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October 12, 2007

The Honorable Brian D. Montgomery
Assistant Secretary for Housing -- Federal Housing Commissioner
451 Seventh Street, SW, Room 9100
Washington, DC 20410

Dear Mr. Montgomery:

The Cranston-Gonzalez National Affordable Housing Act requires an annual independent actuarial analysis of the economic net worth and soundness of the Federal Housing Administration's Mutual Mortgage Insurance (MMI) Fund. We have completed the fiscal year 2007 Actuarial Review of the Mutual Mortgage Insurance Fund and summarize our findings below.

The primary purpose of our review was to estimate:

- the economic value of the MMI Fund, defined as the sum of existing capital plus the net present value of current books of business,
- the current and projected capital ratio, defined as the economic value divided by the total insurance-in-force.

We estimate that the MMI Fund's economic value was \$21.277 billion at the end of fiscal year (FY) 2007 and that the capital ratio was 6.40 percent. We project that in FY 2014 the Fund's economic value will be \$37.405 billion and that the capital ratio will be 7.25 percent.

The estimates presented here require projections of events more than 30 years into the future. These projections are dependent upon a number of assumptions, including economic forecasts by Global Insight and the assumption that FHA does not change its refund and premium policies. To the extent these assumptions, or others, are not accurate, the actual experiences will vary from our projections.

The full actuarial report explains these projections and the reasons for the improvements since last year's actuarial review.

Very truly yours,

Tyler Yang, Ph.D.
President
Integrated Financial Engineering, Inc.