



MUTUAL ALERT

House Expected to Vote Today on The Senate GENIUS Act, Agencies Issue Guidance on Bank Products and Services: What Might Be The Effect On Mutuals?

With the imminent passage of the GENIUS Act, the July 14th Joint issuance by the Agencies of permissive guidelines, the development of various Big Bank cryptocurrency products and services, community banks will need to assess what competitive effect these actions will have on them. While it is too early to reliably predict the outcome, it is time to consider how mutual banks which are all community banks should react. Troutman Pepper Locke has a strong practice in dealing with the myriad legal issues that involvement with various forms of cryptocurrency present. In response to some of our members concerns, below is a summary of what may be the impact of cryptocurrency developments on mutual banks.

Key Impacts on Mutual Banks

1. Deposit Competition & Flight Risk

- Stablecoin adoption by big banks and fintech can draw deposits away from mutual banks, especially if earn interest or rewards—a key risk noted by Fintech Takes.
- Congressional efforts (e.g., the Senate version of the GENIUS Act) enabling banks to hold stablecoin reserves directly with the Fed could further hollow out mutual bank deposits.

2. Platform Disintermediation

- With big banks and payments providers launching crypto-enabled rails (Zelle-style), mutual banks may be sidelined unless they integrate digital assets.
- Fiserv's planned FIUSD stablecoin infrastructure will enable ~3,000 community banks to issue tokens—mitigating some risks but increasing pressure to adapt. However, there may be superior products developed by consortiums of mutual banks provided there is leadership to spur cooperation.

3. Regulatory & Compliance Complexity

- New OCC and FDIC guidance and rules allow custody of crypto, but smaller banks often lack the compliance and risk frameworks to manage AML, operational, and cyber risks.

- Cases like Silvergate and Signature show crypto exposure can lead to liquidity stress and regulatory scrutiny.

4. **Strategic Imperative & Potential Upside**

- Communities value “crypto-curious” mutual banks as trusted partners—a niche opportunity identified by FIS.
- Participation via tech partners or consortiums (e.g., Fiserv, Solana-backed FIUSD) offers a path for mutual banks to provide crypto services without full infrastructure build-out.

5. **Regulatory Environment & Advocacy**

- Voices within community bank advocacy groups (e.g., ICBA) warn against regulatory loopholes in crypto legislation like the CLARITY Act, which may disadvantage smaller banks.
- Meanwhile, a pro-crypto tilt in regulators (e.g., OCC and House leadership) may lower barriers—but mutual banks need support to seize the upside.

Strategic Responses for Community Banks

1. Partner Smartly

- Join platforms like Fiserv’s FIUSD or fintech consortiums to offer stablecoin services without heavy investment.

2. Enhance Compliance

- Develop AML, cybersecurity, and digital asset risk frameworks to navigate new custody requirements and build trust.

3. Educate & Market

- Position yourself as a trusted local provider for clients exploring crypto—leverage educational outreach to retain assets.

4. Engage in Advocacy

- Work with industry bodies to shape crypto regulations that protect mutual banks from competitive unfairness and operational burdens.

5. Assess Selective Pilots

- Evaluate niche crypto solutions relevant to your customer base instead of broad adoption—follow risk-based approach from BAI.



Bottom Line

- **Downside Risk:** Without adaptation, mutual banks face some undetermined deposit losses and account erosion as customers migrate toward crypto-enabled platforms. How significant that loss will be remains to be seen.
- **Opportunity:** By leveraging partnerships and focusing on trusted relationships, mutual banks can carve competitive advantage in the digital asset era.

- Urgency: Successful navigation requires integration of crypto services at pace with regulation and market evolution.

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