



June 26, 2020

The Honorable Steven T. Mnuchin
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

Dear Secretary Mnuchin and Chairman Powell:

On behalf of the undersigned trade associations which represent the breadth and depth of the U.S. domestic hotel industry, we thank you for your continued leadership in guiding our nation through this unprecedented health and economic crisis. Our respective organizations represent the more than 2.3 million people that have found a career in the hotel industry, working at one of the more than 55,000 hotel properties in the United States. The hotel industry contributes nearly \$660 billion to U.S. GDP, including nearly \$100 billion in wages and \$186 billion in local, state, and federal taxes.

Unfortunately, the hotel industry has been decimated by the COVID-19 health crisis. According to the Bureau of Labor Statistics (BLS), the leisure and hospitality sector lost 7.7 million jobs in April alone. That is more jobs than construction, manufacturing, retail, education, and health services combined. The human toll on our employees and our workforce is devastating. The economic impact to our industry is equally as dramatic, estimated to be nine times greater than the September 11 terrorist attacks. More than 8 in 10 hotels have had to lay off or furlough employees, and according to STR, the industry is expected to lose more than 57% of its total revenue in 2020 – a figure which could exceed \$135 billion.

From the beginning of this health and economic crisis, the lodging industry has been focused on two main objectives: first, supporting and retaining our valued employees as hotel bookings evaporated; and second, saving the U.S. network of local hotels, the majority of which are small businesses. Hotel employees and local hotel owners have been negatively impacted by the COVID-19 pandemic through no fault of their own. Both need additional assistance to make it through this crisis.

As communities begin reopening, we are encouraged to see people begin to travel and for some jobs to return. But make no mistake, this is still a very challenging time for our industry and our employees – nationwide hotel occupancies remain lower than any time in the past 40 years. As we outlined in previous communications, the hotel industry has significant concerns around the ability for our industry to effectively service debt both from traditional banks and commercial back-mortgage securities.

Given the continued historic low travel demand and revenue, 91% of hotels have sought relief from lenders on their commercial mortgages. Nearly two-thirds of hotel borrowers have been able to obtain lender concessions such as forbearance, payment deferrals or other relief measures. However, this is only true for 20% of CMBS borrowers compared to 91% for bank debt borrowers.

Most hotels have obtained only short forbearance on commercial debt loans. Eighty-six percent (86%) of borrowers who received forbearance received it for 90 days or less, and more than half of those will be required to start paying again in July. Nearly eight out of ten hotels have not been able to obtain further relief even though hotels are facing a lengthy recovery, likely extending until 2023 and beyond according to CBRE.

For these reasons, we are pleased to see the launch and recent expansion of the new Main Street Lending Program to further solidify the Trump Administration and Congress' efforts to bolster the American economy. However, hoteliers face multiple unnecessary obstacles in accessing the desperately needed liquidity from the Main Street Lending Program as the program is currently constructed. Due to the hotel industry's asset-heavy business model, hotels are shut out from utilizing this valuable program because of the rigid EBITDA leverage test.

While several industries benefit from the program, the Federal Reserve acknowledged in Section E.7 of the FAQs that "the credit risk of asset-based borrowers, as a matter of practice, is generally not evaluated on the basis of EBITDA." The FAQs also state, "The Federal Reserve and the Treasury Department will be evaluating the feasibility of adjusting the loan eligibility metrics of the Program for such borrowers." As the EBITDA-based leverage test will exclude many creditworthy, asset-based businesses from participating in the Main Street Lending Programs, a different form of measurement needs to be adopted for asset-based businesses.

Most hotels are financed via mortgage debt, which means that their total outstanding debt is generally already above the maximum six-times EBITDA threshold established in the Main Street Lending Facility.

As the Federal Reserve and Treasury continue to evaluate the Main Street Lending Program, we respectfully ask that you consider the following actions that would allow this critical industry access to liquidity to keep workers employed and help survive the crisis.

- 1. Adjust underwriting methodology for asset-based hotel borrowers by offering the option to replace the existing EBITDA multiple test with the following, chosen at the discretion of the lender based on applicability to the specific asset:**
 - a. A loan-to-value ratio test allowing for a maximum outstanding debt, including MSLF proceeds, of 75% loan-to-value based on the most recent existing appraisal, conducted prior to March 1, 2020.**
 - b. A debt service coverage ratio test, based on 2019 revenues, allowing a maximum outstanding debt, including MSLF proceeds, of a 1.15 DSCR.**
 - c. A maximum outstanding debt, including MSLF proceeds, multiple test of 14 times 2019 EBITDA. For newly opened hotels without a full 2019 EBITDA, a pro rata based on operating months before March 2020.**
- 2. Provide a two-year interest-only payment period and extend the loan amortization schedule to 25 years to ensure borrowers can meet debt service on the loan and encourage refinancing at the 5-year maturity. Require repayment on any capital event related to the asset that generates proceeds above the debt. Clarify that Main Street loans take second position behind existing financing.**
- 3. Clarify allowance for distributions within affiliated companies. Borrowers should be prohibited from making distributions to enrich themselves, however flexibility within affiliated companies will ensure businesses are able to use the funds where they are needed.**

- 4. Create a hotel-specific commercial mortgage-backed securities (CMBS) market relief fund as part of the Main Street Lending Facility. Almost 25 percent of hoteliers with CMBS debt have already missed payments with more rapidly approaching default and foreclosure. Pervasive default and foreclosure on hotel CMBS debt would be disastrous for the commercial real estate market at large, as well as the holders of that debt, including pension plans and other investors.**

We recommend these steps considering the catastrophic economic reality faced by hoteliers of all sizes across the country. Flexibility in underwriting methodology is critical for a diversely capitalized industry such as hotels.

AHLA, AAHOA, LHA, NABHOOD, and our members ask that the Treasury and Fed adjust the creditworthiness evaluation requirements for the Main Street Lending Facility to ensure that hotels, and other asset-based borrowers, are able to utilize this vital liquidity to keep people employed and survive the COVID-19 crisis.

Sincerely,



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President & CEO
American Hotel & Lodging Association



Cecil P. Staton
President & CEO
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Lynette Montoya
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