pal portfolios, acquisitions of such securities involves relatively little risk for the banks.

Location of borrower.—Savings banks holdings of municipal bonds are about evenly divided between local issues and issues of States other than those in which the banks are located. FDIC-insured savings banks held $154 million of municipal bonds issued by their own States and political subdivisions at the end of 1965. Holdings of obligations of other States and political subdivisions were almost equally large, totaling $153 million.

PORTFOLIO CONSIDERATIONS

In allocating investible funds among alternative outlets, savings banks have utilized their diversified investment powers flexibly, adjusting mortgage and security acquisitions in response to changing capital market demands and shifting yield relationships. While expanding their mortgage holdings steadily during the postwar period, savings banks at times have also increased their holdings of corporate and municipal securities, when bond investments were especially attractive and when savings inflows temporarily exceeded the supply of quality mortgage loans. A basic limitation on savings bank portfolio activity, of course, is the availability of investible funds, which, in turn, depends heavily on savings bank earning power and deposit interest rates and on the industry's competitive position in savings markets.

In a broad sense, therefore, all eligible investment outlets, including municipal bonds, compete for the supply of funds available to savings banks. In the postwar capital market setting, however, State and local government obligations clearly have not been closely and directly competitive with mortgages, as is amply demonstrated by the sharp contrast between the industry's large, steady mortgage acquisitions, and its modest, intermittent municipal bond purchases.

Further indication of the role of municipal obligations in savings bank investments is provided by table 5, which shows variations among the main savings bank States in the relative importance of municipal bonds in total assets. Relative to total assets, municipal securities are prominent in a number of States where savings banks have a proportionally higher investment in non-Federal securities (corporate bonds, corporate stocks, and State and local government obligations); [5] that is, in States where savings banks appear to have a greater orientation toward security investments generally. In some States, furthermore, investments in municipals are inversely associated with the relative size of holdings of corporate stocks. This suggests that for some banks tax-sheltered equity investments are alternatives to fully tax-exempt municipal bonds.

[5] U.S. Government obligations are excluded from this comparison, since, unlike corporate and municipal securities, they are held primarily for liquidity purposes.