



September 17, 2026

The Honorable Mike Johnson
The Speaker
The United States House of Representatives
Washington, D.C. 20515

The Honorable Hakeem Jeffries
The Minority Leader
The United States House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker and Mr. Minority Leader:

This letter is part of the report The National Seniors Policy Center is Not Crying Wolf – Default Explained, Step-by-Step -- and The Day After. People may miss the fact that we are at the beginning of a national debt crisis; the U.S. has never had one – it will take time for people to recognize what is happening.

If Congress acts, it can avoid the extremely serious, devastating effects of default.

If Congress does not act, and the status quo remains, default is all but inevitable.

The original sin of our policy of debt financing was born when President Reagan went to Speaker Tip O’Neil and said: Let’s win the Cold War. We need new nuclear attack and missile subs, new bombers, new fighters, new land-based nuclear weapons, a 600-ship navy, and Star Wars too. Speaker O’Neil agreed: Yes, let’s win the Cold War, Mr. President... but we have a few domestic spending priorities of our own. And that was an historic inflection point in the modern-day decision to fund both parties’ priorities by taking on debt – there is no use pointing fingers and trying to assign blame. The situation is fraught enough.

Einstein’s observation about the miracle of compounding growth of money is true for debt, too. A handful of investors and analysts predict the 10-year Treasury yield will reach 6% next; Envision Research predicts it will be 6% by year-end. We crossed 5% this week. At 6%, U.S. interest payments grow faster.

AI companies now compete directly with the Treasury for bond buyers. Microsoft, Alphabet, Amazon, and Meta are among the best credits in the world. Normally, a company pays noticeably more than the Treasury to borrow because the Treasury is supposed to be the one borrower that cannot miss a payment. For the best of them, that gap has at times all but vanished, and it has even reversed: during the 2023 debt-ceiling fight, investors accepted about 4% on Microsoft bonds rather than 5.2% on Treasury bills due the same week. When the market charges Washington what it charges a software company, it’s a sign we are in a debt crisis—U.S. Treasury bonds are no longer automatically the safest investment. Hedge funds, with higher risk appetites, are now buying about a third of new Treasury bonds. They hold 7% of all Treasuries—buying a third of what's being offered is new.

Our debt is now in the exponential growth stage. About 67 cents of every new dollar today borrowed goes to pay interest on old debt. In 2023, it was roughly 40 cents. In 2024, it was just over 60 cents. It is 67 cents now. In a mere three years, it went from 40 cents to 67 cents – exponential growth.

The Executive Branch cannot solve this problem; only Congress can fix our debt problem. As this report notes, the bond market will respond only to a legislative solution, and Executive action often makes the situation worse.

Sincerely,

Daniel Perrin
President
National Seniors Policy Center

cc: Members of the U.S. House of Representatives



The National Seniors Policy Center is Not Crying Wolf – Default Explained, Step-by-Step -- and The Day After

A National Seniors Policy Center Report — September 2026

1. The 67 cents, in plain English

Imagine you borrow \$100 from the bank. Before you can spend it, you have to hand \$67 of it straight back — not to the bank, but to the people you borrowed from last year, last decade, in 2009, in 1998. You get to keep \$33 for groceries. Next year the handoff is \$70. The year after, \$75. The direction is one way. You keep borrowing; they get the lion's share of what you just borrowed to pay the interest, not the principal, on what you have already borrowed.

That is the federal government's position today. Gross interest on the debt this fiscal year is on track to about \$1.4 trillion. Net new borrowing from the public is about \$2.1 trillion. Both figures cover the same twelve months — fiscal year 2026, October 1, 2025, through September 30, 2026 — so they can be compared. Before we do the division, here is what each one is.

What “gross interest” means. Gross interest is every dollar of interest the Treasury pays on the entire federal debt: interest paid to bondholders in the market and interest paid to the Social Security and Medicare trust funds on the special Treasuries they are required to hold. It is the full carrying cost of everything the government has ever borrowed and not repaid. The smaller number you usually see in the news, “net interest” — about \$1.15 trillion this year — is the budget's accounting measure. It subtracts the roughly \$250 billion the Treasury pays to its own trust funds. We use gross because that \$250 billion is not a bookkeeping entry. It is money owed to seventy million beneficiaries, and it is paid with borrowed dollars, just like every other interest payment.

Where the \$1.4 trillion comes from. It is Treasury's own number. The Bureau of the Fiscal Service publishes *Interest Expense on the Debt Outstanding* every month at fiscaldata.treasury.gov: every dollar of interest on every category of federal debt, marketable Treasuries and the special issues held by the trust funds alike. Through July, ten months into fiscal 2026, that series stood at \$1.17 trillion — about \$117 billion a month. Two more months at that pace puts the fiscal year at roughly \$1.4 trillion. The same series shows \$1.13 trillion for fiscal 2024 and \$1.22 trillion for fiscal 2025. Section 9 lays out the monthly figures.

What “net new borrowing” means. Net new borrowing is the amount the debt held by the public grows over the year: Treasuries sold to the public, minus Treasuries paid off as they mature. It leaves out the roughly \$9 trillion Treasury refinances every year, because rolling over a maturing bond raises no new money — the cash comes in the front door and goes out the back to the retiring bondholder the same day. Net new borrowing is the fresh money the government raises from lenders to spend on something, and for practical purposes it is the deficit.

Why the two numbers belong in the same fraction. Put the full interest bill on top and the fresh money on the bottom, and the ratio answers one question: of the new money Washington borrowed this year, how much was already spoken for by the cost of what it borrowed before? The two figures are both annual flows, both for fiscal 2026. One is measured gross and the other net because that is the honest pairing. Interest is counted gross because every dollar of it is a real cost of past borrowing, whoever ends up receiving it. Borrowing is counted net because only the net dollar is new money — put rollover in the denominator and you have \$11 trillion on the bottom, which makes a \$1.4 trillion interest bill look like pocket change. For the skeptic who insists on net against net: net interest over net new borrowing still comes to about 55 cents, and it is climbing on the same schedule. The choice of measure changes the level. It does not change the direction.

Now do the division. Divide \$1.4 trillion by \$2.1 trillion: **about 67 cents of every new dollar borrowed goes to interest on old debt.** In 2023 it was roughly 40 cents. In 2024, just over 60. In July the Clock measured 66. It is 67 now, and it is climbing for three reasons that don't require anyone in Washington to do anything:

1. **The pile is bigger every year.** Even at a fixed interest rate, 7% more debt means 7% more interest. The numerator grows on autopilot.
2. **The pile is repricing.** The average interest rate on the existing \$32 trillion is 3.4%. The debt that replaces it costs more: about 4% on short-term bills, 4.4% to 4.8% on notes, more than 5% on long bonds. Blended across everything Treasury has to refinance, the replacement rate is about 4.5%. **As the old cheap debt rolls off, the same \$32 trillion costs a third more to carry. That alone adds roughly \$350 billion a year to interest once it works through — with zero new spending.**
3. **We borrow to pay the interest.** Interest goes into the deficit; the deficit is financed by borrowing; next year's interest includes interest on this year's interest. The debt compounds like a credit card you only make partial payments on.

The bottom of the fraction — new borrowing — grows only as fast as the deficit. The top grows with the debt *and* with rates. So, the ratio rises even in years when the deficit doesn't.

One thing the ratio is not: it is not a share of the budget. Interest is about a fifth of total federal spending, and nobody is claiming otherwise. The ratio measures the marginal dollar — the next dollar Treasury goes to the market to raise — and asks how much of that dollar is left to spend on anything other than yesterday's borrowing. At 67 cents, a dollar of new borrowing buys 33 cents of government. At 100 cents, it buys none: the Treasury is borrowing solely to pay the people it already owes. That is why the Clock treats this number, and not the size of the debt, as the one that tells you how much time is left.

A second thing the ratio is not: a danger gauge that always points the right way. A board member of the Center caught this, and he is right. If Congress cut the rest of the deficit to zero tomorrow, the ratio would go to 100 cents — because interest would be the only thing left to borrow for. That would be a victory. And if Congress borrowed an extra trillion dollars for new spending, the ratio would fall, and nobody should call that progress. The ratio measures how much of the deficit is inherited: how many cents of each new dollar were spoken for before this Congress took office. At 67 cents, two-thirds of the deficit is the cost of the past. At 100, all of it is. That tells you how locked-in the problem is, not how close the cliff is.

For the cliff, use the number that only moves one way: interest as a share of what the government actually takes in. Federal revenues this fiscal year are about \$5.6 trillion. Against \$1.4 trillion in gross interest, that is 25 cents of every tax dollar paid to bondholders before Washington buys a single thing — about 20 cents on the budget's net measure. Rising interest or falling revenue makes it worse; nothing else makes it better. There is no way to borrow your way to a prettier reading. Rating agencies have historically treated 10 to 15 cents as the zone where a sovereign's credit comes under review. We are well past it.

At flat rates we hit 70 cents in FY2027. At a 7% ten-year, we are past 70 by the end of 2027 and headed for 75. At 100 cents, every dollar borrowed pays only for the privilege of having borrowed. The Clock's framework calls 70 the point of no return for a reason: past it, the arithmetic does the rest.

2. The bottom line

The bond market spent the week telling Washington something the Debt Default Clock has been saying since July: the United States is running out of willing lenders at prices it can afford.

- The 10-year Treasury yield crossed 5% on Tuesday (5.04% intraday, its highest since 2007) and held above 5% after the Fed hiked Wednesday. The 30-year hit 5.35%, a 24-year high.
- Treasury Secretary Bessent's answer — a bond buyback tripled to \$6 billion — made yields go *up*, not down. The market took the intervention as a sign of weakness, which it was.
- A U.S. Treasury auction cannot fail, because 26 banks are under contract to buy. That is why the public will never see the default coming in the auction results. It will see it in the price — and in the day the banks under contract decide the contract isn't worth keeping.
- Roughly 67 cents of every new dollar Washington borrows now goes to pay interest on money it already borrowed. The Clock's threshold for a fiscal death spiral is 70 cents. On current yields, we cross it next year. At a 7% ten-year, we blow through it.
- The people hurt first in a default are not investors. They are Social Security beneficiaries, depositors, brokerage customers, cities, and the insurers who pay hurricane claims — every one of them required by law to hold the paper that stops paying.

The Debt Default Clock stands at **two minutes to midnight**, the closest in its history. Nothing this week moved it back.

Update, September 16: the Fed hiked, and the 10-year crossed 5%

This report went to press on Friday, September 11, as the bond market waited on the Federal Reserve. The Fed met on Tuesday and Wednesday. Here is what happened, and what it changes.

The Fed hiked. On Wednesday, September 16, 2026, the Fed raised the federal funds rate a quarter point, to 3.75% to 4%, on a unanimous vote. It is the first increase since July 2023. Sixteen of eighteen officials now see at least one more hike this year; four see two. Chair Warsh told the press conference that inflation is too high and has been for too long, and the projection for getting back to 2% slid out another year, to 2029.

What the forecasters expect next. The Reuters poll taken after the August inflation report had 86 of 101 economists calling this hike, and a majority expecting at least one more by the end of March. The forecast of rate cuts in 2027 is gone. Stephen Juneau, senior U.S. economist at Bank of America, has forecast three hikes this year since June. He told Reuters the Chair had boxed himself in, so that only very soft data would have stopped this one, and that Secretary Bessent's intervention at the long end of the bond market contributed to the pressure. Diane Swonk, chief economist at KPMG and one of the first in the poll to forecast hikes, said before the meeting: "A quarter point may be the opening move, not the final one."

The 10-year crossed 5%. It hit 5.04% on Tuesday, its highest since 2007, and closed above 5% again on Wednesday after the Chair spoke. It was 4.95% when this report was written. The 2-year is 4.72%. The 30-year is 5.35%, its highest in 24 years. The Dow lost 700 points on the day.

The verdict from the bond market. Bonds rallied for a few minutes after the announcement and then sold off through the press conference. A rate hike is supposed to bring long yields down. This one sent them up. The market is saying the Fed is still behind the curve, and that fiscal risk, not just inflation, is in the price.

Who is calling 6%. Five percent is where the argument starts. Here is who is on the record for where it goes next, and why.

- **Dan Niles, Niles Investment Management.** On CNBC on September 15, the day before the hike, Niles said the next Fed move was up and that a 6% ten-year is plausible. His reasons: deficits running about 6% of GDP, about \$40 trillion of debt on a \$33 trillion economy, and a new competitor for the bond buyer's dollar, the AI companies.
- **Steven Barrow, Standard Bank.** The bank's head of G10 strategy called a 5% ten-year for this year and got it. On September 14 he raised his forecast to 5.2% by year-end and 5.3% in the first quarter of 2027. He says the selloff is not done.
- **Rick Bensignor, Bensignor Investment Strategies.** A chart-based call: 5.6% as the minimum upside target, and about 6.07% as the plausible next level.
- **Envision Research.** Writing on Seeking Alpha since January: 6% by the end of 2026, on the change of Fed leadership, inflation, and a term premium returning to normal.
- **Quoth the Raven, QTR's Fringe Finance.** On August 22, with the ten-year at 4.7%: the yield at which Washington decides rates are no longer allowed to rise "begins with a six."

Keep that list in proportion. The forecaster with the best record this year, Barrow, is at 5.3%, not 6%. Six percent is still a minority call. In January it was a fringe call. And it is not far away on this report's own tables: a 6% ten-year is a little past the one-point row in Section 5, which means more than \$320 billion a year of added interest once the debt reprices, all of it borrowed.

What it changes for the Clock

Step three of Section 3 says the next Treasury rescue comes at the cost of the dollar if it happens with inflation above target and the Fed hiking. That condition was a forecast on Friday. It is policy today.

About \$7 trillion of the debt is bills and floating-rate notes that reprice within weeks. Every quarter point on the funds rate flows into that pile almost immediately: roughly \$18 billion a year of new

interest per quarter point, per the table in Section 5, all of it borrowed. Two hikes this year is \$35 billion before the coupons even start to roll.

With the 10-year above 5%, the whole curve has moved up, and every dollar of maturing debt rolls into it. The \$350 billion repricing estimate in Section 1 was built on a blended replacement rate of about 4.5%, the curve as it stood at the start of September. At Wednesday's close — bills a little over 4%, the 2-year at 4.72%, the 30-year at 5.35% — the blend is closer to 4.7%. On \$32 trillion, that is roughly \$400 billion a year once it works through, not \$350 billion.

The 70-cent threshold moves closer. At flat rates, the Clock reached it in FY2027. Rates are not flat. Every basis point pulls that date forward, and the 7% ten-year row in Section 5 of the Debt Default Clock is no longer a stress test. It is a direction.

Nothing about the hike helps the Treasury sell debt. A central bank raising rates amid a \$2.1 trillion deficit is the opposite of a buyer of last resort. The executive branch has now exhausted buybacks, jawboning, and the hope of a friendly Fed. Section 7 stands, with one fewer tool in the box.

The Debt Default Clock remains at **two minutes to midnight**. The Fed did not move it. It confirmed which direction the hands are turning, and it left the only body that can stop them, Congress, exactly where it was.

3. How a default actually happens

The public picture of a default is a failed auction: Treasury holds a sale, nobody comes. That is not how it happens. Understanding why is the key to understanding how close we are — and why the official numbers are built to hide it.

The auction is rigged not to fail

Twenty-six firms — Goldman, JPMorgan, Citi, Bank of America, Morgan Stanley, Wells Fargo, and the big foreign banks — hold a designation from the New York Fed called primary dealer. The designation is a deal: the dealer gets to trade directly with the Fed and gets first crack at every auction, and in exchange for this access, it must bid at every auction for at least its pro-rata share of whatever Treasury is selling, at a reasonable market price. With 26 dealers, each must bid for roughly 4% of every offering. Add them up, and the dealers alone are obligated to bid for 100% of every auction before a single pension fund, foreign central bank, or hedge fund shows up.

That is why the auction “always clears.” It is covered by contract.

What the bid-to-cover ratio really says

The number the press reports after every auction is the bid-to-cover ratio: total dollars bid divided by dollars sold. A ratio of 2.5 means \$2.50 was bid for every \$1.00 of bonds. It gets reported as a demand gauge, and a reading above 2.0 is routinely described as “strong.”

Here is what the reporting leaves out. The first \$1.00 of that \$2.50 is compulsory. It is the dealers' contracted minimum. The ratio has a floor of 1.0 written into it by the New York Fed, and it can never print below that floor unless the dealer system itself has broken. So the only part of the ratio that tells you anything about willing demand is the part *above* 1.0.

Do that arithmetic on a recent slide. When the 10-year's bid-to-cover drifts from 2.7 to 2.3, the headline says demand fell 15%. Strip out the compulsory dollar and voluntary demand went from 1.7 to 1.3 — a 24% drop. The ratio is a shorthand that flatters the seller. It measures how many people showed up to a party where a quarter of the guests were paid to attend.

And it says nothing — nothing — about whether Treasury raised the money it needs. It always raises exactly what it announced. What changes is the price.

The canaries in the mine

There are three canaries in a Treasury auction, and they die in order.

The tail. The yield the Treasury has to pay at auction versus the yield the market expected. A positive tail means buyers demanded a discount to take the paper. August's 30-year auction tailed at a record-high yield; the Clock treats a pattern of tails as the first canary going quiet.

Dealer takedown. When the obligated bidders end up *owning* the bonds — because nobody outbid them — the share allotted to dealers rises. Dealers don't want the paper; they warehouse it and try to sell it later. A rising dealer takedown means the market's buyer of last resort before the Fed is being used as the buyer of first resort. At the August 30-year, dealers were stuck with 11.5%. That is the second canary.

The dealer roster. The third canary is the dealers themselves. The New York Fed's list stood at 46 firms in 1988. It fell to 17 in 2008 as Bear Stearns, Lehman, Countrywide, and others died or fled within months of each other. It is 26 today, its largest in two decades; MUFG joined in January. That tells you the franchise is still worth having.

Watch for the day it isn't. A primary dealer withdraws when the obligation to buy at every auction costs more than the franchise pays — another way of saying the firm has concluded it cannot resell the paper it is forced to buy at a price that covers its cost.

And as Debt Default Clock co-founder Baker Spring points out, the exit at that point is not a business preference. It is a legal obligation. The primary dealers are broker-dealers: public companies and bank subsidiaries whose officers and directors owe a fiduciary duty to their shareholders, and who are regulated on behalf of the customers whose money and securities they hold. That duty requires them to protect the firm's capital. A contract with the New York Fed cannot override it.

Once management knows that every auction it is bound to bid in will leave the firm holding paper it cannot sell at cost, continuing to bid means knowingly losing shareholder money—a breach of fiduciary responsibility that exposes officers and the board to liability. That liability is not theoretical. Shareholder class actions against corporate leaders for misleading current and future investors about the decisions they have made are now routine. A board that keeps buying paper it knows it cannot sell at cost, and tells its investors the franchise is sound, is inviting one.

At that point, the firm has no option to stay in out of patriotism or habit. Its lawyers will tell it to leave, and it will. Dealers do not leave one at a time. They leave in a cluster, as they did in 2008, because the same arithmetic hits all of them at once. When the roster starts shrinking, every remaining dealer's mandatory share gets bigger, the survivors' balance sheets fill with paper they can't move, and the next withdrawal comes faster than the last. That is not one canary dying. That is all of them.

When it starts, the bid-to-cover ratio will still print above 1.0 right up until the end — because the floor is contractual. The public will be told demand is “adequate.” It will be the last thing the public is told before the money runs out.

The sequence from here

Step one: the safety buyers step back. Foreign central banks, pension funds, insurers — the people who buy Treasuries to hold them for decades — decide the price isn’t worth the risk. Their holdings stop growing. Auctions clear at higher and higher yields.

Step two: the gamblers fill the gap. Leveraged hedge funds buying Treasuries for the basis trade — borrowing 50 or 100 dollars for every dollar of their own to capture a tiny spread — become the marginal buyer. They are not investors. They are renting the market.

Step three: the leverage breaks. A yield spike, a margin call, a clearinghouse haircut, a war shock — anything — forces the leveraged buyers to sell at the same time. This happened in March 2020. The Fed bought \$1.5 trillion in three weeks to stop it. Next time, with inflation above target and the Fed hiking, that rescue comes at the cost of the dollar.

Step four: Treasury’s cash can’t cover it. The government’s checking account, the Treasury General Account, now holds about \$900 billion to \$1 trillion. Federal outlays run about \$580 billion a month. Bills alone roll about \$750 billion a month. If investors won’t take the paper at any yield Treasury is willing to pay, the account is empty in weeks, not months. There is no reserve. There is no rainy-day fund. The trust funds hold Treasuries, not cash.

Step five: someone doesn’t get paid. Treasury faces a choice among a Fed bailout that debases the currency, an auction at any price that blows the interest-to-borrowing ratio past 100 cents or paying some obligations and not others. The third is a default, whether the lawyers call it “prioritization” or not.

Nothing in that sequence requires an empty room at an auction. It requires only that yields keep doing what they did this week, that the dealers keep getting stuck with more paper, and that the leverage holding the market together does what leverage always eventually does.

4. Who is forced to hold Treasuries — and what happens to them the day after default

A default is not an event that happens to “investors.” It happens first to the institutions required by law or regulation to hold Treasuries, and that cannot substitute anything else. Here they are, in order of how fast the public would feel it.

Entity	Why they must hold Treasuries	What a default does to them
Social Security and Medicare trust funds (~\$2.7T in Social Security alone)	Federal law requires surpluses be invested in special-issue Treasuries	A Treasury that can’t pay bondholders can’t redeem trust fund securities. Benefit payments are delayed or cut, not in 2033 — immediately. Seventy million

Entity	Why they must hold Treasuries	What a default does to them
Government money market funds (~\$6 trillion)	SEC Rule 2a-7: 99.5% in cash, Treasuries, or Treasury repo	beneficiaries become creditors in a bankruptcy. A missed bill payment breaks the buck. The 2008 Reserve Primary run was one fund; this is the entire \$6 trillion cash-management system for households, corporations, cities, and pensions.
Cities, counties, school districts, and states	State “legal lists” restrict public cash to Treasuries and agencies. Bond indentures require debt-service reserve funds be held in Treasuries. Refunding escrows — the accounts that back hundreds of billions of refinanced municipal bonds — are invested in Treasuries by rule. Banks holding public deposits must pledge Treasuries as collateral.	The escrows fail, and every refunded municipal bond backed by them defaults in sympathy. Reserve funds are impaired. Payroll and operating cash parked in government money funds and state investment pools freezes. Muni yields, which price off Treasuries, spike, and market access for new borrowing closes. The city that paid its bills on time for a century misses a payroll because Washington did.
Property and casualty insurers	State insurance codes require statutory deposits with the state — typically in Treasuries — as a condition of writing business. NAIC investment limits and risk-based capital rules assign Treasuries a zero-risk charge, making them the only capital-efficient way to hold claims-paying liquidity. Reinsurance collateral trusts require Treasuries. Catastrophe reserves are laddered in bills, so the cash is there the week the hurricane hits.	The “risk-free” asset at the center of the capital ratio is impaired, and companies drop through regulatory action levels overnight. Catastrophe claims come due against a bill portfolio that isn’t paying — in the middle of hurricane season. Reinsurance collateral is worthless. State guaranty funds, themselves invested in Treasuries, assess surviving carriers to cover the failures. Homeowners find out what their policy is worth when the insurer’s cash is a claim on a government that isn’t paying claims.
Broker-dealer customer reserve accounts	SEC Rule 15c3-3: cash or U.S.-guaranteed securities only	Every brokerage customer’s uninvested cash is sitting in defaulted paper. Withdrawals freeze.
Federal retirement funds (Civil Service, Military Retirement, TSP G Fund)	Statute	Federal retirees and active-duty families find their “guaranteed” fund is a claim on a government that isn’t paying claims.

Entity	Why they must hold Treasuries	What a default does to them
FDIC Deposit Insurance Fund and NCUA Share Insurance Fund	Statute: invested only in U.S. obligations	The backstop for every insured bank deposit is itself in default. A bank run has nothing behind it.
Banks (~\$4–5 trillion in Treasuries)	Basel III liquidity rules make Treasuries the only uncapped, unhaircut liquid asset	Mark-to-market losses on the “risk-free” asset — the Silicon Valley Bank problem at every bank at once. Regulators waive the rules; depositors don’t.
Clearinghouses (FICC, CME) and their members	Margin and clearing-fund collateral is cash or Treasuries	Collateral is haircut or rejected. Margin calls cascade across every futures, swap, and repo market simultaneously — the March 2020 unwind with no Fed to catch it.
Stablecoin issuers	GENIUS Act: reserves in cash, insured deposits, and bills of 93 days or less	A missed bill maturity de-pegs the dollar stablecoins. Crypto markets discover their “digital dollar” was a claim on the U.S. Treasury all along.
The Federal Reserve	Federal Reserve Act limits its portfolio to Treasuries and agencies	The central bank’s balance sheet is impaired. Its only tool becomes printing; at the exact moment printing is the problem.
Foreign central banks (~\$4 trillion)	No U.S. mandate, but no alternative at scale	The reserve currency’s reserve asset fails. The dollar’s exorbitant privilege ends, not gradually, in an afternoon.

Notice the pattern. The people hurt first are not hedge funds. They are retirees, depositors, brokerage customers, the town that refinanced its water system, the family waiting on a roof claim, and the plumbing of every payment in the economy. The gamblers will have sold. The captives cannot.

5. Why a small rate move is a big money move

People hear “yields rose a quarter point” and shrug. Here is what a quarter point means on \$32 trillion.

The debt doesn’t reprice all at once. About \$7 trillion — bills and floating-rate notes — reprices within weeks. The rest, roughly \$22 trillion in fixed-coupon notes and bonds, reprices only as it matures, about \$2.7 trillion a year. So, a rate moves hits in waves: a fast hit through bills, then a rising tide as the coupons roll.

Sustained rise across the curve	Added interest, year one	Added interest, year two (run-rate)	Added interest once everything reprices
+0.25% (a “modest” move)	~\$18 billion	~\$40–50 billion	~\$80 billion
+0.50%	~\$35 billion	~\$80–100 billion	~\$160 billion
+1.00%	~\$65–70 billion	~\$150–200 billion	~\$320 billion
+2.15% (a 7% ten-year)	~\$150 billion	~\$290 billion	~\$690 billion

Every dollar in that table is borrowed.

So, every dollar in that table raises the deficit, which raises issuance, which pressures yields, which raises the next row. That is the feedback loop the Clock is built to measure.

The one-percentage-point row is the one to memorize: one point on the curve is, within two years, a new Medicaid-sized line item that buys nothing.

6. What the market did this week — the 10-year, blow by blow

Everyone calls it the “10-year T-bill.” Technically it’s a note — bills run a year or less — but the point stands: the 10-year is the rate that sets mortgages, car loans, corporate borrowing, and the interest bill on a third of the national debt.

August 19. Treasury announces it will “at least double” long-end buybacks, from \$2 billion to \$4 billion per operation, to relieve what CNBC called a buyers’ strike at the long end since late June. Yields drop for one day: the 10-year to 4.65%, the 30-year to 5.20%.

August 21. The rally is gone. The 10-year gives back the entire decline. Traders start waiting on Fed Chair Warsh instead of Treasury.

September 9. Bessent triples the first expanded buyback to \$6 billion. The market had priced in something bigger. The 10-year rises 4 basis points to 4.845%; Mizuho calls it “an uphill battle” against fundamentals. A strong 10-year auction that afternoon (bid-to-cover 2.71, 79% indirect) takes some of the sting out — for a few hours. Remember what that 2.71 means: 1.71 of it was voluntary.

September 10. The buyback executes. Treasury manages to buy only \$5.19 billion of the \$6 billion it offered to take, out of \$10.5 billion offered by dealers — it turned away offers it didn’t like the price of. The 10-year closes at 4.95%, the 30-year at 5.34%. The Washington Post editorial board writes the epitaph: the plan to buy back bonds and hold yields down “backfired,” and markets are simply reflecting reality — the budget is a mess and nobody in charge has a plan to curb spending.

September 11. Bloomberg: the 10-year sits on the cusp of 5% ahead of inflation data that will decide whether the Fed *hikes* next week. Producer prices had already accelerated on war-driven energy costs. Brent crude is over \$100.

Read that sequence plainly. Treasury announced an intervention three times in three weeks. The first bought one day. The second bought nothing. The third made it worse.

7. Why the executive branch can't fix this — and why trying makes it worse

Three weeks of evidence, one lesson: when the Treasury Secretary shows up in the bond market with a checkbook, the bond market asks why he's scared.

Hank Paulson's rule in 2008 was that if you have a bazooka and everyone knows it, you may never have to fire it. This month, the rule ran backward. Treasury announced a bazooka, fired it, and it turned out to be \$5.19 billion against a market that trades \$900 billion a day. Yields rose. Then it fired a bigger one. Yields rose more. Stanley Druckenmiller's prediction — that Bessent would be forced to keep enlarging the operations — is now the market's working assumption, and every enlargement confirms the diagnosis.

Look at the full toolkit, and each tool has the same defect:

- **Buybacks.** Treasury has to borrow the money to buy the bonds. It is issuing new debt to retire old debt, and the net supply to the market doesn't change. It's a liquidity gesture dressed up as demand.
- **Shortening the debt.** Selling more bills and fewer bonds takes pressure off the long end today — and puts the entire cost of the next rate move on the budget within months. That is the Clock's failing test on short-term debt, and it is how you convert a bond-market problem into a budget crisis.
- **Leaning on the Fed.** Every public demand that the central bank hold rates down raises the premium investors charge for holding long bonds, because it tells them inflation, not solvency, is the plan. The Fed is looking at a *hike* next week, with inflation well above target. Ordering it away makes it worse.
- **Regulatory tricks.** Exempting Treasuries from bank leverage rules, steering stablecoin reserves into bills, rewriting money-fund rules — each one conscripts a new buyer for a while. None of them changes how much must be sold. And every new captive buyer adds another institution to the list in Section 4.
- **Yield-curve control.** The Fed pinned rates from 1942 to 1951 by printing the difference. It worked, and the country paid for it with inflation that ran to 14% and a decade of financial repression. With inflation already above target, that option is a match in a gas station.

Can these tools ever work? For a few weeks, in a liquidity panic, yes — the Fed did it in March 2020, and the Bank of England did it in the 2022 gilt crisis.

But those were plumbing failures with a credible fiscal path behind them. Ours is a solvency question with no fiscal path behind it. Intervention can buy time. It cannot buy a budget. Every time the executive branch tries to substitute one for the other, the market prices the substitution as fear and charges more.

One institution control how much the United States borrows, and it hasn't acted: Congress.

8. The safety buyers are leaving. The gamblers are buying.

The composition of who owns the debt has flipped, and the flip is the tell.

- **Foreign official buyers** — central banks and sovereign funds, the ultimate hold-to-maturity money — own about \$4.0 trillion, well below their holdings of a few years ago and barely growing. Japan and China, the two largest, have been reducing.
- **“Private foreign” holders** are at a record \$5.45 trillion — but a large share of that is U.S. hedge funds domiciled in the Cayman Islands running the basis trade. It is foreign on paper and leveraged in practice.
- Federal Reserve economists found that hedge funds absorbed **37% of all net issuance of medium- and long-term Treasuries** from 2022 to 2024 — roughly equal to every other foreign investor combined.
- The long end has been in a buyers’ strike since late June. That is the sector where pensions and insurers live, and it is the sector Treasury is now trying to prop up with buybacks.
- Treasury projects net issuance of more than \$10 billion per business day from July through December. Official buying is, in one analyst’s words, “structurally softer.” The marginal buyer is now a leveraged fund that can unwind in a day.

A market financed by people who need the asset is stable. A market financed by people who are renting it for a spread is stable until it isn’t. In March 2020 it wasn’t, and the Fed had to become the buyer of last resort. The SEC’s central-clearing mandate for Treasury trades takes effect December 31, 2026, with repo following in mid-2027 — raising the cost of the basis trade at the exact moment the market depends on it most.

And now there is a second borrower at the window. Every buyer on that list has a new place to put long-term money. For years the big technology companies paid for expansion out of their own cash. The AI buildout is too big for that. JPMorgan’s Michael Cembalest estimates that the five largest AI cloud companies plus Nvidia have sold about \$320 billion of debt so far this year. Measured the way bond desks measure long-term supply, that is about \$303 billion, equal to roughly 68% of the Treasury’s new long-term borrowing this year. Goldman Sachs’s credit desk is looking at roughly \$340 billion more in 2027.

This is Dan Niles’s point (in Section 2 above): the AI companies now compete directly with the Treasury to sell paper. Microsoft, Alphabet, Amazon, and Meta are among the best credits in the world. To a pension fund or an insurer, their bonds are a substitute for a Treasury, with a higher yield. When two borrowers chase the same lender, the lender names the price. The price is the interest rate.

Normally high rates cure themselves: borrowing gets expensive, so people borrow less. Neither of these borrowers works that way. Washington borrows more to cover the higher interest. The AI companies believe the winner takes everything, and they will pay what it costs. One caution. The AI half can end fast; if the boom cools, that borrowing dries up and the money runs back to Treasuries. The deficit half does not end. AI is the accelerant. The debt is the fuel. Congress cannot control what Meta borrows. It controls what Washington borrows.

9. What we spend refinancing the debt

Roughly a third of marketable debt — about \$9 trillion — matures every year and must be sold all over again. That is on top of the \$2.1 trillion of *new* borrowing to cover the deficit. Treasury is in the market for about \$11 trillion a year, or close to \$1 trillion a month, just to stand still.

Here is the trap inside those numbers. The average interest rate on the outstanding marketable debt is about 3.4%, because much of it was issued when rates were near zero. Every dollar that matures this year gets replaced at about 4% to 5.4% — today's curve, from the shortest bill to the longest bonds. The debt doesn't have to grow at all for the interest bill to grow; it only has to roll over.

The results are already in the books:

- **Gross interest expense:** \$1.17 trillion in the first ten months of FY2026 — about \$117 billion a month, \$3.85 billion a day.
- **Net interest (the budget's measure, after trust fund offsets):** \$1.05 trillion through August, up 12% in a year. Full-year net interest will run about \$1.15 trillion — more than the Pentagon, more than Medicaid, second only to Social Security.
- **Interest paid to the trust funds alone:** about \$256 billion over the past year. That is real money owed to Social Security and Medicare beneficiaries, paid with borrowed dollars.

None of this reduces the principal by a nickel.

10. How fast the debt is growing

	Amount
Gross federal debt	Over \$40 trillion (crossed in late August)
Debt held by the public (what the market must absorb)	About \$32.3 trillion
Held in federal trust funds (Social Security, Medicare, retirement)	About \$7.7 trillion
Growth over the past 12 months	About \$2.6 trillion — \$7.2 billion a day
Net new borrowing from the public, calendar 2026 (Treasury's own numbers)	\$2.13 trillion
Net borrowing in a normal (non-April) month	About \$210 billion
FY2026 deficit (CBO, August)	\$2.1 trillion — \$200 billion worse than projected in February

Debt held by the public is now roughly 100% of GDP. At the depth of the Great Depression, it never got above about 44%. The only time it was higher than today was the year after World War II — 106% in 1946 — and CBO says we pass that record before the end of the decade, with no war bond drive, no rationing, and no plan.

Put differently: in 1946 we had beaten Germany and Japan and had a peace dividend to pay it down with. In 2026 we have a \$2 trillion structural deficit and a bond market that is starting to notice.

11. Historical context

The Washington Post editorial board, not previously known as a deficit hawk, wrote on September 10 that the market's verdict is simply reality: the budget is a mess, politicians have no plan to curb spending, and the Treasury's attempt to hold yields down backfired. When the Post and the Debt Default Clock are saying the same thing in the same week, the debate about whether there is a problem is over.

The numbers behind their verdict: debt held by the public at roughly 100% of GDP is more than double its Great Depression peak, within a few points of the all-time record set at the end of World War II, and on track to break that record within this decade in peacetime with full employment.

Every prior debt peak in American history came with a plan to grow or tax our way out and a bond market that believed it. This one comes with a \$2 trillion deficit, \$1.4 trillion in interest, and a Treasury Secretary buying back bonds with borrowed money.

12. Where the Clock stands

The Debt Default Clock runs twelve fiscal tests against the federal budget. Fail ten and the Clock's framework treats a default as effectively unavoidable. As of the July 6 review, the government fails **eight of ten** (two factors are discounted), and the Clock moved from three minutes to two.

The test that matters most right now is the interest-to-borrowing ratio in Section 1. The July review put it at 66 cents. The Clock's framework holds that above 70 cents the government has entered a spiral in which most new borrowing funds nothing but the cost of prior borrowing — no roads, no defense, no benefits, just debt service on debt.

Two other failing tests are the ones the bond market is now pricing:

- **Short-term and floating-rate debt above 50% of the total.** About 70% of marketable Treasury debt matures or resets within a few years. That is why a rate move hits the budget fast.
- **Debt held by the public above 80% of gross debt.** The share the market has to absorb is rising; the share parked in trust funds is not keeping up.

The lone passing test worth noting — revenues at or above 17.5% of GDP — is now in doubt. The

Supreme Court's February tariff ruling wiped roughly \$250 billion off this year's expected customs collections, and corporate tax receipts are down 25%. Revenues are still up 3% on the year, carried entirely by workers' withholding. That is a thin margin.

13. What has to happen

The Clock's tests are not a wish list. They are the conditions under which the arithmetic stops working. Eight are failing. Two more and the framework says default is no longer a risk to manage but an outcome to schedule.

The executive branch has demonstrated in three weeks that it cannot buy its way out of a market that has stopped believing. The Federal Reserve cannot print its way out without inflation the country has not seen since the 1970s.

The primary dealers are still standing at the auction because the contract says they must — and the contract will hold right up until the morning it doesn't. The only body with authority over how much the United States borrows — the House and Senate of the United States — has not acted.

Until it does, every auction is a referendum, and this week the market voted.

The National Seniors Policy Center maintains the [Debt Default Clock](#) as a joint project with the [Compact for America Educational Foundation](#). Its framework, factor tests, and quarterly reviews are available at [nspc.org](#).

*Sources: U.S. Treasury Daily Yield Curve and Quarterly Refunding statements (August 3 and 5, 2026); Federal Reserve Bank of New York primary dealer list and operating policies (January 15, 2026); Congressional Budget Office Monthly Budget Reviews for July and August 2026; Treasury Monthly Statement of the Public Debt; U.S. Treasury, Bureau of the Fiscal Service, Interest Expense on the Debt Outstanding (fiscal years 2024–2026, through July 2026); Joint Economic Committee Monthly Debt Update; Federal Reserve TIC data; Bloomberg, CNBC, and Washington Post reporting, September 9–11, 2026; Debt Default Clock July 6, 2026 review, Federal Reserve FOMC statement and Summary of Economic Projections (September 16, 2026); CNBC, CNN, and Investing.com reporting on Treasury yields and the Fed decision, September 15–16, 2026. Market forecasts: CNBC, *Squawk on the Street* (Dan Niles, September 15, 2026); 24/7 Wall St. reporting, September 10 and 16, 2026, including JPMorgan and Goldman Sachs estimates of AI-related debt issuance; Bloomberg (Steven Barrow, Standard Bank, September 14, 2026); Reuters poll of economists (September 14, 2026); Bensignor Investment Strategies, as reported September 7, 2026; Envision Research, *Seeking Alpha* (January 28, March 17, and May 19, 2026); QTR's *Fringe Finance* (August 22, 2026).*