

## Stablecoins and Bank Deposits: *Overstating Risk, Overlooking Opportunity*

Concerns that stablecoins will drain deposits from U.S. banks and curtail lending have resurfaced as the market grows.<sup>1</sup> These arguments echo familiar worries from earlier innovations like money market funds. Yet they fail to account for how and where stablecoins are actually used, and what they contribute to financial modernization:

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**Banks have excess liquidity.** U.S. banks already put trillions of dollars of deposits in reserves and Treasuries. The banking sector has enough credit slack to compete with stablecoins for a more efficient financial system.

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**Stablecoin demand is global.** Most current use comes from abroad and onchain markets, not U.S. households. Stablecoins expand dollar access worldwide and reinforce the dollar's dominance..

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**Competition drives progress.** Like money market funds before them, stablecoins promote innovation in the financial sector, through faster, cheaper, and programmable payments. That's progress, not instability.

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**Credit is evolving, not shrinking.** Lending is shifting to private credit, fintech, and DeFi channels that don't depend on deposits. Liquidity moves—it doesn't vanish.

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**Community banks are largely unaffected by stablecoin growth.** Stablecoin users and community bank customers rarely overlap. Local banks thrive on relationships, not high-velocity digital money.

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In sum, stablecoin growth strengthens the global role of the U.S. dollar, introduces long-overdue competition in payments, and supports new, more efficient channels for credit formation. Treating this development as a threat risks misunderstanding the transformative direction of financial innovation and constraining an emerging advantage for the United States.

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### 1. Bank balance sheets remain highly liquid

U.S. banks already hold vast reserves and safe assets—over \$3 trillion in balances at the Federal Reserve and additional trillions in Treasuries. These holdings reflect excess liquidity well beyond what is needed for current lending activity. If banks can absorb such reserves without impairing credit supply, it is inconsistent to claim that stablecoin growth poses a systemic threat.

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<sup>1</sup> Nigrinis, Andrew, *The Lending Impact of Stablecoin-Induced Deposit Outflows* (Oct. 10, 2025), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=5586850](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5586850).

### 2. Stablecoin demand is global and largely detached from U.S. retail deposits

Evidence shows that most stablecoin demand comes not from U.S. consumers or small businesses, but from international users seeking dollar exposure and from onchain financial activity. A recent Atlantic Council report shows that over 80 percent of stablecoin transaction volume occurs outside the U.S.<sup>2</sup> Emerging

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<sup>2</sup> Atlantic Council, Econographics, *What is next for crypto regulation in the US?* (Jan. 23, 2025), <https://www.atlanticcouncil.org/blogs/econographics/what-is-next-for-crypto-regulation-in-the-us/>.

markets like Turkey and Nigeria have seen particularly strong uptake as residents use dollar-denominated stablecoins to protect against local currency depreciation. In these economies, stablecoins serve as a practical form of dollar access for the un- and underbanked—functioning less like a U.S. deposit substitute and more like a digital cash instrument.

Onchain data show that roughly two-thirds of stablecoin transfers occur within decentralized finance (DeFi) platforms or blockchain-based payment rails rather than through banks or traditional intermediaries.<sup>3</sup> Stablecoins are now the dominant vehicle for trading, settlement, and liquidity management within digital markets, representing >85 percent of all crypto trading pairs. In that sense, they are the transactional plumbing of a new financial layer that runs parallel to, but largely outside, the domestic banking system. Therefore, forecasts proposing that several trillion dollars could flow into stablecoins over the next decade should be carefully scrutinized. Even if stablecoin circulation reached \$5 trillion globally, a majority of that value would still be foreign-held or locked in digital settlement systems, not diverted from U.S. checking or savings accounts. By contrast, U.S. commercial bank deposits exceed \$18 trillion. The macro impact on domestic deposits would remain marginal, while the global influence of the U.S. dollar would significantly increase.

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### **3. Competition from better payments systems is a feature, not a flaw**

If stablecoins ever did attract substantial balances from U.S. depositors, it would mean they had succeeded in offering faster, cheaper, and more programmable payments. This should be viewed as a policy success, not a risk. The situation mirrors the rise of money market funds (MMFs) in the 1980s. When MMFs offered market yields and near-instant access, consumers shifted deposits away from low-rate accounts. Far from

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<sup>3</sup> Stablecoin Payments in DeFi, TransFi Blog (July 17, 2025), <https://www.transfi.com/blog/stablecoin-payments-in-defi-bridging-tradfi-revenue-into-on-chain-yields>.

destabilizing the system, MMFs became a permanent and valuable part of the financial ecosystem: improving efficiency, deepening markets for Treasury bills, and forcing banks to compete more effectively.

Stablecoins represent a similar kind of competitive pressure. Today, U.S. checking accounts still pay an average rate of less than 0.5 percent, even as short-term Treasury yields hover around 5 percent. This persistent spread reflects inertia, friction, and lack of alternatives. Stablecoins narrow that gap by making digital dollars portable, yield-bearing (if designed as such), and instantly transferable across platforms and borders. Like MMFs before them, they challenge incumbents not by increasing risk but by offering a better deal to consumers and businesses.

Moreover, stablecoins improve the mechanics of payments themselves. Traditional card networks and correspondent banking rely on multilayered intermediaries that introduce cost, delay, and reconciliation risk. Stablecoins settle in near-real time, 24/7, with onchain proofs that reduce disputes and fraud. These features are not speculative—they are observable today in billions of daily transactions.

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### **4. Lending is evolving, not disappearing**

Another common misconception is that deposits flowing into stablecoins would leave banks with fewer funds to lend, causing credit to contract. But this argument assumes a static financial system where all lending must originate from deposit-funded banks. In reality, credit intermediation has diversified dramatically over the past two decades.

Private credit funds, fintech lenders, and securitization markets now play major roles in allocating capital. The U.S. private credit market exceeds \$2.1 trillion in assets and committed capital, while fintech lending surpassed \$300 billion in 2025 and continues to expand. These institutions do not rely on retail deposits; they source funding from institutional investors and capital markets.

Within the crypto economy itself, decentralized lending platforms such as Aave, Compound, and MakerDAO have processed tens of billions of dollars in collateralized loans, demonstrating a parallel form of credit creation based on transparency and programmable logic. Onchain lending volumes exceeded \$30 billion in 2024<sup>4</sup>, up from less than \$10 billion just two years earlier. Onchain lending is currently over-collateralized, similar to the approach taken in traditional finance, where the large majority of loans, such as mortgages and many business loans, are also secured. In the future, the development of onchain credentialing could enable unsecured lending, expanding the reach of DeFi into a much broader segment of the credit market. The growth of these models indicates that credit is being reorganized, not reduced. Stablecoins, as the settlement medium within these systems, are part of that evolution. In short, liquidity may migrate, but lending capacity does not vanish. It flows to new intermediaries better suited for a digital, data-driven environment.

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## 5. Community banks face little exposure

Fears that community banks will be hardest hit by stablecoin adoption also lack empirical basis.<sup>5</sup> The typical stablecoin user—young, urban, and digitally fluent—is not the same as the typical community bank customer, who is often a small business owner or local household. Community banks specialize in relationship lending and local deposits; stablecoins cater to global or onchain users seeking transaction efficiency and dollar access. Further, community banks' strength lies in their customer relationships and niche expertise, not in competing for high-velocity digital balances. They are unlikely to lose deposits to stablecoins any more than they lost them to MMFs decades ago.

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<sup>4</sup> Steven Burnett, CoinLaw, *Crypto Lending and Borrowing Statistics 2025* (Sept. 27, 2025), <https://coinlaw.io/crypto-lending-and-borrowing-statistics/>.

<sup>5</sup> CRA, *Stablecoins' Impact on Community Bank Deposits* (July 18, 2025), <https://media.crai.com/wp-content/uploads/2025/07/30121221/Stablecoins-impact-on-community-bank-deposits-July2025.pdf>

Recent data from Coinbase and other U.S. exchanges show that over 67 percent of stablecoin holders are under the age of 45, concentrated in metropolitan areas, and often using stablecoins for international transactions or digital asset trading.<sup>6</sup> There is little overlap with the deposit base of community banks, which hold about 12 percent of total U.S. deposits but specialize in local savings and lending.<sup>7</sup>

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## Conclusion: A smarter policy approach

Stablecoins can modernize the U.S. financial system by expanding access to the dollar, increasing competition, improving payment efficiency, and demonstrating how programmable money can support new forms of credit and commerce. Rather than regarding them as a risk to deposit funding, policymakers should view them as an opportunity to strengthen U.S. financial leadership.

The right approach is to channel innovation, not stifle it. Policymakers should focus on ensuring that stablecoin reserves remain fully backed and transparent, that custodial arrangements are sound, and that cross-border flows are monitored appropriately. Within that framework, stablecoins can safely coexist with banks, complement traditional intermediation, and help the U.S. dollar remain the foundation of a rapidly digitizing global economy.

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<sup>6</sup> NCA, 2025 State of Crypto Holders Report (Jan-Feb. 2025), <https://nca.org/2025%20State%20of%20Crypto%20Holders%20Report.pdf>.

<sup>7</sup> Coinbase Institute, *Community Banks Should Embrace Stablecoins, Not Fear Them*, (July 30, 2025), [https://assets.ctfassets.net/o10es7wu5gm1/7xAL73QaYXeDa5ySkwgltd/e048b44534e468d1eff665b4a8931703/community\\_banks\\_should\\_embrace\\_stablecoins\\_not\\_fear\\_them.pdf.pdf](https://assets.ctfassets.net/o10es7wu5gm1/7xAL73QaYXeDa5ySkwgltd/e048b44534e468d1eff665b4a8931703/community_banks_should_embrace_stablecoins_not_fear_them.pdf.pdf).