

**FEDERAL RESERVE BANK
OF NEW YORK**

Fiscal Agent of the United States

[Circular No. 4932]
August 30, 1960]

**RESULTS OF BIDDING FOR 91-DAY AND 182-DAY TREASURY BILLS
TO BE ISSUED SEPTEMBER 1, 1960**

*To All Incorporated Banks and Trust Companies, and Others
Concerned, in the Second Federal Reserve District:*

At the time of printing our Circular No. 4931, dated August 29, 1960, announcing an offering of 91-day and 182-day Treasury bills, to be issued September 8, 1960, the results of bidding for the previous week's offering of 91-day and 182-day Treasury bills, to be issued September 1, 1960, were not available. The results, now available, are:

Range of Accepted Competitive Bids

	<i>91-Day Treasury Bills Maturing December 1, 1960</i>		<i>182-Day Treasury Bills Maturing March 2, 1961</i>	
	<u>Price</u>	<u>Approx. equiv. annual rate</u>	<u>Price</u>	<u>Approx. equiv. annual rate</u>
High	99.368	2.500%	98.588	2.793%
Low	99.352	2.564%	98.569	2.831%
Average	99.356	2.550% ¹	98.572	2.825% ¹

¹ On a coupon issue of the same length and for the same amount invested, the return on these bills would provide yields of 2.60 percent for the 91-day bills, and 2.91 percent for the 182-day bills. Interest rates on bills are quoted in terms of bank discount, with the return related to the face amount of the bills payable at maturity rather than the amount invested, and their length in actual number of days related to a 360-day year. In contrast, yields on certificates, notes, and bonds are computed in terms of interest on the amount invested, and relate the number of days remaining in an interest payment period to the actual number of days in the period, with semiannual compounding if more than one coupon period is involved.

(94 percent of the amount of 91-day bills
bid for at the low price was accepted.)

(95 per cent of the amount of 182-day bills
bid for at the low price was accepted.)

Total Tenders Applied for and Accepted (By Federal Reserve Districts)

<u>District</u>	<i>91-Day Treasury Bills Maturing December 1, 1960</i>		<i>182-Day Treasury Bills Maturing March 2, 1961</i>	
	<u>Applied for</u>	<u>Accepted</u>	<u>Applied for</u>	<u>Accepted</u>
Boston	\$ 22,926,000	\$ 22,926,000	\$ 15,927,000	\$ 5,927,000
New York	1,367,454,000	670,904,000	822,176,000	380,005,000
Philadelphia	24,113,000	9,113,000	7,776,000	1,726,000
Cleveland	40,362,000	30,356,000	28,418,000	11,943,000
Richmond	9,686,000	9,686,000	7,235,000	2,235,000
Atlanta	38,871,000	26,111,000	3,107,000	2,514,000
Chicago	180,379,000	123,419,000	79,191,000	57,720,000
St. Louis	14,559,000	13,059,000	5,246,000	3,321,000
Minneapolis	11,050,000	10,438,000	4,041,000	2,341,000
Kansas City	40,467,000	35,467,000	9,005,000	5,905,000
Dallas	11,143,000	11,143,000	2,231,000	2,231,000
San Francisco	45,004,000	37,884,000	72,708,000	24,832,000
Total	\$1,806,014,000	\$1,000,506,000^a	\$1,057,061,000	\$500,700,000^b

^a Includes \$196,876,000 noncompetitive tenders accepted at the average price of 99.356.

^b Includes \$41,123,000 noncompetitive tenders accepted at the average price of 98.572.

ALFRED HAYES,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

August 31, 1960

*To Member Banks of the Second
Federal Reserve District:*

Following is an analysis of the earnings and expenses of Second District member banks for the first half of 1960 prepared by our Bank Examinations Department. We transmit the analysis to you as a helpful management tool in making comparisons of the operating performance of your bank with the average performance of other banks in the District.

Additional copies of the analysis are available upon request.

ALFRED HAYES,
President.

**Earnings and Expenses of Second District Member Banks
in the First Half of 1960**

SUMMARY

Favorable operating results were reported by the 501 Second District member banks for the first six months of 1960, compared with the first half of 1959. Net current operating earnings aggregating \$459.4 million represented an increase of 24.9 per cent—a sizable improvement over the 5.5 per cent gain reported for the first half of 1959. Moreover, in contrast with the earlier period when large nonoperating losses were absorbed, the operating gains of the first six months of this year carried through to net profits after estimated income taxes. Net profits available for distribution to stockholders or retention for capital accounts consequently rose sharply to \$229.4 million, more than 50 per cent higher than the earlier half-year total. These favorable results for the first half of 1960 were due to the greater volume of lending at significantly higher average yields. At the same time, expenses and nonoperating losses consumed a lesser proportion of gross earnings than in the same period of 1959.

Gross operating returns from all earning assets totaled \$1,096 million, up \$142 million from 1959. This increase of nearly 15 per cent, compared with a rise of 7.2 per cent between 1958-1959, reflected higher interest yields on a

volume of earning assets that was only moderately higher than in the previous year, after netting loan increases and reduced securities holdings. Earnings on the enlarged loan volume mainly accounted for the half-year's operating gross, since income from the lightened U.S. Government securities' portfolios was down from the previous half-year as banks continued to contract their holdings to meet continuing high demand for bank loans during the half-year.

Operating expenses continued their rise at approximately the same rate as last year. Nonrecurring losses, unlike the previous half-year results, were smaller at both central reserve city banks and other members, absorbing approximately \$32 million in sharp contrast with about four times that amount charged against the 1959 half-year earnings. In consequence, net profits of \$427.6 million before taxes were substantially higher than in the corresponding period of 1959. Higher net profits incurred heavier estimated income taxes, more than \$100 million higher than for the previous half-year reporting period. Net profits after taxes were, nonetheless, substantially higher, by 53.8 per cent, than in the earlier period. Consequently, although dividends were increased, there was still a sizeable gain in undistributed profits used to augment Second District member banks' capital accounts.

EARNINGS ON LOANS

Sizeable gains from interest and discount on loans carried half-year gross earnings from this source to a peak \$710.2 million for Second District member banks, \$132.7 million or nearly one-fourth higher than in the comparable period of 1959 (Table 1). Favorable earnings from loans reflected higher loan volume and firmer interest yields than for the comparable period a year ago. Loan portfolios at central reserve city, and reserve city and country banks, averaged approximately 12 per cent higher than during the 1959 semiannual reporting period, the increase contrasting with the relatively unchanged loan outstandings between the first half of 1958 and 1959. Vigorous loan demand was indicated in the member banks' high ratio of loans to deposits that averaged 58.8 per cent during the 1960 reporting period, compared with 52.7 per cent throughout the first six months of 1959. Interest yields on the \$26.1 billion of average loans outstanding also improved to 5.44 per cent as against 4.96 per cent during the comparable period of 1959 (Table 2), as previous matured loans were replaced by new borrowings at higher interest rates. (The prevailing 5 per cent prime rate on bank loans was set in September 1959.) Borrowing costs throughout the first half-year continued firm despite declines in open market interest rates, reflected in the lowering of the Federal Reserve Banks' discount rates from

4 per cent to 3½ per cent early in June 1960. The loan earnings generated by higher volume and yields accounted for nearly 65 per cent of total operating earnings, contrasted with 60.5 per cent in the first six months of 1959.

The outcome for the two member bank classifications differed somewhat from the 1959 comparative earnings' performance. The most pronounced gains were evident at the New York central reserve city banks where the \$467.9 million grossed on loans surpassed 1959 half-year earnings by 26.4 per cent. Loan earnings by all other Second District member banks—that had last year outpaced the City banks' rate of increase—also registered a substantial improvement, 17 per cent or \$35.1 million over the similar period a year earlier to an aggregate \$242.3 million.

OPERATING EARNINGS ON INVESTMENTS AND OTHER CURRENT EARNINGS

Average yields on U.S. Government and other securities were higher than in the corresponding period of 1959. Treasury obligations in District member banks' portfolios yielded an average 3.23 per cent as opposed to 2.67 per cent in the first half of last year, and rates realized from other fixed obligations—primarily State and municipal issues—also showed an increase. Because of rising loan demands, however, Second District banks were net disposers of

Table 1
Earnings and Expenses of Member Banks in the Second Federal Reserve District During the First Six Months of 1959-1960
(Dollar amounts in millions)

Item	New York central reserve city banks			Reserve city and country banks			All Second District member banks		
	1959	1960	% Change	1959	1960	% Change	1959	1960	% Change
Number of banks.....	17	16	—	500	485	—	517	501	—
Earnings									
On United States Government securities.....	96.3	84.1	- 12.7	56.4	57.0	+ 1.1	152.7	141.1	- 7.6
On other securities.....	33.7	34.2	+ 1.5	24.1	26.5	+ 9.9	57.8	60.7	+ 5.0
On loans (including service charges and fees on loans).....	370.3	467.9	+ 26.4	207.2	242.3	+ 16.9	577.5	710.2	+ 23.0
Service charges on deposit accounts and other charges.....	27.2	27.6	+ 1.5	29.3	31.8	+ 8.5	56.5	59.4	+ 5.1
Trust department earnings.....	66.1	75.3	+ 13.9	8.2	9.2	+ 12.2	74.3	84.5	+ 13.7
Other current earnings.....	27.5	31.9	+ 16.0	8.0	8.5	+ 6.2	35.5	40.4	+ 13.8
Total current operating earnings.....	621.1	721.0	+ 16.1	333.2	375.3	+ 12.6	954.3	1,096.3	+ 14.9
Expenses									
Salaries and wages—officers and employees*.....	155.7	166.9	+ 7.2	91.5	97.8	+ 6.9	247.2	264.7	+ 7.1
Interest on time deposits (including savings deposits).....	62.9	58.0	- 7.8	73.9	82.9	+ 12.2	136.8	140.9	+ 3.0
Interest and discount on borrowed money.....	7.8	15.8	+ 102.6	1.5	1.9	+ 26.7	9.3	17.7	+ 90.3
Taxes other than on net income.....	9.3	10.8	+ 16.1	8.2	9.7	+ 18.3	17.5	20.5	+ 17.1
Recurring depreciation on banking house, furniture and fixtures.....	7.2	7.7	+ 6.9	7.8	8.8	+ 12.8	15.0	16.5	+ 10.0
Other current operating expenses.....	100.4	111.6	+ 11.2	60.4	65.0	+ 7.6	160.8	176.6	+ 9.8
Total current operating expenses.....	343.3	370.8	+ 8.0	243.3	266.1	+ 9.4	586.6	636.9	+ 8.6
Net current operating earnings before income taxes.....	277.8	350.2	+ 26.1	89.9	109.2	+ 21.5	367.7	459.4	+ 24.9
Recoveries, charge-offs, transfers to and from valuation reserves, and securities profits—Net**.....	- 100.3	- 16.2	—	- 25.0	- 15.6	—	- 125.3	- 31.8	—
Net profits before income taxes.....	177.5	334.0	+ 88.2	64.9	93.6	+ 44.2	242.4	427.6	+ 76.4
Taxes on net income.....	72.5	162.9	+ 124.7	20.7	35.3	+ 70.5	93.2	198.2	+ 112.7
Net profits after income taxes.....	105.0	171.1	+ 63.0	44.2	58.3	+ 31.9	149.2	229.4	+ 53.8
Cash dividends paid or declared on common stock.....	79.1	83.9	+ 6.1	24.2	23.7	- 2.1	103.3	107.6	+ 4.2
Net profits after dividend payments.....	25.9	87.2	+ 236.7	20.0	34.6	+ 73.0	45.9	121.8	+ 165.4

* Includes fees paid to directors and members of executive, discount, and other committees.

** No breakdown of nonrecurring items is shown because these figures are usually highly tentative at the midyear.

Source: Bank Examinations Department, Federal Reserve Bank of New York.

securities by sales or redemptions, particularly the New York central reserve city banks. These institutions reduced their average Treasury holdings by nearly one-third, and, as a result, interest earnings of \$84.1 million on securities were down by \$12.2 million, approximately 13 per cent below revenues from this source in the 1959 half-year. Elsewhere in the Second Federal Reserve District, however, earnings on Treasury obligations held relatively constant at \$57 million as the approximately 10 per cent reduction in holdings was balanced by greater average yields on securities retained or replaced.

Returns on other than U.S. Government securities were up at both major bank groupings for an average increase of 5 per cent. Earnings were favorably affected by higher yields that more than offset reduced holdings at the New York central reserve banks and the leveling-off in portfolios at the reserve city and country banks.

Other sources of interest earnings that comprise approximately 17 per cent of gross operating earnings also added to the favorable earnings' results for the half-year. Service charges on deposit accounts showed marked gains at reserve city and country banks. Trust department earnings, mainly at the New York City banks, are analyzed in detail on an annual basis in the Bank Examinations Department's *Annual Survey of Trust Department Income and Expense*, available upon request.

OPERATING EXPENSES

Costs of operations totaling \$636.9 million were \$50.3 million or 8.6 per cent higher than for the comparable period of 1959. Salary and wage expense showed a sharp increase, rising to \$264.7 million. The 7.1 per cent increase over last year's personnel outlays was approximately the same at both the New York central reserve city banks and other District member banks. By contrast, interest on time and savings deposits registered only modest increases with marked divergencies between the central reserve city banks and banks elsewhere in the District. Central reserve city banks' interest outlays on time and savings deposits were lower by nearly \$5 million, 7.8 per cent below last year's. Effective interest rates on these deposits this year averaged 2.64 per cent, as against 2.40 per cent for the January-June period in 1959. But disbursements were on a smaller total of balances in central reserve city banks' time and savings accounts, more than \$800 million below the same period a year ago, reflecting continuing deposit outflows into short-term U.S. Government securities as well as other investments. At member banks elsewhere in the District, time and savings deposits were moderately higher as were average interest rates so that interest outlays were 12.2 per cent higher than last year's payments.

Table 2
Selected Ratios and Condition Items, Member Banks in the Second Federal Reserve District
During the First Six Months of 1959-1960*

	Central reserve city banks		Reserve city and country banks		All Second District member banks	
	1959	1960	1959	1960	1959	1960
Per cent of average aggregate assets						
Total current operating earnings.....	3.53	4.06	4.24	4.61	3.75	4.24
Total current operating expenses.....	1.95	2.09	3.10	3.27	2.30	2.46
Net current operating earnings before taxes on net income.....	1.58	1.97	1.14	1.34	1.44	1.77
Net profits after income taxes.....	.59	.96	.56	.71	.58	.88
Per cent of average aggregate capital accounts						
Net current operating earnings before taxes on net income.....	16.90	20.64	15.95	18.35	16.66	20.05
Net profits after income taxes.....	6.38	10.08	7.84	9.79	6.75	10.01
Dividends on common stock.....	4.81	4.94	4.29	3.98	4.68	4.69
Net profits after dividends.....	1.57	5.14	3.54	5.81	2.07	5.31
Miscellaneous percentages						
Average yield on United States Government securities.....	2.63	3.35	2.74	3.07	2.67	3.23
Average yield on other securities.....	2.96	3.38	2.61	2.85	2.80	3.13
Interest and discount on loans and mortgages to average total loans and mortgages.....	4.58	5.14	5.83	6.12	4.96	5.44
Interest paid on deposits to average total time deposits.....	2.40	2.64	2.36	2.59	2.38	2.61
Average total time deposits to average total deposits.....	17.46	14.78	43.78	43.59	25.95	24.29
Selected condition items—in millions of dollars						
Assets.....	35,113	35,459	15,695	16,251	50,808	51,710
Loans and mortgages.....	16,167	18,181	7,099	7,917	23,266	26,098
United States Government securities.....	7,301	5,007	4,108	3,707	11,409	8,714
Other securities.....	2,273	2,021	1,844	1,854	4,117	3,875
Total deposits.....	29,935	29,707	14,251	14,652	44,186	44,359
Total time deposits.....	5,229	4,392	6,239	6,387	11,468	10,779
Capital accounts.....	3,287	3,392	1,127	1,190	4,414	4,582

* Half year figures placed on an annual basis.

Note: Averages of balances in the last three call reports were used to compute ratios and dollar totals.

Source: Bank Examinations Department, Federal Reserve Bank of New York.

Interest and discount on borrowed money—a minor expense in dollar outlays—nearly doubled the previous year's first-half expense. Borrowings were incurred almost wholly by the money market banks. Monetary stringency at other banks appeared to be easing with net free reserves becoming more prevalent during part of the reporting period.

In all, dollar expenses amounted to 2.46 per cent of total assets on an annual basis, a rise from 2.30 per cent in the 1959 first half-year. On the other hand, operating expenses took 58.1 per cent of total operating earnings compared with 61.5 per cent in 1959 so that a larger residual was carried down to net operating earnings.

NET CURRENT OPERATING EARNINGS

Net current operating earnings advanced to a peak of \$459.4 million—an increase of \$91.7 million, or one quarter above the comparable period of 1959. Seen in terms of *rate* of improvement, the net operating gain was at a pace more than four times that noted between the first half of 1958 and the first half of 1959.

Table 2 provides other measures of the favorable earnings' record during the first half of 1960. Thus, for all the District's member banks, the ratio of net current operating earnings to average aggregate asset holdings advanced to 1.77 per cent, contrasted with 1.44 per cent in the first half of 1959. Similarly, net current operating earnings to average aggregate capital accounts at District member banks mounted from 16.66 per cent in the first half of 1959 to 20.05 per cent for the first half of this year.

NONRECURRING ITEMS, TAXES, AND DIVIDENDS

The net effect of nonrecurring items: security transactions, other profit and loss adjustments, and changes in valuation reserves was a loss of \$31.8 million—a sharp contrast

to a loss about four times that amount in the first half of 1959. Sales of securities from portfolios that were reduced by nearly one-fifth compared with a year ago, accounted for most of the losses. Data for these losses, mainly incurred to meet loan demand, are preliminary and subject to a later revision. It appeared, however, that some banks had begun to realize profits from rising U.S. Government securities' prices in response to changing monetary conditions, particularly in the latter portion of the half-year. As between the two major bank groupings, dollar nonoperating losses at midyear were virtually identical, in sharp contrast to the heavy write-downs at the New York central reserve city banks in the first half of 1959.

A netting of improved operating earnings and relatively smaller nonoperating losses resulted in net profits of \$427.6 million before tax liability. Net profits before taxes—as well as taxes on net income, and net profits after taxes—recovered their levels of two years ago at both central reserve city and other member banks.

In the distribution of their net profits, Second District member banks paid cash dividends of \$107.6 million on common stock, only slightly above the \$103.3 million for the 1959 reporting period. The ratio of dividends to total capital accounts amounted to 4.69 per cent, virtually the same as in the preceding year. From another view, dividends paid took 46.9 per cent of net profits available after taxes; in the first half of 1959, the comparable ratio was 69.2 per cent. The decline in the proportion of dividend pay-outs aided in the strengthening of capital accounts. Second District member banks' capital funds were increased by \$121.8 million from retained earnings, contrasted with \$45.9 million for the first half of 1959. The ratio of total capital accounts to deposits for the six months ended June 30, 1960 stood at 10.3 per cent, compared with 10.0 per cent for the comparable period of 1959.