Banks in the Age of Stablecoins

Lessons from Their Historical Responses to Financial Innovations

Bank Funding Conference: Bank Funding in the Age of Instant Finance

Friday, November 13, 2026

Sam Hempel · JP Perez-Sangimino · Jessie Jiaxu Wang

The views expressed are the authors' own and do not necessarily represent those of the Federal Reserve Board or the Federal Reserve System.

These slides were produced with the assistance of generative AI tools.

Picking up where Jessie left off

DECEMBER 2025 NOTE

What stablecoins do to banks

- Deposits are drained, recycled or restructured
- Reserve placement and master-account access are the swing factors
- Funding shifts toward concentrated wholesale deposits
- Credit follows through balance-sheet, composition and regulatory channels

THIS NOTE

What banks do back

- Banks are not passive
- Two earlier disintermediation threats: money market funds and online payments
- How banks responded, how long it took, who adapted
- What that implies for stablecoins

THE PATTERN, EPISODE BY EPISODE

Rarely displaced: banks resist, then adapt

	1 · Displacement Innovator meets unmet demand	2 · Resistance Advocacy, litigation, regulation	3 · Adaptation Products, consortia, reform	4 · Coexistence Both survive; banks stay central
Money market funds	Market yields that Regulation Q barred banks from paying	Lobbied to lift rate caps and tighten MMF regulation	NOW accounts, MMDAs, sweeps, bank-affiliated MMFs	$7T+ in MMFs, 40%+ bank-affiliated; partly symbiotic
Online payments	Digital P2P payments when banks offered checks and money orders	Rival products, a patent suit, calls to regulate PayPal as a bank	Zelle, RTP and FedNow, P2P in bank apps, fintech partnerships	PayPal and Zelle each move over $1.5T a year
Stablecoins	Programmable dollars compete for transaction balances	Push to restrict yield; “same activity, same regulation”	Tokenized deposits, bank stablecoins, reserves and custody	**Open:** hinges on scale, reserve structure and regulatory design

Source: FEDS Note (May 2026)

CASE 1 · MONEY MARKET FUNDS

A regulatory gap that paid over 10 percent

Regulation Q

Savings deposit rates capped at 5.25 percent; no interest at all on demand deposits

Treasury bill minimum

Raised from $1,000 to $10,000, pricing small savers out of market rates

Peak inflation

MMF returns often exceeded 10 percent, with bank-like liquidity

YEAR-END 1982

$220B

in MMF assets — roughly **15 percent of bank deposits**

EARLY-1980S PEAK

~75%

of all mutual fund assets were held in MMFs

Sources: FEDS Note (May 2026); Federal Reserve Z.1 and H.8

CASE 1 · HOW BANKS RESPONDED

A three-pronged approach

1 Advocacy
Lobby for MMF oversight and limits on their powers

2 Regulatory relief
Push to lift the Regulation Q ceilings themselves

3 Product innovation
Sweep accounts moving excess checking balances overnight into higher-yield vehicles

> Change came through broad deregulation, not MMF-specific rules.

1980	**Monetary Control Act** begins phasing out deposit rate ceilings
1982	**Garn–St Germain Act**; with the 1980 Act, authorizes NOW accounts and insured, market-rate MMDAs
	> **Over $300 billion** flows into MMDAs within 3 months of their December 1982 launch
1986	Regulation Q ceilings fully phased out

Source: FEDS Note (May 2026); MMDA inflows from Keeley and Zimmerman (1985)

CASE 1 · OUTCOME

Coexistence, with novel stability risks

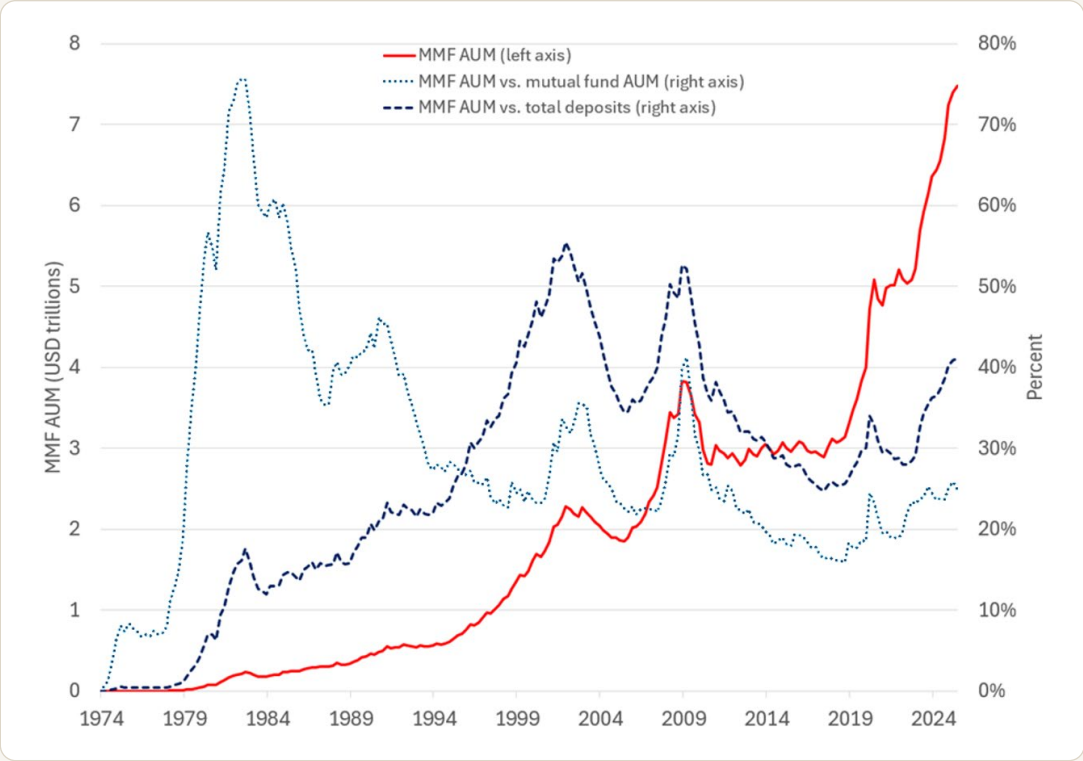


Figure 1. U.S. MMF assets, 1973:Q4–2025:Q2

$7T+
MMF assets by 2024

40%+
in bank-affiliated MMFs

Competition turned partly **symbiotic**: MMFs became major investors in bank deposits and debt.

Uneven adaptation

Money-center banks built sweep accounts and affiliated funds; community banks often lacked the scale.

Past crises have required Fed intervention

Both the 2008 and 2020 crises triggered runs on prime funds, leading to the AMLF and MMLF facilities, respectively.

Figure adapted from Bouveret et al. (2022). Sources: Federal Reserve Z.1, H.8; authors' calculations

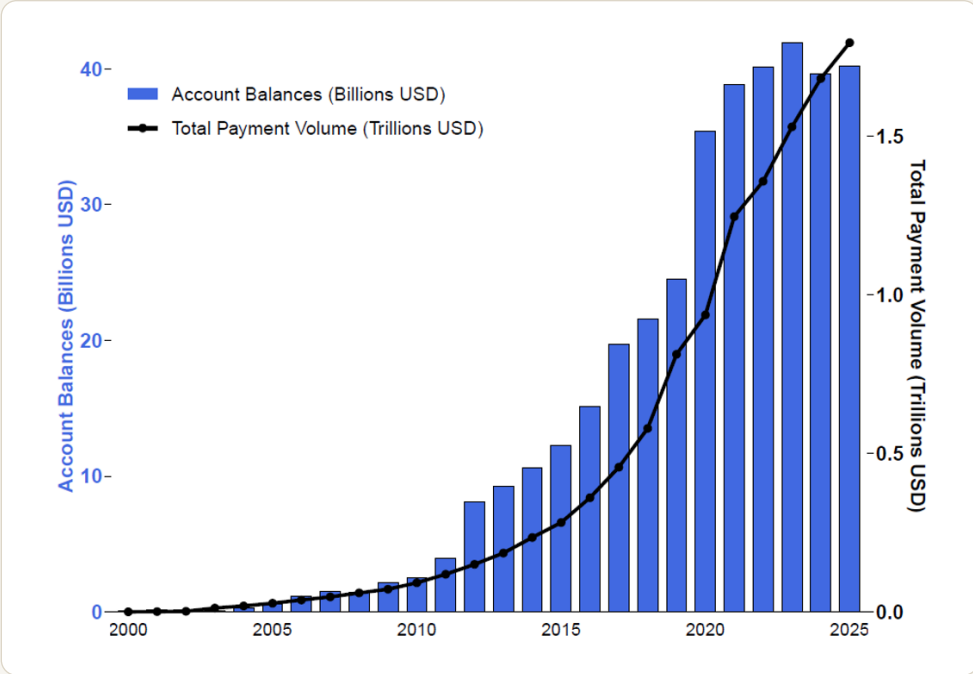
CASE 2 · ONLINE PAYMENT PLATFORMS

PayPal competed on technology, not yield

Founded in 1999. Within a year, users could send money with their existing bank cards and accounts — when banks offered only checks and money orders for person-to-person transfers.

Disintermediation channels

- Lost transaction volume and associated fee income
- Lost balances to deposit-like stored value
- Lost customer touchpoints as payments moved to nonbank apps



$1.5T+
annual volume

400M+
accounts

~$40B
user balances

Figure 2. PayPal (incl. Venmo) volume and balances, 2000–2025. Source: PayPal SEC filings

CASE 2 · THE FIRST RESPONSE

Early bank responses mostly failed

Ineffective resistance

Litigation (2002): First USA Bank sued PayPal over patents; PayPal countersued and the case settled.

Advocacy: The American Bankers Association argued payment platforms should be regulated like banks.

Regulatory ruling (2002): An FDIC advisory letter found PayPal was not a bank, since it did not hold the funds placed with it.

Weak adaptation

Partnership (2000): Wells Fargo and eBay launched a rival service. It gained no traction, and eBay bought PayPal instead.

In-house product: Citibank's c2it was discontinued shortly after launch over a poor interface and technical shortcomings.

Result: Nonbank payment platforms continued to capture market share and brand recognition.

Source: FEDS Note (May 2026); PayPal 8-K (2002)

CASE 2 · ADAPTATION

Effective response took nearly two decades

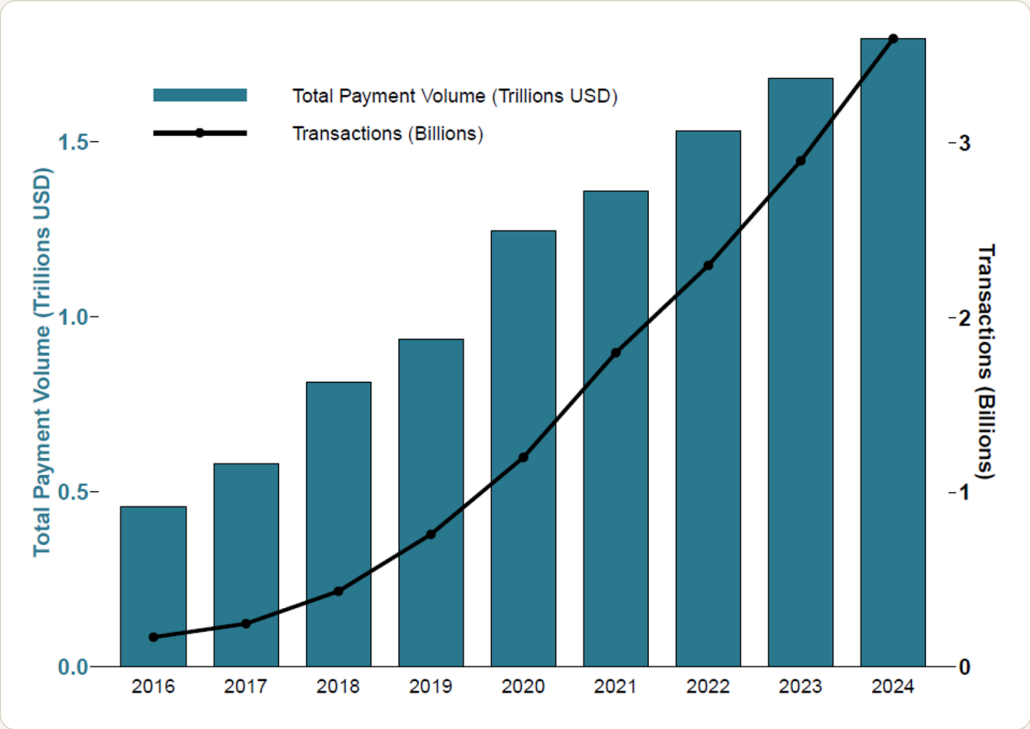


Figure 3. Zelle volume and transactions, 2016–2024

2011 **clearXchange**: Bank of America, Wells Fargo and JPMorgan Chase form a consortium

2016 Relaunched as **Zelle** with broader bank participation

2024 **Over $1.5 trillion** and over 3 billion transactions — PayPal-scale volume

Other efforts to keep volume inside the banking system

24/7 instant rails (RTP, FedNow), P2P inside bank apps, fintech partnerships

Source: Zelle Newsroom; FEDS Note (May 2026)

STABLECOINS THROUGH THE HISTORICAL LENS

Closer to PayPal than to money market funds

LIKE MMFS

Hold balances outside traditional deposit accounts

LIKE PAYPAL

Digital rails partly outside the perimeter, built on bank infrastructure; compete for **transaction balances**

NEW

Blockchain rails, programmability, faster cross-border settlement, links to other digital applications

IMPLICATION

A potentially **more direct threat to transactional deposits** — on the dimension where banks were slowest last time: technology.

Source: FEDS Note (May 2026)

STABLECOINS · BANK RESPONSES SO FAR

The historical playbook is already running

Resist

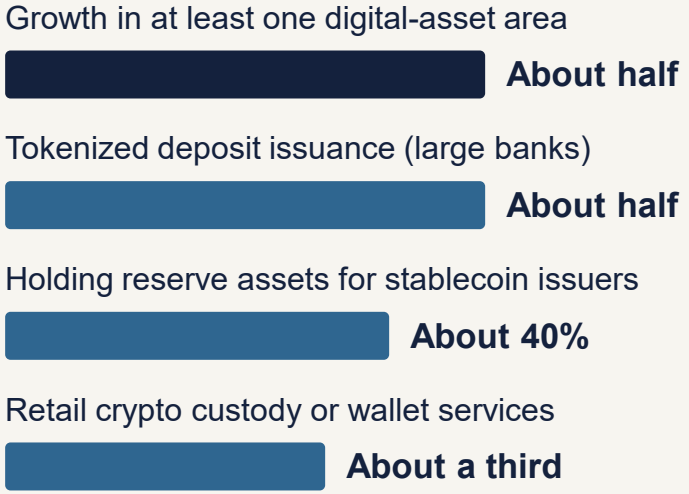
- Push to restrict stablecoin interest or economically similar yield
- ABA (2021): deposit risk, illicit finance, “same activity, same regulation”

Adapt

- Bank-backed stablecoins, from large banks and small-bank groups (USDF)
- Tokenized deposits: deposit status, stablecoin-like technology
- Serve the ecosystem: reserves, custody, wallets

Banks prioritizing over the next three years

Federal Reserve Senior Financial Officer Survey, September 2025



Sources: FEDS Note (May 2026); Federal Reserve SFOS (Sept. 2025). Bar lengths approximate.

STABLECOINS · WHERE HISTORY MAY NOT REPEAT

What’s different this time?

Runs could be faster and wider

Run risk can spread through retail users, cross-border payments and crypto markets at once.

24/7 trading and on-chain settlement remove natural circuit breakers.

Funding mix shifts even if totals hold

Reserve placement sets the aggregate deposit effect.

Either way, deposits tilt toward concentrated wholesale issuer deposits.

The perimeter is drawn early

2021 PWG report: flagged run risk; urged limiting issuance to insured depository institutions.

2025 GENIUS Act: a federal framework for payment stablecoins.

Pricing, not displacement

Competitive effects may operate through pricing and funding structure rather than outright displacement.

Banks keep deposit insurance, lending integration and relationship banking.

Source: FEDS Note (May 2026); President’s Working Group on Financial Markets (2021)

Three takeaways

1 · Adaptation tracks demand	Banks adapted to demand for market-rate returns (MMFs) and digital payments (PayPal). Today's demand is for programmable, globally accessible digital money.
2 · Adaptation may be uneven within the banking sector	Larger banks are leading on tokenized deposits and services to issuers, and issuer deposits may concentrate at the few banks able to serve them.
3 · Banks' enduring advantages	Deposit insurance, regulatory trust and integrated financial services ensure that banks are likely to remain central in the emerging digital money landscape.