Is the FedNow Broke?
It sounds like the whole Federal Reserve System is creaking and breaking.
By David Haggith - Nov 2023

Recently several major banks were unable for days to process hundreds of thousands of payments. The explanation by the banks given in one report in today's news headlines was that

The bank issues were a technical glitch with the *Federal Reserve System*.

A technical glitch with the *whole Federal Reserve System?* The banks were vague on what broke, but whatever it was stayed broke for a long time, stopping transactions for days on end. Was it *FedNow* that broke — the Fed's new system that debuted this past summer and is supposed to enable your bank transactions to become *nearly* instant? Crickets. The Fed wasn't saying; neither were the banks, but something was not nearly instant, except the speed at which the breakage showed up.

The problems with "the system" continued, at least, six days after the first incidents. These included hundreds of thousands of failed transfers, including direct deposits of payroll and failed ACH payment processing, but also duplicated withdrawals. That's nice, twice your money gets taken out.

The Fed is, so far as I can tell, completely silent on the cause. None of the articles I read mentioned the exact cause, and multiple Google searches turned up nothing precise enough to suit me on the specific cause. **Yet, BofA, Chase and Wells experienced almost a million failed transactions in the US alone. These missed electronic transactions also could not be resolved by going into a local branch, as the problem was the spine of the banking *system* – the Federal Reserve. So the banks stated vague in their reports to customers.**

Maybe I looked inside all the wrong holes, but you would think, after a week someone would be explaining exactly what happened — not just "the *system* broke." What the *Federal Reserve System*? Is it broke? **Might as well conclude so, even though it owns the money printer so it can't *go broke*. It's *broken* because one thing told in the tales is that it wasn't the bank's own systems that caused the problems but the Fed's.**

Eventually the Clearing House, an organization owned by 22 major banks, said the problem was that instructions were sent to financial institutions "with the account number and names of customers masked."

Why were so many masked? How did it happen? It took a week to get it fixed, and it doesn't appear it is all fixed yet.

Of course, the failure to deposit payrolls that lasted, at least, a week caused all kinds of overdrafts:

“We know that for those affected consumers and businesses, the impact is meaningful,” the Clearing House said.

To unwind the error, banks that tried to send money last week have to resend their original instructions for payments to be transferred. When the affected customers see their money "depends on when their originating bank resends the transaction," a JPMorgan Chase (JPM) spokesperson said.

“For a few days,” this spokesperson said, JPMorgan is refunding overdraft fees for affected customers who didn’t have enough money in their accounts to pay bills.

JPMorgan, the nation’s largest bank, is still seeing higher-than-normal problem reports from its customers as of Tuesday.

That was only two days ago, so it doesn’t sound like the problem is completely resolved yet.

The Clearing House’s ACH operation essentially handles *half* the US commercial ACH volume. **The Federal Reserve has a separate ACH network in the US that it said was not affected by last week’s glitch.**

Except that the banks involved said it WAS the Federal Reserve System that was affected by the glitch, not theirs.

The frailties and catastrophic risk of cashless systems

In Singapore 2.5-million transactions failed last month, but that was said to be due to an overheating data center.

One of the two banks affected was Citibank. That appears to be an unrelated situation, but my reason for pointing all of this out is to note the frailties that will be inevitable with the eventual cashless system(s) being planned around the world as well as just the way major banking breakdowns can swoop in instantly right now. There are frailties in electronic systems that hard cash can protect against.

This could be a much bigger issue if the failures had anything to do with the nascent FedNow system when you consider that FedNow is likely planned as the “distributed ledger” that will be used for the Fed’s central-bank digital currency when the CBDC is issued, though the Fed doesn’t say much about that either.

FedNow was launched this past July, and its adoption by banks has been slower than anticipated. Perhaps troubles suddenly blew open as the system became overburdened as it grew. We don’t know even now how things got “masked.” Was it operator error or a system “glitch” as first reported? What system? I don’t want to start rumours short of facts; but it is worth noting that the latest system to be produced by the Federal Reserve *System,* FedNow, is a likely prime suspect.

Bugs happen when a new launch of anything is rolled out, but why be silent about the current massive fails? Was it a technical bug or a hack that masked them? Both kinds of problems, of course, are major concerns with CBDCs. With cash you have a backup if you cannot access your bank account so long as you keep currency on hand. In a cashless CBDC system, you have no backup and are frozen out most of life until the problem is resolved, and who knows if your bank will adequately resolve such things as duplicate withdrawals where one or both went into some hacker’s accounts?

Here is the bigger issue: *Bloomberg* reported,

Instability continues to grow in the US banking sector, and **MULTIPLE vulnerabilities are leaving HUNDREDS of institutions under a near-term threat of funding pressure and capital shortfalls…. The risks of the SYSTEM are rising.**

(Apparently the technical risks are rising, too.)

The latest bank failure and Fed fail

Iowa-based Citizens Bank was the sixth financial institution in the US that collapsed this year, and again insufficient reserves were a part of the issue. The bank took major loan losses because of being heavily invested in transportation industry, which is suffering badly, and it did not position its reserves to handle those losses. That just happened, so is it the first entry in the second round of bank failures JPMorgan Chase’s Jamie Dimon warned were coming right after the last round?

Of course, the loss of *value* in Citizens’ reserves due to Fed tightening was a big part of why its reserves were not up to snuff. Citizens’ collapse follows the failures of Heartland Tri-State Bank, First Republic Bank, Signature Bank, Silicon Valley Bank and Silvergate (a crypto-hybrid bank). And we haven’t even started to see the commercial real-estate troubles that Dimon warned of emerge as bank failures yet.

The Fed is the failure

It is beyond inexcusable that the Fed is not monitoring the problem it is creating better than this. The Fed created the bank failure problem entirely with its own interest hikes and QT, and it has all the resources to track it and to make certain those banks do what they need to do *long* before collapse happens. Yet, few in congress or the Biden Admin. or the financial media are seriously even criticizing the Fed for these abject failures when they should be *punishing* the Fed for it.

Said [Jim Rickards]() earlier this month,

We've seen some significant regulatory actions from the Federal Reserve, the FDIC, the U.S. Treasury and the Swiss National Bank, **but the fixes have been temporary and followed quickly by *new* failures**.

The government should already be talking about major reforms *of the Fed* for its monumental failure in thinking the inflation it was so obviously fueling three years back was "transitory" when it became abundantly clear that it was here and it was *not transitory*. We are all now paying for the bankster coven's failure in judgement.

(You can howl below at *Bitcoin Magazine's* response to the Fed when the Fed tried to curtail the magazine's freedom of speech with a law suit. It's hilarious as they point out the wickedness of the Fed that merits free use of Fed logos to attack the Fed's fails.)

Congress should *already* be deep in talks of reforming the Fed over this year's bank failures, as well, which the Fed caused and should have been watching for. The banks were, or course, complicit in their own failure due to their own greed that caused them to take too much risk and not take on the expense of adjusting their reserves, but it was the Fed's job as regulator to force them to take corrective action *before* the problems metastasized throughout bank reserves and became a national failure. The Fed got off easy as usual on that one — a hand spank in congress.

This preparation for the known affects of QT should have been done *even before QT began.* I wrote that such bank failures were certain to come whenever QT began and wrote that more than a year before QT began; so, the Fed is completely without excuse for not seeing the affect on reserves their QT would have and making sure banks were ready in advance. That is one of the biggest reasons I make predictions and keep pointing them out – to make it abundantly clear that the outcome *can* be foreseen (and to make sure as many people see that as possible) because the failure is baked into the plan and because the Fed is inept in predictable ways based on its history, which means the Fed is without excuse for being apparently ignorant of the risks it is creating. If I and some others can foresee it, they are certainly without excuse as they are in a far better position to see it because they have access to the banks' internal reserve information.

Horrendous Treasury auction fail today!

In yet another major financial fail, a Treasury auction came out abhorrently today just when almost everyone was saying Treasury auctions were running smoothly with plenty of demand, and Treasury yields were calming down — except me, speaking contrary to the flow as usual.

"*Nobody* expected this," says *Zero Hedge* of the latest nearly catastrophic US Treasury auction. Well, except that somebody *did* right here, and I only marvel that it has taken this long to happen because of all the denial out there about returning inflation and denial about banking troubles building up from the Fed's ongoing tightening and denial about recession.

(In another story today, Jeffrey Gundlach, the big bond guru, busts directly through the denial in a television interview and sounds almost exactly like me in every word he says in one of the stories below about the nation's debt crisis that is exploding in our faces, as I wrote about two days ago. (See "Now That's Getting Deep!") **He's also breaking the nation's denial about recession, saying it is imminent if not, in fact, *already here*.** So, now there are three of us saying recession is likely already here that I know of — me and Peter Schiff and Gundlach who both joined in making that claim this week. Gundlach even sounds like me in saying he has gotten to the point where he no longer trusts the government's endlessly revised job numbers and thinks cynically they may be intentionally reported one way and then revised to the truth when attention is off of them a month or two later.)

Banks (Dealers) were forced to step up and take the balance, or a whopping 24.7%, *double* the recent average of 12.7%, and the highest since Nov 2021. This is a big warning flag because every time we have seen a surge in Dealer takedowns, some sort of Fed intervention - QE or otherwise - has usually followed and *we doubt this time will be different*….

The market reaction to the catastrophic 30Y auction was immediately [sic.], sparking a swift and painful response across markets with bonds and stocks hammered lower [yields higher] and the dollar spiking…. That is the biggest spike in 30Y yields since March 2020.... Finally, we note that this ugly auction comes as Treasury Liquidity is evaporating dramatically...

It *will* be different this time, of course: The Fed isn't about to go back to the knucklehead's dream of more QE, not with inflation still hot on their backs and rising, but the *pivot fantasy* (swallowed hook, line and sinker by *ZH* from the get-go early last year) never dies. Only days ago they were also writing about how bond liquidity remained deep with dealer takedowns being quite minimal just like Janet Yellen was claiming. Suddenly it looks completely different as I've been warning it will during the ongoing Big Bond Bust. (There are no straight lines in economics, so you can expect times when yields, on the rise, take a swing down and catch their breath as the market desperately grasps at narratives that claim the Fed is nearly done with inflation. Believe none of it.)

Houston, we have a problem. It turns out the bond market's rocket ride in yields isn't likely over as nearly all financial writers thought just yesterday and the rest of the earlier part of this week and last. Who could have imagined the Big Bond Bust wasn't done yet? I guess all those nobodies that *ZH* says didn't expect this, which would include them this time. (They could have expected it if they hadn't cancelled me as part of their own cancel culture because I am so wrong about Saint Putin and *non-imperial* Russia that is just innocently trying to rid the world of nasty Nazis.)