Mortgage Bankers Association of America
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Dr. Mark J. Riedy
Executive Vice President

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The Honorable Harold Williams
Chairman
Securities & Exchange Commission
500 North Capitol Street
Washington, D.C. 20001

Dear Mr. Chairman:

The Mortgage Bankers Association of America, whose nearly 2,000 members issue the vast majority of GNMA mortgage backed securities, welcomes your statement of November 7 looking toward an end to the SEC moratorium on expanded options trading. We would hope that the Commission will then consider, not only expansion of listed options on equities, but also the inauguration of exchange traded puts and calls on GNMA mortgage backed securities, a fixed-income government security.

Optional delivery vehicles are a vital part of traditional mortgage finance. They are instrumental to a firm's ability to offer consumers competitive rates and are especially important in the sale and financing of new homes. For example, during 1978, $12.3 billion in residential mortgages were put to FNMA as the result of optional delivery commitments sold under its regular four month auction and its 12 month convertible standby program. Considerable additional dollar volume was hedged via whole loan, GNMA, and FHLMC standby commitments with dealers and investors.

In recent months, however, the availability of standby coverage has been sharply curtailed, first through restrictions on the ability of financial institutions to invest in standbys, and more recently by FNMA's decision—as a result of market conditions—to suspend its 12 month convertible standby program. Without optional delivery coverage, mortgage lenders can not offer builders permanent financing take-outs on new residential construction. Without take-outs, banks and other lenders are unwilling to provide construction financing to builders. Optional delivery mortgage sales vehicles are thus an integral part of the financing of new residential construction. This sector is of prime importance to the economy and will face an especially difficult challenge in the decade ahead as it attempts to expand the housing stock to accommodate demand from the post World War II baby boom generation. Exchange traded puts and calls on GNMA securities can play a key role in facilitating that process and hence contribute to capital information.

Both in terms of economic utility and commercial usage there is a strong case for options on GNMAs—more so than most other proposed options contracts. Several exchanges have developed prototype contract outlines, but implementation has not been possible because of regulatory impasses at both the Commodity Futures Trading Commission and The Securities Exchange Commission. We hope that the SEC, at least, will soon be ready to give these proposals the serious consideration they deserve.

Should you or your staff care to discuss the concept in more detail we would be happy to meet with you.

Sincerely,

Mark J. Riedy
Executive Vice President

BQ/mdh