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MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

US Growth on Track (Week ending October 3, 2014)

While the US economy continues to show moderate growth, this week investors grew more concerned about the pace of economic growth outside the US. As a result, they shifted assets to bonds at the expense of stocks, which helped mortgage rates end the week a little lower.



Europe is still struggling to recover from the financial crisis and is at risk of another recession. Recent economic data has shown that manufacturing activity in the euro zone has fallen to the lowest level in about one year, while inflation has declined to multi-year lows. Investors had hoped that these conditions would cause the European

Central Bank (ECB) to announce additional monetary stimulus at its meeting on Thursday, but the ECB made no change in policy. This news was favorable for mortgage rates, since slower economic growth reduces future inflationary pressures.

Following a shortfall last month, the solid Employment report released this week confirmed that the US remains on track for moderate economic growth. Against a consensus forecast of 215K, the economy added 248K jobs in September, and the figures for prior months were revised higher by 69K. Both the 3-month and 12-month average job gains are now well above 200K.

Dovish Minutes Help Mortgage Rates (Week ending October 10, 2014)

In a light week for economic data, dovish comments from the Fed and weakness in global stock markets were favorable for mortgage rates. After frequent wide swings during the week, mortgage rates ended near the lowest levels of the year.

Looking for information about the timing of the first fed funds rate hike, investors were surprised on Wednesday by the dovish tone in the Minutes from the September 17 Fed meeting. In the Minutes, Fed officials highlighted multiple downside risks to their economic growth and inflation goals. Officials noted that weak growth in other countries could slow growth in the US. In addition, they discussed the impact of the recently increased strength of the US dollar relative to other currencies. A stronger dollar reduces US exports, which slows economic growth, and it decreases the cost of imports, which reduces



inflationary pressures. These factors favor keeping the fed funds rate near zero for a longer period of time.

This emphasis on the dollar and foreign markets was a shift in focus for the Fed. In previous meetings, Fed officials have suggested that the performance of the labor market would primarily determine the timing of rate hikes. Accordingly, the pace of improvement in the labor market has picked up this year.

Jobless Claims Hit 14-Year Low (Week ending October 17, 2014)

Jobless claims for the week ending Oct. 11 printed at 264,000, a drop of 23,000 from the previous week's revised level of 287,000, the U.S. Department of Labor's latest unemployment insurance report said. This is the lowest level for initial claims since April 15, 2000 when it came in at 259,000.



Mortgage Markets Calmer (Week ending October 24, 2014)

After a couple of highly volatile weeks, there were few price swings in mortgage rates this week. With no major surprises in the economic data and little new information from central bank officials, mortgage rates ended nearly unchanged from last week.

One reason that mortgage rates remain near the best levels of the year is low inflation. The Consumer Price Index (CPI) report released this week, the most widely followed monthly inflation indicator, was just 1.7% higher than one year ago. This was well below the Fed's target level of 2.0%. A separate indicator, the PCE price index, which is also closely watched by Fed officials, has revealed even lower levels of inflation. There is little pressure on the Fed to tighten monetary policy with inflation at these levels.

The housing market data released this week showed improvement. Existing Home Sales posted a modest increase in September to the best levels of the year, while inventories of existing homes for sale dropped a bit. September New Home Sales saw a slight increase from downwardly revised August levels, bringing them to the highs for the year as well.

The U.S. Winds Down as Japan Winds Up (Week ending October 31, 2014)

The Fed announced the phase out this month of its QE 3 purchase of bonds and mortgage-backed securities, just as the Bank of Japan ramped up its stimulus program of economic incentives, reducing the demand for safer assets. In response, the S & P 500 set a record as markets rallied globally. As a result mortgage rates increased across the board.

Adding to the good news, the U.S. Commerce Department reported that Gross Domestic Product increased 3.5% between July and September. Consumer spending, the largest factor for U.S. economic growth, rose 1.8% in this quarter, as well. New home sales grew at an annual rate of 467,000 sales in September, the fastest rate observed during the recovery

THE STATE OF THE UNION



This is the eighth of my multi-part series on the macroeconomics of political and social issues that weigh heavily on our "State of the Union". As Theodore Parker, an early American Transcendentalist observed:

The arc of the moral universe is long, but it bends toward justice.

While economics relies heavily on numbers and statistics it is an invaluable indicator of the costs and benefits associated with "being on the right side of history".

INCARCERATION AND CAPITAL PUNISHMENT

Mass Incarceration in the U.S. The United States imprisons more people—both per capita and in absolute terms—than any other nation in the world, including Russia, China, and Iran. Over the past four decades, imprisonment in the United States has increased explosively, spurred by criminal laws that impose steep sentences and curtail the opportunity to earn probation and parole. The current incarceration rate deprives record numbers of individuals of their liberty, disproportionately affects people of color, and has at best a minimal effect on public safety. Meanwhile, the crippling cost of imprisoning increasing numbers of Americans saddles government budgets with rising debt and exacerbates the current fiscal crises confronting states across the nation.



Statistics. Ninety-seven percent of 125,000 federal inmates have been convicted of non-violent crimes. It is believed that more than half of the 623,000 inmates in municipal or county jails are innocent of the crimes they are accused of. Of these, the majority are awaiting trial. Two-thirds of the one million state prisoners have committed non-violent



offenses. Sixteen percent of the country's 2 million prisoners suffer from mental illness. Mass incarceration provides a gigantic windfall for one special interest group—the private prison industry—even as current incarceration levels harm the country as a whole.

Private Prisons. Over the past three decades the nation has seen the rise of for-profit prison companies, which benefit from keeping more people locked up. Leading private prison companies essentially admit that their business model depends on high rates of incarceration. For example, in a 2010 Annual Report filed with the Securities and Exchange Commission, Corrections

Corporation of America (CCA), the largest private prison company, stated: "The demand for our facilities and services could be adversely affected byleniency in conviction or parole standards and sentencing practices."

As incarceration rates have skyrocketed, the private prison industry has expanded at exponential rates, holding ever more people in its prisons and jails, and generating massive profits. Private prisons for adults were virtually non-existent until the early 1980s, but the number of prisoners in private prisons increased by approximately 1600% between 1990 and 2009. Today, for-profit companies are responsible for approximately 6% of state prisoners, 16% of federal prisoners, and, according to one report, nearly half of all immigrants detained by the federal government. In 2010, the two largest private prison companies alone received nearly \$3 billion dollars in revenue, and their top executives, according to one source, each received annual compensation packages worth well over \$3 million.

While supporters of privatization tout the idea that governments can save money through private facilities, the evidence for supposed cost savings is mixed at best. As state governments across the nation confront deep fiscal deficits, the assertion that private prisons demonstrably reduce the costs of incarceration can be dangerous and irresponsible. Such claims may lure states into building private prisons or privatizing existing ones rather than reducing incarceration rates and limiting corrections spending through serious criminal justice reform. In fact, private prisons may in some instances cost *more* than governmental ones.

Human rights organizations, as well as political and social ones, are condemning what they are calling a new form of inhumane exploitation in the United States, where they say prison populations of up to 2 million—mostly Black and Hispanic—are working for various industries for a pittance. For the tycoons who have invested in the prison industry, it has been like finding a pot of gold. They don't have to worry about strikes or paying unemployment insurance, vacations or comp time. All of their workers are full-time, and never arrive late or are absent because of family problems; moreover, if they don't like the pay of 25 cents an hour and refuse to work, they are locked up in isolation cells. English jurist William Blackstone in his seminal work, *Commentaries on the Laws of England*, published in the 1760s, expressed the following principle:

"The private contracting of prisoners for work fosters incentives to lock people up. Prisons depend on this income. Corporate stockholders who make money off prisoners' work lobby for longer sentences, in order to expand their workforce."



The system feeds itself," says a study by the Progressive Labor Party, which accuses the prison industry of being "an imitation of Nazi Germany with respect to forced slave labor and concentration camps."

Private prisons are the biggest business in the prison industry complex. About 18 corporations guard 10,000 prisoners in 27 states. The two largest are Correctional Corporation of America (CCA) and Wackenhut, which together control 75%. Private prisons receive a guaranteed amount of money for each prisoner, independent of what it costs to maintain each one. According to Russell Boraas, a private prison administrator in Virginia, "the secret to low operating

costs is having a minimal number of guards for the maximum number of prisoners.” The CCA has an ultra-modern prison in Lawrenceville, Virginia, where five guards on dayshift and two at night watch over 750 prisoners. In these prisons, inmates may get their sentences reduced for “good behavior,” but for any infraction, they get 30 days added – which means more profits for CCA. According to a study of New Mexico prisons, it was found that CCA inmates lost “good behavior time” at a rate eight times higher than those in state prisons.

Private prisons have also been linked to numerous cases of violence and atrocious conditions, including deliberate indifference to prisoners’ physical well-being. Meanwhile, profits are so good that now there is a new business: importing inmates with long sentences, meaning the worst criminals. When a federal judge ruled that overcrowding in Texas prisons was cruel and unusual punishment, the CCA signed contracts with sheriffs in poor counties to build and run new jails and share the profits. According to a December 1998 Atlantic Monthly magazine article, this program was backed by investors from Merrill-Lynch, Shearson-Lehman, American Express and Allstate, and the operation was scattered all over rural Texas. That state’s governor, Ann Richards, followed the example of Mario Cuomo in New York and built so many state prisons that the market became flooded, cutting into private prison profits.

After a law signed by Clinton in 1996—ending court supervision and decisions—caused overcrowding and violent, unsafe conditions in federal prisons, private prison corporations in Texas began to contact other states whose prisons were overcrowded, offering “rent-a-cell” services in the CCA prisons located in small towns in Texas. The commission for a rent-a-cell salesman is \$2.50 to \$5.50 per day per bed. The county gets \$1.50 for each prisoner.



A new report from In the Public Interest (ITPI) revealed that private prison companies are striking deals with states that contain clauses guaranteeing high prison occupancy rates. The report, “Criminal: How Lockup Quotas and ‘Low-Crime Taxes’ Guarantee Profits for Private Prison Corporations,” documents the contracts exchanged between private prison companies and state and local governments that either guarantee prison occupancy rates (essentially creating inmate lockup quotas) or force taxpayers to pay for empty beds if the prison population decreases due to lower crime rates or other factors (essentially creating low-crime taxes). Some of these contracts require 90 to 100 percent prison occupancy. The imprisonment of human beings at record levels is both a moral failure and an economic one—especially at a time when more and more Americans are struggling to make ends meet and when state governments confront enormous fiscal crises.

"It is better that ten guilty persons escape than that one innocent suffer."

--Jurist William Blackstone

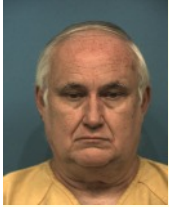
CAPITAL PUNISHMENT. A lot of people are of the mindset that if a person is convicted of a capital crime—they deserved to get their ticket punched (executed): The problem with that is they may not be guilty. People are unfairly convicted of crimes they didn’t commit for a variety of reasons: Prosecutors wanting to make their bones for political reasons and withholding material facts at the expense of justice, the poor and indigent not being able to afford competent counsel.

The “Innocence Project” has overturned the convictions of numerous people convicted of capital crimes based on eye-witness testimony only to find out that based on DNA evidence that their being the guilty party was impossible. Eye-witness testimony is unfortunately, very often inaccurate.



Just such an unfortunate individual was Michael Morton, an American wrongfully convicted in 1987 in a Williamson County, Texas court of the 1986 murder of his wife Christine Morton. "There was no scientific evidence, there was no eyewitness, there was no murder weapon, there was no believable motive," Morton says. "... I didn't see how any rational, thinking person would say that's enough for a guilty verdict." But with no other suspects, the jury convicted him. "We all felt so strongly that this was justice for Christine and that we were doing the right thing," says Mark Landrum, who was the jury foreman. Morton spent nearly 25 years in prison before he was exonerated by DNA evidence which

supported his claim of innocence and pointed to the crime being committed by another individual. Morton was released from prison on October 4, 2011.



Not only was he innocent, but Morton's prosecutor, Ken Anderson, was found guilty of withholding crucial exculpatory evidence indicating that another man might have killed Morton's wife. Anderson became a judge in 2001. Twenty-five years after the fact he was convicted of contempt of court. The legal team worked hard to see Anderson held accountable. But Anderson's punishment paled in comparison to Morton's experience. The former prosecutor was sentenced to prison for ten days, resigned from the bench and was banned from practicing law in Texas. He then served only five of those days, under Texas laws involving good behavior behind bars.

Morton has a measured view of lessons learned. Most of the people he met in prison belonged there, he says. As for complete miscarriages of justice like his own, he figures they are rare but still more common than we would like to think. Finally, it's worth noting that Michael Morton is able to deliver this aching and poignant look at the criminal justice system only because he didn't get a death sentence. When Morton was finally freed from prison, some of his first words were: "Thank God this wasn't a capital case."

Though more than 2,000 wrongfully convicted people have been exonerated between 1989 and 2012 according to data compiled by the University of Michigan's Law School, an awful lot of people are of the following mindset: "Let's not waste hundreds of thousands of dollars on caging them up for the next 40 or 50 years until they die. But this is a poor rationale for a number of reasons: one, as we have just seen, they may not actually be guilty and two, with the automatic right of appeals, it takes years and costs society millions of dollars to execute a person convicted of a capital offense

So, the death penalty is much more expensive than life without parole because the Constitution requires a long and complex judicial process for capital cases. This process is needed in order to ensure that innocent men and woman are not executed for crimes they did not commit, and even with these protections the risk of executing an innocent person can not be completely eliminated.

Judge Arthur Alarcon and Prof. Paula Mitchell calculated that as of 2012 the cost of the death penalty in California has totaled over \$4 billion since 1978. Here's the breakdown:

- * **\$1.94 Billion**—Pre-Trial and Trial costs
- * **\$925 million**—Automatic Appeals and State Habeas Corpus Petitions
- * **\$775 million**—Federal Habeas Corpus Appeals
- * **\$1 Billion**—Costs of Incarceration

Having totaled up the costs here in just California, they found that if the Governor commuted the sentences of those remaining on death row to life without parole, it would result in an immediate savings of \$170 million per year, with savings of \$5 billion over the next 20 years.

INCARCERATION. For lesser crime, we as a society have to ascertain that prison is more than an adult version of a "time-out" we have to reconcile what the purpose of prison is. Is it to punish wrong-doers, to prevent further crime, to protect society from predation, to rehabilitate malefactors, or all of the above? America has yet to answer these questions.



But, considering that the United States is the world's leading warden, with about 5 percent of the world's population but around a fourth of the world's prisoners, we should be able to answer with some conviction this question: What is prison for?

Experts who have studied the American way of crime and punishment quote Michael P. Jacobson, a veteran corrections official who heads a public policy institute for the City University of New York, says that there is "almost a complete disconnect between what we know and what we do." In America, there is a yawning divide between justice and punishment.

●**As Punishment.** As such, it is often demeaning, brutal, psychologically debilitating and wildly disproportionate to the offense. Our criminal justice system is profoundly flawed. It is the default mental health system; the criminal justice system is also wrongly clogged with people who are mentally ill—oft times criminalizing psychiatric disorders. Imagine being locked up in solitary confinement for 23 hours a day. If one wasn't crazy at the time of one's incarceration, there is a more than likely chance that they will be by the time of their release.

It is arbitrary, and the mass incarceration experiment since the 1970s has been hugely expensive and grossly unfair. Prisons are unnecessarily violent, with some states refusing to take steps to reduce prison rape because they say these would be costly. And the system sometimes seems aimed as much at creating revenue for for-profit prisons as at delivering justice.

- **For Reasons of Public Safety.** Social scientists argue about how much of our recent decline in crime is attributable to a surge in incarceration. (Estimates range from 3 percent to 30 percent). But common sense says at least some of the decline is due to the higher rates of incarceration.
- **Third, Rehabilitation.** The bureaucracies that run prisons are called departments of “corrections” for a reason. This is at least as important as the first two purposes, because nearly 95 percent of the incarcerated are eventually released back into society. Yet, nearly half of those released are returned to prison within three years for committing new crimes. Clearly we (those departments of corrections) are not doing a good job of “correcting.” In California in 2008, it cost the state an average of \$47,102 a year to incarcerate an inmate in a state prison. So, incarceration is an expensive proposition, especially in view of the rate of recidivism. As for rehabilitation and reducing recidivism, a number of suggestions have been offered, but they have not been met with much acceptance or fore-thought.



Nevertheless, mass incarceration has come to define America in the eyes of the rest of the world and a significant part of its own population. Perhaps the single greatest force behind the growth of the prison population has been the national “war on drugs.” The number of incarcerated drug offenders has increased twelvefold since 1980.

America’s four decade war on drugs is responsible for many casualties, but the criminalization of marijuana has been perhaps the most destructive part of that war. The toll can be measured in dollars—billions of which are thrown away each year in the aggressive enforcement of these pointless laws. It can be measured in years—whether wasted behind bars or stolen from a child who grows fatherless. And it can be measured in lives—those damaged if not destroyed by the shockingly harsh consequences that can follow even the most minor offenses.

In October 2010, Bernard Noble, a 45-year old trucker and father of seven with two previous non-violent offenses was stopped on a New Orleans street with a small amount of marijuana in his pocket. His sentence: more than 13 years. In 2013, 27.6 percent of drug offenders were locked up for crimes related to marijuana.

The second-largest category, immigration-related crimes, accounts for 10.6 percent of inmates. The nation’s prisons are becoming modern-day asylums for the mentally ill. In 1959, nearly 559,000 mentally ill patients were housed in state mental hospitals. A shift to “deinstitutionalize” mentally ill persons had, by the late 1990s, dropped the number of persons housed in public psychiatric hospitals to approximately 70,000. As a result, mentally ill persons are more likely to live in local communities and a great many of those end up coming in contact with the criminal justice system. We are, in effect, warehousing our mental patients in prisons.

In a 2006 Special Report, the Bureau of Justice Statistics (BJS) estimated that 705,600 mentally ill adults were incarcerated in State prisons, 78,800 in Federal prisons and 479,900 in local jails. In addition, research suggests that “people with mental illnesses are overrepresented in probation and parole populations at estimated rates ranging from two to four times the general population”. Growing numbers of mentally ill offenders have strained correctional systems. This means that people convicted of two broad categories of nonviolent crimes—drugs and immigration—make up over 60 percent of the U.S. prison population.

A Controversial Proposition to Battle Recidivism. In February, Gov. Andrew M. Cuomo of New York announced plans to underwrite college classes in 10 state prisons, building on the success of privately funded and widely praised programs like the Bard Prison Initiative. Mr. Cuomo pointed out that inmates who got an education had a much better chance of finding a job and were much less likely to menace their neighbors after release. He noted that the cost—\$5,000 per inmate per year—would be a bargain compared with the \$60,000 it costs to incarcerate a prisoner for a year.



This was not a bleeding-heart cause. Leading conservatives and red-state politicians have supported prison college programs as a matter of public safety and fiscal prudence. A RAND meta-analysis of 58 studies concluded that inmates who participated in these programs were 43 percent less likely to return to a life of crime; even assuming that the most redeemable inmates are the likeliest to sign up, this is an incredible return

on a modest investment. Moreover, wardens and prison guards believe such programs lower the explosive tensions in prison.

Yet while 76 percent of prisons in the country offer high school diploma programs, only a third offer college degrees, which are, more than ever, a prerequisite for decent jobs. Education programs are among the first things to go in a recession. Now, when the economy is in slow recovery, the crime rate is relatively low, and there is an emerging national awareness that our way of punishment wastes money and lives should be an opportune time to expand inmate education. But it has to be sold, not sprung without groundwork.

Mr. Cuomo's proposal was a baby step: \$1 million in a corrections budget of \$2.8 billion. It was also a bolt from the blue, announced as an applause line to a receptive audience of minority legislators without any advance work. And when the first, predictable bleats of resistance were heard, the governor dropped the college initiative from his budget.

The punch lines of the opposing politicians (mostly Republicans, but some Democrats) all struck the same theme: How dare the governor offer taxpayer money to educate convicted criminals when decent citizens skimp and borrow to send their kids to college? "It should be 'do the crime, do the time,' not 'do the crime, earn a degree,'" said George D. Maziarz, a state senator from western New York. "It is simply beyond belief to give criminals a competitive edge in the job market over law-abiding New Yorkers who forgo college because of the high cost." In other words, let criminals be criminals. An upstate assemblyman, James N. Tedisco, warned that educating inmates "makes them smarter criminals." Invoking the chemistry-lessons-gone-lethal of "Breaking Bad," he envisioned Mr. Cuomo's proposal "turning a bunch of Jesse Pinkmans into Walter Whites—all on the taxpayer's dime."

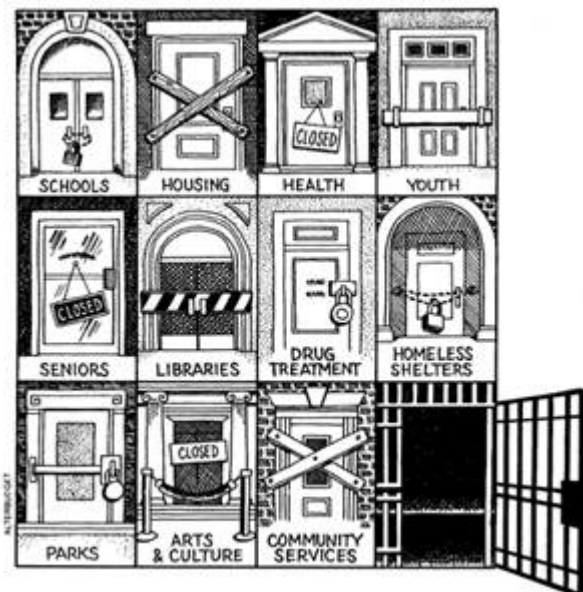


Some of the outcry had a Willie Hortonish racial overtone. A "Kids Before Cons" online petition drive organized by Republican Assembly staffers juxtaposed two photos. One portrayed jubilant white kids tossing their graduation caps in the air, over the caption: "Studied hard. Worked summer jobs. Saved. Took out loans ..." The second featured a line of minority prisoners in orange jumpsuits: "Stole a car. Robbed a bank. Shot a bystander. Got a free college education paid for by YOU."

But none of these critics offered a viable alternative to combating the very real problem of recidivism. You could say that the politics of Andrew Cuomo were impetuous. You could say that the eagerness of cynical or small-minded lawmakers to pander to our least generous instincts was deplorable. But the instincts are real. The larger shame is the deep American ambivalence about the very purpose of prison.

"The influence of high-profile crimes, fear of crime, issues of race, the acquisition of cheap political capital—all have had far more influence on criminal justice policy than what we know works, or what is fair or just," Mr. Jacobson stated.

Governor Cuomo is now trying to rally private donors to underwrite his college program for a year, with an understanding that he will get the state to take over in Year 2. Let's hope. But apparently the inmates of Sing Sing and Attica are not the only ones in need of correction.



Conclusion. Given that we lock up huge numbers of people (many for non-violent crimes and mental illness) and expend exorbitant amounts of money to do so, it is appalling that we have not made society appreciably safer or come up with a viable strategy to stem the rate of recidivism. Capital crimes are another enormous expenditure sinkhole. Society's motives appear to be more revenge-oriented than coming up with rehabilitative solutions to correct the problems which have proven expensive and largely ineffectual.

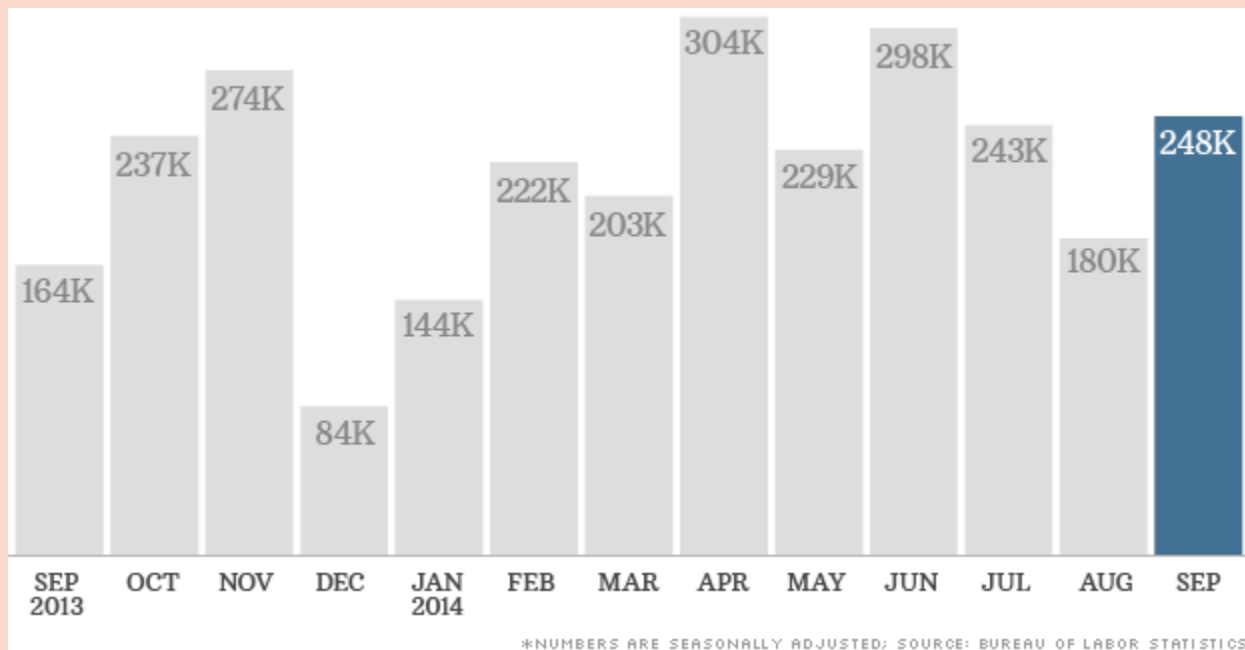
UNEMPLOYMENT FALLS BELOW 6% SINCE 2008

The nation's unemployment rate fell below 6% in September for the first time in six years. The rate came in at 5.9%, while employers added 248,000 jobs last month.

The unemployment rate fell last month because more people were getting jobs, not because they were dropping out of the labor force as they have at times during the economic recovery. The share of people in the workforce was essentially unchanged.

Jobs growth was strong in professional and business services, particularly in employment services and consulting. The retail and health care sectors, which have been powerhouses throughout the recovery, also gained. Construction added 16,000 jobs.

The president's critics, however, say the unemployment rate is declining because people are getting discouraged and dropping out of the workforce entirely when they can't find jobs. The share of Americans participating in the labor force is now at its lowest point since 1978, at 62.7%. The "drop out" factor has been a problem during the recovery, but the recent decrease in the unemployment rate, which stood at 7.2% a year ago, is due more to Americans landing jobs than giving up. Employers have added 2.6 million people to their payrolls since last September.



The recent hiring boost came after a surprisingly weak August, though the Department of Labor revised that month's figure upward to 180,000 jobs. Still, August was the first time figures came in below 200,000 since January.

This jobs report is being closely followed because economic data in recent days has been mixed. Everyone from Wall Street investors to Washington powerbrokers is trying to figure out if the U.S. is truly on solid footing or likely to slide back in its recovery like Europe has. The strong report shows that the economy has positive momentum going into the final quarter of 2014; it's consistent with an economy that's broadening and strengthening.

A key figure to watch is whether American wages are growing. Average hourly earnings changed little last month. They are up 2% over the past 12 months, just slightly ahead of inflation, which means most U.S. workers won't feel any better off.



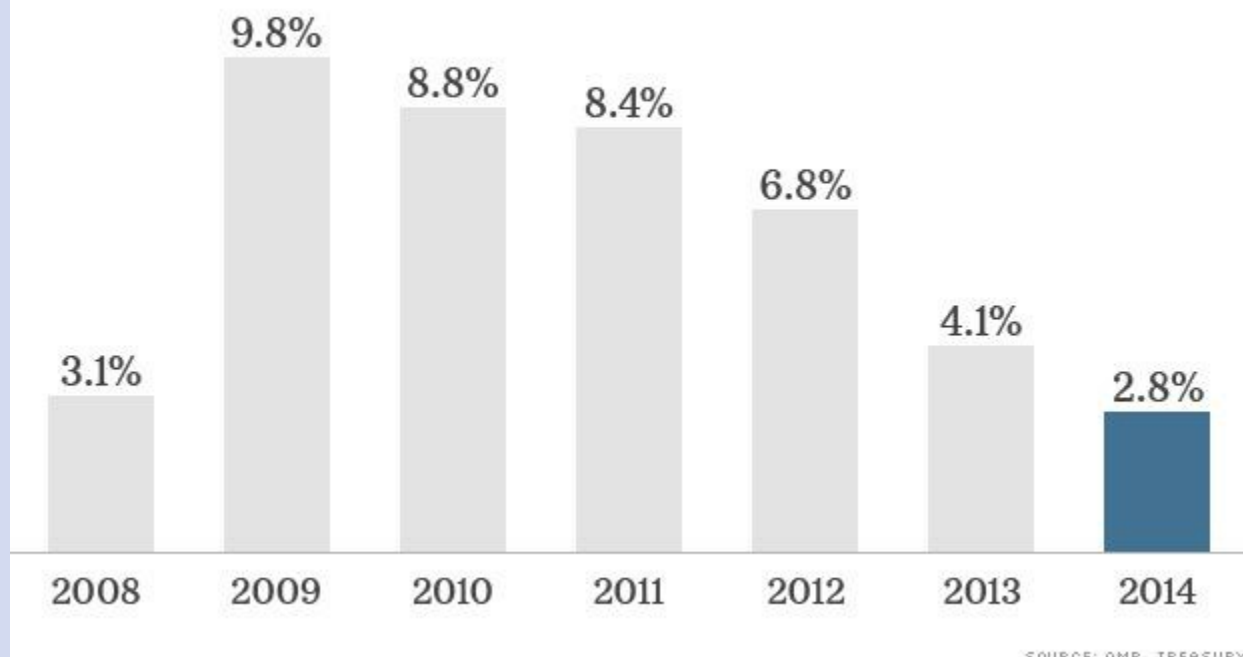
Federal Reserve Chair Janet Yellen and other officials are closely monitoring the monthly jobs report. They are waiting for hiring to become healthy enough before raising interest rates. The continuing softness in wage growth and inflation allows the Fed to remain patient when it comes to raising interest rates.

WHY DEFICITS HAVE FALLEN SO DRAMATICALLY

The verdict on the federal budget for 2014 is in: Revenue jumped and spending barely grew. As a result, the deficit dropped like a stone. The deficit came in at \$483 billion, or \$197 billion less than last year, according to final numbers released by the Treasury Department. The government's fiscal year ended on September 30.

The decline is dramatic: The deficit fell by roughly a third both in actual dollars and as a share of the economy. The deficit was 2.8% of gross domestic product, down from 4.1% in 2013. To put it another way: The deficit is now the lowest it has been since 2007 as a share of GDP and below the 40-year average. In dollar terms, the deficit is lower than it has been since 2008, the year the financial crisis took hold and started hitting the government's bottom line.

Annual deficits as % of U.S. economy



The deficit reflects the gap between how much the government spends and how much it takes in over the year. The Treasury borrows to make up the difference. The country's debt owed to the public, an accumulation of annual deficits, ended the year at \$12.8 trillion or 74% of GDP, which is still very high by historical standards.

Treasury reported that tax receipts in 2014 grew by \$247 billion, or 9%, because of an improving economy as well as the expiration of some tax provisions and higher tax rates on high-income individuals. The economy not only bolstered tax receipts from wages and payroll taxes, it also boosted corporate profits and therefore business tax revenue.

On the spending side, outlays grew by just \$50 billion or 1%. A big reason for the modest growth in spending was the result of more dollars going to the government's biggest entitlement programs, such as Medicare, Medicaid and Social Security. But spending in many other areas of the budget fell. These included defense, homeland security, justice, unemployment insurance benefits, and housing programs.



Medicare.gov

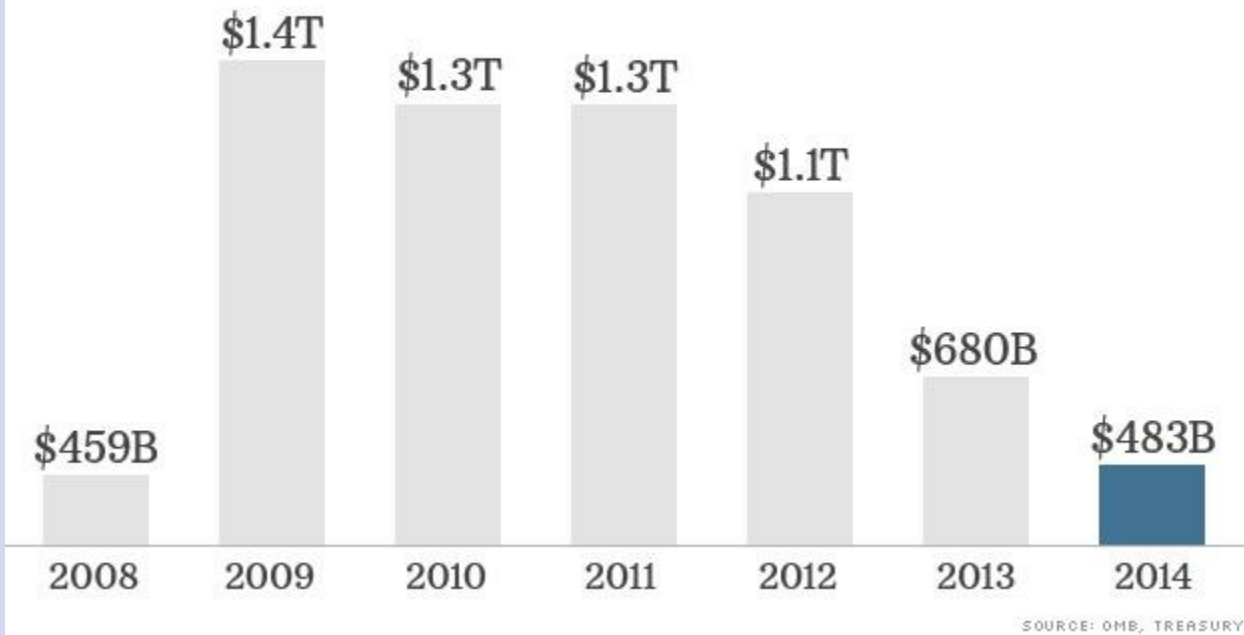
The Official U.S. Government Site for Medicare





The drop in the 2014 deficit is the fifth consecutive annual decline. That trend has come as economic stimulus programs to counter the damage of the financial crisis dried up and Congress implemented broad spending cuts known as the sequester. It was also spurred by changes in tax rates for high-income households. There's likely to be a push to reduce the sequester, particularly in defense. But even if Congress keeps the spending curbs in place, the Congressional Budget Office has noted that deficits will start to move up again in a few years, and the country's accumulated debt will again start rising faster than the economy.

Annual federal deficits



RATE SUMMARY

This month, mortgage rates dropped to new lows for the year before rebounding....

*Conforming programs—an 1/8th to 1/4th better ↓

*Jumbos—no change =

*Governments—unchanged, with the exception of the DU Refi Plus—a ¼ better ↓



FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO:

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

MORTY'S MAILBAG

There were no letters in the mailbag, this month.

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 15 Yr. Fixed 2.875%
- Conforming 5/1 ARM 2.625%
- High Balance Conforming 30 Yr. Fixed 3.875%
- High Balance Conforming 15Yr. Fixed 2.990%
- Jumbo 5/1 ARM 2.875%
- FHA Conforming 30 Yr. Fixed 3.250%
- VA Conforming 30 Yr. Fixed 3.250%
- DU Refi Plus/ Open Access 30 Yr. Fixed 3.750%



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

To steal ideas from one person is plagiarism, to steal from many is research.

