coinbase INSTITUTE

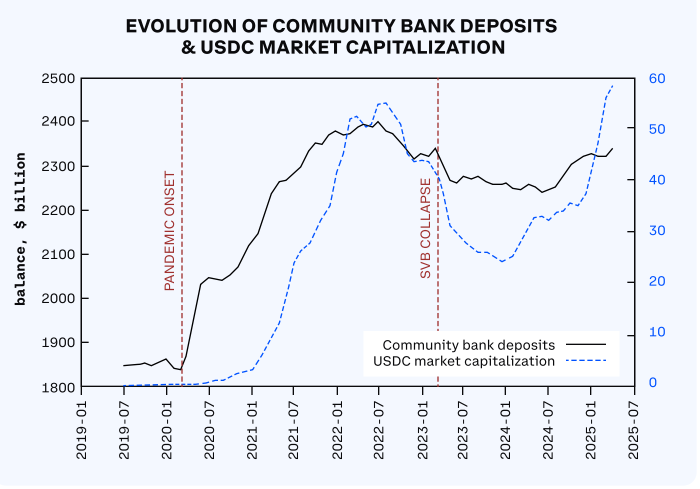
INSIGHTS

Community Banks Should Embrace Stablecoins, Not Fear Them

Community banks have historically been cautious about digital currencies, but stablecoins—digital tokens backed by safe, liquid assets like US Treasuries—present significant opportunities rather than threats. With the recent GENIUS Act providing clearer regulatory guidelines, community banks can now confidently explore how stablecoins can make their operations more efficient and offer customers faster, cheaper payment options. Community banks can embrace stablecoins as tools that help them compete with larger institutions, reduce transaction costs, and provide innovative services that keep customers engaged.

Stablecoins under the GENIUS Act will not displace community bank deposits

Coinbase recently asked the Financial Economics team at Charles River Associates (CRA) to take a deep dive into the deposit disintermediation hypothesis of some banks, especially community banks. Their analysis shows no significant relationship between stablecoin adoption and changes in community bank deposits. In fact, a key chart from their report reproduced here shows that stablecoin market capitalization and community bank deposits tend to move in the same direction.



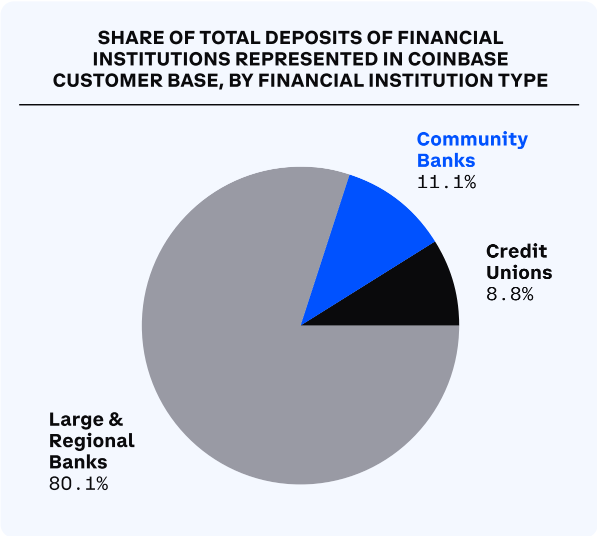
The CRA team also explores several empirical frameworks to assess the potential implications of stablecoin adoption on bank deposits. For each framework, they test thousands of potential relationships between community bank deposits and stablecoin market capitalization and macroeconomic variables, yet find no significant association between stablecoin adoption and community bank deposits. As an additional model-free exercise, the team calculates the deposit effects of a an extreme stablecoin adoption scenario ($3.7T by 2030) and an extreme displacement assumption ($1 of stablecoins displacing $1 of community bank deposits) and finds that even then, less than seven percent of community bank deposits would be displaced. Under a more plausible adoption scenario, the team points to a less than one percent reduction in deposits. The CRA team describes three potential reasons why stablecoin adoption seems to have little effect on community bank deposit levels:

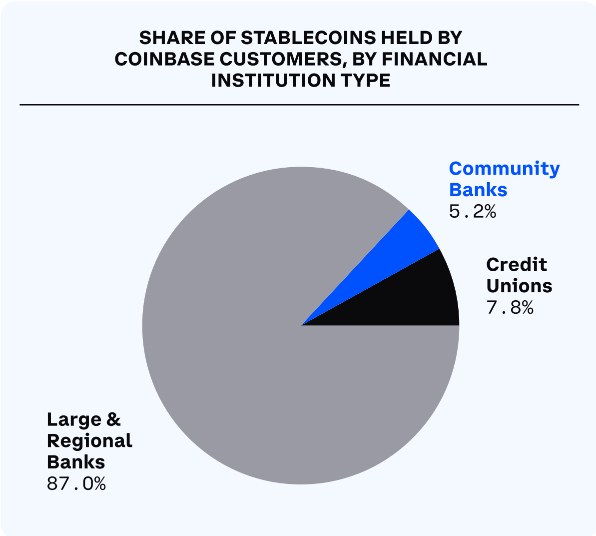
1. **Common underlying factors** Both stablecoin demand and community bank deposits may be influenced by broader, unobservable economic drivers.
2. **Distinct customer bases** Community banks are more likely to serve older, non-metropolitan populations—groups less likely to hold digital assets—suggesting limited overlap with stablecoin users.
3. **Portfolio context matters** The "disintermediation" theory may be overly simplistic. Shifts in returns across asset classes could cause outflows from both stablecoins and deposits simultaneously, masking any direct relationship.

We believe all of these possible reasons are plausible. Given the large customer base of Coinbase, we decided to examine reason #2 more closely—the participation of community bank customers in holding stablecoins.

Coinbase analyzes its own data and finds community bank customers are less likely to hold stablecoins

For our analysis, we collect information about which financial institutions (FIs) US customers use to on-board onto and off-board from the Coinbase platform. We aggregate Coinbase customer holdings of USDC according to whether the FI is a large/regional bank, community bank, or credit union. We then compare these USDC holdings with the overall deposits that these FIs account for, also split by large/regional banks, community banks, and credit unions. The results are shown in the pie charts below.





Our findings support the CRA team assessment that community bank customers do not overlap significantly with stablecoin holders. Relative to the overall level of deposits that their banks account for (11.1 percent), community bank customers account for a disproportionately low amount of stablecoin holdings (5.2 percent). This suggests that, even if stablecoin adoption accelerates post-GENIUS, community banks are likely to experience considerably less than their proportional share of any potential deposit outflows.

Community banks should think about how to use stablecoins for their customers

CRA and Coinbase Institute analyses show that there is little risk of stablecoin adoption disintermediating community bank deposits. We believe it is important to understand that stablecoins are not replacing traditional banking—they are enhancing it. Community banks could use stablecoins to offer their customers faster and cheaper services that compete directly with big banks. Instead of waiting days for payments to clear, customers could send money instantly to anyone, whether across town or across the world, at a fraction of traditional wire transfer costs. Businesses could automate their payroll and bill payments through smart contracts, and everyone could move money 24/7 instead of being limited to banking hours. This technology would let smaller banks provide the same speed and convenience that customers expect from major financial institutions, while potentially offering better rates and more personalized service that community banks are known for. It is up to community banks to take advantage of this potential.