Operating Ratios of Member Banks in the Second Federal Reserve District for the Year 1957

To all Member Banks in the Second Federal Reserve District:

The average operating ratios of member banks in the Second District for 1957 are presented in this circular for your information. Each of the ratios is shown for both 1956 and 1957, and a number of key ones are highlighted in the accompanying charts. All of the ratios are expressed in percentages and are arithmetical averages of the ratios of the individual banks in each group, rather than ratios based on aggregate dollar figures. In order that you may compare the performance of your bank with that of others of a similar size, a column has been left blank at the end of each group for your entries.

While the ratio of aggregate net profits of all banks in the District to aggregate capital accounts rose during 1957, the average ratio for District member banks was the same in 1957 as in 1956, or 6.6 per cent. The stability of this average ratio (ratio number 3), as is often the case, conceals a number of diverse trends which affected the earnings positions of District banks during the year. Earnings and expenses relative to total assets increased for all groups of banks shown in the circular. However, the larger banks generally experienced a somewhat better increase in the rate of return on their loans and investments than the smaller banks, and they were apparently able also to keep a tighter rein on the increase in over-all operating expenses. In addition, reductions during 1957 in nonrecurring charges were somewhat greater for the larger banks.

The actual ratios of net profits to capital accounts in 1957 for the groups of banks outside New York City ranged from 5.9 per cent for banks in Group II to 7.5 per cent for Group IV banks, while the rate of return on capital for New York City banks ranged from 5.3 to 9.6 per cent.

Operating Income

The greater improvement during 1957 in operating earnings of the larger banks reflected primarily two factors: differences in the proportion of the various types of assets held by the large and small banks and a greater increase in the yields realized by the larger banks on their earning assets. The ratios which show the distribution of the banks' assets (numbers 30-34) suggest that the higher earnings of the larger banks may be partly attributed to the higher concentration of their assets in loans. For the average bank in the District the percentage of its assets in loans rose from 40.3 per cent in 1956 to 41.7 per cent in 1957. For Group VII banks (the eight largest banks in the District) loans rose from 48.0 to 49.6 per cent of their assets, and for Group I banks (the sixty member institutions with deposits of less than 2 million dollars) the ratio declined from 38.7 per cent to 38.5 per cent.

All groups of banks shown in the circular benefited from higher average rates of return on loans and, with the exception of Group VI banks, on both Government and other types of securities as well. For the average bank the rate of return on loans increased from 5.56 to 5.78 per cent and that on United States Government securities from 2.41 to 2.51 per cent. Although the highest average loan rates in the District

SELECTED OPERATING RATIOS OF SECOND DISTRICT MEMBER BANKS 1956 AND 1957

<table>
<thead>
<tr>
<th>Ratio number</th>
<th>1956</th>
<th>1957</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Net current earnings before income taxes to total capital accounts</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>2. Profits before income taxes to total capital accounts</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>3. Net profits to total capital accounts</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>4. Cash dividends declared to total capital accounts</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>5. Rate paid on time deposits</td>
<td>25</td>
<td>30</td>
</tr>
</tbody>
</table>
are at small banks, loan rates rose more rapidly during 1957 at the larger banks than at the small banks. Many of the larger institutions benefited from an increase in rates charged "prime" borrowers (these were raised to 4 1/2 per cent in August 1957). Most "prime" borrowers require lending facilities that can be provided only by banks with large resources. Also, average rates at the larger banks were farther below the legal maximums at the beginning of the year and hence had more room in which to move up.

The average rate of return on United States Government securities rose from 2.41 to 2.37 per cent during 1957, but the average amount of Government securities held by the District banks declined, although not so much as in 1956. Consequently, the proportion of operating earnings derived from these investments declined for most banks. Member bank holdings of other securities rose to 10.8 per cent of total assets, the highest since World War II, and most banks showed an increase in the rate of return on these securities.

The proportion of total current earnings derived from service charges on deposit accounts and from trust department earnings remained unchanged for the average District bank during 1957. However, trust department earnings are a more important source of income for the large institutions, and deposit service charges are more important to small banks. Because of the concentration of trust departments in larger banks, the decline in the ratio of trust department earnings to total earnings, from 3.0 to 1.4 per cent, holds little significance for many banks in Groups I-III (those with deposits of less than 20 million dollars). Few banks in the smaller deposit size groups have an active trust department. Out of every eight banks in Groups I-II, only one bank provides trust services to its customers, compared with approximately 86 per cent of the banks in Groups IV-VII.

**Operating Expenses**

The higher operating expenses incurred by the banks in 1957 are highlighted in the ratio of total expenses to total assets, which increased from 2.61 to 2.87 per cent. While salaries and wages, the largest expense items, were higher in 1957, the ratio of salaries and wages to total earnings was slightly lower for each group of member banks. The decline in this ratio from 29.9 to 28.9 per cent reflects a continuation of a trend started in 1952.

Interest on time deposits increased proportionately more than any other expense item. After Regulation Q was revised in December 1956, to permit an increase in rates of interest on time deposits, the banks began to solicit savings accounts and other time accounts more actively. As a result, the average ratio of interest paid on time deposits to current operating earnings moved up from 18.8 to 22.6 per cent, and the average rate of interest paid on time deposits increased from 1.67 to 2.08 per cent. Since most of the banks in Group V (banks in Manhattan with deposits of less than 100 million dollars) raised their rates considerably earlier in the year than most other banks, the effective rate paid on time deposits by this group of banks in 1957 increased even more sharply, rising from 1.77 to 2.62 per cent, and the proportion of their earnings paid out in the form of interest on time deposits increased from 11.0 per cent in 1956 to 16.6 per cent in 1957.

The effectiveness of the higher rates of interest in attracting time deposits is in part demonstrated by the rise in the ratio of time deposits to total deposits. On the average, time deposits accounted for 46.8 per cent of total deposits in 1957, compared with 44.4 per cent in 1956. Although this average ratio of time deposits to total deposits is more representative of the smaller District banks (the average ratio is an average of the ratios for individual banks, and there are more small banks than large), the larger institutions also showed a considerable increase in the proportion of their deposits in time accounts.

New York City banks generally succeeded in increasing their earnings faster than their expenses during 1957, and the average ratio of their net current operating earnings to total earnings (number 20), rose slightly for the year. For the average District bank, however, this ratio declined from 29.2 to 26.7 per cent. All the bank groups outside Manhattan (Groups I-IV) showed a decline in the ratio of their net current income before taxes to their total capital accounts during 1957.

**Nonrecurring Items**

Another factor responsible for the higher return on invested capital both before and after taxes which was secured by the larger banks in the District in 1957 was a proportionately smaller addition to valuation reserves by the larger than by the smaller banks in the District. Although net additions to valuation reserves as a percentage of total earnings declined only from 2.8 to 2.5 per cent for the average bank, Group VI banks, for example, showed a decline from 4.0 to 4.4 per cent and banks in Group II an increase from 1.6 to 1.8 per cent. Generally, the percentage of earnings allocated to valuation reserves remained higher for banks in Groups IV through VII than for the small banks. In addition, the net losses on securities rose for most larger banks, with the exception of Group VI, and moved slightly down on the average for all other banks. The net losses on securities reflect primarily a considerable amount of switching for tax purposes, a transfer of funds into higher yielding securities, and, to a lesser degree, the liquidation of investments in order to provide loanable funds. The smaller additions to valuation reserves was one of the items responsible for the higher net profit on total earnings (ratio 24) of banks in Group IV and New York City banks. The ratio was off from 15.1 to 14.2 per cent on the average for the District.

**Dividends and Retained Earnings**

Cash dividends declared, as a percentage of invested capital, rose slightly during 1957 from 2.8 to 2.9 per cent for the average District member bank. For many small banks the ratio of cash dividends declared to total capital accounts remained constant, while for Group IV banks and all groups of New York City banks except Group V it increased. Furthermore, the capital account of the average banks rose somewhat more in 1957 than in 1956.

Alfred Hayes,
President.
1957 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.)

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<thead>
<tr>
<th>Group Average</th>
<th>Loans to total assets, per cent—1957</th>
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<tr>
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<td>1.00</td>
</tr>
<tr>
<td>20-29.9</td>
<td>1.21</td>
</tr>
<tr>
<td>30-39.9</td>
<td>1.44</td>
</tr>
<tr>
<td>40 and up</td>
<td>1.74</td>
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### Note

- Group average Loans to total assets, per cent—1957
- Under 20 includes banks not reporting this item or reporting negligible amounts.
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- Group IV—Deposits over $20 million
- Group V—Deposits over $20 million

### Summary

- **Ratios of Return on Securities and Loans**: These ratios are expressed as percentages and are arithmetical averages of the ratios of individual banks in each group, rather than ratios based on aggregate dollar figures.

#### Notes

- **Schedule D of the earnings and dividends report at the close of each quarter**: The earnings and dividends report at the close of each quarter includes the following information:
  - **Profits before income taxes**
  - **Net increase(-) or decrease(+) in valuation reserves**
  - **Taxes on net income**

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#### Footnotes

1. Includes service charges and other fees as shown.
DISTRIBUTION OF SECOND DISTRICT MEMBER BANKS OUTSIDE NEW YORK CITY
ACCORDING TO SIZE OF CERTAIN KEY RATIOS
1957

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