Coronavirus Impact on Hospitality Industry Loans

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Coronavirus Response Team
Publications

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The COVID-19 pandemic is having a widespread impact on the hospitality industry and, in response, many franchisors have begun issuing their initial guidance regarding the pandemic to their franchisees. Common themes are deferring renovations and product improvement plans (PIPs) that would otherwise be due in 2020, waiving furniture, fixtures and equipment (FF&E) deposits and, in some instances, explicitly providing that FF&E reserve funds may be used to cover general operating expenses. Given the consistent response we have seen thus far from leading franchisors, it is likely that additional franchisors will be providing similar guidance in the coming days.

Review Loan Documentation

Many borrowers have already begun reaching out to lenders and servicers with requests consistent with the franchisor guidance. In preparation for those discussions, lenders and servicers should consider reviewing loan documentation with the following in mind:

- Should FF&E or other reserve deposits be temporarily waived and, if so, on what terms?
- What existing reserve funds are currently being held by lender or servicer? Should any of these reserve funds be made available to borrowers for the payment of debt service and operating expenses?
- Do the loan documents currently provide for the completion of any renovations or property improvement plans? Do the required deadlines need to be adjusted to match up with franchisor deferrals?
- Do any loan modifications impact the validity of the lender comfort letter? Most of the major franchisor comfort letters do not require franchisor approval for loan amendments or modifications, however, this should be confirmed on a case-by-case basis.

There are other issues to consider as well. Many loan documents include a default for the failure to continue to operate the property as a hotel. Such defaults may be implicated in light of various state and local orders to close businesses. Although many such orders have excluded hotels from required closure as essential services, many hotel owners may still be considering closure or even temporary use of the hotel for other purposes (hospital overflow, pandemic response worker housing and homeless shelters are among uses we have seen discussed).

Given the rapidly evolving situation, additional issues will likely continue to surface for some time.

For assistance in analyzing these issues in the context of your loan documents, and for other guidance in navigating the challenges posed to the lending and servicing industries by the COVID-19 pandemic, please contact Barry Hines, John Gragg, Chandler Hodge, Steve Smith, Amanda England or Josh Brock or any attorney in Frost Brown Todd's CMBS practice group.

To provide guidance and support to clients as this global public-health crisis unfolds, Frost Brown Todd has created a Coronavirus Response Team. Our attorneys are on hand to answer your questions and provide guidance on how to proactively prepare for and manage any coronavirus-related threats to your business operations and workforce.