

company is free to move in that direction. Probably municipals would become less attractive on a relative basis, since a Federal guarantee would increase quality and decrease return on municipal securities. This would have the effect of equating returns closer to a corporate security in terms of after-tax income, and it seems doubtful that there would be much benefit to the municipal bond market. There might be certain social reasons why a government guarantee might be considered, but a guarantee might do more harm than good. A Federal Government guarantee might make some issues more attractive. The guaranteed issues would tend to sell on a parity with other guaranteed issues such as FHA's. How attractive they would be to the purchaser would still depend on his tax situation, and the yields on alternative investments. A Federal guarantee might be helpful to very marginal issues, or issuers with bad political situations.

The stock companies advised that the credit of most State and political subdivisions is acceptable without the need for a U.S. Government guarantee. From a credit point of view, it would improve their quality; but to the extent such guarantees reduce the rate of return or yield, they would actually become less attractive.

With respect to the independent companies it was reported that only three companies indicated "yes" in responding to this question and one of these responses stated that this would be to a very limited extent. One company indicated the Federal Government guarantee would make municipal securities less attractive to them because it would give all municipal securities a high degree of uniformity in quality, yield, and call protection. Most municipal bonds are now rated in the upper four investment grades. A Federal Government guarantee could increase the price and reduce the yield to the point where they might be unattractive to a large number of investors.

Actual responses of individual independent companies included:

This company would prefer to have the broader selectivity in municipals they now see in terms of maturity, quality, call protection, and yield so that they can select those items best suited to their investment objectives rather than be limited to a uniform yielding obligation which is Government guaranteed.

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This will not stop defaults from taking place. It will only mean that more of our tax dollars will go to support this guarantee. This might lead to certain municipalities going into projects beyond what they can logically support. I doubt that issues that appear to be questionable without a Federal Government guarantee would be more attracted to an investor with it.

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For the same reason that public housing administration bonds have lower yields than other municipals.

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In the quality this company buys, there is sufficient security.

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This company feels they would probably soon lose their tax-free status.

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A Federal guarantee would lower rates—removing a lot of income reward for judgment.