



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

August 6, 1986

Office of General Counsel

GC/HMU:sg
4660

Kenneth McDonald, Esq.
Fidelity Investments
82 Devonshire Street
Boston, MA 02109

Dear Mr. McDonald:

This is in response to your letters of April 18, 1986, and July 1, 1986, concerning the legality of Federal credit union ("FCU") investment in the Fidelity Income Fund - Ginnie Mae Portfolio ("Portfolio"), prospectus dated November 1, 1985.

Sections 107(7) and (8) of the FCU Act (12 USC 107(7) and (8)) and Part 703 of the NCUA Rules and Regulations (12 CFR Part 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.

According to the prospectus, the Portfolio invests primarily in GNMA's. In addition, the Portfolio may only invest in other obligations backed by the full faith and credit of the United States. Such investments are legal for FCU's pursuant to Section 107(7) of the FCU Act.

The Securities and Exchange Commission (SEC) recently addressed the areas of risk involved in investments in GNMA funds. The SEC noted that prospectus disclosures and advertisements must give equal weight to the benefits of the government guarantee and to the risks of yield and market fluctuation and early prepayment. Federal credit unions considering investment in a GNMA Fund should be made aware of these facts.

As you have discussed in telephone conversations with Hattie Ulan of this Office, the November 1 prospectus did not contain sufficient information on "when issued" and "forward commitment" transactions and the possibility of the Portfolio investing in futures contracts and options for this Office to make a determination of the legality of the Fund for FCU investment. You submitted a proposed supplement to the prospectus for the

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Mr. Kenneth McDonald, Esq.

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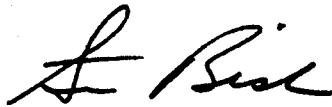
Portfolio with your July 1 letter. With regard to "when issued" and "forward commitment" transactions, the proposed supplement states that "the period from the trade date to settlement date will not in any case exceed one hundred and twenty (120) days." This statement, if added to the prospectus, will meet our regulatory requirements. With regard to Portfolio investment in futures and options, the proposed supplement states that the "... Portfolio will not engage in such transactions. This policy may not be changed except upon 90 day notice to shareholders and upon further supplementing the prospectus." This supplement, if added to the prospectus, will give FCU investors adequate time to divest themselves of the Portfolio and to come into compliance with our regulatory requirements.

In summary, we require that the proposed supplement to the prospectus be added to the prospectus before we will state that the Portfolio is a legal investment for FCU's. Once the proposed supplement is added to the prospectus for the Portfolio, the Portfolio will be a legal investment for FCU's. Please send us a copy of the revised prospectus when the change is made.

Our opinion should not be interpreted or represented as NCUA's approval, endorsement or recommendation of the Portfolio 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,



STEVEN R. BISKER
Assistant General Counsel

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