Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

December 2019

Letter from the Editor

Happy holidays! We hope you and your family have a wonderful and joyous holiday season. This month marks the sixth anniversary of the initial investment of the following investors: Lesly/Jerry, Rick/Ronnie, Andy/Jody and Seth/Susan. These investors have received 72 months of CSF payment checks! Thank you so much to all of our investors for your continued confidence in us. **February 16, 2020 will be our annual Holiday Party at Chima Steakhouse in Tysons Corner, VA. Please mark your calendars!**

November was an incredible month. We originated 11 loans a (record for CSF!) for a loan volume of 2.715M. Ten loans were first trusts and one loan was a second trust to a repeat client. Five loans were in Virginia, and six loans were in Maryland.

CHUCKLE'S CORNER

"Mail your packages early so the post office can lose them in time for Christmas."
— Johnny Carson

Food for Thought

This month, we are pleased to announce that we are in the process of transitioning all investor notes to an updated form of note per a subscription agreement and other offering documents for our new Clear Sky Financial, LLC 506(b) Fund. We are doing so to ensure that all of the notes and the fund are in full compliance with the latest Federal and Virginia SEC filing, notice, and disclosure requirements.

Also we will be sending a questionnaire asking if you want to add money, keeping your note position the same, or cash out. Our recommendation is to add more money, as our business continues to grow and we are continuing to develop opportunities.

In This Issue:

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The Four Stages of a Wholesale Transaction

A typical wholesale real estate transaction can be broken into four steps, or stages. You will find that each stage will require different skills, and each stage will get easier to complete as you become more familiar with it over time. You will find the same set of skills useful in the longer and more involved fix/flip investing business model.

The four stages are finding a property, negotiating the deal (getting the property under contract), finding a buyer (cash buyer list), and closing the deal. Let's look at each stage in greater detail, below.

Finding Deeply Discounted Properties

Not every property you find will work for this type of deal. The property needs to be deeply discounted so that there is a margin that will accommodate the purchase and rehab and make the profit fix and flip investors need. It takes a lot of work to find them, so getting really good at this will be the solid foundation your endeavors will need.

Properties that will work well for house flipping, and particularly for your wholesale endeavors will not be found on the MLS. You need to get to these opportunities before they even hit the market. You need to find motivated sellers before they list, perhaps before they even contact an agent. Motivated sellers will be those who have a pressing need to sell a property- a tax lien, a landlord tired of renting, a family group that inherited a property needing a lot of repair, etc.

Marketing campaigns are a crucial component of your deal finding strategy. You'll also want to develop a network of referral partners, people like trust or probate attorney's, contractors, long term care facility employees, and the like. This referral and marketing funnel will be what allows you to continually find the properties you need to evaluate to see if they merit further consideration about getting under contract.

Negotiating Your Deal

Negotiating with the property seller is the most important component of completing your wholesale real estate investment. Like every skill, you will get better at this each time you work through the details of a deal with the other party. A rule of thumb for negotiating a price point is to multiply the ARV (After Repair Value) by 70% then subtract out the renovation costs to get a good buy price. If you can get a lower price than this, that's even better!

Finding Potential Buyers

You will need to be able to move quickly once you have a property under contract. You need to develop a cash buyer list. Once way to do this is to go to your local courthouse auctions and get the names of the bidders. There are a ton of bidders in Northern Virginia alone. Having a list of cash buyers is crucial. It won't do you any good to find a profitable deal and then have to let it go because you cannot find someone who wants to acquire it from you and take on the rehab investment opportunity. When you find a great deal, you can reach out to the people on your list and offer the deal to them. By maintaining an active list, knowing what types of deals various investors want, and acting on it quickly, you should be able to get someone to grab your deal so that you can make your commission.

Closing Your Deal

Getting everything together and ready for closing will take some time, especially on your first wholesale real estate transaction. Make sure you understand the process involved here and the laws in your state surrounding these transactions.

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Understanding a Winning Deal in Private Lending

Imagine yourself as a hard money lender. You are at the closing table on the first day of the first loan that you are funding. You are putting your money to work. The borrower is signing a note on behalf of their company that you are about to get a 12% annual return and 3% in origination points for the use of your money. You might think to yourself that you are getting the best deal ever. However, one year later you can reflect on it and know that on the first day of the loan, the best deal went to the borrower. Experience will inform you that on day one of any new loan, you have all of the risk and the borrower is leaving with the money. Your entire job is to understand what the probability of recovery is on your money. A single mistake anywhere in the process can significantly impact profitability; your expected return can disappear, and you can be left trying to claw back your principal investment. What do we do to mitigate these risks and keep the anticipated returns? We have a three-step approach. Here is a brief description of it:

Step 1: Understand the asset you are lending on. Begin by understanding the "as is" value, the "after repair" value and the renovation cost structure. We reject half of all deals because the potential borrower has made valuation errors and poor assumptions. The top three reasons for rejection are that the borrower has overvalued the property in its current condition; the borrower has overvalued the after-repair value; or the borrower has an unrealistic view of the repair costs. So, you need to support buyers in determining what is a good deal for them. In order to control risk, you have to make sure that the borrower is going to make money in the deal. If they are not adequately incentivized for success, they will drag the project out or not complete it at all.

Step 2: You must have your back-office organized and your legal strategy in order. You need to deliver all the loan documents in the private lending business to the closing table. In order to get the document set that works for you, it takes a careful legal review of the loan type and jurisdiction that you are lending in. The documents that are signed at closing need to be enforced, so you must deliver a quality product. Once the closing happens, all the data associated with it and the original documents must be stored in an easily accessible and secure location. You need to track the borrower's loan activity and know when the loan matures and if payments are late. If you aren't receiving payments, your borrower is probably in trouble and can use help on their project. After a single late payment, it is important to reach out to the borrower and find out what is going on that is causing a delay. It might even be a good time for a drive-by site visit to see the project's progress. Knowing where each project is in the flip process is essential to managing risk. If the borrower is behind a few payments, it is time to force the issue/foreclose and move the loan to a default status.

Step 3: Manage payoffs and recovery effectively is your final step in maintaining profitability. The payoff is the time that the lender is finally going to get their total return on the investment. Managing that payoff process carefully is essential. A payoff statement is required, and needs to be precise. If the lender is eligible to receive penalty interest or extension fees, they need to be included. Every payment that the borrower has made needs to be accounted for down to the day it was received. Once the loan is paid off, the lender needs to confirm that they have released the borrower from obligation with a certificate of satisfaction.

If the borrower is in default, the loan is in a critical condition. The default period is a great time to help the borrower out by directing them to another lender interested in taking on the project under new terms. It is also a time where the borrower is very likely interested in marketing the asset and paying off the loan. If you have a good line of communication with the borrower, you can walk them through the steps needed to successfully sell the asset. Provided the lender and the borrower are communicating, the borrower might want to just turn the asset over to the lender via a deed in lieu of foreclosure. Allowing for this is a great way to lock in your principal recovery as a lender and have possible upside on the loan when it sells. Finally, if you drive the property to a foreclosure auction, you need to know at what price you are willing to release the loan obligation. This goes back to understanding the repair cost structure and the after-repair value.

Provided you are vigilant in all three steps of the hard money lending business, you can be met with success. Market information and communication are the essential elements of making any loan a winning deal.

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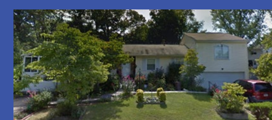
November Deals


3459 S. 22nd ST.


259 Moseby Dr.


6322 Mary Todd Ln.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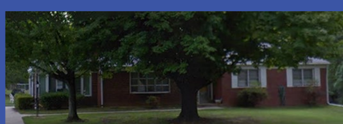
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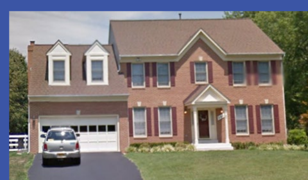
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