Fee-for-Service: A Lenders' Darling

BY SHARON DRECHSLER-SCOTT, RRP

Put two timeshare lenders together these days and inevitably you'll hear them discussing a hot item in the industry: fee-for-service. Don Peruta, senior vice president and manager Resort Finance Division of Liberty Bank, believes his bank made a good move by agreeing to underwrite a project for Wyndham Worldwide.

During the summer of 2011, Wellington Financial, the exclusive resort finance lending correspondent for Liberty Bank, announced the bank had expanded an existing $10 million receivables loan to $30 million with Smugglers' Notch in Vermont. As Wellington said, "The loan was made in conjunction with Smugglers' signing of an exclusive sales and marketing agreement for the sale of vacation ownership interests at Smugglers' Notch Vermont Resort with Wyndham Vacation Ownership."

Earlier that spring, Wellington had announced a similar Liberty Bank deal—a $20 million transaction inked with an independent developer and the property rebranded as Reunion Resort & Club Wyndham Grand Resort in Central Florida.

Peruta, who has been with the bank since 1996 and has served in various capacities (including senior credit analyst, commercial loan officer, leasing officer, and senior resort finance loan officer), sees the model as a winner.

How did you first hear about the fee idea?
Peruta: "We started looking back in 2010, when we were approached by a borrower who had acquired a property but had no timeshare experience. We knew shared ownership would be the highest possible use for the property. At the same time, Wyndham had just introduced their concept for a fee-for-service program.

The deal was somewhat complicated to work out originally. You have three players: the borrower/developer, Wyndham as the sales and marketing agent, and the bank. The lending relationship is with the developer, with the understanding that Wyndham will handle sales. Liberty treats the new transactions routinely by dealing with the developer who controls the unsold inventory at a particular resort and owns the paper. The developer/borrower is responsible to replace defaulted contracts. We developed the deal so that it performs essentially the same as other relationships but with the added layer that there is a third company handling sales and marketing."

Bill Ryczek, RRP, Colebrook Financial Company, is well-known throughout the industry and a frequent speaker at conventions on the topic of receivable financing. Ryczek was a large bank's chief lending officer with responsibility for a $1.3 billion portfolio, consisting of residential mortgages, consumer loans, commercial mortgages and commercial loans—as well as the bank's $300 million timeshare portfolio—before he and three partners founded Colebrook Financial in 2003.

Colebrook recently re-financed a portfolio of receivables generated primarily from Bluegreen sales at Blue Water Resort in Nassau and is in the final documentation process for a second Bluegreen fee-for-service transaction.

We asked Bill what it took for Colebrook to entertain this three-legged stool approach.

How did you come to get involved in a fee-for-service deal? What was your initial reaction to the concept?
Ryczek: "The fee-for-service concept is really an evolution of the old 'marketing

contract' model that was prevalent in the early days of the industry. The difference is that the old marketers were generally small, undercapitalized companies with no vested interest in the sale beyond receiving a commission. The leaders in today's fee-for-service arena are large, well-capitalized firms that generally sell their points program through the client's inventory and have ongoing responsibility for providing the vacation product.

"We became aware of the new fee-for-service concept in connection with a resort we financed in Myrtle Beach. We were not involved in that aspect of their business, but became intrigued with the concept. I've known Bert Blicher, the developer of the Blue Water project, for more than 30 years, and knowing both Bert and Bluegreen were involved with the resort got me interested."

From the lender's perspective, how does the fee for service model work?
Ryczek: "A hypothecation loan in a fee-for-service situation is not markedly different from a loan to a developer that sells its own inventory."

What sort of vetting process did you need before entering into your first deal?
Peruta: "When we first introduced the concept to our committee, most of them were familiar with the Bluegreen model. They were pretty confident from the beginning since the players are larger; they're basically the Hiltons and Wyndhams of the world. They did require an additional layer of information and wanted a little more specific information. But once they had that, they were ready to proceed."

What can you tell us about the start-up phase? Any lessons learned?
Ryczek: "Since the developer is generally on recourse for the loan and the marketer is not, we want to be certain that sales activities are conducted in a manner likely to lead to customer satisfaction and strong portfolio performance. We examine the contract between the developer and the marketer to ensure that adequate controls are in place to minimize sales issues and that the developer has the necessary remedies should sales problems occur. In most cases, the loan application is stronger since the points program of the marketer is generally more attractive to consumers than the single site offering previously in place."

Are you exclusive with any one developer?
Peruta: "No. We are open to either a developer or another large timeshare company that proposes to enter into the fee for service arena, particularly if Liberty can enter into a fee-for-service situation with a current client. Obviously, it's to a developer's advantage to gain a sales partner that allows them to grow without the need to seek financing or switching lenders. And certainly, we are interested in looking at a new relationship with a developer approaching us to ask for references and introductions to fee for service model-providers."

How is the fee for service concept working from your point of view?
Peruta: "We've done two deals with Wyndham so far: Smugglers Notch & Reunion. We went through the start-up phase with each of them over the last two years. As far as that process went, one was great—the other was even better. We have a fantastic relationship. This concept provides a valuable model for both large and small developers, and for lenders it provides greater opportunity to provide financing."

Ryczek: "The deal we have in place is working fine. From our viewpoint as a lender, there are no large differences from standard hypothecation loans."

What are your future plans?
Peruta: "We have been very busy. There are some signs the economy may be truly turning around, so developers will become more comfortable bringing on a new product and in increasing sales. I believe we'll see existing developers using this model to help them expand and possibly acquire new properties."

Ryczek: "We are very interested in looking at additional Bluegreen deals, as well as fee-for-service deals involving other strong developers."

Don Peruta, Liberty Bank

Bill Ryczek, Colebrook Financial Company

Future Options

This industry is fortunate to have access to lenders who are open to exploring new business models. Thanks to their long-term association with the industry, they are familiar with the marketers, developers, and their prospective customers. This is part of the reason our industry continues to function, despite the vagaries and uncertainties of the political and economic scene. ■

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