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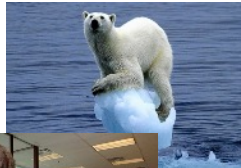
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MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

European Weakness Drives Rates (Week ending 9/5/14)

Stronger than expected economic data pushed mortgage rates higher during much of the week. A surprise announcement by the European Central Bank (ECB) along with a shortfall in the US Employment report helped offset the other data. As a result, mortgage rates ended the week slightly higher.

Fed Guidance May Change (Week ending 9/12/14)



Increased concerns that the Fed will raise the fed funds rate more quickly than previously expected was the driving factor for mortgage rates this week. Stronger than expected economic data was another negative factor, and mortgage rates,

again, ended the week higher. Retail sales account for roughly 70% of economic activity, making them an important indicator of the strength of the economy. Last month, the Retail Sales report for July fell short of expectations with a disappointing flat reading from June. The Retail Sales report released this week revealed a solid increase of 0.6% in August from July, matching the consensus forecast. The surprise came from a significant upward revision to the flat reading in July. Instead of stalling in July, Retail Sales actually continued to improve at a moderate pace. Unfortunately, stronger economic growth is negative for mortgage rates, as it increases future inflationary pressures.

Fed Statement Little Changed (Week ending 9/19/14)



Investors were focused almost exclusively on the Fed meeting this week. Shifting expectations about future Fed policy guidance caused a good deal of volatility during the week. The Fed statement contained no major changes, however, and mortgage rates ended the week with little change.

Ahead of Wednesday's Fed meeting, investors debated about whether the Fed statement would include significant changes in language in one or two areas, but these changes were not made. Fed officials kept the language saying that the fed funds rate will remain near zero for a "considerable time" after the end of the bond purchase program. Fed officials also continued to describe the labor market as containing "significant under utilization". As expected, the Fed will decrease its purchases of Treasuries and mortgage-backed securities (MBS) by another \$10 billion per month to \$15

billion and Fed officials expect to conclude the purchases next month.

The headlines for the Housing Starts report released this week pointed out that August Housing Starts declined 14% from July. To keep it in perspective, the drop in August follows an increase of 23% (after revisions) in July to the highest level since November 2007. In addition, the monthly volatility has been almost entirely due to multi-family units.

Single-family housing starts have been much more stable this year, with the seasonally adjusted annual rate showing modest improvement since the beginning of the year. Also released this week, the September NAHB Housing Index showed that home builder confidence increased to the highest level since November 2005.

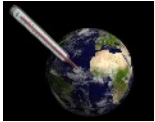
Big Events Ahead (Week ending 9/26/2014)

Sandwiched between weeks containing the highest level of significant economic events, investors took a breather this week. In addition, the economic data released this week contained few surprises. As a result, mortgage rates ended the week with little change

Between last week's Fed meeting and next week's European Central Bank (ECB) meeting and US Employment report, investors have a great deal of information to digest. This week's news, however, contained little to cause investors to shift their outlook for the performance of the economy. Durable Orders, Jobless Claims, and revisions to second quarter GDP all came in very close to the consensus forecasts. While there were several volatile sessions during the week, the increases offset the decreases.

The housing data released this week continued to be encouraging. August New Home Sales jumped 18% from July to the highest level since May 2008. Existing Home Sales, which include roughly 90% of the market, did decline slightly in August, but this followed four straight months of gains. With mortgage rates remaining relatively low, home sales are near the highest levels of the year.

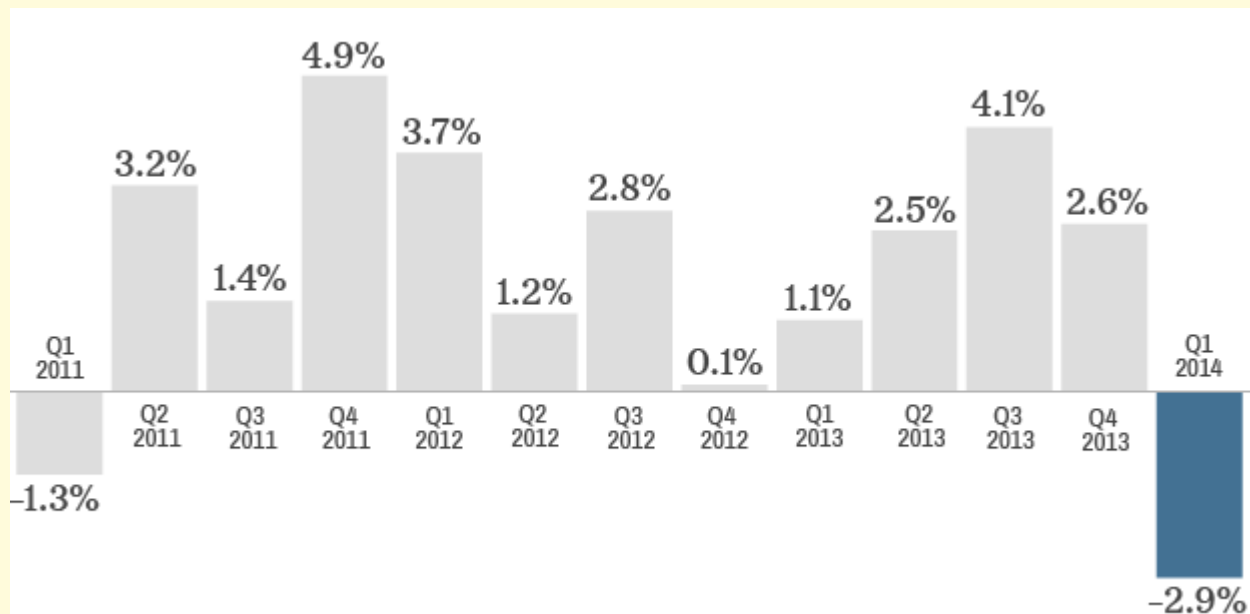
THE STATE OF MORE THAN THE UNION



This is the seventh of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our "State of the Union". Because of the breadth of Climate Change, I broke it up into two parts: Last month's issue focused on the enormity of the Problem and this month's on Costs, Collateral Damage, Impediments, and Prescriptions.

PART II IMPACT ON GDP

Eventually, resources that are vital to life, like breathable air and potable water become bid up to their highest intrinsic value. As I have sought to point out, economics is an invaluable indicator of the costs and benefits associated with "being on the right side of history". This was recently brought home this year in Q1. Gross Domestic Product, the broadest measure of economic growth, contracted at a 2.9% annual rate in January through March. It was the weakest quarter for the U.S. economy since the Great Recession.

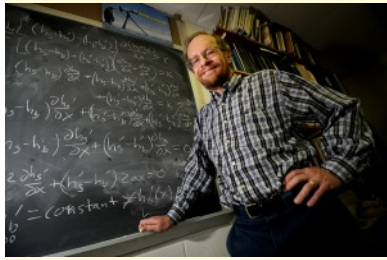


NOTE: GDP % QUARTERLY CHANGE, SEASONALLY ADJUSTED AT ANNUAL RATES; SOURCE: BUREAU OF ECONOMIC ANALYSIS

Why? **Economists cite the weather as the number one reason.** Consumer spending was the single largest driver of the U.S. economy—blizzards kept customers away from restaurants, shopping malls, car lots and open houses more than usual this winter. The icy winter also slowed shipments both domestically and abroad, and as a result, exports to foreign countries declined.



While a bitterly cold and protracted winter is behind us, the second quarter has seen record rainfalls, flooding and tornados throughout the Mid West and portions of the East and continuing droughts in the Southwest, and the third quarter more of the same. The numbers for these calamities have yet to be counted but they will total in the billions. Disasters owing to climate change will become the new normal in the years to come and the money for the clean up, rebuilding and lost productivity will be in the trillions. As the saying goes, “an ounce of prevention is worth a pound of cure.”



Richard B. Alley, a climate scientist at Pennsylvania State University said, “The costs so far are still on the low side compared” compared to “a business as usual policy by late in this century.” It should be understood that not only is climate change here, we have passed the tipping point in terms of it being a *fait accompli*. No matter what we do at this point these things will happen, but it is imperative that we act to mitigate the acceleration of change and the costliness of the consequences. The implications were underscored once again when a team of more than 300 scientists warned in a report to the White House of “mounting evidence that harm to the nation will increase substantially in the future unless global emissions of heat-trapping gases are greatly reduced.” Climate scientist Heidi Cullen explains, “If we don’t leave 30 percent of our oil and gas reserves untapped, large parts of our planet will become unlivable.” The decisions that we are making today—to continue along a path that’s almost entirely carbon dependent—are locking us in for long term consequences that we will not be able to change but only adapt to at enormous cost.

CLIMATE CHANGE HERE = POLITICAL INSTABILITY ABROAD

Because of trade, the fall out from climate change in a region half a world away can have a profound and far-reaching impact on citizens in other countries. You can’t understand Egypt’s uprising without linking it to the 2010 drought in Kansas and the resultant spike in wheat prices and soaring bread prices which inspired the anti-Hosni Mubarak chant: “Bread, Freedom, Dignity.” Because bread is more than a commodity in Egyptian society, the drought in Kansas in



2010, made it less affordable to the masses, which in turn sparked riots and led to the rebellion known as the Arab Spring. The scarcity of water is already leading to local fighting. Where climate change leads to more frequent droughts, it is a factor that can push a volatile political situation towards war. Similarly, you can’t understand the uprising in Syria unless you understand a how a horrendous four-year drought and mass migrations from the countryside to cities which provoked civil unrest and triggered its resultant civil war. The report published by CNA Corporation Military Advisory Board, a leading government-funded military research organization, found that climate change-induced drought in the Middle East and Africa is leading to conflicts over food and water and escalating

longstanding regional and ethnic tensions into violent clashes. The report also found that rising sea levels are putting people and food supplies in vulnerable coastal regions like eastern India, Bangladesh and the Mekong Delta in Vietnam at risk and could lead to a new wave of refugees.

In March, the Pentagon’s Quadrennial Defense Review, the agency’s main public document describing the current doctrine of the United States military, drew a direct link between the effects of global warming—like rising sea levels and extreme weather patterns—and terrorism. “These effects are threat multipliers that will aggravate stressors abroad, such as poverty, environmental degradation, political instability and social tension—conditions that can enable terrorist activity and other forms of violence,” the review said.

The CNA report is an update of a report by the center’s Military Advisory Board in 2007. The 2007 report also described climate change as a “threat multiplier” or a problem that could enhance or contribute to already existing causes of global disruption. The 2014 report updates that language, calling climate change a “catalyst for conflict”—a phrase intentionally chosen, the report’s authors said, to signal that climate change is an active, driving force in starting conflict. “In the past, the thinking was that climate change multiplied the significance of a situation,” said Gen. Charles F. Wald, who contributed to both reports and is retired from the Air Force. “Now we’re saying it’s going to be a direct cause of instability.”



The most recent scientific reports on climate change warn that increasing drought in Africa is now turning arable land to desert. The national security report's authors conclude that the slow but steady expansion of the Sahara through Mali, which is killing crops and leaving farmers starving, may have been a contributing force in the jihadist uprising in that African country in 2012. Since then, Al Qaeda in the Islamic Maghreb has seized control of northern Mali and remains in conflict with the Malian government. In short, the accelerating rate of climate change throughout the world is a catalyst for global political conflict.

Rear Adm. David Titley, a co-author of the report and a meteorologist who is retired from the Navy, observed that opposition would not extinguish what he called the indisputable data in the report. Titley, who now directs the Center for Solutions to Weather and Climate Risk at Pennsylvania State University, said, "The ice doesn't care about politics or who's caucusing with whom, or Democrats or Republicans,"



POPULATION AND CLIMATE CHANGE

If the world's population reached only 7.5 billion by midcentury, rather than the more than nine billion projected we would be spewing 5 to 9 billion fewer tons of carbon dioxide into the air. This alone would deliver 16 to 29 percent of the emission reductions needed over the next four decades to keep the global temperature from rising more than 2 degrees Celsius above that of the late 19th century, the threshold scientists predict could lead to severe disruptions to the climate.



According to current demographic and economic projections, food production will still have to increase 70 percent by 2050. The World Resources Institute states that population growth is responsible for about one-half of increased food consumption, with the other half being attributable to higher incomes and a richer diet. The World Resources Institute is concerned about how the world will feed itself in 2050 without busting the carbon budget.

"There is a strong case to be made that the world faces sustainability issues whether it has nine billion people, seven billion people or four billion people," said John Wilmoth, who directs the United Nations Populations Division. "But nobody can deny that population growth is a major driving factor. Though population growth is only one factor—and not necessarily the most important one—contributing to global climate change, its impact cannot be discounted. Over the course of the 20th century, emissions of carbon dioxide grew 180 percent faster than the population in poor countries and 60 percent faster than the population in rich ones. Shifting the world economy into more sustainable energy sources and away from fossil fuels is still the most promising strategy.

THREE CERTITUDES AND THREE "C'S"

There are three things we know about man-made global warming. First, the consequences will be terrible if we don't take quick action to limit carbon emissions. Second, in pure economic terms the required action shouldn't be hard to take: emission controls, done right, would probably slow economic growth, but not by much. Third, the politics of action are nonetheless very difficult.

President Obama said, "at this moment in our history, [we've] got to recognize [that global warming] is going to be one of the most significant long-term challenges, if not the most significant long-term challenge, that this country faces and that the planet faces."

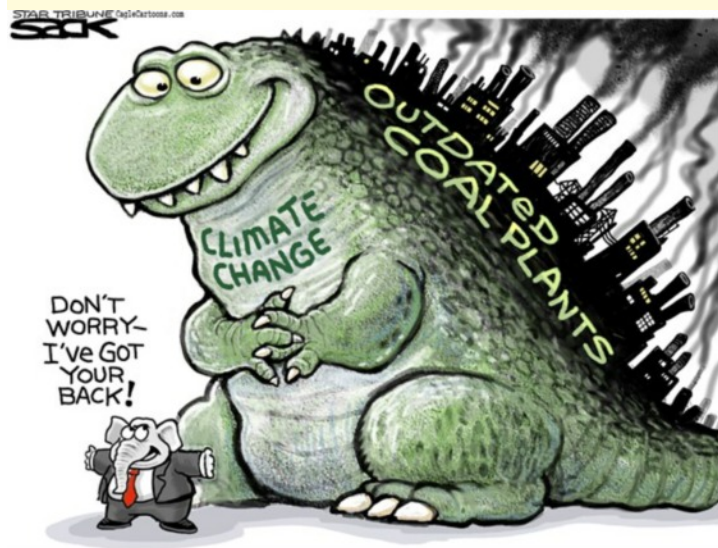
So, are we doing anything to move in the right direction? In accordance with his statement, he introduced a new regulation in June to cut pollution from coal-fired power plants. Such plants aren't the only source of greenhouse gas emissions, but they're a large part of the problem—and the best estimates we have of the path forward suggest that reducing power-plant emissions will be a large part of any solution. Not surprisingly, he got immediate pushback from the right.

Their opposition mainly involved the three C's: conspiracy, cost and China. That is, right-wingers claimed that there isn't any global warming, that it's all a hoax, that thousands of research papers showing a warming planet—97 percent of the literature—are the product of a vast international conspiracy. What makes rational action on climate so hard is a toxic mix of ideology and anti-intellectualism. What can one say about conspiracy theorists—they're nuts? There is, however, a lot to say about both the cost and China issues.

On cost: The monetary stakes aren't nearly as big as one might think. It's reasonable to argue that new rules aimed at limiting emissions would have some negative effect on G.D.P. and family incomes. But even that isn't necessarily true, especially in a depressed economy, where regulations that require new investment could end up creating jobs. The United States Chamber of Commerce recently commissioned a report that was intended to show the terrible costs of the forthcoming E.P.A. policy—a report that made the least favorable assumptions possible in an attempt to make the costs look bigger. Even so, however, the numbers came out embarrassingly small. It admitted that the economic impact of such drastic action would be surprisingly small. In fact, even under the most ambitious goals the assessment considers, the estimated reduction in economic growth would basically amount to a rounding error, around 0.06 percent per year. No, cracking down on coal won't cripple the U.S. economy.



Then, why is it so hard to act? Is it the power of vested interests?



In looking into this issue one finds that the opposition lies less with the vested interests than one might suspect. They do, of course, exist and play an important role; funding from fossil-fuel interests has played a crucial role in sustaining the illusion that climate science is less settled than it is. Consider, in particular, the much-hyped “war on coal.” It's true that getting serious about global warming means, above all, cutting back on (and eventually eliminating) coal-fired power, which would hurt regions of the country that depend on coal-mining jobs. What's rarely pointed out is how few such jobs still exist.

Once upon a time, King Coal was indeed a major employer: At the end of the 1970s there were more than 250,000 coal miners in America. Since then, however, coal employment has fallen by two-thirds, not because output is down—it's up, substantially—but because most coal now comes from strip mines that require very few workers. At this point, coal mining accounts for only

one-sixteenth of 1 percent of overall U.S. employment; shutting down the whole industry would eliminate fewer jobs than America lost in an average week during the Great Recession of 2007-9.

Or put it this way: The real war on coal, or at least on coal workers, took place a generation ago, waged not by liberal environmentalists but by the coal industry itself. And coal workers lost. The owners of coal mines and coal-fired power plants do have a financial interest in blocking environmental policy, but even there the special interests don't look all that big. So why is the opposition to climate policy so intense?

Well, think about global warming from the point of view of someone believing that the untrammelled pursuit of self-interest is always good and that government is always the problem, never the solution. Along come some scientists declaring that unrestricted pursuit of self-interest will destroy the world, and that government intervention is the only answer. It doesn't matter how market-friendly you make the proposed intervention; this is a direct challenge to the libertarian worldview. And the natural reaction is denial—angry denial. But a firm conviction that the government can't do anything useful—a dogmatic belief in public-sector incompetence—is now a central part of American conservatism, and the incompetence dogma has evidently made rational analysis of policy issues impossible. Read or watch any extended debate over climate policy and you'll be struck by the venom, the sheer rage, of the denialists.

Other things equal, more G.D.P. tends to mean more pollution. What transformed China into the world's largest emitter of greenhouse gases? Explosive economic growth. But other things don't have to be equal. There's no necessary one-to-one relationship between growth and pollution. With regard to relationship between economic growth and the environment, you sometimes find environmentalists asserting that to save the planet we must give up on the idea of an ever-growing economy; on the right, you often find assertions that any attempt to limit greenhouse gas emissions would devastate the economy and growth. But there's no reason we can't become richer while reducing our impact on the environment.

Free-market advocates seem to experience a peculiar loss of faith whenever the subject of the environment comes up. They normally trumpet their belief that the magic of the market can surmount all obstacles—that the private sector's flexibility and talent for innovation can easily cope with limiting factors like scarcity of land or minerals. But they abruptly lose their faith in market magic when someone proposes limits on pollution—limits that would largely be imposed in market-friendly ways like cap-and-trade systems. Suddenly, they insist that businesses will be unable to adjust, that there are no alternatives to doing everything energy-related exactly the way we do it now.

This smacks of the same argument voiced back in the 1980s when conservatives claimed that any attempt to limit acid rain would have devastating economic effects; in reality, the cap-and-trade system for sulfur dioxide was highly successful and at minimal cost. The Northeastern states have had a cap-and-trade arrangement for carbon since 2009, and so far have seen emissions drop sharply while their economies grew faster than the rest of the country. Environmentalism is not the enemy of economic growth.



CHINA. Finally, one cannot dismiss this reality: Coal is the source of nearly half the world's energy. About a dozen countries are responsible for nearly 70 percent of the world's carbon pollution, chiefly from cars and coal-fired power plants. The International Energy Agency (IEA) released a report last month projecting that the trend will increase throughout the decade. "In fact," according to IEA executive director Maria van der Hoeven, "the world will burn around 1.2 billion more tons of coal per year by 2017 compared to today—equivalent to the current coal consumption of Russia and the United States."

Let's examine the anti-environmentalists' last line of defense—the claim that whatever we do won't matter, because other countries, China in particular, will just go on spewing stuff into the atmosphere anyway. This gets things exactly wrong. Yes, we need an international agreement to reduce emissions, including sanctions on countries that don't sign on. But U.S. unwillingness to act has been the biggest obstacle to such an agreement. If we start taking serious steps against global warming, the stage will be set for Europe and Japan to follow suit, and for concerted pressure on the rest of the world as well.

Historically, the United States was responsible for more emissions than any other country. At this point, the United States accounts for only 17 percent of the world's carbon dioxide emissions, while China accounts for 27 percent—and China's share is rising fast. It's true that we're no longer No. 1 in greenhouse gases—but we're still a strong No. 2. Lately, China has become the largest emitter over all, though its emissions per person are still far below those of the United States. So it's true that America, acting alone, can't save the planet. We need international cooperation.



That, however, is precisely why we need the new policy. America can't expect other countries to take strong action against emissions while refusing to do anything itself, so U.S. action on climate is a necessary first step toward a broader international agreement. And it's fairly certain that action in the U.S. would lead to corresponding action in Europe and Japan. That leaves China, and there have been many cynical declarations over the past few months to the effect that China will just go ahead and burn the coal that we don't. We don't have to count on Chinese altruism. But we don't have to. China is enormously dependent on access to advanced-country markets—a lot of the coal it burns can be attributed, directly or indirectly, to its export business—and it knows that it would put this access at risk if it refused to play any role in protecting the planet.

More specifically, if and when wealthy countries take serious action to limit greenhouse gas emissions, they're very likely to start imposing "carbon tariffs" on goods imported from countries that aren't taking similar action. Such tariffs should be legal under existing trade rules—the World Trade Organization would probably declare that carbon limits are effectively a tax on consumers, which can be levied on imports as well as domestic production. Furthermore, trade rules give special consideration to environmental protection. So China would find itself with strong incentives to start limiting emissions.

Obama's new carbon policy, then, is supposed to be the beginning, not the end, a domino that, once pushed over, should start a chain reaction that leads, finally, to global steps to limit climate change. Do we know that it will work? Of course not. But it's vital that we try.

IMPEDIMENTS

In a political environment where many Republican lawmakers remain skeptical of the established science of human-caused global warming, there has been a modest shift among Republicans on climate change. Last fall, 50 percent said there was solid evidence of rising temperatures on earth, according to the Pew Research Center. But that is down from 2006 when 59 percent of Republicans held that view. Then too, that was before conservatives had fully retreated into their bubble of denial. It was still possible to entertain the notion that reality wasn't what you wanted it to be. So obtuse has become the party's dialogue on climate change that it's now been reduced to believing or not believing, as it were a religious mantra.

- Governor Chris Christie refuses to "acknowledge the role that climate change played in amplifying the impacts" of super-storm Sandy. Christie pulled New Jersey out of the Regional Greenhouse Gas Initiative (RGGI), the first market-based regulatory



program in the United States to reduce greenhouse gas emissions, after meeting with the Koch brothers, who then funded campaign advertising for Christie.

- Senator James Inhofe of Oklahoma, the ranking Republican on the Senate Armed Services Committee and a vocal skeptic of the established science that greenhouse gas emissions contribute to global warming scoffed at the idea that climate change is linked to national security threats.
- The Pentagon has warned that global warming and its consequences pose a significant threat to national security. (Republicans in the House responded with a legislative amendment that would forbid the military from even thinking about the issue).
- This approach reached a new low, in May, during a North Carolina congressional debate at which all the Republican candidates chuckled at a question on climate change—as if they had been asked about their belief in the tooth Fairy. Is climate change a fact, they were asked. All four answered no.



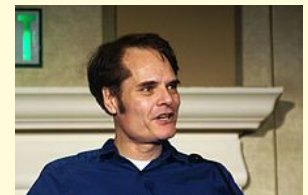
Perhaps some of this shift has to do with the economic collapse and a resulting change in concerns and priorities. At the same time, many party leaders may have felt the need to run for cover because of growing pressure from the Tea Party. (Among Tea Party Republicans, 41 percent told Pew last fall that global warming was not happening, another 28 percent said not enough was known).

On July 7, 2014 the N.Y. Times published an article by the political scientist Brendan Nyhan about a troubling aspect of the current American scene—the stark partisan divide over issues that should be simply factual, like whether the planet is warming or evolution happened. It's common to

attribute such divisions to ignorance, but as Mr. Nyhan points out, the divide is actually worse among those who are seemingly better informed about the issues.

HE FOUND THAT ONE'S BELIEFS ARE A FUNCTION OF THEIR NEED TO BELIEVE THAT WHICH CONFIRMS THEIR BIAS, WITH TOTAL DISREGARD TO THE FACTS.

Reinforcing this is a new study by Yale Law School professor, Dan Kahan, found that the divide over belief in evolution between more and less religious people was wider among people who otherwise showed familiarity with math and science which suggests that the problem isn't a lack of information. When he instead tested whether respondents knew the theory of evolution omitting mention of belief there was virtually no difference between more and less religious people with high scientific familiarity. In other words, religious people knew the science; they just weren't willing to say that they believed in it.



The problem, in other words, isn't ignorance; it's wishful thinking. Confronted with a conflict between evidence and what they want to believe for political and/or religious reasons, many people reject the evidence. And knowing more about the issues widens the divide, because the well informed have a clearer view of which evidence they need to reject to sustain their belief system.

So, do Americans understand the scientific consensus about issues like climate change and evolution? At least for a substantial portion of the public, it seems like the answer is no. The Pew Research Center, for instance, found that 33 percent of the public believes "Humans and other living things have existed in their present form since the beginning of time" and 26 percent think there is not "solid evidence that the average temperature on Earth has been getting warmer over the past few decades." Unsurprisingly, beliefs on both topics are divided along religious and partisan lines. For instance, 46 percent of Republicans said there is no solid evidence of global warming, compared with 11 percent of Democrats.

As a result of surveys like these, scientists and advocates have concluded that many people are not aware of the evidence on these issues and need to be provided with correct information. That's the impulse behind efforts like the campaign to publicize the fact that 97 percent of climate scientists believe human activities are causing global warming.

PRESCRIPTIVES

Cap & Trade on Carbon Emissions. Pollution wasn't always a deeply partisan issue: Economists in the George W. Bush administration wrote paeans to "market based" pollution controls, and in 2008 John McCain made proposals for cap-and-trade limits on greenhouse gases as part of his presidential campaign. But when House Democrats actually passed a cap-and-trade bill in 2009, it was attacked as Marxist. And these days Republicans come out in force to oppose even the most obviously needed regulations, like the plan to reduce the pollution that's killing Chesapeake Bay.



Reducing carbon emissions now is about helping prevent even more serious damage 50, 75, a hundred years from today. The sensible position on the economics of climate change has always been that it's like the economics of everything else—that if we give corporations and individuals an incentive to reduce greenhouse gas emissions, they will respond. What form would that response take? Until a few years ago, the best guess was that it would proceed on many fronts, involving everything from better insulation and more fuel-efficient cars to increased use of nuclear power.

One proposed solution would be a cap on carbon emissions for businesses and another would be for businesses to sell their permits to those that cannot change their habits so easily. Unfortunately, that isn't going to happen in the foreseeable future. A carbon tax may be the best thing we could do, but we won't actually do it because of the prevalence of climate denial within today's GOP and the absolute opposition to any kind of tax increase.

So, we are left with the theory of second best alternatives. One less efficient way, would be "net metering" standards that mandates that utilities buy back the electricity generated by homeowners solar panels. Another would be for the government's support for clean energy via subsidies and loans guarantees. Finally, have EPA's proposal that it use its regulatory authority to impose large reductions in emissions from power plants.

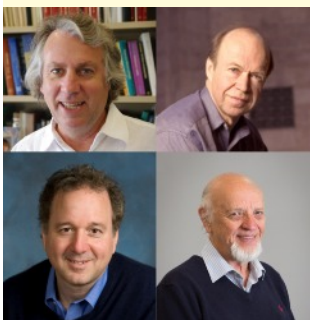
Until a few years ago, one front many people didn't take too seriously was renewable energy. Sure, cap-and-trade might make more room for wind and the sun, but how important could such sources really end up being? It's much bigger than most people realize. For example, 30% of Germany's electrical power comes from renewable energy. With the advent of the technological revolution, there has been an incredible recent decline in the cost of renewable energy, solar power in particular. That sounds like hyperbole, but you realize that it isn't when you learn that the price of solar panels has plummeted more than 75 percent just since 2008. The major drawbacks with wind and solar: The energy it produces is intermittent, there is marginal storage capacity, it is still too costly, and it takes too long to scale up to become a meaningful substitute for coal. Community opposition to the industrialized footprint of solar installations and wind farms is increasing.



Nuclear Energy. Over the past decade and a half, countries around the world have taken unprecedented steps to shift their energy dependence from fossil fuels to alternative resources. Tariffs and subsidies have spurred the growth of wind and solar, regional emissions markets have imposed costs on carbon, and government funds have poured in to support the development of new, low-carbon technologies. Yet carbon emissions from the energy sector continue to rise. From 1991 to 2010, they grew at a rate of 1.7 percent a year; over the following decade, that rate nearly doubled, to 3.1 percent a year, according to data from the Intergovernmental Panel on Climate Change (IPCC). Notwithstanding a minor drop in emissions during the

economic recession of 2009, the upward trajectory continues today. Energy consumption globally is forecast to double by 2050—and perhaps triple or quadruple by 2100—as growing nations like China, India and Brazil start to want more energy.

The energy supply sector which includes the extraction, transportation and conversion of fuel into energy—is the largest single contributor to human-caused global warming, at around 35 percent of the total carbon budget. If the world hopes to head off potentially dangerous temperature rises of above 2 degrees Celsius, emissions from the sector will have to be sharply curtailed by midcentury, scientists say.



Four top environmental scientists have raised the stakes in their fight to reverse climate change and save the planet. Climate and energy scientists James Hansen, Ken Caldeira, Kerry Emanuel and Tom Wigley have released an open letter calling on world leaders to support development of safer nuclear power systems. Embracing nuclear is the only way, the scientists believe, to reverse the looming threat of climate change which they blame on fossil fuels. James Hansen, NASA's top climate scientist, is one of the most impassioned and trusted voices on global warming, though when it comes to solutions many people don't want to accept what he has to say because it involves the need to reconsider nuclear energy. As he points out: 1) solar and wind power cannot meet the world's voracious

demand for energy, especially given the projected needs of emerging economies like India and China, 2) nuclear power is our best hope to get off of fossil fuels, which are primarily responsible for the heat-trapping gases cooking the planet. At present, France generates 75% of its energy needs from carbon-free nuclear energy. In a nutshell here is the case for nuclear energy:



- Nuclear generation plays a key role in supplying the world's electricity
- Uranium reserves and resources are plentiful
- New generation build for power generation should make maximum use of low carbon technologies
- Nuclear has emissions similar to renewables, and much lower than coal and gas.

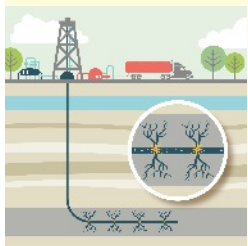
The four scientists concluded simply by saying that "... there is no credible path to climate stabilization that does not include a substantial role for nuclear power."



Shale Gas. Listening to the polarized energy debate in the United States, you might think natural gas was an economic and geopolitical cure-all. The shale gas boom is indeed lowering energy costs, creating new jobs, boosting domestic manufacturing and delivering some measurable environmental benefits as well. Unlike coal, natural gas produces minuscule amounts of such toxic air pollutants as sulfur dioxide and mercury when burned—so the transition from coal- to natural-gas-fired electricity generation is improving overall air quality, which improves public health. There's also a potential climate benefit, since natural-gas-fired plants emit roughly half the carbon dioxide of coal-fired ones.

But while shale gas has been touted as the new clean energy, it is not problem-free. Methane emissions can undo the potential climate benefit of natural gas. Though it burns cleaner than coal, uncombusted natural gas is mostly methane, a greenhouse gas 84 times more potent than carbon dioxide in the first 20 years after it is released. Estimates vary widely about how much methane is being leaked or vented during the production and transportation of natural gas, but early reports appear to show that fracked wells are leaking large amounts of methane which makes fracked natural gas as dirty as or dirtier than, burning coal.

Opposition to shale gas development is driven by very real instances of localized air and groundwater pollution. Because of intensive shale-gas development, the small town of Pinedale, Wyo., has experienced smog concentrations comparable to those of Los Angeles. The industry asserts that hydraulic fracturing does not contaminate water supplies when fluids are shot at high pressure into shale deposits to release gas. But inspection records in several states show that mistakes or accidents in other phases of the process—poor well construction or surface spills, for example—have done precisely that.



These environmental concerns are having a major impact on public opinion. A poll by the Pew Research Center last fall found that 49 percent of those surveyed opposed the increased use of hydraulic fracturing, while 44 percent supported it. These views are leading communities and even states to keep out the industry. In 2010, New York, one of four states sitting atop an estimated 141 trillion cubic feet of recoverable natural gas in the Marcellus Shale formation, became the first state to impose a moratorium on hydraulic fracturing. Last year in Colorado, four cities voted to prohibit it. If opponents have their way, a statewide measure restricting the process will be on the Colorado ballot this fall.

The solution to this is essentially a data acquisition and management problem—the kind that we know we can solve. For instance, after New York City's health department installed 150 air-quality monitors throughout the city in 2008, a startling fact emerged: Dirty heating oil caused more soot pollution than all the cars and trucks in the city combined. The resulting Clean Heat program helped drive down sulfur dioxide pollution by nearly 70 percent and soot levels by almost 25 percent by helping the worst polluting buildings switch to cleaner fuels. The same data-driven approach can reduce air and water pollution from shale gas drilling, by requiring operators and regulators to identify and correct hot spots. We have the technology to do this. But we can't manage what we don't measure.

Strong rules and enforcement are critical. Texas has imposed tough standards for well integrity, a key to groundwater protection. Wyoming has set strong requirements for water testing before drilling begins. Ohio is emerging as a leader in reducing air pollution from leaky oil and gas equipment. And in February, Colorado became the first state to directly regulate methane emissions from oil and gas operations—a huge step forward. After Gov. John Hickenlooper declared "zero tolerance" for methane, three of Colorado's largest oil and gas producers worked with the Environmental Defense Fund (EDF) to develop a proposal that shaped the state's final rules. The new rules will also

remove 90,000 tons of smog-forming volatile organic compounds—about what the state’s cars and trucks discharge each year—and 100,000 tons of methane from the industry’s emissions.

Reducing air pollution makes good business sense. Why waste natural gas, when capturing emissions and reducing leaks is so cost effective? EDF recently commissioned a study that evaluated currently available measures to reduce methane emissions. The measures could cut emissions by 40 percent over five years—at a cost of less than a penny per thousand cubic feet of gas produced, which today costs between \$4 and \$5.

The inescapable handwriting for the future is on the wall: Those extractive industries involving fossil fuels, oil, coal, and gas will have to reinvent themselves by developing new technology to produce cleaner usable energy or their usage will have to significantly decline in order for us to have a habitable planet.

CONCLUSIONS



Of the many things being said about climate change lately, none was more eloquent than the point made by Gov. Jay Inslee of Washington State in the Showtime series, “Years of Living Dangerously,” when he observed: “we’re the first generation to feel the impact of climate change and the last generation that can do something about it.”

So is the climate threat solved? Well, it should be. The science is solid; the technology is there; the economics look far more favorable than anyone expected. All that stands in the way of saving the planet is a combination of ignorance, prejudice and vested interests.



JOBS RECOVERY LOST STEAM IN AUGUST



The jobs market lost some steam in August, with only 142,000 jobs added last month. The consensus forecast from economists was for a jobs gain of 226,000 jobs. This breaks a streak of six straight months with more than 200,000 jobs added.

The unemployment rate dipped slightly to 6.1%, down from 6.2% in July. That was in line with estimates, but it wasn’t much for job seekers to celebrate.

It may raise questions about the strength of the job market’s rebound. Many Americans already do not feel that the job market has fully recovered from the Great Recession. Federal Reserve chair Janet Yellen has also repeatedly stressed that the labor market could be stronger.

These numbers are unlikely to change the Fed’s decision to keep a key short-term rate at historic lows for the foreseeable future in an effort to stimulate more job growth. “Yellen is looking at trends. The Fed is not going to be terribly reactive to one month of data,” said Chris Molumphy, chief investment officer of Franklin Templeton Fixed Income Group. He added that there would need to be at least two more months of subpar jobs growth before the Fed—and consumers and investors—should be worried about the economy.

But it's not all bad news. The economy has averaged nearly 220,000 jobs added a month, and the payroll gains were revised higher for both June and July.



One expert said that it's important to remember that the August number could eventually change as well—for the better. "This number will be revised higher. August is the quirkiest month," said Phil Orlando, chief equity strategist with Federated Investors. "This is inconsistent with strength we're seeing elsewhere in the economy."

Recall that the government originally reported that zero (that's right, zilch) new jobs were added in August 2011. The number wound up getting revised sharply higher a couple of months later. Hourly wages rose slightly. They are up 2.1% over the past 12 months. However, that's only slightly higher than the inflation rate. So workers won't feel much better off.

There were solid job gains in several industries that tend to pay well, such as business and professional services and health care. Jobs were added in the construction sector as well, a possible sign that the housing market is continuing to bounce back.

John Canally, chief economic strategist for LPL Financial, noted that weakness in the manufacturing and retail sectors, dragged down overall job growth. He said there may be some strange seasonal, end-of-summer factors to explain that. "My view of the job market is unchanged from where it was before this report came out. This is an anomaly," Canally said.

Still, there were other lackluster signs in the job report. The so-called "underemployment rate," which counts discouraged workers who have given up looking for jobs and people working part-time who would rather have a full-time job, is 12%. That's down from July but still nearly double the official unemployment rate.

And the labor force participation rate, which measures how many people of working age are actually in the job market, remained near its lowest levels in more than 35 years. That's a function of more and more people, particularly women and retiring baby boomers, dropping out of the work force.



U.S. Secretary of Labor Thomas Perez noted in a statement that the private sector has now added jobs for 54 consecutive months. That's the longest streak ever. But he added that "there are still 3 million long-term unemployed Americans, and we can do more to help those who are still struggling to recover." He reiterated President Obama's call to Congress to raise the minimum wage.

House Speaker John Boehner did not address the minimum wage issue in his own statement. But he said Republicans in the House have "advanced solutions to help create more jobs, lower costs at home, and restore opportunity for all Americans," but that the GOP's plans "have run up against a brick wall" in the Democrat-controlled Senate.

RATE SUMMARY

With the economy improving and the Fed further reducing its purchases of bonds and MBS, mortgage rates have begun their inexorable creep up. Over the past 30 days....

*Conforming programs—an 1/8th to 1/4th worse↑

*Jumbos—unchanged↔

*Governments— an 1/8th to 1/4th worse↑



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www.mortgagestraighttalk.com The rate sheets are updated every Friday.

MORTY'S MAILBAG

Q. I heard that if one had a foreclosure or short sale in their past, that their eligibility for a new loan had changed. Do you know anything about this?

A. Yes, that's true. It used to be 2 years and as of August, 16, 2014, the time frame before one becomes eligible for a new loan via Fannie Mae or Freddie Mac has been extended to 4 years. A two-year waiting period, however, will be permitted if the event was due to extenuating circumstances.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of **spam**, if you email me a question it needs to be identified as a "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is morty@mortgagestraightTalk.com

BEST BUYS THIS MONTH

- Conforming 30yr. fixed @ 3.950%
- High Balance Conforming 15Yr. fixed @ 3.125%
- Jumbo 30-yr. fixed @ 3.990%
- Jumbo 5/1 ARM @ 2.750%
- VA Conforming 30-yr. fixed @ 3.375%
- VA Conforming 15 Yr. fixed @ 2.750%
- VA Conforming 30-yr. fixed High Balance @ 3.500%
- HomePath Conforming 30-yr. fixed @ 4.000%
- Refi Plus Conforming 30-yr. fixed @ 4.000%



I ALSO DO:

• **COMMERCIAL LOANS (more than 4 units)**

• **"HARD MONEY" LOANS**

• **REVERSE MORTGAGES**

• **FOREIGN NATIONALS**

• **DELAYED FINANCING**

• **STATED INCOME LOANS**

• **MANUFACTURED HOMES**

• **ASSET DEPLETION LOANS**



MORTGAGE MIRTH

Some cause happiness wherever they go. Others, whenever they go.

