June 1, 2020

The Hon. Bryan K. Barnett
Mayor of Rochester Hills, Michigan
President, United States Conference of Mayors

Mr. Tom Cochrane
CEO and Executive Director
United States Conference of Mayors
1620 I St. NW
Washington D.C. 20006

Subject: Considering the Impact of Economic Shutdown on America's Banks

Dear Mayor Barnett and Mr. Cochrane:

The Office of the Comptroller of the Currency ("OCC") administers the federal banking system as an independent bureau of the U.S. Department of the Treasury. That system of national banks and federal savings associations serves the majority of people in our nation by providing 70 percent of the banking services in this country. These banks continue to be a source of strength for communities like yours as well as for our national economy.

President Trump's "Guidelines for Opening Up America Again" provide that state and local governments have front-line responsibility for balancing risks and benefits of continued COVID-19 stay-at-home orders. Your members and the governors of our great states have the solemn responsibility to make the decisions about how and when to end your communities' economic shutdown and let Americans get back to their lives and jobs. In making those decisions, the nation's mayors and governors should be aware of a set of risks to the nation's banking system created by continued state and local lockdown orders. Your members should consider these risks carefully and weigh them against the scope and duration of continued lockdown orders in making your decisions, because certain aspects of these orders potentially threaten the stability and orderly functioning of the financial system the OCC is charged by law to protect.

Recent news reports about certain cities' initiatives to cut off water, electric, or other utilities to businesses that are operating or serving customers in violation of local lockdown orders highlight an important risk to the banking system. Banks are a major source of commercial real estate finance in the United States. Cutting off utilities to commercial buildings can impair their condition, structural integrity, and value, thus impairing the collateral that secures real estate loans.

Commercial real estate loan collateral is also put at risk by lengthy property vacancies that result from extended stay-at-home orders. While some cities and states are reopening their economies, others reportedly are extending their lockdown orders for weeks or even months. Such essentially indefinite requirements that businesses remain closed increases other risks to properties securing bank loans. Risks include being vandalized and burglarized because of extended lack of occupancy. Indeed, as *Security Magazine* recently noted, “store owners who run non-essential businesses (and the list seems to change daily) are now home, so their unguarded and unprotected locations are at risk for daylight burglaries and a crime we haven’t seen in many years: looting. Drive by a strip mall in any city today, and you’ll notice that all of the businesses are closed at 11:00 a.m. on a Tuesday. The crooks see what we see too, and they know there are not enough cops to protect every building.”

Apart from damage to the physical collateral, extended lockdown orders obviously impair the ability of businesses, particularly small businesses, to generate the revenue needed to pay their loan obligations. Banks lend to customers based in part on their assessment of customers’ current and expected future income, which largely determine their ability to repay the debt. Indeed, federal law expressly authorizes national banks to make loan determinations based on banks’ assessment of current and expected income and current and expected cash flows. Yet we now have anecdotal reports of banks that are experiencing small-business loan delinquency rates in the mid-double-digits on loan books that reflected strong cash flow expectations and pristine credit quality at the time of origination, prior to local lockdown orders. Such high delinquency rates have the potential to threaten the community and mid-size banks that are the economic lifeblood of local communities, a factor that your members should take into account in weighing the risks and benefits of lengthy continued lockdown orders. The potential loss of banking services in these areas would have an outsized impact on those sectors of your communities who need those services the most, including elderly, minority, and low- and moderate-income communities.

The opaque and often shifting definition of what constitutes an “essential” versus a “nonessential” business also makes it difficult for banks and regulators to forecast future delinquencies and losses and to assess such risk to the system as a whole. Such conditions in turn complicate banks’ ability to adequately reserve for losses caused by your members’ lockdown directives. Failure to understand, forecast, and reserve for risks based on sound data deprives banks of a key financial risk management tool at a time when their safety and soundness depends on it.

Finally, lengthy and potentially permanent requirements that individuals wear face masks in many or even all public spaces create the very real risk of increases in bank robberies. Historically, banks had policies prohibiting customers from wearing masks and certain head coverings in branches for this reason. Many banks relaxed these prohibitions temporarily during the height of the COVID-19 crisis out of concern for the health and welfare of their customers. While that may have been a prudent decision when the extent of the health risk was still unknown, recent reports of face-covering-related robberies at bank branches and other establishments make clear that broadly applicable face mask requirements are not safe or sustainable on a permanent basis.

National banks and federal savings associations entered the COVID-19 crisis extremely well capitalized and with strong liquidity. 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 functioning of our shared national financial infrastructure as they implement the President's guidance to determine when and how to unwind those orders, particularly as more and more cities and states have shown that it is possible to successfully narrow or even end their lockdowns.

Thank you for your prompt attention to these matters. My staff and I would be happy to discuss further at your convenience, and we are ready to provide support and assistance to help you minimize the negative consequences of local lockdown orders on your members' local banks and communities.

Very truly yours,

//signed//
Brian P. Brooks
Acting Comptroller of the Currency

CC:
The Honorable Mike Crapo
The Honorable Sherrod Brown
The Honorable Maxine Waters
The Honorable Patrick McHenry