



**April 2012**

## **Rethinking the Membership Sell List**

How does a club with refundable memberships avoid (in the case of a new club) or deal with (in the case of an existing club) the problem of having to pay a resigned member more than what a new member pays when the membership is reissued? This problem can arise when the membership price falls or if the club allows new members to pay their joining payment in installments. A club could face severe financial consequences if it regularly must pay to resigned members more than it takes in.

The club can charge a transfer fee or increase the transfer fee, reducing the amount that a club pays the member after he or she resigns. However, in the case of an existing club that already has members whose refund rights are grandfathered in, the benefits of this prospective change for new members will take time to be realized, as most new members will not resign for several years.

Instead of reducing the refund amount for new members, a club can deal with the problem with its club document reissuance provision, which determines when a refund to a resigned member must be paid. The club membership documents can require payment to a resigned member only after a new member has paid his or her full membership joining payment. Therefore, if the new member finances the membership purchase, the new membership is not counted as a sale until the last installment is paid, which could take years.

Instead of the resigned members having to wait years for new members to pay their installments, the club can adopt the "funnel concept" for reissuance of resigned memberships. Under the funnel concept, resigned memberships are reissued based on dollars received rather than sales. Traditional reissuance of

resigned memberships is on a "1 in 4" basis (i.e. the club must pay a refund to a resigned member after four membership sales). Under the alternative funnel concept, the club pays a refund to a resigned member when it receives membership proceeds equal to four full joining payments, not four membership sales. For example, if the current joining payment is \$10,000, the club would pay a refund to a resigned member when the club receives \$40,000 in membership proceeds. Therefore, if the club is offering membership financing and new members are paying the membership joining payment in \$2,500 installments, the club would not be required to pay the refund to a resigned member until it receives 16 \$2,500 installments (16 X \$2,500 = \$40,000), whether they be first installments from new members or subsequent installments from prior membership sales.

If the club is amending a reissuance provision to implement one of these options, the club and its legal counsel must consider the club's ability to adopt such amendment under the membership documents and court decisions.

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