurred through decreased income from United States Government securities owing to smaller portfolios, as the effective rates of return were practically unchanged from 1948.

Except for the smallest banks in New York City, in which salary and "other" expenses were proportionately higher, total current expenses took a slightly smaller fraction of total earnings than in 1948 in all principal groups of banks, and for the District as a whole averaged 67.7 per cent of gross earnings, compared with 68.6 per cent in 1948. Conversely, net current operating earnings before taxes increased from an average of 31.4 per cent of total earnings to 32.3 per cent. The dollar volume of salaries and wages was larger than in 1948 in all groups of banks, but relative to total earnings was slightly higher in the smaller banks and slightly lower in the larger banks.

Deductions from net current operating earnings before income taxes, in the form of total net losses and charge-offs (item 20), were reduced on the average from 4.6 per cent of total earnings in 1948 to 2.6 per cent in 1949. The largest New York City banks reported a substantial rise in this item (for reasons discussed in the second paragraph), but in all other groups of banks the ratio declined. Net transfers to total valuation reserves for loan losses ranged from 0.8 per cent of gross earnings in the smallest banks to 6.2 per cent for the largest New York City banks, and for all member banks averaged 2.9 per cent, compared with 4.2 per cent a year earlier. Actual losses and charge-offs on loans, on the other hand, increased at banks in all size groups, and averaged 1.1 per cent of total earnings in 1949, or nearly double the average of 0.6 per cent in 1948. The remaining net additions to, or deductions from current earnings are dominated by the volume of security profits and net recoveries or charge-offs on securities; in 1949 all groups of banks had net recoveries, which in all but the smallest banks either were greater than in 1948 or replaced net charge-offs in that year.

The ratio of capital accounts to total assets less Government securities and cash assets (a rough measure of the cushion, in excess of valuation reserves, provided for possible losses in assets involving some degree of risk) declined from 26.6 per cent in 1948 to 25.3 per cent in 1949, chiefly because of a reduction in the ratio of Government securities to other securities and loans. On the other hand, the ratio of capital accounts to total deposits (another measure of depositor protection) rose moderately for the third successive year to 9.2 per cent, reflecting chiefly the accumulation of undistributed bank profits and (to a relatively minor degree) the sale of new securities.

Dividend payments increased slightly during the year, averaging 2.3 per cent of capital funds and equaling 29 per cent of the amount available for distribution. The volume of net profits added to capital accounts in the average bank also increased slightly compared with a year ago and, as is usual, the proportion of net profits retained varied inversely with the size of the bank, ranging from 76 per cent in the smallest banks to 30 per cent in the largest New York City banks.

The accompanying chart shows the postwar trends in the principal assets and liabilities for the three reserve classifications of member banks in this District. From the all-time high of December 1945, holdings of United States Government securities declined steadily until early 1949, when an upturn developed. During these

[1] Revision of the 1948 averages for Group V banks, to eliminate banks which have since merged into larger units, would reduce ratio 3 for that group to 3.6 per cent from 4.0 per cent as reported last year.

Second Fed[...]rve District

Average Operating Ratios of Member Banks Grouped Accordi[...] of Deposits and Proportion of Loans to Total Assets — 1949

All ratios are expressed in percentages and are arithmetical averages of the ra[...]vidual banks in each group, rather than ratios based on aggregate dollar figures

BANKS LOCATED [...] NEW YORK CITY

	GROUP I—Deposits under $2,000,000 Group Average	Subgroup—Loans to Total Assets, Per cent Under 10 A	10–19.9 B	20–29.9 C	30–39.9 D	40 and up E	GROUP II—Deposits $2,000,000 to $5,00[...] Group Average	Subgroup—Loans to Total Assets, Per[...] Under 10 A	10–19.9 B	20–29.9 C	30–39.9 D
SUMMARY RATIOS Number of Banks..	149	6	31	40	41	31	242	16	51	72	64
Percentage of Total Capital Accounts											
1. Net current earnings before income taxes	10.9	6.2	7.6	10.6	13.4	12.2	11.4	6.9	9.9	10.9	13.0
2. Profits before income taxes	10.0	5.7	8.1	10.2	12.2	9.6	10.5	7.2	9.7	10.6	11.7
3. Net profits	8.1	4.7	7.0	8.3	9.9	7.3	8.2	5.9	8.1	8.3	8.8
4. Cash dividends declared	1.9	1.7	1.8	2.1	2.0	1.9	2.2	1.4	2.2	2.3	2.1
Percentage of Total Assets											
5. Total earnings	2.96	2.02	2.45	2.81	3.19	3.53	2.83	2.07	2.43	2.72	3.01
6. Net current earnings before income taxes	1.03	0.61	0.74	0.98	1.20	1.23	0.93	0.53	0.77	0.91	1.03
7. Net profits	0.77	0.43	0.68	0.78	0.89	0.74	0.67	0.45	0.63	0.70	0.70
SOURCES AND DISPOSITION OF EARNINGS											
Percentage of Total Earnings											
8. Interest on U. S. Government securities	30.5	49.3	44.3	33.7	24.8	16.6	32.1	56.7	42.4	34.6	24.8
9. Interest and dividends on other securities	6.9	13.9	12.9	6.7	4.2	3.5	7.0	11.7	10.4	6.6	5.0
10. Earnings on loans[1]	53.4	26.2	33.9	49.5	61.7	72.3	49.6	17.7	35.5	46.9	59.2
11. Service charges on deposit accounts	5.8	6.8	5.6	6.3	5.9	5.1	6.9	9.0	7.2	7.1	6.8
12. Other current earnings	3.4	3.8	3.3	3.8	3.4	2.5	4.4	4.9	4.5	4.8	4.2
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)*	0.6	–	–	–	–	–	1.2	0.2	1.4	1.8	1.1
15. Salaries and wages	29.5	34.2	30.6	30.4	27.7	28.7	29.2	32.1	29.0	29.1	28.7
16. Interest on time deposits	13.7	11.1	17.2	12.8	12.7	13.1	15.5	19.6	18.1	14.3	14.5
17. Other current expenses	22.5	24.2	22.1	22.2	22.3	23.1	22.7	22.8	21.5	23.1	22.8
18. Total expenses	65.7	69.5	69.9	65.4	62.7	64.9	67.4	74.5	68.6	66.5	66.0
19. Net current earnings before income taxes	34.3	30.5	30.1	34.6	37.3	35.1	32.6	25.5	31.4	33.5	34.0
20. Net recoveries and profits[3] (or losses –)	– 2.2	– 4.0	2.3	– 0.6	– 3.2	– 7.3	– 2.1	1.0	– 0.5	– 1.0	– 3.4
21. Taxes on net income	6.0	4.7	4.6	6.3	6.4	6.7	6.5	4.7	4.9	6.8	7.3
22. Net profits	26.1	21.8	27.8	27.7	27.7	21.1	24.0	21.8	26.0	25.7	23.3
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	2.1	2.1	1.9	1.8	1.9	1.9	1.9
24. Interest and dividends on other securities	2.6	3.0	2.8	2.7	2.4	2.6	2.5	2.9	2.5	2.3	2.3
25. Net recoveries and profits (or losses –) on total securities	0.1	†	0.1	†	0.1	0.1	0.1	0.1	†	0.1	0.1
Return on Loans											
26. Earnings on loans[1]	5.6	5.9	5.4	5.6	5.7	5.4	5.3	5.1	5.4	5.3	5.2
27. Net recoveries (or losses –) on loans[4]	– 0.2	†	0.1	†	– 0.3	– 0.5	– 0.1	†	†	– 0.1	– 0.1
DISTRIBUTION OF ASSETS											
Percentage of Total Assets											
28. U. S. Government securities	42.2	55.4	52.5	47.7	38.4	27.5	45.3	64.2	54.1	48.9	39.9
29. Other securities	7.8	10.2	12.2	7.9	5.9	5.1	8.5	10.3	11.6	8.3	7.0
30. Loans	29.6	8.9	15.4	24.8	34.5	47.6	27.8	7.0	16.2	24.3	34.3
31. Cash assets	19.6	25.1	19.2	18.9	20.2	18.9	17.4	17.7	17.2	17.5	17.7
32. Real estate assets	0.7	0.4	0.7	0.7	0.8	0.9	0.9	0.7	0.8	1.0	1.0
CAPITAL AND DEPOSIT RATIOS — in Percentage											
33. Capital accounts to total assets, less Gov'ts and cash assets	29.4	65.2	40.0	30.2	22.9	19.6	26.0	54.6	30.2	27.3	19.9
34. Capital accounts to total deposits	11.3	13.5	11.9	11.1	10.5	11.9	9.4	8.6	9.0	9.9	9.2
35. Time deposits to total deposits	46.9	36.4	48.9	42.5	47.5	51.8	52.0	52.5	54.1	50.2	51.0

	[...]OUP III—Deposits $5,000,000 to $20,000,000 Subgroup—Loans to Total Assets, Per cent Under 10 A	10–19.9 B	20–29.9 C	30–39.9 D	40 and up E	GROUP IV—Deposits over $20,000,000 Group Average	Subgroup—Loans to Total Assets, Per cent Under 10 A	10–19.9 B	20–29.9 C	30–39.9 D	40 and up E	BANKS IN NEW YORK CITY* GROUP V Deposits under $100 million	GROUP VI Deposits $100 million to $1 billion	GROUP VII Deposits over $1 billion	ALL BANKS 1947	1948	1949	
Number of Banks	12	64	95	65	31	71	3	15	26	20	7	15	11	9	792	779	764	
1.	9.7	9.9	11.8	13.7	16.9	11.9	6.9	9.3	11.6	12.6	18.6	9.0	8.4	9.0	10.9	11.2	11.5	1
2.	10.5	10.0	10.6	11.7	13.6	10.7	9.4	9.7	9.3	11.5	16.7	6.2	6.8	7.4	11.4	9.3	10.4	2
3.	8.2	7.8	8.0	8.0	9.1	7.8	8.5	7.2	6.9	8.2	11.2	4.0	4.9	5.0	8.1	7.0	7.9	3
4.	2.1	2.2	2.4	2.6	2.4	3.1	2.6	2.8	3.1	3.0	4.3	2.0	3.1	3.5	2.2	2.2	2.3	4
5.	2.03	2.34	2.65	3.01	3.83	2.73	1.96	2.34	2.57	2.99	3.78	2.49	2.11	1.78	2.46	2.66	2.80	5
6.	0.61	0.72	0.84	0.97	1.19	0.82	0.43	0.58	0.80	0.91	1.28	0.66	0.69	0.74	0.78	0.84	0.91	6
7.	0.52	0.57	0.57	0.57	0.64	0.53	0.52	0.46	0.47	0.59	0.78	0.30	0.44	0.42	0.58	0.54	0.63	7
8.	56.8	45.0	33.1	24.0	14.6	30.2	54.7	41.9	30.3	23.5	13.7	25.2	33.4	29.4	40.5	34.5	31.6	8
9.	11.7	8.2	6.9	4.3	2.0	6.0	14.8	5.7	7.1	4.5	3.3	4.7	3.6	4.5	6.6	6.5	6.5	9
10.	16.8	31.5	45.1	58.3	70.5	46.4	14.4	30.7	46.3	56.3	65.6	45.9	36.0	43.9	40.3	46.0	48.7	10
11.	10.0	8.3	8.2	8.1	6.9	6.7	7.9	7.2	6.4	6.4	6.9	12.1	5.9	2.6	6.1	6.6	7.2	11
12.	4.7	7.0	6.7	5.3	6.0	10.7	8.2	14.5	9.9	9.3	10.5	12.1	21.1	19.6	6.5	6.4	6.0	12
13.	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
14.	1.6	2.4	3.2	1.6	1.7	4.4	2.9	4.1	5.1	4.6	1.7	7.9	15.0	9.8	3.5	3.6	3.2	14
15.	29.2	29.1	30.1	30.7	28.0	32.3	35.3	33.7	31.9	31.7	30.9	40.8	39.8	34.4	29.2	30.0	30.2	15
16.	18.0	17.3	14.8	13.0	12.3	12.7	18.3	15.1	12.0	12.0	9.7	4.1	2.0	1.4	15.8	14.7	14.0	16
17.	22.5	23.1	23.7	24.0	26.6	25.8	24.7	26.3	25.3	26.2	26.0	28.6	25.3	22.7	23.6	23.9	23.5	17
18.	69.7	69.5	68.6	67.7	66.9	70.8	78.3	75.1	69.2	69.9	66.6	73.5	67.1	58.5	68.6	68.6	67.7	18
19.	30.3	30.5	31.4	32.3	33.1	29.2	21.7	24.9	30.8	30.1	33.4	26.5	32.9	41.5	31.4	31.4	32.3	19
20.	2.9	0.3	– 2.9	– 4.7	– 6.2	– 2.8	8.2	1.4	– 6.5	– 2.9	– 2.8	– 8.0	– 4.8	– 6.2	1.8	– 4.6	– 2.6	20
21.	7.2	6.5	6.8	8.6	9.0	6.9	2.8	6.8	6.3	7.4	9.6	6.3	7.6	11.5	9.4	6.5	6.9	21
22.	26.0	24.3	21.7	19.0	17.9	19.5	27.1	19.5	18.0	19.8	21.0	12.2	20.5	23.8	23.8	20.3	22.8	22
23.	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.8	1.6	1.5	1.5	1.5	1.8	1.8	1.8	23
24.	2.0	2.6	2.5	2.3	2.6	2.4	2.4	3.0	2.3	2.1	2.9	2.8	2.6	2.7	2.7	2.4	2.5	24
25.	0.2	0.1	0.1	†	0.2	0.2	0.2	0.2	0.1	0.2	0.3	0.1	0.1	0.1	0.1	†	0.1	25
26.	5.0	4.8	4.9	5.1	5.8	4.7	3.9	4.4	4.6	4.8	5.3	4.2	3.0	2.5	5.0	5.0	5.1	26
27.	0.1	†	†	– 0.1	– 0.1	†	1.9	– 0.1	– 0.2	– 0.1	0.1	– 0.4	– 0.1	– 0.1	....	....	– 0.1	27
28.	62.6	57.8	48.5	40.3	30.4	45.5	62.3	57.2	46.2	38.5	30.9	39.5	44.5	35.9	53.2	47.6	45.2	28
29.	12.3	8.9	8.8	6.8	3.8	7.6	12.1	7.0	8.9	6.7	5.0	5.1	3.1	3.5	6.7	7.6	7.9	29
30.	7.1	15.4	24.4	34.8	46.6	27.7	7.2	16.4	25.7	35.4	46.2	27.5	25.1	31.9	21.1	25.7	27.7	30
31.	17.1	16.8	17.1	16.8	18.1	17.5	17.0	17.5	17.7	17.9	16.0	26.8	26.1	27.2	17.9	18.1	18.1	31
32.	0.7	1.0	0.9	1.1	0.9	1.3	1.0	1.5	1.1	1.2	1.5	0.5	0.6	0.7	0.9	0.8	0.9	32
33.	35.6	32.8	22.7	17.2	14.1	20.3	30.7	26.5	20.1	16.9	13.2	25.9	30.7	23.2	31.5	26.6	25.3	33
34.	6.9	8.3	8.2	7.9	7.9	7.6	6.6	6.9	7.8	8.0	7.6	8.6	9.9	9.7	8.4	8.8	9.2	34
35.	50.3	53.2	49.3	48.9	51.2	43.0	46.5	45.9	39.3	45.4	41.6	15.1	12.6	6.1	47.7	48.1	47.8	35

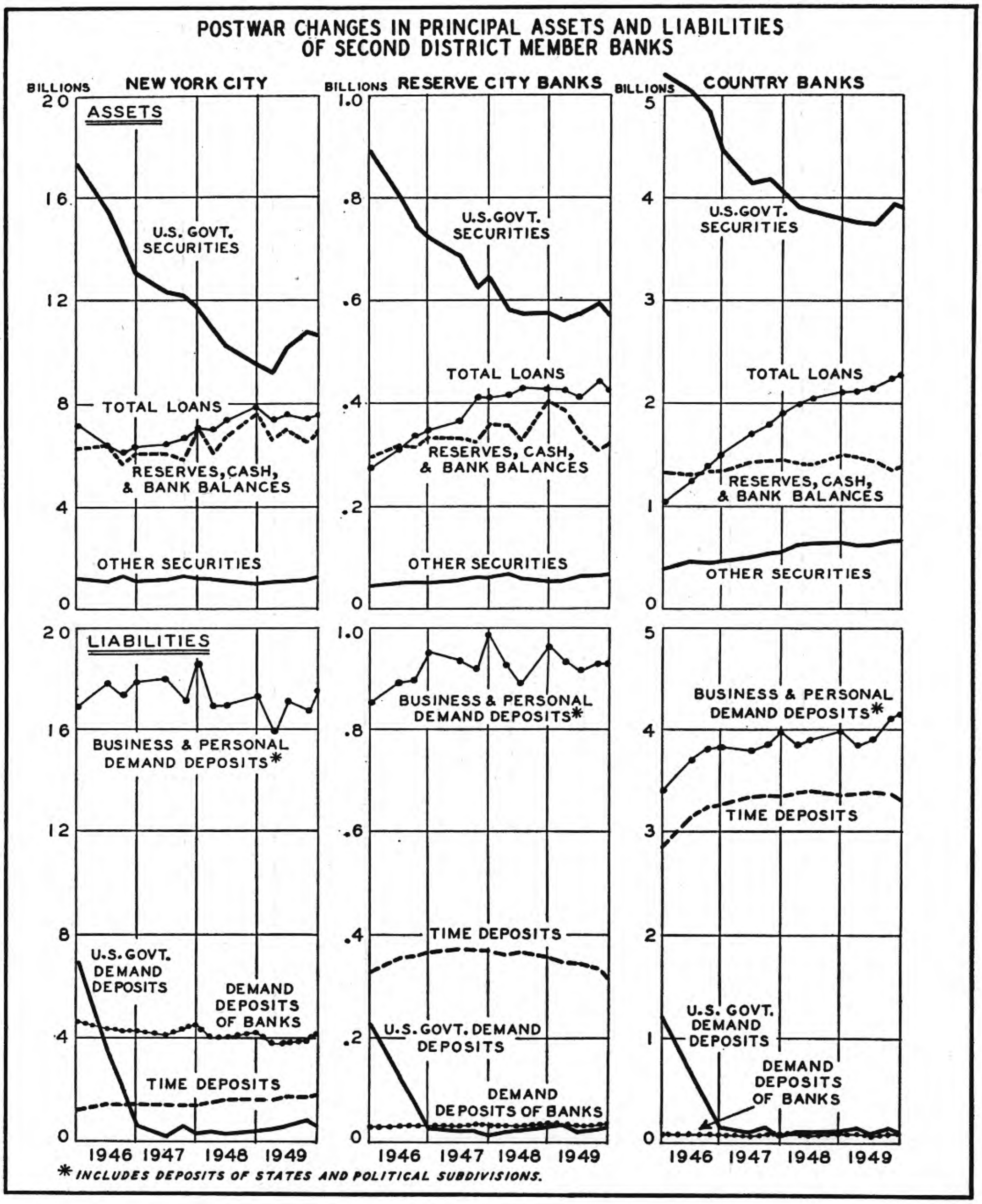
1 Interest and discount on loans plus service charges and other fees on loans.
2 Banks not reporting this item or reporting negligible amounts were excluded in computing this average, and averages are not shown where there were fewer than 3 banks in a group.
3 Profits on securities sold or redeemed and 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).
4 The ratio for 1949 covers only actual recoveries or losses incurred, whereas the ratio for prior years also includes amounts transferred to reserves for bad-debt losses and other valuation reserves.

* Includes Manhattan, The Bronx, [...]nly. Because of the small number of banks in these three groups the subgrouping "Loans t[...]as been omitted. Two banks have been omitted—one from Group V and one from Group VI[...]me ratios due to particular types of business.
† Less than 0.05 per cent.

Note: Balance sheet figures used as a basis for the ratios are averages of amounts reported for December 31, 1948, June 30, 1949, and November 1, 1949 years, the proportionate volume of assets held in this form by all member banks in the District receded from an average of 61.3 in 1945 to 45.2 per cent in 1949. The postwar growth in loan volume, on the other hand, partly replaced Government securities sold or redeemed, and the proportion of total assets in this form more than doubled, reaching 27.7 per cent during 1949. Loans of "country" banks consistently have shown the sharpest gains and currently are at record levels. In the reserve city banks also, loans are relatively high at present but have shown no sustained rise or fall in the past two years; in the central reserve New York City banks, they are moderately below their high of December 1948.

Among the liabilities, business and personal demand deposits have reached successive new highs in the "country" banks. In the other classes of banks, peaks were established in December 1947, but the subsequent decline carried the volume to new postwar lows in the central reserve New York City banks and canceled a sizable part of the preceding rise in the reserve city banks. There has not been much net change in demand deposits due other banks or demand deposits of the United States Government since 1946, when the Treasury used a considerable part of its balances to retire outstanding debt. Time deposits have been expanding steadily in the central reserve New York City banks, where they are a small factor, but elsewhere in the District, where they are much more important, early postwar increases have been followed by declines which have been most marked in the reserve city banks.

Allan Sproul, *President.*



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FEDERAL RESERVE BANK OF NEW YORK

STATEMENT FOR THE PRESS

For publication

Monday, March 6, 1950.

The Federal Reserve Bank of New York reports that average net profits of all its member banks rose to 7.9 per cent of capital funds during 1949 from an average of 7.0 per cent in 1948. Net profits include earnings from loans and securities, service charges and other income, capital gains, and loan recoveries; less operating costs, charge-offs and transfers to reserves, and taxes.

The greatest improvements in income were registered by larger banks outside New York City and by the medium-sized institutions in the metropolitan area. The New York Federal Reserve District includes New York State, northern New Jersey and Fairfield County, Connecticut. Net profits of the large New York City banks - those with deposits of more than $1 billion - declined from an average 6.1 per cent of capital funds in 1948 to 5.0 per cent in 1949, largely as a result of greater charges against earnings for reserves against losses on loans; current earnings before such charges and before income taxes were practically the same as in 1948.

The medium-sized banks outside New York City - those with deposits of five to twenty million dollars - had average net profits after income taxes equal to 8.1 per cent of their capital funds in 1949, compared with 6.9 per cent in 1948. Banks with deposits of two to five million dollars had net profits averaging 8.2 per cent in 1949, compared with 7.4 per cent in 1948, and the smallest banks had average net profits of 8.1 per cent, compared with 7.4 per cent in the previous year.

All banks - except the smallest institutions in New York City - obtained a larger proportion of their earnings from loans in 1949 than in 1948, while all groups of banks derived a smaller share of earnings from interest on United States Government securities last year than they had in 1948.

The average ratio of capital funds to deposit liabilities of all banks in the District increased to 9.3 per cent in 1949 from 8.8 per cent in 1948 and 8.2 per cent in 1947. This improved ratio results largely from the retention of earnings by the banks, which made average dividend payments of 29 per cent of the amount available for distribution, compared with about 31 per cent in 1948. Average dividends were equal to 2.3 per cent of total capital funds, compared with 2.2 per cent in 1948.