1. Why are Diamond's sales to new members declining steadily relative to existing & acquired members?

DRII's sales to new members is not steadily declining. The total number of sales to new members is growing. As previously provided to you, DRII's gross VOI sales have more than doubled from $318.5 million in 2012. The growth has occurred from all market channels including existing owners, new owners, and owners of vacation ownership in resorts that we have acquired.

2. Are Diamond's existing members who upgrade their interests required to make a down payment? Or can they avoid it as a modification and continuation per accounting rules?

As previously indicated in the answers to your original questions, and as further discussed below, all transactions, including upgrades, require a minimum down-payment which must be paid in cash (which includes credit cards). As a matter of course, we do not modify customer loans and we never modify loans in connection with an upgrade. In all circumstances, in the event of an upgrade (whether points or a long-term weeks owner) a sale is only recorded for the amount of the incremental purchase. For example, if a customer owned a week that they traded in for 7,500 points and at the same time they purchased an incremental 2,500 points (a total of 10,000 points), a sale would only be recorded for the sale of 2,500 points.

3. Why has the % of sales financed doubled since 2011?

During the credit crisis, DRII, like all of the successful vacation ownership operators, reduced its reliance on external credit markets. From October 2008 until 2012, we reduced the amount of credit that we would provide customers and during that time approximately 70% of our sales were made in cash and in 30% we provided financing (the customer is still required to meet the down-payment and underwriting requirements). To encourage cash purchases, incentives were provided to customers to make cash purchases in lieu of financed transactions. Beginning in late 2012, we expanded the amount of financing that we would make available to customers and removed the incentives for cash purchases over a financed purchase. The increase in receivables financing activities has positioned Diamond in line with other large industry participants and has made Diamond a programmatic issuer in the securitization market as are Wyndham, Marriott Vacation Club, and others.

4. Why did Diamond stop disclosing information about owner families in the third quarter last year?

As DRII has expanded its global operations, its relationship with customers also expanded. This relationship includes not only its VOI members, but also our relationship with customers who visit our properties as hotel guests, exchangers through Interval International or RCI, or who have purchased a sampler product. Accordingly, the definition of owner families no longer was an appropriate measure of the global impact of our customer base and product offerings. Accordingly, the measure was deleted from our annual reports.

5. Diamond uses 180 days as a cutoff for troubled receivables; Wyndham uses 120 days. Why?

Every company has its own internal policies with regard to charge-off of uncollectible accounts. There is no specific requirement under GAAP as to what the policy is. The fact that Wyndham uses 120 days and DRII uses 180 days doesn't make one right and the other wrong. The difference between the charge off policies between DRII and Wyndham has no impact on the net
assets and results of operations of either company. What does matter is that adequate reserves are maintained against the outstanding receivables without regard to the date that receivables are charged off. Based on the differences in the charge off policy, with all other aspects being equal (such as credit quality of the portfolio and performance) you would expect that Wyndham would have a loan loss reserve that is a lower percentage of the gross outstanding receivables when compared to DRII as they have already charged off all loans greater than 120 days where DRII would still have a reserve against those receivables in the event that such receivables should ultimately be uncollectible. As of September 30, 2015, the reserve for uncollectible accounts as a percentage of gross loans receivable for DRII was 21.7% and as of December 31, 2015 Wyndham was 17.7%.

6. The loans in Diamond's loan securitization pools pay off in what appears to be under 1.6 years whereas those of its competitor Wyndham pay off in 4 years. Additionally Diamond's loan loss provision has run about 40% of Wyndham's -- Why? Why is there no disclosure/discussion of what happens to securitization portfolios if/when prepayment speeds decline?

We don't know what information you are looking at that suggests that DRII's loan securitization pools pay off in 1.6 years. Similar to other timeshare-backed securitized transactions, each of DRII's securitized transactions has a provision that the facility may be called when the remaining outstanding obligation reaches 15% of the original advanced amount. For example, if DRII placed $100 million in loans receivable in a securitization with a 96% advance rate, the original loan obligation would be $96 million. Monthly consumer principal payments, including both scheduled payments and prepayments, reduce the outstanding obligation to the noteholders. When the outstanding balance of the obligation to the noteholders reaches 15% of the original outstanding obligation ($14.4 million in this example), the facility may be called at the Issuer's option. Under the call mechanism, the Issuer pays off the remaining obligation in cash and all remaining receivables, are returned to the issuer.

All loans written by DRII have a 10 year term. However, due to the high credit quality of the DRII customer, prepayments occur at a rate that ranges from 30% to 40% annually. Accordingly, DRII's securitization facilities generally are called in 3 to 5 years from the issue date. At the current time, we have securitization facilities outstanding that were issued in 2011, 2013, 2014, and 2015 as you can see in the footnotes to our financial statements.

The loan loss provision that flows through the Statement of Operations (which impacts pre-tax income, net income, and Adjusted EBITDA) is based on a static pool analysis of how historical loans written to consumers in a particular FICO band perform. This analysis is used to predict future portfolio defaults. In addition, on a quarterly basis the reserve for uncollectible accounts is analyzed taking into consideration things such as changes in the general economy, recent portfolio performance, etc. and the reserve is adjusted as necessary through the provision for uncollectible accounts recorded in the Statement of Operations.

You raised a question as to why DRII's loan loss provision is approximately 40% of what Wyndham records. This is because DRII's VOI sales are less than 50% of Wyndham's. Accordingly, more sales equate to more loans, which results in higher loan loss provision in actual dollars. Wyndham's provision for uncollectible accounts as a percentage of gross VOI sales was 13.5% for the year ended December 31, 2015. DRII on a trailing 12 month basis for the period ended September 30, 2015 was 11.0%. Wyndham writes to a lower FICO score customer than DRII as can be seen from their securitization documents. This is also why Wyndham historically has received a lower advance rate on their securitized facilities than DRII (their last one had an 89% advance rate as compared to a 96% advance rate for DRII).

You further raised a question as to why no disclosure is made in the event that historical prepayment rates decline. Monthly reports are provided to the bondholders in each securitization. As these transactions are 144A filings, those reports are not generally available to
the public. The performance of the securitization is actually enhanced with a slower prepayment rate as the performing loans continue to pay interest which is available to the bond holders in the event of a default (in which case a facility goes into turbo). [To our knowledge,] no buy and hold investor has ever lost any money in a timeshare backed notes securitization. Prior to assigning a rating to each facility, the rating agency stresses all of the performance measures including prepayment and default rates. Diamond's last two securitizations are AA- and A- transactions (investment grade). Our public financial statements on a quarterly basis disclose the outstanding balance owed to the bond holders on each facility and the balance of the receivables that are in each facility.

7. Wyndham reports loans prepaid within 15-60 days of origination. Does Diamond report this? If not, why?

There is no standard requirement regarding disclosure of specific operating performance measures. DRII is widely known to have the broadest disclosures of all of the public industry participants. That said, the number of loans that prepay within 15-60 days of origination is not a metric that we report. We do disclose the percentage of VOI sales that are financed each quarter, the aging of loans receivable, portfolio statistics (such as weighted average interest rate, etc.). We obviously disclose our cash flow which includes all prepayments including the number that pre-pay within 15 – 60 days.

8. Does Diamond count loans from prior purchases refinanced with upgrades as cash prepayments?

As indicated in previous information provided to you, upgrade transactions require a cash down-payment consistent with the requirements of a customer that does not have an existing loan. Any equity from a previous transaction that is rolled into the new transaction is not counted toward the customer down-payment. As indicated in number 6 above, DRII has a 30% to 40% annual prepayment rate, and such prepayments are paid in cash. These figures do not include the equity in an upgrade transaction.

9. Given that 80% of Diamond's sales are to existing/acquired customers, when Diamond's spokesman writes that "new loan origination included 20% to 40% of transactions associated with an upgrade" is it correct to infer that new/existing customers pay disproportionately in cash to upgrade? Or do they purchase additional points with cash but don't upgrade?

DRII has a long-term ownership base and as a result approximately 92% of DRII owners have paid for their purchases in full and do not have a loan with us. Accordingly, a new purchase made by an owner that is paid in full on previous purchases but who wishes to finance their new purchase would be subject to our credit underwriting standards which includes FICO scoring and review of the customer's credit file. We require a minimum of a 10% cash down-payment though our average down-payment approximates 20%.

A customer who has a loan with us may also choose to purchase additional points to expand their ownership. In order to finance the new purchase, the customer must be current on their existing obligations and the new loan will go through underwriting the same as a customer who has no previous lending relationship with us. In the event of such a transaction, the balance of the existing loan is combined with the additional purchase to determine the financed amount. As an example: (i) a customer made a purchase in 2012 for $20,000 and the balance outstanding on the loan at the current time is $10,000; (ii) in 2016 the customer makes a decision to purchase additional points which cost $5,000 that she wants to finance; (iii) the total amount of the new loan, prior to the down-payment is $15,000, the sum of the old loan and the new purchase; (iv)
the customer must make a cash down payment of a minimum of $1,500 (10% of the combined total) and a new loan is written for $13,500 ($15,000 combined total, less the cash down-payment). The customer may of course choose to make a down-payment in excess of the 10% minimum which often occurs.

Finally, a customer who has an existing loan with DRII on a purchase may choose to purchase additional points with cash with no change to the existing loan.

10. Based on many Diamond loan (TiL) documents I've reviewed it appears that the first payment is not usually due for six weeks--and in some cases three or four months--after the loan's closing. Is the six week to first payment Diamond policy? If so, then it would appear Diamond's reported 31-60 day delinquency rates are inaccurate.

I do not know what specific documents you are reviewing, but your evaluation of those terms is incorrect. Sales transactions, whether financed or not, are subject to statutory rescission periods which generally range from 5 to 10 days from the date of purchase. Once a transaction has passed the rescission period, the purchase transaction is closed. In the event that a purchase transaction is financed through DRII, the loan is integral to the transaction and closes simultaneously with the purchase.

The Truth-In-Lending documents provided to the customer at the time of sale indicate that the estimated first payment date is generally 45 days from the date the purchase agreement is entered into. This accounts for an assumed 15 days to close (which includes the time required for the statutory rescission period) and 30 days after close of the transaction for the first loan payment due. Further, the promissory note signed by the customer indicates that the first payment is due in 30 days. All loans require the first payment within 30 days from closing. Accordingly, all aging data provided is completely correct without exception.

11. Observation: the stated FICO scores in the loan securitizations don't reflect the loan's impact.

Your observation is correct. The FICO score is used for underwriting purposes only. Reporting the original FICO score is consistent with others in the industry as well as other issuers of securitized transactions.

12. Per #10, are closing costs for Diamond VOI refunded to the customer? They appear to average 3.5-3.8% per customer and thus given the $20K + average sale become material.

Closing costs are charged on all purchases at 3.5% of the VOI purchase amount, not to exceed $750.