



## Asian American Hotel Owners Association

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### POSITION PAPER

#### **AAHOA STRONGLY URGES THE USDA TO ALLOW HOTELS WITH POOLS TO QUALIFY FOR SPECIAL LOANS INVOLVING NINETY PERCENT (90%) GUARANTEES**

On behalf of the more than 10,000 members of the Asian American Hotel Owners Association (AAHOA), we strongly urge the United States Department of Agriculture (USDA) to revisit the terms of the July 24, 2009 USDA Federal Register Notice, Vol. 74, No.141 ("Federal Notice"), which disqualifies hotels and motels that have swimming pools from being eligible for American Recovery and Reinvestment Act of 2009 ("Recovery Act") funded guaranteed loans.

Specifically, on July 24, 2009, a USDA Federal Notice was issued pursuant to the passing of the Recovery Act, which allocated additional funds to the USDA for use under the B&I loan program. The Recovery Act provided for more than \$126,000,000 in funds through September 2010 for these B&I loans. The loans funded through this program are very attractive to lenders because they have guarantees of ninety percent (90%) instead of eighty percent (80%), and they carry only a one percent (1%) fee rate instead of the standard two percent (2%) rate.

Unfortunately, the Federal Notice states that the following purposes are **ineligible** for Recovery Act funded guaranteed loans: "(6) Hotels/motels and other facilities that have pools or water parks." Under this term, hotels and motels with swimming pools must settle for loans financed through the Omnibus Bill at an eighty percent (80%) guarantee with the standard 2% fee rate. **As a result, many credit lenders are reluctant to extend loans to hotels with pools because they can get the much more attractive 90% guarantee by lending to other eligible businesses.**

As you may be aware, our AAHOA members own 22,000 hotels across the United States, which is approximately forty percent (40%) of all hotels in this country. Our members create or support more than one million jobs. The majority of our members originate from Gujarat, India, and they are living the American dream.

Behind these impressive statistics, however, **the lodging industry and many hoteliers are in trouble.** For the reasons explained below, Smith Travel Research (STR) Global, one of the lodging industry's foremost sources of data on hotel performance trends, reported that for the week ending October 10, 2009, the U.S. hotel market has experienced the largest one-year drop in over 75 years.

It is with this backdrop that AAHOA is seeking your assistance to help our hotel owner members in rural areas of the country obtain the necessary funding to operate their businesses. As you are aware, swimming pools have now become standard features of most hotels. Unlike many years ago when only the luxury resorts and certain full-service hotels offered swimming pools, **it is now standard for economy and limited service hotel brands to have swimming pools.** Almost all of the hotel franchise companies require their franchisees to maintain swimming pools as a requirement of keeping the franchised hotel brand.

As hotel owners around the country struggle to locate sources of financing for their small businesses, it goes without saying that those located in rural areas have been especially hard hit by this recession. Rather than penalizing them for being strong hotel operators who are maintaining pools in compliance with their franchisors' brand standards, these hotel owners should be offered the same funded guaranteed loans as other businesses that are providing excellent services to the public.

## POSITION PAPER (continued)

### The Need For Financial Assistance In The Lodging Industry:

The lodging industry has been greatly impacted by the current economic situation. The combination of a housing debacle, credit crunch, and rising unemployment rate has placed the nation's economy in a recession, which leaves fewer discretionary dollars in the pockets of consumers. Further, skyrocketing airline prices have caused many consumers to cancel their personal travel plans to stay at home and visit attractions that are within driving distance, resulting in lower occupancy rates in our member's hotels.

On the business side, corporations are continuing to implement cost-cutting measures such as reducing employee travel and scaling back conventions at hotels. In a National Business Traveler Association member study published on October 20, 2009, members responded that approximately seventy three percent (73%) had decreased their total travel expenditures in 2009, with twenty one percent (21%) reporting at least a thirty percent (30%) drop in the amount of money they had spent on business travel. Almost a third of the respondents expected no change in their decreased travel expenditures in the upcoming year.

With this combined lack of leisure and business travel, **the average hotelier has been hit harder by the recession than the average small business owner.**

While total revenues for hotels continued to fall over the past two years, the overhead costs continued to rise in 2008 and 2009, including utility costs (which were up 3.6 percent), property taxes (up by an average of 4.2 percent), and insurance rates (up by 3.1 percent). Similarly, the operating costs of the hotel franchisees continued to mount, since they are responsible for complying with the standards of their franchisors or they risk losing their businesses. These costs can range from the tens of thousands, to hundreds of thousands of dollars, in any given year.

The tight cash flow due to the fall in business and the current economical crisis is forcing many established hoteliers to struggle to make ends meet. Morgan Stanley risk analysts predict that the U.S. hotel loan-delinquency rate may climb to record highs by year-end. **As the crisis continues, the options for hotel owners with loans coming due will be limited.** Indeed, refinancing is seen as risky for lenders due to the declining hotel values and reduced cash flows.

Based on these bleak projections for the lodging industry, **we strongly urge the USDA to revise its provisions to allow hotels and motels with pools to be eligible for Recovery Act funded guaranteed loans.** With such financial assistance, our AAHOA members and other small business owners across the country can lead this country to a strong economic recovery in the upcoming years and beyond.

On behalf of our more than 10,000 hotel owner members, operators, spouses and families, as well as the thousands of small business owner vendors that provide products and services to the hotel industry, we thank you for your time and prompt attention to these matters.


 

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