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# CMBS Credit Focus

## Excess Cash Allocations: Probing Advances on Positive Cashflowing Loans

### Questions Linger on Advancing Rationale in >1.0x DSCR Situations


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**Persistent servicer advances on loans with seemingly ample funds to cover debt payments underscore a growing challenge to track cash allocations amid volatile property performance.** The situation in the $180 million Hilton Minneapolis (JPMCC 2018-MINN) crystalizes the point. The 821-room hotel, now in receivership and going through foreclosure, generated $14.2 million net cashflow during 2022, based on deal reporting (Figure 1). The annual debt service on the floating-rate loan was $9.9 million. Yet the servicer continued to advance debt payments during the year, elevating the outstanding P&I advances to $23.6 million. Investors would have been correct to raise questions about the recent advances (and they have). The total advances on Hilton Minneapolis now reach 15.1% of the outstanding balance, telegraphing very limited principal paydowns down the road. Reimbursement of servicer advances takes priority upon liquidation.[1]

Figure 1. Hilton Minneapolis Loan and Property Parameters

| Asset Name | **Hilton Minneapolis** | | | |
|---|---|---|---|---|
| Deal | JPMCC 2018-MINN | | | |
| Balance | $180,000,000 | | | |
| Maturity | November 2020 | Other Information | | |
| Coupon | 1ML + 3.85% | Appraisal History | | |
| Loan Status | Matured, Non-Performing | $182.5 MM (Aug-2022) | Total P&I Advanced: | $23.6 MM |
| Property Type / Size | Full-Service Hotel / 821 Rooms | $238.9 MM (Oct-2018) | ASER: | $3.8 MM |
| Year Built / Renovated | 1992 / 2017 | | ARA: | $37.1 MM |
| Location | Minneapolis, MN | | | |

Source: MCIA and Academy Securities

**We expect to see more situations of troubled loans with servicer advances even with healthy reported cashflows, or >1.0x DSCR.** Hotel and retail properties have experienced particularly volatile performance in recent years, with cashflows potentially ranging from zero at the height of the pandemic to robust levels recently. Servicers that advanced while cashflows were negative, may still be advancing even as cash turned positive. In turn, delinquent office properties can

1 See "Themes for 2023 Credit Situations – Split A/Bs, Conversions, and Total Exposures," CMBS Credit Focus, Academy Securities, December 15, 2022

still generate decent cashflows on the heels of longer-term leases. Borrowers may choose to strategically default to kick off modification negotiations, as we recently discussed.[2] In all cases, investors are left to probe the rationale of advancing on positive cashflowing loans, and the allocation of the excess funds the property generates (Figure 2).

Figure 2. Large Loans with Servicer Advances and DSCR>1.0x

| Loan | Deal(s) | Balance ($MM) | Property Type | Status | P&I Advances ($MM) | Total Advances ($MM) | Total Advances as % of Balance | Recent DSCR |
|---|---|---|---|---|---|---|---|---|
| Mall of America | CSMC 2014-USA | 1,385.6 | Retail | Current | 30.6 | 70.4 | 5.1% | 2.22 |
| CXP Office Portfolio | CXP 2022-CXP1 | 484.7 | Office | 90+ DQ | 11.5 | 11.7 | 2.4% | 2.11 |
| Palisades Center Mall | PCT 2016-PLSD | 388.5 | Retail | 90+ DQ | 11.1 | 12.1 | 3.1% | 1.85 |
| Hyatt Regency New Orleans | NOHT 2019-HNLA | 325.0 | Hotel | Current | 6.7 | 6.7 | 2.1% | 1.95 |
| Crossgates Mall | COMM 2012-CR1, COMM 2012-CR2, COMM 2012-CR3 | 243.7 | Retail | Current | 6.0 | 7.0 | 2.8% | 1.19 |
| 600 California | GSCG 2019-600C | 240.0 | Office | 30 DQ | 1.6 | 1.7 | 0.7% | 1.72 |
| Shidler / NSSP - Hospitality Portfolio | HMH 2017-NSS | 204.0 | Hotel | 90+ DQ | 11.9 | 21.7 | 10.6% | 1.27 |
| Hilton Minneapolis | JPMCC 2018-MINN | 180.0 | Hotel | 90+ DQ | 23.6 | 27.2 | 15.1% | 1.43 |
| West County Center | JPMCC 2012-LC9, JPMCC 2013-C10 | 160.4 | Retail | 90+ DQ | 3.0 | 3.0 | 2.1% | 1.46 |
| Westin Times Square Leasehold | CSMC 2017-TIME | 140.0 | Hotel | Current | 4.8 | 20.9 | 14.9% | 1.54 |
| Federal Center Plaza | COMM 2013-CR6 | 130.0 | Office | Current | 0.5 | 3.3 | 2.5% | 2.13 |
| 635 Madison Avenue | JPMBB 2014-C24 | 84.8 | Mixed Use | 30 DQ | 0.9 | 1.7 | 2.0% | 1.22 |
| The Westin Book Cadillac | CGCMT 2020-GC46, BMARK 2020-B17 | 77.0 | Hotel | Current | 3.0 | 3.0 | 4.2% | 2.00 |
| Hotel Max | COMM 2015-CR26 | 29.2 | Hotel | Current | 1.1 | 1.1 | 3.8% | 1.15 |
| Lightstone Portfolio | JPMDB 2017-C7 | 24.0 | Hotel | Current | 0.5 | 0.6 | 2.5% | 1.67 |
| Oxford Valley Mall | GSMS 2011-GC3 | 22.7 | Retail | 90+ DQ | 0.7 | 0.7 | 3.1% | 1.46 |

Source: MCIA and Academy Securities

## Advances Accumulate on Fresh Delinquencies Despite Available Funds

**To be sure, advancing on freshly delinquent loans, even those with strong financials, is not unusual.** Advancing is aimed, by design, at maintaining uninterrupted bond payments when borrowers fail to pay. As such, servicer advances will kick off immediately upon default, regardless of property available funds. This is the case on the fresh delinquencies of CXP Office Portfolio ($484.7 million, CXP 2022-CXP1, 2.11x last reported DSCR) and 600 California Street ($240 million, GSCG 2019-600C, 1.72x). Reported financials on both office loans indicate the properties generated sufficient cash as of late 2022 to service debt payments (though we can't rule out a dramatic change in recent months). Yet the loans are now fast accumulating advances – $11.5 million on CXP and $1.6 million on 600 California. The key questions for such situations are how quickly cash sweep mechanisms kick in, or how soon the borrower resumes payments following potential loan modification.

2 "Mezz Loan Sales: A Potential Headache for CMBS Workouts," CMBS Credit Focus, Academy Securities, March 22, 2023

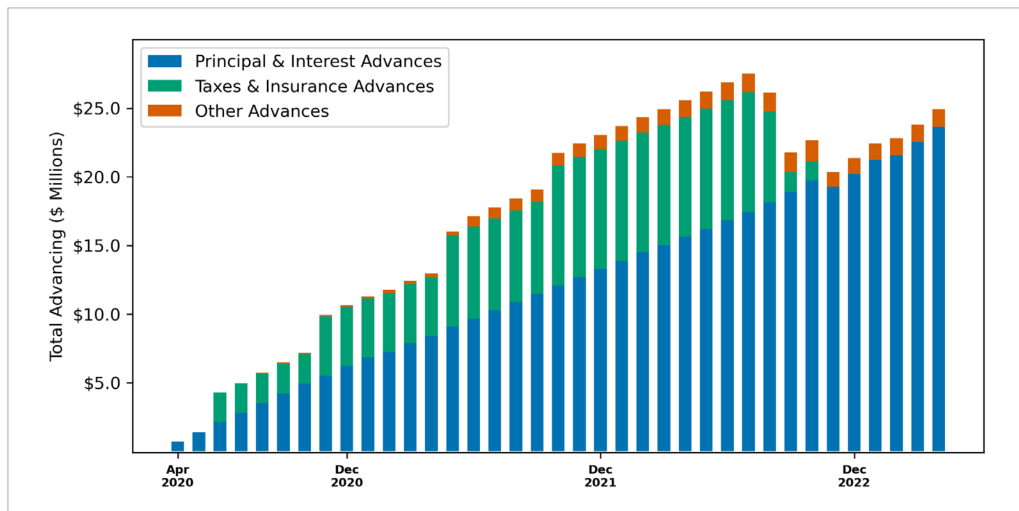
## Pre-liquidation Advance Recovery Sleuthing

**Tracking advancing on positive cashflow loans that have been languishing in special servicing for a while can be knottier.** One reason investors can still see advances on >1.0x DSCR loans is that the servicer is applying excess cashflow to outstanding advances. This appears to be the case in the $204 million Shidler / NSSP - Hospitality Portfolio (HMH 2017-NSS). The 22-hotel portfolio, which transferred to the special back in 2020, reported 1.27x DSCR as of YE 2022. But in 2021 the hotels generated paltry cashflow, resulting in 0.04x DSCR. The servicer is chipping away at prior advances, based on servicer commentary. The loan's outstanding P&I advances now stand at $11.9 million, down from $16.6 million in July 2022.

**Continuously tracking changes in outstanding advances is one way to potentially deduce that servicers have used available funds to reimburse prior advances.** While servicers typically recover advances at loan liquidations, deal documents indicate reimbursements can come from monthly trust collections. The realized loss template servicers produce following loan liquidations clearly indicate advance recovery (items "g" through "l" in the section "amounts due to servicers and trustee"). In contrast, pre-liquidation advance reimbursement is harder to track, aside from situations of so-called non-recoverable advances ("NRA") and workout delayed reimbursement amounts ("WODRA"). NRA reimbursement and WODRA are clearly identified in remittance reports, or in the servicer's "advance recovery report".

**Hilton Minneapolis demonstrates the requisite sleuthing for non-WODRA or NRA situations.** While the deal's financial reporting skips 2020-21 results, fresh commentary indicates the property saw a negative $4.2 million EBITDA (18% occupancy, $25 RevPAR) in 2021, and –$6.0 million EBITDA (17% occupancy, $19 RevPAR) in 2020. As such, the servicer clearly needed to advance during the pandemic, and may be looking to recover some of those advances now that the hotel's fortunes are shifting. Yet the overall P&I advances on the loan are still increasing, in contrast to the situation at Shidler / NSSP (Figure 3). This casts doubt on the advance recovery conjecture, maintaining the lack of clarity around Hilton Minneapolis' recent P&I advances.

Figure 3. Hilton Minneapolis (JPMCC 2018-MINN) Advancing Schedule




Source: MCIA and Academy Securities

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