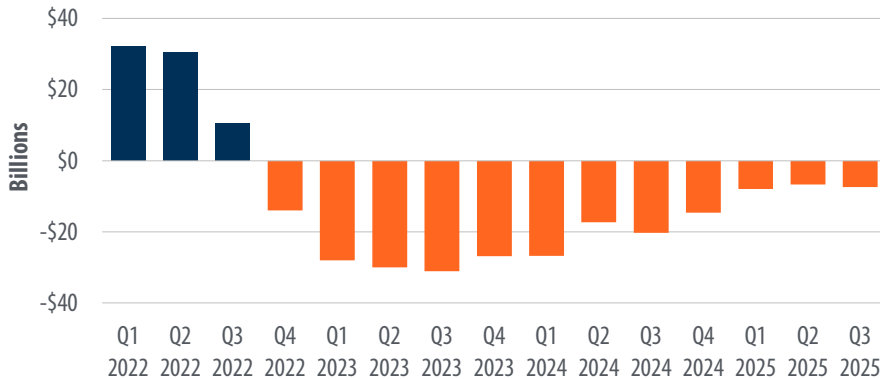


Congress Is Finally Waking Up to the Fed's Red Ink

Earlier today, our Chief Economist Brian Wesbury testified before the U.S. Senate Committee on Homeland Security and Governmental Affairs on the Federal Reserve's (the "Fed") "abundant reserve" policy (you can watch his testimony [HERE](#)). So for this week we thought it appropriate to look at the newly released quarterly financial report on the combined balance sheet of the 12 Federal Reserve Banks through the third quarter. Back in 2008, the Federal Reserve launched a major experiment in monetary policy, moving from a "scarce reserves" framework to one built on "abundant reserves." Beyond its role in fueling recent inflation, this shift has created a series of underappreciated problems. Rising interest rates have generated large unrealized losses on the Fed's securities portfolio. At the same time, higher rates mean the Fed now pays banks more in interest on reserves than it earns on its assets, resulting in ongoing operating losses. After years of mounting red ink, members of Congress are starting to take notice—and their concern is growing. For a closer look at what's happening under the hood, see the three charts below.

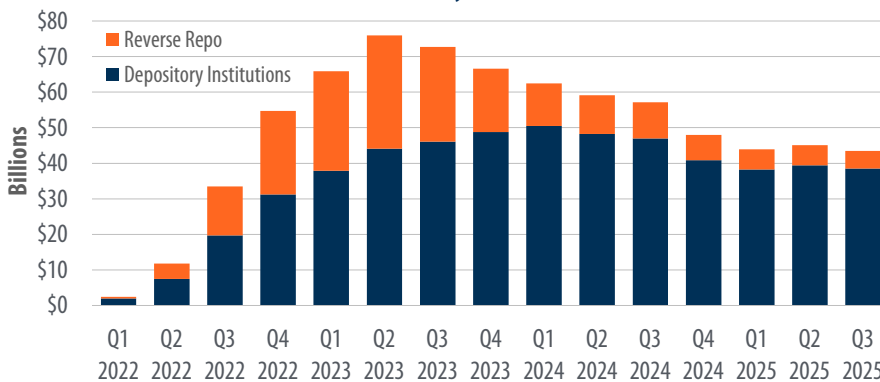
Net Earnings Remittances to the Treasury



Source: Federal Reserve Board, First Trust Advisors. Data from the first quarter of 2022 through the third quarter of 2025.

Before 2022, the Fed consistently earned more on its Treasury and mortgage-backed securities than it paid banks on reserves. That flipped as interest rates rose. Today, the Fed pays banks 3.65% per year on reserve balances—more than it earns on much of its asset portfolio—driving operating losses for 12 straight quarters. Rather than remitting profits to the Treasury, the Fed now records a "deferred asset" on its balance sheet, to be paid back only if and when it returns to profitability. In the third quarter of 2025 alone, net remittances to the Treasury were $-\$7.4$ billion, and the cumulative deferred asset climbed to $\$242.6$ billion.

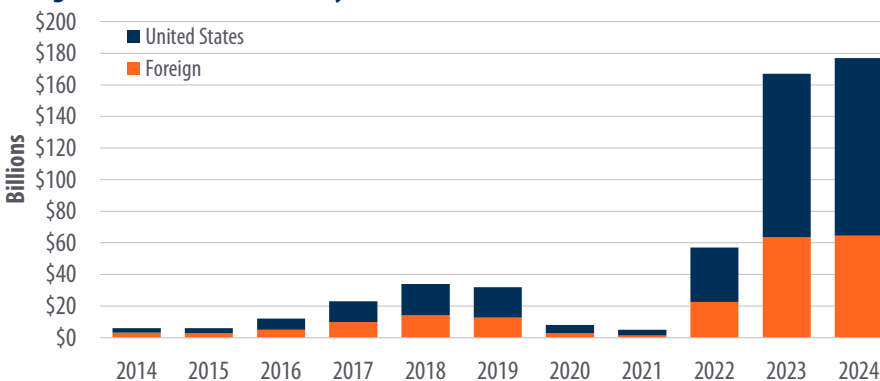
Interest Paid to Banks and Institutions by the Federal Reserve



Source: Federal Reserve Board, First Trust Advisors. Data from the first quarter of 2022 through the third quarter of 2025. **Reverse repos** refer to reverse repurchase agreements which are transactions where the Fed temporarily lends cash to financial institutions in exchange for securities.

Congress has been slow to grasp the scale of these developments, but as Wesbury's testimony today made clear, they finally seem to be catching on. Under the "abundant reserve" system, the real winners have been banks and other financial institutions, earning $\$43.5$ billion in Q3 alone from interest on reserves and reverse repos at the Fed. As the Fed continues its rate-cutting cycle in 2026, those interest payments are expected to decline. But the overall cost remains enormous: we estimate nearly $\$200$ billion in payments for 2025, with smaller—but still substantial—payouts in 2026. In the end, these are costs ultimately borne by taxpayers.

Foreign and Domestic IORB Payments



Source: Homeland Security & Government Affairs Committee, Federal Reserve, First Trust Advisors. Annual data 2014-2024. **IORB** stands for Interest on Reserve Balances.

Also today, Chairman Rand Paul released his [report](#), "The Fed's Corporate Welfare Program," at the same committee hearing. After months of requests, the Federal Reserve Board of Governors delivered more than 40,000 pages of documents detailing every IORB payment from July 2013 through July 2025. One notable finding is the disproportionate share received by foreign banks. From July 2013 to July 2025, foreign banks received $\$235$ billion in IORB payments. In 2024 alone, total IORB payments were $\$177$ billion, with $\$65$ billion—36.5%—paid to foreign banks. That's remarkable given that foreign banks hold only 17% of U.S. banking assets, meaning their share of IORB payments is more than double their share of the assets.

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