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Inter-Departmental Memo

To: Judy Jacobs, Chairperson
All Members of the Budget Review Committee

From: Eric C. Naughton, Director ECN
Legislative Budget Review

Date: February 13, 2008

Re: Federal Economic Stimulus Package

For your review, attached is an estimate of the proposed Federal Economic Stimulus Package. The memo addresses the various avenues in which County Sales Tax and County Clerk Fee revenues could be impacted by the stimulus package in 2008. These revenues were not included in the 2008 budget.

Revenue Estimate of the 2008 Federal Economic Stimulus Package

Real GDP for the fourth quarter 2007 came in at 0.6%. That was down from the third quarter 2007's 4.9% reading.[1] The current economic weakness is the reason why the Federal Government is seeking to pass a stimulus package to help ameliorate the situation. No revenues from the Federal stimulus package were included in the 2008 budget and therefore can be used to offset some of the projected deficits. This memo seeks to quantify the revenues generated from the Federal Economic Stimulus package.

Federal Economic Stimulus Package

On February 7, 2008, the Congress reached an agreement on an economic stimulus package which is said to have the support of the President, who must still sign the bill. As part of this package approximately 117 million U.S. families will receive a rebate check as early as May 2008. An individual can expect to receive up to $600 and a married couple can expect to receive $1,200 plus an extra $300 per child. These refund checks begin to be phased out for individuals with annual incomes above $75,000 and married couples with annual incomes above $150,000. Additionally, the package incorporates a one-year increase in Fannie Mae's and Freddie Mac's conforming loan limit from $417,000 to $729,750 and a permanent increase in the FHA loan limit from $367,000 to $729,750.[2] Lastly, the 20 million low-income seniors and 250,000 disabled veterans who currently live off of social security would receive a $300 refund check.[3] This economic stimulus package should have a positive impact on Nassau County sales tax collections and County Clerk fee revenues. The County is expected to benefit from three different avenues: refinancing fee revenues, heightened monthly disposable household income and increased spending as a result of the reception of tax refund checks. This memo attempts to quantify these unbudgeted additional revenues which the County will collect in 2008.

A) New County Clerk Refinancing Fee Collections

In the mortgage market, individuals pay different interest rates depending on whether or not their loan is deemed conforming or not. Conforming loan interest rates are lower than non-conforming or jumbo interest rates since both Freddie Mac and Fannie Mae are able to buy all mortgages whose principle dollar amount is below the conforming loan level. Individuals whose principle mortgage dollar amount is above the conforming loan level pay non-conforming or jumbo interest rates since these loans are viewed as higher risk due to the fact that government enterprises are not able to purchase them. By raising the conforming loan limit to $729,750 from $417,000, eligible individuals currently paying jumbo mortgage interest rates will find it advantageous to refinance their existing mortgages. First American Loan Performance, a mortgage industry consultancy, estimates that 9.6% of the mortgages in New York State are in the non-conforming or jumbo category.[4] HSH Associates.com estimates that the non-conforming loan percentage in New York State is 19.5%.[5] For this analysis an average of the

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[1] Isidore, Chris, "Economy Much Weaker Than Expected", CNN/Money.com, January 30, 2008.
[2] Press Release, Office of the Speaker of the House, January 24, 2008.
[3] Weisman, Jonathan, "Congress Approves Stimulus Package", WashingtonPost.com, February 8, 2008.
[4] Tedeschi, Bob, "A Break on "Jumbo Loans"", The New York Times, December 7, 2007.
[5] Hagerty, James R., and Michael Corkery, "More Risk for Fannie, Freddie?", The Wall Street Journal, January 25, 2008.

two estimates was assumed. Using the 14.5% average percentage and County Clerk data, it was estimated that roughly 38,000 jumbo mortgages were recorded in Nassau County in 2004 and 2005. Mortgages recorded in 2006 and 2007 were not included in the estimate since those homes may not have the equity necessary to refinance. That figure may be deemed a conservative estimate of the actual number of jumbo mortgage holders who would find it fiscally beneficial to refinance at conventional rates since many jumbo mortgages were signed at the height of the real estate market in 2002, and are not included in the analysis. This discount is appropriate since not all jumbo mortgage holders will be aware of the increased limit and what it would imply for them fiscally.

Using County Clerk data, it is estimated that the County could collect an additional $2.3 million in fee revenues from the refinancing of these jumbo mortgages,.

B) New Sales Tax Collections Attributable to Greater Monthly Disposable Income

In refinancing from a non-conforming to a conforming loan, a household is expected to save between $350 and $444 a month. An individual with a $500,000 mortgage at 6.36% who refinances into a conforming loan at 5.3% is expected to save $350 a month.[6] Moreover, an individual with a $600,000 mortgage who refinances into a conforming loan at 5.25% from a jumbo loan at 6.41% would save $444 a month.[7]

Using an average monthly refinancing savings of $400 and applying it to the 38,000 households which are assumed to have a jumbo mortgage in Nassau County, it was found that Nassau County residents could have an additional $182,520,000 of cash available for taxable purchases. Using Federal Reserve data, it is estimated that 48% of the new revenues will be used to make taxable purchases. Discounting the taxable sales figure by an additional 25% to account for the fact that not all the new taxable sales will occur within Nassau County leads to the result that the County could net an additional $2.8 million in 2008 sales tax due to increased monthly household disposable income.

C) New Sales Tax Revenues Due to the Interjection of Tax Refund Checks

By placing money directly into the hands of County residents, the economic stimulus package should generate new County sales tax revenues from those dollars which are spent on taxable products in Nassau County.

Using New York State Taxation and Finance figures, it was found that there were 630,606 households in Nassau County which filed a personal income tax return in 2004. This number was then discounted by 60,842 filers to account for the fact that there are households on Long Island which will not be receiving any refund check due to their income level.[8]

It was assumed that each household would receive an average refund of $750, resulting in a cash infusion of $427.3 million.

[6] Christie, Les, "Stimulus Plan also Sparks Housing Market", CNN/Money.com, January 25, 2008.
[7] Arends, Brett, "Don't Spend Your Stimulus Rebate!", The Wall Street Journal.com, January 25, 2008.
[8] Luhby, Tami, and Susan Harrigan, "Some Long Island Couples Won't Get Tax Rebate", Newsday.com, January 24, 2008.

According to the Congressional Budget Office, in 2001, when the federal government sought to stimulate the economy by issuing rebate checks, consumers spent two-thirds of their refunds and saved one-third.[9] However, since households are carrying higher debt levels than they were in 2001, there is a high probability that a smaller percentage of the tax rebate checks will be used to make new purchases. According to a recent survey, only 24% of the tax rebate checks will be used to make new purchases.

Lastly, the anticipated revenues were discounted by 25% to account for leakages from the system, spending outside of the County and purchases of non-taxable items. It was found that Nassau County may receive between $76.9 million and $213.7 million in new taxable sales. Those sales could result in additional 2008 County sales tax revenues in the $3.3 million and $9.1 million range.

D). Low-Income Seniors and Disabled Veterans Refund Checks

As previously mentioned, placing income directly in the hands of consumers should result in heightened sales tax collections. It is estimated that there currently are 20 million low-income seniors and 250,000 disabled veterans living off of social security in America.[10] Using US Census Bureau data, one can expect that 1,099 disabled veterans and 87,902 low-income seniors reside in Nassau County. Using the same assumptions as detailed in section C and assuming that each disabled veteran and low-income senior receives $300, it was estimated that Nassau could expect to receive between $204,257 and $570,220 in additional 2008 sales tax collections from these refund checks.

E).. Final Tally for the Federal Economic Stimulus Package

In total, OLBR finds that Nassau County may collect between $8.6 million and $14.8 million in revenue as a result of the Federal Economic Stimulus package. Chart 1 below provides an itemization of the anticipated new fiscal collections.

Chart 1

Estimate of New County Revenues Attributable to the Stimulus Package		
	Estimated Revenues, 25% of Refund Spent	**Estimated Revenues, 75% of Refund Spent**
New Refinancing Fee Revenues	2,339,170	2,339,170
Sales Tax Attributable to Additional Diposable Income	2,792,556	2,792,556
Disabled Vet. And Low Income Senior Refund Checks	204,257	570,220
Sales Tax Due to Refund Checks	3,269,021	9,080,613
Total New County Revenues	**8,605,004**	**14,782,558**

F). Additional Potential Positive Impacts

Not incorporated in the previously detailed estimate are three additional positive fiscal impacts generated by the economic stimulus package. These additional impacts originate from non-resident spending, economic multipliers and increased home purchases.

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[9] Waters, Jennifer, "Tax Rebates May be Used to Cut Debt This Time", The Wall Street Journal.com, January 22, 2008.
[10] Sahadi, Jeanne, "Congress Seals the Deal on Rebates", CNN/Money.com, February 7, 2008.

A significant portion of Nassau County sales tax collections derives from individuals who shop in Nassau County but do not live in Nassau County. Since sales tax collections are not itemized by the residence of the buyer, the previously detailed estimates do not include any new non-resident spending.

According to economic theory, the additional spending will create new jobs which lead to more income and thus more spending. The impact of any secondary spending is not captured in this analysis.

Lastly, by raising the conventional loan limit, not only will individuals find it fiscally beneficial to refinance, it will also be more affordable to purchase a home. These additional home purchases should positively impact new mortgage recording fees. These new revenues are not included in this analysis.

G). Potential Countervailing Impacts

The previously detailed revenue estimates may be seen as a best case scenario in which all factors of the economy function properly. However, several mortgage industry experts opine that the fiscal stimulus package will not generate the anticipated economic boost.

These experts feel that mortgage underwriting standards have become so stringent that many individuals who want to refinance will not be able to. According to Bob Moulton, President of the Americana Mortgage Group, "I'm turning away 60% to 75% of the clients who come to me for a refi".[11] Individuals are being turned away for low credit scores or a lack of equity in their home. Currently many lenders want collateral that is worth more than the value of the loan and are wary about having so little cushion. To cover themselves, lenders are now conducting "bench reviews" of appraisals, having an independent third-party go over the appraisal to ensure accuracy.[12]

Other industry experts believe that raising the conforming loan impact will not achieve the desired result for individuals with jumbo mortgages. They feel that mortgages with greater principle amounts are still going to be viewed as inherently more risky, that even if interest rates decline, additional fees will be imposed on these loans to compensate for the additional risk, increasing the cost to consumers of refinancing. Lastly, in the secondary market where all government backed mortgage products are bundled together and sold, in grouping low principle mortgages with high principle mortgages, the associated risk of a low principle mortgage will rise. This would result in higher mortgage interest rates for low principle loans.[13] If the previously detailed concerns come to fruition, the economic stimulus effect will be diminished.

[11] Christie, Les, "Refinancing: Only for the Priviledged Few", CNN/Money.com, February 8, 2008.
[12] Same as above.
[13] Murray, Sara, and Jonathan Karp, "Will New Rules on Mortgages Help Borrowers?", The Wall Street Journal, February 7, 2008.