

investments would amount to \$500 billion, of which \$107.5 billion, or 21.5 percent, would reflect holdings of municipal securities.

During the years 1961-65, when commercial banks experienced a considerable expansion of savings inflows and lending activity, the average annual rate of increase of loans and investments was 8.9 percent and holdings of municipal securities grew at an average annual rate of 17.1 percent. If the commercial bank situation at the end of 1975 were to be projected at these annual rates of increase, total loans and investments would amount to \$659 billion, of which municipal security holdings would be \$160 billion, or 24.3 percent. On the other hand, during the years 1956-60 the average annual rates of increase for commercial banks were more moderate, with a 4.4-percent annual rate for total loans and investments and 6.9 percent for municipal securities. At these annual rates of increase, by 1975 total loans and investments would amount to \$471 billion and municipal securities would be \$75 billion.

Assuming that these two spans of recent experience provide a rough approximation of the upper and lower limits for projections to 1975, the projections provided in chapter 21 appear to be reasonable, and the averages of the two projections have been used accordingly. It should be recognized that implicit in these projections are certain assumptions regarding the flow of savings (assumptions that were made prior to the recent legislative and administrative actions concerning interest rates paid on savings), the extent to which our economy becomes a "checkless society" (which would affect the volume of demand deposits) as well as rates of growth and alternative lending opportunities.

2. MUTUAL SAVINGS BANKS

Since 1958 mutual savings banks have progressively reduced their holdings of municipal securities so that at the end of 1965 they amounted to \$320 million (compared to \$729 million in December 1958). In the first 9 months of 1966 the banks reduced their municipal security holdings further by another \$50 million. According to the material presented in chapter 22, for mutual savings banks municipal bond flows will continue to average below \$100 million annually. In light of these factors, it is estimated that mutual savings bank holdings of municipal securities will grow very slowly over the next decade to reach \$400 million at the end of 1975 (\$300 million in 1970). In part, this increase is attributable to the effects of the 1962 change in the Internal Revenue Code as it affects these banks. Should these tax considerations become more important, mutual savings banks might acquire more municipal securities.

3. LIFE INSURANCE COMPANIES

At the end of 1965 assets of all U.S. life insurance companies aggregated \$158.9 billion, of which \$3.5 billion, or 2.2 percent, were invested in municipal securities. Analysis of the growth trends of life insurance company assets indicates that by 1975 total assets may reach \$300 billion. Some informed analysts believe that, owing to the attractiveness of alternative investments, the proportion of life insurance company assets accounted for by municipal securities will decline to about 1.3 percent.