Section VIII. Conclusion -- Compliance with the National Affordable Housing Act

According to our estimates for the base case economic scenario, as of the end of FY 2004 the MMI Fund had an economic value of $21.977 billion and unamortized insurance-in-force of $397.285 billion, resulting in a capital ratio of 5.53 percent. Furthermore, we project that by FY 2011 the capital ratio would increase to 6.71 percent. Therefore, we estimate that the Fund will continue to exceed the 2.00 percent minimum level required by NAHA.

Total FHA originations were 21 percent lower in FY 2004 than was estimated in the FY 2003 Review, partially due to reduced refinance activity in response to the increase in interest rates during the past year. The future economic environment forecast is summarized by rising interest rates and a temporary slowdown in house price growth rates. Nationally, housing prices continued to experience strong appreciation rates over the past several quarters. OFHEO reported a national house price growth rate of 9.36 percent between the second quarter of 2003 and the second quarter of 2004, the largest single year increase since 1979. We project that the increase in borrower equity during the last several quarters has improved the financial strength of the MMI Fund at the end of FY 2004. After the forecasted slowdown in house price growth rates in FY 2005 and FY 2006, the economic value of future new book of business are projected to be strong, which leads to the continuous increase in the capital ratio of the MMI Fund through FY 2001.

Due to the high origination volumes and the high prepayment rates in the last couple years, the current MMI Fund insurance in force is heavily concentrated in the most recent books of business. Loans originated in FY 2003 and FY 2004 account for about 54 percent of the current unamortized insurance in force. The overall claim rate of the Fund could steadily increase during the next few fiscal years as these newly originated loans entering their peak claim years. However, the alternative scenario analyses performed in this study suggest that this concentration is not likely to reduce the capital ratio of the MMI Fund to below the NAHA-mandated 2 percent level in the foreseeable future.