U.S. Debt Passes $40 Trillion

What it could mean for interest rates, mortgages, business borrowing, markets, and your financial decisions.

THE BIG PICTURE

The federal debt has moved above **$40 trillion**. At the same time, the U.S. Treasury has doubled certain buybacks of long-term Treasury bonds from **$2 billion to $4 billion per operation**. The buybacks may help calm the bond market, but they do **not** erase the debt. The larger issue is that the government still needs to borrow very large amounts while interest costs keep rising.

What $40 Trillion Actually Means

$32.3T Debt held by the public	**$7.8T** Debt held inside government accounts

Gross federal debt includes both debt sold to investors and debt held by federal trust funds and other government accounts. For financial markets, the **$32.3 trillion held by the public** is especially important because investors must absorb that supply.

Why Clients Are Feeling It

Large deficits → **More Treasury borrowing** → **Higher long-term yields** → **Higher borrowing costs**

The 30-year Treasury yield recently touched about **5.34%**, its highest level since 2007, before falling after the Treasury buyback announcement. Freddie Mac's most recent weekly survey showed the average 30-year fixed mortgage rate at **6.67%**. The point is simple: even if the Federal Reserve lowers short-term rates, heavy government borrowing can still keep longer-term rates - including mortgage rates - higher than many people expect.

$739B Treasury's expected privately held net borrowing for Jul-Sep 2026	**$628B** Expected privately held net borrowing for Oct-Dec 2026	**$1.0T** CBO estimate of federal net interest cost in 2026

Short-Term Issues: The Next 1-2 Years

These are the effects most likely to show up first in mortgages, business loans, bonds, stocks, and household budgets.

Long-term rates may stay stubbornly high.

The government must sell a lot of Treasury debt. Investors may demand higher yields to buy it. That can keep mortgage and business borrowing rates elevated.

Old low-rate debt is being replaced with more expensive debt.

As older Treasury securities mature, the government often refinances them at today's higher rates. That raises interest expense even before adding new debt.

Government borrowing competes with private borrowing.

When Treasury needs hundreds of billions of dollars, it competes with companies, homebuyers, and other borrowers for investor money. That can push borrowing costs higher.

Buybacks may calm markets - but only temporarily.

Treasury can buy older long-term bonds to improve trading and reduce market stress. This can lower yields for a while, but it does not solve the federal deficit.

Treasury and the Federal Reserve can pull in different directions.

The Fed may be trying to control inflation or reduce its bond holdings while Treasury is trying to keep long-term markets orderly. Mixed signals can increase volatility.

Foreign demand matters more as borrowing grows.

If foreign investors become less willing to buy U.S. debt, yields may need to rise enough to attract other buyers.

The dollar and financial markets can become more volatile.

Large changes in bond yields can move the dollar, stocks, mortgage-backed securities, and other markets quickly.

What the Treasury Buyback Does - and Does Not Do

IT CAN	IT CANNOT
• Improve trading and liquidity in older Treasury bonds.	• Reduce the $40 trillion debt by the amount purchased.
• Temporarily reduce pressure on long-term yields.	• Fix persistent federal budget deficits.
• Help calm a disorderly bond market.	• Remove the need for large new Treasury borrowing.

Treasury itself says buybacks are not expected to meaningfully reduce its net borrowing because new securities are issued to replace the bonds that are bought back.

Long-Term Issues: The Bigger Problem

The long-term risk is not that the United States suddenly 'runs out of money.' The risk is that rising debt slowly takes away choices and makes the economy more sensitive to interest rates.

2026	2036	2056
$1.0T Net interest cost	**$2.1T** Net interest cost	**6.9% of GDP** Projected net interest cost
101% Debt held by public / GDP	**120%** Debt held by public / GDP	**175%** Debt held by public / GDP

- **Interest starts to snowball.** More debt creates more interest expense. More interest expense creates larger deficits. Larger deficits require more borrowing.
- **The federal budget becomes less flexible.** More tax revenue goes to interest payments, leaving less room for infrastructure, defense, research, tax relief, or emergency spending.
- **Future crises become harder to manage.** Recessions, wars, pandemics, or financial emergencies are easier to address when the government starts from a stronger balance sheet.
- **Private investment can be crowded out.** If government borrowing absorbs more investor money, less may be available for homes, businesses, equipment, and other productive investment.
- **Taxes and spending changes become harder to avoid.** Over time, the math may require some mix of slower spending growth, higher taxes, benefit changes, stronger economic growth, or higher inflation.
- **Inflation can look tempting - but it has a cost.** Inflation reduces the real value of old fixed-rate debt, but it also reduces purchasing power and usually causes investors to demand higher yields.
- **The Fed could face 'fiscal dominance' pressure.** If government interest costs become extremely large, raising rates enough to fight inflation can become politically and financially harder.
- **Investors may demand a bigger safety cushion.** If buyers view long-term U.S. debt as riskier or more inflation-sensitive, they may demand higher long-term yields. Even a small increase is expensive across trillions of dollars of debt.

WHY 1% MATTERS

Rough illustration: a 1 percentage-point increase in the average cost of financing on about $32 trillion of publicly held debt would equal roughly **$320 billion per year** once fully reflected across the debt stock.

What This Means for Clients

The debt story matters because it can influence the interest rates people actually pay. Here are the practical takeaways I would focus on.

Homebuyers	Do not assume mortgage rates must fall sharply just because the Fed eventually cuts short-term rates. If the payment works and the home fits your plan, waiting for a perfect rate can be risky.
Homeowners considering a refinance	A refinance should be based on real monthly savings, break-even time, loan term, and goals - not just a headline rate. Keep the option open and rerun the numbers when markets move.
Real estate investors	Cash flow and debt-service coverage matter more when long-term rates stay elevated. Stress-test the deal at several rate levels before committing.
Business owners	Watch floating-rate debt, upcoming maturities, and working-capital needs. Compare fixed and variable structures and avoid allowing a single refinance date to become a major risk.
Investors and savers	Higher Treasury yields can create better income opportunities, but longer-term bonds also carry more price risk when yields move. Match the investment horizon to the need for liquidity.

What I Am Watching Next

• 10-year and 30-year Treasury yields.	• Treasury auction demand and foreign buying.
• Inflation and energy prices.	• Federal Reserve policy and balance-sheet decisions.
• Quarterly Treasury borrowing estimates.	• Federal deficit and interest-cost projections.

My view: This is not a reason to panic. It is a reason to take long-term interest-rate risk seriously. The U.S. can continue to borrow, but every additional trillion dollars makes the cost of higher rates more important. For borrowers and investors, flexibility, liquidity, and good analysis matter more in this environment.

Sources & Notes

U.S. Department of the Treasury: August 2026 borrowing estimates and quarterly refunding materials; Congressional Budget Office: The Budget and Economic Outlook: 2026 to 2036; Reuters reporting dated August 19-20, 2026 on the $40 trillion debt threshold, long-term Treasury yields, and expanded buybacks; Freddie Mac Primary Mortgage Market Survey, August 13, 2026.