



Reform Lodging

May 20, 2020

Michael R. Pence
The White House
Office of the Vice President
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Re: Urgent Relief Needed for Hospitality Industry CMBS (Commercial Mortgage Backed Securities) Loans

Dear Mr. Vice President Pence:

We are grateful to you and your administration for your steadfast and unwavering leadership during this ongoing Covid-19 pandemic. The coronavirus task force's public/private partnership and frequent updates have kept our citizens abreast of vital information and statistics.

The commercial real estate industry has been decimated by the impact of this economic shutdown. Specifically, hotels with CMBS mortgages also known as conduit loans are suffering from virtually no relief because of their onerous structures. A CMBS loan is a commercial real estate loan that is backed by a first-position commercial mortgage. Once these loans are executed, they are packaged together and sold by conduit lenders, commercial banks, investment banks, or syndicates of banks. The loan pools are sold off as bonds to institutional clients and high-net worth investors. Borrowers such as ourselves are then at the mercy of servicers, who enforce the lengthy loan documents in their entirety. There is no relationship formed between servicers and borrowers, those that you may find in conventional banking with your loan officer. The servicers do not visit our hotels, care to learn about our operations or our team members, or contribute anything to our local economies – they are simply there to enforce the loan documents, in turn, protecting the bond holders.

Besides the coronavirus impacts to our hotel occupancies and livelihoods, the CMBS debt platform has caused further grief. ***There is approximately \$86 billion worth of hotel CMBS exposure in the United States.*** *Of this figure, about \$57 billion is backed by single asset, single borrowers such as ourselves – small business owners who employ the local community and pay their fair share of taxes.* Hotels that are backed by CMBS mortgages cannot qualify for PPP or EIDL loans unless the servicers grant us approval, at a significant cost. This problem has spiraled out of control to the point that Ethan Penner, the renowned financier and “father” of the CMBS investment vehicle, has himself stated in recent media interviews, that the CMBS model requires urgent reform.

We kindly ask for your assistance in the following ways:

1.) It is an absolute predatory practice for servicers to charge unreasonable fees, simply in requesting government relief loans – with some hoteliers paying \$5,000 or more in approval fees

just to receive \$40,000 in PPP funds for example. Did the government intend for this money earmarked for employees to be used for fees? If not, why didn't the government address this when they agreed to TALF (Term Asset-Backed Securities Loan Facility)? Can the government step in and ensure that these unscrupulous servicers do not charge exorbitant fees for us to capture absolutely necessary government relief loans, or to simply make relief requests to them? Servicers will not even discuss loan specific requests unless borrowers sign legally binding Pre-Negotiation Letters (PNLs). Servicers then charge up to 0.5% or more of the outstanding loan balance (tens of thousands of dollars) to simply continue relief-focused conversations with them.

2.) The IRS issued Revenue Procedure 2020-26 on April 13, 2020 providing relief to certain securitization vehicles, including investment trusts and real estate mortgage investment conduits (REMICs), from consequences associated with the coronavirus (COVID-19) and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The highlight of this relief was to allow borrowers of commercial and residential mortgages that are experiencing financial hardship because of the COVID-19 emergency, to receive necessary forbearance. Unfortunately, the servicers have given commercial borrowers zero relief, despite the IRS directive. Any relief that has been received by commercial CMBS borrowers has come with extra up-front, non-negotiable fees with further strings attached. The limited forbearance granted requires us to go back in a few months, and make another request because we will surely be in continued default with the sheer volume of event cancellations and our peak summer tourism season, totally devastated for 2020.

3.) Can the federal government step in and provide assurances to hoteliers on the ground, that have created 1 out of every 25 American jobs, that our businesses won't be foreclosed on or undergo default actions from CMBS lenders because of COVID-19 pressures and the Shelter-in-Place orders that the vast majority of U.S. states enforced?

4.) The hotel and retail sectors are clearly known to be the hardest hit industries. With the coronavirus ravaging the global hospitality and tourism industry, hotels are in continued need of financial assistance. As we work diligently to reopen our hotels all while investing in our systems and processes to keep our guests safe, can we count on the government in guaranteeing us financial assistance to overcome our ongoing monthly losses?

5.) Our trade associations and some congressman are being told by servicers that they are granting forbearance and providing reasonable relief standards. Our data and internal surveys show otherwise. Out of 200 CMBS borrowers polled, only 18 received forbearance for 90+ days, with the duration of time needed for approvals approaching nearly one month. The predatory fee structure of servicers further required charges equal to almost one month's worth of mortgage payment and one month's worth of payroll costs. What statistics are the servicers providing to the government to prove that they are doing right by borrowers?

6.) With respect to the TALF, can the government demand that fair standards to borrowers must apply before the money is released to those bonds that are getting financed? If so, can there be an oversight committee put into place that can serve as a watchdog in enforcing this?



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Your assistance in helping to provide further relief to the hotels backed by CMBS loans will prevent the erosion of billions of dollars in assets and millions of American jobs from being lost.

Most Respectfully,

A handwritten signature in blue ink, appearing to read 'Sagar' followed by a long horizontal flourish.

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