# The Colebrook Chronicle

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

## Welcome to the Colebrook Chronicle

### *Does the World Need Another Newsletter?*

I have been financing the timeshare industry for 33 years, and am a strong believer that a well-structured timeshare loan provides the lender with a relatively low risk asset that can generate a good return. I also believe that the key to interesting financial institutions in participating in our transactions is educating them on the process, the safeguards, and the theory. Three years ago, we held our first Lender Education Seminar, featuring presentations from industry experts. Each year, the seminar has been well-attended, and feedback has been very positive. The purpose of this newsletter is to provide our lenders and potential lenders with an ongoing source of information on the timeshare industry, including statistics, financing trends, general industry news and news from Colebrook's customers, most of which are financed in some form by our bankers. Our intent is to provide a source of news specifically targeted to those institutions that work with Colebrook.

I hope you find the newsletter informative and helpful in monitoring your loans and keeping current on developments in the world of timeshare. I welcome feedback and look forward to hearing about the type of information that would be most useful to you.

Bill Ryczek
Principal, Colebrook Financial Company

## Highlands Resorts: Expanding a Relationship

*by Sharon Drechsler-Scott*

Colebrook Financial Company recently extended an existing facility for Highlands Resorts to $30 million, funds that will be used for financing sales at Highland's projects in Sedona and Cornville, Arizona. "We made our first $4 million commitment to Highlands in 2009," said Colebrook principal Bill Ryczek, "and as we've gotten to know each other we've been very comfortable expanding the relationship."

Highlands Resorts is owned and operated by Todd Herrick and has enjoyed strong success in the Southwestern United States. The company's timeshare projects include Sedona Pines Resort in Sedona, Arizona; Highlands Resort at Verde Ridge in Cornville, Arizona; and Durango Riverside Resort in Durango, Colorado.

"When the recession hit it clearly identified what lenders and developers were prepared to weather the storm," says Herrick. "As Warren Buffett stated, 'It became obvious who was swimming naked when the tide went out.' The good news is the lenders and developers that knew the business sought each other out and were able to build a template that worked for all parties involved."

"For a while, after our previous lender closed its doors, it was '30-day cash flow management' and all reactive decision-making. With Colebrook's help, we are starting to be able to be proactive and think about growth once again. While we are building and growing the company, there are still constraints on any A&D loans. Fortunately, Colebrook was able to underwrite a construction loan for Highlands."

"Anyone that is still standing today and is in real estate had to have had a viable business model. While I anticipate that the new reality calls for uncertainty, I do not foresee it being as volatile as it has been for the past three years. Additionally in Highlands case, we are in a much better debt position than we were in

*(continued on page 3)*

### *Inside This Issue:*

## A Note From ARDA

by Howard Nusbaum, president of the American Resort Development Association (ARDA)

What doesn't kill you actually does make you stronger—and today's vacation ownership industry is proof that this is true. The ARDA 2012 Convention in Las Vegas in early April featured both a positive mood and robust attendance (approaching 3000) that are testaments to the health of the industry.

Our industry has made the necessary tweaks to its three-decade-old business model, including touching customers with more "skin in the game" by requiring higher down payments, ensuring the credit-worthiness of its consumers with higher FICO requirements, and shedding inefficient sales and marketing programs. The outcome is reflected in today's healthy profit margins trumping the old measurement of mere sales velocity—this has led to more robust profits on sales, which add up to a more sustainable business model for resort development across the board.

The performance of the industry in the last quarter of 2011 and the first quarter of 2012 portends bright times ahead. We've weathered the storm and re-laid a strong foundation to accommodate the demographic trends of aging Baby Boomers who have clear demand for our product. The pent up demand for timeshare as "the better way to vacation," coupled with streamlined flexible product offerings to consumers, is the right ingredient for 2012's industry success.

In the words of Charles Darwin, "It is not the strongest of the species that survives nor the most intelligent that survives…it is the one that is most adaptable to change." If the past 40 months has taught me anything, it has shown me that the entrepreneurial spirit of this industry complemented by its ability to adapt and recreate itself is what will lead to not only survival but to strong performance and profitability in the coming years.

## DEVELOPER SPOTLIGHT:

# Global Connections, Inc.

Global Connections CEO Tom Lyons

Global Connections, Inc. ("GCI") has been a Colebrook customer since 2008. The company offers a unique vacation product, described below, that differs from traditional timeshare offerings. Because of a lower price point, receivables generated by GCI are for a shorter term (3-5 years) and have higher downpayments (typically 20%) than most timeshare loans. Because of the lower balances, there is a significant amount of prepayment activity, which rapidly lowers Colebrook's effective advance rate. We have been extremely pleased with the performance of the company's receivables, and have financed the portfolios with a number of financial institutions.

Global Connections was founded by Tom Lyons in 1996. The company has expanded from two sales offices in 1996 to 17 sales centers across the United States, representing the distributors of its Global Discovery Vacations (GDV) and more recently, Vacation Quest (VQ) travel products.

In 2003, GCI began developing resorts and offering investment opportunities in the second home real estate market. It purchased the 37-unit Sea Shells Beach Club in Daytona Beach, Florida, and later a boutique resort in Sunset Beach, California renaming it Beso Del Sol. In 2005, the company acquired 17 acres in Gatlinburg, Tennessee and began development of White Oak Lodge & Resort, a master-planned community featuring 60 vacation log cabin homes, 12 condominiums, and recreational amenities. In 2008, GCI purchased Beso Del Sol Resort, located on the Gulf Coast of Southwest Florida, and later provided a multi-million dollar renovation to the nearly 80 units and common areas. GCI also manages and has long-term leases for condominiums in 21 states, Canada, the Caribbean and Mexico.

To add more value to the membership, in 2007 GCI introduced its exclusive Global Discovery Elite customer loyalty and concierge program and later launched a members-only online booking system. As GCI grew and prospered, the company and its employees reached out to their local communities assisting many charities and causes.

In January 2009, GCI moved into a new company-owned 25,000 square foot corporate headquarters in Overland Park, Kansas. Additional offices located in Daytona Beach, Clearwater and Orlando, Florida, and in Myrtle Beach, South Carolina, service the members, resorts, and property management division.

Tom Lyons reflects, "It's been an amazing 16 years in terms of company growth and in witnessing changes in consumer vacationing preferences. Our success can be attributed to the dedication of our employees, management, and sales distributors to help our members fulfill their vacation dreams." For more information visit www.exploregci.com.

*Highland Resorts continued*

2007-2008. For both the lender and the developer in regard to timeshare, it is all about the team. I have had the same management team since our inception in 1996 and Bill is the founding father of timeshare lending."

"Highlands' management team is highly professional and the resort projects are well-maintained, well-managed properties in high-demand locations," says Ryczek. "We enjoy working with Todd Herrick who is an energetic, decisive and competent developer."

## Timeshare Sales Up in Fourth Quarter / Prices up Slightly

The American Resort Development Association employs the accounting firm of Deloitte and Touche to survey leading timeshare developers and report industry trends. The report for the period ended 12/31/11 has been released and contained the following highlights:

- Timeshare sales increased 5.9% from the fourth quarter of 2010. The most significant change in timeshare marketing was reflected in a 113% increase in inventory sold under "fee for service" arrangements, in which large developers like Wyndham and Bluegreen sell for others on a commission basis.
- The percentage of consumer timeshare loans that were current at 12/31/11 (89.5%) was down 1.1% from a year earlier. The amount charged against the loan loss allowance during the fourth quarter (2.6%) was nearly identical to the charges during the fourth quarter of 2010. Receivable information includes all developer loans, including those not approved by hypothecation lenders. It also appears that the data may be skewed by one developer that reported an extremely high level of delinquency.
- The weighted average sales price increased 1.9% to $17,325.
- Volume per guest, the primary measure of marketing effectiveness, increased 3.0% from the fourth quarter of 2010.
- Newly-originated consumer loans had the following characteristics:
  – Average term of 116.1 months
  – Average interest rate of 13.9%
- Capital expenditures for new resorts declined by 18% while expenditures for existing product increased by 33%, indicating a definite trend away from new product offerings.

Source: *2011 Forth Quarter Pulse Survey: A Survey of Timeshare & Vacation Ownership Resort Companies,* prepared for the ARDA International Foundation by Deloitte and Touche LLP.


## Global Connections White Oak Lodge & Resort receives Gold Crown rating from Resorts Condominium International

*Resort honored for excellence in accommodations, hospitality and RCI subscribing member experience*

Global Connections, Inc. has announced its White Oak Lodge and Resort has been awarded the prestigious RCI Gold Crown Resort property designation by RCI, the worldwide leader in vacation exchange.

A select number of RCI affiliated resorts meet RCI's requirements for recognition and have earned the RCI Gold Crown Resort award. These resorts have attained high levels of excellence in resort accommodations, hospitality and member experience as measured by RCI.

Located on 17 acres near the Great Smoky Mountain National Park in Gatlinburg, TN, White Oak Lodge and Resort is a planned mixed-use property including 60 two- and three-bedroom log cabin homes and 12 two-bedroom condominiums. The resort features a tennis court, nature trails, outdoor grills, clubhouse and swimming pool with two grottos and waterfalls.

For more information visit www.whiteoaklodgeandresort.com.

Photos courtesy of the American Resort Development Assocation

# Annual Timeshare Convention Draws Nearly Three Thousand Attendees

## Colebrook Principal Speaks to Conference on Financing

What a change from three years ago! In 2009, as the business world struggled to cope with the implications of the worldwide financial crisis, the mood at the ARDA convention in Orlando was somber and decidedly cautious. When the industry gathered at The Venetian in Las Vegas this April, it was apparent that confidence had returned. As Howard Nusbaum notes elsewhere in this issue, the timeshare industry has survived the worst and has adapted its business methods and strategies to the current environment. Nearly three thousand developers, vendors, lenders and professionals attended the annual convention and most arrived in an upbeat mood. The Beach Boys provided the entertainment at the Interval International Party with a Cause at the House of Blues, and it was clear that conference attendees were feeling the words of the group's classic song "Good Vibrations."

The ARDA Conference is a mix of fun, such as listening to the Beach Boys, and the good fellowship of renewing acquaintances with old friends from the industry. The good times, however, are oases in the midst of a lot of hard work. Having all its customers and prospects in the same setting gives a company like Colebrook the opportunity to cover a lot of ground in a very short period of time. Colebrook had 22 business meetings over the three full days of the conference, plus several impromptu conversations regarding potential transactions. As always, a number of opportunities arose that will be pursued during the coming weeks.

Timeshare is now present in 24 countries on six continents and the international nature of the industry was highlighted by the attendance of 389 non-U.S. registrants, led by a total of 198 from Canada and Mexico. The featured speaker at the opening session was Fred Reichheld, author of *The Loyalty Effect* and the creator of the Net Promoter Score. Other featured speakers were Steve Holmes of Wyndham Worldwide, who delivered the keynote address at the Leadership Luncheon and Sharon Wood, who spoke at the Breakfast of Champions on the final day of the conference. Ms. Wood, the first North American woman to reach the summit of Mt. Everest, told her inspirational story of perseverance and dedication and how such qualities can be applied in the business world. The culmination of the convention activities is the presentation of awards for excellence in categories spanning a number of disciplines throughout the industry. The Awards dinner, as always, was well-attended and the competition for honors was intense.

The educational segment of the convention consists of multiple panels featuring industry experts. Special sessions included a Sales and Marketing Forum, a Social Media Forum and a very well-attended Resales Forum. Bill Ryczek of Colebrook spoke as a member of The New Fundamentals of Finance panel and, along with three other panelists, discussed the current state of the timeshare finance market, financing terms and loan types that are available to developers and the keys to obtaining financing.

Like any industry convention, the ARDA conference is an excellent forum for networking, and Colebrook was able to introduce some of its customers to each other for the purpose of discussing potential strategic alliances. Colebrook finances a number of developers that have multi-site clubs. They are often seeking additional inventory for their owners, and in cases where there are complementary geographies, there might be an opportunity to add value to each developer's product offering.

On Monday evening, Colebrook hosted a reception for members of the legal community who represent either Colebrook's customers or its financial institutions. Harry Heller of Heller, Heller and McCoy, who handles nearly all of Colebrook's legal work, acted as host. Approximately twenty attorneys, a number of whom had never met face-to-face, attended and regaled each other with raucous stories about the Uniform Commercial Code and reveled in similar side-splitting humor. It was a relaxing evening in an informal setting and all who attended truly enjoyed the opportunity to connect.

All in all, it was a tiring but productive week. Next year's annual convention will be held in April 2013 at the Westin in Hollywood, Florida.

The above was adapted from an article by Kathryn Mullan, Editor, *Developments.*

*Securitization continued*

### Orange Lake Plans New Securitization

Attendees at Colebrook's 2011 Lender Education Seminar heard Don Harrill, CEO of Orange Lake, speak about branded timeshare product. In late February 2012, Orange Lake announced that Fitch was in the process of rating its two-tranche $150 million securitization, the company's first offering since 2006. The average FICO score for the pool is expected to be 737, up significantly from the 652 average of the 2006 package.

*Source: insidethegate.com*

### Wyndham's Securitization Rated by Standard and Poor's

In March, 2012 Standard and Poor's issued a preliminary rating to Wyndham's new $250 million offering. The A tranche, totaling $193 million, was rated A and the B tranche of $57 million was rated BBB. Within days of the rating announcement, the amount of the offering was increased to $450 million, as more than 30 investors signed up. The blended yield offered to the investors was just over 3%, indicative of the strong general demand for securitizations and the attractiveness of timeshare offerings.

*Source: reuters.com*

# Colebrook Financial Portfolio Update

Set forth below is a chart showing the trends of the portfolios owned or financed by Colebrook. The advance rate is the aggregate amount advanced by Colebrook divided by receivables less than 60 days delinquent. As seen below, the portfolios continue to perform very well, and have shown increasingly positive trends over the past three years. Delinquency rates are low and advance rates are well below maximum limits in many cases.

Many people are surprised by the strong performance of our portfolio in the face of a prolonged economic downturn and the poor performance of a number of other asset classes. One of the questions we have always been asked is: If a consumer experiences financial difficulties, isn't a timeshare loan the first thing they'll stop paying? After more than three years of recession, the statistics presented below would indicate otherwise.

There are a number of reasons for the resiliency of our portfolios. First, after some of our competitors exited the business in late 2008, we had the opportunity to lend to larger, stronger developers, who attract consumers with a better demographic profile and provide a quality product that leads to a high level of consumer satisfaction. Second, the lessened competition has enabled us to tighten our criteria for consumer receivables. Third, knowing their customers are under increasing financial pressure, developers have increased the resources devoted to their collection efforts, including getting a higher percentage of customers under automated payment arrangements. Finally, and perhaps most importantly, the performance indicates that consumers value their vacations and their good credit ratings, and will make a strong effort to preserve both.

| | 12/31/07 | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 | 3/31/12 |
|---|---|---|---|---|---|---|
| Current (<30 days) | 89.84% | 87.63% | 93.72% | 94.53% | 96.18% | 96.42% |
| 60+ days | 7.37% | 8.65% | 3.13% | 2.46% | 1.79% | 1.96% |
| Advance Rate | 79% | 77% | 73% | 70% | 67% | 64% |
| Losses on Receivable Loans and Loan Purchases | $ 0 | $ 0 | $ 0 | $6,000 | $54,000 | $ 0 |

The statistics presented in the table above represent only those receivables approved for funding by Colebrook. Most developers also hold a portfolio of unfunded receivables, usually those rejected for funding by the lender. During the past three or four years, the amount of "B" credit receivables held by developers has declined. Perhaps the most pressing reason for the reduced level of subprime credits is the lack of financing for those contracts. A second reason is that, when financing became constricted, developers began closely examining the performance of receivables with FICO scores below 600. Invariably, the default rates on this segment of the portfolio were much higher than on the "A" portion. In past years, most developers took virtually every applicant, based on the rationale that they had received a downpayment and could simply take the week back and re-sell it in the event of default. An examination of the default rates led most to sell a lower-priced sampler package to prospects with marginal credit or to require them to make a higher downpayment. The change in strategy has accounted for part of the decline in timeshare sales from a peak of $10 billion in 2008 to $6.5 billion in 2011.

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# Securitization Update

*By Mark Raunikar, Principal*
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In late 2008, when the financial markets imploded, the securitization sector froze, and large timeshare developers, who depended on the market to finance their consumer portfolios, were without a source of capital to support their existing level of sales. The decrease in total timeshare sales from $10 billion in 2007 to its current annual level of about $6.5 billion is in large part attributable to the lack of Wall Street financing at that time.

The timeshare securitization market slowly came back to life, with the first packages bearing relatively high rates of interest and low advance rates. As time passed and the older securitizations performed well, the market gradually improved, and recent securitizations have been on terms similar to those available in the pre-2008 era. In June 2011 Wyndham CFO Michael Hug addressed Colebrook's Lender Education Seminar and provided attendees with a summary of timeshare securitizations, including terms and yields. Hug's company has been a leader in the rejuvenated market for syndications. Wyndham completed a $400 million offering in early 2011 and a $300 million offering late in the year on very favorable terms. In March 2012 the company brought a third package to the market and saw it increase from an initial amount of $250 million to $450 million, as demand exceeded the original offering amount.

Below are some recent news items relating to timeshare securitizations:

## Standard and Poor's Roundtable

In early January 2012, Standard and Poor's Rating Services hosted a roundtable discussion regarding timeshare securitizations. Panelists included Jeffrey Leuenberger, Vice President, Securitization and Risk Management, Wyndham Worldwide, Stephen Viscovich, Director—Securitized Products, Credit Suisse, and Joe McElroy, Director, RBS Securities. The panelists concluded that "Timeshare securitizations are in a period of stabilization and potential growth after a slowdown following the financial crisis and recession." The panelists also indicated that they believed there was a trend toward limiting securitizations to higher credit profile borrowers and that performance of future securitizations would be very strong. The performance of prior offerings has pleasantly surprised most analysts, in light of the sour economy. "Timeshare securitizations continue to perform much better than most people's expectations," said Viscovich. "[T]he sector's consistent performance during the economic downturn has drawn a lot of attention and given people more confidence in the asset class." "We have seen an increase in investor appetite for this sector," added McElroy, "which we broadly attribute to the tightening in yields of the more commoditized ABS sectors in 2011."

*Source: standardandpoors.com*

*(continued on page 5)*