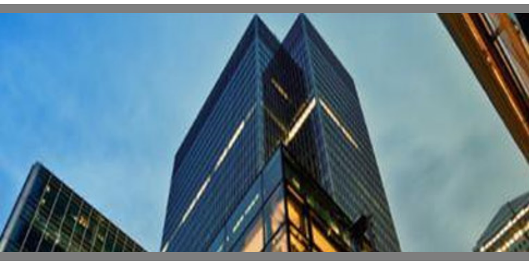
CMBS Credit Focus

Interest-to-Principal Diversions: Track a Growing List of Shortfall Drivers



Cashflow Diversions Trigger Unexpected Shortfalls and Payoffs

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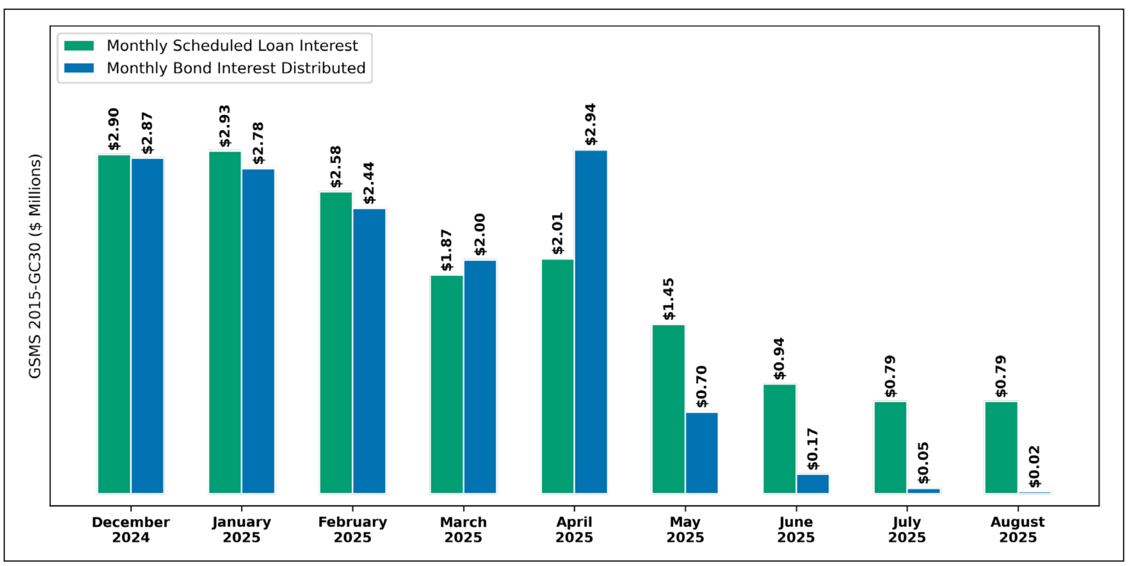
A growing list of interest shortfall drivers can cause unexpected cashflow disruptions on seasoned CMBS deals. GSMS 2015-GC30, with nine remaining loans, is a recent case in point spotlighting yet another shortfall driver. The GC30 deal has been seemingly diverting interest collections to paying down principal (Figure 1). The diversion contributed to a rapid rise in the deal's overall shortfalls, to $5.1 million in the latest remit, from $2.3 million back in May 2025.

Figure 1. Interest Collection Diversions



Source: Morningstar Credit and Academy Securities

The apparent interest-to-principal cashflow diversion joins a few other shortfall causes we had identified and discussed in recent months. These include:

(1) Non-recoverability determinations;[1]

(2) ASER-driven advancing curtailments;[2]

(3) Modification-driven coupon reductions.[3]

1 "Blanket NRAs: Shutting Down Advances Upends Credit IO Trades," CMBS Credit Focus, Academy Securities, January 3, 2024
2 "Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact," CMBS Credit Focus, Academy Securities, September 20, 2022
3 "BOLT: Liquidation Confirms Priority of Shortfalls Recovery Over Principal," CMBS Credit Focus, Academy Securities, June 2, 2025

Trust fees, including workout fees and special servicer fees, can also contribute to rising shortfalls. But typically, fees are a smaller cause overall. The long list of shortfall drivers now regularly disrupts bond cashflows, and complicates projections of shortfall recoveries. Shortfalls also can drive rating downgrades, thereby hurting rating-sensitive investors. Seven of GSMS 2015-GC30 subordinate classes were recently downgraded, partially driven by the accumulating interest shortfalls.

Sleuthing for Cashflow Diversion Rationale

Interest-to-principal diversion shifts payments across the capital structure, echoing senior/subordinate bond waterfall priorities around shortfall reimbursements.[4] In GSMS 2015-GC30, the A-S class, the most senior remaining class, paid down to a factor of 0.05 in the latest remit, after being fully outstanding in April 2025. Loan liquidations over those months drove much of the A-S paydown. But the interest-to-principal diversion in the deal also accounted for the rapid paydown.

It is not entirely clear to us why the diversion happened in GC30. We cannot rule out a nuanced waterfall distribution provision in the prospectus that got triggered as the deal is winding down. Other explanations, including technical reporting or cashflow adjustments, are also possible. Interestingly, the April 2025 remit showed a $4.8 million "interest adjustment", which led to negative interest collections. The adjustment may reflect trust-level holdbacks that the special servicer requested, according to rating agencies. We have been tracking a recent increase in requests for trust-level holdbacks.[5] Holdbacks typically cause principal losses. Still, we can rule out that the holdbacks are somehow associated with the GSMS 2015-GC30 recent cashflow diversions. Separately, the deal only has one loan with non-recoverability determination, and two other loans that are accumulating ASERs. As such, the common drivers of shortfalls – NRA and ASER – do not fully explain the rising shortfalls in GC30.

A few other seasoned deals also saw interest-to-principal diversions in recent remits. Examples include GSMS 2014-GC26 and JPMBB 2015-C27 (Figure 2). The diversions we found were of a lesser magnitude compared to GSMS 2015-GC30, but still notable. Tracking similar diversions in historical remits is a more complex task. But if the large interest-to-principal diversion in GSMS 2015-GC30 sustains, and proves to be driven by a waterfall nuance that has gone largely unnoticed so far, we will be keeping an eye out for other diversions in upcoming remits.

Figure 2. Seasoned Conduit CMBS with Recent Interest-to-Principal Diversions

Deal	Deal Balance	# Remaining Loans	# ASER Loans	# Loans with Non-Recoverable Determination	Accumulated ASERs	Cumulative Interest Shortfalls
GSMS 2015-GC30	$270,539,665	9	1	1	$108,361	$5,069,769
GSMS 2014-GC26	$252,239,511	5	3	3	$5,300,791	$15,046,168
JPMBB 2015-C27	$246,144,173	5	2	2	$4,805,135	$15,624,903

Source: Morningstar Credit and Academy Securities

4 "Recovering Shortfalls: Credit IO Value in Distressed Office," Securitized Products Special Topics, Academy Securities, May 21, 2024
5 "Litigation Holdbacks: Long Gone Loans Keep Haunting Trusts," CMBS Credit Focus, Academy Securities, April 15, 2025

Academy Securitized Products Research Reports

Securitized Products Special Topics - Esoteric ABS:

Crypto Collateral: Expect Robust Par Value Tests

Utility Rates: Rising Bills Can Bolster RRB Deals

Energy Transition: Expect Broader Definitions in Securitization Laws

Power Costs: Data Centers and Recovery Bonds Poised for More Predicatability

Sports Securitization: Vet League Revenues and Stadium Cashflows

Timeshare ABS: Program-specific Attributes to Drive Performance

Music ABS: Pool Variations Emerge Amid Constructive Sector View

Tower ABS: Tenant Preferences Bode Well for Leasing Demand

Aircraft ABS: Momentum Builds for Insurance Booster

Data Centers: Tenant Rosters Poised to Change

Container ABS: Geopolitical Tailwinds as Issuance Picks Up

Gas Securitization: Shorter WAL Alternative to Electric Charge Deals

Net Leases: Scarcity Value as Issuance Poised to Pick Up

Recovery Bonds: Deal Reporting Shows True-Up Adjustments Potency

Data Centers: Performance Wrinkles to Test Operators' Role

Recovery Bonds: Diversifying Exposure Moves Beyond Disasters

Device Payment ABS: Expect Stable Performance as Collateral Evolves

Aircraft ABS: Waterfalls Playing Catch-Up as Fundamentals Recover

Data Centers: Teakeaways from 2023-Vintage Deals

Litigation ABS: Tailwinds in Place for an Uncorrelated Segment

Equipment ABS: Pick Your Spots Amid Diverging Collateral Trends

Commercial Solar ABS: Emergent Segment to Alleviate Headline Risks

Cell Towers: Lender-Friendly Features Dovetail with Secular Tailwinds

Timeshare ABS: Exposure to Favorable Hospitality Segments

Recovery Bonds: No Need to Closely Watch the Fed or the Economy Here

Data Centers: A Strong Segment Juggles ABS and CMBS

Securitized Products Special Topics:

ARDs: Missing Anticipated Repayment Not Unusual, May Warrant Workout

BBnB: Check Your Booked-But-not-Billed Data Center Exposure

Stadium Finance: Shift to Private Funding Sets Stage for Securitization

Early Terminations: Tenant-friendly Provisions to Move Up Data Center Rollovers

Life Sciences: Surveil Your Exposure as Distress Percolates

CRE CLO Liquidations: Losses Accumulate, but No Immediate Writedowns

Office Contractions: New Term Rollover Risk, and Swelling Reserves

Multifamily Expenses: Broad Increases Mask the Fluctuations

Small Balance Commercial: Periphery Locations and “Weak” Sponsors May Prove Supportive

Investor Non-QM: Pockets of Value as Underwriting Tightens

Multifamily Prepays: Becoming Less Common, as Property Sales Drop

CRE CLO Mods: Rising Volume Not Immediately Telegraphing Distress

Agency Floaters: Adjusting Interest Rate Cap Escrows

Multifamily CRT: Limited Credit Risk on Synthetic Exposures

OC Triggers: Subtle Thresholds Come to the Fore As Collateral Stress Builds Up

Self Storage: Aspects to Watch as Performance Decelerates

Transitional Multifamily: Collateral Migration Away from CRE CLO Offers Different Deal Profile

Affordable Mortgages: Fee Elimination Spotlights Convexity Profile

Investor Non-QM: Rental Exposure with Some Structural Twists

Small Balance Multifamily: Value Ahead of Slow Prepays

Future Funding: Potential Key Performance Driver as CRE CLO Pipeline Builds Up

Multifamily Prepays: Property Sales Trigger Paydowns

Manufactured Housing: Resilient Segment Amid Potential Multifamily Softness

Tender Offers: Expect More to Come, Though Not on a Predictable Schedule

NYC Multifamily: Rent Increases to Support Cashflows Amid Regulatory Restrictions

Housing at a Crossroads: Single-family and Multifamily Exposures

Senior Housing: Focus on Segment Selection Amid Pandemic Impact

Disaster Performance: Pandemic Forbearance Resolutions Bode Well for Future Stresses

Russian Sanctions Impact: Lease Terminations and Forced Property Sales

CMBS Credit Focus:

Distressed Office: 522 Fifth Avenue Trade Illustrates Office Upside

BOLT: Liquidation Confirms Priority of Shortfalls Recovery

Office Receiverships: Gauge the Value of Changing Management

Litigation Holdbacks: Long Gone Loans Keep Haunting Trusts

Privileged Appraisals: Surprise ARA Jumps Baffle Investors

Office Re-defaults: Foreclosures to the Fore as Modified Maturities Near

Interest Adjustments: Track Shortfalls Repayment and Priority

New Leases: Track Post-Issuance Replacement Tenants

Property Protection Advances: Track Opaque Expenses in Long Workouts

Parkmerced: Abundance of Structural Angles to Determine Bond Cashflows

Pro-rata Prepays: Surprise Booster for Subordinate Bonds

PILOT: Check Another Wrinkle of Ground Leases

Non-Trust Debt: Check the Seniority of Your CMBS Collateral

Recovering Shortfalls: Credit IO Value in Distressed Office

Releasing Holdbacks: RENT is Writing Up Bonds

Reserves vs Advances: Servicers Tap Reserves to Lower Advances

Forward Forbearances: One Market Plaza Introduces a Twist to Mods

Loan Assumptions: Watch Waterfalls as New Borrowers Redevelop

Holdbacks: RENT in the Limelight, as Other Cases Brewing

Blanket NRAs: Shutting Down Advances Upends Credit IO Trades

Credit 2024: Workout Nuances Come to the Fore

Recovering the Non-Recoverable: Liquidation Nuance Bolsters Paydowns

Special Servicer Replacements: 1740 Broadway Crystalizes Implications

Crossgates Liquidation: Holdbacks Complicate Severity Projections

WODRA: Bond Cashflows Under Stress in Post-Mod Advance Recovery

Securitized Mezz: Workout Dynamics in Public Display

Dark Triggers: Nuances in Focus as Tenant Departures and Subleasing Pick Up

Upping Appraisals: Recovering Valuations Reverse Shortfalls

Non-Recoverable Advances: Unveiling a Rationale for a Key Decision

Excess Cash Allocations: Probing Advances on Positive Cashflowing Loans

Release Prices: Cherry Picking Across Office Portfolios, Sometimes at a Discount

Mezz Loan Sales: A Potential Headache for CMBS Workouts

Equity Pledges: Hotel Bossert Spotlights Dual Collateralized Loans

The Road to Conversion: Consider Office Ground Leases and ARD Loans

Credit 2023: Advancing and Workout Approaches to Play a Central Role

Hotel Receiverships: Palmer House Hilton Spotlights Stabilization Efforts

Office Modifications: 285 Madison May Offer a Blueprint for More to Come

Triple-A Shortfalls: Destiny Spotlights Delayed ASERs Impact

Inflation-Resistant Leases: Rent Steps Offer Some Revenue Protection, though Not Much

Industrial Delinquencies: Don’t Happen Often, but Watch Closely When They Do

Hotel Reserves: Key Performance Driver after Pandemic-Driven Depletion

Government Tenants: Short Termination Notices and Specialized Properties

Mall Foreclosures: What to Track as Servicers May Shift Away from Modifications

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