




HOTEL OWNERS ACADEMY™

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WEBINAR

HOTEL OWNERS & CONQUERING COVID: REPLACING LOST CASH INFLOW

Presenter: Robert W. Lannan, Principal, Lannan Legal PLLC

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Cash Flow Crisis Response Part I: Replacing Cash In-Flow

A Webinar Presentation to the
Asian-American Hotel Owners Association (AAHOA)

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“Cash flow is the lifeblood of a small business.”

cash flow. noun. The movement of money in and out of a business.

Merriam-Webster (2020).

Just having positive net equity on your balance sheet isn't enough, because illiquid assets can't pay bills.

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Two-Part Strategy to Respond to a Cash Flow Crisis:

- I. Replace Lost Cash Inflow
- II. Minimize Cash Outflow



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I. Replacing Cash Inflow Lost to the Crisis

- A. Alternate Sources of Revenue
- B. New Debt
- C. New Equity Investment

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A. Alternate Sources of Revenue

The subject of an earlier webinar.

Opportunities for some hotels include:

- Housing for healthcare workers
- Housing for homeless people
- Student housing

These opportunities are not available to most hotels.

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B. New Debt

1. Open line of credit with funds still available?
 - If your small business has one, you're better off than many.
 - If it's a credit card or other unsecured debt, ask the lender for a reduction in the interest rate.
 - Be careful if there is a personal guaranty.
2. New loans *from ordinary sources* are not available to the vast majority of hotel owners now.
3. Government programs are filling *some* of this gap.
 - Mostly federal assistance.
 - Some very limited state and municipal programs.
4. Mezzanine loans from loan-to-own hotel investors a risky last resort.

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Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, Pub. Law. No. 116-136

a. Paycheck Protection Program (PPP)

(1) What is it?

- Available to small businesses (500 or fewer employees) that were in operation on 2/15/2020
- Loans extended by private banks but guaranteed by the U.S. Small Business Administration (SBA)
- Loans unsecured by collateral and no guaranty required
- Maximum loan: 2.5 x average monthly payroll costs
 - “Payroll” includes salary/wages capped at a rate of \$100,000 per year for any employee, + group healthcare coverage, retirement benefits and state and local taxes.
 - Self-employed? Include your own compensation up to an annual rate of \$100,000.
- You may add to this amount of any EIDL loan **made** between 1/31/2020 and 4/3/2020 less any “advance” under that loan

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Paycheck Protection Program (PPP) (cont’d)

(2) Amount subject to forgiveness (becomes federal grant):

- 75% must be used to pay for payroll expenses
- Up to 25% forgivable if used to pay:
 - Interest on mortgage obligations incurred before 2/15/2020
 - Rent payments on leases dated before 2/15/2020
 - Utility payments under service agreements dated before 2/15/2020
- These amounts must be spent over an 8-week period beginning on the date of the loan.
- Borrowers apply for forgiveness.
- “Employee and compensation levels [must be] maintained.”

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Paycheck Protection Program (PPP) (cont'd)

(3) Certification Requirement

- Applicant must certify “**that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing obligations**” of the applicant.
- If you received a PPP loan and cannot make this certification, **today** is the “safe harbor” deadline to repay the loan in full.
- The Treasury Department has announced that it will audit all PPP loans above \$2 million.

(4) Any unforgiven balance of loan accrues interest at a fixed rate of **1% per year** and matures in **2 years**.

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CARES Act of 2020

b. Economic Injury Disaster Loans (EIDL)

(1) What is it?

- Previously existing loan program expanded by the CARES Act available to businesses affected by disasters
- Loans made directly by SBA, which deposits funds into a business' bank.
- Loans unsecured by collateral and no guaranty required
- Higher interest rate: 3.75%
- Maturity up to 30 years
- Larger loan amounts are supposed to be available

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Economic Injury Disaster Loans (cont'd)

(2) Amount subject to forgiveness: \$1,000 per employee up to a maximum of \$10,000.

(3) Requirement that borrower has incurred a “substantial economic injury” because of COVID-19.

(3) Substantial backlog of applicants

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Prosecutions for Fraud

- Two New England businessmen arrested last week for allegedly causing a business with no employees to misrepresent in a PPP application that it had many.
- Music artist arrested yesterday for alleged misuse of PPP loan proceeds to buy jewelry

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Mezzanine Loan

- A “middle layer” of investment that falls between senior secured debt and equity.
- Good news: it is not secured by the real estate or other hard assets.
- Bad news: There are two tradeoffs for this:
 1. Higher interest rate
 2. Owners of the business must pledge **warrants**, which give the lender a right to purchase their interest in the hotel upon default.
- Usually issued by same lender that issued senior secured debt.
- In a distressed market, may be offered by investors as a “loan-to-own” strategy.

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C. New Equity Investment

1. Existing Owners
 - Voluntary infusion of new capital
 - Involuntary capital call on multiple owners by manager of business
2. New Equity Investor
 - Will demand preferred position
 - Likely to demand warrants from current owners
3. Many existing lenders will demand new equity investment as a condition to forbearance or restructuring.

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