

The mutual companies noted that municipal securities are attractive as investments when they yield more than the after-tax yield on taxable securities.

For the independent companies it was found that many different responses were received to this question but they all tend to indicate that this type of yardstick is not used. It appears that municipal securities are attractive in direct proportion to a company's achievement of an underwriting profit. Companies will purchase municipal securities at any level where the net return is greater than the after tax yield on taxable loans and investments.

a. *Making municipals securities more attractive*

The survey of mutual companies found that there is a general feeling that nothing is needed to make municipal bonds more attractive as investments. Greater uniformity or standardization of municipal financial and reporting practices might be helpful. Some think clarification of the status of certain categories of municipal bonds would be useful. A ruling with regard to the Federal Government's attitude on industrial revenue type bonds would be a guide for the companies. Sometimes there seems a tendency to penalize owners of municipal bonds, making them less attractive, such as recent attempts to disallow a certain portion of investment expense based on the proportion of municipal bonds held. This reflects a tendency to pick away at the edges of the tax-exempt concept.

The survey of independent companies provided such suggestions to improve the attractiveness of municipal securities as:

Better presentation of information to aid in selectivity.

Longer and better call protection.

Continuation of a high yield.

Remove the tax liability on discount purchases.

The basic stress is on marketability—we would rather see general obligation bonds issued on a "term" basis rather than serial, with a sinking fund. We believe one large maturity year—rather than serials would be more marketable.

Interest receipts on a single payment basis; or larger principal sums on a single bond.

Better market set in case of liquidation.

More realistic handling for registered securities.

Stability in the income tax area.

b. *Use of Federal guarantee*

Mutual fire and casualty insurance company investment officers responding expressed no enthusiasm for Federal guarantees of municipal securities. They say they have no reason to doubt their continuing ability to select sound municipal obligations which are nonguaranteed. Municipal securities have sufficient quality now, and the power of local taxation is more than enough to insure debt service; local government is better equipped than Federal to determine needs. Defaults among municipal borrowers are negligible due to vigilance of municipalities themselves, municipal bond dealers, legal counsel, and institutional buyers to keep them sound and secure so they will be retired at maturity. The municipal market now allows the investor to direct buying in any one of a number of areas. If an insurance company desires a higher risk, higher income type of portfolio, the