

FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 4208]
March 15, 1955]

Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1954

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 dividend payments, averaged 8.3 per cent of capital funds (item 3) in 1954. This compares with 7.3 per cent in both 1953 and 1952, and was the highest rate of return since 1946 when 11.2 per cent was earned. As reflected in items 21 and 27, the past year's improvement in net profits resulted largely from the replacement of losses on security transactions in 1953 by net profits and recoveries on securities in 1954. Net current operating earnings before income taxes generally decreased in 1954 among the District's member banks, both as a percentage of total earnings (item 20) and as a percentage of capital funds (item 1).

All but one of the seven size-groups into which the banks are divided for purposes of operating ratio analysis had higher ratios of net profits before dividends to capital funds in 1954 than in 1953. This ratio declined slightly for the smallest banks (with total deposits of less than 2 million dollars), however, falling from 7.1 in 1953 to 6.6 in 1954.

The year-to-year increases in the ratio of net profits to capital funds were most pronounced in the largest (group VII) banks in New York City and in the two largest size-groups (III and IV) outside the City; for these three groups of banks, the shift from security losses in 1953 to security profits last year was especially marked. The shift from security losses to profits was also substantial in the smallest-sized (group V) banks in New York City, but its effect on this group's net profits was largely offset by lower net current operating earnings, by enlargement of valuation reserves, and by larger provision for income taxes.

OPERATING INCOME

Total operating income increased moderately further in most banks in the Second Federal Reserve District in 1954. The ratio of total earnings to total assets (item 5) increased from a Second District average of 3.25 per cent in 1953 to 3.33 per cent in 1954, the highest level reached since 1939 (when it was 3.50 per cent). Total earnings as a percentage of total assets decreased in two of the three New York City groups of banks (V and VII), however, as the increase in gross earnings was less than the growth in total assets. In all the other groups of banks, the ratio of income to assets was higher than in 1953.

The rise in total operating income of banks outside New York City was mainly based on a further rise in income from loans. The rate of return on loans (item 28) showed a slight decrease in most groups of banks, but net losses and charge-offs on loans (item 29) remained quite small, and the volume of loans increased. Loans as a percentage of total assets (item 32) declined in two of the New York City groups of banks (V and VII), but rose in the other New York City

group (VI) and in each of the four groups of banks outside the City.

Average holdings of United States Government securities increased in all but the two smallest size-groups of banks outside New York City. The increases in Government security holdings were greatest, in both absolute and relative terms, in the group V and VII banks in New York City. The average Government security holdings of the group V banks were enlarged by the investment of funds derived from the sale or maturity of "other securities" (item 31), while in the group VII banks the growth in Government security portfolios reflected the influence of a reduction in loans (item 32). As a percentage of total earnings, therefore, income from Government securities (item 9) increased in these two groups of banks, though the rise was tempered by the lower average yields received (item 25). In the other five groups of Second District banks, income from Government securities either declined or did not grow as much as total earnings, and the ratio of Government security income to total earnings (item 9) decreased moderately.

Member banks' average holdings of "other securities", which are mostly municipal obligations, increased in 1954 throughout the District, both absolutely and in relation to total assets, except in the group V banks mentioned above. Rates of return on "other securities" (item 26) showed mixed year-to-year changes, however; for the District as a whole, the average rate was down slightly to 2.28 per cent, from 2.35 per cent in 1953.

OPERATING EXPENSES

Total operating expenses moved higher in 1954, and averaged 70.3 per cent of total earnings for all member banks in the District (as compared with 68.3 per cent in 1953). This was the highest expense ratio since 1943, when expenses averaged 73.5 per cent of earnings. Outlays for salaries and wages continued to increase both in dollar amount and in relation to total earnings; the most important factor in 1954's higher total expense ratio, however, was increased interest payments on time deposits.

Interest payments on time deposits averaged 16.1 per cent of total earnings for the Second District member banks in 1954, compared with 14.9 per cent in 1953. The 1954 ratio was the largest since 1945, when the average was 16.4 per cent. The rise in interest payments on time deposits reflected both a larger volume of such deposits (item 38) and moderately higher interest rates (item 39). In the New York City groups of banks, the increase in the ratio of interest payments on time deposits to total earnings was especially large, as the result of large increases in the volume of time deposits held by these banks for the account of foreign banks. (The comparatively favor-

able rates available in 1954 on time balances led foreign banks to favor them over bankers' acceptances and Treasury bills as an investment medium for short-term dollar balances.)

NONRECURRING ITEMS

Higher prices of Government and municipal securities in 1954 permitted all size-groups of banks except the smallest (group I) banks to record net profits and recoveries on securities in place of the net losses and charge-offs they showed in 1953. And the group I banks halved their 1953 losses in 1954. In fact, the year-to-year change from net losses and charge-offs to net profits and recoveries (item 21) was the principal factor accounting for the higher 1954 net profits of the Second District member banks.

As a percentage of total earnings, the changes generally varied directly with the size of the banks. Thus the year-to-year changes ranged from 0.7 per cent of total earnings in the smallest size-group of banks in the District to a substantial 13.6 per cent of total earnings in the largest New York City banks. In the larger banks of the District, security profits (the main component of item 21) were enlarged as a result of the "switching operations" conducted in 1953 for tax purposes; these operations involved the sale of some issues of securities for the purpose of taking losses and the simultaneous purchase of other issues at correspondingly low prices. In relation to total security holdings (item 27), net profits and recoveries in 1954 averaged 0.28 per cent for all banks in the District, compared with a net loss of 0.14 per cent in 1953.

Because a large number of the smaller banks in the Second District do not maintain valuation reserves for losses on loans or securities, the average increases in reserves of the smaller groups of banks were relatively small (item 22), and their indicated net profits are somewhat higher than they would have been if larger transfers to reserves had been made. To permit the

process in 1954 and used a considerable part of their 1954 security profits to build up their reserves.

Many member banks throughout the District took advantage of a 1954 revision in the Internal Revenue Service formula, in effect since 1947, for the calculation of reserves for bad debt losses on loans. The effect of this revision was to permit banks to accumulate additional tax-free reserves for such losses. Under the 1947 formula, a bank's reserve for bad debt losses on loans could not exceed three times the bank's average yearly loss experience over the most recent twenty years. The 1954 revision of the formula provided that a bank could accumulate a bad debt loss reserve equal to three times its average loan losses over any twenty consecutive years after 1927. In many banks, therefore, the revision of the formula increased the maximum reserve permitted for tax purposes because under the revised formula banks could include the years of their worst loss experience—the early thirties—in computing their twenty-year average loan loss. However, charges against earnings to bring the reserve to the new, higher, permissible maximum must be spread over a three-year period. Thus, in 1954, an amount equal to one third of the difference between the actual balance in the reserve for bad debt loan losses and the new "ceiling" could be transferred to the reserve.

TAXES, DIVIDENDS, AND RETAINED EARNINGS

Income tax liabilities of member banks were generally higher throughout the District in 1954, reflecting the larger incomes subject to tax. The elimination of the excess profits tax lowered the taxes of comparatively few banks, and had little effect on the average ratio of taxes to total earnings (item 23) of the various groups of banks. Dividend payments continued to rise in 1954, the District average equaling 2.7 per cent of capital funds, compared with 2.5 per cent in 1953. But most of the year's increase in net profits was retained and added to capital funds, along with the

Size-group	Number of banks		In per cent of total earnings											
			Net current earnings before income taxes		Net profits and recoveries (+) or losses (-)		Net increase (-) or decrease (+) in valuation reserves		Taxes on net income		Net profits			
			1953	1954	1953	1954	1953	1954	1953	1954	1953	1954		
BANKS WITH VALUATION RESERVES*														
Outside New York City with deposits:														
Under \$2 million.....	41	41	32.1	31.9	-2.3	-1.6	-1.9	-0.8	8.1	8.8	19.8	20.7		
\$2 million to \$5 million.....	131	119	31.4	29.9	-3.1	+0.9	-1.5	-1.6	8.6	8.4	18.2	20.8		
\$5 million to \$20 million.....	219	212	30.6	28.7	-3.9	+3.6	-1.1	-2.2	9.1	10.0	16.5	20.1		
Over \$20 million.....	88	101	31.2	29.1	-4.7	+3.7	-1.4	-4.4	10.0	10.9	15.1	17.5		
BANKS WITHOUT VALUATION RESERVES*														
Outside New York City with deposits:														
Under \$2 million.....	64	53	31.6	27.9	-0.8	—	—	—	7.7	8.1	23.1	19.8		
\$2 million to \$5 million.....	80	79	32.2	30.0	-3.1	+1.2	—	+0.2	8.0	8.1	21.1	23.3		
\$5 million to \$20 million.....	42	42	31.9	29.7	-4.0	+1.6	—	—	8.9	10.2	19.0	21.1		
Over \$20 million.....	4	4	33.7	31.2	+3.4	+4.7	—	—	12.2	11.8	24.9	24.1		

* As of the end of the year.

banks to make a more accurate comparison of their results with the group averages, we have again provided a supplementary table of selected ratios for the member banks outside New York City; the table shows separate sets of ratios for banks with valuation reserves and for banks without them.

The table indicates that all but the smallest-sized group of banks outside New York City added larger amounts to their reserves in 1954 than they did a year earlier. And the three New York City groups, which in 1953 drew on their valuation reserves to cushion the impact of their losses (item 22), reversed the

proceeds of a number of new stock issues. The rate of growth in capital funds barely exceeded that in total deposits, however, and the ratio of capital funds to deposits averaged 9.5 per cent in 1954, compared with 9.4 per cent in 1953. As a percentage of "risk" assets (total assets less United States Government securities and cash assets—item 36), capital funds declined from a District average of 19.8 per cent in 1953 to a new postwar low of 19.1 per cent in 1954.

ALLAN SPROUL,
President.

1954 Average Operating Ratios of Members in the Second District, Grouped According to Size of Deposits and Proportion of Loans to Total Assets
(All ratios are expressed in percentages and averages of the ratios of individual banks in each group, rather than ratios based on aggregate dollar figures)

Note: Balance sheet figures used as a basis for the 1954 ratios are averages of amounts reported for December 31, 1953, June 30, 1954, October 7, 1954, and December 31, 1954.	ALL BANKS Second District		GROUP I—Deposits under \$2 million						YOUR BANK	1953	
	1953	1954	Group average		Loans to total assets, per cent—1954						
			1953	1954	Under 20 A	20-29.9 B	30-39.9 C	40 and up D			
SUMMARY RATIOS	Number of Banks		697	678	105	94	9	18	22	45	211
Percentage of Total Capital Accounts											
1.	Net current earnings before income taxes	12.9	12.1	10.5	9.9	6.0	8.6	9.6	11.4	11.8	
2.	Profits before income taxes	11.0	12.3	9.6	9.3	6.8	8.6	9.9	9.9	10.2	
3.	Net profits	7.3	8.3	7.1	6.6	5.6	6.2	7.5	6.5	7.1	
4.	Cash dividends declared	2.5	2.7	2.1	2.1	1.5	1.8	2.1	2.3	2.4	
Percentage of Total Assets											
5.	Total earnings	3.25	3.33	3.41	3.54	2.55	3.03	3.34	4.04	3.2	
6.	Total expenses	2.22	2.35	2.30	2.48	1.94	2.11	2.37	2.79	2.2	
7.	Net current earnings before income taxes	1.03	0.98	1.11	1.06	0.61	0.92	0.97	1.25	1.0	
8.	Net profits	0.59	0.67	0.76	0.70	0.58	0.66	0.76	0.72	0.6	
SOURCES AND DISPOSITION OF EARNINGS											
Percentage of Total Earnings											
9.	Interest on United States Government securities	25.0	23.4	24.3	22.4	41.6	29.9	24.5	14.4	26.3	
10.	Interest and dividends on other securities	6.7	6.9	6.8	7.1	14.9	12.2	6.4	3.9	7.0	
11.	Earnings on loans ¹	56.4	57.4	60.7	62.1	34.2	48.9	60.0	74.1	56.5	
12.	Service charges on deposit accounts	6.9	7.2	5.2	5.5	6.0	5.9	5.7	5.2	6.6	
13.	Other current earnings	5.0	5.1	8.0	2.9	3.3	3.1	3.4	2.4	3.6	
14.	Total earnings	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
15.	Trust department earnings ² (part of item 13)	2.9	3.0	1.0	1.3	—	—	1.3	—	1.2	
16.	Salaries and wages	30.8	31.2	31.5	32.0	41.3	31.7	33.5	29.6	30.3	
17.	Interest on time deposits	14.9	16.1	14.5	16.1	13.0	16.8	14.1	17.4	16.0	
18.	Other current expenses	22.6	23.0	22.2	22.3	21.1	21.3	23.3	22.4	22.0	
19.	Total expenses	68.3	70.3	68.2	70.4	75.4	69.8	70.9	69.4	68.5	
20.	Net current earnings before income taxes	31.7	29.7	31.8	29.6	24.6	30.2	29.1	30.6	31.7	
21.	Net profits and recoveries or losses (-) ³	- 3.4	2.3	- 1.4	- 0.7	3.3	1.0	1.7	- 3.4	- 3.1	
22.	Net increase (-) or decrease (+) in valuation reserves ⁴	- 0.9	- 1.8	- 0.7	- 0.3	—	- 0.6	- 0.5	- 0.2	- 0.6	
23.	Taxes on net income	9.1	9.8	7.9	8.4	5.0	8.6	7.6	9.4	8.4	
24.	Net profits	18.3	20.4	21.8	20.2	22.9	22.0	22.7	17.6	19.2	
RATES OF RETURN ON SECURITIES AND LOANS											
Return on Securities											
25.	Interest on United States Government securities	2.10	2.09	2.17	2.25	2.06	2.24	2.26	2.30	2.1	
26.	Interest and dividends on other securities	2.35	2.28	2.57	2.61	2.98	2.90	2.51	2.48	2.3	
27.	Net profits and recoveries or losses(-) on total securities ⁵	- 0.14	0.28	- 0.03	0.10	0.06	0.14	0.17	0.07	- 0.1	
Return on Loans											
28.	Earnings on loans ¹	5.41	5.38	5.97	5.90	5.71	5.70	5.63	6.14	5.1	
29.	Net losses (-) or recoveries on loans ⁶	- 0.08	- 0.09	- 0.09	- 0.19	- 0.01	- 0.20	- 0.02	- 0.30	- 0.1	
DISTRIBUTION OF ASSETS											
Percentage of Total Assets											
30.	United States Government securities	36.6	35.3	35.3	32.9	50.6	40.3	36.0	24.9	38.1	
31.	Other securities	9.7	9.9	8.7	9.1	13.4	14.2	8.6	6.5	9.1	
32.	Loans	34.7	36.2	35.7	38.2	15.3	26.0	35.6	48.9	33.3	
33.	Cash assets	17.8	17.4	19.3	18.9	20.2	18.8	18.8	18.7	17.1	
34.	Real estate assets	1.0	1.0	0.9	0.9	0.5	0.6	0.9	1.0	1.1	
CAPITAL AND DEPOSIT RATIOS											
35.	Capital accounts to total assets	8.4	8.5	10.9	11.2	11.5	11.6	10.9	11.2	9.1	
36.	Capital accounts to total assets, less United States Government securities and cash assets	19.8	19.1	25.8	24.9	41.6	29.3	24.5	19.9	21.1	
37.	Capital accounts to total deposits	9.4	9.5	12.4	12.8	13.1	13.4	12.4	12.8	10.1	
38.	Time to total deposits	44.2	44.3	44.0	45.2	33.1	46.1	43.2	48.3	46.1	
39.	Interest on time deposits	1.18	1.29	1.19	1.36	0.93	1.25	1.19	1.57	1.1	
AVERAGE BANK IN GROUP—in thousands of dollars											
40.	Total deposits			1,348	1,332	1,277	1,286	1,465	1,297	3,311	
41.	Capital accounts			165	167	160	167	185	160	311	

BANKS OUTSIDE MANHATTAN, NEW YORK CITY

BANKS OUTSIDE MANHATTAN, NEW YORK CITY														BANKS IN MANHATTAN, NEW YORK CITY																		
Deposits of \$2 million to \$5 million						GROUP III—Deposits of \$5 million to \$20 million						GROUP IV—Deposits over \$20 million						GROUP V Deposits under \$100 million		GROUP VI Deposits \$100 million to \$1 billion		GROUP VII Deposits over \$1 billion		YOUR BANK	Line Number							
Loans to total assets, per cent—1954						Loans to total assets, per cent—1954						Loans to total assets, per cent—1954																				
Under 20 A		20-29.9 B		30-39.9 C		40 and up D		YOUR BANK		1953		1954		Under 20 A		20-29.9 B		30-39.9 C		40 and up D		YOUR BANK				1953		1954		YOUR BANK		
18	44	67	69							261	254	16	68	89	81								9	9	10	9	9	9				
9.3	9.9	11.2	11.9							13.7	12.7	10.1	11.5	12.8	14.0								10.6	8.9	14.0	13.6	14.6	13.8				
9.7	10.2	11.3	11.5							11.5	13.3	11.0	12.9	13.6	13.8								9.8	10.9	13.4	14.2	12.8	14.6				
7.5	7.4	8.4	8.0							7.4	8.9	8.6	8.9	9.5	8.2								6.1	6.5	7.3	7.5	6.7	8.1				
1.7	2.5	2.3	2.6							2.5	2.8	2.0	3.4	2.6	2.6								2.3	2.6	3.7	3.7	4.1	4.3				
2.55	2.98	3.32	3.69							3.21	3.30	2.52	2.87	3.39	3.73								3.28	3.01	2.79	2.80	2.50	2.45				
1.80	2.08	2.34	2.58							2.22	2.35	1.82	2.04	2.41	2.67								2.51	2.43	1.48	1.47	1.33	1.35				
0.75	0.90	0.98	1.11							0.99	0.95	0.70	0.83	0.98	1.06								0.77	0.58	1.31	1.33	1.17	1.10				
0.61	0.67	0.73	0.75							0.53	0.66	0.59	0.63	0.72	0.82								0.45	0.43	0.68	0.73	0.54	0.65				
48.9	31.4	24.3	15.1							26.1	24.4	43.4	32.0	22.6	16.3								19.1	22.8	20.7	18.0	17.8	20.8				
9.3	10.6	7.0	5.1							6.7	6.7	14.1	9.3	6.5	3.4								6.0	4.3	5.7	6.4	4.5	5.0				
30.1	47.9	57.8	71.3							54.2	55.4	29.0	44.8	57.0	67.8								56.6	54.8	51.1	51.3	60.1	55.1				
7.5	6.7	7.1	5.6							7.9	8.3	9.1	8.4	8.7	7.4								8.9	9.3	3.7	2.6	2.3	2.8				
4.2	3.4	3.8	2.9							5.1	5.2	4.4	5.5	5.2	5.1								9.4	8.8	18.8	21.7	15.3	16.3				
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		
1.5	1.3	1.3	0.7							2.0	2.0	1.5	2.3	1.9	2.1								6.4	6.3	13.3	15.6	8.2	8.6				
31.4	30.9	30.8	29.6							30.3	30.7	31.3	30.4	31.3	30.3								38.6	38.8	31.8	31.2	30.2	30.3				
18.4	16.8	17.5	18.1							16.1	16.8	16.8	17.6	15.6	17.4								7.9	12.5	1.6	2.1	3.7	5.3				
20.6	21.7	22.2	22.2							22.8	23.7	24.1	23.1	23.6	24.0								29.2	28.9	19.4	18.5	19.2	19.6				
70.4	69.4	70.5	69.9							69.2	71.2	72.2	71.1	70.5	71.7								75.7	80.2	52.8	51.8	53.1	55.2				
29.6	30.6	29.5	30.1							30.8	28.8	27.8	28.9	29.5	28.3								24.3	19.8	47.2	48.2	46.9	44.8				
1.4	1.5	1.4	0.2							- 3.9	3.3	3.5	4.5	3.5	2.0								- 3.1	7.6	- 2.7	5.8	- 5.8	7.8				
0.1	- 0.9	- 1.1	- 1.0							- 1.0	- 1.8	- 0.8	- 1.6	- 1.8	- 2.3								1.0	- 2.5	0.6	- 3.8	0.3	- 4.6				
7.2	8.4	7.9	8.8							9.0	10.0	7.1	9.9	9.5	11.3								8.0	10.2	20.5	23.6	19.8	21.4				
23.9	22.8	21.9	20.5							16.9	20.3	23.4	21.9	21.7	16.7																	

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

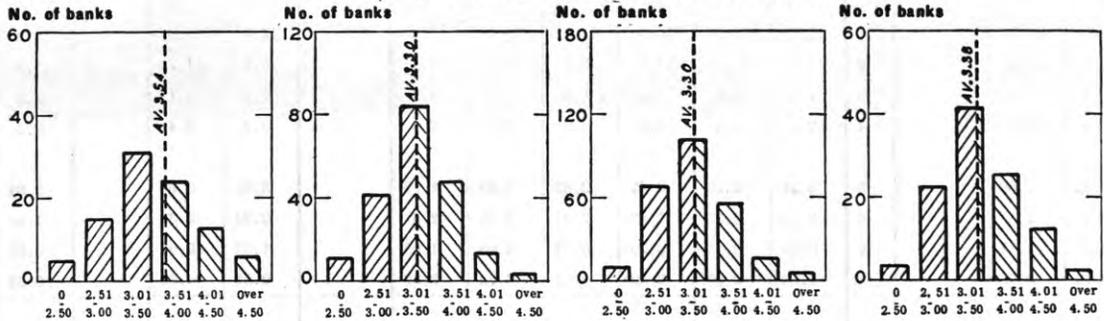
GROUP I*

GROUP II*

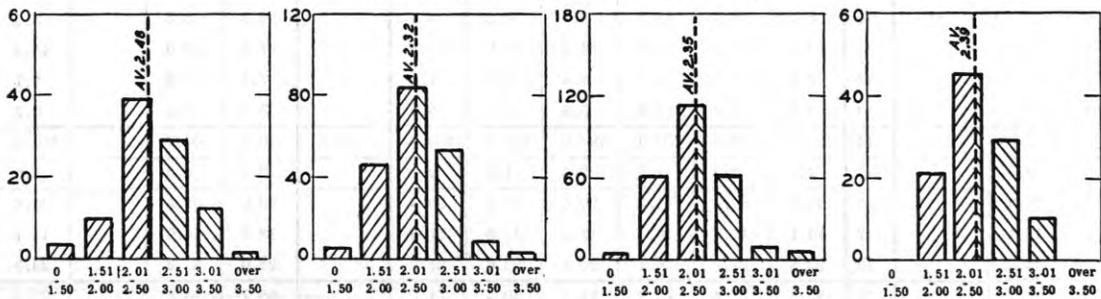
GROUP III*

GROUP IV*

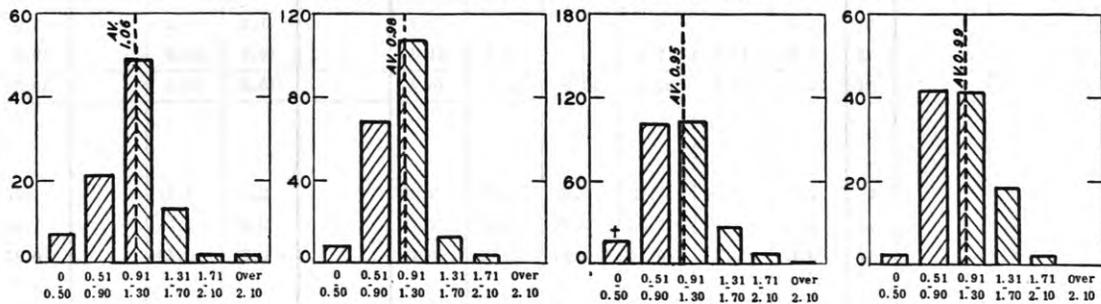
RATIO OF TOTAL CURRENT EARNINGS TO TOTAL ASSETS



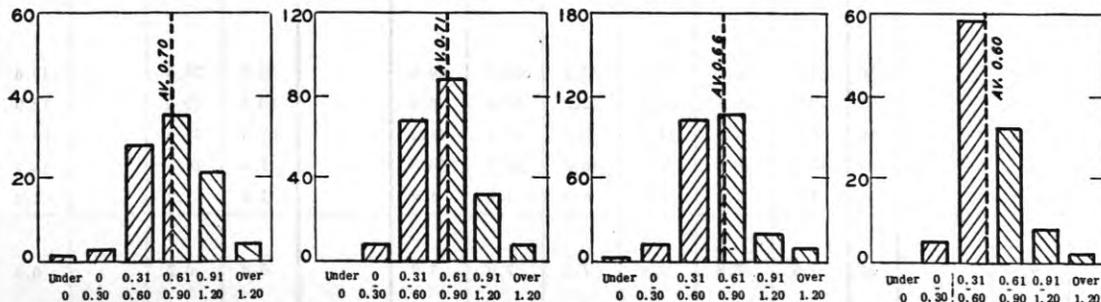
RATIO OF TOTAL EXPENSES TO TOTAL ASSETS



RATIO OF NET CURRENT EARNINGS BEFORE INCOME TAXES TO TOTAL ASSETS



RATIO OF NET PROFITS TO TOTAL ASSETS



*BANKS WITH TOTAL DEPOSITS UNDER \$2 MILLION

*BANKS WITH TOTAL DEPOSITS \$2 MILLION TO \$5 MILLION

*BANKS WITH TOTAL DEPOSITS \$5 MILLION TO \$20 MILLION

*BANKS WITH TOTAL DEPOSITS OVER \$20 MILLION

†INCLUDES TWO BANKS WITH NET CURRENT DEFICITS.