



NATIONAL CREDIT UNION ADMINISTRATION

Washington, D.C. 20456

October 28, 1986

Office of General Counsel

Mr. Thomas J. Karol
Associate Counsel
The Calvert Group
1700 Pennsylvania Avenue, N.W.
Washington, DC 20006

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Dear Mr. Karol:

This is in response to your letter of August 11, 1986, concerning the permissibility of Federal credit union (FCU) investment in the First Variable Rate Fund for Government Income (prospectus dated February 28, 1986) and the Money Market Portfolio of the Calvert Social Investment Fund (prospectus dated July 15, 1986). In addition, you asked two questions concerning the permissibility of certain investment transactions for FCU's.

As you know, Sections 107(7) and (8) of the FCU Act (12 U.S.C. §§1757(7) and (8)), and Part 703 of of the NCUA Rules and Regulations (12 C.F.R. Part 703) are the pertinent provisions of Federal law regulating FCU investments and deposits. We have previously interpreted these provisions as authorizing FCU investment in a mutual fund if all of the investments and investment practices of the fund would be legal if made directly by the FCU.

Pursuant to Sections 107(7) and (8) of the FCU Act, FCU's are limited to investment in the following:

- (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;

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- (4) FDIC- and FSLIC-insured institutions; and
- (5) other investments specifically noted in Section 107(7).

The prospectus for the First Variable Rate Fund (Fund) authorizes investments in, among other things, United States instrumentalities. There is no general authority in Sections 107(7) or (8) for FCU's to make such investments. Such investments may not meet the requirements of Sections 107(7) and (8). In addition, the Statement of Additional Information for the Fund (also dated February 28, 1986) authorizes the Fund to purchase new issues under forward commitment agreements. Section 703.3(b) of the NCUA Regulations authorizes such transactions provided that the period from the trade date to the settlement date does not exceed 120 days. This 120-day limitation must appear in either the Prospectus or the Statement of Additional Information.

For the above noted reasons, the Fund is not a permissible investment for FCU's.

The Prospectus for the Money Market Portfolio of the Calvert Social Investment Fund (Portfolio) also authorizes investment in U.S. instrumentalities. As explained above, such authority may not meet the requirements of Sections 107(7) and (8) of the FCU Act. In addition, the Prospectus authorizes investment in commercial paper, certificates of deposit that are not limited to FDIC- and/or FSLIC-insured institutions, and privately placed investments. None of these are permissible FCU investments pursuant to Sections 107(7) and (8) of the FCU Act. For these reasons, the Portfolio is not a permissible investment for FCU's.

You posed two additional questions in your letter. You asked if obligations with puts attached and covered call options are permissible transactions for FCU's pursuant to Part 703 of the NCUA Rules and Regulations. Section 703.4 of the Regulation states in relevant part:

"(b) A Federal credit union may not buy or sell a futures contract."

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We have previously stated that call or put options are a form of futures trading and are thus a prohibited activity for FCU's pursuant to Section 703.4. Hence, any fund authorized to engage in such activities would not be a legal investment for FCU's.

I hope that we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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