



DIVISION OF
CORPORATION FINANCE

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

June 30, 1983

Mr. Scott Bernstein
Senate Banking Committee
SD 541
Washington, D.C. 20510

Dear Mr. Bernstein:

As requested in our telephone conversation on June 28, I am writing this letter to provide you with a brief summary of the background and purpose of Section 4(5) of the Securities Act of 1933 ("1933 Act").

Section 4(5) grew out of a desire by the Federal Home Loan Mortgage Corporation ("Freddy Mac") to promote a strong secondary market in mortgages. At the time (circa 1973), Freddy Mac believed that the best means to do this would be to create a national market system (the "AMMINET" system) for the buying and selling of mortgages originated by regulated savings and loan associations and similar institutions. The thought was that the AMMINET system would provide a ready means for institutions with excess funds to invest them in mortgages originated by other institutions that were seeking to free up funds for further mortgage lending. The difficulty with this concept under the 1933 Act was that the mortgages, packaged as they were with servicing included, appeared to be securities, the offer and sale of which on a nationwide basis would not be exempt from registration under the existing statute.

In order to allow the AMMINET system to go forward without undue impediments in the 1933 Act, the Commission's staff worked with representatives of Freddy Mac in structuring an acceptable exemption from the registration requirements of the Act. The effort culminated in the enactment of Section 4(5) in 1975. A major consideration in the Commission's determination to support Section 4(5) was the fact that it would not be available for offers and sales to the general public, but instead would be restricted generally to transactions involving institutions of the type expected to be members of the AMMINET system. Requirements such as a minimum purchase price of \$250,000 and a settlement period not exceeding 60 days were intended to provide some assurance that members of the general public would not be targets of sellers under the exemption.

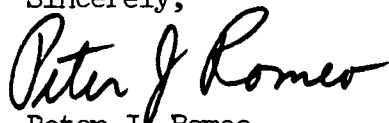
It was thought advisable to limit the exemption to institutional purchasers because such entities do not necessarily need the protections afforded by the registration process. Their size and expertise generally are sufficient to enable them to obtain all the information that otherwise would be provided by registration. Members of the general public, on the other hand, often lack the sophistication or the bargaining power to obtain all of the information required for an

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informed investment decision, in the absence of registration. Accordingly, the limitations on purchasers set forth in Section 4(5) are critical elements of the exemption, the reduction or elimination of which could have the unwelcome effect of denying the benefits of registration to the general public upon the sale of mortgage securities.

I hope that the foregoing summary is helpful to you. If I can be of any further assistance, please feel free to call me at 272-2573.

Sincerely,

A handwritten signature in cursive script that reads "Peter J. Romeo". The signature is written in black ink and is positioned above the typed name and title.

Peter J. Romeo
Chief Counsel