



Surprise Shortfall Recoveries Can Upend Waterfall Priorities

Cases of negative ASER amounts popping up across loans upend investor waterfall priority expectations. Subordinate bonds with interest shortfalls can benefit. The \$430 million JPMCC 2014-DSTY is a notable recent example. The SASB deal reported a negative \$6.0 million ASER in the latest remit. Last month the deal reported negative ASER of \$6.9 million. As a result, the deal's cumulative ASER sharply dropped to \$9.3 million from \$22.2 million two months ago (Figure 1).

Stav Gaon

+1 (646) 768-9173

sgaon@academysecurities.com

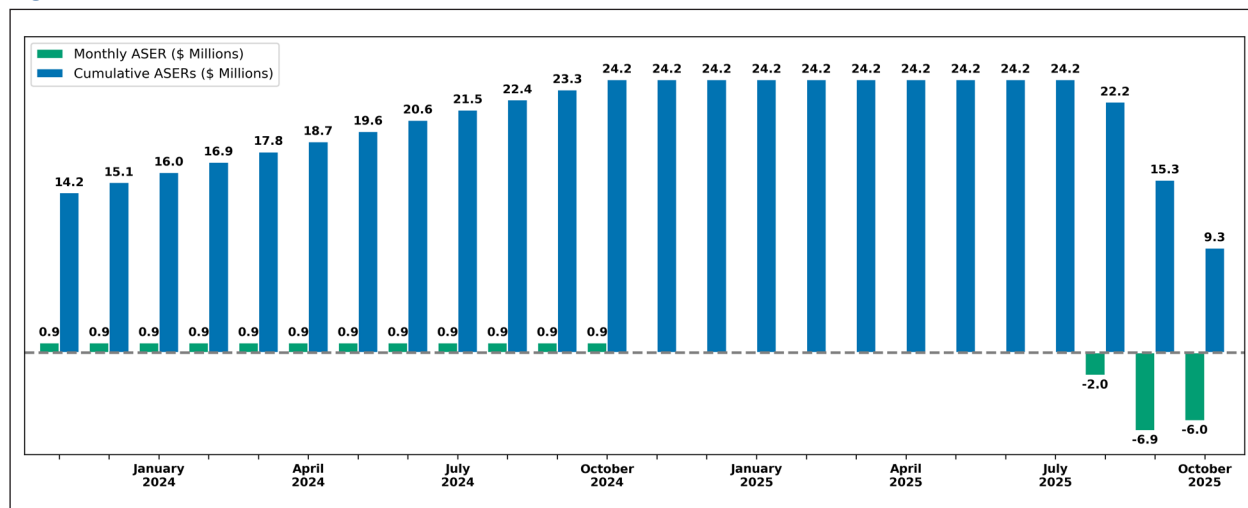
Headquarters Address:

Academy Securities, Inc.

622 Third Avenue, 12th Fl

New York, NY 10017

Figure 1. JPMCC 2014-DSTY ASER



Source: Deal Documents and Academy Securities

Negative ASERs can trigger interest shortfall recoveries across the capital structure. Interestingly, subordinate bonds with outstanding shortfalls in DSTY did not see recoveries because the deal also reported puzzling \$7.0 million “[interest adjustments](#)”.¹ As a result, bondholders did not receive any interest payments this month. But in other negative ASER situations, such as in Stamford Plaza Portfolio (\$125.6 million, GSMS 2014-GC24), subordinate bonds did see unexpected pre-liquidation ASER recovery. In Stamford Plaza, the D class recovered \$418K shortfalls. This whittled down nearly all cumulative shortfalls on the class. Because ASER shortfalls recovery takes one of lowest priorities at loan liquidations, such pre-liquidation recoveries provide a return booster to shortfaling [classes](#).²

¹ “Interest Adjustments: Track Shortfalls Repayment and Priority,” CMBS Credit Focus, Academy Securities, December 18, 2024

² “Recovering Shortfalls: Credit IO Value in Distressed Office,” CMBS Credit Focus, Academy Securities, May 21, 2024

ASER Mechanics

ASER, or appraisal subordination entitlement reduction, is not supposed to be a negative number. Intuitively, ASER is the amount that the master servicer does not advance to bondholders on a delinquent loan. The servicer can curtail its advances if the underlying property's value drops post-issuance. Such appraisal-driven curtailment of advances creates shortfalls. Those ASER shortfalls accumulate over time, because the servicer curtails the advances every month.

Slightly more technically, but still simplifying the precise formulas, servicers calculate ASER as follows:

- (1) **Appraisal Reduction Amount (ARA)** = [Outstanding Balance + Accrued Interest, Advances, Taxes] – 90% of New Appraisal
- (2) **Appraisal Reduction %** = ARA / Outstanding Balance
- (3) **ASER** = Appraisal Reduction % X Scheduled P&I

As the ARA and ASER formulas suggest, if a subsequent appraisal comes in at a higher level, as happened in a few cases, the ARA decreases, and the ASER can go down, perhaps even to [zero](#).³ But given that ASER is the amount the master does not advance, because there is an appraisal reduction amount, mathematically it is not a negative number. As such, when deals do report negative monthly ASER levels (in CREFC's IRP field L33), those amounts really represent pre-liquidation ASER "recoveries."

Tracking Negative ASER Situations

ASER recoveries typically happen at loan liquidations. But because CMBS 2.0 deals de-prioritized ASER recoveries to principal payments, ASER recoveries at liquidation have become far less common compared to legacy CMBS liquidations. As such, pre-liquidation ASER recoveries offer interesting upside to subordinate bonds.

Before liquidation, principal prepayments, loan modification, or borrower re-performance could potentially reimburse outstanding cumulative ASERs. For example, Westfield Palm Desert (\$62.5 million, MSBAM 2015-C21) saw its entire \$1.5 million cumulative ASER recovered when a new borrower purchased the property and assumed the debt, back in November 2023. Yet sometimes it is not always immediately clear what is driving the pre-liquidation ASER recoveries we see. On some of the recent negative ASER situations, including in JPMCC 2014-DSTY, we do not see indications for the common ASER recovery drivers (Figure 2). This leaves some open questions. It makes it harder to project and model future pre-liquidation ASER recoveries.

³ "Upping Appraisals: Recovering Valuations Reverse Shortfalls," CMBS Credit Focus, Academy Securities, June 6, 2023

Negative ASER: Unexpected Upside for Subordinate Bonds

Figure 2. Select Loans with Negative ASER

Loan	Deal	Most Recent Negative ASER (\$)	Cumulative ASERs (\$)	Current Loan Balance (\$)	Maturity Date	Property Type	Location
Destiny USA Phae I & II	JPMCC 2014-DSTY	(6,000,000)	9,299,350	430,000,000	6/6/2024	Regional Mall	Syracuse, NY
Hilton Houston Post Oak	JPMBB 2014-C24, JPMBB 2014-C25	(935,129)	3,030,890	69,993,786	10/1/2024	Full Service Hotel	Houston, TX
Stamford Plaza Portfolio	GSMS 2014-GC24, CGCMT 2014-GC25, WFRBS 2014-C22	(737,427)	1,151,376	242,210,790	8/6/2024	Office	Stamford, CT
North Point Tower	GSMS 2019-GC42, BMARK 2019-B13	(213,156)	61,990	90,500,000	9/6/2024	Office	Cleveland, OH
North Riverside Park Mall	JPMBB 2014-C24	(197,375)	26,631	66,901,487	10/6/2024	Regional Mall	North Riverside, IL
Dulles View	JPMCC 2013-LC11	(143,993)	-	45,636,285	4/1/2023	Office	Herndon, VA
The Zappettini Portfolio	BMARK 2019-B12, CGCMT 2019-GC41	(111,019)	-	120,000,000	6/6/2024	Office	Mountain View, CA
Selig Office Portfolio	CGCMT 2015-GC29, GSMS 2015-GC30, BMARK 2021-B23, GSMS 2015-GC32	(95,401)	157,637	307,100,000	4/4/2025	Office	Seattle, WA
The Mercantile Building	COMM 2014-UBS4	(43,794)	19,828	14,889,160	7/6/2024	Office	San Antonio, TX
Embassy Suites Corpus Christi	COMM 2015-LC21	(27,590)	17,375	14,877,035	5/6/2025	Full Service Hotel	Corpus Christi, TX

Source: Morningstar Credit and Academy Securities

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