Appendix D

Appendix D: Economic Forecasts

In order to measure the MMI Fund's soundness against potential future losses of either its current mortgage portfolio or its future books of business, the Fund's economic values were analyzed under alternative economic scenarios by predicting the consequent future loan performance as well as the financial performance of the Fund. We began this analysis with the base case. The base-case economic scenario is extracted from the June 2006 forecast of the U.S. Economy published by Global Insight, Inc. The economic factors of the Global Insight forecast used in our analysis are:

- Ten-year Treasury rate
- One-year Treasury rate
- 30-year commitment rate, fixed-rate mortgage
- Average sale price of existing single-family homes

Data used in the baseline scenario are summarized in Exhibit D-1. The listed economic factors forecasted by Global Insight, Inc. are available from FY 2006 through FY 2016.

Exhibit D-1

Economic Forecast (Base-Case Scenarios)				
Fiscal Year	National House Price	10-Year Treasury Rate (%)	1-Year Treasury Rate (%)	Commitment Rate on 30-Year Fixed-Rate (%)
2006	266.03	4.57	4.63	6.24
2007	274.87	5.36	5.29	6.92
2008	282.64	5.31	4.86	6.91
2009	292.26	5.43	4.88	7.03
2010	302.70	5.61	5.06	7.21
2011	314.31	5.61	5.06	7.21
2012	326.87	5.61	5.06	7.21
2013	339.79	5.61	5.06	7.21
2014	352.84	5.61	5.06	7.21
2015	366.09	5.61	5.06	7.21
2016	379.75	5.61	5.06	7.21

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. ***Low House Price Appreciation Scenario*** – We assumed that house price appreciation is 5 percentage points lower than the Global Insight forecast for FYs 2007 through 2009, then returning to base-case levels in FY 2010.

2. ***Low House Price Appreciation Combined with High Interest Rate Scenario*** – The assumption regarding house price appreciation is the same as in scenario 1. We further assumed that all three interest rates are 300 basis points higher than in the Global Insight forecast for FYs 2007 through 2009, and then they return to the baseline levels in FY 2010.

3. ***High Claim Loss Severity Rates*** – We assumed loss rates on claimed mortgages were 500 basis points higher than the baseline level. This Review year, different loss rates were assigned to each of the loan types. The loss rates used for the sensitivity analysis are as follow:

   - 30-year FRMs
     a. With down payment gift from non-profit organization = 47.03 percent
     b. Others = 44.72 percent
   - 15-year FRMs
     a. With down payment gift from non-profit organization = 46.63 percent
     b. Others = 52.26 percent
   - ARMs
     a. With down payment gift from non-profit organization = 43.93 percent
     b. Others = 40.59 percent
   - 30-year SRs = 38.46 percent
   - 15-year SRs = 51.04 percent
   - ARM SRs = 37.53 percent.

   Note that this alternative scenario also retains the same forecasted series as the base scenario. In other words, this sensitivity analysis examines the marginal impact of a change in loss rates.

4. ***High Concentration in Loans with Downpayment Assistance Remains*** – This scenario assumes that the concentration in loans with downpayment assistance from non-profit organizations will remain high (vs. gradually disappear during the next three years as assumed in the base case scenario) in all future books of business.

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