
Don't Let Crypto Kill The Economy

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Introduction

Fights about crypto in Washington are hard to understand, but the big fight going on now will impact every American. That's because it has the potential to significantly reduce the amount of money banks have to make loans and support economic growth, on which income, living standards, and wealth creation depend. This fight will directly impact anyone with a bank credit or debit card, a savings or checking account, or a loan of any type and will impact all Americans because it could result in lower economic growth. That's because bank products, services, and loans are funded by deposits, and the crypto industry wants to siphon those deposits away from banks. That'll be bad for big banks, but it has the potential to really cripple community banks, which are critical to Main Street Americans and small businesses across the country.

While they were late to the fight, banks are finally opposing dangerous policies being pushed by crypto companies. The battle concerns whether crypto companies can offer interest on so-called [stablecoins](#) (which should really be called [unstablecoins](#)), a type of cryptocurrency that is supposed to maintain a 1:1 ratio with the dollar. When Congress passed the so-called stablecoin GENIUS Act last summer, the law arguably left open a massive [loophole](#) for crypto companies to pay interest indirectly to stablecoin holders. Big banks were not engaged when the act was going through Congress but are now waking up to the fact that the ability to pay interest to stablecoin holders likely will lead to deposit flight, draining a key source of funding for banks.

The consequences are so serious because deposits provide almost all of the funding that banks use to make loans to the real economy, including mortgages, auto loans, credit cards and loans to small, medium, and large businesses. Put simply, if there is less money deposited in banks because people are lured into putting their money into interest-bearing stablecoins instead, there will be less lending to households and businesses. This would hurt economic growth, especially for Main Street. As we have seen so many times before, when there is less money to go around, those that need it the most suffer the most.

The Loophole in the GENIUS Act

The purported ability to redeem one stablecoin for one dollar leads stablecoin proponents to claim that stablecoins can be used as a [method of payment](#) and to refer to them as “payment stablecoins.” Because stablecoins actually are not stable and very often de-peg from the 1:1 ratio,

they must be regulated to protect our financial system. However, the GENIUS Act passed by Congress last summer only gives the illusion of regulating stablecoins.

One of the GENIUS Act's [most important provisions](#) says that stablecoin issuers can't pay interest on their stablecoins—[because stablecoins are supposed to be a method of payment and not a banking product](#). However, proving that the act only provides the illusion of regulation, Congress left a massive loophole in the act that allows crypto exchanges or other third parties to pay interest to stablecoin holders. So, stablecoins effectively can – and do – pay interest.

Congress should have included clear language in the GENIUS Act preventing any form of interest, yield, or rewards to stablecoin holders directly or indirectly. But in the months leading up to the GENIUS Act's passage, the banking industry "[offered only tepid public criticism](#)" of the legislation "that aimed at giving regulatory legitimacy to digital assets." This led to the loose language in the GENIUS Act that allows crypto companies to easily evade the prohibition on interest.

Crypto companies do so by claiming to offer "rewards" or "yield" on stablecoins rather than interest. For example, Coinbase [offers](#) a 3.5% reward rate on USD Coin to customers who participate in Coinbase's premium program and hold USD in their Coinbase digital wallets. But Circle, and not Coinbase, issues the USD stablecoin. As Lee Reiners, a Lecturing Fellow at Duke University, [explains](#), Circle pays Coinbase a share of the interest it earns on the reserves it holds to back its stablecoin based on the amount of USD Coinbase holds. Coinbase then essentially passes on this interest to its customers in the form of its "rewards" program. This is how the companies get around the prohibition on stablecoin issuers offering interest on their stablecoins.

The Battle between Banks and Crypto Companies

The banking industry now realizes just how gaping the loophole in the GENIUS Act really is. That is why it has been more engaged in the debate over a second crypto bill, the so-called market structure legislation, that Congress is considering currently, than it was when Congress debated the GENIUS Act. The banking industry wants Congress to [retroactively amend the GENIUS Act](#) through this pending legislation to bar all crypto companies from paying yield to customers who hold stablecoins.

Naturally, the crypto industry opposes any attempt to close the loophole in the GENIUS Act. It believes any legislative provision that would curtail the ability of crypto companies to offer "rewards" on stablecoins, which it views as the "status quo," would be [a significant concession](#). Summer Mesinger, current CEO of the Blockchain Association and former CFTC commissioner, [said](#) that the "banks had a seat at the table when Congress crafted the GENIUS Act, and it's disappointing to see them now try to undercut what is already bipartisan settled law."

The issue is [now coming to a head](#). Regardless of whatever seat the banking industry had at the GENIUS Act table, its position is now crystal clear. The banking industry [wants](#)

an outright ban on any yield payments on stablecoins, proposing that 'no person may provide any form of financial or non-financial consideration to a payment stablecoin

holder in connection with the payment stablecoin holder's purchase, use, ownership, possession, custody, holding, or retention of a payment stablecoin.'

This is necessary, in the banks' view, so that stablecoins [do not](#) "drive deposit flight that would undercut Main Street lending." On this issue, the banking industry is right that deposit flight would create grave risks for ordinary Americans and our economy as a whole.

The Consequences of Not Closing the Loophole

If stablecoin issuers grow large as a result of the ability to offer interest via the GENIUS Act loophole, this would slow the economy and starve borrowers from getting much-needed credit, especially Main Street households and businesses. Put simply, a dollar of savings put into a stablecoin is a dollar that is not deposited at a bank. Deposits are vital to the banking system and the real economy because 1) banks fund their loans almost entirely with deposits and 2) banks are the safest, cheapest, and best source of lending. So, fewer bank deposits means less of the bank lending that is highly beneficial to households and businesses. This would be very problematic and, depending on the amount of deposits banks lose, potentially catastrophic.

If the growth in stablecoins continues, there will be less availability of the type of long-term, affordable loans banks make to households and businesses that grow the real economy. Economists at the Fed Bank of Kansas City estimate that an increase in stablecoins to just \$900 billion would result in a [reduction in bank lending of \\$325 billion](#). Using the same assumptions, if stablecoins grow to \$2 trillion or more, as [some have estimated](#), bank lending would be reduced by at least \$450 billion to \$1 trillion, or 5 to 10 percent of current lending to the real economy.

Ultimately, this would not only greatly limit the availability of bank credit, but it also would drive up costs for all borrowers because less supply of loans and the same demand for borrowing means higher cost of borrowing. This would affect the entire economy, but especially consumers and small businesses who already have the most limited access to credit and pay the highest rates to borrow. Put simply, this is not just a question of who wins a battle on legislation between crypto companies and banks, it is a question of whether policymakers are going to harm the future of our economy and in large part eliminate support for Main Street Households and businesses just to satisfy the wishes of a few crypto companies only interested in lining their pockets.

These estimates of the effects on bank credit are not just numbers on a page, they will become reality as long as the crypto industry keeps getting its way. By providing stablecoins with a false sense of legitimacy and by allowing stablecoins to pay interest, the GENIUS Act will result in money moving away from bank deposits and into the crypto ecosystem. That's why banks are pushing back against stablecoins paying interest, because the interest stablecoins offer is often much higher than interest paid by banks. Not only that, the federal banking agencies and the Federal Reserve are taking actions that are [making stablecoin issuers seem like banks](#), even potentially [giving them access to the Federal Reserve's payments system](#). All these factors unquestionably will boost the amount of money that flows to stablecoins, to the detriment of the real economy.

The Real Reason Congress is Considering not Closing the Loophole

In light of the risks to the economy from deposit flight, one wonders why Congress would even consider keeping the loophole that allows interest on stablecoins open. It's probably because the crypto industry knows nobody really wants to use stablecoins unless there is some incentive. The passage of the GENIUS Act was supposed to [turbocharge](#) the adoption of stablecoins. But more than six months later, the only real legitimate use of stablecoins remains to [facilitate crypto trading](#), and even proponents acknowledge that demand for stablecoins in the U.S. [may be limited](#). As it stands, the share of U.S. consumers who use crypto for payments is very small [and has actually declined](#) slightly from nearly 3 percent to less than 2 percent in recent years. So why is Congress so intent on legitimizing stablecoins when most Americans [don't need them](#)?

The answer, of course, is money. Crypto executives poured [a rush of campaign cash](#) into the 2024 elections, which has led policymakers to favor the crypto industry as a result. The crypto industry has promised to provide the same flood of campaign contributions in the upcoming midterm elections. It is already ramping up its spending after accumulating a [massive war chest](#). Fairshake, its leading super PAC, has more than [\\$193 million](#) and plans to deploy it to try to elect a crypto-friendly Congress. Crypto may have [no intrinsic value](#), and stablecoins may mostly [facilitate money laundering and sanctions evasion](#), but in the debate about how to regulate crypto and stablecoins those facts seem likely to be overshadowed by the crypto industry's ability to make massive campaign contributions.

The banking sector has its own issues, but if properly regulated it serves as the backbone of the real economy. Bank deposits enable individuals to obtain mortgages, auto loans, and credit cards and loans to small, medium, and large businesses. The crypto industry is trying to ensure that our laws facilitate the transfer of funds from these productive uses to a type of cryptocurrency that Americans don't need and that allows crypto companies to essentially [profit from fraud](#).

Conclusion

There is no question that the crypto industry notched a [series of wins](#) in 2025. Those wins came at the expense of investor protection. That's not surprising, since retail investors don't have a \$190 million war chest to lobby Congress. But in 2026, the question will be whether the crypto industry continues its winning streak at the expense of the banking sector. A win for the crypto industry in this battle won't just harm investors but could lead to devastation for our economy as a whole.




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