

Another basic factor, of course, was the transformation of the municipal bond market stemming from the introduction of Federal income taxation in 1913 and the exemption of municipal bond interest from taxation. Mutual savings banks, exempt from Federal income taxation prior to 1951, derived no benefit from the tax features of State and local government obligations. Municipal securities, in effect, were bid away by upper bracket taxpayers and other investors who were increasingly attracted by their after-tax yields.

While State and local government securities have not been a major investment outlet for the industry during the postwar period, savings banks have contributed significantly to the expansion and improvement of community facilities in the areas where they are located. In addition to their municipal bond investments, savings banks have been leading participants in community-oriented mortgage lending programs. Although confined to only 18 States, they rank either first or second, nationwide, among institutional holders of FHA-insured mortgages under the following major programs: (1) regular owner-occupied housing; (2) rental housing; (3) urban home redevelopment and relocation; (4) cooperative housing; and (5) servicemen's housing. Savings banks also have channeled a substantial volume of mortgage funds into such "special-purpose" FHA programs as housing for the elderly and nursing homes and into various types of community facilities operated by private, nonprofit organizations, including churches and synagogues, hospitals, schools, and fraternal buildings (see page 16). Thus, within the investment area savings banks emphasize most strongly, they have provided financing for a variety of facilities essential to sound community growth.

POSTWAR MUNICIPAL BOND FLOWS

During the period since the end of World War II, savings banks have channeled a varying volume of funds into State and local government security markets (table 3). Annual net additions to holdings expanded irregularly during the late 1940's accompanying the postwar revival of municipal borrowing, and accelerated after legislation enacted in 1951 extended Federal corporate income taxation to mutual savings banks. In the mid and late 1950's, however, net acquisitions of municipal obligations slackened, and beginning in 1959, gave way to modest, almost continuous net reductions in holdings. Over the 1946-65 period as a whole, savings banks channeled \$236 million into State and local government security markets. In comparison, the industry's mortgage holdings increased by \$40.2 billion, corporate security portfolios rose by \$4.1 billion, while U.S. Government obligations declined by \$5.2 billion.