

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1953

To all Member Banks in the Second Federal Reserve District:

Net profits of all member banks in the Second Federal Reserve District, after all charges but before dividends, averaged 7.3 per cent of capital funds in 1953, the same rate of return as in 1952. But, while the average rate of return on capital (item 3) for all the District's member banks remained stable, the seven size-groups into which the banks are divided for purposes of operating ratio analysis had a mixed experience. Four of these groups—two in New York City and two outside—enjoyed a higher rate of return on capital in 1953 than in 1952. The other three groups had a lower rate of return last year than the year before.

Among the four groups of banks showing increased rates of return over 1952, gains were most pronounced in the two smaller-sized groups of New York City banks, groups V and VI. In the group V banks, average returns nearly doubled (rising from 3.1 per cent to 6.1 per cent) because of an increase in operating earnings and the nonrecurrence in 1953 of certain losses and charge-offs experienced the previous year. In the group VI banks, higher net current operating earnings accounted primarily for the increase in profits.

The largest decrease in the rate of return for any group—from 7.3 per cent in 1952 to 6.7 per cent in 1953—occurred in the largest New York City banks (group VII) and reflected a sharp rise in net losses taken on securities. Security losses (item 27) for these banks rose from an average of 0.03 per cent of their total average security portfolio in 1952 to 0.55 per cent in 1953. However, these increased losses apparently resulted to a considerable extent from security "switching" operations aimed at reducing income tax liability. In fact, taxes on net income for this group of banks represented a smaller proportion of total earnings than in 1952 (item 23), whereas in all other groups of banks income taxes were higher in both absolute and relative terms.

Net profits also were lower in the group II banks (outside New York City), primarily because of higher income taxes, and the return on capital funds declined from 7.5 per cent in 1952 to 7.1 per cent in 1953. In the group III banks, net profits were higher on average than in 1952, and the minor reduction in the rate of return on capital funds (from 7.5 to 7.4 per cent) merely reflected the failure of net profits to grow as rapidly as capital funds.

OPERATING INCOME

Total current earnings increased generally throughout the District. The gross return on total assets (item 5) rose to 3.25 per cent, the highest level since 1941. Loan income rose to 56.4 per cent of total earnings, the highest proportion attained in many years. This rise resulted from both a larger average loan volume and higher rates of interest. The increase in the absolute volume of loans is shown for the average bank in each size-group on Chart I, while item 32 gives loans as a percentage of total assets.

Except for a slight decline in group III banks, interest rates received on outstanding loans (item 28)

were up modestly throughout the District. In most groups of banks, however, a small rise in net charge-offs on loans (item 29) partially offset the benefit derived from the higher effective rates of return.

Holdings of United States Government securities decreased in most groups of banks (Chart I), but the effect of this decrease in volume was more than offset by the higher rates of return (item 25) obtainable on issues refunded during the year. Consequently, income from Government securities increased moderately in all groups of banks in 1953. As a percentage of total earnings (item 9), however, Government security income was generally smaller because of the greater relative growth in other kinds of earnings, especially earnings from loans. Net losses and charge-offs on securities were modestly higher in most groups of banks, the greatest increase being, as mentioned previously, in the largest New York City banks. Security losses as a percentage of total security holdings (item 27) remained small, however, and for the District as a whole averaged only 0.14 per cent.

Holdings of "Other securities" decreased in the two largest-sized groups of New York City banks (item 31 and Chart I). And, while higher rates of return on these securities (item 26) partly compensated for the smaller volume held by these groups of banks, income from this source as a proportion of total earnings (item 10) declined moderately. In the other groups of banks in the District, average holdings increased, rates of return remained relatively unchanged, and income from other securities as a fraction of total earnings was about the same as in 1952.

OPERATING EXPENSES

Total expenses were slightly higher, as a proportion of total earnings, in 1953 than a year earlier because of larger interest payments on time deposits. All groups of banks increased their effective rates of payment (item 39), with the most pronounced rise occurring in the two largest-sized groups of New York City banks. Also, six of the seven groups of banks paid the higher rates on a higher average volume of time deposits (item 38 and Chart I) in 1953 than in 1952. But the time deposits of banks in group II decreased slightly despite the higher effective rates of interest paid.

Outlays for salaries and wages, and "other expenses", decreased further as a proportion of total earnings from the highs of recent years. In fact, in three groups of banks (IV, VI, and VII) in which interest payments are not too important a segment of total expenses, the proportion of total earnings carried through to net current operating earnings before income taxes (ratio 20) were at all-time highs in 1953. Heavy tax liabilities, however, reduced the ratio of net profits to total earnings below the levels of some earlier years.

NONRECURRING ITEMS—CHANGE IN PRESENTATION

In former years, increases or decreases in valuation reserves against losses on loans and securities were included in the computation of the ratio (item 21) of net

1953 Average Operating Ratios of Member Banks in the Second District, Grouped According to Size of Deposits and Proportion of Loans to Total Assets

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

YOUR NOTES

Note: Balance sheet figures used as a basis for the 1953 ratios are averages of amounts reported for December 31, 1952, June 30, 1953, and September 30, 1953.	ALL BANKS Second District			BANKS OUTSIDE MANHATTAN, NEW YORK CITY																				BANKS IN MANHATTAN, NEW YORK CITY								Line Number					
				GROUP I—Deposits under \$2,000,000								GROUP II—Deposits of \$2,000,000 to \$5,000,000								GROUP III—Deposits of \$5,000,000 to \$20,000,000				GROUP IV—Deposits over \$20,000,000				GROUP V Deposits under \$100 million		GROUP VI Deposits \$100 million to \$1 billion			GROUP VII Deposits over \$1 billion				
				Group average		Loans to total assets, per cent—1953				YOUR BANK	Group average		Loans to total assets, per cent—1953				YOUR BANK	Group average		Loans to total assets, per cent—1953		YOUR BANK	Group average		Loans to total assets, per cent—1953		YOUR BANK	Group average		Loans to total assets, per cent—1953			YOUR BANK				
				1952	1953	Under A	20-29.9 B	30-39.9 C	40 and up D		1952	1953	Under A	20-29.9 B	30-39.9 C	40 and up D		1952	1953	Under A	20-29.9 B		30-39.9 C	40 and up D	1952	1953		Under A	20-29.9 B	30-39.9 C	40 and up D			1952	1953	Under A	20-29.9 B
SUMMARY RATIOS																																					
Number of Banks..	715	697	118	105	13	24	25	43		216	211	21	57	70	63		280	261	25	72	90	74		93	92	3	20	28	41		9	9	10	10	9	9	
Percentage of Total Capital Accounts																																					
1. Net current earnings before income taxes.....	12.4	12.9	10.0	10.5	6.4	9.4	11.0	12.0		11.7	11.8	9.9	11.4	11.5	13.0		13.4	13.7	10.8	12.9	13.3	16.2		14.6	15.6	12.9	14.8	14.5	17.0		8.6	10.6	12.8	14.0	13.9	14.6	
2. Profits before income taxes.....	10.6	11.0	9.1	9.6	6.4	8.6	10.0	11.0		10.3	10.2	8.9	9.9	9.8	11.4		11.1	11.5	10.0	10.5	11.0	13.6		11.4	12.7	10.4	11.5	12.4	13.5		6.0	9.8	12.1	13.4	13.5	12.8	
3. Net profits.....	7.3	7.3	6.9	7.1	4.9	6.3	7.7	7.8		7.5	7.1	7.0	7.1	6.6	7.7		7.5	7.4	7.1	7.3	7.1	8.0		7.2	7.6	7.4	7.5	7.8	7.6		3.1	6.1	6.6	7.3	7.3	6.7	
4. Cash dividends declared.....	2.5	2.5	2.0	2.1	1.7	2.0	1.9	2.4		2.3	2.4	1.9	2.5	2.3	2.6		2.5	2.5	2.0	2.5	2.5	2.7		3.2	3.2	2.7	3.0	3.0	3.3		2.1	2.3	3.6	3.7	3.9	4.1	
Percentage of Total Assets																																					
5. Total earnings.....	3.08	3.25	3.18	3.41	2.51	2.92	3.44	3.94		3.07	3.24	2.50	2.93	3.26	3.76		3.05	3.21	2.47	2.88	3.20	3.80		3.11	3.34	2.89	2.88	3.13	3.73		3.11	3.28	2.54	2.79	2.31	2.50	
6. Total expenses ¹	2.10	2.22	2.16	2.30	1.82	2.00	2.29	2.63		2.07	2.22	1.70	1.95	2.27	2.59		2.09	2.22	1.71	1.97	2.24	2.63		2.15	2.30	1.99	1.92	2.19	2.57		2.49	2.51	1.38	1.48	1.23	1.33	
7. Net current earnings before income taxes.....	0.98	1.03	1.02	1.11	0.69	0.92	1.15	1.31		1.00	1.02	0.80	0.98	0.99	1.17		0.96	0.99	0.76	0.91	0.96	1.17		0.96	1.04	0.90	0.96	0.94	1.16		0.62	0.77	1.16	1.31	1.08	1.17	
8. Net profits.....	0.59	0.59	0.71	0.76	0.54	0.63	0.83	0.85		0.64	0.62	0.57	0.60	0.57	0.70		0.54	0.53	0.50	0.51	0.52	0.59		0.48	0.51	0.53	0.48	0.51	0.52		0.22	0.45	0.61	0.68	0.57	0.54	
SOURCES AND DISPOSITION OF EARNINGS																																					
Percentage of Total Earnings																																					
9. Interest on U. S. Government securities.....	26.0	25.0	25.8	24.3	43.8	32.2	22.4	15.2		27.3	26.3	48.5	31.5	24.5	16.2		27.2	26.1	45.3	32.4	24.2	15.9		22.3	21.2	33.2	29.4	22.5	15.5		18.6	19.1	23.6	20.7	18.9	17.8	
10. Interest and dividends on other securities.....	6.8	6.7	6.9	6.8	14.1	9.2	5.7	3.8		7.2	7.0	11.3	9.6	5.9	4.5		6.7	6.7	12.3	9.0	5.9	3.5		6.7	6.6	18.7	7.9	7.5	4.4		5.5	6.0	6.4	5.7	4.8	4.5	
11. Earnings on loans ²	55.0	56.4	58.9	60.7	34.0	49.4	63.3	73.5		55.0	56.5	28.9	48.3	59.5	69.9		52.8	54.2	28.8	45.4	56.8	68.1		55.8	57.6	31.5	44.8	55.0	67.4		55.5	56.6	46.9	51.1	57.9	60.1	
12. Service charges on deposit accounts.....	6.9	6.9	5.4	5.2	4.7	6.0	5.2	5.0		6.6	6.6	7.3	7.0	6.5	6.0		8.0	7.9	8.8	8.1	8.0	7.5		7.1	7.1	5.8	8.0	7.4	6.6		9.4	8.9	3.8	3.7	2.4	2.3	
13. Other current earnings.....	5.3	5.0	3.0	3.0	3.4	3.2	3.4	2.5		3.9	3.6	4.0	3.6	3.6	3.4		5.3	5.1	4.8	5.1	5.1	5.0		8.1	7.5	10.8	9.9	7.6	6.1		11.0	9.4	19.3	18.8	16.0	15.3	
14. Total 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	100.0	100.0	
15. Trust department earnings ³ (part of item 13).....	2.9	2.9	0.9	1.0	—	—	—	—		1.1	1.2	1.0	1.2	1.4	1.0		2.1	2.0	1.7	1.8	1.9	2.6		3.6	3.5	6.7	5.3	3.2	2.5		7.0	6.4	13.4	13.3	8.5	8.2	
16. Salaries and wages.....	31.0	30.8	31.8	31.5	38.4	31.8	31.7	20.0		30.3	30.3	30.7	31.1	30.6	28.9		30.2	30.3	30.3	29.7	31.1	30.1		32.7	32.0	34.6	31.9	33.0	31.2		40.7	38.6	32.9	31.8	30.9	30.2	
17. Interest on time deposits.....	14.1	14.9	14.2	14.5	14.1	14.9	13.3	15.3		15.1	16.0	17.4	13.9	16.5	17.0		15.4	16.1	17.7	17.0	15.3	15.5		11.9	12.7	12.0	11.5	12.2	13.7		5.8	7.9	1.2	1.6	2.4	3.7	
18. Other current expenses.....	22.9	22.6	22.1	22.2	20.4	21.7	22.8	22.7		22.1	22.0	19.9	21.4	22.4	22.7		23.1	22.8	21.0	21.6	23.7	23.5		24.6	24.0	22.0	23.3	24.7	24.0		32.6	29.2	19.9	19.4	19.8	19.2	
19. Total expenses.....	68.0	68.3	68.1	68.2	72.9	68.4	67.8	67.0		67.5	68.3	68.0	66.4	69.5	68.6		69.2	68.7	69.0	68.3	70.1	69.1		69.2	68.7	68.6	66.7	69.9	68.9		79.1	75.7	54.0	52.8	53.1	53.1	
20. Net current earnings before income taxes.....	32.0	31.7	31.9	31.8	27.1	31.6	32.2	33.0		32.5	31.7	32.0	33.6	30.5	31.4		31.3	30.8	31.0	31.7	29.9	30.9		30.8	31.3	31.4	33.3	30.1	31.1		20.9	24.3	46.0	47.2	46.9	46.9	
21. Net losses (-) or recoveries and profits ⁴	-4.3	-3.4	-2.3	-1.4	0.1	-0.7	-1.8	-2.0		-3.7	-3.1	-2.6	-3.5	-3.3	-2.8		-3.9	-2.2	-4.8	-4.0	-3.5			-6.4	-4.3	-5.8	-4.4	-2.2	-5.7		-6.3	-3.1	-2.0	-2.7	-1.6	-5.8	
22. Net increase(-) or decrease(+) in valuation reserves ⁵	-0.9	-0.9	-0.7	-0.7	-1.1	-0.7	-0.6		-0.9	-0.9	-0.3	-0.9	-1.2	-0.9		-1.0	-0.4	-0.9	-1.1	-0.9				-6.4	-1.4	0.2	-2.9	-1.9	-0.4		1.0	0.6	0.6	0.3			
23. Taxes on net income.....	8.4	9.1	7.2	7.9	5.8	7.9	6.9	9.0		7.6	8.4	6.4	8.4	8.5	8.9		8.5	9.0	8.0	8.0	8.6	10.9		8.9	10.1	7.0	9.2	9.6	11.0		7.1	8.0	19.9	20.5	20.7	19.8	
24. Net profits.....	19.3	18.3	22.4	21.8	21.2	21.9	22.8	21.4		21.2	19.3	22.7	20.8	17.5	18.8		17.8	16.9	20.4	18.0	16.2	15.6		15.5	15.5	18.8	16.8	16.4	14.0		7.5	14.2	24.1	24.6	24.6	21.6	
RATES OF RETURN ON SECURITIES AND LOANS																																					
Return on Securities																																					
25. Interest on U. S. Government securities.....	1.99	2.10	2.10	2.17	2.11	2.21	2.16	2.18		2.04	2.14	2.10	2.14	2.14	2.15		1.96	2.08	2.10	2.11	2.08	2.03		1.86	2.03	2.08	2.02	2.01	2.04		1.91	2.11	1.73	1.94	1.69	1.89	
26. Interest and dividends on other securities.....	2.36	2.35	2.62	2.57	3.15	2.30	2.32	2.68		2.35	2.36	2.54	2.32	2.19	2.54		2.28	2.27	2.28	2.20	2.26	2.37		2.21	2.21	2.66	1.83	2.17	2.39		3.09	3.29	2.27	2.35	2.18	2.33	
27. Net losses (-) on total securities ⁶	-0.10	-0.14	-0.01	-0.03	0.01	-0.01	-0.09	-0.01		-0.09	-0.10	-0.08	-0.11	-0.07	-0.13		-0.14	-0.17	-0.08	-0.17	-0.17	-0.22		-0.11	-0.21	-0.22	-0.18	-0.14	-0.28		-0.07	0.03	†	-0.21	-0.03	-0.55	
Return on Loans																																					
28. Earnings on loans ²	5.39	5.41	5.83	5.97	5.63	5.72	6.20	6.08		5.53	5.59	5.65	5.52	5.55	5.69		5.36	5.28	4.97	5.17	5.21	5.57		5.09	5.17	5.79	4.76	4.95	5.48		4.82	4.87	3.38	3.59	3.42	3.58	
29. Net losses (-) or recoveries on loans ⁷	-0.05	-0.08	-0.08	-0.09	0.01	-0.08	-0.08	-0.13		-0.06	-0.09	-0.05	-0.07	-0.11	-																						

losses or recoveries to total earnings. This year, to make possible the accurate measurement of actual profit or loss on loans and securities, these charges or credits have been shown separately under the caption "Net increase (-) or decrease (+) in valuation reserves" (item 22). The ratio of profits or losses taken on securities to total securities held (item 27) has also been calculated on the basis of actual profit or loss experience for the first time. Loan losses as a percentage of outstanding loans (item 29) have been calculated on this basis since 1948.

Every one of the New York City banks (groups V, VI, and VII) maintains valuation reserves. And in the largest-sized banks outside the City (group IV) 96 per cent of the banks have adopted this practice. However, as the size of banks becomes smaller, the

number maintaining valuation reserves decreases progressively. Thus, in the smallest-sized banks (group I), only 39 per cent of the banks maintain such reserves.

The fact that a relatively small number of the smaller banks maintain valuation reserves results in an understatement of the average ratio of net increase or decrease in valuation reserves to total earnings (item 22) for those banks maintaining these reserves. In addition, banks that do not make provision for future losses show higher net profits than banks that are accumulating reserves. Therefore, to enable an individual bank to compare its results with groups following similar reserve practices, the following supplementary averages of selected ratios have been compiled for the four groups of banks outside New York City.

Size-group	Number of banks	In per cent of total earnings				
		Net current earnings before income taxes	Net losses (-) or recoveries	Net increase (-) or decrease (+) in valuation reserves	Taxes on net income	Net profits
BANKS WITH VALUATION RESERVES						
Outside N. Y. C. with deposits:						
Under \$2 million.....	41	32.1	-2.3	-1.9	8.1	19.8
\$2 to \$5 million.....	131	31.4	-3.1	-1.5	8.6	18.2
\$5 to \$20 million.....	219	30.6	-3.9	-1.1	9.1	16.5
Over \$20 million.....	88	31.2	-4.7	-1.4	10.0	15.1
BANKS WITHOUT VALUATION RESERVES						
Outside N. Y. C. with deposits:						
Under \$2 million.....	64	31.6	-0.8	—	7.7	23.1
\$2 to \$5 million.....	80	32.2	-3.1	—	8.0	21.1
\$5 to \$20 million.....	42	31.9	-4.0	—	8.9	19.0
Over \$20 million.....	4	33.7	+3.4	—	12.2	24.9

DIVIDEND PAYMENTS

Dividend payments rose in absolute terms throughout the District in 1953. In proportion to capital funds, which also showed continued growth, the average rate of payment (item 4) remained unchanged at 2.5 per cent for the District as a whole but was slightly

higher in some groups of banks. In the largest-sized group of New York City banks, for example, the dividend rate rose to 4.1 per cent of capital funds (from 3.9 per cent a year previous), the highest level since 1941.

ALLAN SPROUL,
President.

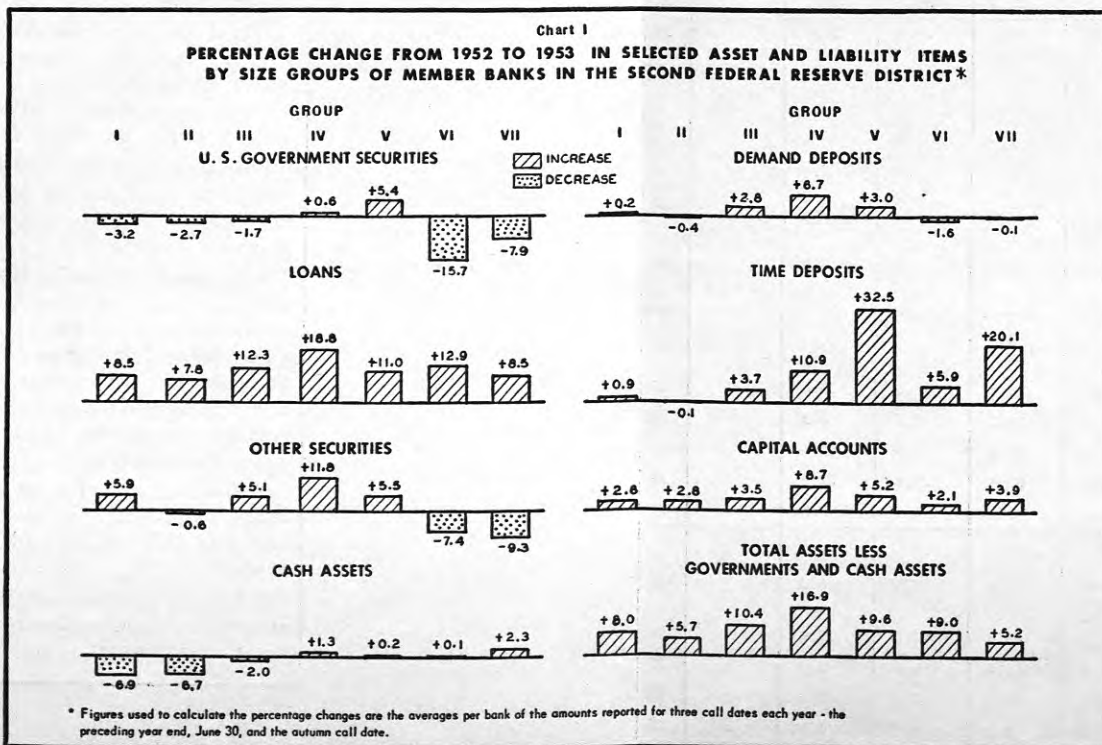


Chart II

DISTRIBUTION OF SECOND DISTRICT MEMBER BANKS OUTSIDE NEW YORK CITY
ACCORDING TO SIZE OF CERTAIN KEY RATIOS

