NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

May 21, 1987

GC/SRB:sg
4660

Office of General Counsel

Peter L. Curry, Esq.
Corporate Counsel
Putnam Financial Services, Inc.
One Post Office Square
Boston, MA 02109

Dear Mr. Curry:

Your letter of April 24, 1987, to Mrs. Elizabeth Burkhart was forwarded to me for review. As a member of the Board of the National Credit Union Administration, Mrs. Burkhart was particularly concerned about the incident at the Mississippi League's April meeting.

In your letter you refer to a legal opinion signed by me dated August 8, 1985. (Copy enclosed.) You recognize that the opinion letter addressed the then current prospectus dated April 1, 1985, of the Putnam U.S. Government Guaranteed Securities Income Trust. However, you then state:

> "Thereafter the prospectus was renewed with updated numbers, and you received [referring to Mrs. Burkhart] as you should have, the current version dated February 1, 1987. This was entirely proper, and the NCUA approval applied to the policies of the fund, which are carried forward in the current prospectus." (Emphasis added.)

I must take exception to your statement for two reasons.

First, irrespective of the statement in the penultimate paragraph in my August 1985 opinion letter that:

> "Based on the above, it is our opinion that the Trust is a permissible investment for FCU's. This should not be interpreted or represented as NCUA's endorsement, recommendation or approval of the Trust. It is merely our opinion that the Trust is legal for FCU's if the above conditions are met." (Emphasis added.)

you claim that my letter was NCUA's "approval" of the Trust.

FOIA Vol. I.E.2.

Second, the legal opinions issued by NCUA apply only to the dated prospectus as noted in our letters. It may be the case that an updated prospectus is unchanged from the prior one, however, our opinion is specifically limited to the dated prospectus we reviewed. Any opinions with respect to later prospectuses could, at best, only be derived from our opinion, and should not be represented as NCUA's legal opinion on the updated Fund and its prospectus. Rather, any such opinion would be that of the author and not NCUA.

If you have any questions, please feel free to call me at (202) 357-1030.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel

SRB:sg

c.c Elizabeth F. Burkhart, Board Member

NATIONAL CREDIT UNION ADMINISTRATION
WASHINGTON, D.C. 20456

LS/HMU:cch
4660
August 8, 1985

Karen L. Rahnasto, Esq.
Vice President and Senior Attorney
The Putnam Management Company, Inc.
One Post Office Square
Boston, MA 02109

Dear Ms. Rahnasto:

This is in response to your recent telephone conversations with and letter of July 16, 1985, to Hattie Ulan of this Office, concerning the permissibility of Federal credit union (FCU) investment in the Putnam U.S. Government Guaranteed Securities Income Trust (Trust), prospectus dated April 1, 1985.

Sections 107(7) and (8) of the Federal Credit Union Act (12 U.S.C. §§1757(7) and (8)) and Part 703 of the NCUA Rules and Regulations (12 C.F.R. Part 703) are the pertinent provisions of Federal law regulating FCU investments and deposits. Although not expressly stated in these provisions, we have previously stated that investments in mutual funds or trusts 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 Trust may enter into repurchase agreements. Repurchase agreements that are not entered into with members of the FCU or with those financial institutions specified in Section 703.2 of the Rules and Regulations must be investment-type repurchase agreements in compliance with Sections 703.2(1)(1) and 703.3(d) of the NCUA Rules and Regulations. These requirements are met if the Trust is in compliance with the Investment Company Act of 1940, and the regulations and interpretations (Investment Act) issued pursuant thereto, provided the Trust does not enter into repurchase agreements with its own custodian. According to your conversation with Ms. Ulan, the Trust is a registered management company subject to the Investment Act. The Investment Act requires a registered management company to take actual possession of securities, or use of a custodian with certain restrictions, or use of the book entry system when it is involved in repurchase agreements. According to your July 16 letter, the Trust does not engage in repurchase agreements with its own custodian. Hence, it is our opinion that our regulatory requirments are satisfied provided the Trust is in compliance with the Investment Act.

ENCLOSURE

We also had some concern with language on page seven of the prospectus under the heading "Limiting investment risk." Although page five of the prospectus states that all Trust securities are backed by the full faith and credit of the United States, page seven indicates that there might be some investment in private industries and companies that may not be backed by the full faith and credit of the United States. You made clear in your conversation with Ms. Ulan that the language on page seven of the prospectus is for the purpose of compliance with certain state regulatory requirements and that the Trust only invests in securities backed by the full faith and credit of the United States government as noted on page 3 of the prospectus.

Based on the above, it is our opinion that the Trust is a permissible investment for FCU's. This should not be interpreted or represented as NCUA's endorsement, recommendation, or approval of the Trust. It is merely our opinion that the Trust is legal for FCU's if the above conditions are met. Any communication with FCU's concerning our opinion must clearly state this distinction.

Thank you for your cooperation in this matter. We hope that we have been of assistance.

Sincerely,

STEVEN R. BISKER
Assistant General Counsel