The Colebrook Chronicle

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Your source of current trends and developments in the timeshare industry.

Second Quarter Timeshare Sales Increase 9.5% from 2011 Levels

The American Resort Development Association has released its survey of large timeshare developers for the second quarter of 2012. Timeshare sales increased 9.5% and other trends were positive. The highlights of the survey are as follows:

- Sales volume was up 9.5%, driven by an increase in the number of sales, as the average sales price increased by only 1.9%. Upgrade sales to existing owners were particularly strong, increasing 19.5%.
- Fee for service sales, as described at the most recent Colebrook Lender Education Seminar, increased by 60.4%, as more developers took advantage of the marketing talents of larger developers to sell their product.
- Sales efficiencies, measured by volume per sales tour, increased 7%, indicating that prospects were more willing to purchase than they were a year ago.
- The performance of consumer portfolios improved slightly from the second quarter of 2011. The percentage of current accounts increased from 87.4% in 2011 to 91.0% in 2012 and defaults decreased from 2.5% to 2.2%. The amount charged as allowance for bad debts remained constant.
- Capital expenditures related to inventory construction increased by 23.2%, with a significant shift from construction of units at new developments to the building of additional inventory at existing sites.

Grand Lodge on Peak 7, Breckenridge Grand Vacation's third and most spectacular resort

A Grand View From the Top

—A Conversation with Mike Millisor, Breckenridge Grand Vacations

While Mike Millisor, president of Breckenridge Grand Vacations (BGV), writes a monthly letter to the stakeholders in the company entitled, modestly, *View from the Bottom*, he is in reality on top of the world as viewed from the tiny town of Breckenridge, Colorado. He's created a highly successful enterprise, earned the admiration of BGV's family of employees and become a well-respected leader in the community after coming to this Rocky Mountain hideaway town as a newly-minted college grad in '83.

"My goal in those days was to be a ski bum," he confides. "I snagged a job as a bellman, got great tips and skied 128 days that first year."

Apparently, he had a head for figures even then. Now almost 30 years later, he rapidly rattles off the numbers resulting from vacation ownership sales that average $5,000,000 a month in revenue. Breckenridge sold $58mm in 2011 and will make right around $60mm for 2012. Millisor is rightfully proud of his company, which is developer, owner and operator of Gold Point Condominiums and Grand Timber Lodge. Currently, BGV is focused on completing the third resort in the Breckenridge Grand Vacations family, Grand Lodge on Peak 7. Grand Lodge on Peak 7 is the premier resort in Breckenridge, and the final phase will be completed in 2014. (The earlier phases are already open and the resort is operating at full efficiency.)

Mike is an industry leader, a Trustee Member of the American Resort Development Association and serves on its Board of Directors. It's been quite a journey from the days of carrying bags and skiing. After serving as general manager of Gold Point in the late 1980s, Mike and his brother Rob bought the resort in 1989.

From there, the Millisors, along with partner Mike Dudick, implemented a unique and highly personal business philosophy. As Mike explains, "What I love most about Breckenridge Grand Vacations is the culture that we have built for employees, owners and guests. Everyone we come into contact with is a part of the BGV family."

Millisor attributes most of the company's success to their focus on human resources. "We made a decision to become the Employer of Choice in our neck of the woods. Our

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OMG!

The VPG from my OPCs makes me LOL!

Timeshare Jargon and Acronyms

Every business has a unique jargon and acronyms meaningful only to those in the industry. Banking is no exception. For example, if you mention Basil II to the average person on the street, they immediately think of the Byzantine emperor from the Macedonian dynasty who reigned from 976 to 1025 and was also known as Basil the Porphyrogenitus. Mention Basel II to a banker, however, and they will begin spouting chapter and verse from the second set of banking regulations issued by the Basel Committee on Banking Supervision. Mention Basel (or Basil) to a timeshare developer or lender and you will get a blank stare. But talk about an OPC location, a developer's VPG, or a one-legged UP and, well, now you're talking their language. Below is a brief listing of some common timeshare jargon and acronyms.

VPG —Volume per Guest—
Sales volume divided by number of tours, which is an indicator of sales efficiency.

OPC —Off Premises Contact—
a kiosk or booth used to attract potential purchasers. If you are in a destination resort area and see a booth offering discounted or free tickets to local attractions, it may well be an OPC location

UP —Unqualified Prospect—
a prospective buyer visiting a resort. Also known simply as a "tour."

One-legged UP —
A married prospect who shows up without their spouse.

Be-back —
A prospect who promises to think about a purchase and make a decision later.

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DEVELOPER SPOTLIGHT:

Festiva Hospitality Group

One of Colebrook Financial Company's more innovative clients is Festiva Hospitality Group, headquartered in Asheville, North Carolina. Festiva Hospitality Group is a creative and highly successful privately held vacation ownership company with more than 70,000 members.

Festiva develops and manages interval ownership resorts located principally in the Southeastern United States and the Caribbean, and offers catamaran vacation options from locations in St. Maarten and in the U.S. and British Virgin Islands. In a move that is of great interest to the timeshare industry, the company recently established an internal exchange network independent of RCI and II. We recently interviewed the company's two founders Don Clayton, Chief Executive Officer, and Butch Patrick, President.

CHRONICLE: Butch, we know that you are a CPA by training who was hired to assist in the sale of one of the timeshare industry's first major development companies, Peppertree Resorts, and that you served as CFO of Peppertree. You worked there with Don until June 5, 2000, when you both decided to form Festiva Resorts. Tell us a little about the size and scope of the company today.

PATRICK: Our points-based club, Festiva Adventure Club, along with our legacy owners who own a traditional deeded product, have access to 23 resorts within Festiva and number more than 70,000 families.

CLAYTON: Beginning in 2010, Festiva established an Employee Stock Ownership Plan (ESOP). This has always been an employee-focused organization and one of our five stated values is, "We treat others as we would like to be treated." Butch and I were pleased that so many of the people who worked for us at Peppertree elected to join us at Festiva. We began with just two employees, Butch and me, and now we have over 1,000. Building a strong management team from scratch and bringing many people up through the ranks has been one of the most rewarding aspects of operating Festiva.

CHRONICLE: After several years of selling deeded products, you introduced a points-based club. What was the thought process behind the decision?

CLAYTON: Butch and I worked for over a year to take the best attributes of points and clubs and combine them into a superior product. There was resistance from some of our lenders and our own sales team to sell a non-deeded property. But once we rolled it out in Nassau and then Charleston, everyone saw how successful the new product type was. After that, they all wanted on-board.

Don Clayton (standing) and Butch Patrick of Festiva Hospitality Group

CHRONICLE: How have you seen your lending relationship with Colebrook evolve over the years?

PATRICK: The Colebrook relationship began with a $1 million loan in 2003 and they are now one of our key lenders with a relationship of more than $20 million. Colebrook has been a great partner; they've been a great help and a strong and consistent ally.

CHRONICLE: How have you handled the economic uncertainties of the last three years?

PATRICK: Despite the challenges, we have still managed to acquire new assets every year, with the only exception being in 2009. Plus, we've increased our focus on the rental and management side of the business. That revenue provides the stability to help overcome seasonality.

Festiva Hospitality Group, continued from previous page

Festiva's headquarters are located in a historic, restored castle, Zealandia, built in Asheville, NC, in 1889 by a Forty Niner who, after success in California's gold fields, migrated to New Zealand before returning to build his dream mansion.

CHRONICLE: What do you see in Festiva's immediate future?

CLAYTON: As the economy is beginning to recover, we're seeing improvement in consumer confidence. We recognized that now is the time to be looking for avenues to expand and grow our timeshare development company, resort management and operations, servicing and our other subsidiaries.

CHRONICLE: What can you tell us about your long-term plans for Festiva?

PATRICK: Festiva will continue to acquire inventory and businesses associated with the resort industry. We'll also continue to invest in our sales and marketing capabilities. With consumer confidence returning, we're looking forward to taking advantage of new opportunities. As I said earlier, the management and rental segments of our business, under the leadership of Will Horton, have grown tremendously over the past few years, and provide a steady, reliable source of income to balance the natural fluctuations of timeshare sales. The new opportunities we seek will be based at least in part on their potential to add to the management segment of the company.

As Butch, Don or any one of the 1,000-plus Festiva team will say, the company's purpose is to remain "passionately committed to improving people's lives by providing a lifetime of travel, vacations, and priceless memories." Initially based primarily in the Southeast and Midwest, the company has, during the past few years, expanded its footprint into New England, Florida and Maryland in response to consumer requests for more vacation options. This dedication to serving their customer is surely one of the principal reasons Festiva stands every chance of achieving its mission: "To become one of the most profitable integrated hospitality companies headquartered in the southeastern United States serving over 500,000 members and customers."

Welk Resorts Property Named to Expedia's Insider's Select List

Welk Resorts' *Sirena del Mar* property, located in Cabo San Lucas, Mexico, was named by Expedia to the 2012 Insider's Select List. The Select List includes only 650 properties from among the 150,000 available on Expedia. The rating is based upon customer reviews and the expertise of Expedia employees.

Sirena del Mar is located on a seven acre site with magnificent views of the Sea of Cortez, Land's End and El Arco. The resort opened in 2009 to rave reviews and, in addition to the Expedia designation noted above, was a winner of the 2012 Tripadvisor Traveler's Choice Award. Every villa and penthouse unit has a direct oceanfront view, furnished balconies and terraces and stylish Mexican décor. Phase II of the resort opened in 2012, with a total of 76 units now available for use.

In recent years, Cabo San Lucas has become a premier destination resort area, with world class golf, deep sea fishing, zip lining and parasailing. Project amenities include an infinity pool, *al fresco* dining and a private beach. Activities available to guests range from cooking classes to Spanish lessons. After a week at the *Sirena del Mar*, the Spanish words you will probably use the most are *magnifico* and *exuberante*!

Colebrook Hosts Lender Education Seminar

On June 7, at the Crowne Plaza Hotel in Cromwell, Connecticut, Colebrook hosted its fourth annual Timeshare Lender Education Seminar. A distinguished panel of industry executives addressed a crowd of more than 60 bankers, lawyers and accountants, our largest attendance to date.

The leadoff speaker, for the fourth consecutive year, was dynamic ARDA CEO Howard Nusbaum. Howard presented an enlightening myriad of industry statistics, including sales volume, inventory levels, new construction activity and owner demographics. His overall message was that timeshare sales are rebounding from the recessionary low of 2009 and the future outlook is positive. Construction of new inventory has been light while companies absorb existing product. Bankers like to ask business owners, "What keeps you up at night?" Nusbaum was frank in stating that lately his nocturnal bliss has been disturbed by the plight of older "legacy" resorts, typically smaller, single site properties 30 years old or more where the original developer is no longer involved. As these properties age and old owners are not replaced by new owners, it becomes more difficult for the resort to cover its operating expenses. While the issue is not of direct concern to lenders, since the debt on these properties has long since been retired, it is a concern the industry must address.

Mike Hug, CFO of Wyndham, gave the audience an update on the portfolio statistics he presented a year earlier. The bottom line is that timeshare receivables placed in securitization pools have performed extremely well, better than many other asset classes. The historical performance has resulted in lower interest rates and higher advance rates for 2012 securitizations.

Dave Pontius, CEO of Bluegreen Services, explained the "fee for service" model, under which some of the larger timeshare companies sell product on a commission basis. He traced the evolution of the product, the benefits to the owners of the intervals, to Bluegreen, and to the timeshare purchasers, who receive additional benefits under the Bluegreen program. It was very illuminating for all of us to learn more about the concept and hear Dave's prophecy for the future of "fee for service" marketing.

The keynote speaker of the morning was Craig Nash, CEO of Interval Leisure Group, one of the leading companies in the timeshare business. ILG has historically been a dominant exchange company, but with the acquisition of two of the largest independent management firms in the timeshare industry, has become a larger and more diversified entity. Craig explained the growth and strategy of the company and its place and future in the timeshare industry.

At Colebrook, we've always found that the more our lenders know about the timeshare industry and the mechanics of timeshare lending, the more enthusiastically they embrace the product. Our annual education seminar has proven an excellent vehicle for giving the lenders an opportunity to learn from the top executives in the industry. If you'd like a copy of the handout distributed to attendees, please contact us.

TOP PHOTOS (left to right):
CEO of Bluegreen Services Dave Pontius taking questions from audience.
CEO Craig Nash of Interval Leisure Group (left) and ARDA President Howard Nusbaum discuss timeshare industry.
Colebrook Principal Bill Ryczek shows audience sample of Colebrook Chronicle.

BOTTOM (Left to right):
Interval Leisure Group CEO Craig Nash, ARDA CEO Howard Nusbaum, Wyndham CFO Mike Hug and Bluegreen Services CEO Dave Pontius addressed a by-invitation-only crowd of more than 60 bankers, lawyers and accountants.

Breckenridge Grand Vacations, continued from page 1

intention when we hire a new employee is to hire for personality and train for job skills. This goes for every department from front desk to sales, the back office, IT; everywhere. It's up to us as the leaders of our team to establish a family-oriented atmosphere. We create an environment that attracts and keeps the very top people. In all, we have 70 members of our management staff and very little attrition other than seasonal employees."

The quality of the BGV employees is demonstrated by the vast number of industry awards they've earned. Each year since the business began, the merit of team members and their achievements have been recognized by an awards program sponsored through the American Resort Development Association (ARDA). Among their dozens of awards are a few that are viewed as being especially hard-won and prestigious, such as the 2012 ARDA Circle of Excellence—Project of Excellence Award for their Grand Lodge on Peak 7. This award recognizes Breckenridge Grand Vacations as a company that has attained the highest level of excellence both in its community and in the resort business. Another notable achievement was receipt of the 2012 ACE Philanthropic Award, recognizing their outstanding on-going philanthropic efforts for a humanitarian cause. BGV employees won numerous individual awards in the area of sales, property management and administration. The BGV leadership team's dedication to the training, encouragement, and development of their staff while maintaining a positive and rewarding work environment for everyone also earned them the ARDA Gold Award—Project

Team of the Year in 2012, as well as in 2004.

Bill Ryczek of Colebrook bears further testimony to the quality of the BGV employees. "It's amazing to see the consistency in the excellence of the people we deal with. A few months ago, our primary funding contact, who had been terrific to work with, left the company. She was replaced by someone equally as efficient and friendly. There is clearly a BGV type. Prices at BGV are higher than at most resorts, but the quality of the experience makes it worthwhile. I review most of the consumer packages myself, and am consistently impressed by the positive comments customers make about the sales personnel and their love of the product."

As the senior partner of BGV, Mike Millisor likes to roll up his sleeves and work with the other members of the team, side-by-side. He's done almost all of their jobs at some point during his career and understands what it's like to deal with a balky toilet or an unhappy guest. While the three partners now devote most of their time to the company's strategic direction, they've instilled their strong work ethic and values into the BGV staff.

Colebrook Financial Portfolio Update

Timeshare portfolios financed or owned by Colebrook continue to perform very well. Gross chargeoffs during the first nine months of the year were only $5,000 and were offset by $2,800 in recoveries. Due to the structure of our transactions, not even these nominal losses were incurred by our banks.

Colebrook is approached with many financing opportunities that feature a broad range of attributes, quality and potential risk. The structure of each transaction is primarily determined by the perceived risk, with higher risk transactions bearing a higher yield and structured in a very conservative manner, on the premise that even if there is some level of loss, the relationship will still be profitable on an overall basis.

	12/31/09	12/31/10	12/31/11	3/31/12	6/30/12	9/30/12
Current (<30 days)	93.72%	94.53%	96.18%	96.42%	96.74%	96.95%
60+ days	3.13%	2.46%	1.79%	1.62%	1.53%	1.86%
Advance Rate	73%	70%	67%	64%	63%	67%

Manhattan Club Bar in owners lounge (left), Manhattan Club Metropolitan Suite (right)

Urban Timeshare
A Different Breed of Cat

When most people think of timeshare resorts, they envision seaside villas or condominiums at the foot of a ski slope. From the early days of the industry, hundreds of successful resorts have fallen into one of those categories, despite the fact that America's large cities attract massive amounts of tourists each year. For the most part, city visitors stay in traditional hotels, for there are very few timeshare options in urban areas. In the early years of the timeshare industry, there were a couple of small, boutique projects in San Francisco, but little else in large U.S. cities. Today, perhaps the best known urban timeshare resorts are the Marriott Custom House in Boston, and the Hilton and Manhattan Club in New York City.

One of the principal reasons for the lack of urban timeshare projects is the high cost of land and the difficulty of phasing construction. An attractive feature of building low rise units in resort settings is the ability to limit the amount of inventory available at any point in time and minimize its carrying cost. Urban construction generally requires a tower and results in a lot of unsold inventory upon completion, adding to the risk of the project. Further, acquiring land and constructing a purpose-built timeshare resort in midtown Manhattan would most likely result in a product cost that would require a sales price much higher than that of the typical timeshare interval. For these reasons, both Hilton and Marriott converted hotels they already owned to timeshare use.

Urban timeshare has many unique characteristics. The units are almost always much smaller than those in properties located in destination resort areas. A typical urban unit may range from 400-800 square feet rather than the 750-1500 square foot units frequently found in resorts where land and construction costs are lower. Usage patterns also differ. Urban timeshare owners typically prefer stays of two or three nights rather than the traditional full week. Usage rights are often split so that owners can use two, three or four nights, and divide their week into two or three use periods.

Timeshare marketing techniques are also different from those used in other resort destinations. An advantage of operating in high traffic areas is the ability to operate OPC outlets where, by offering free or discounted products, tourists are enticed to tour a resort. No place has a higher density of tourists than mid-town Manhattan, but New York tourists are generally wary of approaches from strangers, and the OPC technique is not often utilized in urban timeshare marketing. The solicitation of transient guests, marketing alliances and telephone solicitation are more common marketing methods.

Maintenance fees at urban resorts are generally much higher than industry averages, for operating costs are almost always greater in cities. With their higher maintenance fees, urban projects are excellent candidates for a points-based club offering. In a club, owners pay maintenance fees to the club which in turns pays maintenance fees on the intervals supporting the points. The maintenance fees of one urban project within a club of 20 or 30 projects are therefore diluted amongst the pool of properties. Owners have the option of staying in a city while not paying the high maintenance fees of a single site urban development.

Colebrook finances only one urban timeshare project, The Manhattan Club. The principals of Colebrook and the management of The Manhattan Club have known each other for several years, and in September 2012 the companies closed a $5 million hypothecation loan to finance future sales at the property.

The Manhattan Club is a renovated portion of the Park Central Hotel, an historic New York property that housed show business stars like Jackie Gleason and Mae West. Former First Lady Eleanor Roosevelt maintained a suite of rooms at the Park Central.

Mae West wouldn't recognize the old Park Central if she went on a timeshare tour at The Manhattan Club. Most of the property was completely gutted and redone in opulent New York fashion. The Manhattan Club blends high-end hotel amenities with a private club-like atmosphere. Located at 200 West 56th Street between Broadway and Seventh Avenue in one of New York City's most desirable locations, the resort is convenient to Central Park, Carnegie Hall, Rockefeller Center, the Broadway theater district and the world's most popular shopping areas, Madison Avenue and Fifth Avenue. The Manhattan Club is a top ranking resort within both major exchange networks (RCI and Interval International) and an RCI Gold Crown property. It is also part of RCI's Registry Collection, a grouping of the highest end projects in the RCI system. Timeshare sales at The Manhattan Club began in 1997, and since that time they have generated a total of nearly $400 million in volume.

Recent Trends in Receivable Portfolio Performance

A Conversation with Shaun O'Neill of Concord Servicing Corporation

The majority of Colebrook Financial's loans are secured by consumer receivables generated from timeshare sales. The resort developer typically pledges a pool of receivables to Colebrook and agrees to replace any non-performing paper with qualified receivables. Due to the investment in required technology, a third party servicer can often be cost-effective for developers and the independence of having a third party processor provides comfort to lenders.

The largest servicer of timeshare receivables is Concord Servicing Corporation, based in Scottsdale, Arizona, which has been in business since 1988. Concord performs consumer billing, payment processing and reporting on behalf of each resort developer and provides real-time online information access to both the developer and to the lender. Funds are deposited in an account in the lender's name in a secure lockbox and wired directly to the lender. Many developers utilize Concord's processing platform while employing their own personnel, who are more familiar with the product offering, to handle collections and customer service issues.

Concord produces standard reconciliation, cash collection and delinquency statistics plus interactive static pool reporting with drill-down capabilities and unlimited opportunity to slice-and-dice the data. The majority of their reports can be viewed on-line, printed out, downloaded, sent via email, or exported in common file formats. Concord also has 25 years of experience in collecting delinquent loans.

Concord performs outbound collection efforts on defaulted paper in the early stages, typically beginning at 15 days and continuing through 90 days. According to Concord Senior Vice President Shaun O'Neill, defaulted timeshare accounts escalated to approximately five percent quarterly during 2008-2009, peaking in June of 2009. These statistics include all developer loans, including those that do not qualify for funding by a lender.

"Over the last 18 months we are seeing defaults in our clients' portfolio falling more in the 2 ½-to-3 percent range, per quarter," O'Neill said. "Timeshare resort developers learned to adjust their marketing and sales to be much more targeted and selective."

Shaun O'Neill of Concord Servicing Corporation

He explains that one of Concord's major emphases in developing their systems and practices has been to make it easy for the customer to pay. "Customers can pay online, on the phone with a customer service representative's assistance or by using our automated, interactive voice response system. We find that 15-to-20 percent of our payments are received online."

Delinquencies greater than 90 or 120 days are frequently referred to a separately managed collections arm, Blackwell Recovery. Collections in the early stages are performed in more of a marketing framework, that of renewing the consumer's interest in their vacation ownership product. When the number of days of delinquency reaches a point determined by the developer, however, Blackwell Recovery is engaged to recover the full amount owed by the debtor.

"During the height of the recession our collectors were finding it much more difficult to recover defaulted amounts in many cases," O'Neill said. "For some resorts, the percentage of positive results dropped to single digits. Fortunately, that's beginning to change. Also, developers are having some success by offering settlements to owners who agree to pay off their mortgage in full and continue enjoying their ownership privileges."

Since Colebrook's inception, the company has utilized Concord's services in many instances and has been particularly impressed with the servicer's commitment to continuous improvement and innovation. "Over the years we've been pleased to see Concord invest in its staff, technology and security," said Colebrook Partner Bill Ryczek. "They provide a solid product and outstanding customer service."

Timeshare Jargon, continued from page 2

Hooked Tour—
a promotional tour that comes with the requirement to attend a sales presentation. An "Un-hooked Tour" obviously, is a promotion where a tour is optional.

Mini-Vac—Mini-vacation—
a free or discounted trip to a resort area with the intention of selling the visitor a timeshare interest.

NQ—Non-qualified—
a prospect that is not toured because they don't meet the minimum criteria for purchase

Pender—
A purchaser who pays only a portion of the downpayment at the time of their tour, with a promise to pay the remainder over a specified period. Also known as a "Mickey" for reasons unknown to the author.

Space Bank—
to deposit a timeshare interval with an exchange organization in order to facilitate a trade.

Biennial—
a timeshare interval that provides for usage every other year

Triennial—
a timeshare interval that provides for usage every third year

UDI—Undivided Interest—
a form of timeshare ownership

RRP—Registered Resort Professional—
a professional designation conveyed by ARDA to those individuals in the Shared Ownership industry who demonstrate sufficient proficiency and industry knowledge.

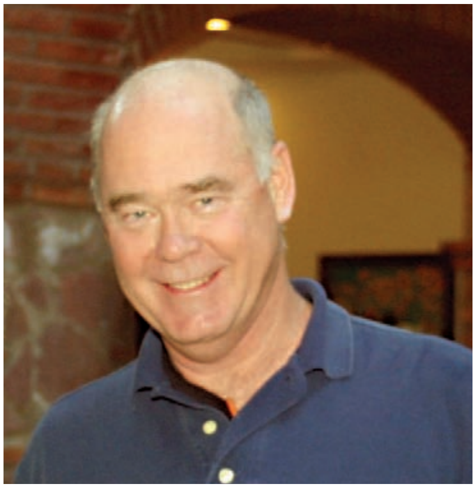
There are a number of other terms unique to the industry, but if you master the list above, it will be sufficient for you to dazzle the attendees at the next Colebrook Lender Education Seminar.

News Release:

Colebrook Lends $6mm to Vacation Ownership Sales

Colebrook recently closed a $6 million receivables hypothecation loan with Vacation Ownership Sales, Inc. (VOS). VOS is the development and sales company affiliated with Vacation Internationale (VI), the oldest points-based vacation club in North America. VOS will use the loan proceeds in its ongoing and successful efforts to expand VI in the US, Mexico and Canada.

VOS President Stuart Allen said, "VOS is very appreciative of its financial relationship with Colebrook. This association dates back to 2005, when VOS was founded to foster growth for VI. Colebrook and its principals have aided VOS and VI immeasurably by their support of VI's strategic plan. We look forward to more transactions like this in the future."



VOS Principals Stuart Allen (left) and Mike Vasey (right).

"We've been delighted to work with Stuart and VOS Director Mike Vasey," says Colebrook Partner Bill Ryczek. "Vacation Internationale practically invented the points-based model that is so prevalent in the timeshare industry today, and the fact that the club continues to thrive is a testament to the quality of the product and the soundness of the management. Stu and Mike are a great combination of administrative and marketing talent who complement each other well."