

Testimony of Paresh “Pete” Patel
President & CEO
Promise Hotels
Before the House Small Business Committee
Subcommittee on Economic Growth, Tax, and Capital Access
“A Review of PPP Forgiveness”
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Chairman Kim, Ranking Member Hern, and Members of the Committee, it is an honor to speak before you today and I thank you for the opportunity to share my story with you. My name is Paresh Patel, most people call me Pete. I am a proud, first generation American. My family and I immigrated to the U.S. from India in 1979 in search of the American Dream. We found it in Tulsa, Oklahoma, as hoteliers and small business owners.

I am also a member of the Asian American Hotel Owners Association (AAHOA). AAHOA represents 20,000 members who own nearly 50 percent of all hotel properties in the United States. AAHOA members personally own the real estate, undertake the financial risk, and often personally guarantee the loans on their properties. 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. My story is remarkably similar to that of the thousands of hoteliers across the country.

My wife Tina and I founded Promise Hotels in 2008. We own and operate franchised hotels in Eastern Oklahoma. During the past several years, our business has done well. We’ve grown our operations and reacted to favorable economic conditions. Before the economic crisis caused by COVID-19, the lodging industry was enjoying historic occupancy rates, record average revenues, and profitability. New developments were also exceptionally strong because of the robust domestic and international interest in business and leisure travel.

Unfortunately, the Coronavirus pandemic halted travel almost overnight. During our busy season, our hotels should have occupancy above 80 percent. Instead, we have been lucky to hit 20 percent in some weeks. Our revenues have fallen by over 50 percent. Most tragically, we have had to lay off employees for the first time in my career because we simply do not have enough customers coming through the doors. Nationally, hoteliers in every state, market segment, and hotel category have experienced the same anguish my family and I have over the past seven months. Industry experts project that the hotel industry will not recover until 2024. As a franchisee, I am very concerned about my business and my livelihood. Nearly 33,000 franchised businesses closed in the first six months of the pandemic and an additional 36,000 are projected to close in the next six month without additional relief.

At the onset of the virus and as travel restrictions took hold, hoteliers and small businesses needed a lifeline. We’re grateful that Congressional leaders came together so quickly to pass the CARES Act. In particular, I appreciate how Congress prioritized assistance to small businesses and our employees. We used PPP predominantly towards payroll and to keep our employees. We also used some of the funds for utility payments necessary for our hotels. Were it not for the Congressional foresight to waive the SBA’s affiliation rules for hotels to ensure each location

could receive funds, I know many more employees would have lost their jobs and hoteliers would have had to close their businesses. Because of the PPP, we were able to keep our businesses running for upwards of another six months and we were able to save hundreds of jobs.

The PPP did have a few drawbacks, however, some of which could not have been known at the time it was created. First, the maximum loan amount of 2.5 times monthly payroll only carried us for a couple of months. We are now at the end of that period and the funds have been exhausted. Further, we are restricted in how the funds can be used. In particular, we are prohibited from using the PPP towards property taxes and mortgage principal payments. As property taxes come due and bank forbearance runs out, we are left with little recourse.

Accordingly, we have reviewed the forgiveness process and it has proven to be exceedingly complicated. From the time the PPP was created, the guidelines for forgiveness were often unclear and fluid. The complexity of the forgiveness application portal for each business is also quite time consuming, burdensome, expensive, and very frustrating.

One of our lenders granted us access to the portal. We spent hours reviewing the process and answering questions. We determined that hiring a CPA to handle this for us would have cost thousands of dollars per hotel. One of our other lenders has not begun the process at all. We understand some banks are intentionally delaying doing so to allow challenges to be resolved. There appears to be considerable inconsistency with the forgiveness application and process from one financial institution to the next. Finally, I believe Congress intended for the PPP loan forgiveness to be tax-free. The IRS's determination that PPP expenses ought to be considered taxable income seems to defeat the purpose of the program and adds an increased burden to small businesses already struggling to survive. I urge this committee to consider these challenges as you assess the effectiveness of the PPP forgiveness process.

I would also like to note that PPP funds have been crucial to the survival of our business. I understand there is discussion in Congress about creating a second round of PPP funding for small businesses that have suffered greatly because of the economic downturn. For hotels, our business is dependent on seasonal demand. Even in a good year, the fourth and first quarters yield less travel and fewer guests. As we have lost our busy season and are now facing our slowest time of year, I strongly urge you and your colleagues to quickly pass legislation that would authorize a second round of PPP to help us to save good, local jobs and to keep our businesses open.

Ultimately, however, as significant increases in travel are unlikely in the nearterm, hoteliers like me will need additional resources to help cover our debt service, taxes, and other costs (along with payroll). At the beginning of the crisis, our banks worked with us to defer payments on principal and interest for a few months. Largely, however, that forbearance has run out and banks are telling us that our notes will come due soon because of the pressure they are under from banking regulators to classify our debt. While the CARES Act provided relief from Troubled Debt Restructuring (TDR), the applicable period expires at the end of this year and banks are reluctant to provide additional workouts.

The Main Street Lending Program (MSLP) was designed to help small and medium sized businesses survive the crisis by providing a critical bridge when they need it most. Since the creation of the program, asset-based businesses have been excluded from participation because of the underwriting methods employed by the Federal Reserve. Small businesses like hotels suffer the most under this unreasonable standard. Most hotels in the United States are truly small businesses. Hoteliers like my wife and me own and operate our properties, and no other program exists that can help us cover our most significant costs. Earlier this week, Secretary Mnuchin and Chairman Powell asserted that conditions do not warrant expanding the MSLP to include hotels and other asset-based businesses. Secretary Mnuchin suggested Congress should simply expand the PPP. The MSLP has already been funded and hundreds of Members of Congress have implored the Treasury Department and Federal Reserve to act in order to prevent an even more dire economic catastrophe; yet, the regulatory agencies have largely dismissed these concerns. I urge the Members of this Committee to work with your colleagues to expand access to the Main Street Lending Program for asset-based businesses, like my hotels.

Chairman Kim, Ranking Member Hern, and Members of the Committee, I sincerely thank you for the opportunity to share my perspective on the outlook of the lodging industry in the United States. We are looking to you to help address our growing challenges during this critical time. America's hoteliers are the foundation of nearly every community across the country. Without additional assistance in the very near future, our businesses will fail and the economic impacts will devastate the communities in which they operate. I am grateful for your leadership and look forward to the solutions you propose to help our country.

Thank you.