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Don't Go It Alone

Improved Portfolio Performance, Regulatory Compliance Among Benefits of Using Loan Servicers

By Judith Kenninger, RRP

No one ever said timeshare is an uncomplicated industry, but in this era of tight lending and increased regulations, the job of the chief financial officer is even more daunting. One area that can get a whole lot simpler, though, is loan servicing. "Outsourcing receivables management allows developers to focus on their core competencies," says Peter Moody, director of business development for Equiant Financial Services, which services consumer receivables for the timeshare and other industries. "At the same time, you're achieving economies of scale, and that's the golden ticket to outsourcing that actually costs less than keeping this function in-house."

Instead of hiring their own experts in fair credit practices, buying software and contracting for credit card processing, developers can turn to a partner with the know-how and tools to do the job more efficiently. "Loan servicing requires specialized knowledge and infrastructure and benefits greatly from economies of scale," explains Sterling F. Stoudenmire IV, CEO of Sterling Leisure Holdings LLC. "Most developers don't have the critical mass, in terms of portfolio size, to invest in the infrastructure and resources required to achieve maximum efficiency. Even the largest timeshare-mortgage portfolios pale in comparison to the typical servicer's size and volume."

Sound too good to be true? Then you may be one of those who harbor common misperceptions about outsourcing. Let’s take a look at how loan servicing companies can often achieve better results at a lower cost than an in-house servicing staff.

Economies of Scale

If your portfolio is less than $250 million, you’ll benefit from outsourcing, Stoudenmire believes. He bases this partially on his experience as CEO of Island One Resorts. “The scale that loan servicers bring to the table is astronomical,” he says. “They lowered our costs on day one, allowing us to get the most bang for our buck.”

By combining the portfolios of many developers into one account, loan servicers can negotiate much more favorable terms with credit reporting bureaus, credit card companies, and other vendors than an individual company could. “In today’s economy, sometimes it’s better to be smaller,” says Stephanie J. Hodges-Chew, a portfolio manager for Accelerated Assets LLC, which relies on Equiant to service the loans they hypothecate. “The economies of scale we can achieve with a loan servicer provide a cost savings that works with our business model.”

Vendor contracts aren’t the only area where loan servicers’ enormous portfolios have the advantage. “They already have the systems and back office in place,” she says. “Our loan servicer has a multilingual staff with expertise in not just phone systems and data management, but also fair debt collection practices.”

A loan servicer usually helps developers manage all their receivables processes, including billing, collections, accounting, regulatory compliance, and training. “The responsibilities of increasing consumer protection initiatives such as Consumer Financial Protection Bureau (CFPB), Payment Card Industry Data Security Standard (PCI DSS), Fair Debt Collection

Practices Act (FDCPA), Dodd-Frank Act, and the California Rosenthal Act have put a target on developers and their bottom line," Moody says. "These consumer protection initiatives are often time-consuming and expensive to implement while taking critical management members away from day-to-day core competencies."

The expertise developed by a specialist in loan servicing comes from working with many clients and seeing what works and doesn't across hundreds of thousands of accounts. "To improve delinquency control, portfolio management companies can tap into both timeshare industry and collections best practices," Moody says. "These approaches combine expert people, technology, and focused processes resulting in improved delinquency control. Portfolio management companies have access to multiple developers and markets and can provide solutions that are effective for other clients and products."

"Think about it from a development perspective," Stoudenmire says. "Would you build your resort without the help of an architect who understands the latest trends in resort design or a general contractor who knows commercial construction? These specialists bring their expertise, best practices, and the latest tools and techniques to maximize your chances of success."

Better Control

One reason some developers hesitate to use a loan servicer is that they fear they'll lose control over their portfolio or have less information. The opposite is usually true. "With the software our servicer, Equiant, provides, we have a better handle on our portfolio," says Jody Boushell, director of finance at The Manhattan Club. "We run reports every day and can even create custom reports."

A loan servicer can work hand-in-glove with your in-house staff to maximize results. “Our staff works very closely with our loan servicing company,” says Rick Sargent, president of Global Exchange Vacations Club. “We use their software platform, which has a lot of great information available to us, and we use that information to improve how we do business.” For example, in response to reports that some members did not understand the way payment plans were set up, GEVC made changes to buyers’ acknowledgements during closings.

At Island One Resorts, Stoudenmire used information from Equiant to improve loan qualification metrics. “Their Business Intelligence Tool Set (BITS) allows you to perform tremendous what-if analyses to test various strategies and their respective impacts,” he says. “What we discovered is that even more important than FICO scores is the number of stays at our properties and how soon after buying they visit.” In response, Island One made it a priority to get new members to use their memberships right away and also began looking more carefully at how often prospects take vacations during the qualification process. Both strategies improved the portfolio’s performance. “These results didn’t happen by accident, they came as a result of a very sophisticated analysis.”

Lender Relations

One reason some developers outsource servicing is that their lenders didn’t give them a choice. “Lenders prefer that developers and resorts use third-party servicers, unless the developer has an extensive track record of providing servicing themselves,” says Jim Casey, senior vice president, Capital One Bank’s Commercial and Specialty Finance Business. “This approach increases effectiveness and minimizes the risk of error. In many cases, when developers provide servicing, lenders will require a backup servicer to ensure accuracy and smooth operations.”

They have many good reasons to do so, Stoudenmire explains. “When the credit markets imploded in 2008-09, some lenders got burned by the lack of transparency available in developers’ in-house servicing operations,” he says. “They always fear losing control of the portfolio cash receipts necessary to service their debt. In addition, every in-house servicing platform is different, creating challenges for them in reconciling and interpreting vastly different procedures, reporting, and internal controls. Supporting heterogeneous servicing platforms increases their risk, costs, and concern, leading lenders to seek consistency in servicing. Banking regulations are drive lenders to seek standardized servicing platforms that are SAS-70 compliant.”

Another reason why lenders prefer an outside servicing company is document custody. “Our lenders can just contact Equiant as a servicing company and know the collateral is there,” Boushell says. Rather than a file cabinet in a back office, Equiant has a secured document vault, engineered to a two-hour fire rating standard, with a pre-charged fire suppression system and a 24/7 camera with live monitoring for fire or security breaches. “Access to the room is controlled with a key fob reader that allows only certain security levels,” Moody says. “As a director, I can't even go in there.”