



NATIONAL CREDIT UNION ADMINISTRATION

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WASHINGTON, D.C. 20456

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3/22/85

Charles W. Miller, Esq.
Olde & Co., Inc.
The Olde Building
735 Griswold Street
Detroit, MI 48226

Dear Mr. Miller:

This is in response to your letter of March 4, 1985, concerning the permissibility of Federal credit union (FCU) investment in the U.S. Government Securities Series of the Franklin Custodian Funds (U.S. Series) (prospectus dated February 1, 1985).

Investments for FCU's are governed by Sections 107(7) and (8) of the FCU Act, 12 U.S.C. §§107(7) and (8), and Part 703 of the NCUA Regulations, 12 C.F.R. Part 703. Although not expressly stated in these provisions, it is the opinion of this Office that investments in mutual funds are legal for FCU's if all of the investments of the fund are legal investments if made directly by the FCU.

As stated in the prospectus, the assets of the U.S. Series may only be invested in securities which are obligations of the U.S. Government or its instrumentalities. Investments are made in obligations of instrumentalities only where such obligations are guaranteed by the U.S. Government. Such securities are permissible for FCU investment pursuant to Section 107(7)(B) of the FCU Act, 12 U.S.C. §1757(7)(B). Currently, the assets of the U.S. Series are invested only in obligations of the Government National Mortgage Association (GNMA). These investments are expressly authorized for FCU's by Section 107(7)(E) of the FCU Act, 12 U.S.C. §1757(7)(E).

In light of the above, it is the opinion of this Office that the U.S. Series is a legal investment for FCU's. This should not be interpreted or represented as NCUA's endorsement, recommendation, or approval of the U.S. Series. It is merely our opinion that the investment is legal for FCU's. Any communication with FCU's concerning our opinion must clearly state this distinction.

There are two additional factors which FCU's should consider before investing in the U.S. Series. First, the U.S. Series is a load fund requiring a percentage sales charge based on investment in it. FCU's will have to pay a sales charge each time they invest in the U.S. Series. These charges must be booked as a



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current expense. Second, since the U.S. Series consists of GNMA's which are extremely sensitive to fluctuation of interest rates, the U.S. Series may be a high risk investment, especially in the short term. We suggest that FCU's be cautioned accordingly.

I hope that we have been of assistance.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel