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

Christie Lodge and Highland Resorts Solve the Legacy Resort Resale Challenge

CHRISTIE LODGE
CHRISTIE
Lodge

The timeshare industry began almost 40 years ago primarily to ease the risk associated with transient room rentals. If resort accommodations were sold out in advance, variable occupancy rates and unpredictable economic cycles would be mitigated. Recently, however, when we meet with developers, they invariably stress the importance of a rental program. Whether selling to wholesalers, renting to existing timeshare owners, or marketing packages over the internet, it seems as though every developer is looking to increase rental revenue.

Rental income provides a boost to the bottom line, and utilizing otherwise vacant inventory is a positive factor for any developer or HOA, but if rentable inventory continues to increase, the risks and uncertainty associated with the operation of a hotel replace the more stable dynamics of a timeshare owners' association.

The Christie Lodge, located in Avon, Colorado, is a 280 unit timeshare resort built in 1981. Originally a wholly owned residential and commercial condominium project, Christie Lodge was converted to a timeshare program in 1982 and effective sellout was achieved around 1986. At that time the sales operation was discontinued, and the resort was managed by Lynn Weas via Resort Advisory Group until 2009. Lisa Siegert-Free was appointed Managing Director and General Manager in 2009 and has continued in that role to the present time. During the past few years, the association sold numerous weeks as they came back to inventory, but without a permanent sales team in place, more inventory came in the front door than went out the back.

It is very common for a company to wait until they experience financial difficulty before changing their direction, but the Christie Lodge association has been uniquely proactive. Despite being in a very strong financial condition, they realized that the property was slowly evolving from a timeshare resort to a transient hotel, as older owners found themselves unable to travel. While the property's desirable location near the Beaver Creek ski area led to strong occupancy levels, the association was vulnerable to a slackening of rental demand and downward pressure on room rates related to competitive pressure. Declining rental revenue would necessitate increased maintenance fees, resulting in owner dissatisfaction and more defaults. Management has always been very focused on maintenance fees, and, remarkably, had not raised them at all between 2008 and 2013.

One of the alternatives to an increase in inventory is to sell blocks of intervals to clubs. This solution has worked well for many associations, and has the advantage of a simple, one-time transaction that absorbs a large portion of the unsold inventory. Christie was concerned, however, about the dependence upon one entity for a meaningful percentage of operating assessments. Since they were not in a desperate situation, they decided to investigate other alternatives.

After examining the issue from several directions, the association decided to engage a sales organization to actively market the intervals to individuals. While eliminating concentration concerns, the sale of individual intervals takes time, and if the program failed to produce sufficient volume, the problem would remain unsolved. Another potential danger was that a sales team might use aggressive tactics that would alienate the existing owner base.

The Board of Directors and management of the HOA sought an organization that had both a proven ability to sell and a history of conducting its affairs that was compatible with the business philosophy of the resort. After an extensive search process, they contracted with Todd Herrick of Highland Resorts, a Colorado-based developer who sold timeshare interests at three properties in Arizona and California. Herrick's organization began sales last fall, and the initial results have been very encouraging. The competition in Beaver Creek consists mainly of branded, high-end products, which enables Herrick to sell the Christie Lodge product at a price well below the competition. This provides buyers with an excellent value proposition, giving them high point values vs. low maintenance fees, while bringing the HOA new dues-paying owners.

The resort is well on the way toward once again becoming a timeshare resort without the risk associated with the transient rental market. Colebrook provided a line of credit to finance the sales, based upon the mature state of the resort, the stable financial condition of the association, and Mr. Herrick's excellent track record in two projects he is currently funding with our company. We look forward to assisting the resort in its continuing mission to add new owners to its base and enhance the performance of the association.

Mike Vasey, and Stuart Allen of Vacation International, and VI properties Vallarta Torre, Puerto Vallarta, Mexico and Pinnacle Lodge-Sun Peaks, BC, Canada

DEVELOPER SPOTLIGHT:

Vacation Ownership Sales and Vacation Internationale Hitting on all Cylinders

By Sharon Scott, RRP

When the principals of a land development company acquired some forested parcels being spun off by Boise Cascade in the early '70s, their first thought had been to build second homes. They recognized that trading second home usage might offer some additional revenue, which led them to study a brand new phenomenon being undertaken by the Hapimag Club in Europe called timeshare. They thought the idea made sense and founded a similar vacation ownership system in 1974. Today, Vacation Internationale (VI) is the oldest points-based club in the US and boasts 42,500 customers.

Since those days, VI has overcome numerous challenges and evolved into a highly successful homeowner association-managed club. The club continues to prosper and grow with the assistance of the independent marketing group Vacation Ownership Sales, Inc. (VOS) and its two partners: Stuart Allen and Mike Vasey. Allen handles operations and management, while Vasey is responsible for marketing and sales. The two owners have divided responsibilities in accordance with their strengths, and operate the club's machinery like interlocking gears.

Allen, who as an attorney had worked in the timeshare industry in Seattle since 1985, first became involved in 2000. At the time, Sunterra had the management and sales contract for VI, but had filed for bankruptcy. As the attorney for the VI owners association, Allen handled the Sunterra bankruptcy for the association and had the opportunity to learn about the club from the inside out. He and the owners association board saw opportunities Sunterra had missed. Vasey came onboard in 2006 when VOS was gearing up as VI's marketing agent and introduced a new and very successful sales and marketing approach.

"Essentially, the previous management wasn't focused," says Vasey. "They were too diverse and spread too thinly to understand the unique aspects of VI. It basically called for better organization and management to get the sales function back in good shape."

The two explain that there's no 'secret sauce' in what they do. It's a matter of watching the business operations carefully and investing in technology to create efficiency. "We receive 10,000 calls a month," says Vasey, "but without providing the ability for owners and guests to access online technology, it would be a lot higher than that."

There may not be secret sauce involved, but the 95% owner satisfaction rate might suggest otherwise. Indeed, if anything, the magic ingredient is an owner-centric philosophy. "If owners are satisfied," says Vasey, "they make payments on their loans and maintenance fees, which I know pleases our partner Colebrook Financial. Ten years ago, our owner satisfaction rate was only 82%. The fact that it is now much higher is attributable to engaging staff in making owners and club members feel valued. As a matter of fact, the delinquency rate for our annual maintenance fees is remarkably low — only 3-½ percent as compared to some of our competitors who are in the double digits. VI's non-profit status has enabled it to keep maintenance fees stable over the past several years, creating an additional value proposition for its owners and perhaps contributing more to consumer satisfaction than anything else."

Vacation Internationale Owners Association President Rex Kellso and the board of directors work tongue-and-groove with their management team at VOS to ensure they continue to improve the vacation experience. Rex has been a member of VI for over 20 years and a board member since 2010. He has been active in real estate development and construction for most of his career. Rex often travels with three generations of his family so he and his wife can enjoy their adult children and the grandchildren on their holidays.

"Because of the relationship between Vacation Internationale and VOS, we plan to add resorts to the network in areas that will benefit the VI program and our members," says Kellso."We see a bright future and steady growth of VOS and the VI program and we look forward to many new options on the horizon."

VOS began its relationship with Colebrook in 2005 due to the latter's familiarity with the product (Colebrook's principals had financed VI during their banking days) and the fact that they were among the first companies to understand the financing of club rather than deeded product. In 2007, VOS came to Colebrook with a rather unusual proposition. The club wanted to acquire the reversionary interests in two properties in Mexico and convert those interests into salable inventory in the US. Colebrook was able to structure a transaction that protected its own interests while providing the funds to purchase the reversionary interests. "You can't approach just any lender," said Colebrook's Bill Ryczek, "and tell them you'd like them to finance the acquisition of non-real estate reversionary interests held in a Mexican trust. We've had experience

(continued on next page)

King's Creek Plantation, continued from page 2

in Mexico [see *Bill and Mark's Excellent Adventure,* elsewhere in this issue] and we used our creativity to structure a loan with other collateral and guarantees. The loan performed wonderfully and paid off ahead of schedule."

A number of other timeshare developers have developed points-based systems, but VI has the distinct advantage of being member-owned and operated. Says Allen wryly, "VOS and Colebrook have to make a profit, but VI doesn't. This is the difference: VI's club stresses owner satisfaction over growing its profit margins."

During the past few years, VI's strong financial condition allowed it to step in and absorb the members of clubs that became over-extended during the recent recession. The new owners went from a failing club to one of the strongest in the country, and the additional members strengthen VI even further. Existing VI owners gain additional vacation options, and VOS has a new base of owners for potential upgrade sales. "It's truly a win-win for all the parties," says Allen.

The acquisitions expanded the club's facilities by 25 percent, saved 10,000 customers of other vacation clubs from a troubled situation, and spared the timeshare industry a public relations nightmare. And what's more, they're not done yet. Allen explains that the board remains open to reviewing additional acquisitions. "The board's criteria include prospective utilization, resort quality, cost to operate, and how VI can continue to grow."

With properties that stretch from Canada, throughout the US West Coast, and down to Mexico, the sprawling machine keeps the two men pretty busy. Still, until recently Allen played soccer in an over-55 league. "They were the worst team in the league," he grins. "And I was the worst player on our team. So that meant I was the absolute worst player in the entire league!" Knowing Stu, one suspects he is being somewhat modest. But given Colebrook's concern with Allen's well-being, they were glad to see him hang up his spikes.

Vasey's outside activities are not quite as strenuous. "When I have a spare moment," he said, "I'm home with my four-year-old! I do like to get out to snow and water ski when I can, though."

With all indications that VOS and VI will continue running smoothly for many years to come, the two are looking forward to a long and successful ride.

The Chronicle Talks With Colebrook's Bill Ryczek About the Future

By Sharon Scott, RRP

Chronicle: The lending environment seems a lot more competitive than it was a few years ago. How is Colebrook faring?

Ryczek: We're doing relatively well. We do a lot of repeat business with existing customers, and that's really sustained us. When the financial crisis hit in 2008 we were overwhelmed with applicants. We couldn't accommodate everyone, and we tried to select those businesses that had exhibited loyalty to their previous lender. Our judgment turned out to be pretty good, and most of the people we helped in difficult times are grateful and continue to do business with us. We also realize that loyalty is a two-way street. We have some small customers who've been with us from the beginning, and even though we're much bigger now, they remain valued clients, because we wouldn't be where we are without them.

Chronicle: What's your biggest marketing challenge?

Ryczek: Our biggest challenge is getting people to realize we're not the company we were ten years ago. We started out doing small loans at higher rates, but over time we evolved to become a mainstream player that can do just about anything our large competitors can do. I have to keep getting the message out there and remind people that we've changed a lot during the past ten years.

Chronicle: What advice would you give to developers at this point?

Ryczek: If I were the CFO of a timeshare development company, I would be looking to protect my arbitrage margin by fixing the cost of my debt. That's why we've been offering fixed rate tranches on some of our loans. Everyone's been lulled into thinking that interest rates will be low forever, but they won't be. There's little risk in fixing costs, because rates can't really go down.

Chronicle: Do you see Colebrook experiencing rapid growth over the next year or two?

Ryczek: It's hard to predict, but I would say probably not. Once a timeshare portfolio reaches a certain size, the attrition is so great that it takes a lot of new loan volume just to maintain existing levels. We're always looking for business, and if the growth is there we'll take it, but we won't stretch for it.

Chronicle: Where do you see Colebrook in ten years?

Ryczek: I'd like to see the company operated with the same level of personal service we have now. As long as I'm here, I want to talk to customers and lenders, not sit in staff meetings managing committees. Even if we double or triple in size, I think we can maintain the same way of doing business. It's a state of mind, not a matter of size. I see big companies that are hands-on and small organizations that operate more impersonally than a Fortune 500 company. Where we are in ten years is also a function of where the timeshare industry is at that time. If the securitization market continues to be strong, and dips down to a lower level, it will dramatically change our market, as would continuing consolidation. I think our flexibility and nimbleness gives us an advantage in adapting to change, so I'm optimistic.

I say, the future is a serious matter
And so, for God's sake, hock and soda water

—Lord Byron

Accounting

A Review Of New Alternative Accounting Treatments Available For Use By Private Companies

By Thomas Durkee, CPA

Thomas Durkee

The Federal Accounting Standards Board recently issued updates on financial reporting for private companies that contain information of great interest to many of Colebrook's developers. The Chronicle *asked Thomas Durkee, CPA and partner of Averitt, Warmus, Durkee to summarize the changes for our readers.*

In December 2013, the Financial Accounting Standards Board (FASB) Private Company Council (PCC) issued *Private Company Decision Making Framework — A Guide for Evaluating Financial Accounting and Reporting for Private Companies* ("the Guide"). The FASB followed the issuance of the Guide with two Accounting Standards Updates in January 2014, both of which are a consensus of the PCC.

The Guide has identified five areas in which financial reporting guidance may differ for private companies and public companies as follows:

a. Recognition and measurement
b. Disclosures
c. Display
d. Effective date
e. Transition method

The Guide discusses how and why the needs of users of private company financial statements may differ from the needs of users of public company financial statements and how the cost-benefit considerations of financial reporting differ between private and public companies. The Guide identifies five significant factors that differentiate the financial reporting considerations of private and public companies. Those considerations are:

a. Number of primary users and their access to management
b. Investment strategies of primary users
c. Ownership and capital structure
d. Accounting resources
e. Learning about new financial reporting guidance

The Guide and subsequent pronouncements issued by the FASB, which present alternative financial reporting guidelines for private companies, are available to be implemented by all entities except for public business entities, not-for-profit entities, and employee benefit plans.

Accounting for Goodwill

In January 2014, The FASB issued FASB Accounting Standards Update 2014-02, *Intangibles — Goodwill and Other (Accounting Standards Codification Topic 350) Accounting for Goodwill*, a consensus of the Private Company Council.

The PCC determined that the benefits of the current accounting for goodwill after initial recognition do not justify the related cost and complexity of performing the goodwill impairment test. Further, feedback indicated that users of private company financial statements felt that the goodwill impairment test required by U.S. GAAP provides limited useful information because most users of private company financial statements generally disregard goodwill and goodwill impairment losses in their analysis of financial condition and operating performance. The PCC decided that a change in accounting for goodwill by private companies was warranted.

The Update allows an accounting alternative for the measurement of goodwill subsequent to its initial recognition. Qualifying entities that elect to implement this standard may amortize goodwill over 10 years on a straight-line basis, or less than 10 years if the shorter useful life is more appropriate.

Entities that elect to implement this alternative are required to also make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level when a triggering event occurs that indicates that the fair value of an entity may be below its carrying amount.

The goodwill impairment loss, if any, is the excess of the carrying amount of the entity or reporting unit over its fair value.

This accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in years beginning after December 15, 2014. Early adoption is permitted.

Accounting For Certain Receive-Variable, Pay-Fixed Interest Rate Swaps — Simplified Hedge Accounting

Also in January 2014, FASB issued *Accounting Standards Update 2014-03, Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps — Simplified Hedge Accounting Approach*, a consensus of the Private Company Council.

The PCC received input that private companies often find it difficult to obtain fixed-rate borrowing and, therefore, enter into a receive-variable, pay-fixed interest rate swap to convert their variable-rate borrowing into a fixed-rate borrowing. Under U.S. GAAP (Topic 815), an entity is required to recognize all interest rate swaps on its balance sheet as either assets or liabilities and measure them at fair value. Topic 815 permits an entity to elect hedge accounting if certain requirements are met. Because of limited resources and the complexity of hedge accounting, many private companies do not elect to apply hedge accounting, which results in income statement volatility.

The alternative simplified hedge accounting approach permitted for qualifying private companies results in an income statement charge for interest expense that would result if the entity had entered into a fixed-rate borrowing instead of a variable-rate borrowing with a swap.

The simplified hedge accounting approach is effective for years beginning after December 15, 2014. Early adoption is permitted.

Conclusion

Private companies who have been frustrated by some of the complexities of conforming to U.S. GAAP may find comfort in the issuance of the Updates referred to in this article and in future Updates providing alternative and presumably simplified accounting treatments.

About AWD

Averett Warmus Durkee (AWD) provides clients in a variety of industries with assurance, accounting, and tax compliance services. For further information about AWD, contact Tom Durkee (tdurkee@awd-cpa.com) at (407) 849-1569 or visit www.awd-cpa.com.

Timeshare History 101

Keith Trowbridge and the Sanibel Beach Club— The Birth of the U.S. Timeshare Industry

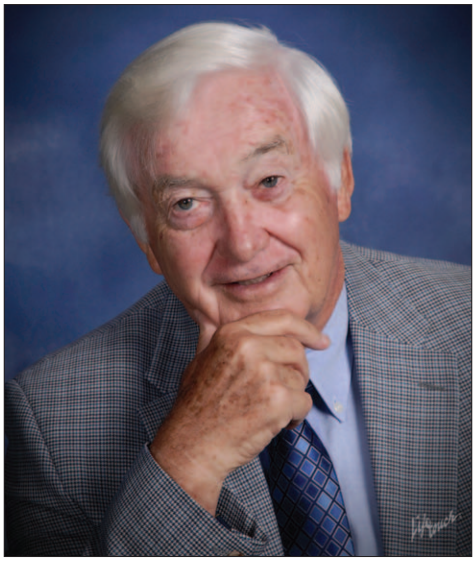
By Sharon Scott, RRP

In 1972, Dr. Keith Trowbridge was part of the team that founded Florida International University. A year later, he left academia to launch a second career as a motel developer on Sanibel Island, Florida. It was a bold move, perhaps as drastic a career change as a man can make, and his B.S., MBA, and his PhD in Education from the University of Michigan were of little help when Trowbridge almost immediately found himself in a crisis situation. In the fall of 1973, Syria and Egypt attacked Israel, triggering the Yom Kippur War. Ten days later, OPEC instituted an embargo on shipping oil to the United States, causing a gasoline shortage that stopped U.S. tourism dead in its tracks.

Soon Keith found himself hauling plants to his property from a nearby nursery in a wheelbarrow, trudging past block after block of cars waiting in line for rationed gas. The journeys gave him plenty of time to reflect and wonder why he left the secure world of academia. While his property had "location, location, location," the timing was all wrong. Without dynamic change, the motel project was going to fail.

Trowbridge converted the property to condominiums, but rising interest rates and a shortage of available financing ruined that plan. What was left? Keith had heard that some European vacation properties called "timeshare resorts" were being leased to holiday goers for one or two weeks at a time. With little to lose, he investigated further and, in 1974, developed the first successful purpose-built interval ownership resort in the United States. Trowbridge called the property the Sanibel Beach Club and established Captran Resorts International, Ltd. as the development entity. The 31-unit project was sold out in 18 months during a period when whole unit condominium sales were moribund. The Canadian emigrant had left his mark on the United States, and over the next several years would contribute greatly to the U.S. economy.

While Trowbridge was selling like mad, however, he discovered that one of the disadvantages of the timeshare business was that he also had to be the banker. Fortunately, Jack Welch had just established GE Capital, and granted Captran the first timeshare hypothecation loan in the United States. Welch soon realized, however, that he was over his head in the complex area of timeshare lending, and decided to leave the field to skilled professionals like those at Colebrook.



Dr. Keith Trowbridge

As the first big timeshare developer in the U.S., Trowbridge became a celebrity. With his thick mane of white hair, his professorial bearing, and his articulate manner, he was the anti-thesis of what people expected of a timeshare salesman, even if in those early days they weren't quite sure what a timeshare salesman should look like. In 1981 Trowbridge published a book titled Resort Timesharing, How You Can Invest in Inflation-Proof Vacations for Life, which led to appearances on the Today Show and many other radio and television shows.

Captran generated about $50 million annually in vacation ownership sales in the late '70s, developing 18 projects in total, and was the largest development company in the new industry. Eventually, Captran was sold to Resorts Development International, which later became part of Bluegreen Resorts.

In retirement, Keith and his wife Doris traveled to every continent and drove through every state in the Union. Once they had their fill of globe-trotting and returned home to Sanibel, Doris told Keith, as he remembers, that "we didn't need two cooks."

In 1994, Trowbridge formed Executive Quest, Inc., the leading executive search firm in the timeshare industry. "The concept of becoming a head hunter came about rather naturally," says Trowbridge, since he was always being asked to make connections between companies and prospective employees on an informal basis. As the founder of the first timeshare company, Trowbridge knows everybody in the industry, and knows how to hire, having managed nearly 3,000 employees during the glory days of Captran.

Trowbridge has also returned to his academic roots and is teaching timeshare courses at Lynn University in Boca Raton, Florida. "Even when I'm on vacation, I'm often asked to address sales meetings or groups of college students," Trowbridge laughs. "Several years ago Doris and I were planning a tour of beautiful Vancouver Island. But when the dean of Royal Roads University asked me, I was delighted to address a group of 40 students undertaking advanced studies in timeshare as part of their hospitality program."

Throughout his career, Trowbridge has been a teacher, always seeking to inspire students, employees, and even people who interview him for The Colebrook Chronicle. "Intelligence is measured by the questions you ask, not the answers you give," he likes to say. "Just as character is measured by the friends you have, rather than the family you're given."

It took a thinker to start the U.S. timeshare industry, and it took an economic crisis to get Keith Trowbridge to take a chance on a brand new concept. Every few years we face an economic downturn, during which some companies fall by the wayside and others re-invent themselves and prosper. Keith Trowbridge didn't just re-invent a company; he invented an industry, and each of us who make our living in vacation ownership should take a moment to give Keith a tip of the cap.

Receivables Portfolio Management—
In-House or Independent Servicer?

By Peter Moody

Peter Moody, Equiant Financial Services

***Editor's Note:** A timeshare developer's receivables portfolio is often the biggest asset on its balance sheet, and a relatively minor change in default rates can have a meaningful impact on the bottom line. Given the magnitude of the issue, most developers think long and hard about whether it is more efficient to service the portfolio in-house, outsource it completely to a third party, or use some combination of the two.* The Chronicle *asked Peter Moody of Equiant Financial Services to discuss the benefits of using a third-party provider.*

Outsourcing your accounts receivables billing and collections can be a daunting and unfamiliar process. Many developers assume it will cost more to use a third party servicer, since in addition to covering its costs, the servicer expects to earn a profit. They often underestimate the advantages of economies of scale and of the capital investment required to maintain a software system capable of handling the ever-changing nuances of payment processing and account maintenance.

Outsourcing to a servicing company must be seen as a strategic activity that allows a developer to focus on its core competencies, while hiring a specialist to perform a function for which it has proven expertise. When the decision is made to move back-office responsibilities from an 'in house' receivables management culture to an outsourcing solution there are many perceived risks, such as delinquency fallout, higher fees, and lack of portfolio controls. While these concerns are understandable, they are far from the truth. Servicing companies have a contractual responsibility to manage costs (bank fees, merchant fees, and vendor fees) and are able to use the consolidated leverage of all their clients to negotiate volume pricing unavailable to individual companies. Servicing companies also have the capacity to invest in more advanced automated technologies through economies of scale.

Another advantage of using a third party servicer is a reduction of the high personnel costs that can negate some of the benefits of increased portfolio performance. When analyzing the cost of in-house servicing, many developers look only at direct labor, ignoring administrative support costs and the cost of employee benefits. Further, there is a risk associated with a relatively small servicing staff, which by definition lacks depth. The departure of one key employee with specialized knowledge can be devastating. An independent servicer, with its larger staff, is much less dependent on one or two individuals. Further, outsourcing frees the developer of the responsibility of hiring, training, and supervising the servicing staff, and allows more time to focus on building, marketing, selling, and customer service.

There are many all-purpose timeshare software packages that contain a receivables management module. They are expensive to purchase and even more costly to maintain. A servicing company like Equiant, which can spread its cost over a much greater portfolio base, can invest in analytical tools such as "lifetime value of customer by FICO," predictive models of default, and cumulative default by risk factors. The servicer's investment in technology allows developers to use their capital to invest in their core business.

Enhanced consumer protection initiatives such as the Consumer Financial Protection Bureau (CFPB), the Payment Card Industry Data Security Standard (PCI DSS), the Fair Debt Collection Practices Act (FDCPA), the Dodd-Frank Act, and the California Rosenthal Act have put a target on the backs of developers and their bottom lines. Complying with the standards imposed by the new legislation is time consuming and expensive. Keeping up with the changes is nearly impossible for anyone who doesn't specialize in compliance. Servicing companies take care of this responsibility by building consumer protection controls into their shared risk service model.

A critical relationship for all developers is that with their lenders. Lenders benefit directly from the developer outsourcing to a servicing company, and often require it. Having a SSAE 16 (type II) audited servicing company process payments, remit cash, and deliver automated reporting for the lender's financed portfolio creates an additional layer of integrity and security.

At the end of the day, when developers outsource their receivables portfolio, they want to see portfolio performance improve. To enhance delinquency control, servicing companies combine the best of people, cutting edge technology, and expertise gained from decades of experience collecting consumer portfolios. By interacting with many developers, they are able to assimilate best practices into their operating processes.

The timeshare industry has seen many changes in just the past five years. Receivable eligibility requirements have changed, new lenders have entered the business, and old lenders have left. We've seen the emergence of the travel club, more rigid banking policies, merchant processing compliance, social media, and new technology software. Throughout all of these changes, servicing companies have been able to adapt and support heterogeneous client environments with much more facility than the clients could have done working independently.

Equiant is one of the leading timeshare servicers in the U.S., with a serviced portfolio that exceeds $1 billion, consisting of more than 110,000 individual loans. Over the last 28 years, it has serviced more than 450,000 loan receivables and 600,000 maintenance fees accounts, and its array of products includes receivables and maintenance fee servicing, invoicing and payment processing, delinquency control, on-site transitional staffing, document custody, trustee services, and analytic reporting.

Bill and Mark's Excellent Adventure

In baseball, they say that some of the best trades are the ones you don't make, and the same holds true for loans. That adage was never better illustrated than by the story of a journey to the Mexican Baja by Colebrook's Bill Ryczek and Mark Raunikar in November 2007.

Colebrook was considering making a loan secured by a portfolio of consumer notes generated from the sale of lots in San Felipe. Having had excellent experience with two Mexican timeshare loans, we were excited about the opportunity. Americans who vacation in Mexico tend to have a strong demographic profile, and our two portfolios had performed very well. We agreed upon the terms of a proposal letter, and while the due diligence review was in process, we took a trip to meet the developer and visit the property.

The best way to reach San Felipe is to make the long drive from San Diego, and we embarked with the developer and two others early in the morning. Shortly after crossing the Mexican border, we received an email from our CFO, Jim Bishop. Jim had just spoken with a customer in California who told him that Americans were being slaughtered indiscriminately in northern Mexico, and that our lives were in jeopardy. Tell them to turn back, he pleaded, before it was too late.

Jim, never one to miss an opportunity to create alarm, passed along that information, with a few embellishments, long after we entered no-man's land. It was hard to believe we were in any danger, however, since there was a strong security presence along the route, including a group of uniformed teenagers who stopped our vehicle, asked us to get out, and trained machine guns on us as they searched the car. Clearly, anyone with malevolent intent didn't stand a chance. We thanked them for their vigilance, got back in the car, and motored on.

It wasn't long before we were in San Felipe, a small fishing village with old time Spanish charm, beautiful crystal blue water, and several thousand lots for sale to southern Californians looking for peace nd quiet. San Felipe appeared to have a lot of peace and quiet, maybe too much. What was there to do, we asked. Well, the developer replied, you could sit on the beach and drink, or you could stay in your home and drink, or you could go into town and drink. Apparently you could also drink, get in your jeep, and drive it into the Sea of Cortez at low tide, for we saw a rusted vehicle submerged tire-deep about fifty yards offshore. High tide comes quickly, especially after a few margaritas.

We weren't impressed by the lots, which were small and sandy, or the homes, which were wedged into the lots. After a run into town and a tour of nearby developments, we headed back to San Diego. The ride was uneventful until we reached the border at Mexicali about nightfall.

Our developer had a special pass for expedited crossing, since he was a frequent visitor to Mexico despite, as we later found out, not having filed tax returns since the Nixon administration. If we were with him, he explained, the crossing would be greatly delayed. The best alternative was for him to drop us off and cross alone, while we walked over the border, and then through the streets of Mexicali to meet him at a designated pickup point.

"One of the keys to being a successful lender," Mark told the *Chronicle* travel editor, "is having sound, cautious, reasoned judgment. When he told us of his plan, we agreed immediately and started for the border on foot." It was about 6:00 p.m., and there were a lot of people crossing the border, hundreds of day laborers returning home and four gringos in business casual, looking like Mitt Romney at a Snoop Dogg concert. Predictably, one of us was pulled out of line and questioned, but we made it through and found our driver exactly where he said he would be. It was smooth sailing back to San Diego.

Further due diligence indicated that our developer was not a tower of financial strength, as far as we (or he) could tell. We'd heard of engaging forensic accountants to unravel another's financials, but this was the first time we were aware of anyone hiring a forensic accountant to decipher their own financials. When the evidence was in, we decided to pass on the transaction.

We like Mexico, and continue to solicit business there, and we would like San Felipe for the right deal. And even though it didn't result in any business, we liked the trip to San Felipe in November 2007. It was a lot more interesting than another visit to Orlando and, as Friedrich Nietzsche is often quoted as saying, "What does not kill me makes me stronger." We'll drink to that.