December 5, 2025

Via Electronic Submission

The Honorable Tim Scott
Chair
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC

The Honorable Elizabeth Warren
Ranking Member
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC

Re: Closing the Stablecoin Interest Loophole to Prevent Outflows of Capital from Low- and Moderate-Income Communities

Dear Chair Scott and Ranking Member Warren:

On behalf of the undersigned national trade associations representing Community Development Financial Institution (CDFI) and Minority Depository Institution (MDI) banks and credit unions, we write to express our deep concern about an apparent loophole in the new federal framework for payment stablecoins. While we appreciate Congress' bipartisan work to enact a statutory regime for stablecoins through the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, the law's prohibition on the payment of interest to stablecoin holders is being circumvented in ways that threaten access to capital in low- and moderate-income communities by undermining the key funding source of mission-driven depositories.

As you know, under the GENIUS Act, payment stablecoins receive exemptions from traditional bank-like regulation in exchange for certain provisions, including a prohibition on the payment of interest by stablecoin issuers. In practice, however, because that prohibition does not extend to non-issuer intermediaries—such as crypto exchanges, custodial "wallet" providers, and trading platforms—those entities that hold customers' stablecoins are now marketing "rewards," "cashback," or other yield-like incentives for keeping coins on their platforms. In many cases, these rewards are advertised with familiar "APY" disclosures and paid as ongoing income, making them economically indistinguishable from bank interest in the eyes of the average consumer.[1]

These interest-like products are funded by opaque investment strategies in largely unregulated entities. Stablecoin platforms can use customer assets as collateral for their own investments, with none of the capital, liquidity, risk-management, or resolution requirements that govern insured depositories—and without the backstop of federal deposit insurance that protects bank and credit union depositors.[2] This dynamic creates three related problems:

1. **Consumer and investor protection risks.** Retail customers are being encouraged to treat yield-bearing stablecoins as a safe, liquid substitute for insured deposits, despite the absence of comparable prudential oversight or explicit guarantees. Experience with money market mutual funds—which exploited a loophole to appear risk-free until they "broke the buck" and received taxpayer support in the 2008 financial crisis[3] and again in 2020—shows how quickly such products can grow and how costly it can be when their risks are misunderstood.

2. **Systemic and macroeconomic risks.** Treasury and independent analysts have warned that higher-yielding stablecoins could trigger deposit outflows from banks on the order of multiple trillions of dollars, fundamentally changing how credit is created in the United States and increasing borrowing costs for households and businesses.[4] Even if actual flows are lower than the most severe estimates, a sizable migration of core deposits into uninsured, yield-bearing stablecoin products would weaken the resilience of the financial system with amplified stress for mission-focused depositories.

3. **Unfair competition for community-based, mission-driven institutions.** CDFI and MDI banks and credit unions operate under stringent safety-and-soundness, consumer-protection, and compliance requirements, yet they are being asked to compete for deposits against lightly regulated platforms that can offer higher advertised "returns" precisely because they are not subject to comparable standards. Over time, this undermines the capacity of mission-driven depositories to fund small-business lending, affordable housing, and basic banking services in low- and moderate-income, rural and Native communities.

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[1] Kraken: https://www.kraken.com/features/auto-earn/usdc, accessed 12/5/2025

[2] Brookings: www.brookings.edu/articles/interest-by-any-other-name-should-be-regulated-as-sweetly/ accessed 12/5/2025

[3] Cato Institute: https://www.cato.org/blog/mutual-vs-penny-rounding-money-market-funds; accessed 12/5/2025

[4] Wired: https://www.wired.com/story/genius-act-loophole-stablecoins-banks/?utm_source=chatgpt.com accessed 12/5/2025

Our organizations are not opposed to innovation in payments or digital assets. Many of our members are exploring responsible ways to leverage new technologies to reduce transaction costs and improve access to safe, affordable financial services. But stablecoins should not be permitted to evolve into a parallel, under-regulated system of de facto deposit accounts that siphon away funding from the very institutions Congress has repeatedly supported as engines of financial inclusion and local development.

Legislative and Regulatory Fixes

We believe the most effective way to address these risks—while preserving room for innovation—is for Congress to close the loophole that allows non-issuers of stablecoins to provide interest-like incentives on payment stablecoins. Specifically, we respectfully urge Senate leadership to support bipartisan legislation that would:

- **Extend the current interest prohibition to all intermediaries, not just issuers.** The statute should make clear that any entity that offers an economic return on payment stablecoins held for or on behalf of customers—whether labeled “interest,” “rewards,” “cashback,” “yield,” “staking,” or otherwise—is subject to the same prohibition that now applies to stablecoin issuers. This should cover exchanges, custodial wallets, broker-dealers, affiliated entities, and any third-party programs that sit on top of a payment stablecoin framework.

- **Define interest functionally, not by label.** Congress should adopt a broad, functional definition of interest that encompasses any regularly paid, predictable return on a customer’s stablecoin balance or on stablecoins pledged as collateral, regardless of marketing terminology. If a product quacks like interest to consumers, it should be treated as interest for regulatory purposes.

- **Reinforce the role of regulated depositories in offering yield-bearing accounts.** Americans who wish to earn a return on their transaction balances should do so through regulated banks and credit unions that are subject to robust supervision, capital and liquidity standards, and deposit insurance—especially the CDFI and MDI institutions that specialize in serving low-wealth communities. Congress can reaffirm this by ensuring that yield-bearing stablecoin products do not enjoy regulatory advantages over comparable depository accounts.

- **Clarify regulatory authority and expectations.** While our primary request is legislative, the Senate can also support clear, coordinated guidance from relevant agencies—including the banking regulators, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Consumer Financial Protection

Bureau—that any attempt to sidestep the law's interest prohibition through creative labeling will be treated as a serious compliance issue.

Taken together, these changes would ensure that payment stablecoins may operate as intended but only if they function as true payment instruments—not as higher-yield, quasi-deposit products outside the banking system.

Conclusion

CDFI and MDI banks and credit unions are on the front lines of providing safe, responsible financial services to households and small businesses that are too often overlooked by mainstream finance. Our members did not cause the last financial crisis, yet the communities they serve bore significant collateral damage. We are concerned that, without a prompt and targeted fix, the stablecoin interest loophole will once again reward regulatory arbitrage at the expense of prudently regulated, mission-driven institutions.

On behalf of the communities served by CDFI and MDI banks and credit unions, we respectfully urge you to work on a bipartisan basis to close this loophole by extending the GENIUS Act's interest prohibition to non-issuer intermediaries and interest-like incentives on payment stablecoins.

We stand ready to work with you and your staff on technical language and to share the perspectives of CDFI and MDI banks and credit unions as you consider next steps. Thank you for your consideration of these recommendations.

Sincerely,

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