One Mission. Community Banks.

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Amend the Clarity Act to Preserve Community Bank Lending

The CLARITY Act (H.R. 3633), legislation crafting a regulatory framework for digital assets, passed the Senate Banking Committee on May 14 by a vote of 15 to 9. We expect it to be considered on the Senate floor this month. The House version was passed in July 2025.

ICBA continues to press for changes to Section 404 of the Act, “Prohibiting Interest and Yield on Payment Stablecoins,” to ensure that it adequately addresses emerging risks and does not jeopardize America’s local economies by compromising community banks’ ability to supply credit. The current version of Section 404 is narrow and ineffective.

Background

Stablecoins are a type of digital asset designed to maintain a stable value by being pegged to a reference asset such the US dollar. This peg is maintained by holding reserves like cash, U.S. Treasuries, or bank deposits on a 1-to-1 basis. The value of stablecoins in circulation currently exceeds $260 billion. Stablecoins are primarily used to facilitate crypto asset trading. They may also be used for retail and commercial payments.

In July 2025, Congress enacted the GENIUS Act (S. 1582), which creates a federal regulatory framework for payment stablecoin issuance. The GENIUS Act took an important step in addressing the risk to community bank disintermediation by prohibiting payment stablecoin issuers from paying yield, interest, or other consideration directly to stablecoin holders. This was intended to distinguish the use of payment stablecoins from a “store of value” and alternative to bank deposits. However, this prohibition can be evaded by paying yield equivalents to stablecoin holders through crypto exchanges, affiliates, and other market participants that are the focus of the CLARITY Act. Congress must complete the work of the GENIUS Act by including in the CLARITY Act an explicit and robust prohibition on payment of yield by crypto exchanges, affiliates, and other intermediaries.

Payment of Yield or Yield-Equivalents Jeopardizes Deposits That Support Lending

This prohibition on payment of interest, yield, or rewards is critical to maintaining Americans’ access to credit. A strong prohibition will maintain stablecoins’ intended purpose as a payment mechanism. Critically, it will help avoid a flight of FDIC-insured domestic deposits in pursuit of yield to global crypto conglomerates and other non bank entities that do not have the same regulatory oversight or local commitment as community banks. The loss of community bank lending would leave a credit vacuum—only community banks have a vested interest in and demonstrated commitment to Main Street economies.

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The research clearly shows that payment of yield, interest, or rewards on payment stablecoin holdings will reduce community bank lending capacity. Based on new macroeconomic modeling, ICBA estimates that the growth of the stablecoin market resulting from payment of yield or interest on stablecoins will significantly reduce community banks' ability to support local lending needs. The projected $1.3 trillion reduction of the $4.8 trillion in total deposits held by community banks could result in an $850 billion decline in lending activity.1 These findings are also validated by independent research conducted by the Federal Reserve, which estimates that a high-adoption scenario could see $1 trillion in deposits leaving the banking system and a plunge in lending of $1.26 trillion.2 Treasury Secretary Bessent predicted that the total payment stablecoin market will reach $3 trillion3 by 2030.

America's small businesses, farmers, ranchers, and rural communities stand to lose access to credit if this deposit flight occurs, stifling innovation and small business expansion, reducing job creation, and hindering economic growth in communities across the country.

Congress must balance financial innovation with the foundational role that bank deposits play in supporting lending, economic growth, and community development.

Congress Must Amend Section 404 of the CLARITY Act

ICBA believes the prohibition on payments of interest or yield (Section 404) is narrow and ineffective. The prohibition contains broad exceptions and open-ended rulemaking authority that would further undermine or contradict the general prohibition. The enforcement framework is inadequate to deter violations.

Key Talking Points

- **Congress must ensure the Clarity Act prohibition on payment of interest, yield, or "rewards" does not contain exceptions or loopholes. As currently drafted, the prohibition will be exploited and evaded by crypto entities.**
- **Research clearly demonstrates the harm to community bank lending.** Allowing yield-bearing payment stablecoins poses a significant threat of siphoning deposits away from community banks, which use local deposits to fund lending to Main Street and contribute directly to the expansion of the real economy.
- Based on new macroeconomic modeling, ICBA estimates that the growth of the stablecoin market, supercharged from permitting payment of yield, interest, or "rewards," will significantly reduce community banks' ability to support local lending needs. Deposits would be reduced by $1.3 trillion (out of a total of $4.8 trillion community bank deposits) and could reduce lending by $850 billion.
- As deposits and lending capacity shrink, America's small businesses, farmers, ranchers, and rural communities will have reduced access to critical capital and credit that fits their unique needs and sustains their local economy.

- As highlighted in this Federal Reserve research paper, as bank deposits substitute into stablecoins, community banks would be forced to turn to more concentrated, uninsured, wholesale deposits — increasing both liquidity risk and funding costs. These pressures will lead to declining bank credit. Reduced access to credit would be particularly felt by small businesses that rely on community-bank relationship banking.