The original documents are located in Box 117, folder “Bonds” of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

November 5, 1975

SUBJECT: SUMMARY OF YESTERDAY'S BOND REFERANDUM VOTES

Most of yesterday's bond initiatives went down to defeat. Do you have any reaction to this trend?

GUIDANCE: Under most State Constitutions, borrowing on the general obligation credit of a State or locality most be approved by the voters. It appears that the voters have simply said we do not want the extra services that this borrowing is going to finance.

Voters have decided that this is not the time to make substantial new borrowing commitments and the voters have denied the States or localities in the majority of instances the right to borrow at this time.

The following bond initiatives have been reported in so far:

DEFEATED

Ohio $4.5B - capital improvement and transportation bonds

NY $250M - low and moderate income housing bonds

NJ $1.0B - various type bonds

VA $225M - metro bonds

MD/Balt. $6M - parking bonds

APPROVED

Maine $15M -

MD/Balt. $30M - housing

OH/Columbus-$235M - sewer, water, and general purpose bonds

OH/Cincinnati - $12M

VA/Arlington Co. - $21M - sewer bonds

JGC

November 5, 1975

SUBJECT: UPDATE ON ~~BOND~~ MARKET ACTIVITY

Ron, since you are such an expert in the bond markets, could you give us an update on the recent trends or activity level of the bond market in recent days?

GUIDANCE: The market was off slightly in active trading yesterday. Traders attribute this decline to psychological factors, primarily uncertainty regarding the New York City situation.

As we have said many times, uncertainty is a phenomenon the markets do not tolerate well, and that conclusion is reflected in yesterday's market behavior.

Do you still believe that the bond markets have already discounted a New York default?

GUIDANCE: While we continue to feel that the markets have discounted the New York City situation to a significant degree, we remain concerned that unjustified predictions of doom could result in further unsettlement in the bond markets.

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OCTOBER 21, 1975

SUBJECT: MUNICIPAL BOND MARKETS

Does the Administration still believe that the municipal bond markets will not be affected by a possible New York default?

GUIDANCE: For the last several weeks, the municipal bond markets have been extremely strong with yields, borrowing costs to the cities, dropping substantially from those rates prevailing in September. In other words, the market is going up.

Why would you say the municipal bond markets have been going up with the threat of New York default hanging over its head?

GUIDANCE: Investors obviously recognize that municipal credits around the country were basically sound. There were healthy economic indicators, the stock market was relatively strong during this period, as was the corporate bond market. The municipal market is just one of our financial markets and there was no reason why it should have not been as strong as other markets.

What happened to the municipal bond market on Friday?

GUIDANCE: There was very little activity on Friday and I think some of that can be attributed to the uncertainty prevailing. Also, they tell me that Friday is usually a slow day with people leaving for long weekends, etc. I might just point out one anecdote that was told to me by a fellow at the Treasury. One dealer firm in New York was convinced that Mr. Shanker would come through and that default would be averted, and that there would be a rally in the bond markets in the afternoon, so they spent the entire morning trying to buy bonds cheap in hopes of making a quick killing when the market went up on news of default being averted. The firm could not buy any bonds. There was no panic selling. No one was trying to get out of the market. So it appears that the potential of a default did not have that much influence on investors' behavior. One would expect that if there were any belief that default would be devastating, then investors would have been very anxious to sell on Friday, but there was very, very little selling in the market.

What happened to the municipal bond market yesterday?

GUIDANCE: Yesterday was a quiet day, but they tell me that Monday is like Friday and tends to be quiet in the municipal market. I'm also told that one of the primary reasons for lack of activity yesterday is that dealers were waiting for some major bond sales later in the week. For example, Maryland is coming to the market tomorrow. What trading did take place yesterday was quite strong with credits trading up slightly during the day, which means that yields were dropping and the dollar price of bonds was getting higher.

Isn't it true that Oregon stopped its recent offering?

GUIDANCE: I am told that the Oregon offering is going strong and that Continental Bank is offering the recent Oregon issue with 1985 maturity at interest costs of 5.15. Oregon is double AA credit. The average yield last week of AA credits with ten year maturity was 5.40. So, in other words, Oregon is trading 25 basis points higher than the average. This means it is a better issue, with lower costs.

I might just point out that by comparison, this is 40-50% lower than the yield on comparably-rated corporate issues. Traditionally, the spread between tax-exempts and taxables should be about 30%. So Oregon is substantially out-performing the corporate market.

In summary, we find that there is no serious disruption in the bond markets. It is clear that the uncertainty is not good for the markets.

The stock market very readily moves up or down 20 points on any given day and it didn't come close to that on Friday. If one of the major banks had raised or lowered it prime rate, you would have had far more significant impact on the stock market than from New York default.

JGC

MUNICIPAL BOND INSURANCE

Q. Would you consider some form of Government insurance, such as the Federal Deposit Insurance Corporation provides individual bank depositors, for municipal bonds.

A. No. It is one thing to insure the deposits in commercial banks which are licensed and closely regulated by the Federal Government. It is quite another thing to ask the taxpayers all over the country to promise municipal bond holders that they will assume all the risks for the possible mismanagement of a local government's affairs.

I also am opposed to such a plan because it would distort the federal system. For with such a program would come the necessity for tight regulation. (Just ask any contractor who has built a house to be eligible for an FHA loan how tight that regulation can be.) And such tight regulation would mean the federal government stepping in on what should be local decisions.

JBS/9-29-75