ICBA
One Mission. **Community Banks.**

May 2025

Stablecoins and Community Banks

What's at Stake

Widespread adoption of stablecoins by consumers, if not done under a well-designed regulatory framework, would deprive community banks of the deposits they use to create credit in their local communities and support economic growth.

What are Stablecoins and What Are They Used for?

Stablecoins are a type of digital asset designed to maintain a stable value by being pegged to a national currency or commodity. They may be backed by reserve assets, such as Treasuries or bank deposits. Stablecoins are primarily used to facilitate cryptoasset trading though they may be used for retail and commercial payments.

With the total amount of stablecoins in circulation exceeding $230 billion, regulators are increasingly concerned about whether stablecoin issuers have the reserve assets they claim to possess. If an issuer cannot meet redemption demands, then there could be a contagion risk for the wider financial system. Policymakers want to establish a clear regulatory framework that addresses key concerns about insolvency, consumer protection, anti-money laundering oversight, and more.

Regulation of Stablecoins Must Preserve Community Bank Credit Creation

ICBA urges policymakers to ensure any regulatory framework for stablecoins mitigates their risks and preserves the critical role of community banks in credit creation in their local communities.

The most basic function of a community bank is to accept deposits from consumers, businesses, and local governments and transform those deposits into home mortgages, small business loans, and other forms of credit. Without "credit intermediation," as this process is known, local economies are deprived of credit and cannot prosper. Community banks can only create credit with a robust and reliable stream of deposits. Stablecoins threaten to absorb or "disintermediate" funds that would otherwise be deposited in community banks and disrupt the credit creation cycle.

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To prevent disintermediation and preserve community bank credit creation, any regulatory framework for stablecoin issuers should:

- **Prohibit Federal Reserve Master Accounts.** Nonbank stablecoin issuers should be prohibited from maintaining reserves in an account at the Federal Reserve. A stablecoin backed by Federal Reserve deposits would effectively function as a “pass-through central bank digital currency” offering safety to consumers in times of financial stress and thereby increasing disintermediation risk and jeopardizing community bank credit creation. Master account access would also threaten the integrity of our payments system.
- **Limit Permissible Activities.** Stablecoin issuers should be barred from paying yield, interest or similar rewards on stablecoins. These features would draw more funds away from community bank deposits and into stablecoins and confuse consumers who will assume they have the same protections as similar bank products. In addition, stablecoin issuers must not be allowed to expand into “non-payment stablecoin activities.” Providing an open-ended grant of authority for regulators to allow stablecoin issuers to engage in any banking activity, without the existing risk controls and consumer protections to which banks are subject, creates dangerous risks for consumers and the financial system.
- **Big Tech Dominance**. Big Tech or other non-financial firms must not be allowed to issue stablecoins directly or through subsidiaries or to affiliate with stablecoin issuers. These firms wield enormous economic power and must not be allowed to leverage their massive scale and reach into consumers’ online lives to dominate the payments industry.

Legislation

Legislation to establish federal regulatory frameworks for payment stablecoins has advanced in both the House and Senate:

- The STABLE Act (H.R. 2392), sponsored by Rep. Bryan Steil, passed the House Financial Services Committee on April 2nd.
- The GENIUS Act (S. 1582), sponsored by Sen. Bill Hagerty, passed the Senate Banking Committee on March 13th.

Differences between the House and Senate bills will need to be worked out as they advance through their respective chambers to President Trump’s desk to be signed into law.

Key Talking Points

- Stablecoins create the risk of drawing away community bank deposits. These deposits are needed to support credit creation – the loans that support local economic growth. But properly crafted legislation can mitigate this risk.
- Stablecoin issuers must not be allowed to hold accounts at the Federal Reserve – a privilege reserved for fully regulated financial institutions. Federal Reserve accounts – and the safety they offer in times of stress – would be leveraged by stablecoin issuers to draw yet more funds away from credit-creating community banks.
- Stablecoin issuers must not be allowed to effectively become unregulated banks. They would have an unfair advantage over regulated, legitimate banks, and create systemic and consumer risk. Permissible activities of stablecoin issuers must be limited.
- If Big Tech firms are allowed to issue stablecoins, they will quickly dominate the payments industry and sideline the community banks and the vital lending we do. The same is true of other large and powerful non-financial firms.
- All of the above – Fed Master accounts, bank-like activities, and Big Tech issuance – put community bank credit creation at risk and must be addressed in any stablecoins legislation.