The “Paycheck Protection Program” In Name Only

Large Hotel Chains Collect $3.3 Billion through PPP Loopholes as Laid Off Hotel Workers File Complaints with Small Business Administration

Legislators conceived the Paycheck Protection Program (“PPP”) with the best of intentions, seeking to provide small businesses relief that would enable them to support their employees and avoid permanently closing due to the COVID-19 pandemic. However, the PPP has key flaws that allow businesses to spend billions on mortgages, rent, utilities and other non-payroll costs and, particularly in the hotel industry, enable large, wealthy corporations to monopolize a program meant for small businesses.

To quantify the extent to which large hotel chains have taken advantage of PPP loopholes, Local 11 analyzed the dataset of 80,259 loans to hotels (NAICS code 721110) for a total of $13.7 billion created by the SBA on March 2, 2021 and updated as of May 10, 2021. In order to account for the hospitality loophole, we combined all loans to each individual address and counted them as one loan to the same borrower headquartered at that address. In total, hotels received $3.3 billion through the loopholes described below.

Key Findings

- The hospitality loophole enabling large hotel chains with over 500 workers to collect first draw PPP loans for multiple locations—and enabling large hotel chains with over 300 workers to collect second draw PPP loans for multiple locations—netted hotels a $1.3 billion bailout unavailable to non-hospitality borrowers, with no additional requirement that funds be used for payroll costs beyond the program’s requirement that all borrowers spend 60% of their loan on payroll to qualify for full loan forgiveness. In March 2020, Maine Senator Susan Collins took credit for this loophole. ii

- In 2021, the hospitality industry won yet another loophole: language allowing hotel borrowers to receive PPP loans equal to 3.5 times monthly pre-pandemic payroll instead
of the 2.5 times monthly pre-pandemic payroll for other non-hospitality borrowers. Hotels took advantage of this largesse to the tune of $1.9 billion, again with no additional requirement that funds be directed to workers struggling due to the COVID-19 pandemic beyond the program’s requirement that all borrowers spend 60% of their loan on payroll to qualify for full loan forgiveness.

- While the average 2021 PPP loan was for $45,000, the average 2021 hotel PPP loan was for $182,720.iii
- Wealthy hotel borrowers got a disproportionately large share of PPP relief among hotels, and actual small hotel businesses received a disproportionately small share. Compared to overall PPP loans, PPP loans to hotels were disturbingly skewed in favor of hotels that received over $1 million, which are less likely to be true small businesses in need of relief as the loan amount is tied to payroll costs. The 3.3% of hotel borrowers that received loans over $1 million collected 35.9% of the total loan amount hotels received, whereas the SBA reported that overall, the .4% of borrowers that received over $1 million collected only 16.4% of all PPP funds in 2021,iv and the 1.6% of borrowers that received over $1 million collected 34.1% of all PPP funds in 2020.v
- According to Local 11’s analysis of employment at 24 Southern California and Arizona hotels, 10 (42%) would not appear to qualify for loan forgiveness, since these hotels should not have been able to spend 60% of loan proceeds on payroll costs because not enough workers were placed on payroll.
- Despite this evidence that many hotels do not appear to qualify for loan forgiveness, U.S. hotels reported 97% of PPP loan proceeds were assigned to payroll at loan origination, and the SBA as of May 10 had forgiven and paid back over $257.5 billion—while denying forgiveness for only $800 million.vi
- In 2021, Local 11 has filed two complaints with the SBA’s Office of Inspector General requesting investigations of the Chateau Marmont in West Hollywood and Mr. C Beverly Hills, where evidence suggests that hotels have not used PPP loans for payroll because the hotels terminated their entire workforce or otherwise failed to bring sufficient numbers of workers back on payroll.
- The SBA OIG has received 148,525 hotline complaints relating to PPP and EIDL, but only 428 led to investigations, and 73,758 were unprocessed as of March 18, 2021.vii

**Recommendations**

Based on the experience of our members and non-union hotel workers, UNITE HERE Local 11 believes the Paycheck Protection Program must be immediately modified. Hotels cannot be trusted to direct funds to payroll when not explicitly required to do so. The Biden-Harris Administration and Congress should immediately halt the PPP and ensure any outstanding funds go directly to workers. Here are immediate steps Congress can take to protect taxpayers and ensure PPP funds go to payroll costs for workers as intended.

- The SBA should immediately halt loan forgiveness for hotel borrowers that received $1 million or more, and disclose all loan forgiveness applications for this group of hotels so workers and taxpayers can compare how hotels claim to have used PPP funds to how they were actually used.
• Congress should remove the hospitality loophole from the PPP and treat hotel companies like every other business.
• Congress should dedicate more funding to oversight of the PPP, and provide a better process for stakeholders to engage with the SBA and other agencies investigating potential misuse of the program.
• For every PPP loan, the SBA should disclose whether a loan forgiveness application has been received, the loan forgiveness application’s breakdown of how the loan was used, and the amount forgiven by the SBA, and update this disclosure weekly.
• The House Small Business Subcommittee on Oversight, Investigations and Regulations, House Select Committee on the Coronavirus Crisis and Senate Budget Committee should conduct oversight hearings where workers at large hotel chains that received millions from the PPP share their stories of how they have not seen a cent of funds intended for payroll costs, and where hotel executives are required to account for how they spent PPP funds if not on payroll.

**Hotel chains collect $3.3 billion from hospitality PPP loopholes**

Non-hospitality firms with over 500 employees are not eligible for the PPP, but [large hotel chains won an exemption from SBA rules](#) enabling them to apply for loans at multiple properties so long as each property has 500 or fewer workers, even if they collectively employ over 500 workers. For second-draw loans (“PPS”), changes in eligibility requirements made non-hospitality firms with over 300 employees ineligible for the PPS, but hotels are again allowed to apply for loans at multiple properties so long as each property has 300 or fewer workers, even if they collectively employ over 300 workers.

Local 11 analyzed the dataset of 80,259 loans to hotels (NAICS code 721110) for a total of $13.7 billion released by the SBA on March 2, 2021, and updated as of May 10, 2021. In order to account for the hospitality loophole, we combined all loans to each individual address and counted them as one loan to the same borrower headquarter at that address. For example, Columbia Sussex received 20 loans through different entities registered to its Kentucky headquarters’ address, 740 Centre View Blvd in Crestview Hills, which is counted in our analysis as one $50 million loan to one company purportedly used to retain 3,886 jobs. In fact, despite the SBA’s limit of $20 million per “corporate group,” Columbia Sussex and eight other firms appear to have received more than $20 million through 12 to 57 separate loans each.

Because of this, lending in the hotel industry has disproportionately favored the large, wealthy corporations least in need of taxpayer assistance. For the PPP, the loophole enabled 81 large hotel chains with over 500 workers to collect $557 million, and for PPS the loophole expanded, enabling 167 large hotel chains with over 300 workers to collect $791 million, a total of $1.3 billion across the program.

The Biden-Harris administration has made changes to the PPP to prioritize small businesses, and those changes have made a positive impact overall. However, 2021 lending to the hotel industry actually skewed more towards larger loans, likely due to the loophole favoring larger hotel companies, and an additional gift to hospitality companies in the American Rescue Plan—while every other company was eligible to receive a loan equal to 2.5 times average monthly pre-
pandemic payroll costs, hospitality companies can now receive a loan 3.5 times those costs, with no additional requirement that the money be used for payroll.\textsuperscript{xii}

“On the PPP, it’s a home run. It’s about as good as we could have asked for, especially the 3.5 [times payroll],” American Hotel and Lodging Association CEO Chip Rogers said on December 21. “That’s a 40 percent increase.”\textsuperscript{xiii} The PPP changes may be a home run for hotels, but for their workers, it’s a strikeout.

We then compared hotel loans to the SBA’s analysis of PPP loans to all borrowers.

In 2020, loans of under $150,000—more likely to be loans to true small businesses—represented 87.4\% of the number of PPP loans to all industries, or 28.2\% of the amount of PPP loans to all industries.\textsuperscript{xiv} However, in hotels, 2020 loans under $150,000 represented only 80\% of all lending, and 25\% of the total loan amount. By contrast, in 2020, loans of over $1 million—more likely to benefit wealthier borrowers with larger businesses—represented 1.6\% of the number of PPP loans to all industries and 34.1\% of the amount of loans.\textsuperscript{xv} But for hotels, loans over $1 million represented 2.9\% of the number of loans, and 39\% of the amount. The average 2020 PPP loan was for $101,000, but the average 2020 hotel PPP loan was for $161,000.

In 2021, following the Biden-Harris Administration’s changes, loans of under $150,000 represented 94.7\% of the number of PPP loans to all industries, or 47.9\% of the amount of PPP loans to all industries, a marked improvement from 2020 lending to small businesses.\textsuperscript{xvi} However, in hotels, 2021 loans under $150,000 represented only 72\% of all lending, and 22.8\% of the total loan amount. By contrast, in 2021, loans of over $1 million represented only 4\% of the number of PPP loans to all industries and 16.4\% of the amount of loans.\textsuperscript{xvii} In hotels, loans over $1 million represented 3.7\% of the number of loans, and 32.9\% of the amount. While the average 2021 PPP loan was for $45,000, the average 2021 hotel PPP loan was for $182,720, over four times that amount.\textsuperscript{xviii}

Further, we divided hotels’ $7.1 billion in 2021 PPP loans by 3.5 to arrive at a $2 billion estimate for the value of hotels’ ability to receive 2021 loans representing 3.5 times monthly prepandemic payroll instead of 2.5 times monthly prepandemic payroll for other non-hospitality borrowers.

In total, we estimate hotels were granted $3.3 billion unavailable to other non-hospitality borrowers, with no additional requirements that loans be used for payroll beyond the original PPP requirement that 60\% of funds be used for payroll in order to obtain full loan forgiveness.

**SBA has forgiven $257 billion in PPP loans at rate of over 99\%, but Local 11 membership data suggest hotels shouldn’t qualify for full loan forgiveness**

While borrowers apply for PPP loans based on pre-pandemic employment levels and payroll costs, borrowers are only required to use loan proceeds for payroll costs if they intend to seek loan forgiveness, and even then, they need only spend 60\% of their loan on payroll costs in order to convert their entire loan into a grant.\textsuperscript{xix} The SBA as of May 11, 2021 had approved $782 billion in PPP loans,\textsuperscript{xx} so borrowers could spend 40\% of that amount — $312.8 billion — on non-payroll costs and still qualify for full loan forgiveness.
In a December 2020 report, Local 11 analyzed internal membership data for 24 hotels that received PPP loans in Southern California and Arizona and found that 10 out of 24 hotels appear not to qualify for loan forgiveness based on hotel worker employment levels during the SBA’s covered period for PPP loans. Per SBA rules, borrowers had until the end of the 24-week covered period following loan disbursement to spend 60% of their loan on payroll if they intended to seek loan forgiveness. However, 10 of the 24 hotels averaged less than 25% of pre-pandemic employment (measured by January 2020 membership) from May to October, the covered period following when most loans were approved and disbursed in mid-to-late April.

However, the SBA has proceeded with processing loan forgiveness applications; as of May 10, SBA had forgiven and paid back over $257 billion—while denying forgiveness for only $800 million. While Local 11 found that 42% of the 24 hotels would not qualify for loan forgiveness, the SBA has thus far approved loan forgiveness at a rate of over 99%.

Further, those 10 hotels collectively reported assigning 94% of their $13.5 million in first draw PPP loans to payroll, and all but one borrower fell under Exemption 4. Six of the ten hotels then received second draw PPP loans, all for greater amounts than their first loans.

Borrowers that choose not to spend a cent on their employees’ payroll will still receive a 1% interest rate loan from the SBA, with payments deferred 10 months after the end of the covered period for the borrower’s loan forgiveness (between 8 and 24 weeks). The U.S. prime rate, or the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks, was set at 3.25% effective March 16, 2020 according to the Wall Street Journal, and one industry analyst estimates 10-year rates for CMBS hotel debt at 4-5%. Other types of bridge lending or mezzanine loans charge as high as 12-13%. However Congress decided on 1% as its PPP rate, which is a bargain compared to the cost hotels would pay for other capital.

Evidence suggests that hotels are indeed spending PPP loan proceeds to pay down debt. Moody’s Investor Service VP-Senior Credit Officer Kevin Fagan reported on April 8, 2021 that “Our analysis shows that the second round of PPP funds will provide on average about two months of hotel loan payments, whereas most will require nine to 12 months of support to return to breakeven profitability.” In fact, despite laying off workers en masse, in the entire year of 2020, California hotels filed only 15 notices of default according to Alan Reay, president of Atlas Hospitality Group, which tracks hotel defaults in the state. Reay said in a non-pandemic year, it’s not unusual to see 20 or 30. Local 11 believes this lack of foreclosures is due in large part to hotels using PPP money to cover various expenses other than their payroll, such as paying down debt, but the SBA’s disclosure leaves this an open question.

**Limited SBA disclosure obscures which hotels have received loan forgiveness**

According to Local 11’s reading, the SBA’s recent disclosure provides very little useful information about how PPP funds have been spent, and whether they have been forgiven. The SBA’s “data dictionary” released in conjunction with March 2, 2021 data states, “Loan Status is replaced by ‘Exemption 4’ when the loan is disbursed but not Paid in Full or Charged Off.”
78% of all U.S. hotel loans fell under this category, which appears to be the only data field that could potentially provide information regarding individual loan forgiveness status.

The March 2 data also features a “PAYROLL_PROCEED” field described as the “Amount of proceeds assigned to payroll (at origination),” as well as similar fields for utilities, mortgage interest, rent, refinancing EIDL loans, health care and debt interest. U.S. hotels reported 97% of the $13.7 billion loans to hotels were assigned to payroll at origination as of May 10.

As explained earlier, Local 11’s analysis found that 10 of 24 hotels that received PPP apparently could not have spent 60% of loan proceeds on payroll costs because workers did not return to their jobs, much less 97%. Simply put, it defies expectation that hotels would collectively spend 37% more of their loan proceeds on payroll costs than the amount required for loan forgiveness.

The SBA’s current loan forgiveness rate of 99% raises the disturbing possibility that the SBA is relying on the “PAYROLL_PROCEED” field or similarly inflated payroll reporting to grant loan forgiveness.

As a bare minimum, the SBA must immediately release loan-level forgiveness information based on data from borrowers’ loan forgiveness applications that details amounts reportedly spent on payroll and non-payroll expenses, so stakeholders like Local 11 can correct any misreported information and help SBA ensure that wealthy hotels don’t receive loan forgiveness under the program’s weakened payroll requirements. The Paycheck Protection Program Flexibility Act passed in June 2020 lowered the amount of PPP funds that must be used on payroll to qualify for full loan forgiveness from 75% to 60%.

UNITE HERE Local 11 files multiple complaints with SBA, but nearly half of 148,525 PPP and EIDL complaints were unprocessed as of March 18

In a rush to bail out corporations, the Trump Administration’s SBA began PPP lending without proper oversight in place. The Select Subcommittee on the Coronavirus’s March 25, 2021 Memorandum, “Lowering the Guardrails: How the Trump Administration Failed to Prevent Billions in Pandemic Small Business Fraud,” details myriad problems with the PPP, including $189 billion in PPP loans identified by the SBA’s internal auditor that “are potentially not in conformance with the CARES Act and related legislation.”

Local 11 collaborated with Representative Katie Porter, who along with seven other members of Congress wrote to former SBA Administration Jovita Carranza in October 2020 asking for a full investigation of whether workers actually received support from $50 million in PPP loans approved in April 2020 through 20 different entities listed at Columbia Sussex’s corporate headquarters in Kentucky. These loans include three loans to potential “holding company” entities that do not own individual hotels yet claimed to have retained 500 jobs each and were approved for nearly $10 million each. To our knowledge, the SBA failed to respond to these members. Worse yet, every Columbia Sussex loan fell under Exemption 4, leaving us to wonder if they have been forgiven absent the requested investigation.
In 2021, Local 11 has thus far filed two complaints with the SBA’s Office of Inspector General requesting similar investigations of hotels, and has not received a response. The SBA OIG has received 148,525 hotline complaints relating to PPP and EIDL, but only 428 led to investigations, and 73,758 were unprocessed as of March 18, 2021, according to the Select Committee Memorandum.xxxiii

We summarize Local 11’s complaints below.

**Chateau Marmont**

Local 11 filed a complaint on April 15 regarding a $1.95 million loan to Chateau Holdings Ltd at the address of the Chateau Marmont in West Hollywood approved on February 5, 2021. Last March, the Chateau Marmont fired more than 200 of its workers, leaving workers who had dedicated decades of their lives to the hotel without job security or company-provided healthcare during the pandemic. Only a small fraction of laid-off Chateau workers have been returned to their jobs, but the loan was according to the SBA tied to the retention of 151 jobs and reported $1.95 million assigned to payroll at origination.

Although most former Chateau workers remain jobless, struggling to provide for their families, the Chateau has apparently not had difficulty making payments on its $42 million mortgage. Chateau has made loan payments like clockwork, and hasn’t been delinquent on a single loan payment since receiving the loan in 2017.xxxiv

**Mr. C Hotel Beverly Hills**

Local 11 filed a complaint on April 29, 2021 regarding a $1.549 million PPP loan on May 1, 2020 through Mr. C Beverly Hills owner Morning View Hotels- BH I LLC, and a $2 million loan on February 14, 2021 through the same entity.xxxv According to data released by the SBA updated as of May 10, both loans were classified under “Exemption 4,” which the SBA describes as “disbursed but not Paid in Full or Charged Off,” and listed $1,549,487 and $1,999,998 under the PAYROLL_PROCEED fields, which the SBA describes as the “Amount of proceeds assigned to payroll (at origination).”xxxvii

In the complaint, workers demanded to know how much, if any, loan funds will be or have been used for non-payroll costs, as the hotel reported it only employed an average of 7% of the 42 housekeepers represented by Local 11 for the time period August 31, 2020 through February 21, 2021, according to housekeeping schedules which the hotel provided to the Union. This time period partially overlaps with the 24-week term of the hotel’s May 1, 2020 loan and with the start of the term of the hotel’s February 14, 2021 loan.

Workers also questioned why the hotel’s second loan, which according to the SBA was tied to the retention of 46 jobs, was for a larger amount than its first loan tied to the retention of 127 jobs.
Like the Chateau, the Mr. C has also evidently had no problems making payments on its $50 million mortgage. Mr. C has made loan payments like clockwork, and hasn’t been delinquent on a single loan payment since receiving the loan in 2018.

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i The SBA created the dataset on March 2, 2021. The version used for this analysis was downloaded on May 10, 2021. On May 5, the SBA reported that the Paycheck Protection Program has run out of money for most borrowers before its planned May 31 end and that going forward, the program will only accept new applications from community financial institutions, which typically serve minority borrowers, as about $8 billion in funding was set aside for such businesses. To download the SBA’s PPP data, see [https://data.sba.gov/dataset/foia](https://data.sba.gov/dataset/foia).


ix Ibid


xiv Ibid


xvi Ibid

xvii Ibid


One borrower, Westmont Hospitality Group, operates two Southern California hotels with workers represented by Local 11, and received multiple loans without specifying whether these or other hotels received it.


Commercial mortgage-backed securities loan records for Chateau Marmont


Commercial mortgage-backed securities loan records for Mr. C Beverly Hills