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Hotel Owners Call for Additional Congressional Action to Stave Off Catastrophic Collapse of Hospitality Industry

WASHINGTON, D.C., July 23 – AAHOA, the nation’s largest hotel owners association, outlined specific and necessary actions the government must take to help avert a catastrophic economic collapse of the hospitality industry. In a letter to Congressional leadership, AAHOA highlighted the unique challenges facing hotel owners, from the liquidity crisis that has plagued the industry since pandemic’s start to the limitations and complications hoteliers encountered while attempting to seek relief from earlier stimulus efforts such as the Paycheck Protection Program (PPP).

“Hotel owners are in a precarious situation through no fault of their own and are struggling to keep their doors open. The small businesses that own and operate the thousands of hotels across the country and the millions of jobs they support will not recover from the impact of the COVID-19 pandemic until people begin traveling again. Until that time, hotel owners need targeted and immediate economic stimulus or the industry will collapse,” said AAHOA President & CEO Cecil P. Staton.

Hotel occupancy rates cratered with the onset of this pandemic, and without guests to serve, rooms to clean, shuttles to drive, or meals to prepare, hoteliers find themselves without working capital to pay employees and meet their debt obligations. Most experts anticipate that the industry will not recover until at least 2023.

“Millions of jobs and billions of dollars in assets are on the line. We call on Congress to make the next phase of economic recovery more accessible and complement existing stimulus programs by adopting the specific policy recommendations outlined in our letter. If Congress fails to act, our local hotels may not be there to welcome guests back into our communities when the pandemic ends and travel resumes,” added Staton.

The letter outlines several measures Congress and the Executive can take to avert the impending crisis facing the industry, such as debt restructuring and commercial mortgage-backed security (CMBS) loan relief. Other measures include expanding PPP to address economic uncertainty and debt service, allowing asset-based businesses to access the Main Street Lending Program, providing limited safe harbors to protect businesses from coronavirus drive-by lawsuits, targeted tax incentives, and significantly expanding the COVID-19 testing regime.

“We are optimistic about Congress’ renewed efforts to stimulate the economy. Our leaders understand the prominent roles that small businesses and travel and tourism play in our

communities and our economy. America's hoteliers look forward to working with them to keep the lights on during this crisis," concluded Staton.

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AAHOA Phase IV Priorities.pdf

About AAHOA:

AAHOA is the largest hotel owners association in the world. The over 19,500 AAHOA members own almost one in every two hotels in the United States. With billions of dollars in property assets and hundreds of thousands of employees, AAHOA members are core economic contributors in virtually every community. AAHOA is a proud defender of free enterprise and the foremost current-day example of realizing the American dream.

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July 23, 2020

The Honorable Mitch McConnell
Majority Leader
United States Senate
The Capitol, S-230
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
The Capitol, H-232
Washington, DC 20515

The Honorable Chuck Schumer
Democratic Leader
United States Senate
The Capitol, S-221
Washington, DC 20510

The Honorable Kevin McCarthy
Republican Leader
United States House of Representatives
The Capitol, H-204
Washington, DC 20515

Dear Speaker Pelosi and Leaders McConnell, Schumer, and McCarthy:

On behalf of the Asian American Hotel Owners Association (AAHOA), I ask for your support of America's hoteliers in the next stimulus package responding to COVID-19. AAHOA represents 20,000 small business owners who own nearly 50 percent of all hotel properties in the United States. Our members are predominantly franchisees who own and operate their hotels and license the names and standards of well-recognized hotel brands. AAHOA members personally own the real estate, undertake the financial risk, and often personally guarantee their loans on the property. Moreover, AAHOA members collectively employ hundreds of thousands of American workers and contribute to their local economies through job creation, real estate development, and community investment. We are now facing unprecedented challenges directly as a result of the COVID 19 restrictions on travel and tourism.

As safety precautions and travel restrictions have become necessary fixtures of American life over the past several months, hoteliers and their employees in every market and in every segment have suffered at an unprecedented rate. At a time when occupancy rates ought to be on the rise with seasonal leisure and business travel, hoteliers are instead wrestling with the excruciating decision of whether to keep their businesses open. Each day, the forecast seems more dire. Without guests to serve, rooms to clean, shuttles to drive, or meals to prepare, hoteliers are left without working capital to make payroll or meet their mortgage obligations.

The CARES Act came at a critical time and provided several important lifelines to small businesses across the country. Unfortunately, hospitality has been one of the hardest hit sectors of the economy. Unemployment is hitting historic levels¹ at our businesses and our members are struggling to keep their doors open. Most experts anticipate that our industry will not recover until 2023 at the earliest.²

Hoteliers face unique challenges during this unprecedented crisis because their livelihoods are tied not only to their businesses, but also to the real estate associated with their hotels. The lack of guests and revenue have caused dramatic income shortfalls, impairing the ability to repay hotel loans, and creating an urgent debt crisis in the lodging industry. The CARES Act programs designed to help small businesses have been helpful; nonetheless, a great deal of uncertainty remains about the lodging industry's ability to survive this pandemic.

The Paycheck Protection Program (PPP) provided critical capital to help retain employees early on. As small business owners have exhausted those funds however, a second round of funding is necessary to ensure hoteliers can keep workers employed. Further, given the design of the PPP, these funds are largely unable to assist with debt service payments. The Economic Injury Disaster Loan (EIDL) program has provided only

¹ <https://www.bls.gov/iag/tgs/iag70.htm>

² <https://str.com/press-release/us-hotel-demand-not-expected-fully-recover-until-2023>

limited assistance. From considerable challenges in communicating with the SBA, to the caps placed on funds, this program has largely been inadequate for our members. Finally, the Main Street Lending Program (MSLP) is inaccessible for most hoteliers because of the underwriting methodology used to develop the program. The Federal Reserve has acknowledged the program will not be available for asset-based businesses. This is greatly disappointing because lodging is among the hardest hit industries and was thriving before the virus constrained travel.

We are optimistic that your renewed efforts to stimulate the economy will help America's hoteliers to survive this crisis, so they can continue to create good, domestic jobs, and contribute to their local communities. Below is a series of priorities that will help small businesses owners and the travel and tourism industry, and we urge your support for them. Thank you for your leadership.

Sincerely,

A handwritten signature in cursive script, reading "Cecil P. Staton". The signature is written in black ink and is positioned above the typed name.

Cecil P. Staton
President and CEO
AAHOA

Extend Temporary Relief from Troubled Debt Restructurings (TDR) under Title IV, Section 4013 of the CARES Act through January 1, 2023.

At the beginning of the downturn, hoteliers with conventional loans sought relief from their debt obligations as revenues languished. Banks provided hoteliers with a few months' forbearance on principal and interest payments. As time has elapsed, it has become clear that the industry will not recover anytime soon. Hoteliers have been seeking additional relief from their lenders who are understandably uncertain about how regulators will assess troubled debt. The CARES Act provided for temporary relief from TDR classification through December 31, 2020. Hoteliers need a lifeline to relieve pressure on debt service payments and a longer-term solution to address the accumulating debt. Most experts anticipate the hotel industry will not fully recover for at least two years. Therefore, we urge Congress to extend the "applicable period" for TDR relief until January 1, 2023, to ensure regulators do not adversely criticize decisions made by financial institutions during the crisis.

Create a preferred equity facility for Commercial Mortgage-Backed Securities (CMBS) loan relief.

Hoteliers with CMBS loans found less success than conventional loan holders in deferring payments due to the restrictive nature of the covenants in CMBS agreements. Hotel delinquency rates have hit record highs and are nearing 25 percent.³ Compounding these challenges, CMBS loan covenants prohibit accumulation of additional debt and participation in existing or novel lending facilities. We urge Congress to direct the Federal Reserve and the Department of Treasury to establish a federally-guaranteed preferred equity facility that would enable borrowers to access necessary relief through financial institutions. Doing so will provide a bridge for hoteliers with CMBS debt and enable them to comply with the existing covenants without triggering default or compelling costly loan modifications.

Expand PPP to address extended economic uncertainty and to apply to debt service.

The PPP provided a critical lifeline for hoteliers as guests and revenues declined. When it was created, the hope was that the economy would recover by the end of June. Consequently, the maximum loan amount only covered 2.5 times a business's monthly payroll. As great uncertainty remains about the trajectory of the virus, and a rapid return to normal travel patterns is unlikely, the lodging industry needs relief beyond the next few months. Businesses hardest hit by the pandemic ought to be prioritized to stabilize the economy. Even with the additional flexibility passed by Congress earlier this year, hoteliers cannot apply these funds to assist with debt service payments. We urge Congress to amend the PPP such that the maximum loan amount is determined as a multiple of a borrower's annual operating expenses or gross receipts. This would ensure that business can use funds in the most efficient manner possible.

We also encourage Congress to expand the current framework to include:

- Zero percent interest rates to provide certainty and flexibility for small employers enabling them to take loans large enough to survive a prolonged period of lost revenues and operational disruption, as well as to use the loans in ways that lower their fixed operating expenses;
- Long-term maturity to allow businesses to spread the costs of borrowing over a longer period and make relief affordable for severely affected small businesses;
- Enable borrowers to address a wide range of operational needs including maintaining payrolls, refinancing existing loans, tax obligation, purchasing equipment, inventory, furniture and fixtures, and Personal Protective Equipment (PPE), and property improvements; and
- Ensure any new iteration of PPP continues to waive the SBA's affiliation rules to permit small business owners to apply for funds for each business and each location.

³ <https://info.trepp.com/hubfs/Trepp%20June%202020%20Delinquency%20Report.pdf>

Adjust the Main Street Lending Program (MSLP) to enable access for asset-based businesses.

Since the inception of the MSLP, the Federal Reserve has recognized that the program largely omits commercial real estate⁴ due to how the program evaluates credit risk. Although Fed and Treasury leaders have acknowledged this problem, they have made no changes to expand eligibility to include the lodging industry. Ultimately, the stated purpose of the MSLP is to “provide support to small and medium-sized businesses and their employees...to help companies that were in sound financial condition prior to the onset of the COVID-19 pandemic maintain their operations and payroll until conditions normalize.” Hotels fall directly into this category and continue to be unfairly excluded from access to MSLP. We urge modification of the MSLP to provide lenders with the flexibility to choose the appropriate underwriting methodology more suited to the lodging industry.

Provide legal protections to small businesses acting in good faith to prevent the spread of COVID-19.

Hoteliers have long been at the forefront of protecting their guests and employees and keeping them safe. With the spread of the coronavirus, the lodging industry has adopted expansive procedures to ensure the cleanliness of their properties. As the industry struggles to survive the pandemic, the last thing small business owners can afford is costly litigation aimed chiefly at exploiting these unprecedented circumstances. We urge Congress to pass liability protection for small businesses acting in good faith by following appropriate health and safety protocols.

Enact a government-backed pandemic-related business interruption program.

Hoteliers expected their business interruption insurance coverage to support them as their business declined at the onset of the pandemic. Like most small business owners, they discovered their policies did not include pandemic coverage. A government-backed pandemic-related business interruption program would enable businesses to purchase a safe, reliable insurance product that provides coverage in the event of a resurgence of the virus, and would enable hotels to remain in business and keep workers employed.

Provide limited and necessary relief to state and local governments.

State and local governments are projected to lose significant revenues because of the impacts of COVID-19. These localities rely on tax revenues from small businesses to fund their operations. Property taxes from hotels in particular, provide considerable resources for their communities. Governments facing budget crises have declined relief to hoteliers from their property tax obligations, which they are unable to pay. We urge any funds used to offset state and local shortfalls to include language to require corresponding taxpayer relief.

Support timely and effective testing for COVID-19.

Reopening the economy will require modern, focused, and timely testing for COVID-19. Testing is critical to restoring Americans’ confidence in returning to traveling, staying at hotels, eating at restaurants, visiting attractions, and energizing the national economy.

Require GSA to set future per diem rates at FY 2020 levels (using 2019 data).

Hoteliers rely on government and business travelers whose reimbursement is based on GSA’s per diem rates. GSA ought to set its rates based on 2019 data to account for the catastrophic impact on the travel and tourism industry. Doing so would be a significant boost to the hospitality industry.

Targeted tax incentives:

As hoteliers incur additional costs to protect their employees and guests, while enduring dramatic declines in revenues, tax incentives can provide critical savings for small businesses.

⁴ <https://www.federalreserve.gov/monetarypolicy/files/main-street-lending-faqs.pdf>

- Eliminate cancellation of indebtedness income (CODI) penalties when a hotelier ultimately loses his business. Enduring this affront during an historic economic crisis is unconscionable.
- Expand the Employee Retention Tax Credit (ERTC) to encourage hoteliers to maintain payroll levels, even as business remains uncertain and occupancy continues to fluctuate.
- Enact credits for Personal Protective Equipment (PPE), cleaning supplies, and training.
- Develop temporary travel tax credits for individuals and families to promote business and leisure travel.