company noted the provisions of its State insurance law that public utility revenue bonds may not exceed 40 percent of admitted assets and that other municipal revenue bonds may not exceed 33⅓ percent of admitted assets. Another company, replying there were no guidelines, added that—

Purchases of municipal bonds are dictated largely by the availability of such bonds at yields competitive with those obtainable from alternate media of investment after allowance for the tax-exempt feature.

One of the stock companies replied:

The major guideline that we have followed in purchasing municipal bonds is to be sure that we have a sufficient income from tax-exempt securities so that we are not liable for an income tax under phase III of the life insurance tax law. Above this minimum requirement, we consider municipal securities only in relation to where else we can invest our funds at the particular moment.

(This aspect of phase III income tax is pertinent only to stock life insurance companies.)

Another company answered:

Yes. These guidelines are based primarily on yields available on municipal securities as compared with yields available on other loans and investments.

b. Competition with mortgages

An apparent divergence in replies to this question arose, at least in part, from whether the question was interpreted as one regarding practical effect or one regarding the alternative investment outlets given consideration. On the one hand, about half of the companies observed that, because of their yield, municipal securities are usually not competitive with mortgage loans (or other securities) on an after-tax basis:

Municipal securities are not competitive with mortgage loans in portfolio determinations because of yield.

Municipal securities ordinarily, as noted earlier, are not competitive with other types of investments and in consequence of only very small holdings of such securities there has never been any competition between them and mortgage loans.

This company's tax position has resulted in mortgage loans being considerably more attractive than municipal securities in recent years.

They are not usually very competitive for life insurance companies because of unfavorable yield comparisons even after adjustment for the tax treatment differential.

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* * * municipal securities are highly desirable; however, during the past few years the yield from municipal securities has not compared favorably with that available from mortgage loans after tax consideration.

Competition between these investment alternatives involves rate of return, relative quality, and the administrative and operational expenses involved. In today's market we are of the persuasion that municipal securities are seldom competitive with mortgage loans on an after-tax basis.