



Check the Pro Rata Allocation of Ashford Portfolio’s Mod Paydown

Subordinate bonds on SASB deals with pro-rata prepay structures could increasingly see their returns boosted as borrowers offer unscheduled paydowns in exchange for loan concessions. The \$335 million Ashford Portfolio (JPMCC 2018-ASH8) is a case in point. Paydowns of \$50 million and \$10 million on the eight-property hotel portfolio loan were allocated pro rata across all classes in the deal. The borrower made the first paydown to get relief from a debt yield test on a contractual extension option, based on deal commentary. The second paydown was related to a recent modification/extension agreement on the loan (Figure 1). JPMCC 2018-ASH8 features a pro rata principal prepayment allocation provision. Any principal prepayments up to 20% of the original balance are allocated pro-rata rather than sequential, according to deal documents.

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Figure 1. Ashford Portfolio Loan and Property Parameters

Asset	Ashford Portfolio	
Deal	JPMCC 2018-ASH8	
Property Type / Size	Full-service hotel portfolio consisting of 8 properties, totaling 1,964 rooms	
Location (% ALA)	California (33.7%), Oregon (22.4%), Florida (22.2%), Virginia (11.7%), Minnesota (5.3%) and Maryland (4.7%)	
	Pre-Modification	Post-Modification (April 2024)
Loan Status	Matured - Performing (Specially Serviced)	Performing
Loan Balance	\$345,000,000 (\$176k per key)	\$335,000,000 (\$171k per key)
Coupon / Amortization	SOFR + 328 bps (8.54% rate March 2024) / Interest-only	SOFR + 328 bps (8.54% rate April 2024) / Interest-only
Maturity	February 2024	February 2025
Extension Options	One-year extension option to February 2025	One extension option to February 2026
Extension Terms	(a) No event of default, (b) purchase of new SOFR cap at greater of i) 4.00% and ii) strike rate that would result in 1.25x DSCR, and (c) borrower pays all fees/costs	(a) minimum 8.0% trailing-12 debt yield, and (b) pay-down of loan equal to \$10.0 million
Other Terms		Modification Required Pay-Down: * \$10.0 Million

Source: Deal Documents, Morningstar Credit, and Academy Securities

Pro-rata Prepays: Surprise Return Booster for Subordinate Bonds

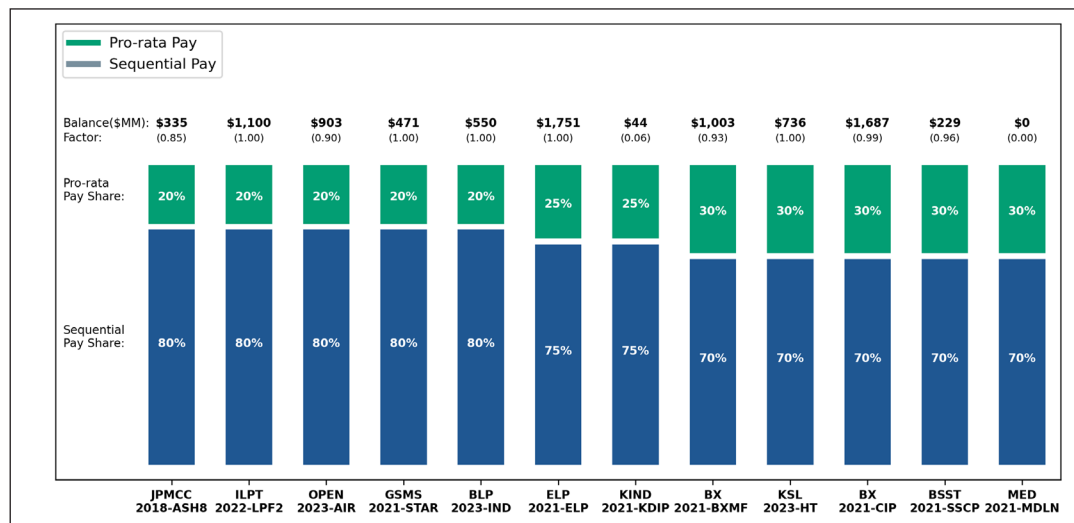
Going Beyond Property Release-driven Pro Rata Paydowns

Pro rata prepays are typically associated with property releases on portfolio loans. For example, BX Trust 2021-BXMF saw pro rata allocations of \$66.1 million and \$6.3 million paydowns in recent months. The prepays followed the sales and release of Helios at Englewood and Bexley House, two properties in the 13-property Blackstone Multifamily Portfolio loan backing the BXMF deal. Like ASH8, BXMF also has a partial pro rata pay structure, albeit with a higher threshold. In BXMF, the first 30% of prepayment proceeds are distributed pro rata.

Senior bondholders already may be aware of the negative implications of property release-driven pro rata allocations.¹ Senior notes deleveraging is happening at a slower pace compared with pure sequential pay structures. But unlike Blackstone Multifamily Portfolio and other property release situations, Ashford Portfolio shows that pro rata allocations can happen even on paydowns that are related to lender concessions. It is unclear if that was the original intent of pro rata allocation provisions.

Tracking SASB deals with pro rata allocation provisions is not straightforward. Rating agencies may flag the feature in presales, marking it as a credit negative for the top of the capital structure. But we have yet to find an IRP or cashflow system field that easily identifies pro rata allocation deals. Anecdotally, we do see the provision on quite a few SASB deals in recent vintages. We also see that the threshold for switching from pro rata to sequential principal prepay allocations varies across deals, but it seems to range between 20-30% (Figure 2). To more consistently identify pro rata structure deals, we employed a cashflow modeling exercise. We identified over 100 deals with such structure. We're happy to discuss with interested investors the details of the exercise and the deal listing we compiled.

Figure 2. SASB Sample Deals with a Partial Pro Rata Structure



Source: Deal Documents, Presales, and Academy Securities

¹ "Release Prices: Cherry Picking Across Office Portfolios, Sometimes at a Discount," CMBS Credit Focus, Academy Securities, April 13, 2023

No Pro Rata Allocations in Defaults

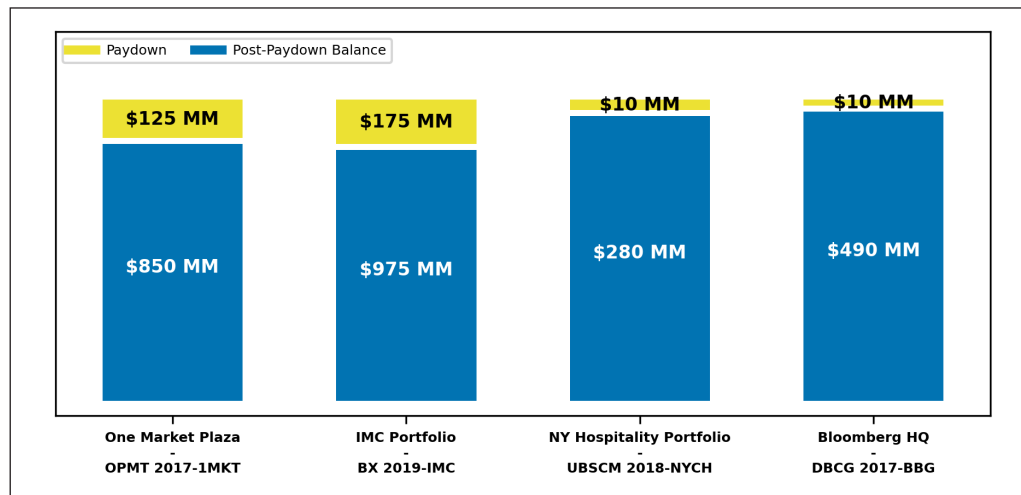
The typical pro rata paydown provision states that pro rata allocations should not happen when the loan has an “event of default”. This makes the recent \$10 million pro rata allocation in Ashford Portfolio a bit curious. The loan transferred to special servicing in February 2024 for imminent maturity default. The loan modification that included the \$10 million paydown was executed in April 2024. All told, it is not clear if the loan actually triggered an event of default, or if the mod paydown was mistakenly allocated pro rata rather than sequentially.

If Ashford somehow did not trigger an EOD despite the transfer to the special and the mod execution, it spotlights how mod-driven paydowns could also see pro rata allocations. The Ashford mod also includes an additional \$10 million paydown in October 2024. Assuming there is no fresh event of default on the loan, that upcoming paydown may also be allocated pro rata. This is because the cumulative paydowns will not have hit the deal’s 20% threshold (\$79 million).

Large Mod-Driven Paydowns

We expect principal paydowns to be a common feature of loan modifications. While servicers may still be inclined to negotiate mods with committed sponsors in distressed situations, servicers are also requesting meaningful borrower concessions. IMC Portfolio (\$975 million, BX 2019-IMC) and One Market Plaza (\$850 million, OMPT 2017-1MKT) are two notable examples of recent mods that included large paydowns, of \$175 million and \$125 million, respectively (Figure 3).

Figure 3. Recent Mod-Driven Paydowns



Source: Deal Documents, Presales, and Academy Securities

The prevalence of mod paydowns should also spotlight their allocation across the capital structure. To be sure, both IMC and One Market paydowns were allocated to the most senior class in each deal.² Still, the pro rata allocation of the Ashford Portfolio paydown suggests investors should not take a sequential paydown allocation for granted.

² We note investors may still had concerns over the IMC and One Market mod terms despite the large paydowns, see “Forward Forbearances: One Market Plaza Introduces a Twist to Complex Mods,” CMBS Credit Focus, Academy Securities, March 26, 2024

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