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CMBS Credit Focus

Blanket NRAs: Shutting Down Advances Upends Credit IO Trades

Servicers Shift to Widespread Non-recoverability Triggers on Seasoned Deals

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The sweeping fresh non-recoverability determinations in JPMCC 2013-C16 illustrate how a once obscure master servicer decision is now quickly turning into a critical driver of seasoned deals' performance and valuation. The servicer disclosed in C16's last remittance that it triggered non-recoverability on all remaining loans in the deal. This immediately cut off all $947.1K scheduled interest to the deal's outstanding classes. The servicer should also look to recover the outstanding $6.9 million advances as soon as it can, accelerating losses on the deal.

The servicer's rationale for triggering such widespread non-recoverability underscores that servicers are shifting to trigger determinations based on deal-level parameters, rather than as a function of individual loan status. This will be a stark change from the market's experience with non-recoverable advances (NRA) triggers. Such triggers have been relatively rare, and typically reflected deep distress of specific situations.[1] But in recent months, servicers started to allude to the status of the remaining loans in the deal when triggering non-recoverability on specific loans. When there are only a few performing loans left in a deal, the servicer indicated they are concerned about their ability to recover outstanding advances.[2]

In JPMCC 2013-C16 it appears the servicer has brought the concern about recovering advances in dwindling pools to its natural conclusion. The servicer noted in deal commentary it is triggering non-recoverability on all five remaining loans because the final performing loans in the deal paid off in November 2023. All remaining loans are specially serviced. The servicer also noted that it may be able to recover outstanding advances from the proceeds of a pending liquidation of a delinquent loan, which also motivated the non-recoverability decision. All told, this led to NRA decisions even on loans with relatively stable financial parameters, that are telegraphing reasonable recovery levels (Figure 1).

1 "Non-Recoverable Advances: Unveiling a Rationale for a Key Servicing Decision," CMBS Credit Focus, Academy Securities, May 18, 2023
2 "Credit 2024: Workout Nuances Come to the Fore," CMBS Credit Focus, Academy Securities, December 11, 2023

Figure 1. Blanket Non-recoverability Determinations in JPMCC 2013-C16

Loan	Deal Balance ($MM)	Pari-Passu Balance ($MM)	Total Debt ($MM)	Property Type	Location	Status	P&I Adv. ($MM)	Total Adv. ($MM)	Occu-pancy	Debt Yield	DSCR
The Aire	$116.3	$77.4	$193.7	Multifamily	New York, NY	Matured NP	$1.4	$2.8	97%	4.7%	0.86x
Energy Centre	$56.5	-	$56.5	Office	New Orleans, LA	Matured NP	$1.0	$1.0	90%	6.9%	1.88x
1615 L Street	$34.3	$100.0	$134.3	Office	Washington, DC	Matured	$0.0	$0.0	79%	2.9%	1.23x
Riverview Office Tower	$16.6	-	$16.6	Office	Bloomington, MN	Matured NP	$2.3	$2.8	38%	-1.5%	-0.95x
121 Champion Way	$9.6	-	$9.6	Office	Canonsburg, PA	Matured NP	$0.1	$0.1	72%	2.7%	0.72x

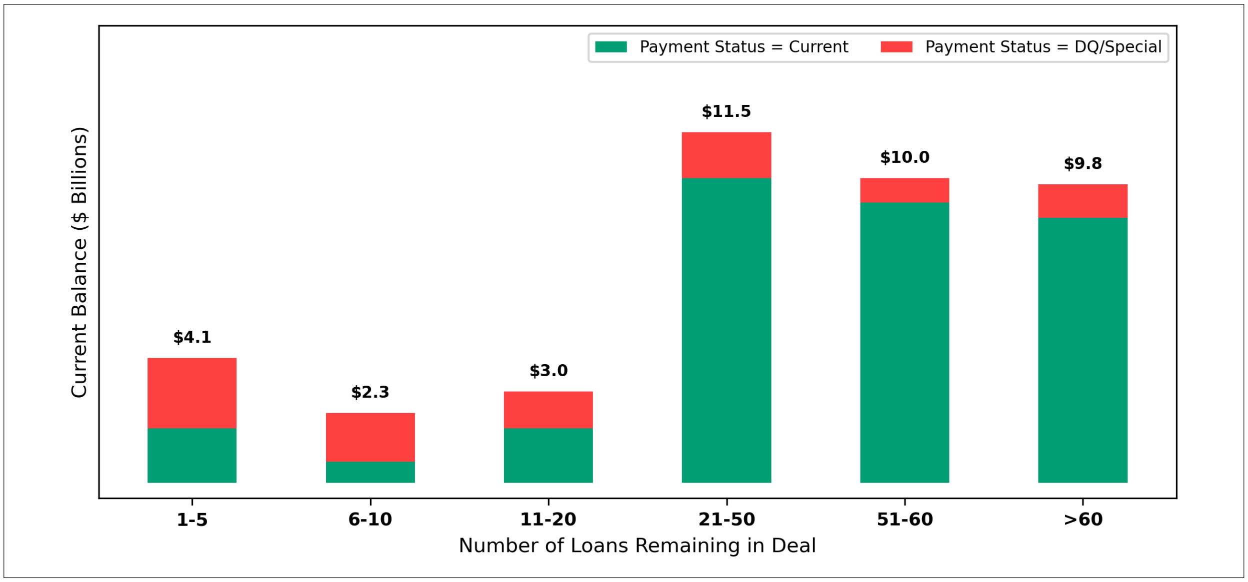
Source: Morningstar Credit and Academy Securities

Rejigger Cashflow Expectations

Seasoned 2013- and 2014-vintage outstanding deals are now very susceptible to see their cashflows abruptly cut off as servicers move to trigger frequent NRA determinations. Such deals may also see accelerated losses if servicers look to recover outstanding advances as soon as possible rather than wait for eventual liquidations. A key implication of non-recoverability determinations is that servicers can immediately withhold trust principal payments to recover prior advances. As such, the fresh development in JPMCC 2013-C16 looks set to dramatically rejigger expectations about cashflow and writedown timings on subordinate bonds.

We found 93 2013/2014-vintage conduit deals that are currently outstanding. Forty-one of those deals have 10 or fewer remaining loans, and 31 deal have five or fewer loans (Figure 2). Of the 41 deals with <10 loans, 20 deals have 85% or higher specially serviced rate, making them prime candidates for the deal-based NRA trigger that JPMCC 2013-C16 just saw.

Figure 2. 2013- and 2014-Vintage Conduit Deals



Source: Morningstar Credit and Academy Securities

Elevated NRAs May Counterintuitively Bolster Some Liquidation Recoveries

Another implication of elevated NRA triggers is that investors may see more trust recoveries of NRAs, once liquidations eventually happen. If servicers are now looking to reimburse outstanding advances sooner rather than later, this means loan total exposures stand to decrease, thereby increasing principal paydowns at liquidations. The recent liquidation of the Mall at Tuttle Crossing ($125 million, MSBAM 2013-C10 and C11) illustrated such NRA recovery, as we recently discussed.[3] This made the Tuttle Crossing liquidation-driven principal paydowns higher than what the reported loss severity implied.

In a similar vein, if the servicer reimburses itself some of the outstanding advances in JPMCC 2013-C16, the remaining loans may see stronger recovery levels, all else being equal. With several moving parts across the five remaining loans in C16, it is not clear what path each of them takes, and what resolution proceeds investors should expect. All five loans in the deal only recently matured, and do not necessarily represent serious distress situations. The $16.6 million Riverview Office Tower is the only loan in the pool with a relatively recent appraisal, from December 2022. The other loans have appraisals from back in 2013, further muddying their loss projections.

Interestingly, the $194.6 million The Aire, the largest remaining loan in C16 with $116.3 million exposure, did not see non-recoverability determination on its $77.4 million pari-passu exposure in JPMBB 2013-C17. This may change in the near future, if the C17's servicer adopts the same approach the C16 deal just saw. The C17 deal has only six remaining loans. All the loans recently matured, including the deal's largest exposure, the Jordan Creek Town Center ($96.8 million exposure), that matured on January 1st, 2024.

3 "Recovering the Non-Recoverable: Liquidation Waterfall Nuance Bolsters Bond Paydowns," CMBS Credit Focus, Academy Securities, November 6, 2023

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