



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

LS/HMU:cch

4660

8/8/85

Karen L. Rahnasto, Esq.  
Vice President and Senior Attorney  
The Putnam Management Company, Inc.  
One Post Office Square  
Boston, MA 02109

Dear Ms. Rahnasto:

This is in response to your recent telephone conversations with and letter of July 16, 1985, to Hattie Ulan of this Office, concerning the permissibility of Federal credit union (FCU) investment in the Putnam U.S. Government Guaranteed Securities Income Trust (Trust), prospectus dated April 1, 1985.

Sections 107(7) and (8) of the Federal Credit Union Act (12 U.S.C. §§1757(7) and (8)) and Part 703 of the NCUA Rules and Regulations (12 C.F.R. Part 703) are the pertinent provisions of Federal law regulating FCU investments and deposits. Although not expressly stated in these provisions, we have previously stated that investments in mutual funds or trusts are permissible for FCU's if all of the investments and investment practices of the fund or trust are permissible if made directly by the FCU.

According to the prospectus, the Trust may enter into repurchase agreements. Repurchase agreements that are not entered into with members of the FCU or with those financial institutions specified in Section 703.2 of the Rules and Regulations must be investment-type repurchase agreements in compliance with Sections 703.2(1)(1) and 703.3(d) of the NCUA Rules and Regulations. These requirements are met if the Trust is in compliance with the Investment Company Act of 1940, and the regulations and interpretations (Investment Act) issued pursuant thereto, provided the Trust does not enter into repurchase agreements with its own custodian. According to your conversation with Ms. Ulan, the Trust is a registered management company subject to the Investment Act. The Investment Act requires a registered management company to take actual possession of securities, or use of a custodian with certain restrictions, or use of the book entry system when it is involved in repurchase agreements. According to your July 16 letter, the Trust does not engage in repurchase agreements with its own custodian. Hence, it is our opinion that our regulatory requirements are satisfied provided the Trust is in compliance with the Investment Act.

FOIA file: Vol. I, E, 2 - Trust Investment



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We also had some concern with language on page seven of the prospectus under the heading "Limiting investment risk." Although page five of the prospectus states that all Trust securities are backed by the full faith and credit of the United States, page seven indicates that there might be some investment in private industries and companies that may not be backed by the full faith and credit of the United States. You made clear in your conversation with Ms. Ulan that the language on page seven of the prospectus is for the purpose of compliance with certain state regulatory requirements and that the Trust only invests in securities backed by the full faith and credit of the United States government as noted on page 3 of the prospectus.

Based on the above, it is our opinion that the Trust is a permissible investment for FCU's. This should not be interpreted or represented as NCUA's endorsement, recommendation, or approval of the Trust. It is merely our opinion that the Trust is legal for FCU's if the above conditions are met. Any communication with FCU's concerning our opinion must clearly state this distinction.

Thank you for your cooperation in this matter. We hope that we have been of assistance.

Sincerely,

A handwritten signature in black ink, appearing to be the initials 'S' followed by a vertical line, representing Steven R. Bisker.

STEVEN R. BISKER  
Assistant General Counsel