

tion. In the case of the independent companies, 12 of the companies indicated that they do not purchase this type of security. The others indicated that they had purchased hospitals, churches, schools, nursing homes, parking garages, and port facilities. Information is not available on stock company activity in such securities.

Factors influencing purchases

Only the survey of independent companies provided information regarding the factors influencing purchases of obligations of private, nonprofit organizations. This survey reported that two companies indicated that ratings are not a major factor and the other company indicated that usually such issues are not rated. One company indicated that use of proceeds and geographical location are important considerations, another company indicated that debt service capability of borrower is of primary concern rather than the intended use of proceeds. Four companies indicated that public relations considerations had no influence whatsoever.

B. PORTFOLIO CONSIDERATIONS

1. GUIDELINES FOR MUNICIPAL SECURITIES

The survey on mutual companies reported that there are no particular guidelines regarding holdings of State-municipal bonds in major mutual companies. In general, holdings at any particular period are related directly to a company's tax situation.

For the stock companies it was noted that as a guideline, insurance liabilities are generally covered by fixed income securities, cash and agents' balances. Investment in fixed income securities is primarily in U.S. Governments, corporates, and municipals. The relative proportions in these categories depend on the tax position and investment philosophy of the individual companies.

In response to the question regarding the use of guidelines the survey of independent companies stated that six companies responded with a "no," and nine companies indicated a "yes" in their response. It appears that the guidelines are established to maximize after-tax investment return. All guidelines are highly flexible and depend upon the need for tax exemptions related to underwriting profit and taxable portfolio income.

2. COMPETITION WITH MORTGAGE LOANS

Inasmuch as fire and casualty insurance companies do not make significant investments in mortgage loans, the surveys found that there is little basis for comparison or that mortgages are not competitive with municipal securities.

3. ATTRACTIVENESS OF TAX EXEMPT SECURITIES

The stock companies advised that as a class, municipal securities already have sufficient attributes to make them attractive as investments for the fire and casualty insurance industry. There has been considerable improvement since World War II in the responsibility of the municipal bond underwriters and on the part of the issuing authorities to improve and safeguard their credit standing.