

By Christopher O'Leary

Securing Time in the *Sun*



Wouldn't you like to say you securitized this?

Why is timeshare securitization as sleepy as an off-season beach town? After all, the actual business of selling part-shares in vacation properties is booming. It's not an industry of carved-up fiefdoms of small operators in a handful of states like Florida and California any more. Today selling timeshares is big business.

A covey of big-ticket players is pouring into the market to meet the demands of a rapidly expanding buyer base. The U.S. timeshare industry had \$6.1 billion in net new sales during 2005, according to a recent PricewaterhouseCoopers survey. Why the interest? Skyrocketing rents and property values at popular vacation spots are boosting the appeal of timeshares. Some 14% of vacationers — about 9.2 million households — have expressed interest in buying a timeshare over the next two years, according to research by Interval International, a company that arranges vacation exchanges for timeshare owners.

Major hotel chains have become a dominant force in the

industry, including Hilton (which has a timeshare division, Hilton Grand Vacations), Starwood Hotels, Marriott and even the Walt Disney Co. "They have come into the space and are leveraging their hotel and customer bases," says John Bella, a managing director at Fitch Ratings. "It has added a level of legitimacy to the space that maybe wasn't there 20 years ago, when it was more the domain of one-off developers."

Most seem more inclined to siesta than securitize. There are typically no more than just six new timeshare ABS deals a year. And they're hardly big. Most only raise between \$200 million and \$400 million, say analysts, though Wyndham Worldwide, the most prolific issuer, has raised as much as \$600 million in one transaction. The other consistent issuer is Marriott, but it only pops up a couple of times a year with deals in the \$150 million to \$300 million range. Starwood occasionally steps out into the sun with a small deal. Then there are a handful of one-off securitizations from regional operators like

Bluegreen Timeshare and Silver Lake Resorts. But other major players like Disney have yet to touch the market at all.

Of course, most of the market's top players have a wide variety of other funding resources to choose from. Marriott, for example, has access to a number of conduit programs that provide a large chunk of its funding. That said, there could be a significant buyer base for timeshare securitizations. For one thing, the industry's overall quality is considered strong. After September 11th, which left the hotel industry reeling, companies began using FICO scores to screen potential timeshare candidates, resulting in improved credit quality for timeshare portfolios.

There are some dangers for timeshare developers, however. For one, state and federal governments could decide to bulk up

regulations governing timeshares, though some states, including Florida and Hawaii, have already introduced new laws to curb shady timeshare sales tactics. And a downturn in the economy wouldn't bode well, either. After all, if a borrower is on the hook for a number of obligations, paying his timeshare bill would come low on the list of priorities, "way down the line from their home, their car or even their credit card bills," Bella says. That may well give some pause to potential issuers and investors. So it could be a while before timeshare ABS gets a good spot in the sun. ▼

(ASF held a panel discussion on timeshare securitization at the 2007 Vegas conference. Members can access the webinar at www.americansecuritization.com)

By Antony Currie

Second wind for ABX

The mortgage derivatives market quickly became the barometer for the subprime crisis. How much the price of the triple-B minus slice of the ABX index fell on any given day was often more widely quoted by analysts and journalists alike than the share prices of mortgage finance companies.

But does this product still have a role? Certainly enough mortgage bond professionals last year voiced concerns that the market was neither deep nor liquid enough to survive a downturn. All it would take, they said, was for one of the two major players to back away: either the CDO managers who were using the market to build synthetic portfolios of subprime mortgage bonds, or the hedge funds who were using it to short the U.S. housing market, or even the U.S. economy.

Sure enough, the CDO bid all but dried up. The price of the triple-B minus spread on the ABX index of 20 bonds issued in the first half of last year plummeted. It hit as low as \$63 in March, having traded above \$90 six weeks earlier. Good news for short traders, you would think. But liquidity dried up for a time, and it wasn't easy to monetize their bets — the bid-offer spreads on Wall Street gapped out to as much as 10 points.

So with shorts stymied and long players on the sidelines, you could be forgiven for thinking that the market really should have died. It's definitely a lot harder now to get certain trades

done. "Single-name mortgage default swaps take about two hours to trade right now," says Greg Lippman, head of ABS and CDO trading at Deutsche Bank. "But you can put a trade on the index within 30 seconds."

And it is a much smaller market today, as well. "Trading volumes are way down, perhaps by two thirds," says Lippman, who says Deutsche's traders were often doing in excess of \$500 million in notional volume a day last year.

Who is playing now, then? Well, some CDO managers have dipped their toes back in. But it seems that the main participants in this slimmed-down market now are traders putting on the more complex kinds of trades that many say the index was crafted for in the first place: "It won't be so much CDOs ramping up on one side and macro hedge funds shorting the market on the other any more," says Rahul Parulekar, director, MBS and real estate ABS strategy at Citigroup. "It'll be more relative value trades across vintages, capital-structure trades and cash-synthetic arbitrage trades."

There are plenty of opportunities there. One thing the mortgage derivatives market definitely achieved was to shake up the cash market. "Bonds never used to trade, so prices wouldn't budge much," says Lippman. "The transparency of the derivatives market changed that." Securities that had rarely shifted more than 25 basis points were suddenly gapping out by several hundred, though spreads on single-name derivatives have tended to move out even wider.

It's still too soon to tell whether taking advantage of such disparities proves to be enough to boost mortgage derivative volume. But for now the market seems to have proven the naysayers wrong. ▼

Antony Currie is editor of *American Securitization*.
He also writes commentary for breakingviews.com