

Income and Expenses of Eighth District Member Banks: 1976

JEAN M. LOVATI

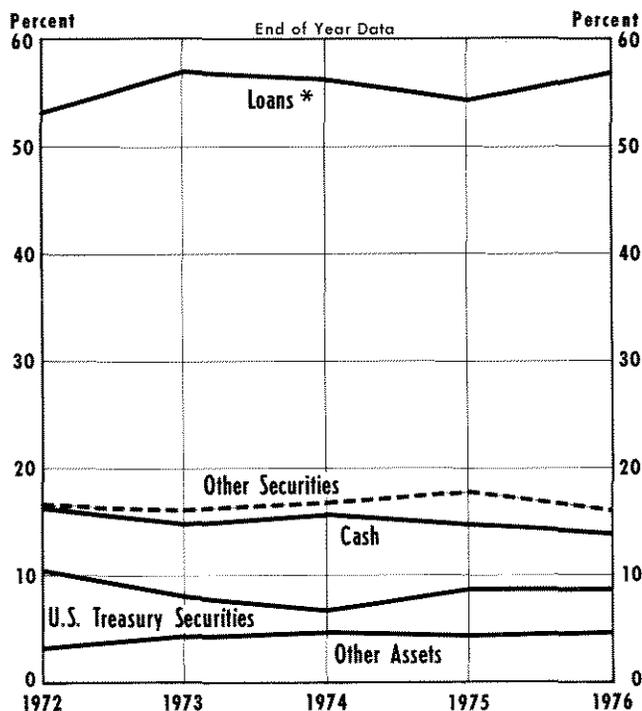
MEMBER banks of the Eighth District experienced a moderate increase in net income in 1976. Net income of District member banks increased 9 percent from 1975 to 1976, about the same rate as it did the previous year. However, unlike 1975 in which operating income and expenses posted slight gains, both operating income and expenses registered increases exceeding ten percent in 1976. Loans outstanding, the major factor contributing to the higher income, posted a solid increase, after rising slightly in 1975. Increases in the amount of interest paid on deposits, the principal factor in the rising expense, reflected a large inflow of time and savings deposits.

On average, Eighth District member banks fared better in 1976 than all member banks as a whole. Although net operating income for banks in the nation posted a stronger increase than comparable income at District member banks, the combined effect of income taxes paid and net securities gains favored the relative position of District banks. Income taxes of all member banks in the nation in 1976 were 33 percent higher than in 1975. This compares with a one percent decline in income taxes paid by Eighth District banks over the same period. Net securities gains, including extraordinary items, significantly boosted earnings for both groups. This additional source of earnings advanced 220 percent for all member banks and 147 percent for District banks. The combination of these two factors resulted in a greater net income gain for the District than for the nation. Net income of all member banks in the nation rose 6.7 percent in 1976, compared to 9 percent for District banks.

Operating Income and Bank Assets

Operating income of Eighth District member banks increased \$179 million or 11 percent in 1976 to \$1,760 million (see Table I). A year earlier operating income increased less than one percent. Income from loans, which rose more than \$111 million, and that from U.S. Treasury securities, which rose about \$40 million, primarily accounted for the change in operating income. These increases, however, were

Chart I
Distribution of Assets
Eighth District Member Banks



*Including Federal Funds sold and securities purchased under resale agreement.

partially offset by a decline in receipts from Federal funds sold and securities purchased under resale agreements.

Interest and fees on loans, which posted a 2.3 percent decline in 1975, increased 12 percent in 1976. Increases in holdings contributed to the jump in this source of income. The volume of loans outstanding increased 13 percent in 1976 to \$13 billion, after registering a 1.3 percent increase a year earlier.¹

¹All comparisons of assets, liabilities, and capital are made as of December 31 of each year. These data, as well as income and expense items for 1976 are not strictly comparable to such data for 1975 due to definitional changes in the Reports of Condition and Income.

Table I

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

	Thousands of Dollars		Percent Change
	1976 ¹	1975 ²	1975-76
Total Operating Income	\$1,760,173	\$1,581,249	11.3%
Interest and fees on loans	1,064,018	952,675	11.7
Income from Federal funds sold and securities purchased under resale agreements	80,490	96,318	-16.4
Interest on securities	401,108	344,156	16.5
U.S. Treasury securities	162,335	119,096	36.3
Other U.S. Government securities	85,039	79,443	7.0
Obligations of States and political subdivisions	147,641	138,706	6.4
Other securities	6,093	6,911	-11.8
Trust department income	35,789	30,936	15.7
Service charges on deposit accounts	36,721	31,917	15.1
Other operating income	142,047	125,247	13.4
Total Operating Expenses	1,511,050	1,344,496	12.4
Interest on deposits	679,639	610,381	11.3
Other interest expenses	6,933	6,443	7.6
Expense of Federal funds purchased and securities sold under repurchase agreements	103,841	111,605	-7.0
Salaries and employee benefits	331,746	283,602	17.0
Provision for possible loan losses	67,883	55,342	22.7
Other operating expenses	321,008	277,123	15.8
Income Before Income Taxes and Securities Gains (or Losses)	249,123	236,753	5.2
Less applicable income taxes	42,442	42,798	.8
Income Before Securities Gains (or Losses)	206,681	193,955	6.6
Net securities gains (or losses) after taxes	7,804	888	—
Extra charges or credits after taxes	299	2,389	—
Net Income	214,784	197,232	8.9
Cash Dividends Paid	72,925	70,786	3.0
Number of Banks	428	427	

¹Data are not strictly comparable to 1975 due to definitional changes in the Report of Income for 1976.

²Data have been adjusted to exclude one bank which experienced unusual conditions.

Strong gains in holdings of real estate and automobile loans made up the bulk of the change in outstanding loans, increasing about 18 and 21 percent, respectively. The largest category of loans, commercial and industrial, rose 10.5 percent to \$4 billion. The rate of return earned on loans averaged 8.7 percent in 1976.

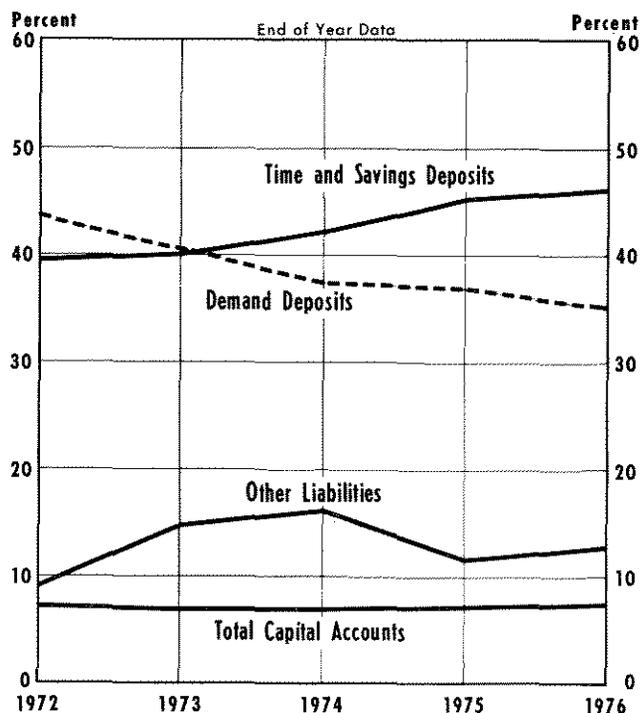
Income from securities posted an increase of 17 percent in 1976. Whereas the 18 percent increase in this source a year earlier was fairly evenly distributed across security classes, interest on U.S. Treasury securities comprised the bulk of the gain in securities income in 1976. Interest earned on Treasury securities increased 36 percent in 1976. Holdings of U.S. Treasury securities increased 12 percent with average yields

on these securities rising from 6.7 percent to 6.9 percent.

Income derived from obligations of other U.S. Government agencies and Government corporations posted an increase of 7 percent. These securities, the majority of which were held in one- to five-year maturities, earned an average yield of 7.5 percent. Interest earned on obligations of states and political subdivisions rose 6 percent. These securities, which earned a 5 percent rate of return, were held primarily in one- to ten-year maturities.

The above gains in income were partially offset by a decline in income from Federal funds sold and securities purchased under resale agreements. This

Chart II
**Distribution of Liabilities, Reserves,
 and Capital Accounts**
 Eighth District Member Banks



source of income, which fell 16 percent in 1976, primarily reflected a decline in the Federal funds rate. The rate averaged 5.1 percent last year, compared to 5.8 percent in 1975. However, this decline amounted to only \$16 million as total income from Federal funds sold and securities purchased under resale agreements represented only 4.6 percent of total operating income.

Operating Expenses and Bank Liabilities

Operating expenses of Eighth District member banks rose 12 percent in 1976 to \$1,511 million, compared to little change the year before. Greater outlays for interest paid on time and savings deposits, provision for loan losses, and employee salaries made up almost 80 percent of the rise in expenses.

Interest paid on time and savings deposits represented the largest expense of District member banks, amounting to \$680 million in 1976. Outlays for such deposit interest rose 11 percent in 1976, compared to an increase of 4.3 percent a year earlier. Total time and savings deposits on which the interest is paid increased 11 percent in 1976 to \$12.4 billion. These

deposits represented half of all liabilities. Total demand deposits, on the other hand, increased 4 percent in 1976 and represented 38 percent of total liabilities.

Provision for loan losses increased 23 percent in 1976 to \$68 million, following a jump of 48 percent in 1975. Increases in the loan loss reserve account also occurred as a result of recoveries from loans previously written off, and additions from mergers. These sources added \$20 million to such reserves, bringing the total to \$88 million. Losses charged to the fund in 1976 amounted to \$80 million, so that on balance, reserves on loans increased \$8 million or 6.6 percent.

Salaries and employee benefits increased 17 percent in 1976 to \$332 million. The average amount paid increased from \$8,480 to \$10,461 per employee and the number of employees declined 5.2 percent, as banks continued to automate banking transactions and increase output per worker.

The rise in operating expenses was offset somewhat by a 7 percent decline in interest paid on Federal funds purchased and securities sold under repurchase agreements. Outlays for Federal funds purchased, which represented 6 percent of operating expenses, declined \$8 million in 1976, reflecting the lower average rate of interest charged for these funds.

Net Income

Eighth District member bank income before income taxes and securities gains or losses totalled \$249 million in 1976, an increase of 5.2 percent over 1975. Income taxes totalled \$42 million, slightly less than the amount paid a year earlier. Securities gains and other credits, net of taxes, substantially helped earnings, adding over \$8 million to income. After such adjustment, net income of member banks increased 9 percent in 1976 to \$215 million.

The average return on equity capital in 1976 increased to 12.8 percent from 11.2 percent in 1975. The rate of return on equity capital ranged from 9.6 percent for banks with assets of \$300 million and over to 13.6 percent for banks with assets between \$25 and \$50 million in assets.²

Member banks paid dividends on common and preferred stock of \$73 million, a 3 percent increase over

²Averages for groups of banks are unweighted averages of operating ratios of individual banks. Income and balance sheet items used in constructing these ratios are averages of the figures from the Reports of Condition for March 31, June 30, September 30, and December 31, 1976 and the Report of Income for 1976, the components of which include both domestic and foreign subsidiaries of member banks.

Table II

SELECTED OPERATING RATIOS FOR THE YEAR 1976¹
MEMBER BANKS — EIGHTH FEDERAL RESERVE DISTRICT

	Group 1 Up to \$10 million	Group 2 \$10 - \$25 million	Group 3 \$25 - \$50 million	Group 4 \$50 - \$100 million	Group 5 \$100 - \$300 million	Group 6 \$300 million And Over	All Member Banks
Profitability							
Percentage of Equity Capital							
Net income	12.00	12.71	13.57	12.57	12.64	9.62	12.75
Percentage of Net Income							
Cash dividends paid	17.42	20.81	24.78	25.34	32.53	41.95	23.16
Sources and Disposition of Income							
Percentage of Total Assets							
Total operating income	6.89	6.99	7.12	7.17	6.93	7.07	7.03
Salaries, wages and fringe benefits	1.42	1.26	1.20	1.26	1.30	1.50	1.28
Interest on deposits	2.84	3.23	3.37	3.35	2.76	2.17	3.16
Total operating expense	5.78	5.89	5.94	6.04	5.75	6.41	5.91
Net income	.98	.97	1.02	1.00	.96	.60	.98
Percentage of Total Operating Income							
Interest on U.S. Treasury securities	17.26	15.06	12.64	11.09	11.54	5.45	13.83
Interest on securities of U.S. Government agencies and corporations	12.98	8.69	7.63	6.11	4.85	2.30	8.40
Interest on obligations of states and political subdivisions	5.61	8.97	10.31	10.63	9.49	6.05	8.95
Interest and fees on loans	54.39	57.49	60.46	61.91	59.29	61.96	58.54
Income on Federal funds sold and securities purchased to resell	4.19	3.20	2.95	2.53	5.37	5.75	3.42
Rate of Return on Securities and Loans							
Return on Securities ^{2,3}							
Interest on U.S. Treasury securities	6.55	6.93	7.00	7.13	7.02	6.83	6.91
Interest on securities of U.S. Government agencies and corporations	7.70	7.49	7.50	7.13	7.72	7.70	7.51
Interest on obligations of states and political subdivisions	4.99	5.03	5.00	5.03	4.87	4.94	5.00
Return on Loans (excluding unearned income and Federal funds sold)							
Interest and fees on loans	8.62	8.71	8.80	8.82	8.61	8.70	8.73
Net losses (—) or recoveries (+) on loans	— .16	— .27	— .22	— .21	— .30	— .74	— .24
Other Ratios							
Total capital accounts to total assets ⁴	9.56	8.18	8.28	8.01	8.24	6.66	8.38
Time and savings to total deposits (domestic offices)	58.04	63.80	65.27	65.32	57.96	50.96	62.77
Interest on time and savings deposits to total time and savings deposits (domestic offices) ²	5.35	5.54	5.70	5.70	5.55	5.53	5.57
Number of Banks	68	151	123	44	26	11	423

¹Each ratio is an unweighted average of the ratios of individual banks computed from the Reports of Condition for March 31, June 30, September 30, and December 31, 1976 and the Report of Income for 1976, the components of which include both domestic and foreign subsidiaries of member banks.

²Group averages exclude banks not reporting these items.

³Excludes trading account securities.

⁴Includes subordinated notes and debentures, but excludes valuation reserves and deferred tax reserves.

those paid in 1975. Fifty percent of the banks paid dividends ranging from 12 to 30 percent of net income, with the largest banks, in terms of assets,

paying the largest proportion of net income in cash dividends and the smallest banks the lowest proportion.