



NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

July 17, 1986 GC/BS:cck  
4400

Office of General Counsel

Ms. Sandra Peterson  
Legal Assistant  
Franklin Group of Funds  
777 Mariners Island Blvd.  
San Mateo, CA 94404

Dear Ms. Peterson:

This is in response to your letters of March 25, 1986, and June 4, 1986, concerning the legality of Federal credit union (FCU) investment in the U.S. Government Securities Series of Franklin Custodian Funds, Inc., Prospectus dated February 1, 1986 (Franklin Fund).

Sections 107(7) and (8) of the FCU Act (12 U.S.C. §107(7) and (8)) and Part 703 of the NCUA Rules and Regulations (12 C.F.R. 703) are the pertinent provisions of Federal law governing FCU investments and deposits. Although not expressly stated in these provisions, we have previously stated that investments in a mutual fund or trust 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.

The prospectus states that the Franklin Fund will invest in obligations of the United States Government or its instrumentalities. 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-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).

With your letter of June 4, you enclosed the following language which will be added to the Statement of Additional Information

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for the Franklin Fund: "While the Fund is not aware of any investments permitted to it which would destroy such [Federal credit union] eligibility, it has agreed for the benefit of such federally chartered credit unions to refrain from such investments should the situation arise." We require that this language be contained in either the prospectus or the Statement of Additional Information for a fund before we will state that the fund is a legal investment for FCU's. Once this language is added to the Statement of Additional Information, the Franklin Fund will be a legal investment for FCU's. Please send us a copy of the Prospectus and Statement of Additional Information once the change is made.

If we conclude that the Franklin Fund is a legal investment for FCU's, our conclusion should not be interpreted or represented as our approval, endorsement or recommendation of the Fund for FCU investment. Any communication with FCU's concerning our opinion must clearly state this distinction.

I hope that we have been of assistance. Please contact Hattie Ulan of this Office if further questions arise.

Sincerely,

*Hattie Ulan for*

STEVEN R. BISKER  
Assistant General Counsel

HMU:cch