marily can limit their investments to direct obligations of the U.S. Government which entail no credit risk.

A Federal Government guarantee might be used selectively, for example, to help finance urban transit systems. Such a guarantee seems to have been quite successful in other types of projects.

We have referred above to mortgages on homes for the elderly and on nursing homes which have, in effect, a Government guarantee in the form of FHA insurance. This insurance has undoubtedly made it feasible for private capital to go into such projects. So it has been also in the case of housing authority bonds which are for all practical purposes guaranteed by the Federal Government through the Public Housing Administration. In 1964 there were $4 billion of such bonds held by private investors.[11] It is clear that a substantial but not definitely known amount of these bonds are held by banks for personal trust accounts. Because of the Federal Government guarantee on these bonds they generally yield somewhat less than other local government and agency securities. Strangely, the yields on issues from different parts of the country will vary, despite the guarantee, for probably purely psychological reasons, with investors favoring the better known housing authorities. It would seem reasonable to expect yields on State and local government securities—with no tax exemption and a Federal Government guarantee—to yield about the same as agency issues now guaranteed.

C. Prospective Loans and Investments

The accompanying chart indicates the amount of State and local government securities held by personal trusts for the years 1945 through 1964 and shows various projections to 1975 based on different periods of years between 1945 and 1965 as set forth on the chart. These projections were made assuming continuance of tax exemption and continuance of the present system of financing State and local government needs. If there should be some significant change in State and local financing such as, for example, a direct allocation by Federal Government of tax revenue back to the several States, the volume of tax-exempt securities might change substantially and all projections based on past experience would be in error.

[11] "Housing and Home Finance Agency, 1964 report," p. 254.