



NATIONAL CREDIT UNION ADMINISTRATION
Washington, D.C. 20456

June 5, 1987

Office of General Counsel

GC/RD:sg
4660

Mr. Robert F. Feige
President
CoVest Ltd.
572 Washington Street, Suite 14
Wellesley, MA 02181

Dear Mr. Feige:

This is in response to your letter and a follow up of our telephone conversations concerning the legality of Federal credit unions (FCU) placing funds in a certificate of deposit or time deposit account in a federally-insured bank that, in addition to Federal deposit insurance coverage, is protected by collateral consisting of second mortgages.

During the course of our telephone conversations, I explained to you that, based upon the details of the proposed deposit program, there remained in my mind some doubts about whether the funds placed in the bank were, in fact, going into a deposit account. You stated that the program was still being developed and that you are in the process of contacting the other Federal banking agencies for their opinions.

FCU investment and deposit authority is governed by 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). Pursuant to Section 107(7)(D) of the FCU Act, an FCU may invest funds in shares or accounts of savings and loan associations or mutual savings banks, the accounts of which are insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation. Pursuant to Section 107(8) of the FCU Act, an FCU may make deposits in national banks and in state banks, trust companies, and mutual savings banks operating in accordance with the laws of the state in which the Federal credit union does business or in banks or institutions the accounts of which are insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

The proposed transaction would be a permissible investment or deposit for an FCU, provided the deposit or certificate of deposit is issued by those financial institutions enumerated in Sections 107(7)(D) or 107(8) of the FCU Act. The fact that the

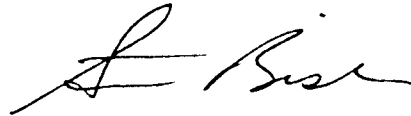
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deposit is repaid by monthly payments of principal and interest and that the account, in addition to Federal deposit insurance coverage, is collateralized by second mortgages would not affect its legality as an FCU deposit.

If you have any further questions, please contact this Office. I hope we have been of assistance.

Sincerely,



STEVEN R. BISKER
Assistant General Counsel

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