Effects of Stablecoin Yield Prohibition on Bank Lending

The Council of Economic Advisers

April 2026

Executive Summary

The GENIUS Act, signed into law in July 2025, requires stablecoin issuers to maintain reserves backing outstanding stablecoins on at least a one-to-one basis. Reserves may only consist of certain specified assets, including US dollars, federal reserve notes, funds held at certain insured or regulated depository institutions, certain short-term Treasuries and Treasury-backed reverse repurchase agreements, and money market funds. It also prohibits stablecoin issuers from offering any form of interest or yield to stablecoin holders, but does not explicitly prohibit affiliate or third-party arrangements that might offer interest-bearing products. Some variants of the proposed CLARITY Act would close this channel. One rationale for prohibiting yield is that if stablecoins were to offer competitive returns, households may shift dollars out of traditional bank accounts and into tokens. Since stablecoin reserves are fully backed rather than fractionally lent, this could reduce bank lending. Some analyses estimate the effect on lending in the trillions of dollars (Nigrinis 2025). We build a simple model to evaluate these claims.

At baseline calibration of CEA's model, eliminating stablecoin yield:

- **Increases bank lending by $2.1 billion and has a net welfare cost of $800 million. That translates into an increase in lending of 0.02% and a cost-benefit ratio of 6.6.**
- **Large banks would conduct 76% of this additional lending, while community banks—which have assets below $10 billion—would lend the remaining 24%. In our baseline, that adds up to $500 million in additional lending from community banks, meaning their lending rising by 0.026%.**

Even stacking every worst-case assumption, the model produces only $531 billion in additional aggregate lending, which corresponds to a 4.4% increase in bank loans as of 2025Q4. That figure requires the stablecoin market to grow to roughly six times its current size as a share of deposits, all reserves to be locked in unlendable cash rather than treasuries, and the Federal Reserve to abandon its current monetary framework. Even under those implausible conditions, community bank lending only rises by $129 billion, corresponding to an increase of 6.7%. The conditions for finding a positive welfare effect from prohibiting yield are similarly implausible. In short, a yield prohibition would do very little to protect bank lending, while forgoing the consumer benefits of competitive returns on stablecoin holdings.

Stablecoins and Bank Lending

A dollar-backed stablecoin is a digital token redeemable on demand for one US dollar. The issuer creates tokens when a customer deposits dollars ("minting") and destroys them when a customer withdraws ("burning"). Between minting and redemption, the issuer may hold the deposited dollars as reserve assets or purchase other liquid assets like treasuries to hold in reserve. The stablecoin market currently stands at roughly $300 billion, dominated by Tether (USDT, ≈ $185 billion) and Circle's USDC (≈ $75 billion).[1] The GENIUS Act, signed into law in July 2025, establishes the first comprehensive federal framework for stablecoins. Permitted issuers must maintain reserves on at least a one-to-one basis, limited to cash, demand deposits at insured institutions,

[1] The market capitalization is as of February 16, 2026 from CoinMarketCap.

Treasury bills with remaining maturity of 93 days or less, overnight repurchase agreements backed by Treasuries, government money market funds, and Federal Reserve deposits.

Stablecoins offer distinct benefits to holders relative to conventional deposits, particularly for international holders. First, they provide transactional utility through instant, 24/7 settlement on a global ledger, bypassing the delays of legacy payment rails. Second, they largely function as "safe assets." Unlike bank deposits, which are subject to credit risk above deposit insurance caps, and which can be particularly volatile in emerging markets, stablecoins are backed by reserves consisting entirely of money reserves and money-like liquid assets such as Treasury bills. That may help guard against runs and improve the stability of the payment system. Consequently, under the most stringent regulatory implementation (full-reserve backing), stablecoins could serve as an instantiation of the old idea of "narrow banking" advocated by Henry Simons and Irving Fisher under the 1930s Chicago Plan.

Where Does the Money Go?

What happens to a dollar when a depositor converts it into a stablecoin? The answer depends on how the issuer invests its reserves. We trace the balance sheet implications across three cases: Treasury bill purchases, bank deposits with 100% reserve requirements, and money market fund placements.

Case 1: Issuer purchases Treasury bills.

Suppose a household withdraws $1 from Bank A and purchases a stablecoin. The issuer receives the dollar and buys a Treasury bill from a dealer. The dealer, having sold the bill, deposits the $1 proceeds at Bank B. The result: Bank A loses a deposit, Bank B gains one. Aggregate deposits in the banking system are effectively unchanged—they have simply moved from one institution to another. However, the regulatory treatment of the deposit in Bank B may be less (or more) favorable than the treatment of the deposit in A, which can carry higher assumed runoff rates under the Liquidity Coverage Ratio and/or higher liquidity and reserve requirements imposed by bank supervisors than Bank A's original deposit. For example, in the case that the deposit in Bank A is a retail deposit and the deposit in Bank B is a wholesale deposit, Bank B must hold more central bank reserves and other high quality liquid assets (HQLA) against it, modestly reducing lending capacity in this case.

Case 2: Issuer holds cash as reserves.

In case 2, CEA assumes the most stringent regulatory interpretation for stablecoin issuer bank deposits; that banks are required to hold 100% reserves or near-reserve assets to back stablecoin deposits. The household again withdraws $1 from Bank A. This time, the issuer deposits the dollar at Bank C. Bank A loses a deposit; Bank C gains one. Again, aggregate deposits are unchanged. However, under the assumptions in this analysis, Bank C must back these deposits one for one with central bank reserves and near-reserve assets. The strict regulatory treatment of Bank C's stablecoin deposit restricts its ability to lend against this deposit.[2]

[2] The regulatory treatment of stablecoin cash reserves can impact the amount of cash issuers hold. Unfavorable regulatory treatment would make these deposits less attractive and thereby limit the amount of cash issuers hold which in turn reduces the lending effects.

Case 3: Other reserve allocations.

If the issuer places reserves in a money market fund rather than purchasing Treasury bills directly, the analysis depends on the fund's portfolio. If the fund buys Treasury bills, the chain mimics Case 1. If the fund places cash at the Federal Reserve's overnight reverse repurchase facility (ON RRP), the dollar becomes a federal reserve liability and is no longer a commercial bank deposit. While this reduces aggregate reserves, this leakage is a feature of the broader non-bank financial system and is not unique to stablecoins.

Discussion

If aggregate deposits are largely unchanged in the primary cases, why would stablecoin growth affect bank lending? The answer lies not in the *level* of deposits, but in their *composition*.

Before conversion, the household's dollar sits as a conventional deposit at Bank A. The bank holds a fraction r^c in liquid reserves and lends the remaining $1 - r^c$. After conversion, the dollar still exists as a deposit somewhere in the system, but its character may have changed.

In Case 1, the dealer's deposit at Bank B remains in the fractional reserve system. Although potentially subject to tighter liquidity requirements, it still supports credit intermediation. But in Case 2, the issuer's deposit at Bank C is stablecoin backing. If Bank C holds one dollar of central bank reserves or liquid assets for every dollar of stablecoin reserves to meet run-risk mandates, the deposit generates *zero* lending capacity. A deposit that previously supported $1 - r^c$ in lending now supports none. This is effectively narrow banking: the stablecoin issuer's reserves sit inside the banking system but are siloed from the credit multiplier.

In practice, issuers hold a mixture of these assets and so some combination of Cases 1 and 2 prevails. For example, Circle's USDC Reserve Report (December 2025) shows that of only around 12% was held in cash. Treasury (2025) shows that the major issuers of stablecoin typically hold the majority of their reserves in treasuries, indicating that most stablecoin deposits end up redeposited elsewhere in the banking system and able to be lent out.

The Role of Monetary Policy

The analysis above relies on an important background condition: reserves are abundant. Under current Federal Reserve policy, banks hold trillions in liquid assets above regulatory minimums. When deposits reshuffle between banks—as they do in nearly every case we traced above—no bank is forced to contract its balance sheet because the system has ample slack to absorb the movement.

If reserves were scarce, the same reshuffling would have different consequences. A bank that loses a deposit might already be at its effective reserve minimum (taking account of the liquidity coverage ratio and precautionary behavior) and would need to shrink lending to free reserves. The receiving bank might not expand symmetrically. In that environment, even the compositional shift could force a net contraction in credit—and the narrow banking channel would be amplified, because the system lacks the buffer to absorb the change in reserve requirements. Whether reserves are abundant or scarce is a monetary policy choice, not a feature of stablecoin regulation. The Federal Reserve sets the interest rate on reserves and has, in recent history, expanded its balance sheet to ensure ample reserve supply. We condition on this policy stance throughout.

Yield Prohibition

The previous subsections traced what happens to a dollar once it enters the stablecoin system and established the conditions under which lending capacity falls. The remaining question is how many dollars flow in. This section describes the legislative provisions that aim to limit that flow by restricting the returns stablecoin holders can earn.

Beyond the technological benefits of stablecoins, one of the key drivers of adoption is yield, since issuers can pass through returns on their reserve portfolios, making stablecoins competitive with high-yield savings accounts and more attractive than conventional deposits on a yield basis. To limit adoption, Section 4(a)(11) of the GENIUS Act states that

> No permitted payment stablecoin issuer or foreign 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.

However, this prohibition may not fully bind. The statutory language prohibits payments by the *issuer*, but does not explicitly bar intermediaries between issuers and holders from offering yield-like rewards funded by revenue-sharing arrangements with issuers. As a result, stablecoin holders continue to earn yield. For example, Coinbase offers “USDC Rewards” to customers who hold USDC in Coinbase wallets, funded in part by Circle’s revenue-sharing agreement with Coinbase. As of February 2026, the “yield” paid by stablecoin providers is similar to that paid by high-yield savings accounts since both are passing through returns on Treasuries.

To close this channel some variants of the proposed CLARITY Act have language that would ban intermediaries from passing on yield to stablecoin holders. Whether or not the yield prohibition fully binds, the key question is how much it shifts household portfolios away from stablecoins and toward deposits, and how much of that shift translates into bank lending. The next section formalizes this chain and quantifies each step.

A Model of Stablecoin Yield

We focus on the effects of stablecoin adoption and the yield prohibition on bank lending. This abstracts from two broader macroeconomic effects. First, stablecoin adoption may be useful from a macroprudential perspective: by shifting some deposits into stablecoin backed by cash reserves, it may insulate the payment system against runs and nudge traditional banking toward less risky behavior. Second, to the extent that stablecoin adoption reduces bank lending, this may raise borrowing costs and slow economic activity on the margin. We quantify how much lending actually falls without taking a stand on aggregate effects.

Environment

The economy is static and there is no uncertainty. The private sector is made up of a nonfinancial sector and a financial sector. In the former, households choose the composition of their deposits and how much to borrow, while the latter is composed of stablecoin issuers and two types of banks. All agents take policy as given.

Our model conditions on an ample reserves regime. However, our framework generalizes to policy regimes with scarce reserves, which we solve for in the appendix.

Nonfinancial Sector

Depositors. A representative household allocates an endowment of liquid wealth W across two assets: bank deposits D and stablecoins S. Deposits pay a net return i_D and stablecoins pay a yield y.[3] The household has CES preferences over asset payoffs with elasticity of substitution $\sigma > 1$:

$$V = \left(\alpha_D^{1/\sigma}[(1+i_D)D]^{(\sigma-1)/\sigma} + \alpha_S^{1/\sigma}[(1+y)S]^{(\sigma-1)/\sigma}\right)^{\sigma/(\sigma-1)}$$

subject to $D + S = W$. The optimal portfolio share in asset $a \in \{D, S\}$ is

$$s_a = \frac{\alpha_a(1+r_a)^{\sigma-1}}{\Phi}, \qquad \Phi \equiv \alpha_D(1+i_D)^{\sigma-1} + \alpha_S(1+y)^{\sigma-1}$$

where $r_k \in \{i_D, y\}$ is the net return on asset k and $\alpha_k > 0$ are taste parameters capturing non-pecuniary reasons to hold each asset. Within conventional deposits, households further allocate conventional deposits between community banks (denoted by type k) and large banks (type ℓ). We assume that the allocation of conventional deposits between community and large banks is determined by a lower CES nest subject to $D_k + D_\ell = D$. Since we assume that banking is competitive within and between bank types, they must both offer the same net return on deposits i_D[4]. As a result, substitution is irrelevant and community banks have a constant share of deposits given by

$$\omega = \frac{\alpha_k}{\alpha_\ell + \alpha_k},$$

where the taste parameters α_j capture non-pecuniary reasons households bank at different institution types. For example, small banks offer relationship lending and local branch access, while larger banks offer nationwide networks and broader product suites. Since the top-level CES nest the conventional deposit share of total deposits $s_D(y)$, that means total deposits are split between banks as

$$D_k = \omega s_D(y)W, \;\; D_\ell = (1-\omega)s_D(y)W.$$

Borrowers. A population of borrowers demands loans. Loan demand is log-linear in the loan rate:

$$L^d = L_0 \exp(-\varepsilon_L\, i_L)$$

where ε_L is the semi-elasticity of loan demand with respect to the loan rate i_L. Borrowers and depositors may be the same agents. For example, a homeowner holds deposits and carries a mortgage. We keep their portfolio and borrowing decisions separate.

---

[3] We treat total liquid wealth as fixed—and hence the economy as static—because our analysis involves two assets which pay close to the risk-free rate, so any substitution between them would have second-order effects on any dynamic consumption-savings decision.
[4] In the FDIC's Quarterly Banking Profile report for the fourth quarter of 2025, the implied deposit rate paid by community banks was $i_D \approx 2.2\%$, which is very similar to our aggregate figure of 2%.

Financial Sector

Stablecoin issuers.

We model the supply side of the stablecoin market as a competitive sector encompassing both issuers and intermediaries (such as exchanges that offer yield-like rewards funded by revenue-sharing with issuers). Because we assume free entry, there is little reason to separately model issuers and intermediaries.

Under the GENIUS Act, each dollar of stablecoins is backed by one dollar of reserve assets. Of each dollar, the issuer holds an exogenous fraction $1-\theta$ in treasury bills earning i_H and a fraction θ in bank deposits earning i_D. This is a deliberate simplification; there are additional assets that stablecoin issuers could use, but the bulk of the assets are in these two areas. An issuer that passes through yield y earns $(1-\theta)i_H+\theta\, i_D-y$ in profits per dollar. With free entry, competition drives the yield to

$$y=(1-\theta)\, i_H+\theta\, i_D.$$

In practice, θ is chosen by to maximize issuers profits subject to some operational constraints. We treat θ as an exogenous parameter. Under competitive issuance, issuers earn zero profits and are indifferent over reserve composition, so θ is pinned by operational constraints. Any observed value is therefore consistent with profit maximization.

Banks.

The banking sector has two types of banks indexed by $j\in\{k,\ell\}$. k banks are community banks, while ℓ banks are large banks. The key technological distinction between them is regulatory: large banks face stricter liquidity requirements in a way that will become clear shortly.

A representative bank of each type takes deposits at rate i_D and allocates them across loans, required reserves, and excess reserves.[5] We assume the deposit and lending sectors are integrated, so banks of both types compete for deposits and to supply loans, meaning that they take prices as given. Aggregate deposits equal total liquid wealth from households. But the composition of these deposits matters for lending. Let s_S denote the share of deposits held as stablecoin. Of the s_SW dollars held as stablecoin reserves, a fraction θ is held as cash and cannot be lent. The remaining fraction $1-\theta$ is invested in treasury bills, with the proceeds redeposited in the banking system as ordinary deposits subject to fractional reserve requirements.

Each bank type sets aside a fraction r_j^c of its lendable deposits as "required" reserves (where r_j^c incorporates the any regulatory requirements, precautionary motives, and any other reason to hold excess liquidity). Adjusted for the community bank share ω, lending capacity at each bank type is given by

$$\bar{L}_k=\omega\times(W-\theta s_SW)\times(1-r_k^c)$$

---

[5] We treat i_D as exogenous, which is equivalent to assuming banks are price-takers in the deposit market. Endogenizing i_D through bank market power would attenuate the results: when the prohibition pushes households toward deposits, a bank with market power would lower i_D, partially offsetting the inflow.

$$\bar{L}_\ell = (1-\omega) \times (W - \theta s_S W) \times (1 - r_\ell^c).$$

The first term is bank type j's share of deposits. The second term is total deposits adjusted for the quantity of stablecoin deposits that are present in the banking system but siloed from intermediation. When $\theta = 0$, all stablecoin reserves recirculate as ordinary deposits and stablecoins have no effect on lending capacity. When $\theta = 1$, every dollar of stablecoins is fully locked and the lending capacity loss is maximal.

Banks do not necessarily loan out every dollar they can. Instead, banks of each type j allocate lending capacity $\bar{L}_j$ between loans L_j and excess reserves E_j:

$$\bar{L}_j = L_j + E_j.$$

While banks get return i_L from loans, they also derive some value from holding excess reserve. We capture that value through a concave function $\Psi_j(E_j)$ with $\Psi_j' > 0$ and $\Psi_j'' < 0$. Banks hold excess reserves for several reasons: regulatory liquidity requirements impose floors on liquid asset holdings, reserves provide insurance against unexpected deposit withdrawals, maintaining a reserve buffer improves a bank's funding terms in wholesale markets, the Federal Reserve may pay interest on them at the risk-free rate i_H.

Each bank chooses $E_j \geq 0$ to maximize profits:

$$\max_{E_j} \quad (i_L - i_H)[\bar{L}_j - E_j] + \Psi_j(E_j) - i_D D_j$$

where i_L is the loan rate and the first term is the return on lending net of the opportunity cost of reserves. At an interior solution,

$$\Psi_j'(E_j) = i_L - i_H.$$

When the loan-reserve spread is large, the opportunity cost of holding excess reserves is high and each bank economizes on its reserve buffer. When the spread is small, reserves are cheap and the bank keeps a larger cushion. Solving for E_j implies loan supply is $L_j^s = \bar{L}_j - (\Psi_j')^{-1}(i_L - i_H)$, and aggregate loan supply is

$$L^s = L_k^s + L_\ell^s.$$

Policy

Regulatory and monetary policy enter the environment exogenously through two channels.

First, a prohibition on stablecoin yield, as envisioned in certain variants of the CLARITY Act, would override the competitive outcome by forcing $y = 0$. The wedge between the issuer's earnings and the holder's return is $(1-\theta)i_H + \theta\, i_D$. When i_H is high, the wedge is large and the prohibition has a larger effect on household portfolios; when i_H is low, there is little yield to prohibit and the effect shrinks. Thus, the lending effects—and any accompanying welfare loss—are themselves a function of monetary policy, which determines i_H.

Second, the Federal Reserve sets the risk-free rate i_H and determines the reserve regime. We condition on abundant reserves: banks hold excess reserves above regulatory minimums, so deposit reshuffling across banks does not force balance sheet contraction. That is consistent with evidence from Corell (2025). The appendix relaxes this assumption. Under the competitive benchmark, i_H pins down the stablecoin yield, so the size of the distortion from the yield prohibition is itself a function of the monetary policy stance.

Equilibrium

An equilibrium is a loan rate i_L^* and allocations $\left(D_j^*, S^*, L_j^*, E_j^*\right)$ such that:

1. Taking interest rates as given, households allocate portfolios optimally: $D^* = s_D(y)W$ and $S^* = s_S(y)W$, with $s_D(y)$ split between community and large banks according to $\omega s_D(y)$ and $(1-\omega)s_D(y)$;
2. Taking interest rates as given, each bank type optimizes its liquidity buffer: $\Psi_j{}'\left(E_j^*\right) = i_L^* - i_H$;
3. The loan market clears: $L^s(i_L^*) = L^d(i_L^*)$, where aggregate loan supply $L^s(i_L^*)$ is the sum of individual bank loan supplies.

The equilibrium loan rate solves

$$(1-\theta s_S)W[\omega(1-r_k^c) + (1-\omega)(1-r_\ell^c)] - (\Psi_k')^{-1}(i_L - i_H) - (\Psi_\ell')^{-1}(i_L - i_H) = L_0 \exp\{-\varepsilon_L i_L\}.$$

Given the stablecoin yield y, this is a single equation in i_L and pins down the whole system.

Comparative Statics: The Lending Effect

We now characterize how a yield prohibition would affect equilibrium lending and borrowing costs. The analysis proceeds in three parts. First, we examine the change in aggregate lending. Second, we discuss how that translates into welfare. Finally, we decompose the change in equilibrium lending across bank types.

Passthrough to Aggregate Lending

The yield prohibition shifts household portfolios from stablecoins into deposits. Let $\Delta S = S(y^*) - S(0)$ denote the stablecoin outflow into conventional deposits determined by the CES demand system. Of this, only the fraction θ held as deposits with a 100% reserve requirement are locked out of the credit multiplier. Each bank's capacity changes by

$$d\bar{L}_k = \omega\theta(1-r_k^c)\Delta S \quad \text{and} \quad d\bar{L}_\ell = (1-\omega)\theta(1-r_\ell^c)\Delta S.$$

Let $\bar{r}^c = \omega r_k^c + (1-\omega)r_\ell^c$ denote the aggregate effective reserve requirement, so that the aggregate change in lending capacity is $\Delta\bar{L} = \theta(1-\bar{r}^c)\Delta S$. Not all of this additional capacity turns into loans. Each bank adjusts its reserves according to its excess buffer optimality conditions: $\Psi_j\left(E_j\right)\Delta E_j = \Delta i_L$, so $\Delta E_j = \Delta i_L / \Psi_j\left(E_j\right)$. Summing across banks and using $\Delta L = -\varepsilon_L L \Delta i_L$ to eliminate Δi_L gives

$$\Delta E = -\frac{\Delta L}{\varepsilon_L L}\sum_j \frac{1}{\Psi_j\left(E_j\right)}.$$

Substituting into $\Delta\bar{L} = \Delta L + \Delta E$ and defining

$$\mu \equiv \frac{-1/\Psi_k(E_k) - 1/\Psi_\ell(E_\ell)}{\varepsilon_L L} > 0$$

gives that the equilibrium change in loans is

$$\Delta L = \frac{\Delta \bar{L}}{1+\mu}.$$

μ is the ratio of the slope of excess reserve demand to the slope of loan demand. When μ is large, the bank's liquidity buffer is elastic and absorbs most of the new lending capacity as excess reserves rather than loans. When μ is small, most of the change passes through to lending.

For example, with $\Psi_j(E) = \beta_j \cdot \log E_j$, the first-order condition gives $E_j = \beta_j/(i_L - i_H)$ and μ can be written in terms of observable parameters as

$$\mu = \frac{E}{(i_L - i_H)\varepsilon_L L},$$

where $E = E_k + E_\ell$ is aggregate excess reserves. Buffer absorption increases with the level of excess reserves and decreases with the loan-reserve spread and the elasticity of loan demand. The change in lending then passes through onto the loan rate i_L as

$$\Delta i_L = -\frac{1}{\varepsilon_L L} \times \frac{\Delta \bar{L}}{1+\mu}$$

The prohibition shifts loan supply outward, lowering borrowing costs. But the rate decline is proportional to the lending increase, scaled by the slope of loan demand, so if the quantity effect is small, the price effect is too.

Welfare Effects of Yield Prohibition

The model also allows for a calculation of the partial equilibrium welfare effect of prohibiting yield.[6]

There are two key, and potentially offsetting effects of stablecoin yield prohibition on welfare. First, prohibition of yield distorts how households choose to allocate into stablecoin and conventional deposits. Eliminating yield is equivalent to a tax on stablecoin holdings. Holders give up y^* on every dollar, and issuers pocket the difference. The net result is deadweight loss from pushing depositors into conventional deposits they would not otherwise hold. Second, expansion of the loan market represents a potentially offsetting benefit. The central question is if benefits of prohibition exceed the costs. The answer depends almost entirely on θ because only the fraction θ held as bank deposits with a 100% reserve requirement is locked out of lending in the first place. The

[6] This partial equilibrium comparison omits externalities on both sides. The borrower surplus understates the lending benefit if some borrowers are credit-rationed and if expanded lending generates aggregate demand spillovers. Conversely, the portfolio deadweight loss understates the true cost if the prohibition weakens competitive pressure on banks to offer attractive deposit rates and if reduced stablecoin adoption slows the development of instant settlement infrastructure and limits financial access for underbanked populations.

other $1-\theta$ recirculates through the banking system and has no net effect on balance sheets. Formally, the ratio of cost to benefit is

$$\frac{\Delta W_{Deposits}}{\Delta W_{Loans}} = \frac{0.5y^*\Delta S}{(i_L - i_H)\theta(1-\bar{r}^c)\Delta S} = \frac{y^*}{2(i_L - i_H)\theta(1-\bar{r}^c)} \approx \frac{1}{2\theta(1-\bar{r}^c)}.$$

Since both y^* and the lending spread are a similar order of magnitude, the cost-benefit ratio depends only on θ and $\bar{r}^c$. In that case, prohibition only makes sense when

$$\theta < \frac{1}{2(1-\bar{r}^c)}.$$

Since $\bar{r}^c$ is independent of stablecoin policy, this is a threshold on stablecoin reserve composition alone.

Decomposition Across Bank Types

The change in lending is not distributed in proportion to deposit shares for two reasons.

First, community banks may have a lower effective reserve ratio ($r_k^c < r_\ell^c$), so they convert a larger fraction of each deposited dollar into lending capacity. The community bank share of the lending capacity change is

$$\frac{\Delta\bar{L}_k}{\Delta\bar{L}} = \frac{\omega(1-r_k^c)}{\omega(1-r_k^c) + (1-\omega)\left(1-r_\ell^c\right)},$$

which exceeds their relative deposit share if $r_k^c < r_\ell^c$. When that condition holds, the lending capacity gain is tilted toward community banks relative to their size simply because they lend more of the marginal deposit.

Second, with integrated loan markets, each bank absorbs part of the capacity change into its liquidity buffer. From each bank's optimality condition, the buffer adjustment is proportional to each bank's share of excess reserves:

$$\Delta E_j = \frac{E_j}{E} \times \frac{\mu}{1+\mu} \times \Delta\bar{L}$$

If community banks hold a smaller share of excess reserves than their share of lending capacity, the buffer adjustment works in their favor, so they absorb less of the shock and lend out more. Combining ΔE_j with $\Delta\bar{L}_j$ yields the community bank share of the lending gain:

$$\frac{\Delta L_k}{\Delta L} = (1+\mu) \times \frac{\omega(1-r_k^c)}{\omega(1-r_k^c) + (1-\omega)\left(1-r_\ell^c\right)} - \mu \times \frac{E_j}{E}.$$

Every component of that formula comes from observable balance sheet data. We now turn to calibration to determine the aggregate and heterogeneous intermediation effects of a prohibition on stablecoin yield.

Calibration

The stablecoin market. The stablecoin market currently stands at roughly $300 billion (CoinMarketCap) against $17.15 trillion in total deposits (Federal Reserve Release H.8 Table 4, Line 34), giving a baseline share of stablecoin around 1.7%. Under our relatively standard demand specification, the relevant quantity for lending effects is the stablecoin share of deposits s_S, not the dollar size of the stablecoin market. An $850 billion stablecoin market in a $50 trillion deposit base ($s_S = 0.017$) produces the same proportional lending effect as today's $300 billion market in a $17.15 trillion deposit base. This distinction matters for forward-looking assessments, since the stablecoin market could grow substantially in nominal terms without meaningfully increasing s_S if deposits also expand. We vary s_S between 1.7% and 10%, allowing α_k to adjust accordingly.

θ determines how much any shift in stablecoin deposits changes lending behavior. We calibrate $\theta = 0.12$ from Circle's December 2025 USDC Reserve Report, in which 12% of reserves were held as bank deposits and 88% in T-bills and repos. As of 2025Q4, Tether holds virtually nothing in bank deposits ($34 million of $147.2 billion); we use the higher Circle value as a conservative estimate.[7]

Interest rates. The competitive stablecoin yield is $y^* = (1-\theta)i_H + \theta i_D$. We set the interest rate on reserves at $i_H = 3.65\%$ (FRED IORB) and the loan rate at $i_L = 6.75\%$ (FRED DPRIME). We compute the deposit interest rate i_D using the Federal Deposit Insurance Corporation's Quarterly Banking Profile by annualizing the ratio of domestic interest expenses (FRED QBPQYTIEXDOFFDP) to domestic deposits (FRED QBPBSTLKDPDOFFDP). These imply a competitive yield of $y^* \approx 3.5\%$ and a lending spread of $i_L - i_H = 3.1\%$. The QBP values are from 2025Q4, while all others were accessed February 15, 2026.

Demand-side parameters. We set $\varepsilon_L = 2.5$ following DeFusco and Paciorek (2017), who estimate the semi-elasticity of mortgage demand to interest rates. Mortgages comprise roughly two-thirds of bank lending; to the extent that commercial and consumer loan demand is less elastic, this overstates the aggregate semi-elasticity and therefore understates the lending effect. We anchor the substitution elasticity σ to Afonso et al. (2023), who estimate a two-year semi-elasticity of money market mutual fund assets under management to the federal funds rate of approximately 6. The appendix shows that this maps to $\sigma \approx 7$. This calibration likely overstates stablecoin yield sensitivity since many agents hold stablecoin for reasons other than yield.

Table 1: Parameter Calibration

Parameter	Description	Value	Source
i_L	Loan rate	6.75%	FRED DPRIME
i_H	Interest on reserves	3.65%	FRED IORB
i_D	Deposit rate	1.97%	FDIC QBP Interest Expense/Deposits
$\bar{r}^c$	Aggregate Effective reserve ratio	0.298	See main text; H.8 Table 4

[7] Tether's total reserves of $192.9 billion also includes precious metals, Bitcoin, and other assets.

Parameter	Description	Value	Source
r_k^c	Community bank Effective reserve ratio	0.170	See main text; QBP Table II-B
E	Liquidity buffer	\$1.1T	See main text; H.8 Table 4
E_k/E	Community bank buffer share	0.09	See main text; H.8 Table 4 and QBP II-B
L	Total loans	\$12.0T	H.8 Table 4 Line 9
μ	Buffer absorption	1.2	$\mu = E/(\varepsilon_L \times (i_L - i_H) \times L)$
ε_L	Loan semi-elasticity	2.5	DeFusco and Paciorek (2017)
θ	Reserve deposit share	0.12	Circle Reserve Report (Dec 2025)
σ	Substitution elasticity	[5, 9]	MMF semi-elasticity; see text
s_S	Stablecoin share	[0.017, 0.10]	\$300B (CoinMarketCap) / H.8 Line 34

See main text for full discussion of parameters.

Banking parameters. We calibrate the banking parameters—effective reserve requirements, the excess buffer, and the passthrough parameter μ—in two parts. First, we use Federal Reserve Release H.8 Table 4 from December 2025 to calibrate the aggregate parameters. This table focuses on all domestically chartered banks in the United States. Second, we calibrate the community bank parameters from Table II-B from the Federal Deposit Insurance Corporation's Quarterly Community Banking Profile from Q4 2025. Given that, it is straightforward to infer the non-community bank parameters.

Aggregate Parameters. While no reserve requirements formally exist, we can infer effective reserve requirements given banking behavior. Since the model features competitive banking—and therefore constant returns to scale—marginal and average behavior are the same. Consequently, we can use the average loan-deposit ratio to recover $r^c \approx 0.298$. Given that banks currently hold about \$6.24 trillion of high-quality liquid assets (the sum of H.8 Table 4 lines 3 and 29), our r^c implies excess reserves of $E \approx$\$1.1 trillion. With loans of \$12.0 trillion, it therefore follows that the aggregate passthrough parameter $\mu \approx 1.2$, so a dollar of freed capacity leads to less than fifty cents of additional lending for the aggregate banking system.

Community banks. In QBP Community Bank Table II-B, the average loan-deposit ratio implies that community banks have an effective reserve requirement $r_k^c \approx 0.17$. Dividing total deposits from II-B by deposits in H.8 Table 4, the community bank share of deposits is $\omega \approx 0.136$. Given the aggregate effective reserve requirement is $\bar{r}^c \approx 0.298$, that implies the large bank effective reserve requirement is $r_\ell^c \approx 0.32$. An alternative approach using the liquidity coverage ratio returns essentially the same answer for large banks.[8] Next, since $r_k^c \approx 0.17$, community banks' effective required minimum reserves are around \$400 billion. Community banks hold around

[8] The liquidity coverage ratio (LCR) requires large banks to hold enough high-quality liquid assets (HQLA) to cover projected net outflows over a 30-day stress scenario. Large American banks hold roughly 20% above this floor (BIS 2025). With HQLA around \$6.24 trillion, that implies excess reserves of $E \approx$ \$1.05 trillion. Against total deposits of \$17.15 trillion, it also implies $r^c \approx 5.2/17.15 \approx 0.303$.

$500 billion in securities, which suggests their excess reserves are around $100 billion, so the community share of excess reserves is around 9%.

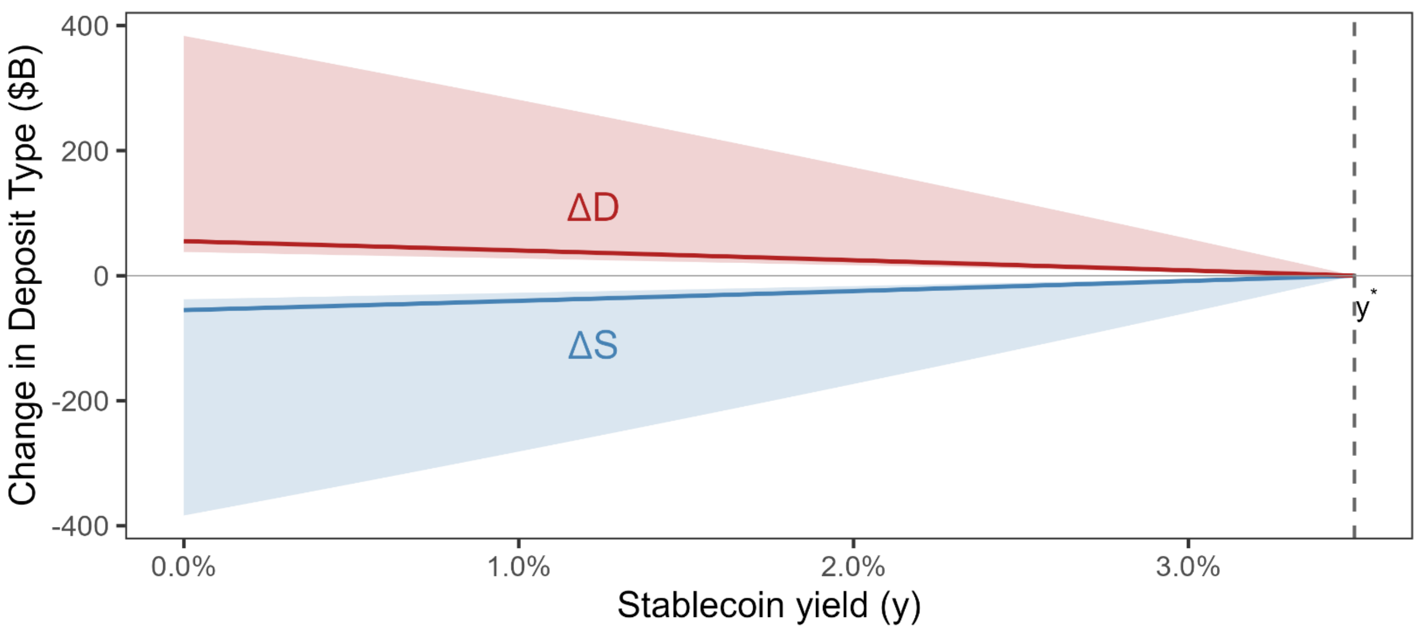
When we put together the aggregate and community bank parameters, we obtain that the community bank share of *any* equilibrium lending change is 24%. That is, for every $1 change in lending, community banks are responsible for 24 cents of it.

Results

This section describes the numerical results of a yield prohibition for bank intermediation.

When yield gets prohibited, deposits shift out of stablecoin and into conventional deposits. Figure 1 shows that portfolio reallocation as a function of yield, with the competitive yield y^* (the status quo) marked at the right. Moving left toward $y = 0$ represents increasingly binding prohibitions. At full prohibition, the baseline calibration (solid line) implies a $55 billion shift from stablecoins to conventional deposits. The shaded envelope spans $\sigma \in [5,9]$ and $s_S \in [0.017,0.10]$. At the upper bound, when the elasticity of substitution is large and stablecoin is initially 10% of deposits, the portfolio shift is nearly $400 billion.

Figure 1: Portfolio Effects of Yield Prohibition



Source: CEA calculations. The figure plots the change in stablecoin holdings (ΔS, blue) and bank deposits (ΔD, red) relative to the competitive-yield status quo y^*. The solid line is the baseline calibration ($\sigma = 7$, $s_S = 0.017$). The shaded region spans $\sigma \in [5,9]$ and $s_S \in [0.017,0.10]$. The dashed vertical line marks $y^* = 3.50\%$.

Ultimately, the consequence of that portfolio reallocation is additional lending. However, a reallocated dollar goes through several stages of dampening before it becomes more lending. Tables 2 traces through each stage at the baseline calibration. Initially, the stablecoin market is $300 billion at the competitive yield. Eliminating yield shifts $54.4 billion out of stablecoins and into conventional deposits. Of that, only the fraction $\theta = 0.12$ moves from deposits with presumably restrictive outflow assumptions and into the credit multiplier, reducing the relevant quantity to $6.5 billion. However, lending capacity only expands by $4.6 billion because the aggregate effective reserve ratio is $\bar{r}^c \approx 0.3$. Finally, banks absorb roughly half of any capacity change into their liquidity buffer rather than extending new loans, yielding a net lending gain of $2.1 billion, which is a 0.02% increase in total loans. In other words, the reallocation of deposits may be large, but the effect on lending is orders of magnitude smaller.

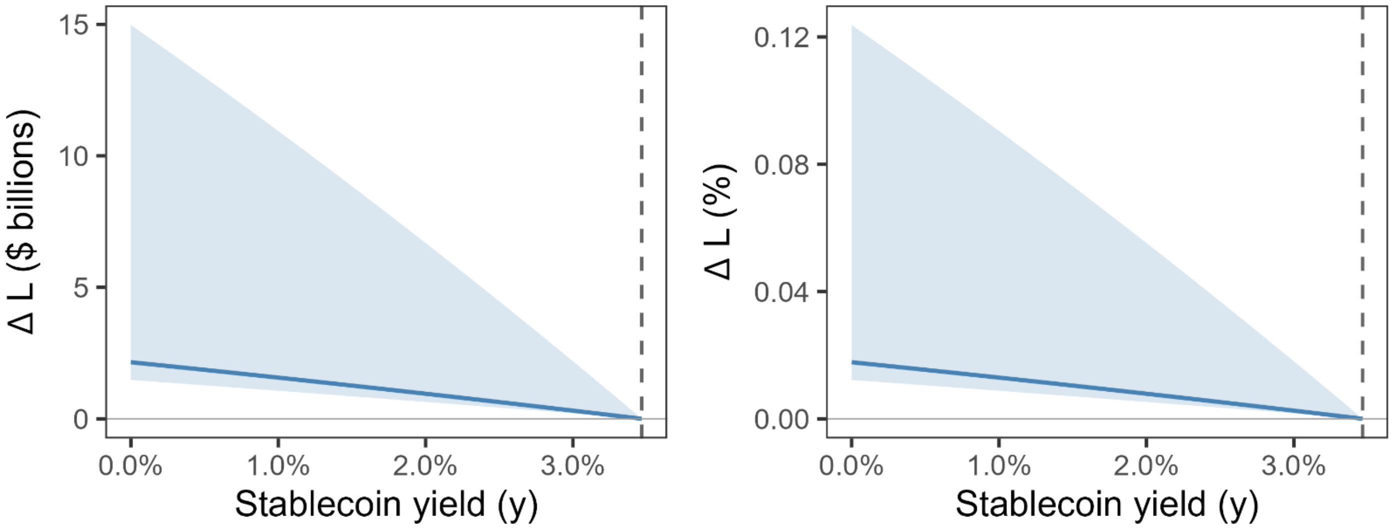
Table 2: Decomposition of Lending Effect at Baseline

Step	Factor	Value
Stablecoin market at y^*		$300.0 B
Portfolio shift from prohibition (ΔS)	× 0.18	$54.4 B
Fraction in cash ($\theta \approx 0.12$)	× 0.12	$6.5 B
Lendable fraction ($1 - \bar{r}^c \approx 0.3$)	× 0.70	$4.6 B
Fraction in cash ($1/(1+\mu) \approx 0.46$)	× 0.46	$2.1 B
As % of total lending ($12.1T)		0.017%
Change in loan rate i_L		0.69 bps
Net welfare gain		-$0.8 B
Cost-Benefit Ratio		6.6
Community Bank Change in Lending		$500 M
As % of Community Bank Lending		0.026%

Source: CEA Calculations

The bottom two panels of Table 2 further decompose the result. On net, a yield prohibition would cost $800 million annually in welfare and feature a cost-benefit ratio of 6.6. The welfare loss comes from depositors losing access to yield even as the borrowing market gains on the margin. Importantly, the gains to community banks are small, yielding only $500 million in additional lending. That is a gain of 0.026%. Figure 2 translates the portfolio reallocation into lending effects. The left panel reports the lending gain in dollars and the right panel as a percentage of total loans. At baseline, full prohibition generates a $2.1 billion lending gain (0.017% of total loans). The upper envelope, which requires both a sixfold increase in the stablecoin share and high substitution elasticity, produces a lending gain of roughly $15 billion.

Figure 2: Effects of Yield Prohibition on Lending



Source: CEA Calculations. The figure plots the lending gain (left) and lending gain as a percentage of total loans (right) from reducing the stablecoin yield below y^*. All changes are relative to the competitive-yield status quo. The solid line is the baseline calibration ($\sigma = 7$, $s_S = 0.017$, $\theta = 0.12$). The shaded region spans $\sigma \in [5,9]$ and $s_S \in [0.017, 0.10]$.

Table 3 asks how far the assumptions must be pushed before the model produces large lending effects. Each row adds one assumption to the previous row. Moving from the baseline to high stablecoin adoption ($s_S = 0.10$, a sixfold increase in the stablecoin deposit share) raises the effect to $11.1 billion. Increasing the substitution elasticity to $\sigma = 9$ adds little ($14.3 billion), because substitutability governs how many dollars move but not how much lending each dollar generates. When all stablecoin reserves are locked in segregated bank deposits ($\theta = 1$), lending rises by $72.7 billion and by $17.5 billion at community banks. Both shifts represent changes in lending below 1 percent. When we assume that the Federal Reserve abandons its ample reserves framework, the model produces $531 billion in additional lending in the aggregate, $129 billion of which is contributed by community banks. However, this figure, which is modest relative to other estimates, requires four independently implausible assumptions to hold simultaneously.

Table 3: Yield Prohibition Scenarios

θ	s_s (%)	σ	Reserves	ΔL ($B/year)	$100 \times \frac{\Delta L}{L}$	Welfare Gain ($B/year)	Cost-Benefit Ratio	ΔL_k ($B/year)	$100 \times \frac{\Delta L_k}{L_k}$
0.12	1.7	7	Abundant	2.1	0.02	-0.8	6.6	0.5	0.03
0.12	10	7	Abundant	11.1	0.09	-4.2	6.6	2.7	0.14
0.12	10	9	Abundant	14.3	0.12	-5.5	6.6	3.5	0.18
0.63	10	9	Abundant	56.8	0.47	0	1	13.8	0.71
1.00	10	9	Abundant	72.0	0.60	2.7	0.46	17.5	0.90
1.00	10	9	Scarce	531	4.42	14.3	0.14	129	6.66

Source: CEA Calculations. ΔL refers to the change in aggregate loans, so $100 \times \Delta L/L$ is the percent change in aggregate loans. Similarly, ΔL_k is the change in community banking loans, with $100 \times \Delta L_k/L_k$ corresponding to the percent change in community bank lending.

Discussion

The model provides clear answers on the effects of stablecoin on disintermediation. This section clarifies their interpretation in the context of community banks, the international demand for treasuries, and related literature.

Lending Effects & Community Banking: An Upper Bound

Our estimate of the community bank exposure to stablecoin yield prohibition is likely an upper bound. That is primarily because our model unrealistically assumes that deposits flow proportionally to community banks and large banks. In practice, stablecoin flows are concentrated at large institutions on both sides of the market. On the supply side, reserves are custodied at BNY Mellon and managed by BlackRock, with the remainder held at other G-SIBs (Circle 2026). On the demand side, cryptocurrency holders skew young, urban, and higher-income (NCA/Harris Poll 2025), and larger banks host more stablecoin business (American Banker 2025). Consistent with this, Charles River Associates (2025) finds no statistically significant historical correlation between USDC market cap growth and community bank deposit changes, suggesting the stablecoin market operates largely outside the community banking system. Altogether, the empirical evidence suggests that our own model overstates an already small effect of stablecoin yield on community banks.

International Demand for Treasuries

A final margin the model does not cover—and which we do not quantify—is how stablecoin yield prohibition would affect the demand for treasuries and dollars abroad.

The model assumes all stablecoin demand is domestic substitution between deposits and stablecoins. In practice, over 80% of stablecoin transactions occur outside the United States (Brookings 2025), driven by users in countries with weak currencies or limited banking access who hold dollar stablecoins as savings vehicles and payment instruments. These foreign holdings create demand for U.S. Treasuries that would not otherwise exist. Indeed, stablecoin issuers already hold more T-bills than large countries like Saudi Arabia (IMF External Sector Report, July 2025), and a BIS working paper finds that stablecoin inflows compress 3-month Treasury yields by 5--8 basis points per $3.5 billion during periods of bill scarcity (BIS Working Paper 1270). Fed Governor Miran has characterized the phenomenon as a potential "global stablecoin glut" that could structurally lower r^* (Miran 2025). A yield prohibition, by suppressing stablecoin adoption, also suppresses this foreign demand channel. We do not model this margin, but note that it cuts against the lending rationale: any fiscal benefit from foreign-financed Treasury demand may offset whatever gain in domestic bank lending the prohibition achieves.

How Do CEA's Findings Relate to Other Papers?

A growing literature examines the effects of digital currency adoption on bank intermediation. Existing estimates of the lending impact range from negligible to over a trillion dollars, reflecting different assumptions about the extent to which stablecoin adoption drains deposits from the banking system and the rate at which deposit losses pass through to credit. Our model isolates the two margins that drive this variation: the share of stablecoin reserves that actually exit the credit multiplier, and the degree to which banks absorb capacity shocks through excess reserves rather than lending.

Consider the leading examples. Whited, Wu, and Xiao (2023) model a central bank digital currency that, as a Fed liability, genuinely drains deposits from the banking system, and estimate that each dollar of adoption reduces lending by roughly 20 cents after wholesale funding offsets. Nigrinis (2025) imports their deposit substitution rate into stablecoin adoption scenarios without modeling where the displaced dollars go, projecting lending contraction as large as $1.5 trillion if stablecoins offer competitive yield. Wang (2025) accounts for reserves recycling through the banking system and uses a money multiplier to propagate lending effects, but does not embed the analysis in an equilibrium framework. The resulting estimates, which far exceed our own, are a mechanical consequence of this approach. Both Nigrinis and Wang are partial equilibrium estimates that identify the lending contraction at a bank that loses deposits, holding other banks' balance sheets fixed. Whether the bank that gains the reshuffled deposits expands lending symmetrically is a general equilibrium question that requires a model to answer; that is what our analysis provides.

Clouse (2024) develops the most complete theoretical predecessor to our approach by embedding stablecoins in a general equilibrium model. He models stablecoin issuers as narrow nonbanks that hold only safe assets and make no loans, so every dollar entering stablecoins exits intermediation by construction. His central result is that the magnitude depends on substitutability of stablecoins with existing instruments and on Federal Reserve balance sheet accommodation, which is the conceptual foundation for the buffer absorption channel we formalize through μ. Our model adds the reserve composition channel through θ, which Clouse's narrow-nonbank assumption shuts down. Putting μ and θ together reduces the intermediation effect by roughly 1-2 orders of magnitude.

The empirical evidence, which appears contradictory on its face, is consistent with our account. Tsyrennikov (2025), finds no statistically significant relationship between USDC market capitalization and community bank deposit flows from 2019-2025. That is consistent with our model, which predicts very small effects on community banks under a reasonable calibration. Lee and Tou (2026) propose a theory of liquidity-driven disintermediation in which stablecoins transmit liquidity stress to partner banks through intraday mint-and-burn settlement. Using the 2023 banking crisis as a natural experiment, they show that banks becoming stablecoin processors experience a large decline in the loan-to-asset ratio. Their mechanism is isomorphic to our θ. In their model, partner banks hold excess reserves because gross intraday settlement makes those dollars functionally unavailable for lending. Our framework does not claim a definitive source for θ nor endogenize it, but the mechanism is the same.

Conclusion

The yield prohibition in the GENIUS Act—and its proposed reinforcement through the CLARITY Act—may be motivated by the concern that competitive stablecoin returns will draw deposits out of the banking system and contract lending. Our model shows that this concern is quantitatively small. Most stablecoin reserves recirculate through the banking system as ordinary deposits: only the 12% held in bank accounts is truly locked out of the credit multiplier (if banks apply a 100% reserve requirement), and even that fraction is further attenuated by prudential reserve requirements and voluntary bank liquidity buffers. At baseline calibration, eliminating stablecoin yield increases bank lending by $2.1 billion, which represents a net increase of 0.02% of total loans. Producing lending effects in the hundreds of billions requires simultaneously assuming the stablecoin share sextuples, all reserves shift into segregated deposits, and the Federal Reserve abandons its ample-reserves framework. It takes similarly implausible assumptions for the welfare effect of yield prohibition to turn positive.

Appendix

From Semi-Elasticity of Loan Demand to Elasticity

Differentiating $s_S = \alpha_S(1+y)^{\sigma-1}/\Phi$:

$$\frac{ds_S}{dy} = \frac{s_S(\sigma-1)}{1+y}(1-s_S).$$

The semi-elasticity is

$$\eta_S \equiv \frac{1}{S}\frac{dS}{dy} = \frac{(\sigma-1)(1-s_S)}{1+y}.$$

Setting $\eta_S = \hat{\eta}$ at $y = 0$ gives $\sigma = 1 + \hat{\eta}/(1-s_S^0) \approx 1 + \hat{\eta}$.

Scarce Reserves

When excess reserves are zero ($E = 0$), the buffer absorption channel shuts down and the money multiplier operates in reverse. In this regime, total deposits W are no longer exogenous but are pinned by the monetary base M and the reserve identity. Of total deposits W, (1) ordinary deposits $W - \theta s_S W$ require reserves $r^c(W - \theta s_S W)$, and (2) Stablecoin stablecoin deposits $\theta s_S W$ require reserves $\theta s_S W$ (one-for-one backing). The reserve identity is

$$r^c(W - \theta s_S W) + \theta s_S W = M$$

where M is the fixed monetary base. Solving for W:

$$W = \frac{M}{r^c + \theta s_S(1-r^c)}.$$

Lending is $L = (W - \theta s_S W)(1-r^c) = M(1-\theta s_S)(1-r^c)/[r^c + \theta s_S(1-r^c)]$. Differentiating with respect to s_S:

$$\frac{dL}{ds_S} = -\frac{M\,\theta(1-r^c)}{[r^c + \theta s_S(1-r^c)]^2} \approx -\frac{\theta(1-r^c)\,W}{r^c},$$

Where the last simplification comes from assuming small s_S (so $\theta s_S(1-r^c) \ll r^c$) so that $M \approx r^c W$. Compare this to the abundant-reserves case, where $dL/ds_S = -\theta(1-r^c)W/(1+\mu)$. The amplification factor is

$$\frac{1+\mu}{r^c}.$$

For plausible calibrations this ratio is large, so the lending effect is substantially amplified under scarce reserves.

The amplification has two sources. First, the buffer channel shuts down: with $E = 0$ there is no cushion to absorb the shock, contributing a factor of $1 + \mu$. Second, the money multiplier operates in reverse: increasing the effective reserve requirement on stablecoin deposits forces a contraction of total deposits, and each dollar of ordinary deposits shed releases only r^c cents of reserves, contributing a factor of $1/r^c$.