

Digital Assets: Ensure Regulatory Frameworks Preserve Community Bank Lending

ICBA is fighting to ensure any legislation crafting a regulatory framework for digital assets adequately addresses emerging risks and does not jeopardize America's local economies by compromising community banks' ability to supply credit.

Background

Stablecoins are a type of digital asset designed to maintain a stable value by being pegged to a reference asset such as 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 cryptoasset trading. They may also be used for retail and commercial payments.

In July, 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 posed by yield-bearing stablecoins 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 calling yield/interest payments "rewards" or paying yield equivalents to stablecoin holders through crypto exchanges, affiliates, and other market participants that are the focus of market structure legislation.

Market Structure Legislation

Congress is now considering legislation to establish a regulatory framework for the broader digital assets markets, including exchanges and other digital asset market participants. The House CLARITY Act (H.R. 3633), sponsored by Financial Services Committee Chairman French Hill (R-AR), passed the House in July 2025. The Senate Banking and Agriculture Committees have been working on their pieces of the Senate version of the bill. The work of both committees is needed because the CLARITY Act determines SEC (banking) and CFTC (agriculture) jurisdiction over digital assets. The Senate Agriculture Committee passed its piece with a party-line vote in January. The Banking Committee is currently negotiating its piece of

the CLARITY Act. A previously scheduled markup of the CLARITY Act in January was postponed due to a lack of agreement on key issues, including ICBA priorities.

Key Talking Points

Congress must ensure market structure legislation extends the prohibition on payment of interest, yield, or “rewards” to affiliates, exchanges and other digital assets market participants.

- **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 utilize 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 or interest on stablecoins 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.