



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

Office of General Counsel

Ms. Aviva Grossman
Spengler Carlson Gubar
Brodsky & Frischling
280 Park Avenue
New York, NY 10017

GC/AMWick
4660
4/23/86

Dear Ms. Grossman:

This is in response to your letters of February 21, 1986, and April 4, 1986, concerning the legality of Federal credit union (FCU) investment in the Pinnacle Government Fund, Inc., prospectus dated January 30, 1986. Enclosed with your April 4 letter was a supplement to the prospectus dated April 4, 1986.

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

As noted in our September 11, 1985, letter to Ms. Penry-Williams of your law firm, concerning the legality of FCU investment in the Fund, there were two areas where we required further information. First, we indicated that if the Fund entered into repurchase transactions with its custodian bank, the Fund might be an impermissible investment for FCU's. You have indicated in your letter that the Fund will not enter into repurchase transactions with its custodian bank. Second, we indicated that we needed more information with respect to cash forward agreements. Section 703.3(b)(1) of the NCUA Regulations requires that the length of time between the trade date and settlement date for such transactions not exceed 120 days. This limitation is set forth in the Statement of Additional Information enclosed with your letter. The requirements of Section 703.3(b) for cash forward transactions are now met by the Fund.

There is no general authority in Section 107(7) of the FCU Act for FCU investment in obligations of instrumentalities of the United States. Basically, FCU's are limited to investments in (1) obligations of the United States or fully guaranteed as to principal and interest thereby; (2) obligations issued by wholly-

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owned government corporations; (3) obligations issued by or fully guaranteed as to principal and interest by any other government agency; (4) FDIC- and FSLIC-insured institutions and (5) other investments specifically noted in Section 107(7). The supplement to the prospectus lists the instrumentalities in which the Fund may invest that are not backed by the full faith and credit of the United States. The instrumentalities listed in the supplement to the prospectus are all specifically listed as permissible investments for FCU's pursuant to Section 107(7) of the FCU Act.

Based on the above, the Pinnacle Fund is now a legal investment for FCU's. This opinion letter should not be interpreted or represented as NCUA's endorsement, recommendation or approval of the Fund. It is merely our opinion that the investment is legal for FCU's. Any communication with Federal credit unions concerning our opinion must clearly state this distinction.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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