

Income, Expenses and Operating Ratios of Eighth District Member Banks – 1970

NET INCOME of the 459 Federal Reserve member banks in the Eighth District totaled \$141 million in 1970, representing an increase of 15 per cent from 1969. This gain was achieved primarily through an expansion of earning assets with higher rates of return, which more than offset the increased costs of time and savings deposits.

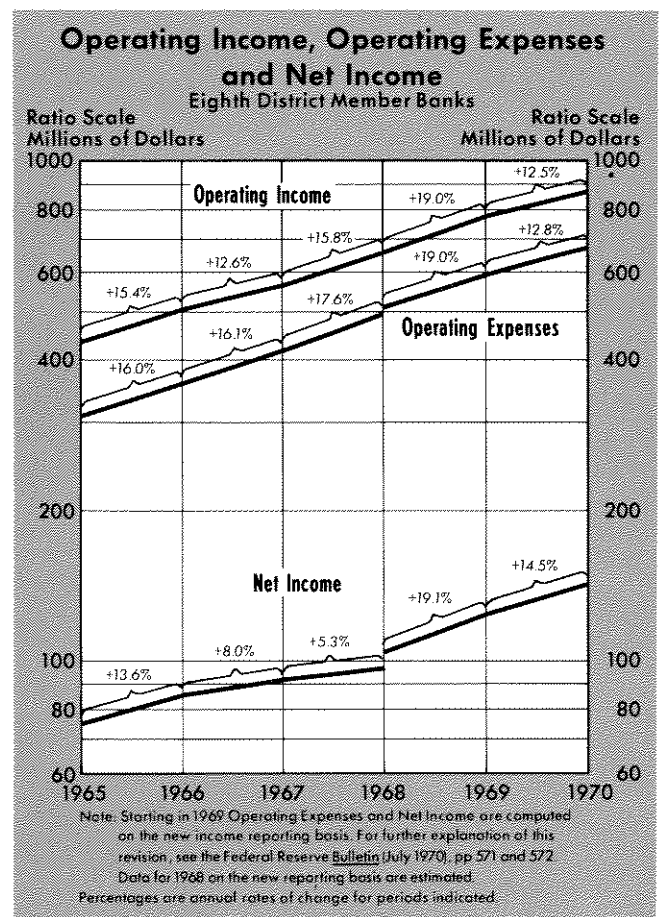
Both operating income and operating expenses increased 13 per cent in 1970. Expenses, however, rose by a smaller dollar amount, resulting in an increase in the dollar volume of net income. Income before income taxes and securities gains or losses advanced 12 per cent from a year earlier, while after-tax income increased 11 per cent. The net effect of security transactions resulted in a gain to net income as opposed to a loss in 1969.

Net income of all Federal Reserve member banks in the nation rose 11 per cent to \$3.8 billion, a smaller rate of increase than that of Eighth District member banks. This reflects the slower growth rate of operating income in the nation than in the district and the more rapid rise in operating expenses. Income before income taxes and securities gains or losses climbed 5 per cent, while after-tax income rose 8 per cent. Security transactions resulted in a slight reduction of net income for all member banks in contrast to a gain for those in the district.

Operating Income

Operating income of district member banks totaled \$877 million in 1970, an increase of \$98 million or 13 per cent from the previous year. This rise primarily reflects increased rates of return on earning assets and an expansion of these assets made possible by expansive monetary actions and an increase in capital.

A major portion of operating income resulted from the \$591 million income from loans, up 12 per cent



from 1969. Interest on U.S. Treasury securities increased 10 per cent to \$104 million, and returns on other securities rose 11 per cent to \$89 million. Income from all other sources, including trust department income and service charges on deposit accounts, totaled \$94 million, an increase of 18 per cent from the previous year.

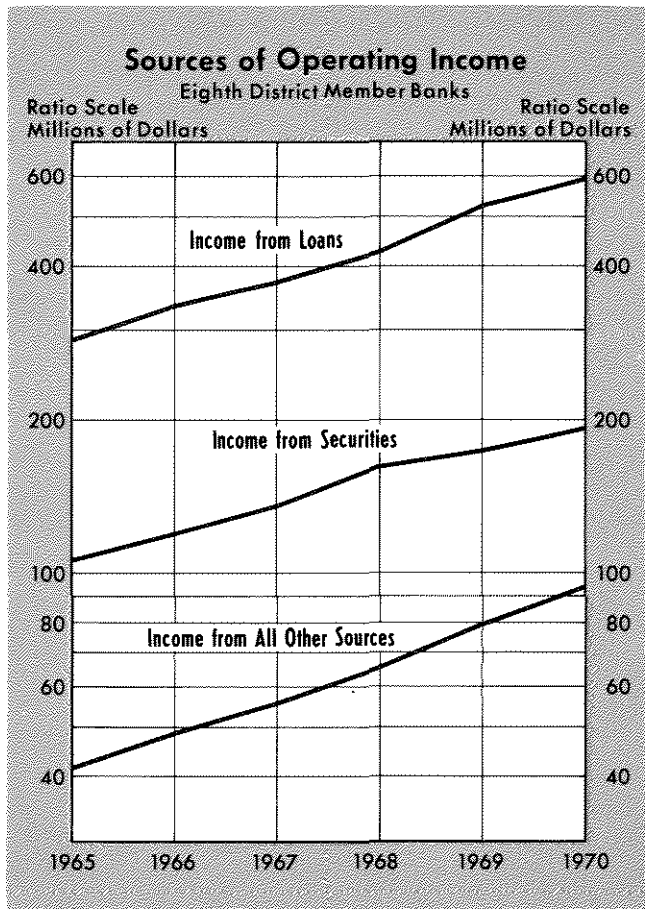
Gains in operating income for 1970 are largely attributed to the growth in income from loans. Loans accounted for two-thirds and securities for about one-

fifth of the gain achieved during the year. Trust department income and service charges on deposit accounts each represented 1 per cent of the increase, and miscellaneous sources accounted for 13 per cent.

Although only a minor portion of the total, miscellaneous income was the most rapidly rising income source, increasing 35 per cent to \$47 million in 1970. This growth reflects the expansion of a number of income-producing activities such as security trading, safe deposit box rental, property leasing, foreign department operations, and data processing.

Partially in response to the more expansive monetary developments in 1970, total assets of district member banks grew 10 per cent to \$15.8 billion. Greater volume of time and savings deposits, resulting from both higher permissible rates of return and lower rates on competing market in-

| | Thousands of Dollars | | Per Cent Change |
|--|----------------------|------------------|-----------------|
| | 1970 | 1969 | |
| Total Operating Income | 877,377.3 | 779,844.1 | 12.5 |
| Income from Loans | 591,072.1 | 526,353.3 | 12.3 |
| Income from Securities | 192,270.6 | 174,135.3 | 10.4 |
| U.S. Treasury Securities | 103,563.3 | 93,884.8 | 10.3 |
| Other | 88,707.3 | 80,250.5 | 10.5 |
| Trust Department Income | 20,710.6 | 19,508.1 | 6.2 |
| Service Charges on Deposit Accounts | 26,011.9 | 24,750.4 | 5.1 |
| Other Operating Income | 47,312.1 | 35,097.0 | 34.8 |
| Total Operating Expenses | 671,682.5 | 595,715.9 | 12.8 |
| Salaries, Wages, and Benefits | 184,492.6 | 167,586.2 | 10.1 |
| Interest on Deposits | 261,993.0 | 225,717.2 | 16.1 |
| Other Interest Expenses | 50,115.8 | 50,980.1 | -1.7 |
| Other Operating Expenses | 175,081.1 | 151,432.4 | 15.6 |
| Income Before Income Taxes and Securities Gains or Losses | 205,694.8 | 184,128.2 | 11.7 |
| Applicable Income Taxes | 65,767.4 | 58,538.6 | 12.4 |
| Income Before Securities Gains or Losses | 139,927.4 | 125,589.6 | 11.4 |
| Net Securities Gains or Losses after Taxes | 260.7 | -2,378.5 | — |
| Extraordinary Charges or Credits after Taxes | 1,024.7 | 117.1 | 775.1 |
| Less Minority Interest in Consolidated Subsidiaries | 14.9 | 26.6 | -44.0 |
| Net Income | 141,197.9 | 123,301.6 | 14.5 |
| Cash Dividends Paid | 48,185.5 | 43,811.4 | 10.0 |
| Number of Banks | 459 | 465 | -1.3 |

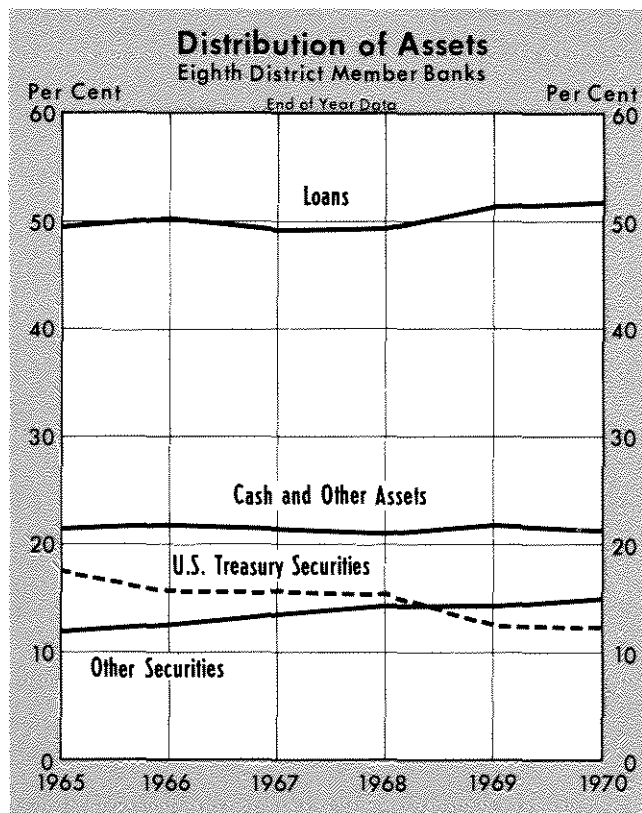


struments, provided more funds for lending and investment. Loans rose 10 per cent to \$8.1 billion, holdings of U.S. Treasury securities increased 7 per cent to \$1.9 billion, and other securities rose 15 per cent to \$2.4 billion.

This expansion of assets was accompanied by a slight shift in the composition of banks' portfolios to include proportionately more higher-earning assets. Loans, the highest earning assets of banks, increased from 51 to 52 per cent of total assets between 1969 and 1970, and securities other than U.S. Treasury obligations rose from 14 to 15 per cent. Conversely, the percentage of holdings of cash and other non-earning assets and the relatively low-yielding Treasury securities declined slightly.

All types of earning assets yielded an increased rate of return, reflecting generally higher interest rates arising from expectations of inflation. Returns on loans increased from an average of 7.4 per cent in 1969 to 8.1 per cent in 1970, and the average rate on U.S. Treasury securities rose from 5.4 per cent to 5.8 per cent.¹ Rates on securities of U.S. Government agencies and obligations of states and political subdivisions likewise increased.

¹All rates of return are unweighted averages of the rates of individual banks computed from Reports of Condition for December 31, 1969, June 30, 1970, and December 31, 1970 and Report of Income for 1970.



Operating Expenses

District operating expenses, which increased at virtually the same rate as income but by a smaller amount, rose 13 per cent to \$672 million in 1970. Reflecting both higher interest costs and a growth in time and savings deposits, interest on these accounts was not only the largest but also the most rapidly rising expense item, increasing 16 per cent to \$262 million. Other interest expenses fell 2 per cent to \$50 million, due to a sharp decline in the volume of borrowed money other than Federal funds purchased and securities sold under agreements to repurchase. Salaries, wages, and employee benefits rose 10 per cent to \$184 million as a result of a 2 per cent increase in the number of officers and employees and an 8 per cent increase in the average compensation per person. All other expenses rose almost 16 per cent to \$175 million, with a sharp rise in provision for loan losses accounting for a large portion of the increase.

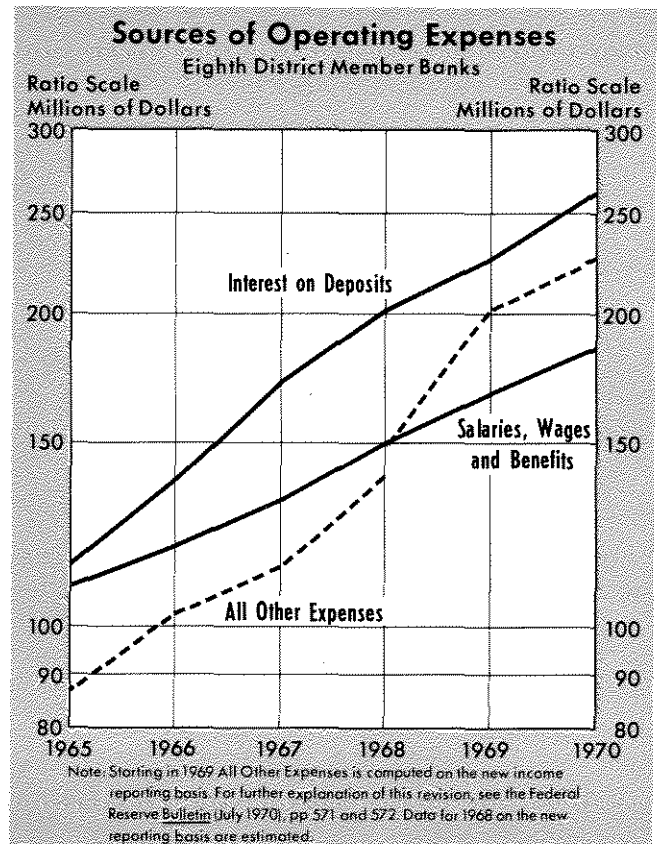
The average rate paid on time and savings deposits rose from 4.2 per cent in 1969 to 4.6 per cent in 1970. This increase can be attributed primarily to two actions taken by the Board of Governors in 1970: the upward revision of interest rate ceilings in January and the partial suspension in June of Regulation Q ceilings on large denomination certificates of deposit having maturities of thirty to eighty-nine days. Be-

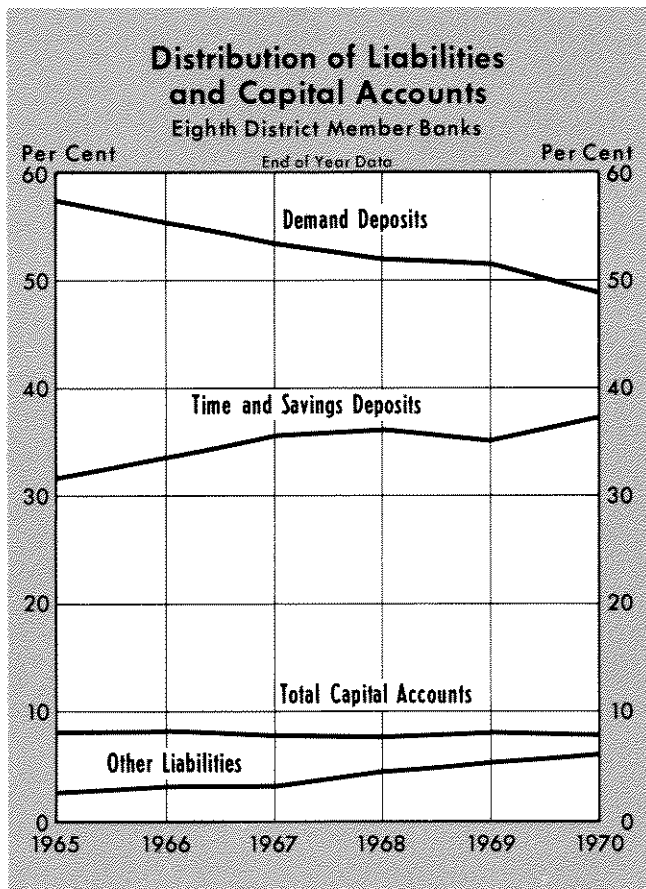
cause of the rise in rates paid and a decline in short-term market interest rates during the year, savings and time deposits, especially large CDs, rose at an accelerated pace. These deposits in the district increased 16 per cent to \$5.8 billion. In addition, demand deposits rose 4 per cent to \$7.6 billion, and other liabilities, consisting primarily of Federal funds purchased and securities sold under agreements to repurchase, increased 26 per cent to \$943 million.

The rapid growth in time and savings deposits during 1970 led to a noticeable shift in the composition of bank liabilities. These deposits increased from 35 to 37 per cent of total liabilities and capital accounts between December 1969 and December 1970. On the other hand, demand deposits declined from 52 to 49 per cent of the total. The proportion of other liabilities rose slightly while capital accounts decreased slightly.

Net Income

After adjusting for the net effect of taxes, securities gains or losses, and extraordinary charges, net income of member banks in 1970 totaled \$141 million, up 15 per cent from a year earlier. This represents a rate of return on equity capital of 11.3 per cent, compared to 10.7 per cent a year earlier.





Income before taxes and securities gains or losses was \$206 million, an increase of 12 per cent from the previous year. Income taxes applicable to operating income rose 12 per cent to \$66 million, reflecting increased net earnings. Member banks recorded security gains after taxes of \$261 thousand in contrast to losses of \$2.4 million in 1969. This reversal of security losses was one of the factors contributing to the improvement of the member banks' earnings in spite of the increased tax rates on security profits.

Bank Capital

At the close of 1970, total capital accounts of district member banks amounted to \$1.2 billion, an increase of 8 per cent from 1969. After distributing common stock dividends of \$48 million, member banks reported \$93 million in net retained earnings, the primary source of increased capital. Another significant portion of capital was raised through the sale of capital notes and debentures amounting to \$53 million.

The growth of capital accounts was smaller than that of either deposits or assets, resulting in declining capital-to-deposit and capital-to-asset ratios. The ratio of capital to loans also increased, possibly indicating an increase in banks' willingness to take risks in light of the compensating higher rates of return on loans.

*See the following two pages
for member bank operating ratios.*

"OPERATING RATIOS" OF MEMBER

EIGHTH FED

| | | Group Up To \$5,000,000 |
|--|--------|----------------------------------|
| | 1970 | 1969 |
| PROFITABILITY | | |
| Percentage of Equity Capital Including All Reserves | | |
| 1. Income after taxes and before securities gains or losses ¹ | 9.61 | 10.10 |
| 2. Net income..... | 9.58 | 10.00 |
| Percentage of Net Income | | |
| 3. Cash dividends paid..... | 29.04 | 25.00 |
| SOURCES AND DISPOSITION OF INCOME | | |
| Percentage of Total Assets | | |
| 4. Total operating income..... | 5.73 | 5.80 |
| 5. Salaries, wages, and fringe benefits..... | 1.33 | 1.30 |
| 6. Interest on deposits..... | 1.75 | 1.70 |
| 7. Net occupancy expense of bank premises..... | .16 | .15 |
| 8. All other operating expenses..... | 1.05 | 1.00 |
| 9. Total operating expense..... | 4.29 | 4.20 |
| 10. Income after taxes and before securities gains or losses ¹ | 1.01 | 1.00 |
| 11. Net income..... | 1.01 | 1.00 |
| Percentage of Total Operating Income | | |
| 12. Interest on U. S. Treasury securities..... | 27.15 | 25.00 |
| 13. Interest on securities of U. S. Government agencies and corporations..... | 7.17 | 7.00 |
| 14. Interest on obligations of states and political subdivisions..... | 4.66 | 4.50 |
| 15. Interest and dividends on all other securities..... | .27 | .25 |
| 16. Interest and fees on loans ² | 56.64 | 55.00 |
| 17. All other operating income..... | 4.11 | 4.00 |
| 18. Total operating income..... | 100.00 | 100.00 |
| 19. Service charges on deposit accounts..... | 1.73 | 1.70 |
| 20. Trust department income..... | .03 | .03 |
| 21. Salaries and wages..... | 21.68 | 21.50 |
| 22. Officer and employee benefits..... | 1.90 | 1.80 |
| 23. Interest on deposits..... | 30.41 | 29.50 |
| 24. Interest on borrowed money..... | .07 | .07 |
| 25. Net occupancy expense of bank premises..... | 2.93 | 2.80 |
| 26. Provision for loan losses..... | 3.11 | 3.00 |
| 27. All other operating expenses..... | 14.48 | 14.00 |
| 28. Total operating expense..... | 74.58 | 73.50 |
| 29. Interest on capital notes and debentures..... | .01 | .01 |
| 30. Income before taxes and securities gains or losses..... | 25.42 | 25.00 |
| 31. Income after income taxes and before securities gains or losses..... | 18.07 | 18.00 |
| 32. Net securities gains (+) or losses (-), after tax effect..... | .08 | .08 |
| 33. All other additions and subtractions, net, including minority interest, if any.. | -.20 | -.20 |
| 34. Net income..... | 17.95 | 17.80 |
| RATES OF RETURN ON SECURITIES AND LOANS | | |
| Return on Securities³ | | |
| 35. Interest on U. S. Treasury securities..... | 5.96 | 5.80 |
| 36. Interest on securities of U. S. Government agencies and corporations..... | 4.97 | 4.80 |
| 37. Interest on obligations of states and political subdivisions..... | 4.34 | 4.20 |
| 38. Interest and dividends on all other securities..... | 5.14 | 5.00 |
| Return on Loans² | | |
| 39. Interest and fees on loans..... | 7.95 | 7.80 |
| 40. Net losses (-) or recoveries (+) on loans..... | -.36 | -.36 |
| DISTRIBUTION OF TOTAL ASSETS | | |
| Percentage of Total Assets | | |
| 41. U. S. Treasury securities ³ | 26.19 | 25.00 |
| 42. Securities of other U. S. Government agencies and corporations..... | 6.22 | 6.00 |
| 43. Obligations of states and political subdivisions..... | 6.41 | 6.20 |
| 44. All other securities..... | .34 | .34 |
| 45. Gross loans ² | 44.30 | 44.00 |
| 46. Cash assets..... | 15.05 | 15.00 |
| 47. Real estate..... | 1.22 | 1.20 |
| DISTRIBUTION OF LOANS | | |
| Percentage of Gross Loans² | | |
| 48. Real estate..... | 28.17 | 28.00 |
| 49. Loans to farmers..... | 24.24 | 24.00 |
| 50. Commercial and industrial loans..... | 12.05 | 12.00 |
| 51. Consumer loans to individuals..... | 26.40 | 26.00 |
| 52. All other loans ² | 9.14 | 9.00 |
| OTHER RATIOS | | |
| 53. Total capital accounts and reserves to total assets ⁴ | 10.49 | 10.00 |
| 54. Time and savings deposits to total deposits..... | 44.34 | 42.00 |
| 55. Interest on time and savings deposits to total time deposits ⁵ | 4.35 | 3.00 |
| 56. Income taxes to net income plus income taxes..... | 25.69 | 19.00 |
| Number of Banks..... | 91 | 1 |

¹Excludes minority interest in operating income, if any.

²Loans include Federal funds sold and securities purchased under agreements to resell.

³Excludes trading account securities.

⁴Includes capital notes and debentures.

⁵Averages exclude banks not reporting.

FOR THE YEARS 1970 AND 1969

VE DISTRICT

Banks with Average Deposits

| Group 2 \$0,000,000 To \$10,000,000 | Group 3 \$10,000,000 To \$25,000,000 | | Group 4 \$25,000,000 To \$50,000,000 | | Group 5 \$50,000,000 To \$100,000,000 | | Group 6 \$100,000,000 And Over | | All Member Banks | | |
|--|---|--------|---|--------|--|--------|---|--------|------------------------|--------|----|
| | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | 1969 | 1970 | |
| 11.47 | 11.26 | 10.73 | 11.80 | 10.80 | 10.49 | 10.66 | 9.41 | 9.90 | 11.04 | 10.88 | 1 |
| 11.13 | 11.59 | 10.61 | 11.76 | 11.09 | 11.20 | 10.36 | 9.46 | 9.69 | 11.27 | 10.72 | 2 |
| 23.31 | 27.07 | 29.01 | 27.08 | 27.11 | 30.09 | 34.56 | 34.47 | 40.37 | 26.71 | 26.96 | 3 |
| 5.37 | 5.89 | 5.46 | 6.27 | 5.82 | 5.94 | 5.66 | 5.83 | 5.52 | 5.90 | 5.44 | 4 |
| 1.21 | 1.21 | 1.19 | 1.41 | 1.37 | 1.21 | 1.20 | 1.28 | 1.23 | 1.28 | 1.23 | 5 |
| 1.79 | 2.21 | 1.94 | 2.09 | 1.91 | 2.21 | 1.97 | 1.46 | 1.35 | 2.02 | 1.79 | 6 |
| .15 | .18 | .18 | .23 | .22 | .20 | .18 | .21 | .18 | .18 | .17 | 7 |
| .94 | .98 | .94 | 1.11 | 1.01 | 1.16 | 1.08 | 1.54 | 1.38 | 1.04 | .96 | 8 |
| 4.09 | 4.58 | 4.25 | 4.84 | 4.51 | 4.78 | 4.43 | 4.49 | 4.14 | 4.52 | 4.15 | 9 |
| .96 | .94 | .89 | 1.04 | .92 | .82 | .83 | .83 | .87 | .98 | .95 | 10 |
| .94 | .97 | .88 | 1.04 | .97 | .87 | .80 | .84 | .84 | 1.00 | .94 | 11 |
| 21.48 | 17.70 | 17.76 | 13.41 | 14.19 | 10.61 | 10.06 | 8.85 | 8.18 | 19.30 | 20.53 | 12 |
| 5.75 | 4.78 | 4.44 | 2.48 | 2.49 | 3.98 | 3.58 | .83 | 1.28 | 5.32 | 4.58 | 13 |
| 7.37 | 8.56 | 8.29 | 9.69 | 8.91 | 8.14 | 8.51 | 6.34 | 6.71 | 7.58 | 7.02 | 14 |
| .41 | .40 | .48 | .45 | .48 | .31 | .66 | .30 | .27 | .38 | .41 | 15 |
| 59.48 | 62.68 | 62.55 | 64.38 | 63.92 | 68.46 | 68.47 | 71.12 | 71.96 | 61.33 | 61.08 | 16 |
| 5.51 | 5.88 | 6.48 | 9.59 | 10.01 | 8.50 | 8.72 | 12.56 | 11.60 | 6.09 | 6.38 | 17 |
| 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 18 |
| 2.88 | 3.19 | 3.58 | 4.11 | 4.13 | 3.28 | 3.48 | 3.11 | 3.34 | 2.86 | 3.04 | 19 |
| .12 | .48 | .50 | 2.23 | 2.59 | 1.20 | 1.42 | 3.50 | 3.49 | .63 | .62 | 20 |
| 20.32 | 18.30 | 19.38 | 19.52 | 20.44 | 17.86 | 18.68 | 18.93 | 19.12 | 19.45 | 20.41 | 21 |
| 2.28 | 2.38 | 2.39 | 2.85 | 2.96 | 2.60 | 2.61 | 3.07 | 3.07 | 2.34 | 2.34 | 22 |
| 33.53 | 37.76 | 35.87 | 34.00 | 33.66 | 37.22 | 35.14 | 24.64 | 24.10 | 34.25 | 33.03 | 23 |
| .20 | .27 | .43 | .43 | .51 | 2.36 | 1.99 | 7.01 | 6.98 | .54 | .60 | 24 |
| 3.01 | 3.22 | 3.47 | 3.73 | 3.95 | 3.55 | 3.37 | 3.77 | 3.37 | 3.16 | 3.26 | 25 |
| 1.84 | 1.60 | 1.52 | 1.82 | 1.33 | 2.21 | 1.66 | 2.63 | 1.21 | 2.20 | 1.62 | 26 |
| 14.74 | 14.16 | 14.61 | 15.15 | 15.15 | 14.86 | 14.86 | 16.39 | 16.42 | 14.48 | 14.84 | 27 |
| 75.92 | 77.69 | 77.67 | 77.50 | 78.00 | 80.66 | 78.31 | 76.44 | 74.27 | 76.42 | 76.10 | 28 |
| .03 | .05 | .06 | .06 | .09 | .37 | .26 | .36 | .41 | .06 | .06 | 29 |
| 24.08 | 22.31 | 22.33 | 22.50 | 22.00 | 19.34 | 21.69 | 23.56 | 25.73 | 23.58 | 23.90 | 30 |
| 18.14 | 16.26 | 16.56 | 16.68 | 15.90 | 13.96 | 14.86 | 14.87 | 16.15 | 16.94 | 17.89 | 31 |
| -.36 | .41 | -.06 | .01 | .36 | .57 | -.24 | -.53 | -.21 | .25 | -.23 | 32 |
| .11 | -.02 | -.11 | -.06 | .16 | .33 | -.23 | .67 | -.11 | .01 | .00 | 33 |
| 17.89 | 16.65 | 16.39 | 16.63 | 16.42 | 14.86 | 14.39 | 15.01 | 15.83 | 17.20 | 17.66 | 34 |
| 5.66 | 5.55 | 5.19 | 5.84 | 5.57 | 5.42 | 4.99 | 5.65 | 5.06 | 5.75 | 5.41 | 35 |
| 5.00 | 5.32 | 4.70 | 5.76 | 4.38 | 4.97 | 5.00 | 3.87 | 5.16 | 5.22 | 4.55 | 36 |
| 3.40 | 4.01 | 3.52 | 4.04 | 3.65 | 3.83 | 3.59 | 3.92 | 3.80 | 4.05 | 3.51 | 37 |
| 3.42 | 5.14 | 3.91 | 4.81 | 4.32 | 6.09 | 5.88 | 5.68 | 5.57 | 5.12 | 3.89 | 38 |
| 7.26 | 8.06 | 7.42 | 8.19 | 7.32 | 8.06 | 7.51 | 8.34 | 7.84 | 8.06 | 7.38 | 39 |
| -.18 | -.25 | -.17 | -.24 | -.12 | -.31 | -.18 | -.54 | -.20 | -.30 | -.16 | 40 |
| 20.72 | 18.34 | 18.71 | 14.07 | 14.96 | 11.63 | 11.63 | 8.77 | 9.01 | 19.39 | 20.46 | 41 |
| 5.63 | 4.23 | 4.23 | 2.39 | 2.52 | 3.96 | 3.43 | .87 | .77 | 4.77 | 4.51 | 42 |
| 11.11 | 12.71 | 12.77 | 14.59 | 13.84 | 12.45 | 13.12 | 9.46 | 9.77 | 11.04 | 10.75 | 43 |
| .34 | .41 | .34 | .51 | .54 | .30 | .31 | .34 | .32 | .39 | .36 | 44 |
| 46.46 | 48.83 | 48.47 | 51.17 | 51.46 | 52.87 | 52.46 | 53.62 | 53.14 | 47.90 | 47.48 | 45 |
| 13.91 | 13.46 | 13.57 | 14.70 | 14.32 | 15.26 | 15.60 | 22.88 | 23.20 | 14.45 | 14.51 | 46 |
| 1.54 | 1.60 | 1.55 | 1.59 | 1.61 | 1.85 | 1.74 | 1.78 | 1.64 | 1.52 | 1.47 | 47 |
| 32.91 | 34.30 | 34.52 | 31.19 | 32.87 | 37.06 | 37.89 | 18.33 | 19.04 | 31.39 | 32.45 | 48 |
| 17.68 | 11.36 | 11.56 | 5.03 | 5.08 | 1.74 | 2.01 | .81 | .87 | 14.25 | 14.84 | 49 |
| 14.31 | 18.32 | 18.72 | 24.08 | 25.58 | 23.15 | 22.20 | 37.59 | 37.85 | 17.52 | 17.33 | 50 |
| 27.32 | 27.07 | 28.00 | 29.44 | 28.06 | 28.62 | 30.69 | 23.58 | 24.28 | 27.04 | 27.51 | 51 |
| 7.78 | 8.95 | 7.20 | 10.26 | 8.41 | 9.43 | 7.21 | 19.69 | 17.96 | 9.80 | 7.87 | 52 |
| 8.59 | 8.47 | 8.50 | 9.05 | 8.73 | 8.38 | 8.31 | 9.42 | 9.41 | 9.09 | 9.00 | 53 |
| 47.80 | 52.26 | 50.84 | 48.66 | 49.05 | 50.74 | 49.32 | 35.21 | 35.58 | 48.51 | 47.37 | 54 |
| 4.10 | 4.70 | 4.24 | 4.82 | 4.35 | 4.94 | 4.50 | 4.90 | 4.50 | 4.62 | 4.16 | 55 |
| 19.90 | 22.87 | 21.24 | 22.35 | 20.29 | 26.01 | 25.47 | 29.33 | 29.05 | 24.35 | 20.91 | 56 |
| 136 | 156 | 146 | 47 | 41 | 17 | 16 | 18 | 18 | 457 | 460 | |

valuation reserves.

ms, or reporting negligible amounts.