

In your earnings release DRII discussed a spike in provision for uncollectible sales as emerging from "*a change of certain portfolio statistics during the quarter.*"

Which specific portfolio statistics changed and by how much relative to prior periods? Why?

Response:

As indicated in a previous response, we provide for estimated uncollectible loan losses quarterly. We provide for each loan based on the amount of each individual loan, the FICO score of the borrower, and the amount of the down payment. The higher the FICO score, the lower the % of the loan loss provision and thus a reduced reserve against that loan. Accordingly, between quarters and years we may write a loan for exactly the same amount but have a different provision amount. Changes in the FICO band mix of loans is an example of changes in portfolio statistics that impacts the amount of the provision.

The initial basis for determination of the loan loss provision is the static pool analysis which tracks actual losses for loans we originated over a multi-year basis. This analysis looks at how loans originated over a long-term period perform based on the FICO score of the customer. FICO score is a good indicator of projected future uncollectible loans for the timeshare industry; a static pool analysis is required by GAAP in the timeshare industry in evaluating the provision for uncollectible loans and the reserve for uncollectible loans. However, this information is based on actual historical performance and may not yet reflect current trends. Accordingly, we also look at factors such as reported industry data from recognized rating agencies for default and general economic trend data. Further, we look at our own portfolio performance and statistics such as changes in the "roll forward" and "roll back" rates, changes in the aging of the portfolio etc., which may be an indicator of future defaults. We look for trends (both positive and negative) that may be indicative of future performance and evaluate the provision accordingly. These are also examples of changes in portfolio statistics which may drive the change in the provision for uncollectible accounts.

