

Transformation

Crypto goes steady: Stablecoins

30 October 2025

Key takeaways

- Stablecoins are a form of cryptocurrency designed to be stable in value, commonly pegged to an underlying fiat currency, and backed by highly liquid reserve assets. They function as a medium of exchange, rather than serving as an investment vehicle.
- From cross-border to retail transactions, stablecoins can be a cheaper and more efficient option when compared to other consumer payment methods. However, they also introduce challenges, such as irreversible transactions and exposure to de-pegging, which can impact scalability and stability.
- In July 2025, the GENIUS Act (Guiding and Establishing National Innovation for US Stablecoins) became law - marking the first comprehensive US framework for regulating stablecoins. The Act delineates oversight responsibilities between federal and state regulators, and lays the groundwork for banking authorities to develop rules and guidelines for stablecoin issuers.
- This publication explores six key questions surrounding stablecoins, including their design, applications, and limitations per BofA Global Research, as interest in their role within the digital economy continues to grow.

1. What are stablecoins?

Stablecoins, first developed in 2014, are a type of cryptocurrency designed to be stable in value. They are issued via blockchain networks and are commonly pegged to an underlying fiat currency – a government-issued currency that is not backed by a financial commodity – at a 1:1 ratio. Many stablecoins are pegged to the dollar (USD), but issuers (which can be either bank subsidiaries or non-bank entities) have also pegged them to other currencies, such as the Euro.

A key characteristic of stablecoins is that they are designed to serve as a medium of exchange or store of value rather than as an investment asset. Unlike equities or cryptocurrencies like Bitcoin, which derive value from market demand, stablecoins are designed to hold a 1:1 value with their peg.

However, transactions involving stablecoins are not entirely cost-free; users typically incur blockchain network fees – commonly referred to as “gas fees” – which vary by network and can influence overall costs for users. And, notably, transaction volume remains relatively low – as of July 2025, stablecoins only facilitated around \$30bn of transactions daily, or less than 1% of global money flows.¹

2. How do stablecoins work?

Smart contracts

Stablecoins are issued (or redeemed) using smart contracts, which are digital agreements that leverage the security and transparency of blockchain and allow developers to establish specified guidelines for an asset tied to those contracts. Smart contracts offer increased efficiency (e.g., automation, elimination of intermediaries) and enhanced transparency (e.g., tamper-proof, record-keeping), ultimately reducing the cost to transact.

Issuance process

When a user purchases stablecoins, the issuer first deposits the funds at a bank (Exhibit 1). The issuer then keeps a portion of the fiat currency (e.g. USD) as reserves to meet liquidity needs. Additionally, they buy reserve assets, potentially equaling more than 100% of issued coins in circulation. Issuers tend to hold short-term, highly liquid assets to reduce underlying volatility risk. In accordance with recent legislation, these may include cash and equivalents, treasuries, and repurchase agreements (contract where one party agrees to sell securities and buy them back later at a slightly higher price). Currently, treasury bills make up the largest portion of reserves.

¹ Higginson, M., Spanz, G. (2025, July 21). *The stable door opens: How tokenized cash enables next-gen payments*. McKinsey & Company.

After the user sends fiat currency to an issuer, they receive stablecoins in return (at a 1:1 ratio), which they can hold with a centralized custodian or in a compatible wallet until they want to redeem them. When a user decides to redeem stablecoins for the underlying currency, the issuer burns (i.e. destroys) the tokens and returns the equivalent fiat value by drawing from its reserves, typically deducting a minimal processing fee. The burning of stablecoins is to ensure that the issuer's stablecoin supply matches the backing assets.

Exhibit 1: Stablecoins are issued by their backers when currency is received from users and the issuers store deposits in their reserve portfolios

Stablecoin issuance process example



Source: GlobalXETFs
BoFA Global Research

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3. How do stablecoins differ from other types of digital money?

Tokenized deposits, Central Bank Digital Currencies (CBDCs), and privately issued stablecoins all represent forms of digital money but differ fundamentally in who issues them and the nature of the underlying claim (Exhibit 2). Tokenized deposits are issued by commercial banks and represent a digital form of customer deposits, offering the same protections and regulatory oversight as traditional bank deposits. CBDCs are issued by central banks and function as sovereign digital cash. In contrast, stablecoins are issued by bank subsidiaries or non-bank entities and are backed by fiat reserves or other assets.

Tokenized Deposits

Tokenized deposits are commercial bank deposits tokenized on a blockchain platform or distributed ledger technology and backed by retail or institutional deposits. These deposits are issued by licensed depository institutions (banks) and subject to banking regulations. By applying blockchain technology, tokenized deposits offer users enhanced efficiency on transactions (24/7 services, improved liquidity management, faster settlement times).

Central Bank Digital Currencies (CBDCs)

CBDCs are a type of central bank money that exists only in digital form. Central banks can issue CBDCs as an alternative to printing money, and they provide authorities with greater control over the money supply. Individuals and institutions can use

CBDCs for improved transaction speed. Examples of CBDCs include the Digital Yuan (e-CNY, China), JAM-DEX (Jamaica), and the eNaira (Nigeria).

Exhibit 2: Stablecoins, tokenized deposits, and CBDCs capabilities include enhanced liquidity and faster transactions
Different types of digital assets

Types of Digital Assets			
	Stablecoins	Tokenized Deposits	Central Bank Digital Currencies
Definition	A cryptocurrency designed to maintain a stable value	Traditional bank deposits converted into digital tokens on a blockchain or distributed ledger technology	A digital form of a country's fiat currency, and issued by the underlying country's central bank
Purpose	Offer stability of value, used for transactions	Move client deposits onto blockchains, increase accessibility to digital asset service providers	Provide a digital alternative to traditional fiat currencies backed by central banks
Benefits	Price stability, cheaper & faster transactions	Enhanced liquidity, deposit insurance	Financial inclusion, greater transparency, enhanced liquidity

Source: Kaleido, federalreserve.gov, ledgerinsights.com
BofA Global Research

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4. What are stablecoin use cases?

Three use cases for stablecoins – per BofA Global Research – are: payments, store of value, and lending capabilities. In cross-border and retail payments, stablecoins reduce reliance on payments providers, lowering costs and improving efficiency. They also serve as a store of value and are oftentimes purchased during periods of inflation or currency volatility. And on the lending front, stablecoins enable blockchain-based smart contracts that automate credit processes.

Payments

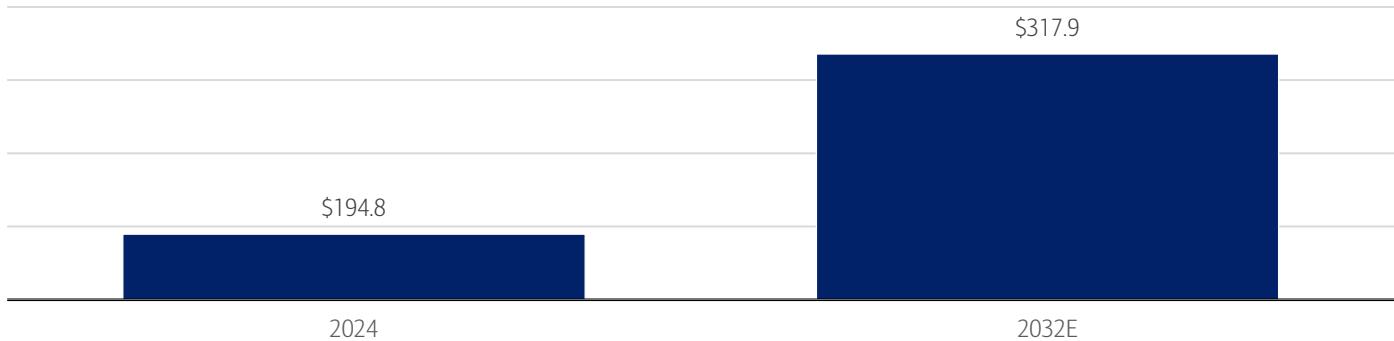
- 1) **Cross Border/Remittance:** Stablecoins offer near-instant settlements at a much lower cost than international wire transfers, automated clearing house (ACH) transfers, and peer-to-peer apps, because they eliminate intermediaries. In other words, because transactions occur on blockchain rails, stablecoins reduce reliance on payments providers, most of whom charge processing fees.

Per BofA Global Research, this makes stablecoins an attractive option for facilitating cross-border payments. In fact, by the end of 2032, FXCIntelligence estimates cross-border payments will reach \$317.9 trillion, a 63% increase from \$194.8 trillion in 2024 (Exhibit 3).

Specifically, stablecoins could be a preferable option for making remittance payments. According to BofA Global Research, remittance flows are the largest sources of external finance flows to low- and middle-income countries. In 2023, according to the Migration Data Portal, ~\$857 billion were sent in remittance with ~\$656 billion of that sent to low- and middle-income countries.

Usually, remittance payments use wire or ACH transfers through a bank, credit union, or payment provider. Wire transfers offer instant settlement capabilities but are often costly and irreversible. ACH transfers offer a cheaper alternative to wire transfers and can be reversed, but do not offer instant settlement capabilities. Using stablecoins to transact on blockchain rails is a competitive alternative to both wire and ACH transfers since they reduce reliance on traditional payments providers (lowering fees), while offering instant settlement capabilities that are available 24/7.

Exhibit 3: Total cross-border payments are estimated to increase ~63% by 2032
Total cross-border payment volume (\$tn): 2024 vs 2032E



Source: FXCIntelligence
BofA Global Research

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- 2) **Retail payments:** While some retail merchants are incorporating innovative technology to accept stablecoins for purchases, utilization remains small so far. However, one benefit of stablecoin use in retail, is that this payment method can help retailers save on credit card processing fees, which generally account for 2-3% of the transaction value.

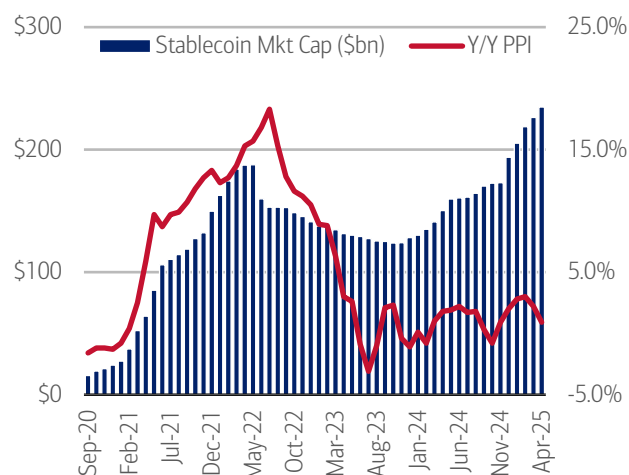
But from consumers' point of view, spending behaviors tend to be sticky and switching from credit cards to stablecoins offers limited additional benefits since consumers do not directly bear the cost of credit card processing fees, per BofA Global Research.

Store of value

Some have compared stablecoins as akin to holding cash but in a digital form. They offer fast, seamless transactions and act as a store of value. During times of heightened inflation, they can be used to preserve purchasing power since they are typically pegged to the USD (Exhibit 4). And they provide individuals in countries with volatile currencies an alternative location to store deposits (Exhibit 5).

Exhibit 4: Stablecoin circulation increased as inflation soared...

Total stablecoin market cap (\$bn, y-axis left-hand side) vs Producer Price Index (PPI) (year-over-year (Y/Y), y-axis right-hand side)

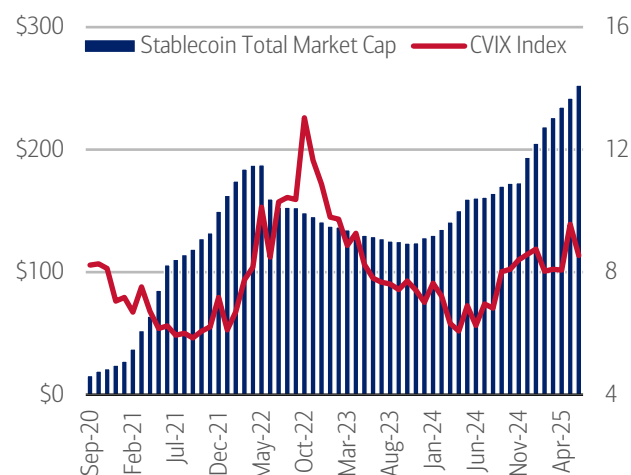


Source: DefiLlama, Bloomberg
BofA Global Research

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Exhibit 5: ... and increased as currency volatility accelerated

Total stablecoin market cap (\$bn, y-axis left-hand side) vs Currency Volatility Index (CVIX) (y-axis right-hand side)



Source: DefiLlama, Bloomberg
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Lending Capabilities

According to BofA Global Research, decentralized finance ("DeFi") aims to shift away from traditional lending methods to blockchain based lending. As blockchain infrastructure is integrated into the financial system, blockchain lending capabilities could enable banks and non-banks to offer access to credit using smart contracts. Smart contracts automate the lending process by managing loan agreements, collateral, and repayments, therefore eliminating the need for intermediaries in the lending process. Additionally, smart contracts offer enhanced security and transparency by reducing the risk of human error and fraud, which are easily auditable.

5. What are the risks and limitations?

Irreversibility of payments

One area of concern for users and regulators, according to BofA Global Research, is the irreversibility of stablecoin transactions. Of the three payment options available to consumers or merchants – wire transfers, ACH transfers, and peer-to-peer apps – only ACH transfers are reversible. That said, there are detailed records of stablecoin transactions. Every stablecoin transfer is recorded on a public blockchain. Those blockchains allow individuals to track and confirm receipt in real-time. Each stablecoin transfer that occurs on a blockchain rail can be identified by its unique transaction ID, sending and receiving addresses of the wallets involved in the transaction, and timestamp of when the transaction occurred.

Gas fees

There are also limitations to stablecoin's low-cost model. Even though transaction fees are theoretically low, they fluctuate based on blockchain "gas fees" (the service charge for using blockchain networks). While the value of the transaction does not directly impact gas fees, the level of network congestion (i.e., how many people are trying to make transactions at the same time) does. Typically, the increase in gas fees isn't strictly proportional to blockchain traffic – fees can rise faster than traffic, or even spike, when blockchain is operating at near capacity.

This aligns with the Bank of International Settlement's (BIS) recent findings – crypto transaction fees increase rapidly when network volume reaches a certain threshold. For one type of stablecoin, gas fees surged past \$20 USD (vs < \$0.1 normally) during congestion, which could limit the scalability of stablecoins in high-volume situations.

Profitability & sustainable business models

Additionally, issuers must maintain a sustainable, profitable business for stablecoins to achieve stability and wide acceptance. Currently, issuers make profits by keeping interest income on the reserve assets, as stablecoin holders do not earn any interest. Therefore, according to BofA Global Research, this business model is highly subjective to the interest rate environment.

However, BofA Global Research points out two caveats. First, a lower interest rate generally correlates with higher transaction volume for risk assets (including cryptocurrency), so stronger demand for stablecoins due to higher volume of crypto trading could potentially provide some offset to lower profit per user. And second, issuers can also make a profit through fees they charge for creating and destroying stablecoins. However, high fees could deter new customers and adoption, making it a difficult trade-off.

De-pegging

De-pegging occurs when a stablecoin loses its 1:1 “peg” to the underlying currency or asset referenced. When stablecoin owners redeem stablecoins at rapid pace (similar to a bank run) or volatility shocks occur across crypto markets, stablecoins are more at risk of a potential de-peg. Stablecoin issuers may be forced to sell reserve holdings for a loss when rapid redemptions occur, leaving an issuer under-reserved.

Fixed income investors cautious on volatility

Fixed income investors have expressed sensitivity to the potential for elevated volatility in the US Treasury market due to the increased purchase of treasury bills from stablecoin issuers. Recent legislation requires issuers to hold cash, cash equivalents, or T-bills at a 1:1 ratio with stablecoins issued. According to BofA Global Research, accelerated adoption of stablecoins can increase volatility across the US Treasury market.

6. How are stablecoins regulated?

On July 18, 2025, the Guiding and Establishing National Innovation for US Stablecoins (GENIUS) Act was signed into law. This is the first US law to establish a regulatory framework for stablecoins and their issuers.

Per BofA Global Public Policy, key provisions of the Act establish regulatory guidelines for US stablecoin issuers that require them to be fully backed by reserves, and mandate adherence to anti-money laundering requirements and sanctions compliance under the Bank Secrecy Act. Additionally, the law limits stablecoin issuance to “permitted payment stablecoin issuers” (“PPSIs”) and qualifying foreign issuers only.

Regulatory oversight

Regulatory oversight of stablecoin issuers is split between federal and state entities, depending on PPSI type. Issuers can be 1) subsidiaries of financial institutions, 2) non-bank entities approved by the Office of the Comptroller of the Currency (OCC), or 3) state-regulated issuers who have under \$10 billion in outstanding payment stablecoins.

For subsidiaries of financial institutions, regulatory oversight and supervision is done by their respective federal prudential regulator. These regulators include the Federal Reserve, OCC, Federal Deposit Insurance Corporation (FDIC), or National Credit Union Administration (NCUA).

The OCC approves and regulates non-banks (other than state-qualified issuers mentioned below), uninsured national banks originally chartered by the OCC, and federal branches of foreign banks. Additionally, state-regulated PPSIs who issue over \$10 billion in stablecoins transition to federal regulation, and are jointly overseen by their state regulators and applicable federal regulators.

Lastly, state-qualified issuers (e.g. state-chartered uninsured depository institutions) are governed by state regulators. However, a Stablecoin Certification Review Committee must determine that a state's regulatory framework is substantially similar to the federal one.

Reserve requirements

The Act requires that issuers back stablecoins at a 1:1 ratio with high-quality, liquid reserves such as US currency (USD) or US Treasury bills, notes, or bonds with a remaining maturity of 93 days or less. It's important to note that deposits recorded using distributed ledger technology are expressly excluded. Additionally, reporting requirements for issuers include publishing monthly reports detailing composition of their reserves.

Compliance with regulations

Federal and state stablecoin regulators, in coordination with one another, will develop regulations covering capital, liquidity, and risk management requirements for PPSIs. Stablecoin issuers must adhere to Bank Secrecy Act and Anti-Money Laundering (AML) requirements, including sanctions compliance programs.

Foreign stablecoin issuers

Foreign stablecoin issuers can participate in the US market if they meet certain requirements. With input from the Stablecoin Certification Review Committee, the Treasury Secretary determines whether a foreign stablecoin regulatory framework is comparable to the US framework for domestic PPSIs.

According to BofA Global Public Policy, additional provisions of the Act include:

- **Prohibition on interest:** Issuers cannot pay any form of interest or yield directly or indirectly on stablecoins. Stablecoins are meant to be used solely for payment or settlement, rather than as an investment asset.
- **Limitations on nonfinancial firms:** Publicly traded companies and foreign firms that are not predominantly engaged in one or more financial activities need unanimous approval from the Stablecoin Certification Review Committee to become a stablecoin issuer.
- **Custodial responsibilities:** Custodians of stablecoins and reserves must keep these assets separate from all other holdings (e.g., no commingling).
- **Insolvency protection:** Holders of stablecoins are given priority claims on the issuer's reserve assets.
- **Technical capabilities:** Issuers must have the technical ability to seize or freeze stablecoins when legally required to do so.
- **Preemption of state laws:** The GENIUS Act preempts state-level licensing requirements for certain stablecoin issuers, though it does not preempt state consumer protection laws.
- **No US CBDC:** The GENIUS Act bars the Federal Reserve from issuing a CBDC directly to individuals or through a third party.

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