

## Small Resort, Big Money

### Stuck in a funding crisis? Try your local bank.

BY STEVE FIZDALE

The timeshare industry isn't a baby anymore. New, upscale purpose-built resorts and flexible clubs have created new challenges for older properties. Now more than ever, older resorts must renovate and update in order to maintain exchange ratings—and keep owners happy. That can be a problem when a resort has limited reserves. So what's a mature resort to do when funding opportunities are few and far between?

#### THE PIECEMEAL PROBLEM

When a resort's funds are insufficient to do a complete renovation, it's very often done piecemeal. This gives the resort two options—to renovate a little bit in all the units, or to do complete renovations of portions of the resort in phases. The problem with the first option is that owners never really get the sense that something changed. Let's face it: Replacing bedspreads one year and lamps the next isn't going to have a major impact. On the other hand, when a resort completely renovates only some of its units, the owners who aren't staying in those units feel like they haven't been treated fairly. A less desirable option would be a special assessment. Fortunately, there is another way.

#### BANKING ON THE FUTURE

Complete resort renovations, funded by lease loans from banks, are becoming a viable alternative for many resorts. Thanks to the maturity and credibility of our industry, many lenders who have not traditionally been active in timeshare financing are stepping up to the table. They have a better understanding of timeshare and a higher comfort level with regard to making lease loans for timeshare resorts.

Historically, when it comes to timeshare loans, there's been a problem with

collateral. In the last few years, however, banks have begun to accept the fact that an HOA in good financial standing that has 6,000 owners who have been consistently paying fees for the last dozen years has a lot to offer in the way of collateral. Now, a lender might say to himself, "What are the chances that after 12 years with 97 percent of the resort's owners paying, suddenly fewer than 3 percent will pay?" There's almost no statistical probability of that happening. You don't have to marry that to very many other contingencies to get a lender to make a loan.

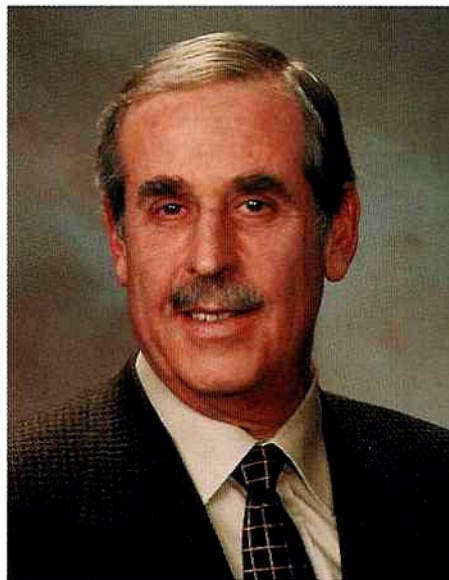
What are those other contingencies? Basically, the lender is looking to be paid the first monies that come in from the resort's annual assessments. The lender also establishes a security interest in the furnishings, known as a UCC-1.

Typically, lease loans for timeshare resorts range from \$100,000 to \$25 million, with terms ranging from three to seven years. The loans also require some standard legal documentation and paperwork.

#### ONE-SHOT WONDERS

So what are the benefits of going for a local bank's lease loan so you can renovate in one shot? One national lender lists these benefits:

- Renovation projects that can be totally accomplished in one phase, eliminating the negative outcry from owners that goes along with three- to five-year remodeling projects.
- Quality control through cohesive workmanship and same-lot product purchasing.
- Savings of thousands of dollars in product inflation and the logistical costs associated with multiple start-ups.
- Increased resales.
- The elimination of any major strains on



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HOA cash flow and the need for special assessments.

- Flexible payment schedules (monthly, quarterly, biannually, annually, or a combination thereof).
- A very competitive fixed rate, thus avoiding spikes during the term of the lease.
- Simplified future loan applications.

#### GETTING THE GOODS

With these new financing opportunities even smaller and older resorts' renovations might go beyond simply painting and replacing furniture. Now resorts might add on-site amenities such as new pools and health clubs, which could also become profit centers.

So start believing in your resort and our industry—and visit your local bank. There just might be a way to finance that renovation you've been dreaming of.