



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/YG:jm

4660

2/28/85

FROM: Department of Legal Services

TO : Regional Director, Region I (Boston)

SUBJ: ~~Investments~~

REF : (a) Regional Director, Region I (Boston) memo, I/MJF:rg, dated January 25, 1985; same subj.

ENCL: (1) Copy of Director, Department of Programs memo dated February 15, 1985; subj: Debt by the Commonwealth of Puerto Rico

1. This is in response to your memo (reference (a)), in which you ask whether the Commonwealth of Puerto Rico falls within the definition of "State" for the purposes of Section 107(7)(K) of the FCU Act. For reasons which follow, we have concluded that, for the purposes of Section 107(7)(K), the term "State" does include the Commonwealth of Puerto Rico.

2. As you already know, Section 107 does not define the term "State." Further, the legislative history to the amendment which added subsection (7)(K) does not define nor discuss the appropriate interpretation of the term "State." Consequently, we have looked to the general definition provisions in the Act and the Regulations for interpretative guidance.

4. Section 101(6) of the FCU Act defines "state credit union" as a credit union organized and operated according to the laws of any State, the District of Columbia, the several territories and possessions of the United States, the Panama Canal Zone, or the Commonwealth of Puerto Rico.

5. Section 700.1(g) of the Rules and Regulations provides:

"State" means a State of the United States, the District of Columbia, any of the several territories and possessions of the United States and the Commonwealth of Puerto Rico.

6. Although Section 101(6) of the FCU Act does not specifically define the term "State," the combination of Section 700.1(g) and the definition of a state credit union in Section 101(6) lend

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support to a conclusion that the term "State" in Section 107(7)(K) does include the Commonwealth of Puerto Rico. Further, there is no indication of a contrary interpretation. Thus, we may conclude that the term "State" in Section 107(7)(K) does include the Commonwealth of Puerto Rico.

7. Enclosure (1) provides input on the "market considerations" that need also be understood before these types of investments are made.

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STEVEN BISKER
Assistant General Counsel

cc: All RD's
Dept. of S&E



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WASHINGTON, D.C. 20456

February 15, 1985

FROM: Director, Department of Programs

TO: Director, Department of Legal Services

SUBJ: Debt Issued by the Commonwealth of Puerto Rico

1. As a follow-up to our recent conversation, I am not aware of any significant market factors that would cause us to exclude the debt obligations of the Commonwealth of Puerto Rico in the definition of "any State or political subdivision."
2. In responding to the inquiry you received, it would be beneficial to point out a few market considerations in addition to your legal opinion. The credit rating of these bonds can vary depending upon the source of repayment. For example, the Housing Authority Bonds currently carry Moody's rating of AA, whereas the Power Revenue Bonds are Baa-1, the medium grade rating generally accepted as the lowest "investment grade." Since these issues are exempt from state as well as federal taxes, the yields would be less than other investment options available to credit unions. A 10-year Baa municipal bond is trading about two full percentage points below a 10-year Treasury issue. These factors should be considered in evaluating the debt issues of the Commonwealth of Puerto Rico for credit union investments.
3. If you should need additional information, please contact Ed Dupcak.


C. W. FILSON