



## Are Historical Hypotheticals Still Valid?

*By Dorice Maynard, Software Sales & Customer Service*

I've been asked recently about the use of "actual" historical rates in EIA presentations. This is an area Mitchell Maynard explored in an [article](#) and [research paper](#) in 2006 (see our web site "Articles/White Papers" link), but it is worth a review.

"Actual" EIA rate history is a poor, poor predictor of future results. It is also misleading, because EIA contracts are "locked" into series, with rates based on many factors in place at the time of contract issue. Contracts issued at different times in the same month will have different renewal rates, which also vary from "new issue" rates. There is no database of actual EIA renewal rates in existence. The VIX index will not tell us what those caps and spreads would have been – we'd be estimating, as Mitchell's helpful calculations showed.

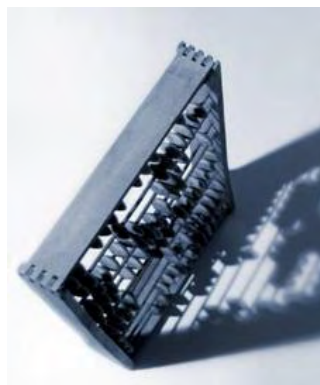
I think the conclusions are that Monte Carlo is still the best method to project future outcomes. EIA rates are mainly a factor of stock index volatility, and since we are accounting for 95% of that volatility, we are doing a pretty good job.

The goal of our software is not to replicate actual past performance or create strict "illustrations" of a product. History has limited value. The goal of our software is to assist understanding credit method behavior, to use the resulting analysis to set realistic client expectations about their experience in the EIA, and finally projecting likely outcomes through Monte Carlo simulations.

Used this way, hypotheticals will always be meaningful.

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**Q: "Some EIA rates are so different from just a month ago. Are your EIA illustrations still meaningful?"**

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