



NATIONAL CREDIT UNION ADMINISTRATION  
Washington, D.C. 20456

June 12, 1989

GC/JT:sg  
SSIC 4660  
88-1127

Office of General Counsel

Janet L. Steinmayer, Esq.  
Levett, Rockwood & Sanders  
P.O. Box 5116  
Westport, CT 06881

Re: NCUA Letter No. 96

Dear Ms. Steinmayer:

NCUA has issued an amendment to Letter to Credit Unions No. 96 addressing the issue of Federal credit union ("FCU") investment in privately-issued mortgage-related securities. Letter to Credit Unions No. 108, a copy of which is enclosed, removes the requirement in Letter No. 96 that an FCU must obtain an independent legal opinion stating that a security qualifies as a mortgage-related security under Section 3(a)(41) of the Securities Exchange Act of 1934 (the "Act") prior to making an investment pursuant to Section 107(15)(B) of the FCU Act (12 U.S.C. 1757(15)(B)). Letter No. 108 permits an FCU to rely on a representation in the prospectus that the securities described therein are mortgage-related securities under Section 3(a)(41) of the Act.

Thank you for bringing this issue to our attention.

Sincerely,

*Hattie M. Ulan*

HATTIE M. ULAN  
Assistant General Counsel

JT:sg  
Enclosure

FOIA  
Vol. I, E, 13 SMMEA Investments

# NCUA LETTER TO CREDIT UNIONS

NCUA LETTER NO. 108

DATE: May 23, 1989

TO THE BOARD OF DIRECTORS OF THE FEDERAL CREDIT UNION ADDRESSED:

Section 107(15)(B) of the Federal Credit Union Act (12 U.S.C. 1757(15)(B)) authorizes Federal credit union ("FCU") investment in "mortgage related securities (as that term is defined in Section 3(a)(41) of the Securities Exchange Act of 1934 . . ." (hereinafter referred to as "mortgage-related securities"). In Letter to Credit Unions No. 96 issued in March of 1988 ("Letter No. 96"), the National Credit Union Administration ("NCUA") Board provided information and guidance to FCU's concerning Section 107(15)(B) investments.

Letter No. 96 contains the requirement that:


Before making investments authorized under Section 107(15)(B), the credit union's board of directors should determine that the investment is permissible. This determination should be supported by a legal opinion from an independent source, and not by relying on the advice of the broker or other party marketing the investment.

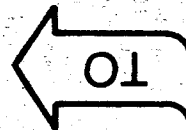
NCUA has been requested to reconsider the requirement that an FCU obtain an independent legal opinion prior to making a Section 107(15)(B) investment, and that, instead, an FCU be permitted to rely on a statement in the offering's prospectus that the securities are "mortgage-related securities" or "mortgage-related securities for purposes of the Secondary Mortgage Market Enhancement Act of 1984." These two terms are synonymous.

The primary rationale for requiring an independent legal opinion was to ensure that an FCU was making a permissible investment, i.e., in "mortgage-related securities." It was contemplated that an FCU would obtain a copy of the legal opinion prepared by the issuer's or underwriter's attorney determining that the securities offered are "mortgage-related securities." However, FCU's have had difficulty in obtaining such opinions.

NCUA has contacted the Securities and Exchange Commission ("SEC") for guidance on this issue. Based on correspondence with the SEC, the NCUA Board has determined that it will no longer require an FCU to obtain an independent legal opinion prior to its making a Section 107(15)(B) investment. An FCU may rely on a representation in the prospectus that the securities described therein are "mortgage-related securities" or "mortgage-related securities for purposes of the Secondary Mortgage Market Enhancement Act of 1984," provided that the FCU also verifies that the then current rating for the securities is as required by the definition of "mortgage-related securities" (in one of the two highest rating categories by at least one nationally-recognized statistical rating organization). All other information contained in Letter No. 96 and the Appendix thereto remains current. FCU's are reminded that investment in "mortgage-related securities" requires the same sound investment policies and practices as other investments, as set forth in Letter No. 96.

Sincerely,

  
ROGER W. JEPSEN  
Chairman, NCUA Board



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Administration  
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