Complete availability of financial, economic, and social facts of the obligor. Simplification and uniformity with respect to the legal requirements relating to municipal securities.

A lower demand for such securities from the investors now providing the largest sources of funds for tax-exempt bonds.

5. EFFECT OF FEDERAL GUARANTEE

The consensus of replies was that although a Federal guarantee of municipal securities would make them more attractive because of the absence of any credit risk, municipal securities would be less attractive to life insurance companies because of the lower yields that would be expected with increased quality. Some companies expect that there would also be little price differentiation within the municipal market regardless of credit of the issuer and that the spread would widen between municipal securities and other loans and investments, to the detraction of municipals.

A Federal Government guarantee of municipal bonds while adding to the security would not necessarily make such investments more attractive to this company. With few exceptions, purchases of municipal securities in the past have been confined to revenue issues which, because of the unproven nature of the project being financed, afforded relatively attractive yields. By eliminating all risks through a Government guarantee, such bonds as a group would tend to sell at yields which, under present conditions, would foreclose any interest in this field on the part of this company.

A Federal Government guarantee of municipal securities would probably have an effect similar to the experience of the federally guaranteed Public Housing Authority securities issues by various municipalities. Currently, the yields on such securities have a narrow spread among the various issues, and generally are about 10 basis points higher than the strongest nonguaranteed municipal securities. Such high-grade securities would have an appeal to certain buyers, but alternative investments of satisfactory investment quality, such as conventional mortgage loans and direct corporate obligations, would probably continue to be more attractive to [this company].

From observations of the response in the market to obligations of the Public Housing Authority, one must conclude that a Federal Government guarantee does give added attraction to municipal securities. To the extent that the resultant yields are lowered they would not necessarily be more attractive to a wide range of investors.

A Federal Government guarantee of municipal securities would tend to make them less attractive to this company since the higher quality would result in lower yields. An exception might be a Federal guarantee of more speculative revenue or land development issues that might not otherwise be considered by this company for investment. Yields, however, would have to be competitive with those of corporate private placements on an after-tax basis.

A Federal guarantee of municipal securities would not tend to make their purchase more attractive for two reasons. First, safety of principal has been adequately demonstrated by history. Second, such a guarantee would tend to drive yields even further below the available net yields on taxable investments.