How Do Stablecoin Issuers Make Money?

You hand over a dollar and receive a token that pays you nothing — so where does the money go, who else takes a cut, and what happens when interest rates fall?

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Stablecoin issuance has produced some of the highest profits per employee in modern finance, and the mechanism is almost embarrassingly simple: users hand over dollars, receive tokens that pay no interest, and the issuer invests the dollars. What is less widely understood is everything around that core — how much of the income never reaches the issuer at all, how completely the model depends on a variable nobody in the industry controls, and why the most profitable business in crypto may also be among the most fragile. This report is about the economics. It assumes you know what a stablecoin is.

AT A GLANCE

CORE REVENUE **Interest on the reserves**	COST OF FUNDING **Zero — tokens pay no interest**	BIGGEST EXPENSE **Paying for distribution**
BIGGEST RISK **Falling interest rates**	OTHER LINES **Mint and redemption fees**	MARGIN **Extraordinary, and contested**

01

The float

The business is built on float. When someone buys a stablecoin, the issuer receives real dollars and creates a token representing a claim on them. The dollars are invested — overwhelmingly in short-dated government debt and equivalents — and the interest belongs to the issuer. The token holder receives the token and nothing else.

Structurally this resembles a bank: take in money, invest it, keep the return. With one enormous difference. A bank competes for deposits partly by paying interest on them, and that interest is its cost of funding. A stablecoin issuer pays nothing at all on its equivalent liability. Its funding is free, and the entire yield on the reserve portfolio drops through as revenue. That single asymmetry is the whole story of why the margins look the way they do.

02

Why the funding stays free

It would be reasonable to expect competition to erode this. If one issuer began sharing reserve income with holders, others would have to follow, and the free-funding advantage would compete away — exactly as it does in banking. That has not happened in the United States, and the reason is law rather than restraint.

The federal framework governing payment stablecoins prohibits issuers from paying interest or yield to holders for merely holding the token, in any form. The policy rationale was to prevent an instrument supervised on a lighter basis from drawing deposits out of the banking system; the commercial effect is to lock in free funding for every authorised issuer by making the obvious competitive response unlawful. Critics have argued this is straightforwardly protective of incumbent banks, and it is difficult to dispute that it protects issuer margins as a by-product. The provision and the debate around it are set out in our note on the federal stablecoin statute.

03

The dependency on rates

Here is the structural fragility beneath the headline profits. Revenue is essentially the reserve portfolio multiplied by the prevailing short-term interest rate. The issuer controls the first term and has no influence whatsoever over the second.

The sensitivity is close to linear and it is brutal. A reserve portfolio earning a high short-term rate generates several times the revenue that the identical portfolio generates when rates are low — on a large book, a single quarter-point move translates into hundreds of millions of dollars a year, and a sustained return to a low-rate environment would remove the majority of the industry's income without any change in the number of tokens outstanding. The extraordinary profit figures reported across this sector are, to a substantial degree, an artefact of the interest rate environment in which they were earned rather than evidence of a durable moat. Any assessment of an issuer's earnings power should begin by asking what those earnings would look like at a materially lower policy rate, because that scenario requires no business failure of any kind — only a change of monetary policy.

> *The most profitable business in crypto has one revenue line it cannot control and one expense line growing faster than it. Free funding is a legal privilege, not a competitive achievement — and the distributors have worked out that they are the ones actually bringing the deposits.*

04

The hidden half: paying for distribution

This is the part of the model least visible from outside, and it is the largest expense in it. Issuers do not reach users directly. Exchanges, wallets, brokers, and payment apps do — and those distributors have discovered they hold the stronger position, because balances follow the platform rather than the brand on the token.

The resulting arrangements transfer a great deal of the reserve income away from the issuer. In the most consequential publicly disclosed example, one major distributor receives the entire reserve income on balances held on its own platform, and splits much of the remainder with the issuer — an arrangement that has consumed roughly half of the issuer's total revenue in a recent year, with the absolute cost rising sharply as circulation grew. The economics are stark: growth in the token does not straightforwardly translate into growth in issuer profit, because a large share of each additional dollar of reserve income is contractually promised elsewhere.

That balance of power is tightening rather than easing. Newer venues have competed by offering to pass through the overwhelming majority of reserve yield to whoever brings the balances, which resets expectations for what a distributor should receive. Where such agreements come up for renegotiation — and one significant arrangement reaches the end of its initial term around this period — the direction of pressure is clearly toward distributors capturing more, not less.

05

The other revenue lines

Reserve income dominates, but it is not the only line. Issuers typically charge fees at the primary window — on minting tokens in exchange for dollars, and on redeeming them back — often with thresholds and tiers, and often waived for the largest counterparties precisely because those counterparties are the ones performing the arbitrage that holds the peg, as described in how stablecoins stay pegged. These fees are small relative to reserve income, but they are unaffected by interest rates, which makes them strategically more attractive than their current contribution suggests.

Beyond that, the larger issuers have been building revenue that does not depend on the float: infrastructure and settlement services sold to institutions, tokenised money-market products that charge a management fee rather than capturing a spread, cross-chain transfer facilities, and in some cases lending or investment operations run alongside the core business. The strategic logic is transparent — diversify away from a revenue line that a central bank can halve — and how successfully any given issuer executes that shift is probably the most important thing to watch about the sector's economics over the next several years.

06

What it costs to run

The cost side explains the margins as much as the revenue side does. A stablecoin issuer has no branch network, no loan book to underwrite, no credit losses in the ordinary course, and no need for the large operational apparatus a retail bank requires. Its genuine costs are compliance and legal, banking and custody relationships, technology, audit and attestation, and the commercial cost of distribution — which, as above, dwarfs all the others.

The consequence is a business that can manage an enormous balance sheet with a headcount that would be unremarkable at a mid-sized technology company, producing profit-per-employee figures with few parallels in finance. That efficiency is real and it is a legitimate achievement of the model. It also means the operating leverage runs hard in both directions: because costs are largely fixed and revenue is a function of an external rate, a fall in that rate flows almost undiluted to the bottom line.

07

Who actually captures the value

Step back and the value chain is clear. The token holder supplies the capital and receives no return on it. The issuer manages the reserves, bears the regulatory obligations, and books the income. The distributor supplies the users and, increasingly, extracts the larger share of the economics for doing so. And the ultimate borrower is the government whose short-term debt the reserves are invested in.

Two observations follow. The holder's position — providing interest-free funding — is the weakest in the chain, and it is worth being conscious of that when deciding how large a stablecoin balance to hold and for how long, a point our note on USDT vs USDC touches on. And the distributor's growing share suggests where this market is heading: toward stablecoins as a low-margin utility layer, with the profits accruing to whoever owns the customer relationship rather than to whoever issues the token.

08

What would break the model

Four threats, roughly in order of likelihood. A sustained fall in short-term interest rates is the most probable and the most damaging, because it requires nothing to go wrong and no competitor to do anything — the revenue simply shrinks. Escalating distribution costs are already in progress, compressing issuer margins even while circulation grows.

A regulatory change permitting or requiring yield pass-through to holders would be transformative, converting free funding into a competitive market for it and compressing margins toward those of a money market fund; that is precisely the change the current prohibition prevents, which is why the prohibition is defended so energetically. And a credible interest-bearing alternative — whether a tokenised money-market fund or a bank-issued instrument that lawfully pays holders — could draw balances away from non-yielding tokens for any use case that is not purely transactional. None of these is speculative. Each is visible now, which is why the correct reading of this industry's profits is that they reflect a favourable moment more than a permanent structure.

> *“Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury.”*
>
> MATTHEW 25:27

Methodology & Sources

This report describes a business model as at the date of publication; it deliberately contains no company names in the body, revenue or profit figures, interest rates, reserve sizes, fee schedules, or contract percentages, all of which change and vary by issuer — consult issuers' own filings and disclosures for current figures. The core mechanism described — issuers investing reserves backing non-interest-bearing tokens and retaining the return — is the standard model and is publicly documented in issuer disclosures. The statement that United States law prohibits permitted payment stablecoin issuers from paying interest or yield to holders reflects the federal statute; the accompanying policy rationale and the criticism that the provision protects incumbent deposit-takers characterise a genuine public debate rather than endorsing either view. Rate sensitivity is described directionally: revenue approximates reserve size multiplied by prevailing short-term rates, so profitability moves closely with monetary policy, and reported sector profits substantially reflect the rate environment in which they were earned. The description of distribution arrangements — a major distributor receiving reserve income on balances held on its own platform and sharing much of the remainder, amounting to approximately half of the issuer's total revenue in a recent year, with an initial contract term concluding around this period — reflects publicly filed disclosures as reported; specific terms are subject to renegotiation and readers should consult current filings. The observation that newer venues offer to pass through the majority of reserve yield to distributors reflects reported market practice. Nothing here is a recommendation regarding any token, issuer, company, security, or trade.
