



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/HMU:cch
4660

MAY 24 1985

Mr. Kevin Cooney
Investment Product Marketing Division
Merrill Lynch, Pierce, Fenner & Smith, Inc.
One Liberty Plaza
165 Broadway
New York, NY 10080

Dear Mr. Cooney:

This is in response to your inquiry concerning the permissibility of Federal credit union (FCU) investment in Sears Mortgage GNMA-Backed Mortgage Pass-Through Certificates (prospectus and prospectus supplement dated February 15, 1984) (Series).

As you may know, Section 107(7)(E) of the FCU Act (12 U.S.C. 1757(7)(E)), provides that an instrument fully guaranteed as to principal and interest by the Government National Mortgage Association (GNMA) is a permissible investment for an FCU. Although not expressly stated in the FCU Act, it is the opinion of this Office that investment in a trust fund or a mutual fund is legal for an FCU if all investments and investment activities of the fund would be legal if made directly by the FCU.

The Series is neither a trust fund nor a mutual fund. The Series is made up of certificates issued pursuant to a custody agreement which entitles the holders of the certificates (investors in the Series) to receive, pro rata in accordance with their fractional interests, the pass-through of payments of principal and interest in respect to the GNMA securities which make up the Series. According to the prospectus, a certificateholder will be considered as owning an undivided interest in a part of the principal and interest of the pools of mortgages evidenced by the GNMA securities. Since GNMA's are a permissible investment for an FCU, the Sears Mortgage Series is comprised exclusively of GNMA's, and certificateholders of the Series are beneficial owners of the GNMA securities, we apply the same analysis to the Sears Mortgage Series as to a trust fund or mutual fund. Hence, the Series is a permissible investment for an FCU.

This should not be interpreted or represented as NCUA's endorsement, recommendation, or approval of the Sears Mortgage 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.

FOIA file: Vol. I, E. 1. Permissible Investment



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Two additional issues warrant discussion. Generally accepted accounting principles and Section 2040.1.4 of the Accounting Manual for Federal Credit Unions require that marketable securities be recorded at the lower of cost or market value on the balance sheet. The amount of the cost of the marketable security which represents the "broker" fee or commission, if any, may be added to the cost of the mutual or trust fund or Series investment and recorded on the books as of the date of purchase. Secondly, at the end of each accounting period, an FCU should determine the net asset value of a share in the mutual or trust fund or Series and adjust to the lower of cost or market.

Sincerely,

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STEVEN R. BISKER
Assistant General Counsel