December 18, 2025

To the Honorable Members of the United States Senate:

The American Bankers Association and the undersigned state bankers associations appreciate the Committee's leadership in overseeing critical issues impacting the stability and competitiveness of the U.S. financial system. We write to express our strong support for clarifying and enforcing the statutory prohibition on payment stablecoin issuers and affiliated platforms offering yield, rewards, or interest to stablecoin holders—a core provision of the GENIUS Act.

It is the banking industry's view that this prohibition was intended to ensure that payment stablecoins function strictly as a means of payment, not as savings or investment products. However, several exchanges and other digital platforms have interpreted the statute to exempt themselves and are now offering yield-like incentives to stablecoin holders. This emerging practice raises significant policy concerns as it risks disintermediating core banking activity, including deposit taking and lending, which harms local communities.

Building on our previous correspondence with Congress on this issue, this letter addresses a question we consistently receive: 'What is the difference between the "interest" a bank pays on a deposit account and the "interest" or "rewards" that issuer partners and affiliates pay on stablecoins, and why are banks unable to pay depositors a rate of interest similar to what exchanges are offering?'

The answer to this question lies at the heart of how banks support the economy. When a customer deposits money in a bank, that deposit becomes a regulated liability of the bank. The bank may pay the depositor interest on his or her balance. The bank uses deposits as a source of funding for regulated lending activities under strict supervision, capital rules, liquidity standards, and ongoing examination. The bank earns interest on those loans, and the difference between the interest rate the bank earns from lending and the interest rate the bank pays on deposits is the bank's net interest spread or net interest margin. Managing this spread is critical to the bank's economic viability, and thus the bank's ability to offer a higher deposit interest rate is limited by the rates it charges for loans.

Exchanges and other partners do not perform similar regulated lending activity. Their ability to pay interest or rewards on stablecoin balances is not constrained by what they earn on loans. In fact, most reward payments for stablecoin balances are funded through marketing and distribution arrangements the exchanges have in place with stablecoin issuers. In this way, rewards payments and the role of the exchange can be thought of as a mere pass-thru from the issuer to the token holder – exactly the type of payment the interest ban in the GENIUS Act sought to prohibit.

The vital role banks play in providing credit to their communities is precisely what we want to preserve by closing the interest loophole. Banks create genuine economic outputs when they make loans. Exchanges do not provide an equivalent economic benefit. Reducing deposits at banks will impair banks' ability to make loans. Requiring banks to increase deposit rates to compete with those offered by exchanges will make credit more expensive, directly affecting the economy, including for:

- Small businesses seeking working capital or expansion loans;
- Farmers seeking loans to acquire land, equipment, fertilizers;
- Homebuyers facing higher mortgage costs;
- Students paying more for education financing;
- Consumers dealing with increased auto loan and personal loan rates; and
- Local governments facing higher costs for infrastructure projects.

In addition to revenue generated from marketing and distribution agreements with stablecoin issuers, exchanges may also earn revenue from higher-risk activities, such as:

- lending stablecoins,
- rehypothecating them,
- engaging in liquidity-provision schemes,
- speculating on crypto and other high-risk products, or
- deploying stablecoins into investment strategies that expose consumers to risk.

None of these activities are subject to bank-like regulations or oversight. This high-risk, high-reward strategy may also fund rewards and yield programs offered by the exchange. These are activities that a regulated bank would be limited in performing given the regulatory framework under which they operate.

The consequences of exchanges taking advantage of the interest loophole and the overall mismatch in regulation are significant.

1. Regulatory imbalance. Banks must compete with unregulated platforms offering higher returns resulting from far riskier activities.
2. Disintermediation of insured deposits. Consumers may move funds from FDIC-insured deposit accounts into payment stablecoins via exchange-offered products that only *sound* like interest-bearing accounts but lack equivalent protections. Banks, especially community banks, depend on stable deposits to maintain safety and soundness. When deposits leave the banking system, banks have fewer resources available to lend to small businesses, agriculture, homebuyers and families within their trade area. Exchanges do not recycle funds back into the local economy, banks do. In short, deposit flight into exchange-based products threatens the availability of credit in rural communities and undermines the core economic role banks play across the country.
3. Consumer risk and potential loss. When an exchange fails, customers are unsecured creditors with no federal safety net – a reality seen in multiple recent collapses.

The GENIUS Act envisioned payment stablecoins as a payments instrument, not an investment product. Congress barred issuers from paying interest for precisely that reason. Closing the current loophole by clarifying that the prohibition extends to partners and affiliates would restore parity, protect consumers, and align practice with legislative intent.

Additionally, please see the attached graphic comparing banks, issuers, and exchanges for a snapshot of key similarities and differences.

We appreciate your continued leadership on these issues and stand ready to provide any additional information or recommendations as Congress and regulators work to ensure a safe, competitive, and consumer-protective marketplace for digital assets.

Sincerely,

American Bankers Association
Alabama Bankers Association
Alaska Bankers Association
Arizona Bankers Association
Arkansas Bankers Association
California Bankers Association
Colorado Bankers Association
Connecticut Bankers Association
DC Bankers Association
Delaware Bankers Association
Florida Bankers Association
Georgia Bankers Association
Hawaii Bankers Association
Idaho Bankers Association
Illinois Bankers Association
Indiana Bankers Association
Iowa Bankers Association
Kansas Bankers Association
Kentucky Bankers Association
Louisiana Bankers Association
Maine Bankers Association
Maryland Bankers Association
Massachusetts Bankers Association
Michigan Bankers Association
Minnesota Bankers Association
Mississippi Bankers Association
Missouri Bankers Association
Montana Bankers Association
Nebraska Bankers Association
Nevada Bankers Association
New Hampshire Bankers Association
New Jersey Bankers Association
New Mexico Bankers Association
New York Bankers Association
North Carolina Bankers Association
North Dakota Bankers Association
Ohio Bankers League
Oklahoma Bankers Association
Oregon Bankers Association
Pennsylvania Bankers Association
Puerto Rico Bankers Association
Rhode Island Bankers Association
South Carolina Bankers Association
South Dakota Bankers Association
Tennessee Bankers Association
Texas Bankers Association
Utah Bankers Association
Vermont Bankers Association
Virginia Bankers Association
Washington Bankers Association
West Virginia Bankers Association
Wisconsin Bankers Association
Wyoming Bankers Association

Comparison Table: Banks vs. Exchanges vs. Stablecoin Issuers

	BANKS	STABLECOIN ISSUERS (UNDER GENIUS ACT)	EXCHANGE/ PLATFORMS
Are they allowed to pay interest/yield?	✔ Yes (regulated)	✘ No – prohibited by GENIUS Act	?
FDIC Insurance?	✔ Yes, deposits up to $250,000	✘ No	✘ No
Required Reserves?	✔ Yes – Reg D, capital & liquidity rules	✔ Yes – 1:1 cash & short-term Treasuries	✘ None
Prudential Regulation?	✔ Yes – OCC, FDIC, Fed, state regulators	✔ Limited – oversight for reserve backing & disclosures	✘ Minimal – AML*/KYC** only; no safety & soundness
How they generate yield	Safe, regulated lending and investing	Interest from Treasuries – *but cannot pass it to holders*	Lending stablecoins, rehypothecation, DeFi; revenue-sharing
Risk Profile	Low	Low (by design)	Moderate to high
Bankruptcy Risk	Low – depositors protected	Low – reserves backing stablecoin	High – customers become unsecured creditors
Liquidity Requirements	High	High – must be redeemable 1:1	None
Consumer Misperception Risk	Low	Medium	Very high – yields resemble bank accounts but without protections

*Anti-Money Laundering
**Know Your Customer