

Income and Expenses of Eighth District Member Banks – 1973

WILLIAM LEPLEY

NET INCOME of the 431 Federal Reserve member banks in the Eighth District rose by 9.8 percent in 1973, substantially higher than the 3.5 percent increase that occurred in 1972. This increase in Eighth District net income compares with increases for all member banks in the nation of 17.3 percent in 1973 and 7 percent in 1972. The total operating income of member banks in the District rose by 28.2 percent during the past year, while total operating expenses increased at an even faster rate of 31.4 percent. The comparable figures for member banks in the nation were 33.1 percent and 36.6 percent, respectively.

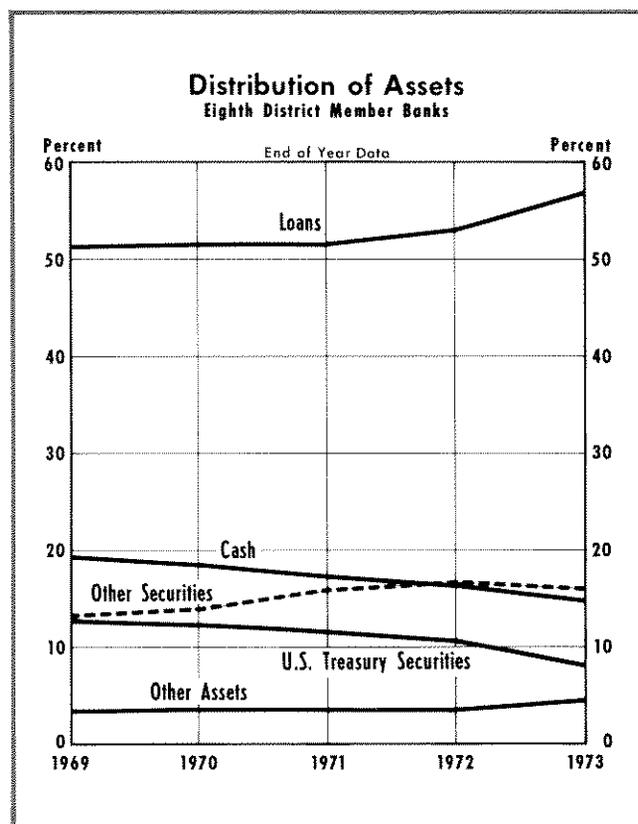
Many of the income and expense items increased substantially in 1973. These figures should be considered in light of the monetary expansion, the high inflation rate, and the rising interest rates which occurred in 1973.

Operating Income

Total operating income is largely determined by investments in various earning assets and the rates of return realized on these assets. Loan income makes up the largest portion of bank revenue. Various security holdings, trust services, service charges on deposit accounts, and other miscellaneous items provide the remaining sources of income.

Income from loans, including that resulting from Federal funds sold and securities purchased under agreements to resell, increased faster than all other categories of operating income in 1973 (see Table I). Receipts from loans increased by 37.5 percent in 1973, following the 10.6 percent increase of 1972.

One reason for the gain in loan income was the larger share of loans in the asset structure. While total assets rose by 12.9 percent during the year, the amount of total loans increased by 21 percent. As in-



dedicated in the accompanying chart, loans as a percentage of total assets increased from 53.1 percent in December 1972 to 56.9 percent in December 1973.

The rates of change of the major loan classifications varied substantially. The loan category which showed the most dramatic growth was Federal funds sold and securities purchased under agreements to resell – it increased by 56.4 percent during 1973 and constituted 8.1 percent of total assets at year end. The largest type of loans, commercial and industrial, registered an 18.9 percent increase in outstandings and accounted for

Table 1

**INCOME AND EXPENSES OF MEMBER BANKS IN THE
EIGHTH FEDERAL RESERVE DISTRICT**

	Thousand of Dollars			Percent Change	
	1973	1972	1971	1972-73	1971-72
Total Operating Income	\$1,308,395	\$1,020,897	\$ 928,050	28.2%	10.0%
Income from Loans	904,126	657,650	594,496	37.5	10.6
Income from Securities	272,919	246,254	224,528	10.8	9.7
U.S. Treasury Securities	109,954	107,766	110,720	2.0	- 2.7
Other	162,965	138,488	113,808	17.7	21.7
Trust Department Income	29,067	26,568	23,651	9.4	12.3
Service Charges on Deposit Accts.	29,484	27,947	27,051	5.5	3.3
Other Operating Income	72,799	62,479	58,326	16.5	7.1
Total Operating Expenses	\$1,091,358	\$ 830,449	\$ 735,365	31.4	12.9
Salaries, Wages, and Benefits	242,195	214,332	197,840	13.0	8.3
Interest on Deposits	457,682	351,679	307,833	30.1	14.2
Other Interest Expenses	135,681	46,593	37,469	191.2	24.4
Other Operating Expenses	255,800	217,844	192,222	17.4	13.3
Income Before Income Taxes and Securities Gains (or Losses)	217,037	190,448	192,686	14.0	- 1.2
Less Applicable Income Taxes	48,658	43,360	51,276	12.2	- 15.4
Income Before Securities Gains (or Losses)	168,379	147,089	141,410	14.5	4.0
Net Securities Gains (or Losses) After Taxes	311	5,371	5,876	- 94.2	- 8.6
Extra Charges or Credits After Taxes	- 738	605	498	- 122.0	21.5
Less Minority Interest in Consolidated Subsidiaries	20	85	26	- 76.5	226.9
Net Income	167,932	152,979	147,758	9.8	3.5
Cash Dividends Paid	60,277	56,762	61,266	6.2	- 7.4
Number of Banks	431	430	432	0.2	- 0.5

NOTE: The boundaries of the Tenth Federal Reserve District were expanded on January 24, 1972 to include several counties in western Missouri which had been in the Eighth Federal Reserve District. The income and expense data for 1971 have been adjusted to conform to the January 24, 1972 revision in district boundaries.

16.2 percent of total assets. Loans to individuals for personal expenditures were up 12.4 percent from the previous year, while all real estate-secured loans experienced a 22.5 percent increase.

The average rate of return on loans increased substantially during 1973, another reason for the gain in loan income. The average return was 8.67 percent, up from 8.09 percent in 1972.

Income from securities also boosted the banks' total revenue. While income from all securities increased 10.8 percent in 1973, most of this increase resulted from securities other than those of the U.S. Treasury. These "other" securities, including obligations of states and political subdivisions, have increased in importance in the asset structure in recent years. The average return on U.S. Treasury securities increased from 5.69 percent in 1972 to 6.23 percent last year. The obligations of states and political subdivisions earned an average rate of 4.25 percent in 1973, up from 4.14 percent in 1972.

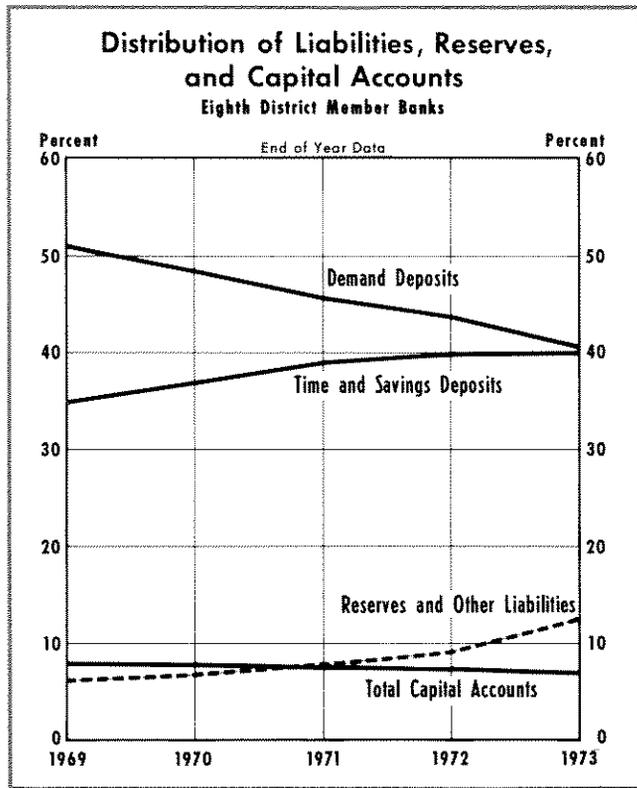
The remaining sources of income all increased over their 1972 amounts, but accounted for much less of total operating income. Trust department income increased 9.4 percent, service charges on deposit ac-

counts increased 5.5 percent, and other operating income increased 16.5 percent. Taken together, these three categories accounted for only 10 percent of total operating income in 1973.

Operating Expenses

Total operating expenses rose by 31.4 percent in 1973 to almost \$1.1 billion. The largest expense category was the interest paid on deposits. This item represented 41.9 percent of total operating expenses in 1973. Interest payments on deposits increased 30.1 percent during 1973 as a result of higher average rates paid as well as greater volume.

There has been an upward trend in the ratio of time and savings deposits to total deposits in recent years, which partially explains the increasing interest expense on deposits. At year end 1973, time and savings deposits made up 49.6 percent of total deposits, having increased from 47.7 percent in December 1972. Furthermore, regulatory changes in 1973 permitted higher interest payments on some types of deposits. On July 1, maximum rates were raised on certificates of deposit less than \$100,000 and interest ceilings were



suspended for certificates of deposit in minimum denominations of \$1,000 with maturities of at least four years. A maximum rate of 7¼ percent was imposed on the latter type of deposit on November 1. In addition, maximum rates on all time deposits of \$100,000 or more were phased out during the year. Consequently, the average rate paid on time and savings deposits increased from 4.78 percent in 1972 to 5.07 percent in 1973.

The largest percentage increase among the expense items in 1973 was the 191.2 percent increase in "other" interest expenses. The most significant part of these

expenses was the cost of Federal funds purchased and securities sold under agreements to repurchase, which almost tripled from 1972 to 1973.

Remaining classifications of expenses grew at relatively slower rates. Salaries, wages, and benefits increased 13 percent, and all other expenses, which includes such items as occupancy, furniture and equipment, depreciation, and provision for loan losses, increased 17.4 percent.

Net Income

The result of these changes in revenues and expenses for the Eighth District member banks was an increase in income before taxes and securities gains of \$26.6 million, or 14 percent over the 1972 figure. This compares with a 17.3 percent increase in this item for all member banks in the nation. Although total operating expenses rose at a slightly faster rate than total operating income in 1973, the absolute increase in operating income was sufficiently large to cause an increase in income before taxes and securities gains. After higher income taxes, lower after-tax gains on securities, and extra charges, net income increased 9.8 percent to \$168 million in 1973.

Bank Capital

Capital of the member banks in the Eighth District consists primarily of equity capital. Capital notes and debentures accounted for only 4.6 percent of total capital accounts as of December 1973. For the year ending December 1973, equity capital rose 8.2 percent and capital notes and debentures increased 5.7 percent, resulting in an increase of 8.1 percent in total capital accounts. Net income as a percentage of equity capital increased slightly, from 11.3 percent in 1972 to 11.5 percent in 1973.

