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

Bruce Kaye, Founder/CEO, FantaSea Resorts

by Sharon Scott, RRP

Bruce A. Kaye, CEO of the Atlantic City, New Jersey-based timeshare company, FantaSea Resorts, has managed to achieve tremendous success in what has lately been perceived as a very difficult market. FantaSea owns three properties: Flagship Resort, a 436-unit tower; Atlantic Palace, located in the heart of the boardwalk; and LaSammana, a boutique-style, 61-unit project on Brigantine Beach, just across the inlet from Atlantic City. *The Chronicle* recently had an opportunity to find out a little more about the secrets to Mr. Kaye's success.

Chronicle: *Can you tell us a little about your history in the business? I remember you telling me once that you had been involved in the development of the iconic Fontainebleau Hotel in Miami Beach. How did you get from there to being the leader in the Atlantic City timeshare market?*

Kaye: I was a co-developer of the Fontainebleau, which was sold in 2004. I've always said that experience is a great teacher, and over the years I had the luxury of being around some very bright people. By the early '90s, my reputation had grown, and when Westinghouse was liquidating an Atlantic City real estate portfolio, they contacted me. They had two main requirements—a quick closing and cold cash. The rest is history.

Chronicle: *Colebrook finances all three of your Atlantic City properties. How did you and Colebrook originally connect and how has the relationship developed since then?*

Kaye: I had the good fortune of knowing Bill Ryczek for some time and during the 2008 financial crisis, when financing was extremely difficult to come by, we got in touch. Colebrook provided us with financing and we have remained a very

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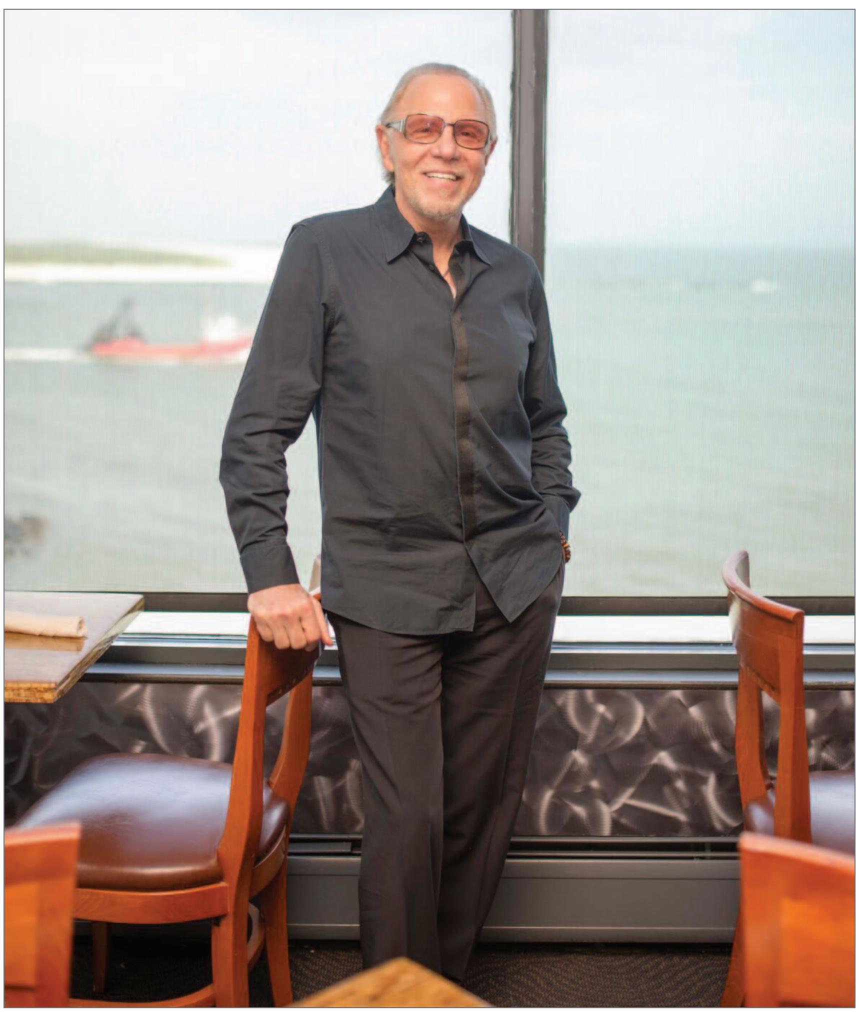

The Atlantic Palace in Atlantic City, New Jersey

***Bruce Kaye interview,** continued*

loyal client, because they've been fair and equitable and they truly act as a partner.

***Chronicle:** A few years ago, you established an Employee Stock Option Plan, which gave your employees an opportunity to own stock in FantaSea. How has that worked out?*

Kaye: It has worked wonders. The employees are now stakeholders in their own company and you can see it affecting some of the decisions they make. You have a different perspective when your own money is at stake.

***Chronicle:** Will you continue to develop in Atlantic City, which has suffered some reversals over the last few years?*

Kaye: Absolutely. There is no doubt that the city has been hit by negative media publicity, but in my 25 years here, I have never seen greater opportunities. I think the casino closings have "right-sized" us rather than "downsized" us. The city and our mayor have been very supportive of development, and we are very bullish on Atlantic City.

***Chronicle:** What do you see as the future direction of the company?*

Kaye: Our future is one in which our resorts are signature properties, the best in Atlantic City and among the most desirable in the entire vacation ownership industry. Everything points to our ultimate vision, which is "to enrich the lives of everyone through providing dream vacations." We have 45,000 owners and we want every one of them to have an outstanding vacation experience either at our resorts or by exchanging through our partnerships with Resort Condominiums International and Interval International. Everything we do, every day of the year, is designed to bring about that result. We always strive to set the bar higher.

***Chronicle:** What about your personal life? What are your hobbies and interests?*

Kaye: At this stage, my personal life is filled with blessings, joy, and happiness. I have my wife Deborah, our children, and after 25 years, I still love working with the people of FantaSea Resorts.

My hobbies consist of keeping up with current events, holocaust studies, providing inner city children with a better way of life, and doing what I can to make the world a better place.

The Atlantic Palace in Atlantic City, New Jersey

One More Time Around the Bases

Breckenridge Grand COO Nick Doran at the Rockies Fantasy Camp

Nick Doran takes a healthy cut at the Rockies Fantasy Camp. Note the head down, eye on the ball, and weight on the front foot as the ball ascends toward the outfield fence.

It's been more than 20 years since Breckenridge Grand Vacations Chief Operating Officer Nick Doran last wore the uniform of the Regis University Rangers, but he is still tied for the most career RBIs in school history and is second in total games played. In 1988, when Nick graduated from high school, no one envisioned him setting Regis records, for he arrived at the Denver college by a circuitous route. Although he attended Regis High School, which had an adjacent campus, Nick began his college career at Colorado State University in Fort Collins, where he was a red-shirt his freshman year, after which the school discontinued its baseball program.

At that point, Regis, which had recruited him heavily out of high school, came calling again. Nick was ready to give up baseball, however, and spend the final three years of his college career as an accounting major and non-athlete. A talk with his father changed his mind. "You only have the next four years to play college baseball," he said, "and then you've got the rest of your life to do whatever else it is that you think you want to do." Nick thought about it, and much to the delight of coach Tom Dedin, decided to enroll at Regis.

Over the next four years, Nick played 207 games, primarily at first base, and batted .319, including a remarkable .390 during his senior season, with 30 home runs and 161 RBI. "I was on the cusp," he said of his prospects for a professional career. "The scouts would be there to look at somebody else and they'd kind of give me a glance. I played summers in the Central Illinois Collegiate League against some of the top college players in the country and it was there that I realized my game was not on a par with the guys who were real prospects." Nick's roommate one summer was Kevin Sefcik, who spent seven years in the major leagues with the Phillies.

In addition to being a pretty fair player, Nick was always a fan. His family had season tickets to the games of the minor league Denver Bears, where he cheered for future Expos like Tim Raines and Andre Dawson. As a youngster, he'd get excited when he heard rumors about the Giants or Athletics moving to Denver, but it was 1993 before the city got its Rockies.

The Rockies have been in Denver for more than two decades, and for the past several years, have conducted a fantasy camp for fans. Nick's brother-in-law attended a camp in 2007 and came back full of great stories. "You played college ball. You'd love it!" he told Nick. Finally, this past January, Nick and three friends—all former college players and pictured below—signed up and made the trek to Scottsdale, AZ for the Rockies Fantasy Camp.

For the first time in more than two decades, Nick suited up and, after a few hours of drills, the coaches held a draft and formed the campers into eight teams. For five days, men and women, young and old, fit and

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Nick (second from left) and the three friends who attended camp with him.

Nick with former Rockies great and five-time All Star Todd Helton.

Rockies Fantasy Camp, continued

halt, talented and challenged, played a series of games against each other, coached by former Rockies stars like Todd Helton, Vinny Castilla, and several others. Campers were all ages and levels of ability, and no one was embarrassed. The pitching was, according to Nick "very hittable—about 60 mph or so, but the wood bat sure seemed a little heavier."

The greatest challenge was not hitting but staying ambulatory and in one piece, and for that task the campers had full access to the training facilities and training staff. It was the week before spring training began, and if the trainers were going to make an early-season blunder, better to do so on a Fantasy Camper than a high-priced major leaguer.

"I was in the hot tub every day before practice," Nick said, "and stretching. Then the cold tub after practice, which was wonderful. And Advil—lots of Advil." The pain was well worth it, for Nick and his friends had an unforgettable experience, playing ball under the watch of former major leaguers and joining them for meals and a couple of beers afterward. The stories flowed and the campers got some inside information on life in the major leagues. "We had a great time," said Nick, "and they answered questions they'd probably answered a hundred times before."

Drew Goodman, the Rockies broadcaster, asked Nick what he did for a living, and Nick learned that Drew was a very happy owner at his company's Grand Lodge on Peak 7 Resort. It then became Nick's turn to answer questions he'd heard a hundred times before, about the Interval International exchange program, resort usage and progress, etc.

"I'm going to do it again," Nick told *The Chronicle* sports editor, "but not next year. And there's one thing I'd do differently. This time we prepared by hitting and throwing in our indoor facility here in Breckenridge. But we didn't do any running. Next time I'm going to do some running."

Yes, even accountants have fantasies. The thrill of a good fiscal quarter, or a reduction in the cost of goods sold isn't quite like the ringing double that drives home the winning run, and for five days last winter, Nick Doran got to re-live a little of his youth, meet some of his old heroes, and experience the camaraderie of the sports world one more time.

Where is Teddy Roosevelt When We Need Him?

Consolidation Trend Continues for Timeshare Industry

In the early years of the 20th century, President Theodore Roosevelt acquired the nickname "The Trust Buster" for vigorously attacking the business monopoly system that had become prevalent throughout American commerce; 44 large trusts were dissolved during his presidency. "The steel, rail, and oil industries cannot be controlled by a small group of men," he said, "but most important of all, we must anticipate the day when a timeshare industry generating billions of dollars in sales will emerge, and we must ensure that it is not dominated by a handful of large, powerful interests."

Those weren't his exact words, but we're in the midst of a presidential campaign where each major party candidate feels entitled to make up their own facts in support of a worthy cause—or even a dubious one, and is *The Chronicle* entitled to less? Were he alive today, Teddy would probably have some harsh words for the recent developments in the timeshare industry. The past year has seen a continuation of the trend toward consolidation, capped by the announcement that Diamond Resorts, which had been a major acquirer, was in turn being acquired by Apollo Global Management for $2.2 billion. The Apollo group previously owned Tempus Resorts, based in Orlando, which had been acquired by Diamond in 2011. Now Apollo is acquiring Diamond, and will therefore get the old Tempus assets back again.

In 2015, Holiday Inn bought Silverleaf Resorts, Diamond bought Gold Key Resorts, and there were several other smaller transactions. Prices are good, and if the owners of a company are looking for an exit strategy, the past couple of years have been a good time to create what Wall Street refers to as a "liquidity event."

Consolidation is the natural progression of any maturing industry and, 40 years into its life cycle, timeshare has reached that point. The industry that was once composed of many small, entrepreneurial, sales and marketing driven organizations is now controlled to a significant degree by a relatively small number of large, professionally managed corporations.

What does consolidation mean for the industry? As medium-sized firms disappear, will new players emerge in their places?

There are a number of benefits to the trend toward larger entities, perhaps the foremost of which is credibility for the industry. The entry of Hilton and Marriott in the mid-1980s boosted the image of timeshare to a new level, due to the companies' credibility and also because of the management skills they brought to a segment that was long on sales and short on administration.

A downside to the recent consolidation trend is the increased difficulty in tour generation and higher costs per tour experienced by most mid-sized companies. Talk to any developer about their most pressing concern and it won't be long before the word "tours" enters the conversation. Large brands have access to substantial in-house traffic and opt-in lists through their resorts and hotel affiliates and their higher price points enable them to absorb tour generation costs that non-brands cannot. With traditional generation sources such as mail and outbound phone rooms becoming obsolete or ineffective, independents are scrambling for new methods that produce the results that mail and phone did a decade or two ago.

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Consolidation, continued

In some instances, acquisitions have altered market dynamics. For a couple of decades, Gold Key was the dominant presence in the Virginia Beach market. Now, Apollo/Diamond, which has a presence in markets all over the world, is the dominant player in Virginia Beach, but without the local involvement in government and civic affairs. Will the market change, and will a competitor emerge, either locally or in the form of a brand?

For Colebrook, consolidation has meant the shrinking of its market. Companies generating hundreds of millions of dollars in annual sales almost invariably utilize the securitization markets, and their borrowing needs consist of nine figure warehouse lines, not $30 million hypothecation loans. During 2015, Colebrook lost two loans inches from the finish line when the prospective borrower was acquired just before the closing date.

What does the future hold? It's unlikely that the timeshare industry will be reduced to a half-dozen Goliaths, for while there are advantages to size and scale, there are also areas in which independents, even smaller ones, can compete effectively. Many are acquiring product at a cost that was unheard of a decade ago, often less than 10% of sales and sometimes just 1-2%. When the timeshare industry first emerged, people were astonished that a $50,000 condominium could be sold in increments for a total of $300,000. The second stage of astonishment occurred with the realization that it was possible to lose money doing so. It's a lot harder to lose money with a product cost of 5%, even with a high sales and marketing cost. It's not uncommon to see companies with sales and marketing expenses of 65% or higher that are profitable, due to the low cost of product.

As far as new entrants filling the void created by acquisitions, we're not seeing bottom-up growth in the form of companies building new condominiums and selling them. The product cost, including front-loading of amenities, and the expenses associated with the marketing ramp-up make it very difficult for a new company to enter the industry with new product. But it's not necessary to build new properties today because there's plenty of inventory out there. Companies that own condominium or rental properties are dedicating some of the units to timeshare, with phasing that mitigates large startup costs. Others are buying inventory in existing resorts, or acquiring older resorts in total along with the management contract. They are forming clubs with a variety of choices and selling memberships at prices much lower than the large companies. The key is the composition and quality of the inventory. Is it sellable without extensive capital improvements? How healthy is the Homeowners' Association? Do the maintenance fees of the acquired inventory blend into the club dues structure?

If a property can be placed in marketable condition without exorbitant expense, and the HOA is reasonably stable, the viability of a project is dependent upon sales. Consolidation usually results in expense trimming, leaving good salespeople looking for jobs, marketing channels available for use, and attractive sales facilities for lease. A new operator can take advantage of these opportunities, and any company that can generate tours and sell will be able to acquire all the inventory they can handle.

Consolidation has made it more difficult for independents to market effectively, and it has changed the landscape of some local markets. It's unlikely that we will again see anything like the 1990s, with dozens of fairly sizable independent companies building new resorts. It's more probable that most of the building will be done by a few large companies, and new entrants will be primarily acquiring existing inventory or resorts, or converting non-timeshare product. Even modest rates of attrition create plenty of inventory to support a number of new entrants. Coincidentally, these companies are excellent prospects for Colebrook.

The key to the success of smaller and mid-size companies will be their ability to compete for tours with companies that have access to vast in-house databases and economies of scale. Quick and lithe, however, is often a good match for big and powerful, and we expect to see a number of new companies filling the void created by the recent wave of acquisitions. Teddy would like that.

Stephen Cloobeck, Diamond Resorts

Welk Resorts Inspires Fun

By Sharon Scott, RRP

The new amenity center at the Welk Resort in Escondido, California is a state of the art facility designed to provide enjoyment, fitness, and fun for timeshare owners.

When the team at Welk Resorts wanted to create an exciting way to engage visitors at their Escondido location, they found themselves moved to create INSPIRED FOR YOU. "We wanted to go beyond the typical resort's swimming pool and conventional workout room. Instead, we created a venue designed to provide unique experiences and to push the limits of outrageous fun," Welk's Chief Fun Officer (CFO) Patrick Dolan explains. "One of our overarching principles is that we want to be different."

Mission accomplished: Welk's pursuit of exclusivity has resulted in an activity center that is an inspirational juxtaposition of form-meets-function. Housed in breathtaking high-end luxury, guests find the best of the best, from first-class workout equipment to a yoga room, spin room, sauna, steam rooms and hot tub. "When you enter the building, even the interior design will inspire you with the beauty of the tile work, the luxurious chandeliers," says Dolan.

Does this man look like a Chief Fun Officer? Patrick Dolan of Welk Resorts is entrusted with the job of making sure that everyone who visits a Welk Resort has a great vacation experience. Anyone who plunges into the surf wearing a suit and tie epitomizes the perfect blend of enthusiasm and professionalism that characterizes the Welk organization.

"There's the adult-only pool surrounded by flat screen TVs. You can relax in a cabana or jump into one of our fitness classes."

He describes a laundry list of entertainments including a sand volleyball court, a full-sized basketball court, giant checkers, shuffleboard, an amphitheater and horseshoes, designed for every age group. "Typically at resorts, you'll see the little ones enjoying the pool, but at INSPIRED FOR YOU, you find parents hanging out with teens and older children, too," he says. "Sure, we have the pools, waterfalls and splash pads. But here, you have teens and their parents interacting as a family. Dad's teaching how to play giant checkers or maybe the family is joining in the fun of Monday night football where we have halftime games and contests."

Dolan says that other resorts might have a few of these features, "but having it all brings a 'wow factor.'" Indeed, 'wow' is the typical first reaction, he says. "The challenge is choosing where to start. There are 35 fitness classes per week including everything from jiu-jitsu and tai chi to chi gung. The menu of classes can be changed by the season or by the day. For example, winter guests might choose to enjoy restorative flow yoga while seeking something of higher intensity in the summer like climbing the rock wall."

Most importantly, Welk strives to preserve an element of fun. "A lot of gyms are just work; ours is luxury, mixed with a sense of play. You want to hang out." As for Welk Resorts timeshare owners, the response has been purely positive. "We see owners making a real change in their lives," says Dolan. "Even for people who haven't worked out previously. All of a sudden they hop on a treadmill."

Note: Colebrook has provided financing for the Welk projects since 2009.

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

It's Post Time

What They're Saying About Timeshare Online

"Most people think everybody feels about them much more violently than they actually do; they think other people's opinions of them swing through great arcs of approval or disapproval."

—F. Scott Fitzgerald, *Tender is the Night*

Had the timeshare industry existed when Fitzgerald wrote *Tender is the Night*, he might have thought differently, for opinions on vacation ownership tend toward extremes. Many owners are passionate about their timeshare vacations, while other people are highly critical of the industry and its practices. Everyone has an opinion, and in the age of social media, all opinions have an audience. Timeshare owners are getting younger, and while senior citizens have a reputation for being cranky at times, young adults are much better at going public with their displeasure.

It's important for any business to know what people are saying about it, and therefore The National Timeshare Owners Association commissioned INTUITION Brand Marketing, a division of the Perspective Group, to analyze on-line comments regarding the timeshare industry. INTUITION examined more than 500,000 posts and found that perception was better in 2014 than in 2012. In 2012, 69% of comments were positive, while in 2014, 82% were positive. Most of the negative comments were from people who attended a timeshare presentation but did not purchase. In addition, 16% of the negative posts referred to scams and frauds. Fraudulent activity related to timeshare almost invariably involves perpetrators who are not in the timeshare industry but target timeshare owners. The only way for the industry to guard against that type of activity is by educating owners to beware of the most common scams. Since Florida is by far the leading state for timeshare sales, it comes as no surprise that of complaints linked to a locale, Florida ranked first and California second.

The results are summarized below:

Source	Positive	%	Negative	%
Twitter	43,675	89	4,844	11
Timeshare Users Group	31,036	62	11,668	38
Facebook	15,057	84	2,463	16
Trip Advisor	1,900	63	700	37
Other	1,396	77	418	23

As receivable lenders, we are concerned with industry reputation, but primarily with owner satisfaction, since it is owners rather than non-buyers who are making the payments that service our loan. There was no meaningful level of complaints regarding note terms or interest rates, although the level of maintenance fees was often mentioned as a cause of dissatisfaction. Comments regarding an inability for owners to sell their timeshare interests peak just before the time that annual maintenance fees are due.

The quality of accommodations from owners that exchanged their interest was a frequent source of concern. In nearly all aspects of life, happiness is a function of expectations, and owners at top resorts expect comparable quality when they exchange. If the resort they visit is not up to the standards of their home resort, they aren't happy. Among the positive comments about accommodations, one of the most frequent related to the value of having a kitchen. Surprisingly, there was little mention of wifi, either as a positive or negative comment.

Accommodation	# of mentions
Living Space	30,901
Bedroom	20,684
Kitchen	18,246
Electronics	15,396
Wi-Fi	3,143

Among millennials, a common preference was for an on-line check-in process that would eliminate standing in line. Their biggest complaint about the check-in process was when it was combined with a sales pitch from the in-house marketing team.

The results of the survey are interesting, but what do they mean for the industry? One of the major lessons for developers is one that nearly all have already learned: reputation management is a key to success. Good news travels fast but bad news travels even faster, and it is imperative to get ahead of it. Rapid and effective response to on-line comments is essential, and the response has to address the concern, rather than a pro-forma, "Sorry you had a bad experience" or a defensive reply.

The negative comments from non-buyers point to the need to see that sales and marketing practitioners avoid the "hard-sell" techniques that alienate potential customers. Most buyers attend more than one sales presentation before buying, and those who leave their first presentation unhappy are unlikely to return.

Dissatisfaction with exchange accommodations can be addressed by tailoring the expectations of the guests to the situation. If there is anything unusual or unique about a resort, such as construction projects in process, smaller than average unit size, or an amenity that is temporarily off-line, it's wise to contact exchangers in advance and make them aware of the situation.

For receivable lenders like Colebrook, the news is generally good, mirroring the satisfaction surveys conducted by ARDA. Those who attend sales presentations and don't buy are not our obligors, nor are long-time owners who are frustrated because they can't sell, since their notes have long since been paid in full. Still, while those issues don't impact us directly, we have a vested interest in the success of the timeshare industry and want to see any problems mitigated.

The study shows that the overall perception of timeshare is good, with far more positive comments than negative, a finding that probably would not have occurred had Twitter existed 30 years ago. But the image of timeshare has changed for the better, and after beginning with a quote from Fitzgerald, I will end with one from another cultural figure, actress Sally Field, who said when receiving an Oscar in 1984, "The first time I didn't feel it, but this time I feel it, and I can't deny the fact that you like me, right now, you like me!".

Information from the INTUITION study is reprinted with the kind permission of INTUITION Brand Marketing. To learn more, please visit http://intuitionbrandmarketing.com/ntoa.

There's Gold in Them Thar Receivables

Getting the Most out of Your Portfolio

By Bill Ryczek,
Colebrook Financial Company

"The key to timeshare financing… is to get cash as fast as possible from poor credits and as slowly as possible from good credits."

For most seasoned developers, the largest asset on their balance sheet is their notes receivable. The incremental benefit of improving portfolio performance can be huge, yet it seems that most developers spend more time thinking about sales and marketing than about their receivables. A thorough analysis of the way in which your portfolio is managed may identify some low-hanging fruit sitting right before your eyes and allow you to boost the return on your biggest asset.

Get Them on Automated Payments

Probably the most important thing you can do to increase portfolio performance is to get as many customers on automatic payment plans as possible. Give them an interest rate incentive, incent your salespeople to sign them up, and solicit existing "pay by check" customers to switch. Stress ACH payments over credit cards, since you will have to pay a merchant fee on the latter.

Not only will automated payments improve the currency of your portfolio, they may delay pre-payments from credit-worthy customers. When someone sits down to write a check each month, they might decide to pay in full if they have excess liquidity, but when payments are deducted automatically, they don't have that potential trigger point every 30 days. They may think about paying off the loan, but the inertia that affects all of us often works in your favor. The key to timeshare financing, one that is not easily accomplished, is to get cash as fast as possible from poor credits and as slowly as possible from good credits.

A common cause of delinquency is payments that are rejected due to the fact that an authorized credit card has passed its expiration date. Create a program that tracks expirations and have your staff follow up by email or phone to get the new expiration dates and keep the payments flowing.

Third Party or In-House Servicing?

One of the most common mistakes made by developers is under-estimating the cost of effectively servicing a receivable portfolio in-house, particularly in failing to recognize the significant required capital investment in software. Off-the-shelf software or an Excel spreadsheet won't do the trick, and changes in regulations, as well as evolving conditions, require continual maintenance and updating. An independent servicer, with its economies of scale, can afford the IT investment that a developer cannot, unless they have a very, very large portfolio. When comparing the cost of in-house vs. third party servicing, you should also look at the discount you would be charged by a merchant processor versus that charged to the outside servicer. Their volume will probably allow them to negotiate more advantageous terms, and the differential is a hidden cost of maintaining the portfolio in-house.

Even if you employ an independent servicer, it's your responsibility to manage the portfolio. The servicer will process payments and provide reports, but collection efforts are usually done most effectively by your own staff. Late payments on timeshare notes are frequently related to product problems rather than credit issues, and your staff is much better equipped to solve them. And don't wait until someone is 30 days delinquent before starting collection efforts. A gentle reminder at 15 days can avoid a 30-day delinquency.

Charge a Monthly Service Fee

It's expensive to process payments, and you can pass the cost through to your customers. Many developers do so, and it doesn't seem to affect sales. A service fee is a cost of financing, so be certain to disclose it as part of the APR.

Tread Carefully with Your "B" Credits

Notes from "B" credits default at a much higher rate than those from "A" credits, but most developers sell to some buyers who have what is gently referred to as "scratch and dent" credit histories. The key is to pick who you sell to, what you sell them, and how you structure their notes. A credit score is an excellent tool on a portfolio basis, but two individuals with the same score may have very different propensities to pay. Look at the histories and try to differentiate between those who had incidents such as divorce, illness, etc. that caused a temporary problem and those for whom defaulting is a way of life. Pick those with some potential and eliminate the hopeless cases.

Don't sell prime inventory to people with substandard credit. Put them in a sampler program, a biennial, or some lower-priced product to allow them to prove themselves and to keep the monthly payment relatively low and manageable. You may also want to get a higher down-payment from these buyers, or charge a higher rate of interest to compensate for the additional risk. And you may want to require them to sign up for automatic payment methods.

Be Careful with Upgrades

With tour flow a challenge for most developers, the in-house sales line has become critical to profitability, with some developers generating 60% or more of their sales from in-house sources. Upgrading existing owners, however, may result in higher delinquency if not handled properly. Owners who are enjoying their interval may, during the euphoria of family bliss, want to buy more vacation time than they can realistically afford.

Look at the credit score, income, and payment history of prospective purchasers before you automatically upgrade them, or you might turn a performing $15,000 note into a defaulted $40,000 obligation, while paying commissions in the process.

These are a few of the techniques you can employ to squeeze a little more profitability from your portfolio. Some are quick fixes, and others require continuing diligence and analysis. Sales and marketing will always be important, since without marketing, you won't have any customers. But putting in a little extra effort toward the biggest asset on your balance sheet is invariably time well spent and can yield significant rewards.

Timeshare Sales Continue to Grow

2015 and 2016 Q2 Industry Highlights

All of our customers cite the difficulty of obtaining tours and drawing traffic to their resorts, yet overall timeshare sales, as reported by the annual ARDA Financial Performance Study, increased 10.4% in 2015, to a total of $6.8 billion. This continues the upward trend that began after the steep decline during the recession of 2009. In each subsequent year, commencing in 2010, there has been an increase. The latest figures, for the second quarter of 2016, show an increase of 3.6% over the second quarter of 2015. In 2015, 70% of all sales were of points-based product, a continuation of the long-term shift from fixed intervals.

In another article in this issue, we discuss the differences in marketing costs between large and small companies. During 2015, those companies with annual sales of more than $250 million had closing rates of 15.2% and Volume Per Guest (sales revenue divided by the number of tours) of $2,899 while companies with revenue of less than $25 million had closing rates of 12.6% and VPG of $1,355. In-house sales, which are generally more cost-efficient, increased from 52.7% of sales in 2014 to 56.1% in 2015. With the increased emphasis on rentals, overall property occupancy increased from 79.1% in June 2015 to 81.3% a year later.

The credit quality of buyers continues to be strong, with new purchasers in 2015 having an average FICO score of 721 (down slightly from 724 in 2014) while portfolio average FICO increased from 705 to 707. Portfolio scores are generally lower than average scores at origination, since obligors with higher scores have a greater propensity to pre-pay.

The ARDA statistics reported delinquency up 0.3% during the second quarter of 2016 (compared to 2015 Q2) with defaults flat. An August release from Fitch Ratings, which analyzes securitizations, indicated that delinquencies on securitized receivables increased from 2.66% in 2015 Q2 to 3.28% in 2016 Q2. Annual defaults (12 month rolling average) were also up from 7.29% in 2016 Q1 to 7.85% in Q2. Defaults have increased during each of the most recent five quarters, following three years of consecutive quarterly declines. Fitch indicated that the increase was due to "overall sector-specific normalization" which, according to the *Chronicle's* staff economist, means that more people are not paying than previously. Although defaults are increasing, they remain well within acceptable levels for hypothecation and securitization structures.