



Can we survive until Summer?

by Sharon B. Drechsler, RRP

Workout Advice

A panel of experienced workout experts at ARDA's 2008 Fall Conference, held in Washington, DC in mid-November, talked to a rapt audience about strategies for vacation ownership projects facing troubled times. The session was moderated by Robert J. Webb, RRP, senior hospitality partner at the law firm of Baker Hostetler, who asked the group to address threats arising from the current inability of resort developers to monetize their paper.

Ronald M. Goldberg, president of Wellington Financial, recommended using assumption-based planning, a technique for testing your business plan against uncertainties. This discipline requires that resort operators examine their projections to identify critical assumptions, understand which of those assumptions are both load-bearing (critical to successful business plan execution) and vulnerable (susceptible to being wrong), and then test the business plan against failure of these load-bearing and vulnerable assumptions. For example, this approach might have a development company playing "what if" under any of the following:

- Liquidity - What would happen if (or more likely, when) interest rates go up, or we experienced a long period of illiquidity?
- Efficiency - How would a resort entity's sales and marketing plans react to a period of reduced consumer confidence, resulting in fewer tours and sales?
- Delinquency - How would profitability be affected by a spike in unemployment?

The answers to these questions may involve calling on professional assistance from legal,

accounting or financial professionals.

CPA Kevin Riley, a partner at Cross, Fernandez & Riley, LLP, urged any resorts considering a Chapter 11 reorganization filing to maintain a strong administrative team. In his experience working in distressed situations, he has found that the companies who communicate well with employees throughout the process and maintain their senior executives, are the most likely to be able to recover.

Holland & Knight LLP partner and lender's counsel Jeff Stern stressed the necessity to maintain open, always honest, communications with lenders when heading for challenging times. Lenders and investors do not want to take over a troubled resort; they'd much rather work with developers to overcome difficulties if possible. In many cases, lenders can be a powerful ally and may even bring in experienced

workout specialists to assist.

Washington DC workouts partner Don Workman of Baker Hostetler advised listeners they needn't accept the first proposal offered by a lender in a forbearance negotiation. He also stated that filing for bankruptcy in and of itself doesn't help a company raise money, although there are a large number of "DIP lenders" who have traditionally been willing to make loans to Chapter 11 debtors in possession who retain sufficient unencumbered assets. He also

pointed out that the enforcement of a personal guaranty given by an executive of a debtor company may be temporarily or permanently prevented by a bankruptcy court under some circumstances, in order to permit the executive to concentrate on the successful financial reorganization of the company.

Webb emphasized that a company facing insolvency owes its creditors the same duty of good faith and care that it owes to its shareholders, and warned that executives who breach this duty may face personal liability as a result. He summarized the panel discussion by reiterating the importance of engaging in careful planning; retaining and listening to qualified workout advisors; being honest with lenders and other creditors and treating them fairly; and being prepared to invoke the protections offered by a bankruptcy court if necessary.

Our industry, much like our nation, is famous for its resilience and innovation. But in times like these, that resilience and innovation may require effective negotiation with creditors as well as having a reorganization plan in one's back pocket if negotiations fail. As the adage goes: walk softly, but carry a big stick.

Summer Survival

Dr. Kevin A. Hassett, former senior economist at the Board of Governors of the Federal Reserve System, associate professor of economics and finance at the Graduate School of Business of Columbia University, advisor to the McCain Campaign and senior fellow of the think tank American Enterprise Institute, thinks the country will emerge from the worst of the recession by summer if three things happen. Speaking at a meeting of developers and other vacation ownership resort professionals attending ARDA's Fall Conference on November 13, 2008, Hassett says there will be three determinant factors that can dictate whether we are experiencing rational fear, or merely undergoing temporary panic.

The Federal Reserve and Treasury Policy must become transparent and available for review. Hassett expressed chagrin at the way Secretary of the Treasury Henry M. Paulson, Jr. has handled the banking bailout. He faulted



Ronald M. Goldberg, president of Wellington Financial; Robert J. Webb, RRP, senior hospitality partner at the law firm of Baker Hostetler; Don Workman, partner at Baker Hostetler; Jeff Stern, partner and lender's counsel at Holland & Knight LLP; and Kevin Riley, CPA, partner at Cross, Fernandez & Riley, LLP (left to right) discussed workouts during the 2008 ARDA Fall Conference.

Paulson's mismanagement of releasing information to the media as helping to create panic. Hassett declared that even Treasury's inner circle was finding the terms of the \$700 billion bailout unclear as Paulson continued to restructure how the money would be used.

Once President-elect Barack Obama takes office, he must immediately fill the three vacancies in the Federal Reserve Board. Democrats in Congress had allowed these positions to remain empty, hoping an incoming Obama would appoint federal governors. So, until Obama names the new team, investors will keep their cash on the sidelines.

The third requirement to move the economy forward is the creation of confidence in the next administration. Investors need to observe how

Obama will lead and how business is likely to be treated, before opening the purse strings again.

Given these factors, Dr. Hassett gave encouraging assurance as to why another Great Depression is

unlikely. Beginning in 1929 and continuing into the '30s, Hassett described the factors that led up to this shattering economic downturn. The government practiced what is today acknowledged to be imprudent monetary policy. First, when the inflation rate increased, the Feds raised interest rates, rather than decreasing them.

Then, they placed trade tariffs on global partners who reciprocated, triggering a worldwide decline in trade. A trade war extends recession – a fact that Bill Clinton apparently acknowledged when he pressed for free trade. It was a policy that worked well for business, but blue collar workers lost jobs. Although ostensibly President-elect Obama opposes free trade (as did McCain), you will recall the uproar earlier on the campaign trail when the Democratic Party's senior economic policy advisor, Austan Goolsbee, was reported to have confided to Canadians that his candidate's language "should be viewed as more about political positioning, than a clear articulation of policy plans." And so, the jury is still out on whether NAFTA will be augmented or left untouched.

Another factor that had triggered the Great Depression was the passing of labor laws requiring a unionized work force, said Hassett. As wages rose and newly unionized companies lost profits, companies went out of business.

Hassett said the government owes \$70 trillion to senior citizens; money we don't have. We are borrowing money at a rapid pace and markets

are hoping we'll "work it out." It all tracks back to a crisis of confidence, which – if his three requirements are met – he thinks can be repaired by summer.

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In a discussion with American Resort Development Association (ARDA) President Howard Nusbaum, we were told that ARDA representatives were among a coalition of industry associations that had early dialogue with White House and Treasury regarding how the tightening credit markets was impacting otherwise healthy businesses. With the help of ARDA staff, outside consulting lobbyists and assisted by influential Association members, the coalition sought to educate federal officials about the timeshare industry. "We explained that we've got a great product with solid sales and happy consumer owners," says Nusbaum. "Timeshare has historically been the little-engine-that-could in economic downturns. But the freezing of the credit markets for some developers changed that scenario. From the information I'm receiving, sales are still happening but developers cannot monetize their consumer loans and thus have to purposely slow down the process."

"We went to the White House and explained that the timeshare industry doesn't need a bailout. We sell loans to credit-worthy people who pay. This is not sub-prime paper and shouldn't be confused with real estate sub-prime loans or experimental derivatives. Our approach was to explain that we did not need a bailout, but rather to have our AAA tranches of consumer notes "insured" or "credit enhanced" for sale on the asset-backed securities market. We are willing to pay the government for this credit enhancement so we would actually be helping the country get back some of the rescue funds."

"At the moment, ARDA is doing all that can be done to provide a voice for the industry to educate government officials. Furthermore, we are seeking ways to assist developers to help find and educate new sources of lending. Challenging times like this are a call for leadership from ARDA to help the industry navigate through these troubling waters," concluded an energized Nusbaum.

[The Job Scene](#)

We asked Executive Quest, Inc.'s Owner Keith Trowbridge, Ph.D., to share some advice for those who

have been recently displaced by the current economic crisis. He says some steps to take are obvious: Notify everyone you know that you are available and make sure they have your most recent contact information, including email address. This may seem elementary, but during the highly stressful period following a layoff it may be overlooked.

We asked Trowbridge what the difference was between a placement agency and an executive search firm. An executive search firm, such as Executive Quest, is engaged and paid by the employer to find candidates for specific positions. A placement agency is hired by the individual seeking a position and usually charges a fee of anywhere from \$300 to \$1,000, depending on the position. Trowbridge recommends going to both. Send your resume and contact information to the executive search firm, but at the same time, you may also want to be prepared to write a check to a placement firm.

If you are fortunate enough to have an ex-employer that offers an out-placement service, jump on the opportunity. Out-placement experts are trained professionals who can help coach you to find your next job or even help direct you to a new career. They will help you sharpen your interviewing skills and your resumé.

Trowbridge urges candidates to follow proper etiquette when going on an interview, such as wearing business attire (even if they are applying for a job in a business-casual environment), being prepared to present three-to-five professional references and writing thank you notes after the interview. He suggests a job seeker do his or her homework by preparing answers to prospective questions and conducting practice sessions with a friend or family member.



Dr. Kevin Hassett



Howard Nusbaum

Contributing Editor for Resort Trades
Sharon Drechsler, RRP, is a registered resort professional with the American Resort Development Association, Washington, DC and is owner/operator of the public relations and marketing firm Drechsler Communications. Visit www.drechslercommunications.com or contact her at sharon@drechslercommunications.com or (602) 370-2003.

