WOODSTOCK INSTITUTE

Advancing Economic Security and Community Prosperity

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As evidenced by the onslaught of proposals to weaken consumer financial protections enjoyed by Americans of every political persuasion, this Administration's approach towards the creation of a regulatory regime for digital assets is like hiring an arsonist for your home remodeling project. In two key ways, existing and proposed regulatory and legislative policies stand to create a new "wild west" for lightly regulated financial institutions, decreasing the protection of wealth for consumers while, at the same time, ensuring a reduction in the lending activity that determines the financial health of our communities and economy.

While not perfect, the teamwork between federal and state financial regulatory agencies has worked relatively well to identify and mitigate fraud, deceit and other unlawful financial conduct. With recent actions taken by the Department of Government Efficiency to cut regulations, spending and government structure, state financial regulatory agencies now play a much more important role to ensure the protection of consumers' financial well-being given the weakened condition of the federal agencies. That's why we strongly object to provisions of the Digital Asset Market Clarity Act of 2025 and the Responsible Financial Innovation Act of 2025 that preempt state-level protections.

The number of complaints received by state financial regulatory agencies about fraud involving digital assets has grown dramatically. Unless appropriately and aggressively addressed through a strong federal and state framework, these frauds will continue to grow and run rampant. Prohibiting states from being proactive in identifying and mitigating digital asset fraud will cost consumers untold millions of dollars in losses. It is short-sighted and misguided to block state regulators from attempting to address comprehensive digital asset legislation, but it is reckless to do so when the federal administration has hampered its own ability to protect consumers.

We are equally concerned that the loophole allowing digital asset exchanges to provide a yield on digital asset holdings, either through interest or "rewards," will lead to a dramatic reduction in business, housing and agricultural lending by traditional banks due to the expected shift in funds from insured deposits into stablecoin platforms.

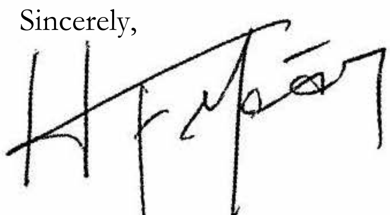
If digital asset exchanges offer financial products that look, smell and act like depository accounts, they should be appropriately regulated to ensure that similar products face similar rules to maintain a level playing field. While this position technically exists in the GENIUS Act's provision that prohibits companies that issue dollar-pegged tokens from paying interest, it left a loophole that is currently being exploited by crypto exchanges who offer "rewards" that essentially pay an annual percentage yield to their customers, acting like interest while going by a different name.

If stablecoin owners can earn a yield on their digital asset holdings outside of a traditional bank, customers will move their savings from bank accounts to stablecoin platforms if it's in their financial interest to do so. It is estimated that this could drain up to $6.6 trillion from insured bank deposits into stablecoin platforms. Deposits are a primary source of low-cost capital for banks, which they use to fund loans for small businesses, affordable housing, and agriculture. Since stablecoin platforms are not subject to the same reinvestment obligations as banks, a significant shift of these deposits to stablecoin providers would reduce the pool of capital available for those crucial categories of loans, making credit less available and/or more expensive for local communities.

With this in mind, we propose that the CLARITY Act be amended to include provisions that expand the scope of the Federal Deposit Insurance Corporation's Deposit Insurance Fund to include stablecoin deposits that provide a yield (interest or reward), and that the digital asset platforms that provide these depository services be required to comply with the Community Reinvestment Act similar to limited purpose and wholesale financial institutions.

The financial regulatory system should promote a stable national economy, ensure a level playing field for financial service providers, and protect the consumers whose money fuels our financial system. In its current form, we are concerned that the CLARITY Act would undermine those goals. Our proposed provisions will ensure that consumers are protected; that access to credit to low- and moderate-income individuals, households and communities do not suffer as a result of the transfer of funds from traditional financial institutions into digital asset exchanges; and that states can proactively and preemptively protect their residents from digital asset fraud versus hoping that the depleted federal regulatory infrastructure can step in before too much financial damage is inflicted on consumers.

Sincerely,



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