Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER June 2020

Letter from the Editor

Happy Summer! May was a slow month for loans, but a busy month for new prospects. We did over $1 million of new loans in May - all of which were First trusts. June is going to be a RECORD month in terms of both the number of loans done and the total dollar amount. We have already done seven loans and are on pace for fifteen! We are STILL one of the few private lenders who are currently lending, and as a result, we are getting more experienced borrowers, as well as our current borrower base! We have tightened up many of our parameters due to what we think is the peak of the market.

CHUCKLE'S CORNER

"To plant a garden is to believe in tomorrow." - Audrey Hepburn

Food for Thought

Thank you to those who attended our May events. We did our second COVID-19 webinar on May 22. We were also asked to be on a superstar panel of investors through Traction REIA on May 14. You can see replays of these events at http://www.cskyfinancial.com/upcominevents.html

We will be doing our third COVID-19 webinar on June 24. The recording will be publicly available. If you are not on the invitee list for our webinars and would like to see them live, please let us know and we will happily add your email address to our list.

BIG NEWS: We are launching Clear Sky Education. We extend a heartfelt thank you to Sandra Delancy for all of her help and hard work on this, and you can learn more about Sandra in this issue's Spotlight! We are creating courses on investing in residential real estate. We will have a beginner/survivor series, planner series, and a thriver series. We did a pilot on June 4 for 22 students. The course was titled "Fundamentals of Real Estate Investing". We got great feedback! These events are not viewable at a later date – to see the content, you need to attend the live event.

The next course will be on July 9, and will cover the topic, "Financing Real Estate Deals".

In This Issue:

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Eight Ways to Come Up with Money to Close

These days, hard money lenders are tightening their lending criteria because they feel the real estate market is priced high and they are trying to help mitigate future risk. They may lend less on the loan to cost (LTC) side. We used to lend 100% LTC provided we could loan 70% to 75% of the After Repair Value (ARV). Post-COVID, we are between 85% to 90% of the LTC. We are also being more careful at the multiple of lending on the ARV (60% to 70%). What does this mean to the buyer? It means more cash to close!

What is meant by money to close?
Whenever you are purchasing a house, there are always fees/costs that need to be paid when you close on the loan. These costs include title company fees, recording fees, title insurance, and loan fees. There are also costs associated with anything that needs to be paid in order for the title to be cleared.

As the buyer, you are responsible for any of the costs that you agree to pay in order for the sale to be completed. All of the costs for the transaction will be totaled, including the amount you agreed to pay for the property, as well as all of the previously discussed fees. Then, the credits for the purchase will be applied against that total. This would be things like costs that the seller has agreed to assume, earnest money, and the amount your lender is extending for the loan. If the sum of the credits is greater than the sum of the costs, you will not need to bring any cash to the closing table. If there is a difference and the costs are more than the credits, you need to have that money with you or the sale will not be completed. You may also be expected to bring some more down payment monies.

Example:
Purchase price $200,000
Renovation Cost: $40,000
After Repair Value: $300,000
Loan From Clear Sky Financial: $210,000 (70% of ARV (might have been 75%))
Loan/Title costs $10,000
Difference of $40,000 (This is the cash to close)

How can you come up with money to close for your real estate investment?
1. HELOC (Home Equity Line of Credit)
A HELOC is essentially a check book attached to one or more properties that you own. I ALWAYS attach a HELOC on whatever owner-occupied house that I own. You can get 90% of the appraised value minus your first mortgage on the house and the difference will be the amount a bank will attach to you house. If I move and decide to rent out this house, the HELOC is still attached. I will buy another owner-occupied house and do it again. This helps with liquidity in case you need cash quickly.

2. Business Line of Credit
If your credit is good enough (around 680) then you may be able to get a business line of credit. This is simply an unsecured credit line from a bank. We recommend using community banks to do this because they might have a bigger appetite for this product as compared to a bigger bank, like Wells Fargo. There might be origination fees for this money, but it is just a one-time fee, and the credit line is there for you as long as you keep it in good standing. Not only can you use this credit line for any cash to close you may need, but also for other unexpected expenses that may arise during the rehab that were not included in the original scope of work.

3. Unsecured Seller Carry Back
This is when the seller agrees to take an unrecorded note (meaning that they have no position on the property, not that it is not put in writing) and you would pay them back that amount and any agreed interest once the property has sold. The feasibility of this option will be affected by a few things, like the laws in your state, county and municipality, as well as the seller's willingness to utilize this strategy.

4. Reduction in Purchase Price
You can also work the example from above with the seller just agreeing to the reduction in the sale price. This works best with highly motivated sellers. Doing this will enable the hard money lender to lend more towards the purchase transaction.

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5. Cash Advance on an Existing Credit Card
If you have an existing credit card already in your name, you may just be able to cover the difference with a cash advance. Sometimes you can even negotiate for a higher line of credit from the card provider. You can also use credit cards to cover some of your renovation expenses if they are not covered in the loan.

6. 401k or Retirement Account
Check with your retirement plan. Many will allow you to take advantage of differing options in relation to the funds you have there. You may be able to withdraw some of the monies (there will most likely be penalties) to use in your transaction. Probably a better option would be for you to take a loan against the funds there.

7. Business Partner – Equity Position
This is similar to the above, but instead of loaning you the money, the business partner agrees to take a share of the profits. Because they are sharing in the risk, this generally is a bit more profitable for them when you make a profit on your flip. If the deal loses money they do too, although many times these agreements may be structured so that you, as the flipper, take the bulk of the loss.

8. Family and Friends
You can borrow money from family/friends. I need to caution that this can cause the relationship to be put at risk. If you go this route, you also need to make sure that the transaction is properly documented.

Sam's Corner

Preparation and Consistency

COVID-19 and the ensuing social changes are dramatically impacting the real estate market. It is no time to stop participating in the market, but it is time to carefully assess direction. This is a great time to buy a rental property that offers a little seclusion and does not require an elevator. The timing maybe off for buying a property that has limited outdoor spaces and requires elevator access. Older people and those with health concerns are making their housing choices with fresh air and limited neighbor interaction in mind. Where one is finding assets to buy is also changing. Properties listed on the MLS are not getting much traffic if they are occupied. A vacant house that has a virtual tour is likely to fly off the market. There is little inventory available generally, so having an asset to sell is a great thing. If you are looking to the foreclosure market for a buy, the auctions are just restarting. There are plenty of buyers looking for a value.

Our strategy is to be prepared for market changes and then execute our business model consistently in response to the environment. We have stayed active in all three of our business lines. We have added to our buy and hold portfolio with some fantastic buys. They have rented immediately, as there is a lot of rental demand in the mid-market. When locating tenants, we have screened carefully to make sure that people who are getting leases are able to pay their bills in the COVID environment. At the same time, we have been steadily flipping houses. All the renovation activity has taken a significant amount of additional energy and oversight. Some contractors have failed under the weight of long lines at construction supply companies and inconsistent staffing due to health issues. We have supported the contractors on our team and cut back on vendors that can't deliver. Finding a good flip isn't easy so we have gone back to the basics and are pursuing pre-foreclosures and off market deals.

We have doubled down on our commitment to the hard money lending business. Doubling down does not mean doubling volume. We have worked closely with our borrowers to make sure that they are positioned to get their properties repaired, make their payments, and have successful transactions. This is where we share with our clients our experience and knowledge. This is a clear separator from our competition, and it is appreciated by our clients. Our screening process on the loan acquisition end has had to triple in the volume of loans screened. Why? Many of our competitors no longer have access to capital to fund their loans. Their customers have turned to us. They have found that we are easy to work with, but we are priced somewhat higher than their old source of funds. When working with a repeat customer, our process is extremely fast. Each time we meet someone new, we must fully understand where we fit into their business model and determine how well they will execute. These steps are important, and we do them consistently. Our plan is to keep growing all our business lines while we move through these challenging times.

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In the Spotlight: Sandra Delancy

Sandra Delancy has worked with the Clear Sky Financial team since late 2019 to build out brand awareness in the form of the Clear Sky Educational Surviving to Thriving Program and the Clear Sky Roadmap to Wealth in Real Estate Investing. She and her husband are also a long-term investors with Clear Sky Financial. Ms. Delancy has a formal background in IT management where she was not only responsible for managing technology teams, but also developing and implementing enterprise-wide educational programs to meet organizational, legal, and regulatory requirements.

Sandra Delancy is currently the CEO of JADD Solutions LLC, a D.C.-based IT consulting firm that specializes in enterprise data management, IT security controls, and business intelligence. Previously, Ms. Delancy worked for over 20 years as a Senior IT Manager at a local financial services company. Ms. Delancy is a graduate of the Engineering schools of both Howard University and the University of Maryland at College Park.

Outside of work, Ms. Delancy is passionate about educating students on technology-related topics. She sits on the boards of two local non-profits whose missions are to expose middle and high school students to careers and topics related to STEM.

May Deals

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