NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

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MAY 24 1985

Mr. Joseph H. Bridges
Comptroller, Tower Federal
Credit Union
Box 123
Annapolis Junction, MD 20701

Dear Mr. Bridges:

This is in response to your letter of March 20, 1985, concerning Federal credit union (FCU) valuation of trust and mutual fund investments.

As noted in your letter, in our letter dated April 24, 1984, we stated that, while at that time the valuation of a GNMA trust at acquisition cost without recognition of changes in market value was permissible, we were studying the issue. We have just completed our review of this matter. As more fully discussed below, we have concluded that FCU's must determine the net asset value of a share in a mutual fund (or trust) at the end of each accounting period, and adjust the investment to the lower of cost or market.

Unlike a direct investment in government securities, shares in a mutual fund or trust fund do not have a stated value at maturity date. The value of shares in such funds changes based on portfolio holdings and market conditions. Therefore, market conditions play a more significant role in determining the ultimate recoverable value of a fund than an investment with a specific maturity date. 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 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 investment and recorded on the books as of the day of purchase. In addition, at the end of each accounting period, an FCU should determine the net asset value of a share in the trust or mutual fund and adjust the investment to the lower of cost or market.

Another issue has recently been brought to our attention concerning the involvement of trust and mutual funds in repurchase transactions. As stated in the prospectus for the Federated Short Intermediate Government Trust (Trust), the Trust may engage in repurchase transactions with banks or brokers. The Trust or its custodian will take possession of the obligations

Fold I.D. Val T.F.? Mutual or trust fund subject to repurchase transactions. Our regulatory requirement for "investment-type" repurchase transactions (see 12 C.F.R. §703.2(1)(1)) will be satisfied in most instances because of the possession requirement of the Trust. If, however, the Trust is involved in repurchase transactions with its own custodian, where the custodian is the borrower (receives monies from the Trust for its securities and agrees to repurchase the securities at a specified price and time), in order to satisfy the requirement of Section 703.2(1)(1), either the Trust itself must take possession of the securities or a third party custodian (a custodian not involved in the repurchase transaction) must hold the securities under a written bailment for hire contract, or the Trust must be recorded as the owner of the securities through the Federal Reserve Book Entry System.

We hope that we have been of assistance.

Sincerely,

/S/

STEVEN R. BISKER
Assistant General Counsel