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CMBS Credit Focus

Mandatory Prepayments: Texas Multifamily Prepay Twist



Sleuthing for Mandatory Prepayment Provisions, Not Just in Texas

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The spate of Texas multifamily loans transferring to special servicing shortly after issuance underscores the unusual provision of a mandatory prepayment. Loans such as Providence at Heights & Legacy at Westchase ($50.5 million, BMARK 2025-V17) and Haven at Bellaire ($41.6 million, BMARK 2025-V18) transferred to special servicing because the borrowers did not make a mandatory prepayment after failing to secure property tax exemption, based on deal documents and rating agencies (Figure 1).

Such event-driven mandatory prepayment evidently can be quite a curveball for loan performance. It introduces an important underwriting nuance for investors typically accustomed to analyzing and modeling borrower voluntary prepayments, not mandatory ones.

The mandatory prepayment mechanisms of the Texas multifamily loans serve to delever and achieve stricter credit parameters, such as minimum debt yield and DSCR, if the borrower fails to obtain tax exemption by a certain date. Borrowers looked for such tax exemptions under Texas housing finance corporation ("HFC") and public facility corporation ("PFC") programs. The programs facilitate tax exemptions if the multifamily properties meet various affordable housing thresholds. Texas House Bill 21 enacted significant reforms to those programs on May 28, 2025, altering how the tax exemptions operate. Quite a few borrowers no longer can obtain the exemptions. Apparently, the borrowers also couldn't make the mandatory prepayments associated with such situations, triggering a flood of special servicing transfers.

Figure 1. Texas Multifamily Loans

	Providence at Heights & Legacy at Westchase	Haven at Bellaire
Deals	BMARK 2025-V17	BMARK 2025-V18
Loan Balance	$50,500,000	$41,600,000
Maturity	June 2030	October 2030
LTV (As-Of Date)	70.4% (April 2025)	87.9% (July 2025)
DSCR / Debt Yield (As-Of Date)	1.14x / 7.3% (March 2026)	1.04x / 6.5% (March 2026)
Year Built / Renovated	1973 / 2017 & 1977 / 2021	2020
Occupancy (Issuance / Current)	92% / 93%	93% / 91%
Units	520	297
Location	Houston, TX	Richmond, TX

Source: Morningstar Credit and Academy Securities

Mandatory Prepays in Seattle and San Francisco

Mandatory prepayment provisions appear prevalent across Texas multifamily loans with the HFC/PFC backdrop. We also identified mandatory prepayment requirements in a couple of other situations:

- **Casualty or condemnation.** Following a casualty or condemnation, a lender will typically have the option under certain circumstances to require that the insurance proceeds or condemnation awards be applied to prepay the loan. These mandatory prepayments should not involve a prepayment fee or yield maintenance premium. Prospectuses may contain detailed/nuanced mandatory prepayment sections, such as the one we see in the $435 million Starbuck Center in Seattle, WA (COMM 2025-SBX).
- **Loan modifications.** Loan modification agreements may contain complex mandatory prepayment provisions, such as the one in the $725 million Hilton San Francisco Hotel Portfolio loan (HILT 2016-SFP).[1] The mandatory prepayment provision, which SFP's full loan modification agreement lays out, but the loan's modification template does not, also appears to be related to casualty or condemnation situations. Still, the fact we see such elaborate mandatory prepayment language in a loan modification agreement, suggests loan mods can adjust or augment any casualty/condemnation-driven provisions that deal documents originally included.

No Standard Reporting Fields to Identify Mandatory Prepayments

Our sleuthing for instances of mandatory prepayment provisions beyond those in Texas multifamily loans showed the challenge of identifying such situations. We reasonably believe there are no other standard, boilerplate provisions such as the casualty/condemnation-driven mandatory prepayments. We also assume market participants can spot mandatory prepayments that pop up in modifications agreements, such as the one in HILT 2016-SFP.

But other potential situations, such as the tax exemption-driven mandatory prepayment in the Texas multifamily loans, may be much harder to find. We do not know if, or how many loans are out there with a mandatory prepayment requirement that gets triggered if the borrower does not meet a certain condition during a certain time frame. CREFC's Investor Reporting Package (IRP) does not include a standard field noting the existence of a mandatory prepayment provision. The "Prepayment Provision" field in Annex As only lists the borrower voluntary prepayment conditions, such as the lockout, yield maintenance, and "open" periods. All told, the hunt for mandatory prepayments looks to be mostly anecdotal, or systematically via scraping entire prospectuses.

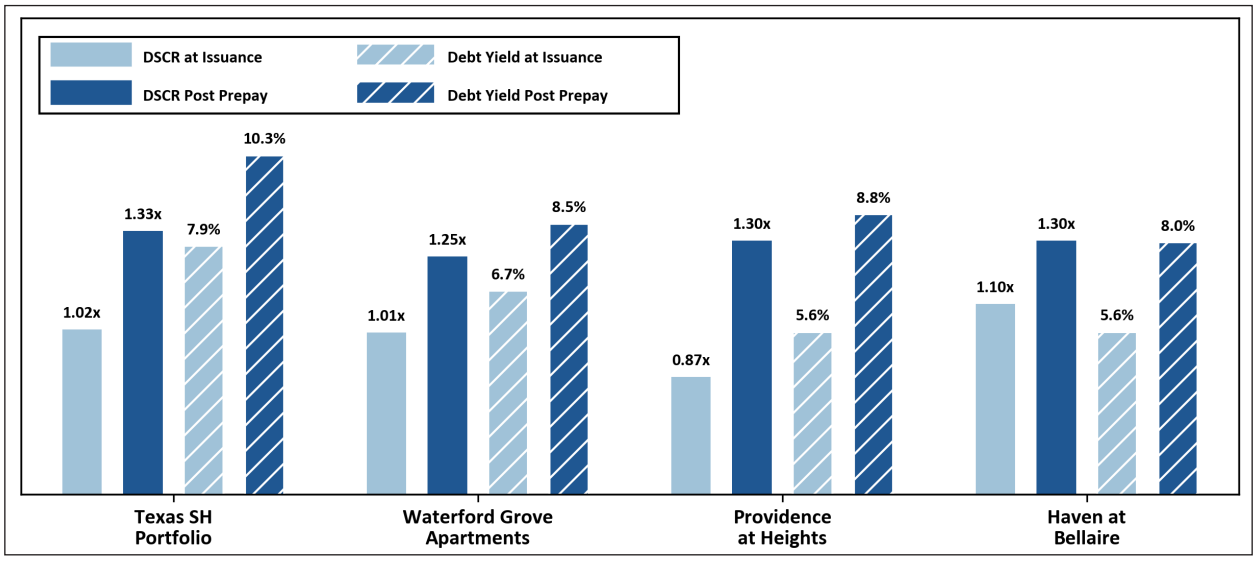
Better to Have Reserves in Place, Not Special Servicing Mechanisms

Reserve accounts may indicate the existence of mandatory prepayments. For example, the Providence at Heights loan included an upfront "Mandatory Prepayment" reserve of $451K, based on the deal's Annex A. We did not see similar reserves across several other loans with mandatory prepayments.

1 "Mod Waterfalls: Split A/Bs Should Not Override Deal Allocation Priorities," CMBS Credit Focus, Academy Securities, May 4, 2026

The mandatory prepayment reserve in Providence at Heights suggests an approach to alleviate conditional tax exemption situations (despite the fact Providence still ended up in special servicing). The reserve setup could allow the borrower to withdraw from the reserve if it secures a tax exemption (or meet a different contingency). If the borrower fails to meet a condition, the trust can use the reserve funds to delver the loan to "market" underwriting (Figure 2).

Figure 2. At Issuance & Post Prepayment Credit Metrics for Mandatory Prepay Loans



Source: Deal documents and Academy Securities

Absent a mandatory prepayment reserve, the special servicer may need to implement other delevering mechanisms post-transfer. For example, in Texas SH Portfolio ($54.7 million, BMO 2024-C9 and BBCMS 2024-C30) and Waterford Grove Apartments ($60 million, MSBAM 2025-5C1) the special servicer was negotiating loan modifications that would allow principal payments over a period of time, according to servicer commentary. Clearly, it is not ideal to set up such delevering mechanism only after transfers to special servicing, rather than upfront.

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