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# The Stablecoin Yield Debate

In July 2025, Congress passed the GENIUS Act (P.L. 119-27) establishing a regulatory framework for *payment stablecoins*. These digital assets use the same technology as cryptocurrencies but are backed by assets and their value, unlike that of cryptocurrencies, is intended to be stable against the dollar. Among the requirements established in GENIUS is a restriction on stablecoin issuers paying interest or yield or rewards (hereinafter, yield) to stablecoin holders. Crypto exchanges’ and banks’ opposing views on the yield restrictions has reportedly stalled crypto market structure legislation in the Senate.

## The GENIUS Yield Restriction

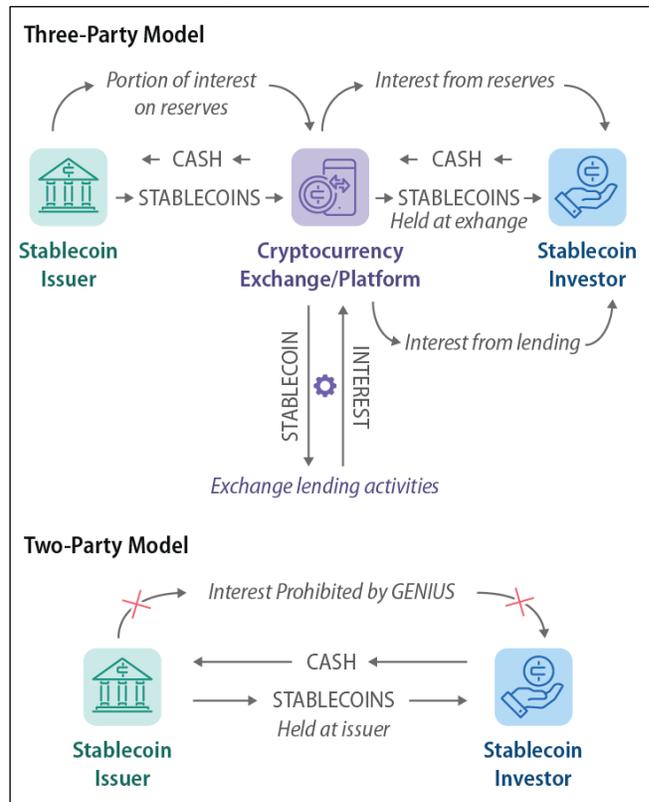
Section 4 of GENIUS states that “[n]o permitted payment stablecoin issuer ... shall pay the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.”

While this appears to create a blanket prohibition on interest, the restriction may not apply to the current market practice for issuing and holding stablecoins involving exchanges (the “three-party model” shown in **Figure 1**). Most stablecoin issuers—those companies that create stablecoins, and to whom most of GENIUS applies—only sell stablecoins to exchanges and larger market participants. Much retail use of stablecoins currently occurs through an intermediary—usually a cryptocurrency exchange. The exchange holds the stablecoin in custody—on the blockchain—on behalf of the retail investor; the issuer passes interest on reserves to the exchange, which it uses to pay the investor yield. GENIUS does not explicitly prevent exchanges from paying rewards on stablecoins held on their exchange (which can be structured to be effectively equivalent to yield)—and many do. According to a regulatory filing, Circle, the issuer of the USDC stablecoin (the second largest stablecoin), pays a portion of the interest it earns on its reserves to Coinbase, the largest U.S.-based crypto exchange, proportionate to the stablecoins held on that platform. Also, some issuers reportedly pay exchanges a marketing budget to use at their discretion, which can presumably be passed on to holders of specific stablecoins. Therefore, while the issuer may not be paying the holder directly, they are supplying the funding that is simply passed through the exchange.

The GENIUS Act did not define the term “holder,” so it remains to be seen whether the yield ban will be applied to the intermediary that bought and custodies the coin or the investor that owns the coin in the three-party model. Should rulemaking or a future court case define the term holder to include an exchange (as some have argued) or find the status quo in violation of the yield ban, this could limit issuers’ ability to pay yield. If the prohibition is deemed to

not apply to the three-party model, Congress could consider a blanket ban on yield to close this perceived “loophole.” However, exchanges also pay investors yield to lend out their holdings, for example. This type of yield could potentially be caught up in a blanket ban. Although this arrangement also raises policy issues, it has not been the focus of legislative proposals.

**Figure 1. Two Ways Stablecoin Yield Can Be Paid**



**Source:** CRS

An issuer could also provide stablecoins directly to retail customers. This “two-party model” in **Figure 1** may be more likely in situations where issuers—such as banks, who are explicitly permitted to issue stablecoins by GENIUS—already have an infrastructure for retail users. In this situation, the issuer is prohibited from paying interest. (Alternatively, banks might decide to create a consortium, such as a clearinghouse, to manage settlement that reproduces a three-party model eligible to pay interest.) The current restriction on yield would presumably apply when a customer self-custodies the stablecoin.

## Stablecoins and Deposits

Payment stablecoins are intended to facilitate retail payments, but they can also potentially be held as relatively liquid and nonvolatile assets to store wealth. That makes them a potential substitute for bank deposits that could

reduce banks' deposit base as the stablecoin market grows. According to one model, demand for stablecoins would rise significantly with yield, increasing their appeal as a store of value. Prevailing interest rates will affect the relevance of yield and the growth of the stablecoin market.

The banking industry claims the ability to pay interest on stablecoins could result in a significant drain of bank deposits. Research from a Treasury Department advisory council identified U.S. transactional deposits (a \$6.6 trillion market) as "at risk" from stablecoins (with around \$281 billion outstanding in March 2026). Citigroup research estimates stablecoins outstanding will grow to \$0.5-3.7 trillion by 2030, displacing bank deposits equal to \$182-908 billion. Banks favor the strict prohibition on paying interest on stablecoins and have argued to close the "loophole" in GENIUS. The crypto industry views bank opposition to yield as anticompetitive behavior by an entrenched incumbent—bank deposits may pay interest—to thwart entry by a potential competitor. Banks argue that stablecoins could benefit from regulatory arbitrage, since issuers are subject to less complex, costly, and far-reaching regulatory requirements than banks. However, issuers are permitted to engage in far more limited activities than banks and play a more limited role in the financial system.

Deposits and stablecoins are not perfect substitutes, however. Some uses of stablecoins, such as illicit activity, foreign remittances, and a store of wealth for foreigners, are not likely to cause substitution with U.S. deposits. Tokenized deposits and tokenized money market funds may serve as better blockchain substitutes than stablecoins.

Were consumers to substitute stablecoins for deposits on a large scale, it might have negative implications for the cost and supply of credit to U.S. businesses and consumers since banks rely on deposits as a stable and inexpensive way to fund their loans and other activities. By contrast, GENIUS Act limitations on permissible reserves prohibit stablecoin issuers from financing private credit. One study estimated stablecoins could reduce bank lending by \$65 billion to \$1.26 trillion. The effect on credit would occur even if customers shifted to bank-issued stablecoins, as the lending prohibition would still apply.

The effect of stablecoin adoption on bank funding is not clear cut, however. Even if stablecoins do not directly provide credit, funds are fungible across financial markets. For example, stablecoin issuers are allowed to hold reserves in the form of bank deposits. If issuers held 100% of their reserves in deposits, there would be no decrease in the overall deposit base when consumers shifted from deposits to stablecoins, just a shift in who held deposits—although the share that is insured and the distribution of deposits across banks would likely change. (The share of reserves held as bank deposits currently vary significantly by issuer, from less than 2% to 100%, but may increase due to GENIUS limitations on permissible reserves.) Even some other permissible types of stablecoin reserves, such as repo funding, can be accessed by banks (although less attractive than deposits). Banks could respond to competition from stablecoins (indirectly) paying yield by raising the interest rates that they pay to depositors. This would benefit

depositors and could prevent an erosion of the deposit base, but would still raise banks' cost of funding, with negative implications for the cost of bank credit.

Overall, there are costs and benefits to prohibiting stablecoin yield. It makes stablecoin investors immediately worse off, as the money that would be paid out to them is instead retained (likely as profit) by the issuer. However, if depositors shift to stablecoins, their savings are no longer federally insured up to the insurance limit—a risk exposure that some consumers may not be aware they are bearing. In addition, stablecoins also potentially pose systemic risk, which would presumably increase as their use in payments increases. Stablecoins are inherently prone to run risk because of their fixed value. Since stablecoins do not have federal guarantees or Federal Reserve discount window access, policymakers might be tempted to provide ad hoc government bailouts—as they did to prevent money market fund runs in 2008 and 2020—to restore financial stability following a run. A belief that stablecoins will be bailed out may lead to a greater migration from deposits to stablecoins. By banning yield, the stablecoin market will grow more slowly and bank funding will be more stable, potentially limiting improvements to retail payments as well as reducing systemic risk. The GENIUS Act included provisions to protect consumers and mitigate systemic risk, but those provisions do not entirely eliminate those risks, and the effectiveness of stablecoin regulation—notably, state regulation—is untested.

## Congressional Developments

Restrictions on yield were omitted, added, and then weakened as the GENIUS Act moved through the legislative process. Following bank opposition to the enacted version's perceived "loophole," a Senate Banking Committee's crypto market structure draft in January included a provision strengthening the restriction. This provision would have prohibited exchanges from paying yield on holdings—effectively altering the status quo preserved in GENIUS—but permitted them to pay rewards on transactions using stablecoins. On January 14, Coinbase pulled support for the bill in part over the provision, furthering the appearance that the two industries' views are irreconcilable. On the same day, a scheduled markup of the draft was indefinitely postponed, and the status of the legislation remains unclear, as further negotiations have not yielded a compromise. (The House-passed market-structure bill, H.R. 3633, does not have a stablecoin yield provision.)

The relationship between crypto and traditional finance is one of the key policy issues in the ongoing market structure legislative debate. The disagreement over yield may prove to be a bellwether for how that debate will evolve, with Congress repeatedly asked to resolve frictions between new and existing industry participants, with consequences for how markets evolve and are regulated. Such conflicts are a timeless theme in financial regulation—for example, the yield debate has parallels to bank opposition to money market funds as a substitute for deposits in the 1970s.

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