

## APPRAISE REPORTS COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)

Mortgage backed securities (MBS) are a large group of specialized fixed income securities. They offer the advantages over standard bonds of high credit ratings (most are AAA) and slightly higher income levels. The disadvantage is that they pay down principal on an ongoing basis.

CMOs are specialized MBSs, generally collateralized with government agency MBSs such as GNMA, FNMA or FHLMAS. They may also be privately insured or have some other letter of credit.

CMOs are structured so the income from the underlying securities can be distributed among a variety of classes (tranches) which compose the bond offering. The tranches may range from two years to twenty years, reflecting different expected lifetimes.

Typically, the principle payments go exclusively to the shortest tranche. In this “sequential pay” or “plain vanilla”

CMO, the final tranche often receives no income until all other tranches are paid down. The final tranche is called an “accrual bond” or “z bond” and is similar to a zero coupon bond.

*The payment dates on CMOs vary, as follows:*

Security	Payment Date
FHLMC	15th of month following the record date and every month thereafter.
FNMA REMIC	25th of month following the record date and every month thereafter.
AGENCY BACKED*	Payment date varies; may be monthly, quarterly or semi-annually with or without payment delay.
PRIVATE LABEL CMO/REMIC	Same as Agency Backed. (Ryland, etc.)

\*Federal Housing Admin., Veterans Affairs

A sample CMO report is shown below.

ACCOUNT: T1FSFS		Your Company Name		ESTATE TAX SECURITIES VALUATION		PAGE NO. 2				
REPORT PROCESSING DATE: July 20 2004		Name of Estate: 071247.001		DATE OF DEATH: Friday, August 1 2003						
ITEM	CUSIP NO	SHARES PAR VALUE	DESCRIPTION	PRICE DATE	HIGH/ASK PRICE	LOW/BID PRICE	MEAN PRICE	SECURITY VALUE	ACCRUED DIV/INT	COMMENTS
19)	38373VYE4	24,000	GNMA REMIC TRUST 2002-70 20290820 5.25000 CMO Paydown Factor = 1.00000419 CMO Accrual Rate = .0004	08/01		95.4080	95.40800	22,898.02	0.10	GVT AGENCY
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