

In productively investing funds entrusted to them by depositors, saving banks have sought to earn maximum returns for savers consistent with safety and liquidity. Mortgage loans have been by far the prime investment outlet for savings banks during the postwar period, reflecting, in part, their basic mortgage orientation, burgeoning postwar housing demands, and the attractiveness of mortgage yields relative to those available on alternative investment outlets. Also of profound importance have been institutional and legal changes, notably the widespread adoption of amortized mortgage loans, introduction of Federal mortgage insurance and guarantee programs and State legislation enacted in the early 1950's permitting savings banks to acquire mortgage loans on properties located beyond their own State boundaries.

Of the total \$58 billion of assets held by savings banks at the end of 1965, mortgages represented 76 percent, U.S. Government securities, 9 percent, and corporate and State and local government securities combined, 9 percent (table 2). The \$44 billion of mortgage loans held by savings banks included approximately \$13 billion of loans on properties located in 32 nonsavings bank States.

#### MUNICIPAL BOND ROLE IN SAVINGS BANK INVESTMENTS <sup>1</sup>

Largely reflecting massive postwar mortgage lending by savings banks, State and local government securities currently occupy a secondary position in the industry's asset structure.<sup>2</sup> The \$320 million of municipal obligations held by the Nation's savings banks at the end of 1965 represented about one-half of 1 percent of total industry assets. This contrasts with the much larger role of municipal securities in savings bank investments during an earlier stage in the industry's history. At the turn of the 20th century, State and local government issues represented one-fourth, and as late as 1930 nearly one-tenth, of aggregate savings bank resources.

The earlier prominence of State and local obligations in savings bank portfolios reflected, in part, legal restrictions on alternative private investments in major savings bank States. Gradual liberalization of these restrictions over the years has permitted savings bank participation in a broader range of investment outlets. Reduction in the industry's municipal bond role, particularly since 1930, is also due to shifts in investment flows to capital market sectors where expansion in credit demands was greater. Thus, during the depression decade and the World War II period, savings bank investment activity was confined largely to acquisitions of U.S. Government securities. And during the postwar period—when the increase in the total mortgage debt substantially exceeded the combined growth of Federal, State, and local government, and corporate long-term securities—savings bank investment flows have been dominated by mortgage lending to a degree unprecedented in the industry's earlier history. Indeed, since the end of World War II, savings banks have channeled 96 percent of their investible funds into mortgage markets.

<sup>1</sup> The role of savings banks in financing community facilities operated by private, non-profit organizations is discussed on p. 16.

<sup>2</sup> For ease of presentation, the terms "municipal bonds" and "State and local government bonds" are used interchangeably in this study.