



NATIONAL CREDIT UNION ADMINISTRATION

WASHINGTON, D.C. 20456

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12/16/85

OFFICE OF GENERAL COUNSEL

Robert N. McKay, Esquire
Brown, Wood, Ivey, Mitchell &
Petty
One World Trade Center
New York, NY 10048

Dear Mr. McKay:

This is in response to your letter of October 31, 1985, concerning the permissibility of Federal credit union (FCU) investment in the ~~6.35%~~ Japanese Yen Debentures Due 1992, issued by the Federal National Mortgage Association (FNMA) as described in the Offering Circular dated October 17, 1985 (Debentures).

As noted in your letter, Section 107(7)(E) of the FCU Act (12 U.S.C. 1757(7)(E)) provides, in part, that an FCU may invest in obligations issued by FNMA. Neither the FCU Act nor the National Credit Union Administration Regulations limit the currency denomination of permitted investments. Therefore, it is our opinion that the Debentures are a permissible investment for FCU's pursuant to Section 107(7)(E) of the FCU Act.

You also ask for our confirmation that the Debentures are a permissible investment for FCU's "without limitation to percentage of surplus." Certain types of FCU investments are limited by statute to a certain portion of an FCU's unimpaired capital and surplus. For example, Section 107(7)(I) of the FCU Act limits an FCU's investments in credit union service organizations to one per centum of its paid-in and unimpaired capital and surplus and Section 107(7)(K) limits investments in municipal obligations of any one issuer (exclusive of general obligations of the issuer) to ten per centum of an FCU's unimpaired capital and surplus. No such limitation is found in an FCU's authority to invest in obligations of FNMA pursuant to Section 107(7)(E) of the FCU Act.

There is some risk in investments denominated in foreign currencies that is not present in U.S. denominated obligations. As the Prospectus clearly states, "In recent years there have been significant changes in the relative value of the dollar and the Japanese yen. Purchasers of the Debentures will be subject to foreign exchange risk. . . ." This could raise safety and soundness issues depending upon the exposure and financial

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strength of the FCU investing in the Debentures. In addition, if the Debentures are issued at par, the 6.35% yield with maturity in 1992 is nearly 400 basis points below a comparable U.S. Treasury security. It therefore appears that the sole attractiveness of this Debenture would be the potential capital gains from a favorable movement in the exchange rates and not the yield. NCUA would caution FCU's on the foreign exchange risk associated with purchasing the Debentures.

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

We hope that we have been of assistance. If further questions arise, please contact Hattie Ulan of this Office.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel

HMU:cch