THE COLEBROOK CHRONICLE

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

From the Editor

Many of the world's best periodicals have themes. They have the Fall Fashion Issue, the Top Hotels in Europe Issue and, of course, the iconic *Sports Illustrated* swimsuit issue. At a recent meeting of the *Chronicle* editorial staff, we decided to produce an issue with a theme, that theme being "Something Old, Something New, Something Borrowed, and Something Blue." It's not original, but we're a small press, and the motto of the revered *New York Times,* "All the News That's Fit to Print," doesn't sound as if it was the product of months of intellectual gymnastics, either.

In our lineup of articles, we have something old, if he will pardon the label, in industry veteran Herb Hirsch; something new, dynamic young Patton Hospitality CEO Will Horton; something borrowed as discussed in Bill Ryczek's article on hypothecation loans; and finally, we have beautiful Blue Water Resort in Nassau. There are a couple of other articles that don't fit the theme, and we utilized the old trick of getting your attention by using a photo of a beautiful actress who is only peripherally connected to the subject matter. Hope you enjoy the issue.

How Do They Do It?

Colebrook Presents Another Stellar Panel at the 2015 Lender Education Seminar

On September 24, Colebrook held its seventh Lender Education Seminar at the Inn at Middletown. Over 50 bankers, accountants, and attorneys listened to presentations on the state of the industry, the electronic signature and vaulting revolution, a due diligence case study, and the history and current state of one of the leading companies in the timeshare industry.

A staple of the seminar is to provide updated information on the condition of the industry, a role fulfilled to perfection once more by ARDA CEO Howard Nusbaum. Howard is upbeat on any occasion, and when the news is good, he practically needs to be tethered to the podium. And the news from the timeshare industry is good. Sales have grown steadily from $6.4 billion in 2010 to $7.9 billion in 2014, with virtually every sales metric, including tours, closing rates, and VPG (volume per guest) moving in a positive direction.

Howard commented on the dramatic change in timeshare demographics, reflected by a younger and more diverse owner group. The median age of new timeshare purchasers is 39, roughly ten years younger than that of all existing owners. Thirty-nine percent are Gen-Xers and 30% are millennials. Forty-two percent of all new owners are African-American or Hispanic. The demographic profile continues to be strong, with average purchaser income of nearly $95,000. Approximately 72% are college graduates and 23% hold advanced degrees.

Howard also spoke of the greatest challenge faced by the timeshare industry—aging owners at older resorts who want to sell their interest. The secondary market continues to be limited, and developers are experimenting with limited duration product linked to the purchaser's anticipated travel horizon, and buyback programs for existing owners.

The second speaker was John Jacobs of eOriginal, the leading company in the growing electronic signature and vaulting field. Digital signatures and storage are coming, not just in the timeshare industry, but in all facets of consumer finance. John explained the process, walking the audience through the evolution from the mainframe computers of 1970 to the "Cloud" of today. He

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ARDA CEO Howard Nusbaum

That's a Head Scratcher. It appears that panelists (l. to r.) Jon Fredricks, CEO of the Welk Resort Group; Chief Investment Officer Bob Howard of Gold Key Resorts and John Jacobs of eOriginal have stumped ARDA CEO Howard Nusbaum, much to their merriment.

2015 Lender Education Seminar, continued from page 1

talked about security and answered some tough questions from the audience about potential hacking.

The final two speakers were developers, Chief Investment Officer Bob Howard of Gold Key Resorts and Jon Fredricks, CEO of the Welk Resort Group. Gold Key, a fixture in Virginia Beach for many years, recently acquired Beachwoods Resort in North Carolina's Outer Banks region, the company's first property outside of their primary market. Gold Key is known for its all-encompassing approach to due diligence, and Bob shared some of his insights, as well as a couple of humorous anecdotes from the regulatory approval process, which undoubtedly seemed less humorous at the time.

Jon Fredricks talked about the evolution of Welk Resorts which, in contrast to the steady growth in sales in the timeshare industry, has experienced a significant increase in volume over the past few years, from $89 million in 2012 to $147 million in 2014. The company is currently developing new inventory in Branson, MO, Escondido, CA, and Lake Tahoe, CA, with additional projects planned for Breckenridge, CO and Kauai, HI.

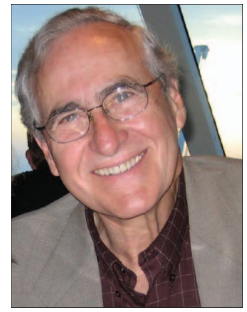
Messrs. Howard and Fredricks represent developers of similar size and focus, companies that, in the current atmosphere of consolidation, represent very attractive acquisition targets. At the time Bob Howard spoke to our group, Gold Key was under contract to sell the company to Diamond Resorts, a large publicly-traded timeshare developer based in Las Vegas. The Diamond/Gold Key transaction, which closed after the date of the seminar, was the latest in a series of acquisitions within the timeshare industry.

Welk Resorts has been privately held by the Welk family since its establishment by band leader Lawrence Welk in 1964. A couple of years ago, the company formed an ESOP, moving the company toward employee ownership. Mature timeshare companies face the same issue as aging timeshare owners—divestiture and monetization. The paths trod by Gold Key and Welk, sale of the company or the establishment of an ESOP, are the best options, and have been taken by a number of Colebrook customers.

Every seminar attendee received a handout that included the background of each panelist and a hard copy version of all Power Point presentations. We have a limited number of handouts available, and anyone who was unable to attend and would like to receive a copy should contact us. We'll be happy to send them as long as the supply lasts.

I've Got a Story for You

Herb Hirsch Looks Back on 40 Years in the Timeshare Industry



What did Herb Hirsch learn during a business career that spanned over half a century? "What I learned," he said recently, "is that one of the most important things in business is humor," an observation followed, naturally, by, "I've got a story for you."

The story involved Herb's first job at Rosenthal & Rosenthal, a New York finance company. "When you started," Herb said, "they gave you an R&R pin that you were supposed to wear on your lapel at all times in order to demonstrate your loyalty. I lost mine within a week, but I was a junior guy, so the partners never saw me. About three years later, I'd gotten promoted and ran into Mr. Rosenthal in the elevator." Inevitably, Herb was asked about the missing lapel pin. "I'm sorry, Mr. Rosenthal," he replied, "I must have left it on my pajamas last night." Herb was given a new pin, so he could have one for his suit and another for his pajamas.

With his pin in place and his career still intact, Herb worked at R&R until 1969, when he joined Ford Motor Credit. Four years later, he left for Connecticut with a number of Ford Motor associates to establish a subsidiary commercial finance company for the Aetna companies. It was at Aetna Business Credit, Inc. that Herb became the father—"or godfather," he said, "but not the grandfather"—of the timeshare finance industry. ABCI financed receivables from home site sales and, when he learned about the emerging timeshare industry, Herb took an interest. "Timeshare receivables had a lot of the same characteristics as land paper," he said, "and it was a use product. Lots just sit there and sometimes people lose interest and stop paying. Timeshare was a use product and I thought that people would use it, like it, and keep paying."

Herb had his staff produce a study on the timeshare industry and, since he was very active in ALDA (now ARDA) at that time, made a presentation to an ALDA convention about financing timeshare receivables. Shortly thereafter, he made the company's first timeshare loan, to a small resort known as Sunbird at Vail. The portfolio expanded, ABCI was sold to Barclays Bank, and Barclays American Business Credit became one of the leading timeshare financiers in the United States. Although Barclays exited the business in the late 1980s, its alumni went on to operate most of the major timeshare finance operations (including Colebrook Financial) during the next 30 years. That's why, despite being home to just one timeshare resort, Connecticut is the timeshare finance capital of the world.

In 1988, after leaving Barclays, Herb, along with four partners, acquired the controlling interest in Mego Financial Corporation, which in turn acquired Preferred Equities, a timeshare development company based in Las Vegas. During the next 14 years, operating under the Ramada Vacation Suites brand, Hirsch and his associates developed nine timeshare resorts in five states. Annual revenue grew from $20 million to $100 million. Herb continued to live in New England and commuted to Las Vegas, making exactly 217 trips during those 14 years. He handled the financing, while his partners took care of sales, marketing, and property management.

Being a developer is different than being a lender, but the objectives are often the same. "I learned that the quality of the receivable portfolio was very important," Herb said. "I learned that the quality of the sales force was very important, because they were the ones who generated the receivables, and I found out how hard it was to maintain the quality

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of the portfolio. We didn't have FICO scores when we started. We were just bringing in people. We had to understand our market—who they were and what kind of product they wanted. If we gave them what they wanted, they would continue to pay."

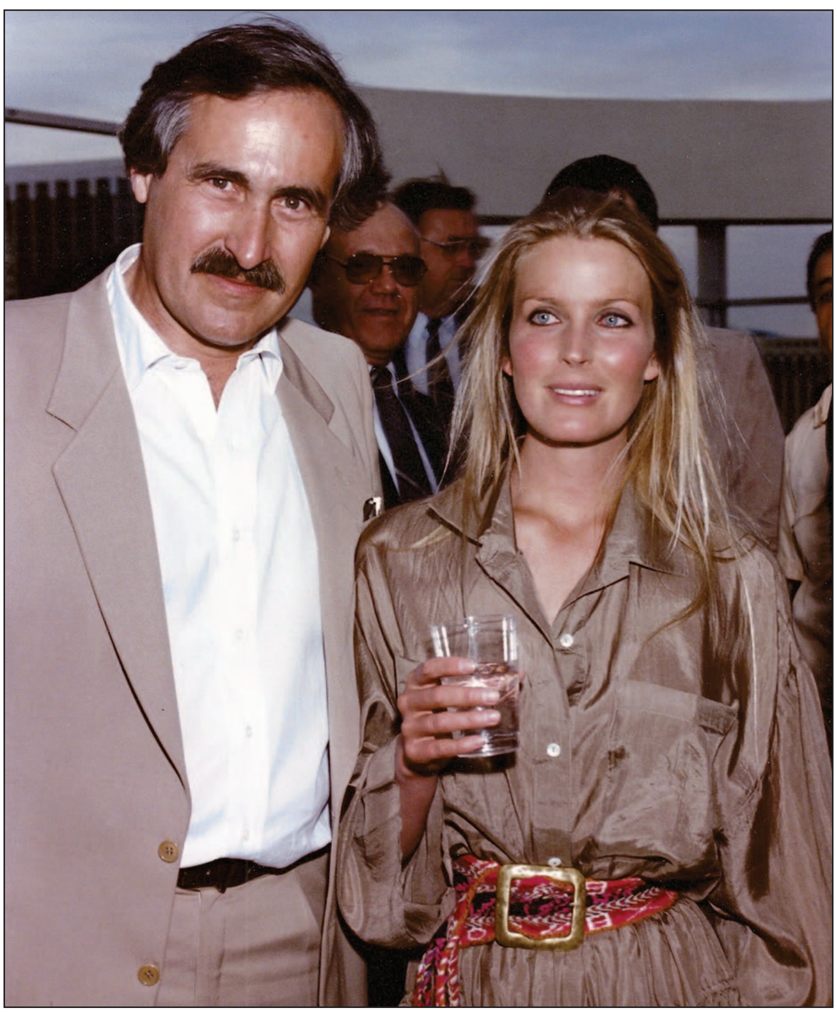
The investor group sold its interest in Mego in 2001. Due to his success in operating a publicly-held timeshare company, Herb was asked to become an independent director of Silverleaf Resorts, Inc. and served in that capacity until the company was recently sold to Orange Lake Resorts. He used his contacts to help the company with their financing, and provided general oversight for operations.

The Silverleaf acquisition was part of the continuing trend toward consolidation that is gradually reducing the number of mid-sized independent developers. There haven't been a lot of new entrants in the timeshare business in recent years, and the *Chronicle* asked Herb what advice he would give someone contemplating entering the business. "First," he said, "I'd tell them to find somebody who knows a lot more about starting a business than I do. I can take an existing company and make it better, but I'm not the guy to start one. I think it would be very difficult for someone to get into the industry at this point. I don't know how a start-up can compete for tours with the brands. They have so many more outlets. I don't see a lot of new companies coming in."

The *Chronicle r*eporter recalled seeing a photo of Herb Hirsch and Bo Derek, circa 1985, and asked if there was anything he'd like to share with our readers about that evening. The question evoked a laugh and a wistful look. "I'd been invited to the Thomas Hearns—Marvin Hagler fight in Vegas," Herb recalled, "and to a pre-fight party. She was there and somebody took a picture of us together. I still have it. Unfortunately, that's the first and last time I ever saw her." Still, that's one more time than most of us have met Bo Derek, and perhaps she has regrets in that regard as well.

After more than 50 years in business, Herb is fully retired, and spends his time golfing, riding his bicycle, and reading, with a penchant for Dan Silva novels. Like any active retiree, he likes to travel, and next May will find him at the annual ARDA convention in Hollywood, Florida. "I've been going to these conferences for 40 years," he said, "and I just love them." At this point, the conference is more social than business, but after so many years in the timeshare industry, there's a lot of socializing to be done. "One of my former partners is 88 years old," he said, "and a couple of years ago—the last time the conference was in Hollywood—I rounded up about 20 people who'd worked for him over the years and brought them in. He held court in the lobby as one after the other came by to see him. It was just a wonderful feeling to be able to do that for him."

Herb could hold court in his own right, for so many people now active in the finance side of the industry worked for him at some point. He's been a lender, a developer, and an outside director, which gives him a unique perspective on the industry. He was there in the beginning, lived through the growth pains, the transitions, and eventually maturity. And there's always another story because, after all these years, there's still a lot of humor left in Herb Hirsch.



Herb Hirsch explains the basics of timeshare hypothecation lending to actress Bo Derek in Las Vegas.

Patton Hospitality CEO Will Horton on the Growing Rental Market

It wasn't that long ago that sales and marketing types strutted around trade association conventions while property management folks stayed in the background. In just a few short years, that's all changed, and the management side of the house has become every bit as glamorous as the sales side.

Management contracts are like gold and rentals have become perhaps the hottest topic in the industry. With their share of total revenue steadily increasing, there was a bit more swagger in their step last April in Orlando. One reason for the evolution is dynamic young executives like 36-year-old Patton Hospitality Corporation CEO Will Horton, who came from the hotel industry with lots of new ideas for generating revenue from empty timeshare units. The *Chronicle* recently had the opportunity to speak with Will and discuss the increasing interest in rentals.

Chronicle: *How did you get from the hotel industry to the world of timeshare?*

Horton: It was an accident. I worked for hotels for a few years, doing a little bit of everything, from the front desk, to purchasing, to assistant general manager for Interstate Hotels. I decided I wanted to move back to Charleston where I grew up, and thought that with a degree in hospitality and some hotel experience, I wouldn't have any trouble getting a job. I was wrong; it wasn't that easy. So after a few weeks of staying with my parents, I applied for the GM position at the Church Street Inn, owned by Festiva Resorts (Editor's Note: Patton is a Festiva affiliate). I got the job, but I didn't realize until I showed up for work the first day that it was a timeshare resort.

Chronicle: *How has your hotel experience helped you in your current role?*

Horton: I remember what it was like working the front desk, and I know what those people have to deal with every day. When I come up with a policy, I wonder what the people on the desk might think is stupid about it, or why it might not work for them. I put that hat back on.

Chronicle: *How did you start Festiva's rental program when you arrived on the scene?*

Horton: We really started from scratch. Festiva was a young company when I joined in 2003, and 80% of the inventory at Church Street Inn was unsold. They needed to generate some revenue from those units, and that's where we began. We started the management company in 2006, and then the recession came along in 2008. Maintenance fee delinquency started to increase and that's when we really began to focus on rentals—out of necessity.

Chronicle: *For many years, rentals were not a significant component of the timeshare business model. What changed?*

Horton: As I said, necessity was part of it, but there's been a real change of attitude the past few years. When I went to my first ARDA conference in 2004, I learned something very interesting. Here were all these resorts in wonderful locations, and no one wanted to rent them. The feeling was that there would be too much wear and tear, and that it would diminish the owners' experience. I think timeshare properties are ideal for rental because they combine the best elements of hotels and the stand-alone vacation properties that are offered on Airbnb and similar sites. People are drawn to larger accommodation footprints, but they also want amenities and a front desk. Hotels don't have the size and vacation homes don't have the services and amenities.

Chronicle: *As a younger executive, you've been a leader in using on-line methods to grow your business. How do you reach different demographics and age groups?*

Horton: Like everyone else, we're trying to figure out how to reach the 18-40 age group. We've recently re-designed our internet and mobile platforms and are trying to get people who've had great experiences with us to share their thoughts on social media. As far as the boomers and older generations, we used to reach them by email, but during the past five years their usage of the internet has really evolved and at this point it's not much different than that of the Gen-Xers and Millennials. In five years, I think 80-90% of our rental business will come to us from a mobile device.

Chronicle: *An age-old conflict in the timeshare industry has been between the marketing department that wants to use vacant inventory to house prospects and the management company that wants rental income. How do you deal with that conflict?*

Horton: (laughs) That's always an issue, but since rentals have become a more important part of our overall business model, the internal discussions have changed. Plus, with companies like Expedia and Priceline, we now have a way to value wholesale inventory. And that's what we consider our marketing department—a wholesaler. The more inventory they take down, the better price we give them.

Chronicle: *Your organization has many resorts, which enables you to build a sophisticated rental system. Can a small, stand-alone resort effectively rent their inventory?*

Horton: It's very challenging. Perhaps the biggest obstacle is the need to spend a fair amount of money on marketing and advertising. That's something we had to overcome. We offer a service in which we aggregate inventory from smaller HOAs to give them some of the advantages of a larger company.

Chronicle: *It's been said that soon revenue from rental income will exceed revenue from new timeshare sales. Do you think that's a possibility?*

Horton: I think it will happen by the end of the decade. There is so much product in the timeshare world that is empty for some reason, and we have a younger generation that doesn't like to own a lot of things. They're not buying houses, they lease cars, and they aren't getting married. I think it will happen.

Maybe It's Not Your Financing

By Bill Ryczek

We negotiate and structure hypothecation loans every day, and the process of arriving at the final product is a fascinating one. Each side has conflicting goals when negotiating price, but in many other aspects of the transaction, the objectives of the borrower and lender are congruent. The lender wants to be paid in full and, hopefully, the borrower desires the same. The lender wants excess collateral left over when the loan is paid, and so does the borrower. So why it is sometimes difficult to agree?

A major area of disagreement is often FICO score parameters, with developers favoring a floor of somewhere around 575 and lenders looking to put the limit at either 600 or 625. A recent ARDA study showed that 33.6% of receivables with FICO scores of 550-599 eventually default, meaning that, even with interest arbitrage, an 85% advance likely will not be repaid. An 85% advance against receivables in the 600-649 range also presents a challenge, since 28.3% of those notes will not make it to the finish line. Some of the risk is mitigated by the fact that we generally require a minimum weighted average FICO score for the portfolio, so that the lower default rates on higher FICOs will cushion the overall default rate and blend the average downward.

If the loan falls out of formula due to excessive defaults, the risk does not fall solely on the lender's shoulders. Since most loans bear full recourse, the developer will end up having to cough up receivables or cash to replace defaulted receivables.

While loans in the 575-625 FICO band can be financed at lower advance rates, those with FICO scores of less than 575 typically have cumulative default rates of 50% or higher. That renders their financing problematic, other than at extremely low advance rates. The rationale for selling to buyers with low FICO scores has always been, "We've already spent the marketing money to get them here. If they make a down payment and a few monthly payments, it's found money." That rationale isn't valid if the notes are financed, since they will have to be replaced at the full face value. Found money is better found in an in-house portfolio.

Historically, one way to get a higher advance on lower FICO score receivables was to increase the advance rate as the notes aged, typically after six to twelve payments. Over the years, however, the change in payment methods has altered the way in which aging affects receivable performance. Years ago, an aged receivable meant that a consumer sat down each month and wrote a check that was covered by sufficient funds in their checking account. Each monthly payment was a re-affirmation of the purchase and a commitment to the product. Today, the majority of payments are automated, sometimes from deposit accounts but more often by a charge to a credit card. In the latter case, propensity to pay is based upon availability under the card; when it's used up, the developer has a delinquent loan, regardless of the number of payments made.

Many developers attribute cash flow problems to an inability to finance a greater percentage of their receivables. They want the lender to buy deeper and deeper down the FICO scale at higher advance rates. But in many cases, the problem isn't with the financing; it's with the sales and marketing operations. If marketing efforts aren't attracting a sufficient number of creditworthy prospects to generate positive cash flow, they need to be addressed, rather than applying the band-aid of financing lower quality contracts that will bounce back later as defaults.

One of the greatest challenges in marketing is attracting and selling to people with good credit. Those with less than stellar credit records are easier to sell; free premiums are much more attractive to them and their lack of sales resistance is often a cause of their credit problems. Those with good credit tend to be more discerning, more cautious in their decision-making, and generally harder to close. Once convinced, however, they're much more likely to pay.

If financing is available in all credit ranges, it can be tempting to drift along with ineffective sales and marketing programs. A tighter structure, where marginal credits aren't financeable, will force the discipline necessary to create a marketing machine that delivers the quality of tours needed for long-term success.

Discipline is important for both lenders and developers. In heady times, lenders in nearly all product lines have loosened terms in order to originate business and earn fees, to the great chagrin of their successors or, in the case of Wall Street, to the taxpayers. An under-collateralized loan is also problematic for the developer, as it may shut off their source of financing and will certainly impact cash flow.

In addition to protecting the downside, a good hypothecation structure needs to produce sufficient cash flow for operations. When taken too far, discipline becomes punishment, and lenders need to be able to differentiate between a structure that produces quality receivables and generates equity in a portfolio and one that is so restrictive that it's unworkable. As in virtually every aspect of life, finding a proper balance is the key.

The good news is that from structure, discipline, and sound practices come rewards. We've taken developers who, with their previous lender, were barely staying in formula each month, to a position where they've built substantial equity in the portfolio. Depending on the terms of the loan, some of the surplus may be utilized for one-time expenditures, like opening a new office, making some capital improvements, or getting through the cash-poor low season.

If you're consistently scraping for cash, it's possible that your financing is too restrictive. But perhaps the problem is with your sales and marketing. Maybe it's not your financing.

Bert Blicher: Blue Water/Blue Skies

*By Sharon Scott, RRP**

One might wonder what a Chairman Emeritus of the American Resort Development Association (ARDA), past-chairman of ARDA's International Foundation for Research and Education and the association's first recipient of its highest award — Lifetime Achievement — was thinking when he left the world of finance to become a developer in Nassau. After all, Bert Blicher, an ARDA Registered Resort Professional and a graduate of the Wharton School of Business, was CEO/president of Oxford First Corporation (a New York Stock Exchange company) in Philadelphia for 20 years. He even wrote *The Manual on Timeshare Underwriting*, which is still used today.

Nevertheless, the allure of sticks and bricks and sales and marketing proved irresistible and, backed by Textron Financial Corporation, Blicher switched hats in early 2007. Talk about timing! On December 22, 2008, Textron, which had been the largest lender in the timeshare industry for many years, announced that it was exiting the commercial finance business. Blicher's project, which consists of 35 three-bedroom units located on the idyllic Cable Beach, suddenly found the receivables financing rug pulled out from under what had been a very successful operation.

"We relied on rental income for the first year after that," he reminisces, "before we teamed up with Colebrook. Bill Ryczek and I had first met in 1979; we had developed mutual respect for one another and it was relatively easy to reach an agreement to take out Textron. Today, we are much better off with Colebrook than we'd ever been with Textron in terms of structure, rates, and a better working relationship."

Blicher explains that rather than the prototypical hypothecation arrangement, wherein the developer pledges collateral to secure a debt, Colebrook purchases loans from Blue Water. "It's much cleaner for us," says Blicher. "It keeps the loans off my books."

Prior to linking up with Colebrook, Blue Water Resorts found a developer partner, Bluegreen Corporation, to handle management, marketing, and sales on a fee-for-service basis. "It's been great," says Blicher. "We were Bluegreen's first fee-for-service deal in the timeshare industry."

"In many ways," says Bill Ryczek, "we've come full circle to the early days of the timeshare industry when many projects hired small, independent companies to perform sales and marketing on a contract basis. The difference is that today, the leaders in the fee-for-service arena are large, well-capitalized firms that generally sell their points program through the client's inventory."

"Bluegreen is out-performing our expectations," exclaims a delighted Blicher. "The new members they bring in are well-heeled, younger, and more energetic. Bluegreen also manages our property and my legacy owners love them."

From the lender's side, Colebrook is obviously pleased as well. "Colebrook recently increased the line to accommodate new sales through a streamlined process at minimal cost," Blicher says. "Because of the relationship we've built with Colebrook, it took about ten minutes to come to a verbal agreement!"

As for future plans, Blicher was moving ahead on a second phase until his neighboring resort, Baha Mar, ran into some difficulties. Baha Mar, a $3.2 billion project that was 95% complete, is now stalled due to disputes among the development partners. "This presented something of a setback for us," says Blicher. "But we are still moving forward to find a developer or fee-for-service partner."

His protégé and president of Blue Water Resorts Debbie Ely is confident he'll be successful in finding just the right partner. "With Bert's financial background, he can quickly size up a deal and he knows how to avoid pitfalls," she says. "More importantly, after having been in business over 40 years, he's earned a lot of credibility with lenders. They know he'll never leave them holding the bag."

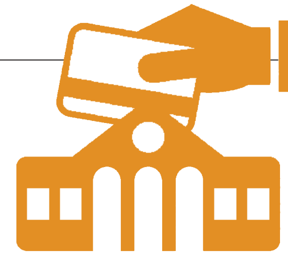
To many, 40 years might seem like long enough, but Blicher appears to be in his prime. "I'm like Bill. He and I both have so much knowledge about what we do. We've got to keep using our brains! And besides, Marci [his wife] would kill me if I hung around the house all day," he laughs.

"And what would his team do without him," adds Ely. "He has been a fantastic mentor to me." Ely needn't add that she is the ultimate go-getter. She constantly keeps herself on the leading edge by attending ARDA World Convention educational events and with her involvement in the ARDA LEAP program's arduous training program.

Given the positive attitude of its leadership team and their long-time relationship with Colebrook, it seems apparent that it will be blue skies for Blue Water Resorts for a long, long time.

(From left to right): Mark Raunikar (Colebrook Financial), Debbie Ely and Bert Blicher of Blue Water Resorts, seated with Colebrook's Bill Ryczek at the ARDA Fall Conference held in Washington, DC

*Sharon Scott is a Registered Resort Professional with the American Resort Development Association, Washington, DC.



Credit Card Industry Takes a Swipe at Timeshare

During the past two decades, we've gone from a check writing and cash society to one that increasingly pays for goods and services with the swipe of a card. The average person gives little thought to what happens after their card is swiped, but their action initiates a most complex process involving several parties. First, the information is transmitted by a processor on behalf of the sponsor, who actually handles the funds and assumes the risk of the transaction. The sponsor takes a fee (commonly known as a discount) for their services and credits the merchant (the seller of the goods or services) with the net funds. If the consumer disputes the transaction, the merchant is charged back for that amount, unless they can prove otherwise. Chargebacks are the key to merchant processing, for business practices that result in large amounts of chargebacks can create financial risk for the sponsor.

Banking regulation has become more pervasive during the past few years, a change that's made the merchant processing arena more volatile and put a squeeze on some industries, including timeshare. "The regulatory environment is starting to catch up with merchant processing," said Peter Moody of Equiant Financial Services, one of the leading third party receivable servicers for the timeshare industry. "With the emphasis on 'Know Your Customer' (a section of the U.S. Patriot Act), the boarding time for merchant accounts is getting longer and longer."

A second change to the regulatory arena is the new Consumer Finance Protection Bureau, which has issued lists of industries, often very general and sweeping, that banks should avoid. "They think they're helping the banks and protecting consumers," said Mike Fox of Group ISO Merchant Services, a company that has been underwriting their merchants for their banking partners since 1984, "but they don't know the industries. There are bad apples in every field, and it's our job to underwrite and manage the risk effectively in order to avoid those companies. Blacklisting an entire industry doesn't make sense."

Some banks have taken the path of least resistance by establishing merchant policies banning all companies in certain fields. One of the largest U.S. banks recently placed timeshare on its list of proscribed industries for merchant processing. "We have to educate bankers about the timeshare business model," said Moody, "and the difference between chargebacks at the point of sale and those related to the collection of receivables."

Timeshare merchant processing falls into three main transaction types. The first, and most problematic, are down payments and "cash" sales. Virtually all timeshare sales are subject to a rescission period, typically three to seven days. Rescissions generally run from 15-25%, and if a credit card is processed at the point of sale, it must be reversed if the customer elects to cancel. "It's best to put the charge through after the sale is final," said Fox. "Even though a rescission is classified as a refund rather than a chargeback, some banks are starting to take a hard look at refunds. They might ask why there are so many. Are the customers dissatisfied? Is there a problem with the sales process?"

The second processing component is the charges for goods and services at resort amenities such as restaurants, gift shops, lounges, etc., which is similar to the activity of non-resort retail establishments. The third leg of the stool is the collection of the timeshare receivables portfolio and annual HOA assessments, for which, according to Moody, chargebacks are negligible.

In Equiant's portfolio, 38% of payments are made by ACH from a deposit account, 27% by credit card authorizations, 22% through a lockbox (typically checks) and 13% are self-initiated ACH or credit card transactions. "Our clients' collective chargeback rate on credit card transactions is 0.1%," Moody said, "and if there's a chargeback we can usually challenge it successfully, because there's a signed note and credit card authorization on file." Moody said that some of the banker's misperceptions may be related to their confusing the timeshare industry with travel clubs or lumping them in with other segments of the travel industry.

Larry Gildersleeve of Gildersleeve Partners agrees. Larry has been in the timeshare industry since 1980, working for large public companies like Hilton, Wyndham, and Trendwest. When Trendwest was sold several years ago, Gildersleeve thought about the areas in which he might use his 30 years of experience to provide critical services to the timeshare industry. "I was looking for problems I could solve," he said, "and merchant processing was clearly a problem. Whenever I talked to a bank about timeshare, they always compared it to the cruise ship industry, when all those people cancelled their cruise reservations after 9/11. I have to explain to them that timeshare is nothing like that."

Both Gildersleeve and Moody said that timeshare companies operated by hotel brands have experienced little difficulty, since they can use the hotel affiliation to maintain strong processing relationships. The CEO of one of the large branded timeshare companies was astonished at the increase in his discount when the timeshare operation was spun off from the parent company. Even though the timeshare segment had excellent history, they were treated differently once separated from the hotel portion of the company.

Steve Lamantia of Outfield Marketing has seen his discount and reserves grow in recent months, despite what he says is an excellent record with chargebacks over the 13 years he's been in business. "Steve is one of my best customers," said Fox, who works closely with Outfield on their merchant processing. "His chargebacks are very low, and I'm always picking his brain to find out what he does so I can pass it along to my other customers."

Lamantia is troubled by the high level of reserves, which are holdbacks designed to protect the sponsor bank from chargebacks. "It's really tough when your business is growing," he said, "because the reserve that's released now is based upon a percentage of sales from six months ago, while the money being withheld is based on this month's sales. It can really put a strain on cash flow."

Lamantia said that, given the instability in the merchant processing field, he works with three different agents, so that he is not reliant on just one. "You should have at least two processors," said Moody. Fox agreed. "It only costs about $20 a month to keep a relationship open," he said, "and it's essential to have more than one processor, because you never know when a bank will suddenly change its policy."

One of the problems many timeshare companies have is their size. "If you process less than $10 million a year," Gildersleeve said, "you're not important, and there are a lot of smaller companies in the timeshare industry that are under $10 million. It's hard for them to be successful without an advocate."

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"When companies look at merchant costs," Gildersleeve said, "most of them focus on the discount rate, because that's the most obvious charge. But you have to look at all the fees and charges, because they increase the overall cost. Many times I can strip out those other fees. You also have to look at the reasonableness of the reserve. I was working with one large company that had a seven figure reserve. With their balance sheet, they shouldn't have had to put up *any* reserves. My goal is to lower the costs and fees and either lower or eliminate the reserve."

Fox has some advice for timeshare entities looking for merchant processing services. "They tell the banks to know their customer," he said, "and a customer should also know their bank. What is their credit policy? Are you going to have a relationship, or are they just going to fill out the forms and never talk to you again? Make sure you're getting someone with knowledge of your business, be sure to have some money in the bank, and provide full disclosure on all aspects of your business."

That's good advice, and a positive ending for an article on a topic that has become a concern for the timeshare industry. A significant part of the recent pressure is political, and ARDA is working in Washington to see that the industry's concerns are heard. At this point, developers have access to processing, and third party servicers like Equiant see no concern on their end, but the issue is one that developers are much more aware of today than they were five years ago. Stay tuned to the *Chronicle* for updates.

Henry Ginsburg
Sciota Village Estates
1966-2015

We went to visit Henry and Jon. We talked on the phone with Jon and Henry. We wondered how Henry and Jon were doing. In the more than 12 years that we've been doing business with Sciota Village Estates, we rarely talked about one Ginsburg brother without mentioning the other, for they seemed a perfectly matched pair. Jon has always been the optimist, talking about the new marketing program that was sure to boost sales, or getting excited about building new inventory. Henry was more cautious, the finance guy who liked to move deliberately.

When Jon called a few weeks ago, there was no bounce in his voice, and I sensed something was wrong. Something was very wrong, for Jon was calling to tell us that Henry, just 48, had died unexpectedly in the company's offices. It is hard to believe that the next time we visit, it will be only Jon who greets us, and that we won't have lunch with Henry in his beloved Snydersville Diner.

Running a family business is hard work, and Henry was a worker, never afraid to get his hands dirty, and always managing to squeeze just a little extra out of every resource. He was indeed resourceful, and weathered the deep recession that took down many companies much larger than Sciota Village, a cozy resort nestled in the Pocono Mountains of eastern Pennsylvania. Above all, Henry was an honest man whose integrity was beyond question.

Henry's passing was the second time in a very brief span that a customer died at an age that seemed far too young to leave us. One can question why, or wonder if maybe somehow, someway, it's part of a plan, but in the end there are no answers. All we can do is wish Jon and his family well, and honor Henry's memory. May he rest in peace.

Robert (Rob) Millisor
Breckenridge Grand Vacations
1964-2015

Rob Millisor didn't intend to be a timeshare developer; he just had a very persuasive brother. After Rob graduated from Wittenburg College with a degree in history, he planned to teach and perhaps coach football. An academic career seemed fitting, for it's easy to imagine Rob, a soft- spoken, reflective, and thoughtful man, as a history teacher, pondering the mysteries of ancient Rome.

As they say, a funny thing happened on the way to the Forum. The summer after he finished college, Rob went to Breckenridge, Colorado for the summer to help his brother Mike operate the small timeshare resort their father had built a few years earlier. It was hard work in the early days, there wasn't a lot of staff, and Mike needed Rob. A combination of Mike's urging and an enthusiasm for the business made Rob forget about teaching. Once he arrived in Breckenridge, he never left. When the first property (Gold Point Resort) was sold out, the Millisors built Grand Timber Resort, Grand Lodge at Peak 7, and recently began construction of their newest resort, Grand Colorado on Peak 8. Each property was more spectacular than the last, and the company became known for developing some of the highest-end product in the timeshare industry.

In addition to constructing buildings, Rob and his brother built an organization, one with values that reflected their own. Breckenridge Grand Vacations (BGV) has been a Colebrook customer since 2009, and during that time we've acquired great respect not only for the competence of the staff, but also for the pleasant, courteous manner in which they conduct business.

Breckenridge is a small town, and BGV is a major employer. Its officers are active in town government and many local charities, donating time, money, and services to a number of worthy causes. Fittingly, Rob spent the final day of his life on a philanthropic mission in Nepal. While hiking through the mountains, he became ill, lay down to rest, and passed away from a heart attack. His loss is deeply felt not only by his family and friends, but also by his partners, employees, and business associates. Perhaps the best tribute we can give Rob is that from the time we first met him about 20 years ago, and probably back to his early days cleaning bathrooms at Gold Point after college, to the time he became a major player in the timeshare world, he was the same sincere, genuine, gracious person. We will miss him.