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OCC Sounds Warning About Effects of COVID-19 'Lockdowns' on Banking System

WASHINGTON, D.C.—Acting Comptroller of the Currency Brian P. Brooks today expressed concerns about the effects of regional and local responses to COVID-19 on the federal banking system.

In letters to the National League of Cities, the U.S. Conference of Mayors, and the National Association of Governors, the Acting Comptroller of the Currency urged mayors and governors to consider the adverse impact of long-term regional economic shutdown on the nation's banks when making their decisions. "Certain aspects of these local orders," wrote Acting Comptroller Brooks, "potentially threaten the stability and orderly functioning of the financial system the OCC is charged by law to protect."

The letter raises awareness among state and municipal officials of certain risks closely associated with "essentially indefinite" business closures in certain cities and states. Requiring businesses to remain closed decreases businesses' ability to service their debt, thus increasing default risk in the banking system. Lengthy business closures also reduce the value of collateral securing commercial real estate because of increases in burglaries and vandalism of vacant strip malls, storefronts, and the like; in those cities considering cutting off electric, water, and other utilities to businesses that choose to remain open notwithstanding lockdown orders, the degradation of the physical loan collateral exposes banks to higher loss severities. During a period of double-digit unemployment and stresses caused by local responses to COVID-19 to previously safe and sound business and commercial real estate portfolios, actions that exacerbate that risk may prolong and worsen an economic downturn, reduce the availability of credit and capital that would support recovery, and result in safety and soundness

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[Letter to U.S. Conference of Mayors](#) (PDF)

issues that are especially significant for smaller community and regional banks with business concentrations in these areas.

"National banks and federal savings associations entered the COVID-19 crisis extremely well capitalized and with strong liquidity," Mr. Brooks wrote. "The President and Congress have relied on a strong banking system to deliver many of the elements of the CARES Act and other relief to support the nation during this difficult period. I ask that your members carefully consider the impact of their lockdown orders on the health and function of our shared national financial infrastructure as they implement the President's guidance to determine when and how to unwind those orders."