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DIVISION OF INVESTMENT
MANAGEMENT REGULATION

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November 13, 1975

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Securities and Exchange Commission
Attention: Mr. Sydney H. Mendelsohn,
Assistant Director
Division of Investment Management
Regulation
Washington, D.C. 20549

Gentlemen:

You are studying the matter of the value of municipal bond insurance to municipal bond funds and have asked for comments from the various interested parties. Foley & Lardner is counsel to MGIC Investment Corp., of which MGIC Indemnity Corp. is a wholly-owned subsidiary. So this letter is written on behalf of MGIC Indemnity Corp. which is, to our knowledge, the only company presently offering such insurance to bond funds.

The basis of your concern, as we understand it, is the matter of assigning a value to the insurance when and if insured portfolio bonds of a Fund are in default, or are threatened with default, and their market value is accordingly depressed. You maintain that selling unitholders are now denied such value, to the extent that it may exist.

It is our feeling that this quest is a fruitless one. The insurance obviously has theoretical value under such circumstances but, just as obvious, has no practical market value because it is not subject to monetary evaluation. If the event insured against never occurs, the insurance has never had a tangible value. Because a feature of the policies written by this company is that the insurance terminates if bonds are sold from the Fund's portfolio, even if the event insured against occurs, the value of the insurance remains indeterminable since it is contingent upon unpredictable future events.

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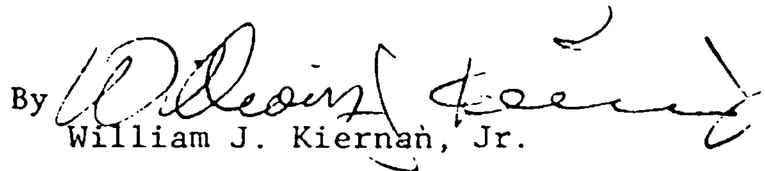
Since we feel that the insurance cannot be assigned a numeric value, it is our belief that the relevant answer to the question raised here lies in appropriate disclosures in the prospectuses of those Funds which have insured portfolios. It is our feeling that sufficient disclosure is now being given to this matter in the prospectuses which we have reviewed. However, we certainly understand that further statements could be requested.

Our conclusion that the answer to this question is one of disclosure, rather than a fruitless effort to quantify the value of the insurance, is reinforced by the fact that the impact on any particular unitholder of a zero value approach is unpredictable and, in all probability, insignificant in amount.

Both by reason of the insurer's underwriting standards and the diversification policies of Bond Fund sponsors, it it unlikely that anything greater than a fraction of the total portfolio of a Bond Fund would ever be in default at any given time. Even after default, the bonds involved will be assigned some value in the marketplace. The difference between the market value of defaulted bonds and the value which such bonds would have in the Fund portfolio with the benefit of insurance is likely to be small in relation to the value of the entire portfolio. In turn, this indicates that the unitholder is individually affected to only a nominal extent if a portfolio issue should default. This effect is further described in the attachment hereto.

Very truly yours,

FOLEY & LARDNER

By 
William J. Kiernan, Jr.