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Independent Auditors' Report

The Board of Control
Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan:

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2007, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's 2006 financial statements and, in our report dated March 7, 2007, we expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2007, and its changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 and 3 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 12, 2008

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PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/ DEFERRED COMPENSATION PLAN
Management's Discussion and Analysis

The Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States. The following discussion provides an overview of the financial position and results of operation for the PEIRAF/DCP as of and for the year ended September 30, 2007, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements.

Financial Statements

The financial statements include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Statement of Fiduciary Net Assets – Includes all assets and liabilities of the PEIRAF/DCP and provides a snapshot of the financial position of the PEIRAF/DCP as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for members at fiscal year-end.

Statement of Changes in Fiduciary Net Assets – Reports all additions and deductions of the PEIRAF/DCP for the fiscal year. Additions are primarily comprised of member contributions and investment income. Deductions are principally made up of normal distributions. Additions minus deductions provide the change in fiduciary net assets for the fiscal year. The change in fiduciary net assets plus the beginning fiduciary net assets results in the fiduciary net assets held in trust for members at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, credit risk disclosures for cash and investments, concentration of investments disclosures, and securities lending disclosures.

Comparative Summary Statements

Summary Comparative Statement of Fiduciary Net Assets
As of September 30, 2007 and 2006

	2007	2006	Variance	% Increase (Decrease)
Assets				
Cash	$ 1	$ 2	$ (1)	-
Member Contributions Receivable	-	5,438	(5,438)	-
Interest and Dividends Receivable	11,943,615	11,043,432	900,183	8.15
Investments	1,069,404,844	928,277,989	141,126,855	15.20
Invested Securities Lending Collateral	226,741,706	147,428,391	79,313,315	53.80
Total Assets	1,308,090,166	1,086,755,252	221,334,914	20.37
Liabilities				
Securities Lending Collateral	226,741,706	147,428,391	79,313,315	53.80
Total Liabilities	226,741,706	147,428,391	79,313,315	53.80
Net Assets Held in Trust for Deferred Compensation Benefits	**$ 1,081,348,460**	**$ 939,326,861**	**$ 142,021,599**	**15.12**

(Continued)

Summary Comparative Statement of Changes in Fiduciary Net Assets
For the Fiscal Years Ended September 30, 2007 and 2006

	2007	2006	Variance	% Increase (Decrease)
Additions				
Member Contributions	$ 110,987,093	$ 74,002,222	$ 36,984,871	49.98
Interest and Dividend Income	50,908,743	47,894,489	3,014,254	6.29
Net Increase/(Decrease) in Fair Value of Investments	38,622,527	(1,938)	38,624,465	1,993,006.45
Net Income from Securities Lending Activities	376,827	283,235	93,592	33.04
Total Additions	200,895,190	122,178,008	78,717,182	64.43
Deductions				
Normal Distributions	58,389,542	62,951,274	(4,561,732)	(7.25)
Emergency Withdrawals	484,049	602,508	(118,459)	(19.66)
Total Deductions	58,873,591	63,553,782	(4,680,191)	(7.36)
Increase in Fiduciary Net Assets	142,021,599	58,624,226	83,397,373	142.26
Net Assets Held in Trust for Deferred Compensation Benefits - Beginning of Year	939,326,861	880,702,635	58,624,226	6.66
Net Assets Held in Trust for Deferred Compensation Benefits - End of Year	**$ 1,081,348,460**	**$ 939,326,861**	**$ 142,021,599**	**15.12**

Financial Analysis

- Assets and liabilities related to invested securities lending collateral and securities lending income increased as a result of increased securities lending activity.
- Member contributions increased in fiscal year 2007 primarily as a result of Deferred Retirement Option Program (DROP) rollovers. A significant amount of DROP distributions were rolled into PEIRAF/DCP.
- The fair value of investments increased due to lower interest rates which increased the fair value of existing fixed maturity investments and the upturn in the equity markets.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Fiduciary Net Assets
September 30, 2007 with comparative figures for 2006

	2007	2006
Assets		
Cash	$ 1	$ 2
Member Contributions Receivable	-	5,438
Interest and Dividends Receivable	**11,943,615**	11,043,432
Investments, at Fair Value (Note 2)		
Commercial Paper	**127,722,565**	120,993,198
Money Market and Mutual Funds	**35,595,871**	23,437,831
U. S. Government Guaranteed Bonds	**122,004,690**	83,516,705
U. S. Agency Securities	**221,680,550**	176,871,765
Mortgage-backed Securities	**2,729,183**	3,717,348
Corporate Bonds	**279,670,104**	298,832,262
Private Placements	**72,345,754**	65,840,190
Common Stocks	**207,656,127**	155,068,690
Total Investments	**1,069,404,844**	928,277,989
Invested Securities Lending Collateral	**226,741,706**	147,428,391
Total Assets	**1,308,090,166**	1,086,755,252
Liabilities		
Securities Lending Collateral	**226,741,706**	147,428,391
Total Liabilities	**226,741,706**	147,428,391
Net Assets Held in Trust for Deferred Compensation Benefits	**$ 1,081,348,460**	$ 939,326,861

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2007 with comparative figures for 2006

	2007	2006
Additions		
Member Contributions	**$ 110,987,093**	$ 74,002,222
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**50,908,743**	47,894,489
Net Increase/(Decrease) in Fair Value of Investments	**38,622,527**	(1,938)
Total Investment Income from Investing Activities	**89,531,270**	47,892,551
From Securities Lending Activities		
Securities Lending Income	**9,022,265**	6,103,996
Less Securities Lending Expenses:		
Borrower Rebates	**8,578,961**	5,770,781
Management Fees	**66,477**	49,980
Total Securities Lending Expenses	**8,645,438**	5,820,761
Net Income from Securities Lending Activities	**376,827**	283,235
Total Investment Income	**89,908,097**	48,175,786
Total Additions	**200,895,190**	122,178,008
Deductions		
Normal Distributions	**58,389,542**	62,951,274
Emergency Withdrawals	**484,049**	602,508
Total Deductions	**58,873,591**	63,553,782
Net Increase	**142,021,599**	58,624,226
Net Assets Held in Trust for Deferred Compensation Benefits:		
Beginning of Year	**939,326,861**	880,702,635
End of Year	**$ 1,081,348,460**	$ 939,326,861

See accompanying Notes to the Financial Statements.

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF or "The Board") Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provision of Act 86-685 of the 1986 Legislature to afford the PEIRAF members the greatest possible tax benefits under the federal income tax laws. The PEIRAF/DCP operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States and began receiving deferred portions of employees' income on January 1, 1987. The responsibility for the general administration and operation of the PEIRAF/DCP is vested in its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB), the PEIRAF/DCP is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report.*

Effective January 1, 2007, each member may defer a maximum of $15,500 per calendar year. Any member, age 50 and older, may make additional deferrals of $5,000 for calendar year 2007. Since its creation, PEIRAF/DCP funds have been invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper. However, in an effort to give members more flexibility within their portfolios, members have been offered the opportunity to invest in an S & P 500 Index Fund since January 1, 2001.

All members of the Teachers' Retirement System of Alabama, Employees' Retirement System of Alabama, Judicial Retirement Fund, and employees of employers eligible to participate in the Employees' Retirement System pursuant to provisions of Section 36-27-6, *Code of Alabama 1975,* and public officials and employees of the State of Alabama or any political subdivision thereof (collectively, participating employers) are members of the PEIRAF/DCP and are eligible to participate. At September 30, 2007, there were 32,766 participants.

Effective October 1, 1997, the PEIRAF/DCP adopted Trust status in compliance with The Small Business Job Protection Act of 1996. Deferred income and investment earnings are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the cash flows in accordance with standards of the Governmental Accounting Standards Board.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the secretary-treasurer of the Employees' Retirement System, in bonds, mortgage-backed securities, common and preferred stocks, or other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

All investments are carried at fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Money market securities with a remaining maturity of one year or less at the time of purchase are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income posted to member accounts was at an annual rate of 7.96 percent for the fixed investment option and 16.03 percent for the stock investment option.

F. Administrative Costs

Under the provisions of Legislative Act 2001-1061, the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the Teachers' Retirement System and the Employees' Retirement System.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. Current Internal Revenue Code and Regulations require that distributions to the member begin not later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service.

Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

(Continued)

H. Comparative Statements

The basic financial statements include the prior year Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets (Statements) for comparative purposes only. Prior year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the PEIRAF/DCP's prior year financial report from which the prior year Statements were derived.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Fund's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they were held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEIRAF/DCP's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the PEIRAF/DCP all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The PEIRAF/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP's name.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of the Fund's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Fund may hedge against the possible adverse effects of currency fluctuations on the Fund's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

A. Investment Risks, Continued

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S & P index fund is determined by member elections.

The following table provides information as of September 30, 2007, concerning the fair value of investments and interest rate risk:

INVESTMENTS

	Maturity in Years at Fair Value					
Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Commercial Paper	$ 127,722,565	$ -	$ -	$ -	$ 127,722,565	$ 127,722,565
U.S. Agency	-	107,211,396	110,095,302	4,373,852	221,680,550	221,121,155
U.S. Government Guaranteed	-	50,980,122	71,024,568	-	122,004,690	120,118,232
Corporate Bonds	8,503,844	100,553,790	119,104,688	51,507,782	279,670,104	279,945,207
Private Placements	-	5,535,916	61,809,838	5,000,000	72,345,754	80,548,760
GNMAs	-	-	-	1,177,954	1,177,954	1,115,379
CMOs	-	-	696,242	854,987	1,551,229	1,561,033
Money Market Funds	35,595,871	-	-	-	35,595,871	35,595,871
Total Domestic Fixed Maturity	$ 171,822,280	$ 264,281,224	$ 362,730,638	$ 62,914,575	861,748,717	867,728,202
Equities						
Domestic					207,656,127	175,759,196
Total Investments					**$ 1,069,404,844**	**$ 1,043,487,398**

(Continued)

A. Investment Risks, Continued

The following table provides information as of September 30, 2007, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's Ratings	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
AAA	$ 239,344,345	$ 238,836,259	27.774
AA1	6,324,835	6,235,288	0.734
AA2	12,010,576	12,051,245	1.394
AA3	24,071,359	24,515,921	2.793
A1	38,205,424	38,383,526	4.433
A2	18,346,837	18,641,174	2.129
A3	22,229,349	22,998,835	2.580
BAA1	27,396,298	27,865,752	3.179
BAA2	48,934,741	48,119,428	5.679
BAA3	33,555,104	33,306,689	3.894
BA1	24,618,431	23,416,532	2.857
BA3	3,109,019	2,878,921	0.361
B1	5,025,000	4,686,550	0.583
CAA	8,607,282	8,490,537	0.999
P-1	35,595,871	35,595,871	4.131
P-2	127,722,565	127,722,565	14.821
BBB+(SP)	5,874,998	4,823,321	0.682
U.S. Government Guaranteed Securities	123,182,645	121,233,612	14.294
‡ Not Rated	57,594,038	67,926,176	6.683
Totals	$ 861,748,717	$ 867,728,202	100.000

‡ Primarily consists of private placements.

(Continued)

B. Concentration of Investments

As of September 30, 2007, the PEIRAF/DCP owned debt securities of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which represented approximately 7.70% and 7.68%, respectively, of the total fair value of investments.

C. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The Plan's custodian, State Street Bank and Trust Company, administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the Plan. Approved borrowers of securities provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the PEIRAF/DCP or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a value of 102% of the fair value of the loaned securities, or (ii) in the case of loan securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5% of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The PEIRAF/DCP cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF).

The following describes the QDF's fund guidelines. The QDF's average effective duration is restricted to 120 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be five years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 30 months. At the time of purchase, all securities with maturities of 13 months or less must qualify as first tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if not rated, be of comparable quality. The QDF may invest in other State Street managed investment vehicles provided they conform to QDF guidelines.

C. Securities Lending Program, Continued

As of September 30, 2007, the average term of the loans was 6 days. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2007, the fair value of the securities on loan was $222,758,215. The fair value of the collateral pledged by the borrowers was $227,018,626. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2007. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Fund. Securities pledged as collateral are held by the custodial agent, but not in the name of the Fund. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2007, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

Type of Investment Lent	Amounts
For Cash Collateral	
Domestic Fixed Maturities	$ 211,019,861
Domestic Equity	11,472,715
Total Lent for Cash Collateral	222,492,576
For Non-cash Collateral	
Domestic Equity	265,639
Total Lent for Non-cash Collateral	265,639
Total Securities Lent	**$ 222,758,215**
Type of Collateral Received	
For Cash Collateral	
Domestic Fixed Maturities	$ 214,970,308
Domestic Equity	11,771,398
Total Cash Collateral	226,741,706
Non-cash Collateral	
For Lent Domestic Equity Securities	
Letters of Credit	274,794
International Sovereign Debt	253
Domestic Fixed Maturities	1,873
Total Non-cash Collateral	276,920
Total Collateral Received	**$ 227,018,626**

(Continued)

D. Mortgage-backed Securities

As of September 30, 2007, the PEIRAF/DCP had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.