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

Principal Curtailments on the Rise as Servicers Ink Modifications

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Recovery of advances via work-out delayed reimbursement amounts (WODRA) should increasingly pop up as servicers ink modifications on troubled loans. WODRA can immediately impact bond cashflows, sometimes significantly. Servicers can recover their advances from the trust's overall principal collections, similar to the non-recoverable advances (NRA) mechanism that we recently discussed.[1]

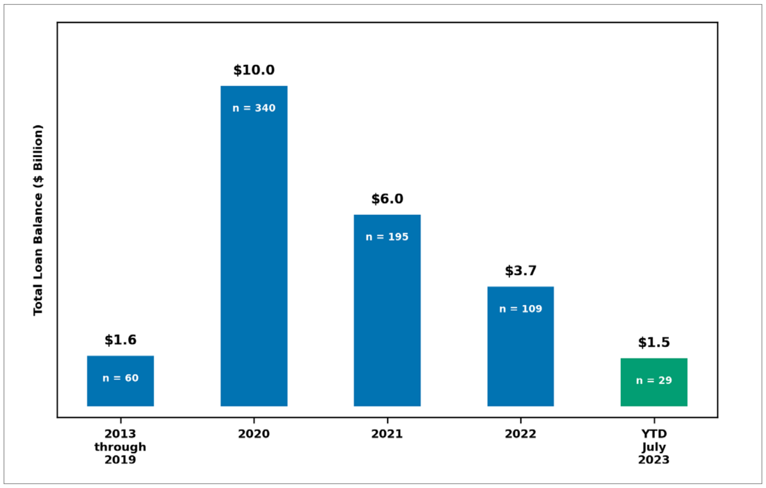
Like NRA, WODRA situations can be quite unpredictable. We suggest investors closely track remittances of modified loans that have outstanding advances. Examples of recently modified loans with large advances include the $148.5 million Deptford Mall (GSMS 2013-G1, $830K P&I advances) and the $88.1 million eBay North First Commons (BMARK 2018-B5, $111.9K advances).

WODRAs have been fairly rare in recent years, mostly as a function of the muted pre-pandemic modification volume (Figure 1). Mod activity shot up with the onset of the pandemic, though sometimes reporting may have lumped together loan mods and forbearance agreements. Complex mods are now taking center stage amid loan maturities and distress in segments such as office and malls.[2] As such, servicers may be more inclined to quickly recover their outstanding advances post-modification.

One example of a recent WODRA payment is on The Crossings, in COMM 2013-CR12. The servicer triggered $5.7 million advance recovery on the Elkview, WV, retail center in the March 2023 remittance. Interestingly, The Crossings outstanding balance is only $10.9 million. But the loan accumulated significant advances, which the servicer looked to recover. While perhaps an idiosyncratic loan case, The Crossings underscores the potential outsize impact of the WODRA mechanism on the overall exposed deal.

1 "Non-Recoverable Advances: Unveiling a Rationale for a Key Servicing Decision," CMBS Credit Focus, Academy Securities, May 18, 2023
2 "Office Modifications: 285 Madison Could Offer a Blueprint for More to Come," CMBS Credit Focus, Academy Securities, October 27, 2023

Figure 1. Conduit CMBS Modification Volume, 2013-2023



Source: Bloomberg and Academy Securities

WODRAs Result in Under-Collateralizations

Triggering WODRA leads to "under-collateralization" of the deal, as servicers withhold bond principal payments to reimburse advances. Remittance reports should reflect such under-collateralization (UC) on an ongoing basis. Current examples include CGCMT 2013-GC10 ($3.1 million UC, because of WODRA on the Empire Hotel & Retail loan) and JPMBB 2014-C22 ($1.2 million UC, Las Catalinas Mall loan) (Figure 2).

Figure 2. Outstanding WODRA Loans

Loan	Hammons Hotel Portfolio	Hyatt Regency Huntington Beach Resort & Spa	Empire Hotel & Retail	Crocker Park Phase One & Two	Las Catalinas Mall
Deals (* Indicates controlling deal)	CGCMT 2015-GC33* GSMS 2015-GS1 GSMS 2015-GC34 CGCMT 2015-GC35	CGCMT 2016-C1* CGCMT 2016-P4 BACM 2016-UB10 CGCMT 2016-C2	GSMS 2013-GC10* CGCMT 2013-GC11	CGCMT 2016-C2* CGCMT 2016-P5 JPMCC 2016-JP3	JPMBB 2014-C22* JPMBB 2014-C23
Total Loan Balance ($MM)	$233.3	$190.8	$162.6	$136.1	$128.8
Controlling Note Balance ($MM)	$93.0	$51.5	$99.3	$58.3	$74.3
WODRA-Related Under-collateralization[1] ($MM)	$0.6	$0.7	$3.1	$0.5	$1.2
Loan Status	Perform	Perform	Perform(w)	Perform(w)	Perform(w)
Maturity	September 2025	May 2026	January 2025	August 2026	February 2026
DSCR / Debt Yield	2.61x / 13.1% (as of 3/31/2023)	2.49x / 16.9% (as of 3/31/2023)	1.12x / 7.6% (as of 3/31/2023)	1.51x / 9.2% (as of 3/31/2023)	1.72x / 6.9% (as of 3/31/2023)
LTV	63.5% (appraised 9/1/2015)	60.3% (appraised 10/2/2020)	98.5% (appraised 7/14/2022)	63.5% (appraised 5/19/2016)	63.5% (appraised 6/1/2014)
Property Type / Size	Hotel	Hotel	Hotel / Retail	Office / Retail	Retail
Location	Various	Huntington Beach, CA	New York, NY	Westlake, OH	Caguas, Puerto Rico
Modification Date / Type	5/2021: Forbearance and new equity injection	7/2020: 3-month P&I deferrment and 9 month IO period	6/2022: Extension and rate reduction	8/2020: Deferral and forbearance	12/2021: Extension and rate reduction

[1] The undercollateralization amount is with respect to the controlling note only. Related pari-passu notes may have WODRA UC as well

Source: Bloomberg and Academy Securities

Consistently tracking WODRAs remains a challenge. To be sure, CREFC's Investor Reporting Package (IRP) added a field designed to track WODRA trust payments in a particular month (L148). In addition, the Advance Recovery Report that master servicers prepare monthly is aimed at tracking overall advance recovery – via both WODRA and NRA. But we found very spotty reporting on advance recovery reports, including on loans that experienced WODRAs or NRAs. We also noticed that IRP's L148 is not included on data feeds of some cashflow systems, further complicating the systemic identification of WODRA situations. Relatedly, some remittance reports regularly report deals' UC levels, while others do not.

Track Mod Templates to Telegraph WODRAs

Once servicers ink loan modifications on loans with outstanding advances, mod templates may telegraph upcoming WODRAs, or lack thereof. For example, mods that include fresh equity injections may allocate funds to repay advances, removing the need for WODRA. If the mod reporting is silent on advances repayment, near-term WODRA is a real possibility. To be sure, servicers may still choose to delay recovery until loan liquidation. But further property deterioration, or ongoing erosion of trust funds available for advance recovery, may push servicers to use the WODRA approach. We increasingly see servicers deciding to trigger non-recoverability determinations on troubled loans as the other performing loans in the pool pay off. Such payoffs leave servicers with fewer trust collections to recover advances.

Mod reporting scope and timing can muddy WODRA projections. Deals may report the full mod provisions with delay, or not at all. In the same vein, the modification can include advances-related provisions, but not in a way that fully reimburses servicers. For example, the Empire Hotel & Retail mod required the borrower to repay all interest on advances, according to deal reporting. The loan subsequent WODRA made it clear that the loan mod did not include full advance recovery. Conceptually, deal documents introduced the WODRA mechanism last decade to allow borrowers and servicers to finalize modifications without requiring the borrower to first repay all outstanding advances, as was previously the case. As such, quite a few modifications may not explicitly include advance reimbursement provisions, paving the way for WODRAs.

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