

New

THE [^]FUNDAMENTALS OF FINANCE



ARDA 2010 Convention & Exposition

New Fundamentals of Finance

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Session Outline

- ✓ **Status of Lender and Loan Availability**
 - ✓ Environment and Structure for Construction & Inventory Debt
 - ✓ Primary focus on Receivable Financing
- ✓ **Changes to Receivable Loan Structure**
- ✓ **Developer's New Focus – Making Most of Availability**
- ✓ **Lender's New Focus – Adequacy of Receivable Lines**
- ✓ **Heightened focus on portfolio characteristics**
- ✓ **How do the changes impact the Developer**
- ✓ **Developer tools to appeal to a Lender**
- ✓ **What lies ahead for Financing?**



Fewer Timeshare Lenders

NUMBER OF PROMINENT TIMESHARE LENDERS

2008

11

NOW

4

- **Reasons for decrease in timeshare lenders**
 - **Is it the product, or is it the lenders?**



Financing the Property

The debt for the real estate component of the project typically falls into the following categories...

Construction Loans

Renovation / Conversion Loans

Acquisition Loans

Inventory Financing

What is the availability?



Property Finance Loan Terms

Use:	Acquisition, construction, renovation, inventory
Loan Size:	\$1MM - \$20MM
Amount:	70% to 80% of project cost
Loan Term:	24 to 60 months
Interest Rate:	Prime + 2.5% to 5% or LIBOR + 5.5% to 8% (with floor)
Loan Fees:	1% to 2.5%
Repayment:	Release payment per interval sold, Minimum amortization hurdles



Property Finance Loan Terms

Security: First mortgage on resort & security interest in all improvements.

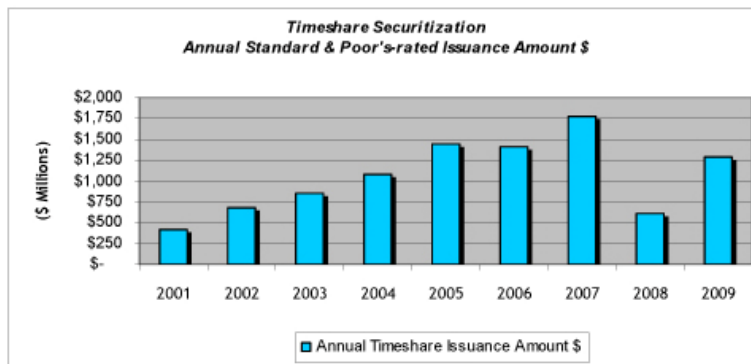
Guarantees: Varies. Most require corporate and/or personal guaranties.

Other Conditions: Cross default and cross collateralize Construction Loan with Receivable Loan.

Construction lender may require exclusive right to finance receivables generated at project.



Securitization History

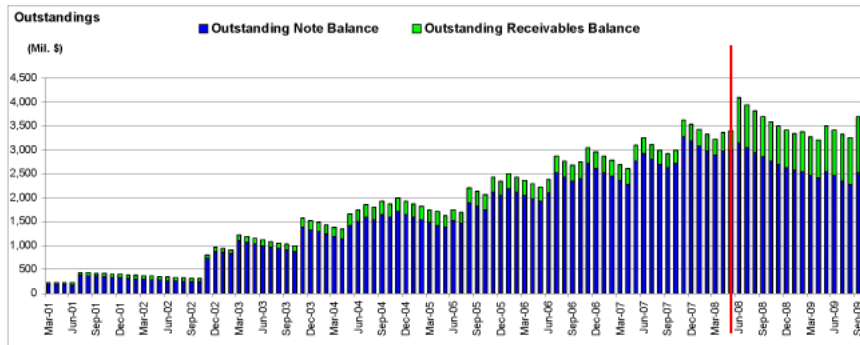


Timeshare ABS in 2009 of \$1.3B was only 27% less than high water mark of \$1.8B in 2007



Change in Advance Percentage

The Securitization market is a barometer for risk tolerance for timeshare notes. Distinct decrease in Advance Percentage late 2008. Improving lately.



Source: Standard & Poor's U.S. Timeshare Securitization Performance Index

Graph indicates additional collateral (i.e. lower advance) required to securitize notes



Changes to Receivable Loan Structure

	THEN	NOW
Advance Percentage:	90% (sometimes 95%)	70% - 85%
Interest Rate:	Libor + 2.5% - 4.5% Prime + 1% - 3%	Libor + 5% - 7% Prime + 2% - 4% (with floor)
Weighted Average FICO:	Min 575 - 600	Min 620 ?
Revolver:	Yes	Sometimes

Unchanged Terms

	NOW (Unchanged)
Loan Amount:	\$500,000 to \$50,000,000
Availability Term:	12 – 24 months
Loan Fees:	1% - 2%
Guarantee:	Corporate and/or Personal

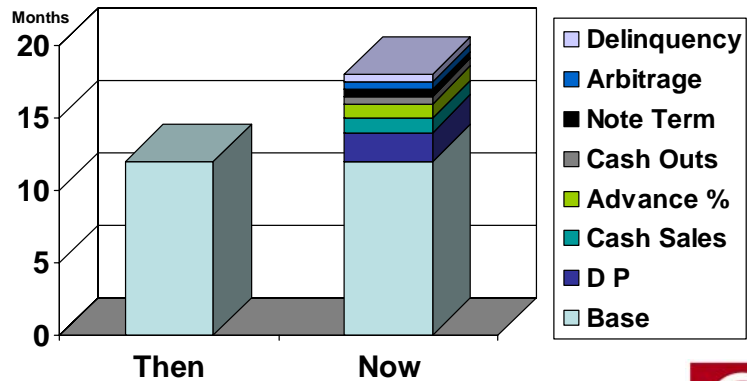


Stretching Receivable Availability

	Then	Now	Change
Down Payment	10%	20%	2 mos.
Cash Sales	10%	15%	1 mo
Advance Percentage	90%	85%	1 mo
Early Cash Outs	7%	12%	1 mo
Note Term	84 mos.	72 mos.	.5 mo
Arbitrage Spread	4%	6%	.5 mo
Delinquency	15%	10%	.5 mo

Buying More Time

Changes to Receivables stretched 12 months to 18 months



Lender's New Focus

In addition to customary aspects underwriting Notes Receivable financing request, a Lender will focus on:

- ✓ Adequacy of hypo availability to meet sales pace;
- ✓ Hypo availability from multiple sources, if possible;
- ✓ Remaining availability term of hypo facility;
- ✓ Management of delinquency during consumer distressed market;
- ✓ Implementation of higher credit standards.



Lender Focus on Portfolio Data

- ✓ Trend in defaults & delinquency
- ✓ Is static pool data available?
- ✓ Average paid in equity per note
- ✓ Weighted average interest rate
- ✓ Weighted average FICO score for portfolio
- ✓ Geographic concentration of note obligors
- ✓ Weighted average remaining term
- ✓ Modifying delinquent consumer notes



Impact of Changes on Developer

Change: Increase “All Cash” sales

Impact: Easier said than done = lower closing %

Change: Increase amount of down payment

Impact: Also can lower closing %

Change: Reduce use of less efficient marketing programs

Impact: Lower sales volume can cause fixed cost to become a higher % of sales



Impact of Changes on Developer

Change: Less sales to under-qualified purchasers

Impact: Lower closing %

Change: Lower advance rate from Lender

Impact: Less cash flow to Developer now, builds more equity in portfolio

Change: Lower volume requires less receivable financing

Impact: Many marketing costs aren't fixed,
Lower volume may mean lower margin

Developer Appeal to Lender

- ✓ Manageable property debt (i.e. low debt repayment per interval sale);
- ✓ Status of Lender relationships. Remaining availability on receivable line(s);
- ✓ Portfolio Management;
 - ✓ Collections
 - ✓ Stabilized or improved delinquency trends
- ✓ Efficient and justifiable marketing programs;
- ✓ Status of Home Owners Association;



The Horizon

smooth sea never made a skilled mariner.”

- English Proverb

**A forecast for the
immediate and long term
financing environment**



Questions & Answers

Question and Answer Session

**Audience Participation
Welcomed**

