



To: Representatives of the Financial Services Roundtable, GAC, Public Affairs Council, Research Council, All Staff

Fast Facts: DEBT CEILING

What Will Happen After August 2nd If Debt Ceiling Is Not Raised

FACT: There will be a [\\$4 billion-a-day gap](#) between the revenues that are coming in and the expenditures that we have, according to Former Comptroller General David Walker.

FACT: The [Bipartisan Policy Center](#) (BPC) estimates that the Treasury Department would need to implement an immediate 44 percent cut in federal spending in the event the debt ceiling is exceeded.

- According to BPC, if the administration tries to protect Social Security, Medicare, Medicaid, defense contracts and unemployment insurance, then no military pay, tax refunds, federal civilian pay or welfare payments could be made that month.

FACT: Credit rating agencies will downgrade U.S. debt.

- [Standard & Poors](#) warns that if the U.S. defaults on a \$30 billion debt payment on August 4, the nation's credit rating will be downgraded severely from its long-held AAA to a D ranking.
- [Moody's Investors Service](#) warns that a review of the U.S. government's Aaa bond rating could come by mid-July "if there were no progress on increasing the statutory debt limit."
- [Fitch Ratings](#) says it will put U.S. debt on watch for downgrade in early August in the event that Congress fails to lift the federal debt limit before other stopgap measures are exhausted.

FACT: A default would severely disrupt the \$4 trillion Treasury market, resulting in higher borrowing costs and possibly triggering a deleveraging event.

- If even one interest payment is missed, some analysts believe it could add [25 to 50 basis points to Treasury yields](#) going forward.
- [Every 1% increase in interest rates](#) (100 basis points) will cost the U.S. government an additional \$150 billion a year.

FACT: U.S. banks hold \$250-\$300 billion worth of Treasuries on their balance sheets. If Treasury yields rose significantly, the book value and [capital at banks could be impaired](#).

As always, please do not hesitate to contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at Abby@fsround.org, or Scott Talbott, Senior Vice President of Government Affairs, at Scott@fsround.org.