

FTC FACTS for Consumers

Time and Time Again: Buying and Selling Timeshares and Vacation Plans



The thought of owning a vacation home may sound appealing, but the year-round responsibility — and expense — that come with it may not. Purchasing a timeshare or vacation plan may be an alternative. If you consider a timeshare or vacation plan, the Federal Trade Commission (FTC), the nation’s consumer protection agency, says it’s a good idea to do some homework.

THE BASICS

Two basic vacation ownership options are available: timeshares and vacation interval plans. You should know that the value of these options is in their use as vacation destinations, not as investments. Because so many timeshares and vacation interval plans are available, the resale value of yours is apt to be a good deal lower than what you paid. Both a timeshare and a vacation interval plan require you to pay an initial purchase price and periodic maintenance fees. The initial purchase price may be made all at once or over time; periodic maintenance fees are likely to increase every year.

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Deeded Timeshare Ownership. In a timeshare, you either own your vacation unit for the rest of your life, for the number of years spelled out in your purchase contract, or until you sell it. Your interest is legally considered real property. You purchase the right to use a specific unit at a specific time every year, and you may rent, sell, exchange, or bequeath your specific timeshare unit. You and the other timeshare owners collectively own the resort.

Unless you've bought the timeshare outright for cash, you are responsible for paying the monthly mortgage. Regardless of how you bought the timeshare, you also are responsible for paying an annual maintenance fee; property taxes may be extra. Owners share in the use and upkeep of the units and of the common grounds of the resort property. A homeowners' association usually handles management of the resort. Timeshare owners elect officers and control the expenses, the upkeep of the resort property, and the selection of the resort management company.

“Right to Use” Vacation Interval Option. In this option, a developer owns the resort, which is made up of condominiums or units. Each condo or unit is divided into “intervals” — either by weeks or the equivalent in points. You purchase the right to use an interval at the resort for a specific number of years — typically between 10 and 50 years. The interest you own is legally considered personal property. The specific unit you use at the resort may not be the same each year. In addition to the price for the right to use an interval, you pay an annual maintenance fee that is likely to increase each year.

Within the “right to use” option several plans can affect your ability to use a unit:

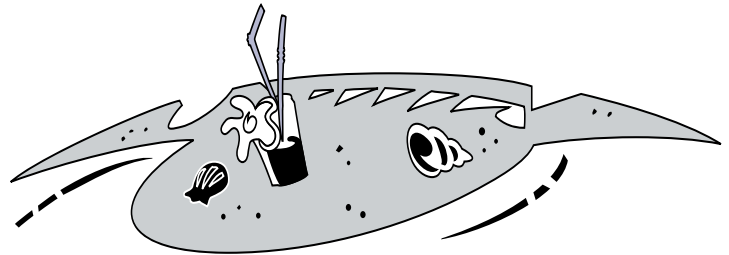
Fixed or Floating Time. In a fixed time option, you purchase the unit for use during a specific week of the year. In a floating time option, you use the unit within a certain season of the year, reserving the time you want in advance; confirmation typically is provided on a first-come, first-served basis.

Fractional Ownership. Rather than an annual week, you buy a large share of vacation ownership time, usually up to 26 weeks.

Biennial Ownership. You use a resort unit every other year.

Lockoff or Lockout. You occupy a portion of the unit and offer the remaining space for rental or exchange. These units typically have two to three bedrooms and baths.

Points-Based Vacation Plans. You purchase a certain number of points, and exchange them for the right to use an interval at one or more resorts. In a points-based vacation plan (sometimes called a vacation club), the number of points you need to use an interval varies according to the length of the stay, size of the unit, location of the resort, and when you want to use it.

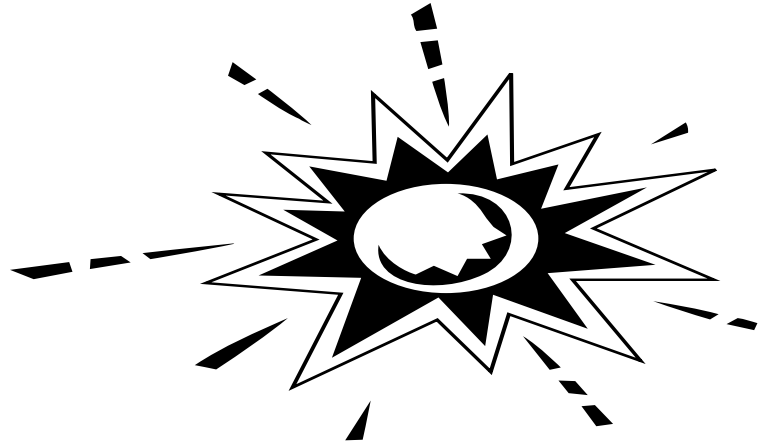


BEFORE YOU BUY

In calculating the total cost of a timeshare or vacation plan, include mortgage payments and expenses, like travel costs, annual maintenance fees and taxes, closing costs, broker commissions, and finance charges. Maintenance fees can rise at rates that equal or exceed inflation, so ask whether your plan has a fee cap. You must pay fees and taxes, regardless of whether you use the unit.

To help evaluate the purchase, compare these costs with the cost of renting similar accommodations with similar amenities in the same location for the same time period. If you determine that purchasing a timeshare or vacation plan makes sense, comparison shopping is your next step.

- Evaluate the location and quality of the resort, as well as the availability of units. Visit the facilities and talk to current timeshare or vacation plan owners about their experiences. Local real estate agents also can be good sources of information. Check for complaints about the resort developer and management company with the state Attorney General, and local Better Business Bureau and consumer protection officials.
- Research the track record of the seller, developer, and management company before you buy. Ask for a copy of the current maintenance budget for the property. Investigate the policies on management, repair, and replacement furnishings, and timetables for promised services.
- Get a handle on all the obligations and benefits of the timeshare or vacation plan purchase. Is everything the salesperson promises written into the contract? If not, walk away from the sale.
- Don't act on impulse or under pressure. Purchase incentives may be offered while you are touring or staying at a resort. While these bonuses may present a good value, the timing of a purchase is your decision. You have the right to get all promises and representations in writing, as well as a public offering statement and other relevant documents.
- Study the paperwork outside of the presentation environment and, if possible, ask someone who is knowledgeable about contracts and real estate to review it before you make a decision.
- Get the name and phone number of someone at the company who can answer your questions — before, during, and after the sales presentation, and after your purchase.
- Ask about your ability to cancel the contract, sometimes referred to as a “right of rescission.” Many states — and maybe your contract — give you a right of rescission, but the amount of time you have to cancel may



vary. State law or your contract also may specify a “cooling-off period” — that is, how long you have to cancel the deal once you’ve signed the papers. If a right of rescission or a cooling-off period aren’t required by law, ask that they be included in your contract.

- If, for some reason, you decide to cancel the purchase — either through your contract or state law — cancel it in writing. Send your letter by certified mail, return receipt requested, so you can document what the seller received. Keep copies of your letter and any enclosures. You should receive a prompt refund of any monies you paid, as provided by law.
- Use an escrow account if you’re buying an undeveloped property, and get a written commitment from the seller that the facilities will be finished as promised. That’s one way to help protect your contract rights if the developer defaults. Make sure your contract includes clauses concerning both “non-disturbance” and “non-performance.” A non-disturbance clause ensures that you’ll be able to use your unit or interval if the developer or management firm goes bankrupt or defaults. A non-performance clause lets you keep your rights, even if your contract is bought by a third party. You may want to contact an attorney who can provide you with more information about these provisions.
- Be wary of offers to buy timeshares or vacation plans in foreign countries. If you sign a contract outside the U.S. for

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a timeshare or vacation plan in another country, you will not be protected by U.S. laws.

EXCHANGE SYSTEMS

An exchange allows a timeshare or vacation plan owner to trade units for a discrete time with another owner who has an equivalent unit at an affiliated resort within the system. Here's how it works: A resort developer has a relationship with an exchange company, which administers the service for owners at the resort. Owners become members of the exchange system when they buy their timeshare or vacation plan. At most resorts, the developer pays for each new member's first year of membership in the exchange company, but members pay the exchange company directly after that.

To participate, a member must deposit a unit into the exchange company's inventory of weeks available for exchange. When a member takes a week from the inventory, the exchange company charges a fee.

In a points-based exchange system, the interval is automatically put into the inventory system for a specified period when the member joins. Point values are assigned to units based on length of stay, location, unit size, and seasonality. Members who have enough points to secure the vacation accommodations they want can reserve them on a space-available basis. Members who don't have enough points may want to investigate programs that allow banking of prior-year points,



advancing points, or even "renting" extra points to make up differences.

Whether the exchange system works satisfactorily for owners is another issue to research before buying. Keep in mind that, you will pay all fees and taxes in an exchange program no matter whether you use your unit or someone else's.

SELLING A TIMESHARE

If you want to sell your deeded timeshare, and a company approaches you offering to resell your timeshare, go into skeptic mode:

- Don't agree to anything over the phone or online until you've had a chance to check out the reseller. Contact the Better Business Bureau, state Attorney General, and local consumer protection agencies in the state where the reseller is located. Ask if any complaints are on file.
- Ask the salesperson for all information in writing.
- Ask if the reseller's agents are licensed to sell real estate where your timeshare is located. If so, verify it with the Real Estate Commission. Deal only with licensed real estate brokers and agents, and ask for references from satisfied clients.
- Ask how the reseller will advertise and promote the timeshare unit. Will you get progress reports? How often?
- Ask about fees and timing. It's preferable to do business with a reseller that takes its fee after the timeshare is sold. If you must pay a fee in advance, ask about refunds. Get refund policies and promises in writing.
- Don't assume you'll recoup your purchase price for your timeshare, especially if you've owned it for less than five years and the location is less than well-known.
- If you want an idea of the value of a timeshare that you're interested in buying or selling, consider using a timeshare appraisal service. The appraiser should be licensed in

the state where the service is located. Check with the state to see if the license is current.

CONTRACT CAVEATS

Before you sign a contract with a reseller, get the details of the terms and conditions of the contract. It should include the services the reseller will perform; the fees, commissions, and other costs you must pay and when; whether you can rent or sell the timeshare on your own at the same time the reseller is trying to sell your unit; the length or term of the contract to sell your timeshare; and who is responsible for documenting and closing the sale.

If the deal isn't what you expected or wanted, don't sign the contract. Negotiate changes or find another reseller.

RESALE CHECKLIST

Selling a timeshare is a lot like selling any other piece of real estate. Check with the resort to determine restrictions, limits, or fees that could affect your ability to resell or transfer ownership. Then, make sure that your paperwork is in order. You'll need:

- the name, address, and phone number of the resort;
- the deed and the contract or membership agreement;
- the financing agreement, if you're still paying for the property;
- information to identify your interest or membership;
- the exchange company affiliation;
- the amount and due date of your maintenance fee;

- the amount of real estate taxes, if billed separately.

FOR MORE INFORMATION

To learn more about vacation ownership, contact the American Resort Development Association. It represents the vacation ownership and resort development industries. ARDA has nearly 1,000 members, ranging from privately-held companies to major corporations, in the U.S. and overseas.

American Resort Development Association
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TO FILE A COMPLAINT

Timesharing usually is regulated through the Real Estate Commission in the state where the timeshare property is located. The sale of vacation plans generally is not regulated at all. However, if you believe you've been the victim of false or deceptive advertising or marketing of a vacation plan, contact the Federal Trade Commission. The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

FEDERAL TRADE COMMISSION	ftc.gov
1-877-FTC-HELP	FOR THE CONSUMER

Federal Trade Commission
Bureau of Consumer Protection
Office of Consumer and Business Education