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Stablecoins Will Lessen Community Lending

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After the recent passage of the GENIUS Act, stablecoins — digital assets used for transactions and pegged to the value of the dollar — are expected to become a more common financial tool. The stablecoin market has grown from about $12 million in 2020 to just over $250 billion today.[1] After the Genius Act, JP Morgan projects that it could hit $500 to $750 billion in the next few years.[2]

The law includes many guardrails on stablecoins, with the non-ironic intention of protecting the stability of today's financial structure. One important issue is whether deposits will flow out of existing banks into stablecoins. That could have significant consequences, including fewer community lending obligations and less credit and investment for small businesses, farmers, and homeowners across the country.

In August, the GENIUS Act became the first major U.S. law focused on the regulation of "**payment stablecoins.**" The bill is designed to enhance consumer protection, promote innovation, create confidence in the stablecoin marketplace, and protect the financial system.

Payment stablecoins have the following characteristics:

- **Means of Payment/Settlement:** Its primary purpose is to function as a medium of exchange for settling transactions.
- **Stable Value:** The issuer is obligated to convert, redeem, or repurchase the stablecoin for a fixed amount of monetary value (e.g., U.S. dollar).
- **Reserve Requirements:** Issuers are typically required to maintain reserves backing outstanding payment stablecoins on at least a 1:1 basis. Stablecoins can also be pegged to other international currencies, such as the Euro, the Yen, or the Yuan.

In addition to the above, payment stablecoins are prohibited from paying interest/yield solely for holding or using the coins or tokens. There are a number of rationales for this ban.

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[1] Rafael Nam, "Why There's So Much Excitement Around a Cryptocurrency Called Stablecoin," *National Public Radio*, July 15, 2025, https://www.npr.org/2025/07/15/nx-s1-5467380/crypto-stablecoin-genius-act-congress

[2] "What to Know About Stablecoins," JP Morgan, September 4, 2025, https://www.jpmorgan.com/insights/global-research/currencies/stablecoins.

First, payment stablecoins are by law not securities, commodities, or traditional deposits, and as such face far lighter regulation. If they were allowed to accrue interest, they would more closely resemble the above, but without the financial regulation that protects consumers and the broader financial system. For example, deposit accounts at banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC), while stablecoins are not. This means that if used by customers to store their savings, those customers would not be insured against loss should the stablecoin issuer go bankrupt or default.

Second, policymakers were concerned about oversaturation of supply. There is already considerable competition in the depository marketplace — almost 9,000 banks and credit unions are currently in operation in the U.S. In recent years, that number has declined significantly due to consolidation and, in part, because of a decline in demand. The growing number of nonbank financial institutions has also diminished the demand for insured depository institutions.

Third, the authors of the law wanted to prevent financial instability and the outflow of deposits from insured depository institutions that are more highly regulated and an essential source of lending to communities, small businesses, and homeowners. Technology that allows consumers to bypass banks — otherwise known as disintermediation — could threaten lending to key business sectors that, in turn, could hurt economic growth and innovation.

Yet despite efforts to protect commercial banks and credit unions from the significantly less regulated stablecoin sector, it is not difficult for crypto companies and others to skirt around the prohibition.

For example, some companies, like Coinbase, are exploring ways to offer rewards to stablecoin holders, emphasizing that such rewards are not technically "interest" and are offered for reasons other than merely holding the stablecoin itself. The company already offers a 4.10% reward rate for customers who hold the popular stablecoin USD Coin, also known as USDC. The coin's issuer, Circle, shares interest revenue from the assets that back USDC with Coinbase. Because of the potential to circumvent the new law, a significant amount of the $18.5 trillion in deposits at U.S. banks and credit unions could flow out of insured depository institutions and into payment stablecoins. A Treasury report from April 2025 estimates that roughly $6.6 trillion in deposit outflows could occur with higher usage of stablecoins (particularly if issuers could offer yields similar to bank accounts), representing a 36% decrease in the total amount of bank deposits.[3]

This level of outflows would be incredibly challenging for banks to weather. Traditional FDIC-insured depository institutions would be forced to compete for an increasingly scarcer amount of funds. This chasing of deposits would be potentially good for

[3] Dylan Toker and Gina Heeb, "Why Banks Are on High Alert About Stablecoins," *Wall Street Journal*, July 18, 2025, https://www.wsj.com/finance/currencies/why-banks-are-on-high-alert-about-stablecoins-2f308aa0?mod=Searchresults&pos=2&page=1.

depositors in the short term, as banks would be forced to offer higher yields on savings and checking accounts. But over time, this would lead to considerable consolidation within the industry as banks either merge or declare bankruptcy — with smaller community banks likely bearing the brunt of the impact.

This, in turn, would undermine an important source of economic dynamism: community lending. Community banks use deposits to originate approximately 60% of all small business loans and 80% of agricultural loans nationally. The decline in the number of small banks, more scarce deposits, and reduced competition amongst credit providers will all lead to less credit for households, local businesses, and farmers. In many areas, less lending will lead to fewer jobs. For example, small businesses are important employers in rural areas, employing 62% of all workers.[4]

This impact will be especially acute in rural and low-income areas with few credit options, since an outflow in deposits will hinder lending for the Community Reinvestment Act (CRA). Under the CRA, banks are encouraged to meet the credit and community development needs of their entire communities, especially low- and moderate-income (LMI) neighborhoods. Banks are evaluated on their performance in providing loans, investments, and services to these communities, and these evaluations are used when they apply for mergers or other changes to their deposit facilities.

Especially since the Clinton administration's 1995 reforms to the law, CRA has dramatically increased lending, investment, and basic banking services to underserved communities. The evidence shows that the changes made to CRA coincided with a rise from $1.6 billion in 1990 annual commitments to $103 billion in 1999. Over that roughly same period, the number of CRA-eligible home purchase loans originated by CRA lenders and their affiliates rose from 462,000 to 1.3 million.

Today, CRA continues to benefit communities around the nation. For example, there have been nearly $5 trillion in CRA-qualifying mortgages and small business loans made from 2010 to 2024, according to an analysis by the National Community Reinvestment Coalition. In 2023 alone, CRA lending accounted for roughly $387 billion in small business and community development loans.[5] Furthermore, this is a substantial portion of all lending that depository institutions do in these areas, accounting for nearly 77% of outstanding small business loan dollars and 35% of outstanding farm loans.

Yet unlike deposits at banks, stablecoins have no community lending obligations. While it is not certain exactly how much damage a one-third decline in deposit levels would do to CRA's vital source of credit, history does give us a reason for concern. At the end of 1980, money market mutual fund assets were only about $135 billion. Today, that

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[4] Michelle Kumar and Justice Antonioli, "Small Businesses Matter: Increasing Small Business Access to Capital in the Digital Age," Bipartisan Policy Center, April 29, 2024, https://bipartisanpolicy.org/report/small-businesses-matter-capital-access/.
[5] "Findings from Analysis of Nationwide Summary Statistics for 2023 Community Reinvestment Act Data Fact Sheet," Federal Deposit Insurance Corporation, 2023, https://www.fdic.gov/findings-analysis-nationwide-summary-statistics-2023-community-reinvestment-act-data-fact-sheet.

number is closer to $5 trillion, making it second only to banks among financial intermediaries. The main advantage mutual funds had in the early years was the industry's ability to offer higher interest rates than banks because of regulatory limits on insured depository institutions. This led to explosive growth throughout the decade and a substantial level of deposits shifting from banks and thrifts into money market mutual funds, weakening these institutions and undermining the goals of CRA. While successful reforms in the 1990s helped soften the impact, the underlying shift in deposits nevertheless cut the amount of funds available for investment in underserved communities.

CONCLUSION

To ensure financial stability, policymakers have a responsibility to ensure that the GENIUS Act's prohibition on interest-bearing stablecoins is effective. The delineation between payment stablecoins and stablecoins that would offer interest was carefully thought out and was placed into the law for a reason — to protect large outflows of deposits from insured depository institutions that are the backbone of lending to small businesses and homeowners. The Federal Reserve and other regulators should proceed cautiously as they develop regulations to implement the GENIUS Act, heeding Congress's mandate to balance the innovation and efficiency gains that stablecoins offer with protecting deposits and the critical lending they enable. Finally, Congress may want to revisit and enact legislation that closes any loopholes created by the GENIUS Act that would undermine insured depository institutions and the communities they serve.

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