

tions of a community total a certain figure, some of the rating services do not issue ratings. Unrated bonds are, therefore, frequently purchased but these would be concentrated primarily in issues of communities with which the buyer is familiar, except in the case of revenue bonds which are a special case. These, even when issued by well-known entities, are frequently not rated, especially when a fairly lengthy construction period is involved.

Some purchases of issues with ratings below the top four are made. It has been estimated that 5 to 10 percent of the dollar amount purchased each year are rated below the top four categories and another 10 to 15 percent unrated. The amount of unrated issues may be far larger—as high as 40 percent—when banks buy the issues of entities in a given area in which a larger than usual percentage of all issues is unrated. Reference to table 4 above shows that there were about \$7.6 million of unrated bonds in the fund reported. This was 18 percent of the revenue issues in the fund and 8.6 percent of the total fund. Also, it may be noted that \$8.2 million, or about 9.3 percent of the fund, was in bonds rated below the top four grades.

Use of proceeds

The purpose of issue of general obligation bonds has comparatively little influence on whether or not the purchase is made. The first considerations are the financial strength of the issuer and the specific terms of the issue. If the credit of the issuer is weak, bonds issued for unimportant purposes probably will be avoided. However, in the case of revenue bonds, the purpose of issue is very important. In general, bonds issued to finance water, sewer, and electric operations are preferred over auditorium, stadium, resort areas, bridge, tunnel, and toll road issues. Many trust departments do not believe revenue or general obligation bonds should be issued for the purpose of constructing industrial plants; and they have a general policy of not buying them. However, those trust department which do buy them carefully weigh the type of facility to be constructed and the financial strength of the proposed user of the facility.

Geographic location

The geographic location of a borrower per se does not have a great deal to do with the investment decisions of trust departments if the underlying credit is judged to be good. Since diversification is one of the desirable features for a tax-exempt bond fund or any single account investment in State and municipal securities, trustees will tend to seek diversification on a geographic basis as well as in other ways. They will, of course, consider the protection provided by State laws for bondholders, and there are some special geographic considerations:

1. Small local issues are likely to be taken by banks in the local areas because it is difficult for small issues to tap the national market.

2. In some cases, where the income from State and local securities in a given State is exempt from income taxes in that State, the bonds issued by entities within the State are likely to be attractive for trust accounts for residents. The States generally tax the income on each other's securities, but do not tax their own securities.

Table 5 shows the geographic distribution, by States, of securities held in three selected tax-exempt bond funds.