

UNINSURED DIGITAL DOLLARS: STABLECOINS, FDIC PROTECTION, AND THE GENIUS ACT

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ABSTRACT

Stablecoins are marketed as digital dollars but are legally something far more fragile. Even after Congress enacted the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), stablecoins remain outside the federal deposit insurance framework that anchors public confidence in bank money. This Essay argues that the absence of an FDIC backstop is the defining and still underappreciated risk in the stablecoin ecosystem. While the GENIUS Act imposes full reserve requirements, segregation mandates, supervision, and a prohibition on interest, it deliberately chooses regulation over insurance. That choice has consequences. Drawing on recent market stress events and financial stability principles, this Essay explains why full backing is not the same as guaranteed backing, how confidence-driven runs can occur even in fully reserved systems, and why emerging “stablecoin rewards” structures threaten to recreate uninsured, interest-bearing deposit substitutes outside the banking system. It further examines how deposit migration from traditional banks into stablecoin structures could reshape funding markets and increase systemic vulnerability during periods of stress. The analysis also situates the GENIUS Act within broader debates about shadow banking, monetary stability, and the proper boundary between public guarantees and private innovation. By clarifying what stablecoins are, and what they are not, this Essay seeks to sharpen the policy conversation at a pivotal moment for digital finance. At a moment when private digital money is moving from the margins into the core of finance, this piece contends that the central question is not whether stablecoins can scale, but whether they can do so without becoming the next run-prone pillar of the U.S. financial system.

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INTRODUCTION

In early 2023, millions of crypto users received a wake-up call about the risks of stablecoins, the supposedly stable digital dollars used in crypto markets and payments. When Silicon Valley Bank (SVB) failed in March 2023, one major stablecoin, USD Coin (USDC), lost its one-to-one peg to the dollar, dropping as low as eighty-eight cents before recovering.¹ The cause was evident: USDC's issuer had \$3.3 billion of its cash reserves at the failed bank, money that was largely uninsured and temporarily inaccessible.² Although disaster was mitigated by the federal government stepping in and providing a backstop, the incident highlighted that unlike a bank deposit, a stablecoin carries no Federal Deposit Insurance Corporation (FDIC) protection.³ If the issuer or its assets run into trouble, stablecoin holders have no guaranteed safety net. This gap, a digital dollar with no deposit insurance, is at the heart of ongoing debates about stablecoin regulation.

Stablecoins have exploded in popularity, now supporting over a quarter-trillion dollars in value, and are touted as a foundation for modern digital payments.⁴ Yet they operate in a regulatory gray zone unlike anything the U.S. public normally uses as money. A person who deposits cash in a U.S. bank enjoys multiple layers of protection including federal deposit insurance up to \$250,000, strict bank oversight, and access to Federal Reserve liquidity if needed.⁵ A person who exchanges cash for a stablecoin token enjoys none of these

¹ *USDC Stablecoin Loses Peg. \$3.3bn Stuck in Failed SVB Bank*, LEDGER INSIGHTS (Mar. 11, 2023), <https://www.ledgerinsights.com/usdc-stablecoin-loses-peg-svb-bank/> [<https://perma.cc/R2WB-P8CL>] (reporting USDC stablecoin fell to 0.90 USD after \$3.3 billion of its reserves were trapped in the failed Silicon Valley Bank); *see also* Press Release, U.S. Dep't Treasury, Joint Statement by the Department of the Treasury, Federal Reserve, and FDIC (Mar. 12, 2023), <https://home.treasury.gov/news/press-releases/jy1337> [<https://perma.cc/JA38-D6VN>] (guaranteeing that SVB's depositors would have access to all funds, which allowed USDC to regain its peg).

² LEDGER INSIGHTS, *supra* note 1 (reporting USDC stablecoin fell to 0.90 USD after \$3.3 billion of its reserves were trapped in the failed Silicon Valley Bank).

³ *See* Press Release, U.S. Dep't Treasury, *supra* note 1 (guaranteeing that SVB's depositors would have access to all funds, which allowed USDC to regain its peg).

⁴ *See* GENIUS Act § 4, 12 U.S.C. § 5903 (defining reserve requirements); *see also* *The Risks from Allowing Stablecoins to Pay Interest*, BPI (Sep. 25, 2025) (observing that the Act requires PPSIs to maintain 1:1 reserve backing and that permitted reserve assets include U.S. currency, deposits at insured banks, short-term Treasuries, and Treasury repo agreements. Also, observing that given the \$250,000 FDIC insurance cap and large size of stablecoin reserves, any bank deposits held as reserves will mostly be uninsured).

⁵ BPI, *supra* note 4.

safeguards. The legal identity of stablecoins remains different from traditional deposits, which has significant implications for consumer protection and financial stability. Recognizing both the promise and danger of stablecoins, Congress enacted the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) in 2025.⁶ This new law is the first to create a federal framework for stablecoin issuers, but does not make stablecoins insured deposits. This Essay focuses on the consequences of lacking FDIC protection against the backdrop of the GENIUS Act's reforms. Specifically, it examines how the Act attempts to strengthen stablecoin safety and integrate them into the financial system, while still leaving unresolved the fundamental protection gap that sets stablecoins apart from traditional deposits.

I. STABLECOINS VS. BANK DEPOSITS

Stablecoins are digital tokens designed to maintain a stable value, typically \$1.00, backed by reserves of fiat currency or high-quality assets. Generally, a fiat-backed stablecoin closely resembles a bank deposit and represents a claim to a dollar held by an institution, which is usually redeemable on demand. This functional similarity has led many to compare stablecoins to traditional deposits; however, regulators have warned that stablecoins behave like deposits but without the safeguards.⁷ The most noticeable difference is insurance. Bank deposits up to \$250,000 are insured by the FDIC, meaning even if the bank fails, the government guarantees the depositor will be made whole, up to the limit.⁸ Stablecoin holders have no such guarantee.⁹ Hence, if a stablecoin issuer fails or its reserves vanish, there is no government insurer to step in, and holders could lose money just as an uninsured depositor would.

⁶ GENIUS Act, Pub. L. No. 119-27, 139 Stat. 419 (2025).

⁷ Nellie Liang, Under Secretary for Domestic Finance, U.S. Dep't Treasury, Modernizing the Regulatory Framework for Domestic Payments (Oct. 9, 2024), <https://home.treasury.gov/news/press-releases/jy2639> [<https://perma.cc/47QM-PEXL>]; see also Chris Nichols & Richard Mitchell, *Stablecoin: What Bank Executives Need to Know*, SOUTHSTATE BANK CORRESPONDENT DIV. (July 28, 2025), <https://southstatecorrespondent.com/banker-to-banker/payments/stablecoin-what-bank-executives-need-to-know/> [<https://perma.cc/75GM-LDZ3>] (summarizing GENIUS Act and emphasizing stablecoins are not a deposit and have no FDIC insurance).

⁸ *Understanding Deposit Insurance*, FDIC, <https://www.fdic.gov/resources/deposit-insurance/understanding-deposit-insurance> [<https://perma.cc/5ZBZ-LZE5>] (last visited Mar. 25, 2026).

⁹ Nichols & Mitchell, *supra* note 7 (summarizing GENIUS Act and emphasizing stablecoins are not a deposit and have no FDIC insurance).

This difference is not hypothetical. Prior to the GENIUS Act, stablecoin issuers and their reserve practices were virtually unregulated at the federal level. Some held reserves in conservative assets like Treasury bills and insured bank accounts, but others ventured into riskier investments or commingled funds. For example, Circle has publicly described USD Coin reserves as held largely in a government money market fund and in cash at regulated financial institutions, and its monthly reserve reports itemize reserve holdings consisting primarily of short-dated U.S. Treasury securities, Treasury repurchase agreements, and cash balances at regulated financial institutions.¹⁰ By contrast, Tether's consolidated reserves reporting for year-end 2021 reflected a more complex portfolio, including a substantial allocation to commercial paper and certificates of deposit alongside Treasury bills, money market funds, secured loans, corporate bonds, and other investments (including digital tokens).¹¹ In addition, official findings in the New York Attorney General's Bitfinex/Tether settlement describe periods in 2017 in which hundreds of millions of dollars of backing funds were held in a commingled Bitfinex account rather than in a clearly segregated reserve account.¹²

Holders had little more than the issuer's promise that each token was backed by a dollar. If that promise proved false or if reserves were mismanaged, stablecoin holders could become unsecured creditors in a bankruptcy. Unlike what transpires in a bank failure, where the FDIC swoops in to protect small depositors, a failing stablecoin issuer offers no such rescue. For instance, when crypto platform Voyager Digital went bankrupt in 2022, customers holding its dollar-denominated

¹⁰ *Transparency & Stability*, CIRCLE (Mar. 19, 2026), <https://www.circle.com/transparency> [<https://perma.cc/ZW44-X6TU>] (showing USDC reserve composition and linking to monthly assurance reports); *see also* Independent Accountants' Report from Deloitte & Touche LLP to Bd. Dirs. and Mgmt. Circle Internet Grp., Inc. (Feb. 27, 2025) (examining management's assertion that USDC reserve assets equal or exceed USDC in circulation and detailing holdings in Treasury securities, Treasury repurchase agreements, and cash).

¹¹ Independent Accountant's Report from MHA Cayman to Bd. Dirs. and Mgmt. Tether Holdings Ltd. (Feb. 19, 2022), https://assets.ctfassets.net/vyse88cgwfb/4hiNJsZ98LIZqCJHKzrLpV/2b6338482ef0093382885f80ba6f1083/Tether_Assurance-12-31-21.pdf [<https://perma.cc/3Y4K-HUVX>] (reporting that Tether's reserves included commercial paper and certificates of deposit, Treasury bills, money market funds, secured loans, and other investments).

¹² Settlement Agreement, at 4, *In re iFinex Inc., BFXNA Inc., & Tether Holdings Ltd.*, (No. 18-0657), (N.Y. Att'y Gen. Feb. 17, 2021) (finding, *inter alia*, that Bitfinex held approximately \$382 million of Tether's funds in a commingled account during 2017).

tokens initially faced uncertainty about recovery of their funds, a sharp contrast to customers of insured banks.¹³ The legal status of stablecoin reserves in an insolvency, whether they are customer trust assets or general estate assets, remains largely untested, meaning holders could be at the mercy of protracted court proceedings to claim what is left.

Additionally, regulators are aware that average consumers might not realize stablecoins lack the protections afforded to bank deposits. In fact, the FDIC cracked down on several crypto companies for falsely implying that crypto accounts or stablecoins were FDIC-insured. In 2022, the FDIC issued cease-and-desist letters to a handful of firms for making misleading statements about deposit insurance.¹⁴ One firm even registered the domain “fdiccrypto.com,” prompting the FDIC to demand that the registrant cease using the domain as a misleading suggestion of federal deposit-insurance endorsement for crypto products.¹⁵

These enforcement actions emphasize that in the public mind, digital dollars could easily be mistaken for having the same government backstop as regular dollars in the bank. They do not. As previously stated, stablecoins are not deposits, do not carry FDIC insurance, and are not securities under federal law.¹⁶ Anyone holding

¹³ See Press Release, FDIC, *FDIC Issues Cease and Desist Letters to Five Companies For Making Crypto-Related False or Misleading Representations about Deposit Insurance* (Aug. 19, 2022), <https://www.fdic.gov/news/press-releases/2022/pr22060.html> [<https://perma.cc/8SQ6-SH2J>] (identifying crypto firms that falsely suggested crypto products were FDIC-insured). Voyager Digital, a crypto brokerage, for example, had erroneously marketed that customer USD funds were FDIC-insured via its partner bank, leading to regulatory action. Andrew Ackerman, *Bankrupt Crypto Brokerage Voyager Ordered to Cease False Promises About U.S. Banking Insurance*, WALL ST. J. (July 29, 2022, at 12:55 ET), <https://www.wsj.com/finance/regulation/bankrupt-crypto-brokerage-voyager-ordered-to-cease-false-promises-about-u-s-banking-insurance-11659044094> [<https://perma.cc/3CWS-F3ZH>].

¹⁴ Press Release, FDIC, *supra* note 13.

¹⁵ Letter from Seth P. Rosebrock, Assistant Gen. Couns., Enft, FDIC, to Corey Harris, CH’s Serv. Provider Erie Inc Corp. (Aug. 18, 2022), <https://www.fdic.gov/news/press-releases/2022/fdic-crypto-com-letter.pdf> [<https://perma.cc/E2N5-LL4G>] (demanding cessation of the domain name “fdiccrypto.com” and explaining that the domain implied FDIC endorsement or insurance).

¹⁶ GENIUS Act § 2, 12 U.S.C. § 5901(22)(B) (codifying that a payment stablecoin is not a deposit, not a form of legal tender, and not a security). See also Nichols & Mitchell, *supra* note 7 (emphasizing stablecoins’ legal classification excludes them from FDIC insurance and securities laws). By clarifying the status, Congress sought to eliminate confusion about regulatory jurisdiction, stablecoins fall under banking regulators and not the SEC, and they do not get deposit insurance coverage.

a stablecoin, in other words, assumes the full risk of that instrument, a fact that both policymakers and investors are now wrestling with.

II. THE GENIUS ACT: A REGULATORY REGIME FOR STABLECOINS

The GENIUS Act (“Act”) is a comprehensive legislative response to the rise of stablecoins. It represents a clear effort to impose traditional financial safeguards on this new form of private money, just short of extending deposit insurance. The Act creates a federal regulatory framework for payment stablecoins, defined as digital assets designed for use in payments and redeemable for a fixed amount of monetary value.¹⁷ Importantly, the Act limits who can issue such stablecoins. It generally restricts issuance to entities that fall into one of three supervised categories, termed “Permitted Payment Stablecoin Issuers” (PPSIs).¹⁸ The first category is insured banks, or depository institutions, that issue stablecoins through a dedicated subsidiary, with oversight by the bank’s primary federal regulator.¹⁹ The second pathway allows certain non-bank companies to become licensed as stablecoin issuers at the federal level, subject to approval by the Office of the Comptroller of the Currency (“OCC”) and oversight including a special-purpose charter.²⁰ The third pathway lets states license stablecoin issuers under state law, but those issuers must still meet minimum federal standards and receive a green light from a state payment stablecoin regulator.²¹

Under the GENIUS Act, any prospective issuer must undergo a rigorous application process and ongoing supervision. The Act mandates that regulators (the FDIC, Federal Reserve, OCC, and National Credit Union Administration (NCUA)) collectively issue rules on everything from capital and liquidity requirements to risk

¹⁷ See GENIUS Act § 5, 12 U.S.C. § 5904 (requiring any insured depository institution seeking to issue stablecoins through a subsidiary to apply for regulator approval); and GENIUS Act § 2, 12 U.S.C. § 5901(22)(A) (defining payment stablecoin); see also *FDIC Proposes Application Requirements for Payment Stablecoin Issuance by State Nonmember Bank Subsidiaries*, SULLIVAN & CROMWELL (Dec. 16, 2025), <https://www.sullcrom.com/insights/memo/2025/December/FDIC-Proposes-Application-Requirements-Under-GENIUS-Act> [<https://perma.cc/KM2X-GMXR>] (summarizing GENIUS Act and noting it limits U.S. stablecoin issuance to permitted payment stablecoin issuers via three regulatory pathways. The OCC and state regulators can approve non-bank issuers under parallel provisions of the Act).

¹⁸ GENIUS Act, *supra* note 17.

¹⁹ *Id.* §§ 5901(23)(A), 5904.

²⁰ *Id.* §§ 5901(4), (11), (23)(B), 5904.

²¹ *Id.* §§ 5901(23)(C), (30), (31).

management and governance for stablecoin issuers.²² Perhaps the most important statutory requirements in the Act are those dealing with reserves and redemption. A permitted issuer must always back its outstanding stablecoins with reserve assets valued at least equal to 100% of the coins in circulation.²³ Permissible reserve assets are spelled out: cash, balances at Federal Reserve or insured banks, short-term U.S. Treasury bills, or other safe, liquid assets specified by regulators.²⁴ This effectively bans the previous practice of some issuers investing reserves in risky or long-term assets. It also ensures that a stablecoin issuer operates on a fully backed model, meaning it must hold one dollar in safe, liquid assets for every dollar of stablecoins in circulation. Additionally, issuers must have redemption policies guaranteeing that any holder can promptly redeem stablecoins for U.S. dollars.²⁵

To protect those reserve assets for the benefit of stablecoin holders, the Act requires issuers to segregate reserves and hold them in safekeeping.²⁶ In practice, this means the stablecoin reserves must be kept separate from the issuer's operating funds, in accounts that are structured so as to protect against the company's creditors in the event of bankruptcy.²⁷ For example, if a stablecoin issuer partners with a custodian bank or trust company, the reserves might be held in a special custodial account that is not commingled with other assets. The GENIUS Act also obligates issuers to undergo monthly audits or examinations by a registered public accounting firm to verify that the reserves fully cover the stablecoin supply.²⁸ This continuous oversight is meant to provide transparency and early warning of any shortfall.

²² *Id.* § 5903(a)(4).

²³ *Id.* § 5903(a)(1)(A).

²⁴ *Id.*

²⁵ *Id.* § 5903(a)(1)(B).

²⁶ *Id.* § 5909.

²⁷ *Id.* § 5903(a)(7)(A) (requiring issuers to establish policies for custody and safekeeping of reserves and segregating customer and reserve assets); Approval Requirements for Issuance of Payment Stablecoins by Subsidiaries of FDIC-Supervised Insured Depository Institutions, 90 Fed. Reg. 59409 (proposed Dec. 19, 2025) (to be codified at 12 C.F.R. pt. 303) (highlighting that GENIUS Act applications must detail how the issuer will segregate and safeguard reserve assets). In practice, many existing stablecoins already claim to hold reserves in segregated, bankruptcy-remote accounts but legal certainty of bankruptcy-remoteness has not been court-tested. *See Stablecoins 101 For Payments Professionals*, FIREBLOCKS (Nov. 2023), <https://www.fireblocks.com/report/stablecoins-101> [<https://perma.cc/7V5T-C95R>] (noting fiat-backed stablecoin reserves are typically maintained in segregated, bankruptcy-remote accounts).

²⁸ GENIUS Act § 4, 12 U.S.C. § 5903(a)(3).

From these parallels to banking, by defining stablecoins by statute as a new category of financial instrument, lawmakers carved out a regulatory space separate from traditional banking. The upside is twofold: innovation and stablecoin tailored rules. The downside is that stablecoin holders remain outside the protective umbrella of deposit insurance and the Federal Reserve's lender-of-last-resort liquidity. The GENIUS Act stops short of addressing and protecting stablecoins in the way bank deposit risks are protected by FDIC insurance. Instead, Congress opted for a regime of preventative regulation, to minimize the chances of stablecoin failure, without extending a guarantee to the holders of the coins.

III. NO FDIC BACKSTOP

With the GENIUS Act's safeguards, one might ask: if stablecoin issuers are required to hold dollar-for-dollar reserves in safe assets, do they really need FDIC insurance? In theory, a fully reserved stablecoin should always be able to honor redemptions, because for every coin in circulation, there is an equivalent value sitting in cash or Treasuries. If an issuer fails to redeem, holders could claim those segregated reserves. However, in practice there are scenarios where the lack of insurance or a lender-of-last-resort can be acutely felt. Consider a scenario of a run on a stablecoin due to rumors of reserves being tainted or an issuer facing fraud allegations. Even if reserves are adequate, a sudden mass redemption can be disorderly. The issuer might need to sell large amounts of assets to raise cash quickly. In stressed market conditions, that could mean selling at a loss. A reserve that was 100% adequate on paper could shrink below the value of outstanding coins if losses occur. Unlike a bank, a stablecoin issuer cannot borrow from the Federal Reserve's discount window as a backstop. Nor is there deposit insurance to reassure holders to stay put. This results in a classic self-fulfilling run: everyone has incentive to redeem immediately, for fear that if they are last in line, the reserve pool may be drained or impaired.

History offers parallels. The money market mutual fund panic of 2008 is a useful teaching point. During that crisis, the Reserve Primary Fund (a major institutional money market fund) "broke the buck" on September 16, 2008, when its net asset value fell below \$1.00 per

share.²⁹ The fund lacked any insurance, and confidence disappeared until the U.S. Treasury improvised a temporary guarantee program to stop the run. Stablecoins are often compared to money market funds because both rely on a pool of relatively safe assets to maintain a stable \$1 value, and both can become vulnerable if investors lose confidence. In fact, it has been noted that without a credible backstop, stablecoins could spread stress into the broader financial system, much like money funds did.³⁰ If, for example, a major stablecoin invested heavily in bank certificates of deposit or held large uninsured bank deposits as reserves, a redemption wave would mean pulling those funds from banks at the worst possible time. A stablecoin run could thus create liquidity issues at traditional banks. FDIC insurance, by preventing bank deposit runs, has been a pillar of financial stability for nearly 90 years. With stablecoins, an analogous safeguard is lacking.

Moreover, even absent a panic, the structural shift of funds out of insured banks into stablecoins has significant implications. Every dollar held in a stablecoin is likely a dollar not held in a bank deposit. Some analysts worry that as stablecoins grow, they will siphon away low-cost, stable funding from banks, leaving banks with less to lend or forcing them to rely on more expensive or volatile funding sources.³¹ One recent study projected that if stablecoin adoption reached \$2 trillion, and even a modest portion of that came at the expense of bank deposits, banks' aggregate funding costs could rise

²⁹ Press Release, Sec. & Exch. Comm'n, SEC Charges Operators of Reserve Primary Fund With Fraud (May 5, 2009), <https://www.sec.gov/news/press/2009/2009-104.htm> [<https://perma.cc/B6R4-KZJY>]; see also Patrick E. McCabe, *The Cross Section of Money Market Fund Risks and Financial Crises* 9–10 (Bd. of Governors of the Fed. Reserve Sys., Fin. & Econ. Discussion Series Working Paper No. 2010-51, Sep. 2010), <https://www.federalreserve.gov/pubs/feds/2010/201051/index.html> [<https://perma.cc/JE9D-Q5NW>] (describing the run dynamics following the Reserve Primary Fund's failure to maintain its \$1 net asset value).

³⁰ PRESIDENT'S WORKING GROUP ON FINANCIAL MARKETS, THE FEDERAL DEPOSIT INSURANCE CORPORATION, & THE OFFICE OF THE COMPTROLLER OF THE CURRENCY, REPORT ON STABLECOINS 12 (2021) (warning that stablecoin runs could produce "fire sales of reserve assets," disrupt "critical funding markets," and spread contagiously); see also FINANCIAL STABILITY OVERSIGHT COUNCIL, REPORT ON DIGITAL ASSET FINANCIAL STABILITY RISKS AND REGULATION 15 (2022) (stating that stablecoin runs could force fire sales of traditional assets and create vulnerabilities, including through assets "held by . . . money market mutual funds.").

³¹ BPI, *supra* note 4. The report notes stablecoin market size was already about \$290 billion in 2025 and could reach into the trillions, amplifying effects on credit supply. *Id.* It also discusses how stablecoins backed by bank deposits would concentrate uninsured funds that could be pulled in a run, likening it to the 2008 run on prime money market funds. *Id.* In a run scenario, stablecoin issuers liquidating assets and withdrawing deposits could transmit stress to banks and markets. *Id.*

significantly, by tens of basis points, which in turn could make loans costlier or less available.³² Fundamentally, stablecoins could completely alter traditional banking, much as money market funds and other short-term instruments have done, but potentially on a larger technological scale. While competition in payments is healthy, a sudden migration of money to an uninsured realm could increase systemic risk, especially if the public wrongly assumes some government bailout may always be imminent. It is worth noting that in the USDC-Silicon Valley Bank incident, stablecoin holders were bailed out only indirectly when the government chose to protect all SVB depositors for broader financial stability reasons. Had officials not taken that step, USDC holders might have incurred losses or faced prolonged uncertainty about redemption, possibly triggering wider crypto-market chaos. Next time, the circumstances might be different.

For consumers, the lack of FDIC insurance also means a lack of the familiar recourse and peace of mind that banking customers take for granted. If a stablecoin issuer were to freeze withdrawals or delay redemptions, holders would have limited options. They cannot rely on the automatic, government-guaranteed reimbursement that FDIC-insured bank customers receive when a bank fails. They would likely have to either sell their tokens on the secondary market or await a legal process. While the GENIUS Act's requirements for audits and safe reserves make such failures far less likely than before, they remain possible. Notably, some stablecoin issuers historically preserved sweeping contractual discretion over redemption; for example, Tether's current website terms state that it may "delay or suspend" purchases and redemptions in a range of circumstances.³³ Users transacting in stablecoins often do not read or even have access to detailed disclosures about these contingencies. FDIC insurance, by contrast, is simple and absolute: if your bank fails, you receive your insured deposit back (up to the limit), no questions asked about market liquidity or bankruptcy proceedings. That simplicity and certainty is absent in the stablecoin ecosystem.

³² *Id.*

³³ *Legal*, TETHER (Feb. 26, 2026), <https://tether.to/en/legal/> [<https://perma.cc/9PBU-3CPL>] (stating, *inter alia*, that Tether "may delay or suspend" access to services, including purchases and redemptions).

Additionally, it is important to highlight that the GENIUS Act does attempt to mimic some outcomes of insurance through regulation. By requiring reserve segregation and monthly verification, it reduces the odds of a shortfall. By placing issuers under prudential oversight, it increases the chances that problems will be detected and corrected early. Considering the best-case scenario, these measures mean that even without formal insurance, stablecoin holders will effectively be protected because issuers will be safe and sound. But regulators are not all-knowing, and history shows even well-regulated institutions can fail, which is precisely why deposit insurance exists as a failsafe. Stablecoins currently lack that failsafe, making it imperative that their regulatory regime be exceedingly robust or that additional protections eventually emerge as the market matures.

IV. THE STABLECOIN INTEREST BAN AND THE “REWARDS” LOOPHOLE

One feature of the GENIUS Act that is intended to address the banking disintermediation concern is the prohibition of interest payments on the coins by stablecoin issuers. The Act provides that no issuer “shall pay the holder of any payment stablecoin any form of interest or yield . . . solely in connection with the holding” of the coin.³⁴ This effectively prevents a regulated stablecoin issuer from advertising, say, a 4% annual yield to attract users, a practice that closely resembles how several major crypto-asset platforms marketed high-yield products before the 2022 crypto-credit crisis, when investment losses and rapid customer withdrawals triggered withdrawal freezes and bankruptcies across firms such as Celsius, Voyager, BlockFi, and FTX.³⁵ The rationale for this ban is clear: if stablecoins could pay interest, they would directly compete with bank deposits and money market funds for savings dollars. That could sharply accelerate outflows from banks, particularly in a high-interest environment. It could also encourage stablecoin issuers to take more risk with reserve investments to earn that yield, undermining the 100% safety objective. By banning interest, Congress chose to define

³⁴ GENIUS Act § 4, 12 U.S.C. § 5903(a)(11).

³⁵ Radhika Patel & Jonathan Rose, *A Retrospective on the Crypto Runs of 2022*, CHI. FED LETTER (May 2023), <https://www.chicagofed.org/publications/chicago-fed-letter/2023/479> [<https://perma.cc/4U2U-YBD2>] (describing the “spectacular collapse” of multiple crypto platforms following losses and mass withdrawals, including withdrawal pauses and bankruptcies).

stablecoins squarely as payment tools, not investment products, like a checking account rather than a savings account.

However, almost immediately, a gap was identified. While the law covers what issuers can do, it does not discuss what third-party firms can do with stablecoins. In the crypto ecosystem, many users keep their stablecoins on exchanges or lending platforms. These platforms could offer incentives, termed “rewards,” “bonuses,” or “staking yields,” to users who hold or use stablecoins, effectively providing a return without the issuer technically paying it. For example, an exchange might share some of the trading fees it earns with users who maintain a certain stablecoin balance, framing it as a loyalty reward. Some crypto companies have already rolled out stablecoin rewards variants to boost engagement; for example, Coinbase’s USDC Rewards program, PayPal’s PYUSD rewards offering, and Kraken’s USDC rewards feature, illustrating how yield-like incentives can migrate to platforms even when issuers are prohibited from paying interest.³⁶ According to industry analysis, the interest ban can be “easily evaded” by such means, unless regulators broaden its interpretation.³⁷ If stablecoin rewards proliferate, the intent to prevent deposit-like yields would be undermined.

The consequences of interest-bearing stablecoins are a double-edged sword. On one hand, allowing interest could significantly increase demand for stablecoins. A classic economic model of money demand suggests that if people could earn interest on a money-like asset, they would be willing to hold much larger balances of it relative to non-interest-bearing money.³⁸ Estimates show that if stablecoins

³⁶ *USDC Rewards Overview*, COINBASE, <https://help.coinbase.com/en/coinbase/coinbase-staking/rewards/usd-coin-rewards-faq> [<https://perma.cc/FK2T-FB6J>] (last visited Mar. 8, 2026) (describing its USDC “loyalty program” and weekly reward distributions); *Buy. Hold. Earn Rewards. PayPal Unlocks Rewards for Holding PayPal USD*, PAYPAL NEWSROOM (Apr. 23, 2025), <https://newsroom.paypal-corp.com/2025-04-23-Buy-Hold-Earn-Rewards-PayPal-Unlocks-Rewards-for-Holding-PayPal-USD> [<https://perma.cc/BVT6-ZRMN>] (announcing rewards paid on PYUSD held in PayPal and Venmo accounts); *USDC Rewards*, KRAKEN, <https://www.kraken.com/en-gb/features/auto-earn/usdc> [<https://perma.cc/FG83-GMKC>] (last visited Mar. 8, 2026) (describing variable APR rewards offered on USDC holdings).

³⁷ BPI, *supra* note 4 (observing that while GENIUS prohibits issuer-paid interest, the ban “does not apply to exchanges, which could make such payments . . . Thus, the general prohibition is easily evaded.”). The BPI study further illustrates via the Baumol-Tobin model that stablecoin demand could roughly double if a moderate interest rate were offered, compared to a no-interest scenario. *See also id.* (noting the risk that exchanges or affiliates already offer “rewards” to stablecoin holders, undermining the intent of the interest ban).

³⁸ *Id.*

paid even slightly below market interest, the equilibrium quantity of stablecoins demanded could double or more, potentially into the trillions of dollars.³⁹ This would greatly expand the crypto-dollar ecosystem and perhaps speed up adoption of blockchain-based payments in commerce and finance. In other words, interest could be the catalyst that takes stablecoins truly mainstream as an alternative form of deposits.

Alternatively, those trillions would likely come at the expense of traditional bank deposits. Banks, in particular, could face a scenario where customers withdraw insured deposits in favor of stablecoins held on exchanges or wallets. Recent analysis indicates that widespread adoption of interest-bearing stablecoins could put as much as \$500 billion of U.S. bank deposits at risk, illustrating the scale of potential disintermediation.⁴⁰ If this shift occurred gradually and within safe bounds, it might simply push banks to offer more competitive rates or innovate with their own digital deposit products. If it happened suddenly or at scale, however, it could starve banks of stable funding, forcing them to restrict lending or rely more heavily on volatile wholesale markets. Moreover, a rapid migration from traditional deposits to stablecoins could heighten systemic fragility, as large stablecoin issuers could become de facto too-big-to-fail institutions without access to the same prudential regulation, resolution frameworks, or public safety nets that apply to banks. In such a scenario, distress at a major stablecoin issuer holding hundreds of billions of dollars in assets would constitute a systemically significant event.

Regulators are aware of this loophole and will likely address it in forthcoming rules or guidance. The FDIC and other agencies could, for instance, prohibit affiliated companies of an issuer from doing indirectly what the issuer cannot do directly. They might also increase oversight of any platform widely offering interest or rewards on stablecoins by coordinating with the Securities and Exchange Commission (SEC) or the Consumer Financial Protection Bureau

³⁹ *Id.*

⁴⁰ Emily Mason, *Stablecoins Are a \$500 Billion Risk to Bank Deposits, Report Finds*, BLOOMBERG L. (Jan. 27, 2026, 16:01 ET), <https://news.bloomberglaw.com/securities-law/stablecoins-are-500-billion-risk-to-bank-deposits-report-finds> [<https://perma.cc/3YRQ-6BQ9>].

(CFPB) to address potential investor protection concerns. At the same time, members of both the U.S. Senate and House are actively attempting to address the “rewards” issue through market structure legislation that is currently moving through Congress. Those efforts, however, have faced significant resistance from the crypto industry, including high-profile pushbacks from industry leaders such as Coinbase CEO Brian Armstrong, who has publicly opposed restrictions on rewards and yield-like features.⁴¹ As a result, lawmakers have struggled to strike a balance between mitigating bank-like risks and accommodating industry demands.

V. FUTURE SAFEGUARDS AND INNOVATIONS

Even with the GENIUS Act’s robust framework, stablecoins are entering a phase of cautious integration into the financial system. Regulators have signaled that they will use the statute’s implementation runway to erect a comprehensive oversight regime: the OCC has issued proposed implementing regulations and stated that the GENIUS framework will require ongoing updates as stablecoin business practices evolve,⁴² while the FDIC and NCUA have opened parallel rulemakings to implement statutory application, review, and supervisory procedures for institutions within their respective jurisdictions.⁴³ This includes new capital rules, liquidity requirements, and standards for operational resilience. As these regulations roll out,

⁴¹ See Hannah Lang & Carlos Méndez, *US Senate Committee Delays Crypto Bill After Opposition from Coinbase CEO*, REUTERS (Jan. 15, 2026, at 15:47 ET), <https://www.reuters.com/sustainability/boards-policy-regulation/coinbase-cannot-support-crypto-bill-current-form-ceo-armstrong-says-2026-01-15/> [<https://perma.cc/DR7L-A6WT>]; *U.S. Senate Pauses Crypto Market Structure Bill After Coinbase Objections*, COINTRIBUNE (Jan. 16, 2026), <https://www.cointribune.com/en/u-s-senate-pauses-crypto-market-structure-bill-after-coinbase-objections/> [<https://perma.cc/EEK6-ESPJ>]; Brian Armstrong (@brian_armstrong), X (Jan. 14, 2026), https://x.com/brian_armstrong/status/2011545247105355865 [<https://perma.cc/28LN-5CSG>].

⁴² Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of Stablecoins by Entities Subject to the Jurisdiction of the Office of the Comptroller of the Currency, 91 Fed. Reg. 10202 (proposed Mar. 2, 2026) (to be codified at 12 C.F.R. pts. 3, 6, 8, 15, 19) (describing the GENIUS Act’s effective-date mechanics and proposed OCC regulatory framework).

⁴³ Press Release, FDIC, FDIC Approves Proposal to Establish GENIUS Act Application Procedures for FDIC-Supervised Institutions Seeking to Issue Payment Stablecoins (Dec. 16, 2025), <https://www.fdic.gov/news/press-releases/2025/fdic-approves-proposal-establish-genius-act-application-procedures-fdic> [<https://perma.cc/9WF3-FQCD>]; Press Release, Nat’l Credit Union Admin., NCUA Proposes Rule for Permitted Payment Stablecoin Issuer Applications (Feb. 11, 2026), <https://ncua.gov/newsroom/press-release/2026/ncua-proposes-rule-permitted-payment-stablecoin-issuer-applications> [<https://perma.cc/WS7V-5JKU>].

one can expect the largest existing stablecoin issuers to seek compliance either by partnering with regulated banks or restructuring their operations to fit the new law's pathways. Indeed, the law appears to envision that if current non-bank issuers want to continue serving U.S. customers, they will either become regulated entities themselves or align with an FDIC-supervised bank subsidiary. This will likely reduce risk, as companies will operate under more uniform federal standards going forward.

However, the question remains whether additional measures are needed to fully bridge the stability gap that is created by a lack of insurance. One idea floated in policy circles is private insurance or a publicly-backed guaranty for stablecoins.⁴⁴ For example, stablecoin issuers could be required to contribute to a guarantee fund, like the FDIC's Deposit Insurance Fund, that would reimburse users if an issuer failed to meet obligations. This would essentially be a form of self-insurance for the industry. The challenge is that stablecoin failures, while rare, could be correlated, and it is uncertain if industry funds would be sufficient without government backing.

Another development to watch is tokenized commercial bank deposits, an area the FDIC and Federal Reserve are actively exploring.⁴⁵ If banks can tokenize their own deposits, then there may be an emergence of instruments that function like stablecoins but legally are deposits. These instruments would carry FDIC insurance and could use Federal Reserve payment plumbing directly, which presumably makes them ultra-safe for users. Some pilot projects and consortia of banks are already testing tokenized deposit platforms on

⁴⁴ Stefan A. Jacewitz, *An Analytical Price of Stablecoin "Deposit" Insurance* (Fed. Reserve Bank of Kan. City, Rsch. Working Paper No. 25-15, 2025), <https://doi.org/10.18651/RWP2025-15> [<https://perma.cc/HQ4U-CH79>] (developing an empirical framework for pricing "stablecoin deposit insurance").

⁴⁵ See Acting Chairman Travis Hill, Proposed Rule Regarding Approval Requirements for Issuance of Payment Stablecoins by Subsidiaries of FDIC-Supervised Insured Depository Institutions (Dec. 16, 2025), <https://www.fdic.gov/statement-genius-applications-npr-12-16-25-pdf.pdf> [<https://perma.cc/9SHY-7MJB>] (indicating FDIC will "continue to explore ways to provide regulatory clarity regarding activities related to digital assets and tokenized deposits" alongside GENIUS Act implementation). Major banks and payment networks have launched pilot programs to test interoperable digital deposit tokens (sometimes called "regulated liability networks"), which could complement or compete with private stablecoins in the future. Julie Muhn, *Tokenized Deposits vs. Stablecoins: What's the Difference and Why It Matters*, FINOVATE (July 2, 2025), <https://finovate.com/tokenized-deposits-vs-stablecoins-whats-the-difference-and-why-it-matters/> [<https://perma.cc/BKY3-GEAZ>] (noting tokenized bank deposits would be insured and directly redeemable at banks, offering an alternative to stablecoins).

private blockchain networks.⁴⁶ The legal and regulatory treatment of these tokens is being studied: since they do not change the nature of the liability, rather just its form, these tokens might fit within existing rules. If successful, tokenized deposits could compete with or even displace privately issued stablecoins for certain uses, offering both blockchain speed plus deposit insurance. Tokenized deposits would not be as freely tradable across the broader crypto ecosystem as today's stablecoins, so the two models would likely serve different niches.

Another alternative frequently raised in this debate is the prospect of a U.S. central bank digital currency (CBDC), which the Federal Reserve has framed as a potential digital liability of the central bank that could offer the public the safest digital asset but would require major design and policy choices such as privacy, intermediation, transferability, and verification.⁴⁷ A retail CBDC, essentially a digital dollar issued directly by the Federal Reserve, would constitute a direct liability of the central bank and therefore carry full backing, eliminating credit risk and the need for FDIC insurance. In theory, such an instrument could reduce or even eliminate the demand for private stablecoins by providing a universally accepted, risk-free digital dollar for everyday transactions. In practice, however, a U.S. CBDC faces significant hurdles: in July 2025, the Anti-CBDC Surveillance State Act gained traction in the House, and the White House issued a Statement of Administration Policy “strongly support[ing]” the bill and indicating that senior advisors would recommend signing it, reflecting a live political constraint on any near-term CBDC pathway.⁴⁸ Most notably, a centrally issued digital currency would naturally conflict with the crypto ecosystem, which is built on and thrives upon decentralization, permissionless innovation, and the distribution of trust away from centralized authorities. This

⁴⁶ Muhn, *supra* note 45.

⁴⁷ BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MONEY AND PAYMENTS: THE U.S. DOLLAR IN THE AGE OF DIGITAL TRANSFORMATION 4–6, 13–14, 16 (2022) (defining a central bank digital currency, outlining potential risks and benefits, and emphasizing the need for broad governmental and stakeholder support).

⁴⁸ OFF. OF MGMT. & BUDGET, EXEC. OFF. OF THE PRESIDENT, STATEMENT OF ADMINISTRATION POLICY, H.R. 1919: ANTI-CBDC SURVEILLANCE STATE ACT (July 15, 2025), <https://www.whitehouse.gov/wp-content/uploads/2025/07/SAP-HR1919.pdf> [<https://perma.cc/5HJ4-37Q9>] (supporting passage of the bill and recommending that the President sign it); *see also* Anti-CBDC Surveillance State Act, H.R. 1919, 119th Cong. (2025).

fundamental tension has been, and continues to be, a major hurdle to CBDC adoption in the United States. That conflict is further compounded by serious privacy concerns, as a retail CBDC could enable unprecedented government visibility into individual financial transactions, raising substantial civil liberties and surveillance issues. Hence, these challenges make clear that, while a CBDC presents a theoretically clean solution to certain safety concerns, it remains an uncertain and contested path within the U.S. financial system.

CONCLUSION

The crypto landscape, particularly the emergence of stablecoins, represents one of the most significant financial innovations of the modern era, with the potential to reshape how value is stored, transferred, and accessed on a global scale. Stablecoins have already demonstrated real-world utility in ways that traditional financial infrastructure has long failed to deliver: enabling near-instant, low-cost cross-border payments; facilitating remittances without predatory fees; and extending meaningful access to the financial system for individuals and communities historically excluded from banking and payment networks. In regions plagued by currency instability, capital controls, or weak correspondent banking relationships, stablecoins have functioned not as speculative instruments, but as practical tools for economic participation and financial resilience.

At the same time, acknowledging the transformative promise of stablecoins does not require ignoring the legitimate legal, regulatory, and systemic risks they present. Questions surrounding consumer protection, market integrity, reserve transparency, and regulatory jurisdiction are not obstacles to innovation, but prerequisites to its long-term success. If these issues are thoughtfully addressed, stablecoins may ultimately be remembered not merely as a technological breakthrough, but as a foundational upgrade to the global financial system, one that enhances efficiency, inclusion, and competition while coexisting with, rather than undermining, traditional financial institutions. A regulatory framework that preserves innovation while providing legal clarity and public confidence will be essential to ensuring that stablecoins fulfill their promise as a force for inclusive and durable financial progress.