

Appendix D: Economic Forecasts

In order to measure the MMI Fund's soundness against potential future losses on the current and future portfolios, the economic value of the Fund was estimated under alternative economic scenarios. We began this analysis with a base case scenario. The base-case economic scenario is extracted from the July 2008 forecast of the U.S. economy published by Global Insight, Inc. The economic factors of the Global Insight, Inc. forecast used in our analysis are:

- OFHEO national housing price index
- Ten-year Treasury rate
- One-year Treasury rate
- Commitment rate on 30-year fixed-rate mortgages

Data used in the base-case scenario are summarized in Exhibit D-1. The economic factors forecasted by Global Insight, Inc. are available from FY 2008 through FY 2018.

Exhibit D-1

Economic Forecast (Base-Case Scenario)				
Fiscal Year	OFHEO National Housing Price Index	10-Year Treasury Rate (%)	1-Year Treasury Rate (%)	Commitment Rate on 30-Year Fixed- Rate (%)
2008	387.5	3.66	2.10	5.87
2009	346.6	3.61	2.20	5.69
2010	344.9	4.79	3.91	6.51
2011	347.0	5.44	4.84	7.12
2012	356.8	5.44	4.84	7.12
2013	374.3	5.44	4.84	7.12
2014	393.3	5.44	4.84	7.12
2015	411.9	5.44	4.84	7.12
2016	434.0	5.44	4.84	7.12
2017	453.4	5.44	4.84	7.12
2018	478.9	5.44	4.84	7.12

Alternative Economic Scenarios

To conduct sensitivity analysis of the Fund's economic value, four alternative scenarios were used to assess the financial viability of the Fund. The selected scenarios are summarized as follows:

1. ***Extended Housing Recession Scenario*** – We assumed that the national house price growth rates during FY 2008 in the base-case will extend for one more year to FY 2009, and then return to base-case levels in FY 2010.
2. ***Higher Interest Rate Scenario*** – We assumed that all three interest rates are 300 basis points higher than in the Global Insight, Inc. forecast for FY 2009 through FY 2011, and then they return to the base-case levels in FY 2012.
3. ***Higher Claim Loss-Severity Rates Scenario*** – We assumed loss rates on claimed mortgages were five percentage points higher than the base-case level. For the current Review, different loss rates were assigned to each of the loan types. The loss rates used for this sensitivity analysis are 5.0 percentage points greater than the corresponding loss-rates applied in the base-case scenario.

Note that this alternative scenario is based on the same forecasted variables as the base-case scenario. In other words, this sensitivity analysis examines the marginal impact of a change in loss rates.

4. ***Continued Concentration of Loans with Downpayment Assistance from Non-Profit Organizations*** – This scenario assumes that the concentration in loans with downpayment assistance from non-profit organizations will be reduced but still accounts for 10% of future books of business. (vs. completely eliminated starting in the FY 2009 book and beyond as assumed in the base-case scenario).
5. ***Less Pessimistic Economic Scenario*** – We assume that the actual 2Q 2008 OFHEO house price appreciation will repeat four subsequent quarters, and then return to base-case levels in the third quarter of FY 2009.

The projected performance of the MMI Fund in response to the selected scenarios listed above is provided in Section V of this Review.