Commentary
Stablecoins and U.S. Banks: A New Chapter in Financial Disruption

Morningstar DBRS
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Key Highlights
- Stablecoins have demonstrated rapid growth with increasing integration into payment systems.
- Recent legislation has lowered the barrier to entry for banks to enter the stablecoin market.
- Over time, large-scale adoption of stablecoins could cause deposit disintermediation and payment disruption for banks.

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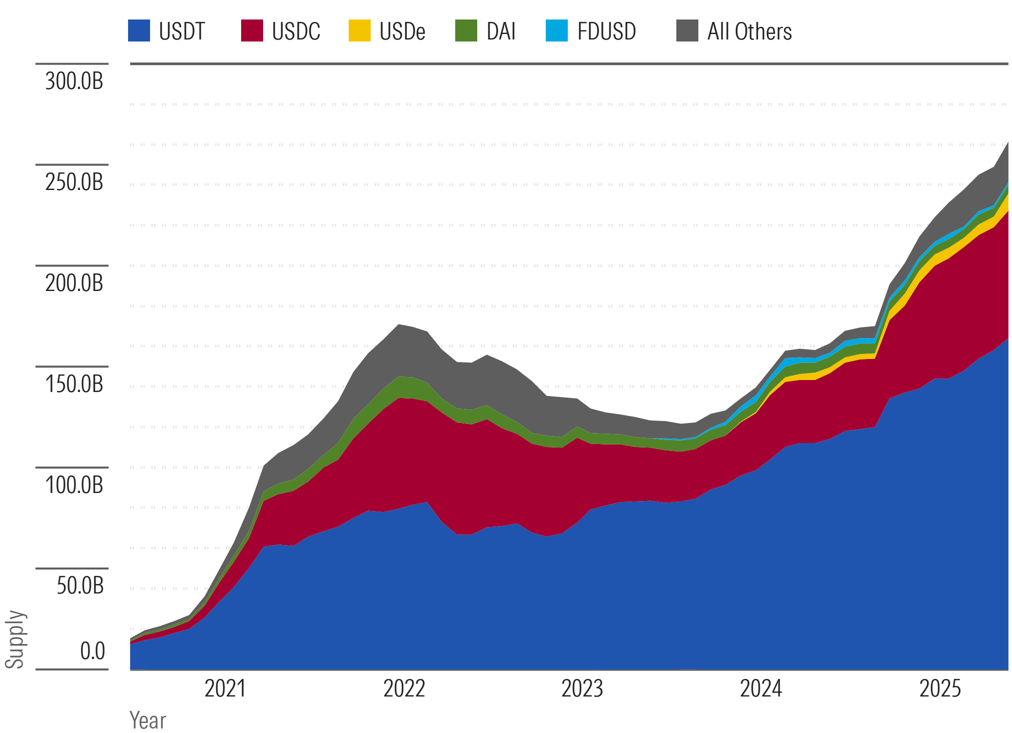
Overview
Digital assets have grown rapidly, and stablecoins are a major component of the crypto economy. Stablecoins are a digital currency pegged to fiat currencies, usually the U.S. dollar, to maintain a stable value. The U.S. Congress passed the first federal legislation to regulate stablecoins on July 17, 2025, which clears the way for broader use in various applications, including banking. According to industry data, the combined market capitalization of U.S. dollar-backed stablecoins exceeds $230 billion as of mid-2025, with the market dominated by Tether (USDT) and Circle (USDC) (see Exhibit 1). Major U.S. banks are exploring their own stablecoins or forming a consortium to compete with private players and stay relevant in the digital finance space. While stablecoins offer efficiency and innovation in the financial system, they pose both opportunities and risks for banks, potentially disrupting deposit bases, payment fees, and traditional lending.

Exhibit 1 Average Stablecoin Supply, by Stablecoin



Source: Artemis Analytics.

How Do Stablecoins Work?

Stablecoins aim to achieve the reliability and trust associated with fiat currencies combined with advantages of being a blockchain asset. The underlying blockchain technology enables stablecoin transactions to settle in near real time and at lower cost compared to traditional payment systems such as ACH or wire transfers (see Exhibit 2). This speed and efficiency have led to increased use in cross-border payments, remittances, and e-commerce transactions. The largest stablecoin issuers, such as Tether (USDT), Circle (USDC), and PayPal (PYUSD), maintain reserves primarily in short-term U.S. Treasuries and cash equivalents. This collateral can be audited and redeemed, ensuring that a stable value is maintained.

Exhibit 2 Traditional Payment Rails vs. Stablecoins

Payment rail	Cost	Settlement time	Reliability	Convenience
Credit cards	1%-3.5% + $0.10-$0.50	1-3 business days	High, but network can have scheduled downtimes	Very high acceptance; easy to use for consumers
Debit cards	Regulated: 0.05% + $0.20 Exempt: 0.5%-2%	Instant to 1 day	Generally high, but subject to bank hours	Moderately convenient; user-friendly only in certain platforms
ACH transfers	Flat fees ($0.20–$1.50) or % fee	1-3 business days	Generally high, but subject to bank hours	Moderately convenient; user-friendly only in certain platforms
Wire transfers	$15-$50 per transfer	Same-day (domestic) or multiday (international)	Bank-level reliability, but subject to cutoff times	Low convenience; mostly used for large sums; manual
Mobile wallets (such as Venmo)	Free (P2P) 1%-3% (merchants)	Instant within wallet; 1–3 days to withdraw to bank	High, but reliant on central servers	High convenience, but only within the same ecosystem
Fiat-backed stablecoins	<$0.01 (on high-throughput blockchains)	Near-instant to a few minutes (on high-throughput blockchains)	High; decentralized networks rarely fully “down” but can be congested	High convenience if user- friendly UI/UX is available

Source: Pitchbook.

Impact on Banks

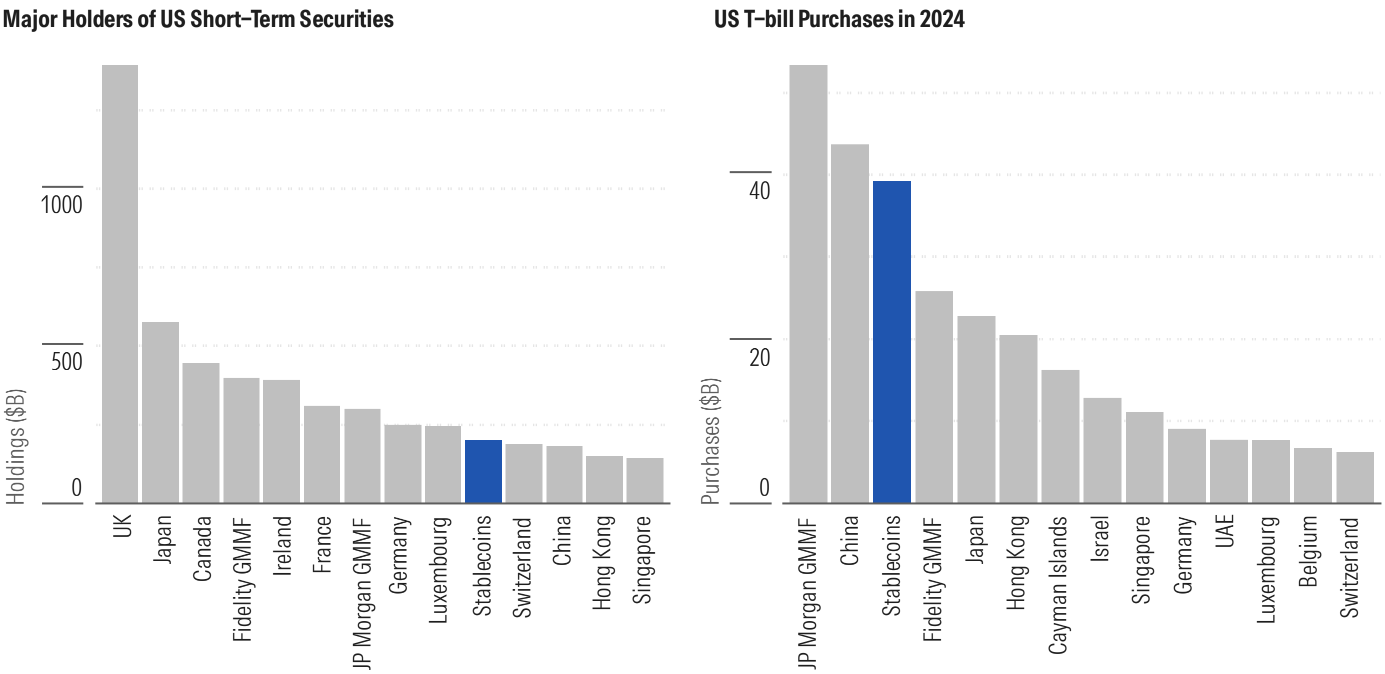
Various Potential Risks

For banks, the most immediate concern with stablecoins is the potential loss of deposits. Over time, stablecoins could divert significant transaction volume, or core deposits, away from banks as competition issue branded stablecoins that lead consumers to move cash for convenience, rewards, or programmability. Stablecoins are considered "programmable money" because they can be embedded into smart contracts on blockchain networks, allowing automated execution of financial operations. When predefined conditions are met, the contract automatically carries out the specified actions without the need for intermediaries. According to the Bank for International Settlements (BIS), the volume of stablecoins is still relatively small at approximately 1.5% of total U.S. bank deposits. A knock-on effect could be an impact on lending as a large-scale shift of funds from bank accounts into stablecoins could constrain banks' ability to fund new loans or extend credit.

Additionally, stablecoin systems bypass conventional payment networks such as ACH and wire transfers, threatening fee-based income from payment services. In a market where stablecoins settle transactions in seconds compared with hours or days for traditional payment rails, banks risk losing relevance in retail and business payment processing.

Beyond deposit competition and payment disruption, stablecoins now play a significant role in short-term funding markets, most notably through their holding of U.S. Treasury Bills. Recent BIS research stated that the largest stablecoin issuers have become major investors in short-dated Treasuries, rivaling sovereign and institutional investors in scale (see Exhibit 3).[1] This same research found that large-scale purchases of U.S. Treasuries by stablecoin issuers can affect yields on the short end of the curve. These yield distortions may impact banks' own treasury investments, pressuring interest income.

Exhibit 3 Size and Growth of Stablecoin Reserves Relative to Other Large Holders of U.S. Short-Term Securities



Source: BIS.

Not All Bad News

There is some upside for U.S. financial institutions. Leveraging their regulatory credibility, banks could serve as custodians of stablecoin reserves and manage U.S. Treasury holdings for issuers. Banks can also act as intermediaries between stablecoin issuers and the fiat banking system, offering settlements and conversions and providing compliance infrastructure. All of these services have the potential to generate fee income for banks.

The GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), signed into law in July 2025, sets a regulatory foundation for stablecoins, including reserve requirements, capital standards, and operational safeguards. This regulation will help to protect the role of U.S. banks in the financial system by leveling the playing field. Some institutions are exploring the launch of their own stablecoin as a way to retain customer deposits and compete with private issuers. A bank-issued

1 BIS Article titled 'Stablecoins and safe asset prices', Rashad Ahmed and Inaki Aldasoro, May 2025.

stablecoin that is fully backed by regulated reserves and integrated into existing compliance systems could serve as a strategic tool to defend against competitive pressures.

Whether stablecoins ultimately represent an opportunity or a threat to U.S. banks will depend on regulatory design and market adoption. A regulatory framework could channel stablecoin activity through banks, helping the sector capture new revenue streams while reinforcing their central role in the U.S. financial system. While growth in the stablecoin market has been significant, the overall effect on the banking industry will take some time to play out.

Note:
All figures are in U.S. dollars unless otherwise noted.

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