

such as stocks, corporate bonds, Government bonds, or other non-guaranteed tax-exempt bonds. As to level of interest rates, a guess would be that they would tend to sell on a basis comparable with Federal agency obligations with variations depending upon the terms (coupon, maturity, call provision, et cetera) of the particular issue. One reason for so supposing is that as "guaranteed by the Federal Government" they would tend to be classified as such by the investor. It must be considered that such a move to guarantee municipal obligations in exchange for their present tax exemption might reduce the supply of tax-exempt securities to such an extent that the general market would be hard to appraise. There would be an increase in taxable bonds, and possibly a tendency for such yields to rise, including governments. If some tax-exempt securities remain, they may attain some scarcity value, and their yields might tend to decline relative to taxables. The particular investor would still have to choose from the alternatives prevailing at the time, and presumably he would tend to favor those investments providing the best net return after taxes. The actual effect of such a proposal cannot be determined, since so much would depend upon relativities at various points in bond markets.

With respect to the question regarding substituting a Federal guarantee in lieu of tax exemption for municipal securities, individual independent companies responded:

Such securities would then differ little from a Government agency obligation which is guaranteed. Such security would have little attraction to us as do Government agency obligations now outstanding.

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Attractive, yes, but at a much higher interest rate, slightly higher than the rate for U.S. Government bonds.

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We would need too much additional yield to offset the loss in taxes—hence there would undoubtedly be a net loss.

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If a Federal guarantee were made and interest on municipal bonds became taxable, such bonds would be no more attractive as investments than U.S. Government bonds. It depends on the spread, if any, between straight Government obligations and such guaranteed obligations. It is quite possible that more favorable investments could be made in taxable bonds or corporations or in mortgage loans.

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It would make it less attractive.

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We believe "taxability" would offset any advantage gained by the guarantee unless interest rates on municipals were substantially better than rates on Federal Government obligations and at least as good as those in Federal agency obligations.

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In such a case municipal securities would have to compete with all high-grade taxable securities, and would lose their attractiveness to tax-exempt purchasers.