Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

February 2019

Letter from the Editor

Happy February! We hope you had a wonderful Valentine's and President's Day holidays.

We are having a productive start to 2019. In January, we closed eight loans totaling $1.56M. The loans consisted of six first trusts and two second trusts. We anticipate that February will be even a bigger month.

CHUCKLE'S CORNER

"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy." - George Lorimer

Food for Thought

On April 6, will be at our fourth Think Realty conference in Baltimore, MD, where we will have at least one speaking engagement (the topic of our presentation has not yet been determined.) Stay tuned for additional details!

We continue to be sponsors of the Northern Virginia real estate investment club, TRACTION REIA. We are the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We lead brief presentations of five to ten minutes at each meeting.

We also sponsor a new group in Washington, D.C., the Heels and Deals Meetup.

.

In This Issue:

- Letter from the Editor
- Food for Thought
- The Perfect Residential Investment Business Model (Part 2)
- Understanding Mortgage Funds
- January Deals

www.cskyfinancial.com

Charlie Einsmann
(703) 887-1039
charlie@cskyfinancial.com

Sam Jacknin
(703) 587-2475
sam@cskyfinancial.com

The Perfect Residential Investment Business Model (Part 2)

It takes a lot of time and work to build what I call the "Perfect Residential Investment Business Model" from scratch. This is not a get-rich quick model; it is an income producing asset-building model. It can be generational if you build it correctly. This is what we have been building for the last 15 years. There are four components to the model: Fix and Flips, Rentals, Hard Money Lending, and Tax Lien Certificates. In Part 1 of this article, included in last month's newsletter, I discussed Fix and Flips and Rentals. This month's article covers Hard Money Lending and Tax Lien Certificates.

Hard Money Lending:
Hard money lending is essentially private lending, or becoming a private bank. This entails lending money on an asset in either the first or second position, and generating the income of the interest rate and fees. You own the mortgage/deed of trust instruments, and this is an asset-based loan, in which credit checks and income checks are not as important as the underlying asset. The "pros" of this approach are the ability to generate cash flow from the interest rate and fees, and the scalability/ability to do many more deals. The "cons" of this approach are the need to create a good collection strategy to deal with late-paying borrowers, complex bookkeeping, and challenges of liquidity.

Hard Money Lending Strategies for Success:
* *Lend conservatively on the ARV*
* *Build a repeat client base*
* *Diversify the areas where you lend*
* *Diversify the loan products you offer*
* *Offer consulting services to your end borrowers to help make their project a success*
* *Service your own loans*

Tax Lien Certificates:

A tax lien certificate is an instrument through which the local jurisdiction pays you an interest rate over time. This instrument is created when a property owner is delinquent on their personal property taxes. The jurisdiction creates this instrument and sells it to the public. We own D.C. Tax Lien Certificates that are currently paying 18%. This is the minimum return. If the taxes are not brought current by the owner, you can file a quiet title lawsuit where you can eventually obtain the title to the property. In some cases, the Tax Lien Certificate moves to the front of the lien food chain. The "pros" of this approach are the ability to generate cash flow from interest rates, the scalability/ability to do many more deals, and the ability to own a property at a very good price following a process of up to 18-30 months. The "cons" of this approach are complex bookkeeping, and the challenges of determining when interest accrual ends on lien payoff, as D.C. takes 30 days to issue the payoff check.

Tax Lien Certificates Strategies for Success:
* *Gain a thorough understanding of:*
  - *The jurisdiction requirements for selling the certificates*
  - *The procedure for a quiet title*
  - *The interest rate of the certificate*
  - *The underlying asset*
  - *Types of sales (ie. Auctions; first-come, first-serve; bulk sales, etc.)*

I hope you found this article on the pros and cons of Hard Money Lending and Tax Lien Certificates, as well as suggested strategies for success with each approach, to be helpful. I hope you have an enjoyable and productive rest of your month.

clear sky FINANCIAL
www.cskyfinancial.com
Charlie Einsmann | (703) 887-1039 | charlie@cskyfinanical.com
Sam Jacknin | (703) 587-2475 | sam@cskyfinancial.com

CLEAR SKY FINANCIAL NEWSLETTER February 2019

Understanding Mortgage Funds

Mortgage funds are a useful way of managing and understanding note investment. A mortgage fund is an investment that is operated by a fund manager. Money invested in the fund is loaned out as mortgages to borrowers. The borrowers pay back their loans to the fund and the fund collects the interest.

If the fund is organized as a debt offering, the debt offering is essentially a vehicle for investors to loan the fund money and the fund to loan it out. Investors get interest payments during their investment period and then receive the return of their capital at the end of the term of their debt.

Once a fund is organized, the fund manager/organizer needs to inform investor of all risks and provide period updates. An essential role of the fund manager is disclosure. They provide disclosure through offering documents, updates, and investor communications whereby all material facts are stated. Information that would affect an investor's investment decision is the essence of what needs to be disclosed.

When assembling a fund, the fund organizer must pay careful attention to securities regulation. If the fund is raising capital by offering and selling securities; the fund must register with the SEC or rely on an exemption provided by the SEC. The federal regulation most commonly relied on is Regulation D: rule 506.

There are two types of exemptions under the rule: 506(B) and 506(C). Both structures allow unlimited accredited investors. Accredited investors are defined by regulation and have specific income and net worth requirements. 506(B) allows for a maximum of 35 non-accredited investors. 506 (C) doesn't allow any non-accredited investors. Importantly, 506(B) does not allow any advertising, whereas 506(C) does allow for general solicitation and advertising.

Clear Sky Financial has engaged Geraci Law Firm to ensure that we are following best practices as they relate to fund registration. As we receive guidance and recommendations from Geraci, I will provide an update on this subject area.

January Deals


255 Van Buren St. NW


10604 Holleybrooke


21355 Lynn Dr.


902 E. Capitol St. NE


1318 Alderton Lane


11414 Eskridge Lane


11259 Edgewood Dr.

clear sky FINANCIAL

www.cskyfinancial.com

Charlie Einsmann
(703) 887-1039
charlie@cskyfinancial.com

Sam Jacknin
(703) 587-2475
sam@cskyfinancial.com