



Do You Have the Magic Silver Bullet?

Rarely a day goes by that I don't have a conversation with one of our loan servicing clients about the magic "silver bullet"—that one-shot approach which, when executed immediately into the existing infrastructure, would penetrate all delinquent owners and result in everybody paying on time, every month. Defaults would be non-existent, write-offs would be eliminated, and life would be good! If only such a thing existed.

It's certainly no mystery why timeshare owners may be struggling with their monthly timeshare loan payments. Residential mortgage foreclosures and gas prices are at an all-time high. Consumer confidence is down, and consumer spending has slowed. Wall Street tumbled when the government said that personal incomes in August 2008 fell by the largest amount in nearly three years. Even the wrath of Mother Nature (with her abundant supply of widespread fires, floods, and tropical storms) has played a significant role in the fiscal lives of timeshare owners across the country.

As a result, total delinquencies on U.S. timeshare asset-backed securities (ABS) were on the rise in second-quarter 2008, according to the latest timeshare ABS index from Fitch Ratings. Monthly defaults, which also have risen moderately to date, are expected to continue to grow as some of these delinquent loans reach defaulted status.

Navigating a Lit Way

Fortunately for those hoping to maintain optimal timeshare loan portfolio performance in these tough economic times, there are effective

strategies and practices that can help manage portfolio roll rates and hinder defaults. Here are a few of the top things to consider.

Administrative Proficiency

Significant and detailed owner information stored in a loan servicing database is essential. Today's savvy developers are digging deeper for owner information at the sales table and ensuring the data is stored and readily accessible to collections teams. With the decrease in home telephone usage, obtaining cell phone numbers and valid work numbers for all owners on the contract becomes mandatory. E-mail addresses are a must. Emergency contact information may be important one day when the owner doesn't respond to initial collection calls.

"Our success in servicing and collecting on a client's portfolio is indisputably enhanced when we have access to complete and detailed information about each account," according to Sonja Yurkiw, director of collections at Concord Servicing Corporation.

Auto-Pay Enrollment

Portfolio after portfolio, we see a direct correlation between performance and the percentage of auto-pay accounts. One developer that has mastered this model is Gold Key Resorts, based in Virginia Beach, Virginia. Of their total \$90 million-plus loan portfolio, approximately 80% of their 8000+ accounts are on a monthly auto-pay plan. Even more impressive, the majority of those—a remarkable 98%—are set up on bank draft instead of credit cards, which saves Gold Key

a small fortune in monthly credit card transaction fees.

"Gold Key has a distinct culture of ensuring the use of auto-pay beginning with the owner at the sales table," says Glenn Ramella, director of portfolio services for Gold Key. "Our success is directly attributed to a combination of gentle persuasion and unrelenting persistence across the organization. We incentivize those owners who agree to auto-pay and reward avid employees who successfully convert non-participants. The result is an integrated buy-in at all levels."

Owner Preservation

According to a recent customer engagement research report from Babson Executive Education, the "Age of the Customer" is in full swing. Companies are trying to win, win back, or retain customers by being more customer-centric. Certainly our industry knows the intrinsic value of retaining owners, especially in tough economic times when marketing tours and sales volumes are waning.

Shrewd developers are readily approving and implementing special programs and payment plans for delinquent owners. Cash savings on settlements, mortgage modifications, downgrades, amnesty programs, and contract extensions are all examples of strategic tools now being used by collection teams. The primary goal: to help owners solve their financial challenges so they may continue to enjoy the valued timeshare product they purchased. Without a doubt, looking after your owners in troubled times will result in very satisfied and engaged owners in the future.

Financial

Chris Sagherian, vice president of financial services at Summer Bay Resorts, sums it up well: "We listen to the problems our owners are experiencing and do everything within the guidelines of the loan to make it work. We propose win-win solutions based on their situation and relieve the owner of additional stress and anguish. Captive listening is our catalyst to owner loyalty—we become their hero for the day, guaranteeing that loyalty for life."

Monthly Statements

Many of our clients are throwing in the towel on the traditional use of annual coupon books and switching their infrastructure to monthly statements. No doubt the opportunity to have an updated account balance in the mail every 30 days keeps the loan obligation fresh in the minds of

owners. Certainly, conveying recurring messages on the statement (perhaps marketing new products and services to owners) can help mitigate the additional expense.

"We switched to monthly statements at the beginning of 2008 and now wish we had made the decision years ago," states Steven Rosenstock, vice president of finance at Celebrity Resorts. "Changing to monthly loan statements has benefited the performance of our loan portfolio, amplified the aura of our product, and increased effective communication and touch-points with our owners, which is always advantageous to the bottom line."

Riding Out the Storm

Loan performance in our industry will surely continue to be susceptible to economic woes due to many factors,

including the overall credit quality of the borrowers and the discretionary nature of the product financed. Clearly, collecting accounts receivables from timeshare owners using opportune, proven tactics is crucial to managing loan portfolios in a tough economy.

There may not be one magic silver bullet. Nevertheless, I am confident that conscientious developers and operators, armed with a full arsenal of collection strategies, will undoubtedly give it their best shot! **D**

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