



NEIL ABERCROMBIE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2850
Fax Number: 586-2856
www.hawaii.gov/dcca

KEALI'I S. LOPEZ
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

**PRESENTATION OF THE
PROFESSIONAL AND VOCATIONAL LICENSING DIVISION**

TO THE HOUSE COMMITTEE ON FINANCE

TWENTY-SEVENTH LEGISLATURE
Regular Session of 2014

Tuesday, February 25, 2014
1:00 p.m.

TESTIMONY ON HOUSE BILL NO. 2018, H.D.1, RELATING TO TIME SHARES.

TO THE HONORABLE SYLVIA LUKE, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Lori Beth Van Cantfort, Time Share Administrator of the Professional and Vocational Licensing Division ("PVL"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department").

The Department takes no position on H.B. No. 2018, H.D.1, which seeks to amend Hawaii Revised Statutes Chapter 514E to (1) no longer require plan managers of out-of-state time share plans to register, and (2) allowing time share owners associations to be registered as any type of nonprofit entity.

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For the Committee's information, H.B. No. 2018, H.D.1, incorporates amendments to the disclosure found on page 5, lines 11-15 that were requested by the Department.

All interested parties had agreed to these amendments.

Thank you for this opportunity to provide testimony on H.B. No. 2018, H.D.1.

CHARLES E. PEAR, JR.

DIRECT #:
PHONE - (808) 223-1212
FAX - (808) 535-8029
E-MAIL - PEAR@M4LAW.COM

February 24, 2014

Rep. Sylvia Luke, Chair
Rep. Scott Y. Nishimoto, Vice Chair
Rep. Aaron Ling Johanson, Vice Chair
Members of the Committee on Finance
Twenty-Seventh Legislature
Regular Session, 2014

Re: H.B. 2018, H.D. 1
Hearing on February 25, 2014, 1:00 p.m.
Conference Room 308

Dear Chair, Vice-Chair and Members of the Committee:

My name is Charles Pear. I am appearing as legislative counsel for ARDA Hawaii.

ARDA Hawaii supports the bill.

1. Form of Time Share Owners Association.

In 1982, at the request of the Chairperson of the House Consumer Protection Committee, I drafted legislation requiring, among other things, that each time share plan must have an association of time share owners. The statute provides:

§ 514E-29. Association; lien for delinquent assessments.

(a) All time share plans shall have an association which shall be a nonprofit corporation. Each owner shall be a member of the association.

The 1982 amendment dealt primarily with the establishment of escrow and blanket lien safeguards to protect the consuming public. Some of those safeguards require the presence of an association of time share owners as part of the system of check and balances intended to protect the consuming public

For example, § 514E-22(4), dealing with lien payment trusts, requires that the association be made a third party beneficiary of the trust. The purpose of this requirement is to give the association standing to enforce the trust agreement on behalf of the owners. Enforcement of the trust is critical in that the statutory scheme prohibits the trustee from conveying or encumbering units held in trust, thus protecting purchasers from blanket liens. By making the association and

P. O. Box 2800 • Honolulu, Hawai'i 96803-2800
Five Waterfront Plaza, 4th Floor • 500 Ala Moana Boulevard • Honolulu, Hawai'i 96813
Telephone: (808) 529-7300 • Fax: (808) 524-8293 • E-mail: info@m4law.com

express third-party beneficiary, the owners have a practical means of enforcing the trust through the association. This is better than requiring individual owners to file separate lawsuits because the costs of such a suit would substantially exceed the investment of any single owner but, when shared via an association, the costs become manageable.

In addition, § 514E-22(6), requires that any amendment to the trust be approved by the association of time share owners. In this capacity, the association serves an oversight function in ensuring that the developer does not modify the trust instrument in a manner that adversely impacts the rights of owners unless the owners concur in the modification.

§ 514E-22 deals with time share plans which utilize a trust as a means to protect purchasers from blanket liens. Purchasers may also be protected from blanket liens via another method, called the “pledged equity election.” This little-known and never-used mechanism is contained in § 514E-25. Essentially, it is a permitted permutation of the lien payment trust concept. Under § 514E-25, the association again serves an oversight function on behalf of the owners. In addition, it receives title to a mortgage as security for the obligations of the developer.

Basically, the inclusion of these two provisions in the 1982 amendments to the Act made it necessary to require that each time share plan have an association of timeshare owners. As a result, I included what is now § 514E-29(a).

In the intervening years, it has become common for time share developers to offer for sale in Hawaii time share interests in time share plans located in other states or countries. In some cases, the time share associations have been established as a non-for-profit corporation, a nonprofit limited liability company, or perhaps in some other form.

The statutory purposes of having a time share owners association are fully served regardless of whether the association is established as a nonprofit corporation, a not-for-profit corporation, a nonprofit limited liability company, or some other kind of entity. The establishment of an association in any format provides a vehicle through which the owners and collectively protect themselves as a group from blanket liens and provide oversight functions on behalf of the owners.

H.B. 2018 is intended to recognize this and to expressly authorize the use of other forms of entities to serve as the time share owners association.

2. Registration of Plan Managers of Foreign Time Share Plans.

The 1982 amendment also adopted Section 514E-30. Among other things, §514E-30 established the applicability of the Hawaii Time Share Act to time share plans not located in Hawaii, stating as follows:

§ 514E-30. Scope of chapter.

This chapter applies to the offer and sale in Hawaii of time share interests in time share units located in Hawaii. If time share units are located outside of Hawaii, but any offer or sale is made within the State, this chapter, except for sections 514E-3, 514E-4, 514E-5, 514E-6, 514E-7, and 514E-14, shall apply. As to the offer and sale outside of Hawaii of time share interest in a time share plan which includes time share units located in Hawaii, this chapter, except for sections 514E-2.5, 514E-8, 514E-9, 514E-10(b) and (c), 514E-11, and 514E-11.1 shall apply. [Emphasis added.]

The 1982 legislation was adopted in response to the collapse of the Paradise Palms Vacation Club. At the time, a few states had adopted time share legislation, but many others had not yet done so. As a result, the 1982 amendment was purposely drawn to be as broadly applicable as possible in order to protect time share buyers and, frankly, the time share industry.

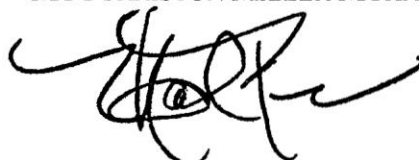
From time to time during the ensuing 31 years, a question has arisen as to whether the State of Hawaii has jurisdiction to regulate the manager of a time share plan if all of the property of the time share plan is located entirely outside of the State of Hawaii, and if the manager has no contacts with the State of Hawaii. In addition, during the past three decades, most states have adopted laws or regulations governing the establishment, management, offer and sale of time share plans. In light of the foregoing, it is appropriate to leave the regulation of out-of-state property managers to the governance of the jurisdictions in which they are actually managing property.

The proposed bill exempts managers of foreign time share plans from the plan manager registration requirements of the Hawaii Time Share Act. The bill also requires that the Hawaii Disclosure Statement provide notice to prospective time share buyers that the plan manager is not required to be registered under Hawaii law.

Thank you for your kind consideration of this legislation. I would be happy to take any questions if you think that I may be of assistance.

Very truly yours,

MCCORRISTON MILLER MUKAI MACKINNON LLP



Charles E. Pear, Jr.



9002 San Marco Court
Orlando, Florida 32819
(407) 418-7271

February 25, 2014

To: Honorable Sylvia Luke, Chair
Honorable Scott Nishimoto, Vice Chair
Honorable Aaron Johanson, Vice Chair
House Committee on Finance

RE: **HB 2018 HD1 - Relating to Time Shares – In Support**
Conference Room 308; Agenda #3; 1:00 p.m.

Chair Luke, Vice Chairs Nishimoto and Johanson and members of the committee:

Starwood Vacation Ownership (“Starwood”) appreciates the opportunity to offer testimony in support of HB 2018 HD1, which eliminates the requirement that a manager of a foreign time share plan register in Hawaii as a time share plan manager, requires disclosure that the manager of the foreign time share plan is not registered in Hawaii and recognizes that an association of timeshare owners may be any kind of nonprofit entity.

Starwood supports this bill because it updates and streamlines Hawaii timeshare law. When the Hawaii law regulating plan managers was created, it was broadly worded and required all timeshare plan managers to register with the Department of Commerce and Consumer Affairs (DCCA). Today, many out of state timeshare plans are registered in Hawaii and the managers of these out of state plans (which are regulated in their state of operation) are required to register as Hawaii managers. These managers do not conduct business in Hawaii, therefore, this requirement should be eliminated as it creates unnecessary regulatory burdens on the DCCA and the industry and does not further consumer protection. The bill also provides clarification that a timeshare association can be any kind of nonprofit entity. This update modernizes the statute, recognizing that owners associations, especially in out of state plans, may take different forms.

For the aforementioned reasons, we respectfully request that you pass HB 2018 HD1. Thank you.

Robin Suarez
Vice President/General Counsel
Starwood Vacation Ownership