

Small Banks and Stablecoins: Nothing to Fear, Much to Gain

TL;DR: Stablecoins are a once-in-a-generation opportunity for community and regional banks to compete on an equal footing with larger banks on payments and programmable financial services, offering 24/7, low-cost, cross-border money movement and serving as the cash leg for tokenized capital markets. And the widely voiced worry that they will drain local deposits simply doesn't hold up: multiple independent studies and Coinbase's own data find no meaningful link between stablecoin growth and community-bank outflows. As tokenized assets scale, stablecoins are more likely to complement than substitute for a bank's core services. For small banks, the real story is opportunity.

The bank deposit picture is reassuring

Before turning to the opportunities that stablecoins can offer to small banks, it's worth addressing the deposit-flight concern directly. Three independent studies, using different methodologies and different datasets, have now examined whether stablecoin growth meaningfully erodes U.S. bank deposits. The Council of Economic Advisers¹, Charles River Associates², and Cornell's Professor Lin William Cong³ all reach the same conclusion: it does not. Charles River Associates, a firm whose primary clients are the banks themselves, tested more than 25 macroeconomic variables in thousands of combinations and found no significant relationship between stablecoin levels and community-bank deposits. Professor Cong, using the well-established Chiu central-bank competition model, finds that stablecoin yields would have to exceed roughly 6 percent—far above today's roughly 4 percent USDC-on-Aave rate, and nothing close to what is on offer—before consumers would meaningfully shift balances out of banks.

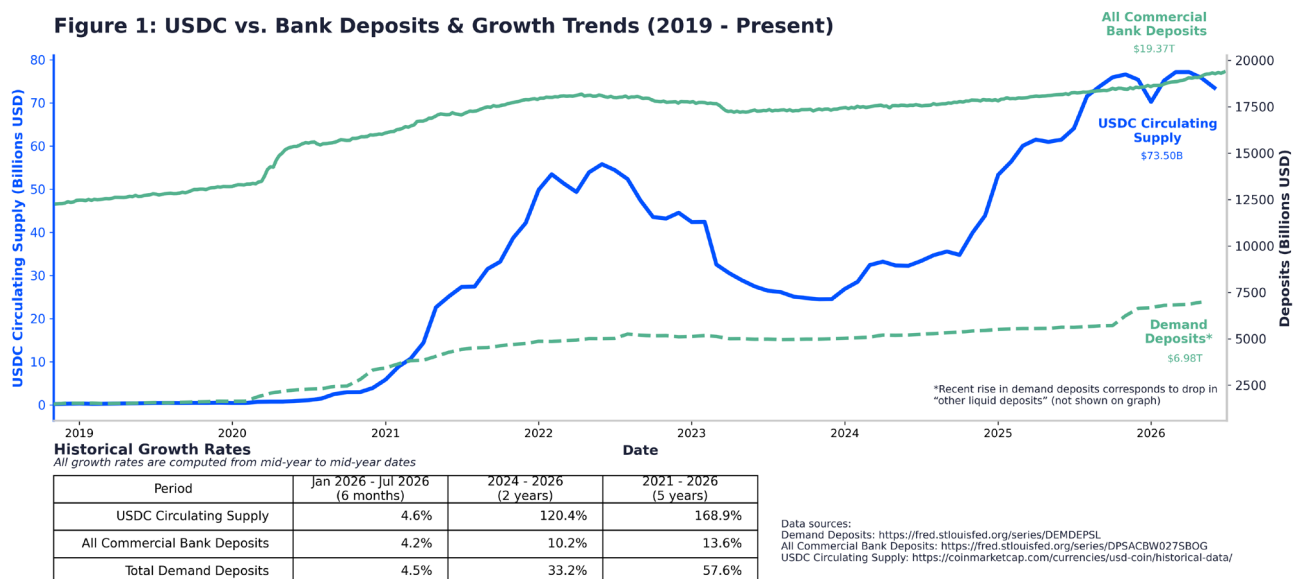
The fundamentals tell the same story, as seen below in figure 1: as USDC's market cap grew to around \$75 billion over recent years, community-bank deposits grew right alongside it, and Coinbase has offered USDC rewards for more than four years with no observable effect on bank deposits. A 2024 UCLA study shows why: 70–80 percent of U.S. bank deposits are insensitive to yield—depositors didn't move for roughly 5 percent money-market returns in 2022, so they are unlikely to move for modest stablecoin rewards either. Community banks in particular have even less to worry about: Coinbase's own customer analysis shows community-bank customers account for just 5.2 percent of stablecoin holdings against 11.1 percent of total deposits, roughly half the proportional exposure of other bank segments.

¹ The White House, Effects of Stablecoin Yield Prohibition on Bank Lending, Research Report (Washington, DC: The White House, April 8, 2026), <https://www.whitehouse.gov/research/2026/04/effects-of-stablecoin-yield-prohibition-on-bank-lending/>.

² Viktor Tsyrennikov, Stablecoins' Impact on Community Bank Deposits (Washington, DC: Charles River Associates, July 18, 2025), <https://media.crai.com/wp-content/uploads/2025/07/22152125/Stablecoins-impact-on-community-bank-deposits-July2025.pdf>.

³ Lin William Cong, Stablecoins and Banking: Deposit Dynamics, Financial Stability, and Regulatory Design, SSRN scholarly paper (December 7, 2025), <https://ssrn.com/abstract=6163266>.

Figure 1: USDC vs. Bank Deposits & Growth Trends (2019 - Present)



The real opportunity: stablecoins let small banks punch above their weight

With that concern set aside, the picture is genuinely exciting. Stablecoins are a rare chance for the roughly 4,000 community and regional banks that have historically operated at a scale disadvantage to the GSIBs to compete on the capabilities that matter most. For the first time in a generation, the direction of the technology-and-scale curve is reversing in a category of bank capability that counts: payments, settlement, and cross-border services are moving onto shared, standardized rails that a \$500 million community bank can plug into on the same terms as a \$3 trillion GSIB.

Why scale has always favored the megabanks

For decades, the economics of banking have rewarded size. Several categories of cost and capability are essentially fixed at the institution level, and therefore favor larger asset bases:

- **Technology investment.** Core banking systems, payments infrastructure, fraud and AML platforms, and cybersecurity programs are multi-year capital projects. The largest U.S. banks spend in the range of \$10–18 billion per year on technology; a \$1 billion-asset community bank cannot amortize comparable spending across its customer base.
- **Regulatory and compliance overhead.** Bank Secrecy Act programs, model risk management, capital reporting, and supervisory examinations require dedicated staff and infrastructure whose cost does not scale linearly with deposits or loans.
- **Treasury and payments operations.** Correspondent relationships, FX desks, intraday liquidity management, and 24/7 wire and settlement operations require staffing models that small institutions have struggled to support on their own.
- **Cross-border infrastructure.** Direct access to foreign correspondent networks, nostro/vostro account management, and global cash management platforms have been the near-exclusive province of the largest dollar-clearing banks.

The cumulative effect is that smaller banks have spent two decades watching the largest institutions pull ahead on payments technology, treasury services, and cross-border infrastructure, not because community bankers were less capable, but because the cost of building those capabilities in-house was prohibitive.

How stablecoin infrastructure changes the calculus

Programmable, dollar-denominated stablecoins and the public networks that carry them shift several of those fixed-cost barriers from in-house build to shared infrastructure:

- **Payments rails are now shared infrastructure.** A community bank that connects to a public stablecoin network gets the same settlement speed, finality, and global reach as the largest institution. Payments settle in minutes rather than days, at a fraction of wire-transfer cost, around the clock. Layered on top of the relationship-driven service that small banks already do best, this is a credible competitive answer to JPMorgan and Bank of America — money that moves instantly to anyone, across town or across the world, plus 24/7 availability instead of banking-hours-only service.
- **Compliance can be streamlined while retaining institutional-level controls.** Sanctions screening, KYC, and transaction monitoring can be built as standardized applications that leverage shared rules and protocols, allowing that core infrastructure to be developed once and utilized by every connected institution, rather than rebuilt inside every bank.
- **Cross-border reach no longer requires a correspondent chain.** Today, a small bank that wants to move money internationally for a local exporter, a farm, or a remitter has to ride on a correspondent-banking chain dominated by a handful of GSIBs—paying their fees, accepting their cut-off times, and waiting days for settlement. Stablecoin rails let a community bank support cross-border payments for its commercial customers without negotiating bilateral relationships with foreign banks or routing through the larger correspondent banks it has traditionally depended on—recapturing those flows and the customer relationships that go with them rather than ceding both to fintechs or the GSIBs.
- **Programmable corporate actions and treasury services.** Historically reserved for the largest institutional customers, become economically viable to offer to a community bank's small-business clients, from smart-contract-based payroll and bill-pay to automated escrow and trade finance.

The result is that the infrastructure layer where the GSIBs have spent decades accumulating scale advantages is increasingly available to community banks for free.

New revenue and balance-sheet opportunities

Beyond consumer and commercial payments, stablecoins open several new lines of activity. Banks can use stablecoin rails for wholesale interbank settlement, freeing up the intraday liquidity buffers they currently have to hold.

They can issue or custody stablecoins as the cash leg for tokenized securities transactions, positioning themselves in the emerging tokenized-capital-markets stack for bonds, funds, and eventually equities. And in cross-border payments specifically, banks that integrate stablecoins can recapture revenue they are otherwise losing to nonbank fintechs while keeping the customer relationship.

Small banks don't have to build any of this themselves

A crucial and encouraging point: community banks do not need to become crypto engineers to participate. The partner ecosystem that was missing a few years ago is now developing quickly, and it plugs into the systems community banks already use.

- **Fiserv** is building a digital asset platform anchored by its FIUSD stablecoin, designed to be available across its roughly 10,000 financial institution clients, including the approximately 3,000 community and regional banks on its core processing systems, at no additional integration cost. FIUSD is built on Solana with infrastructure from Paxos and Circle, and is intended to be interoperable with PYUSD and other major stablecoins.
- **Cross River Bank** has launched stablecoin-enabled deposit accounts in which USDC functions as a native payment rail alongside ACH, wires, RTP, and FedNow—a single API surface that smaller institutions and their fintech partners can use without separately integrating a stablecoin issuer. Cross River and Lead Bank, both community banks by origin, have also piloted Visa's stablecoin settlement solution, demonstrating that integration is not just feasible at small scale, it is happening.
- **Bank-tech vendors and core processors** are increasingly integrating stablecoin functionality into the digital banking experiences community banks already license, reducing the build cost to configuration rather than custom development.

The on-ramps already exist and they lead to new opportunities.

Conclusion

For the first time in a generation, the capabilities that have long defined the megabanks (instant settlement, 24/7 money movement, low-cost cross-border payments, programmable treasury services) are becoming shared infrastructure a community bank can plug into on the same terms as a GSIB. That lets small banks deliver the speed, cost, and convenience their customers have always had to leave them to find, layered on top of the relationship-driven service they already do best. With partners like Fiserv, Visa, and Cross River lowering the on-ramp to a configuration rather than a multi-year build, community banks are uniquely positioned to seize it. Stablecoins don't have to replace traditional banking; they can strengthen it, and small banks may turn out to be the biggest winners of all.