



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

July 11, 1986

Office of General Counsel

Ms. Jane M. Lundberg
Commissioner
Department of Banking and
Financial Institutions
State Capitol
Bismark, ND 58505-0139

Dear Ms. Lundberg:

This is in response to your letter of May 7, 1986, concerning Federal credit union (FCU) investment in mutual funds.

Sections 107(7) and (8) of the Federal Credit Union Act (12 U.S.C. §§1757(7) and (8)) and Part 703 of the National Credit Union Administration Rules and Regulations (12 C.F.R. Part 703) are the pertinent provisions of law regulating FCU investments and deposits. Although not expressly stated in these provisions, it is our opinion that investments in mutual funds or trusts are permissible for FCU's if all of the investments and investment practices of the mutual fund or trust are legal if made directly by an FCU. Our position is based on the fact that an investor in the shares of a mutual fund or trust holds the same proportion of the beneficial interest in the underlying assets of the fund or trust as the amount of shares purchased bears to the total amount of outstanding shares of the fund. Therefore, if the underlying assets (investments) and the investment practices (repurchase transactions, cash forward transactions, etc.) are legal for FCU's, if made directly, FCU investment in the fund or trust would similarly be legal.

Before we issue an opinion as to the legality of an FCU investment in a particular mutual fund, we ask that the person inquiring as to its legality have the prospectus for the fund reviewed with respect to the above-cited statutory and regulatory provisions. We require that the inquirer provide us with a letter (preferably an opinion from legal counsel) which addresses the various aspects of the investment (e.g., referring to pages in the prospectus) and relating them to the requirements of the FCU Act and NCUA Rules and Regulations. We will then concur with or state our reason for nonconcurrence with that opinion.

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In addition to providing our written opinions, there is an NCUA Investment Hotline, (800) 424-3205. All interested parties are encouraged to call the Hotline to determine whether or not a specific mutual fund or other investment has previously been reviewed by the NCUA.

I hope that we have been of assistance.

Sincerely,

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STEVEN R. BISKER
Assistant General Counsel

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