

Letter from the Editor

Summer is almost over. We hope you had a chance to get away and enjoy some family time in the sun.

July was a slow month for loan originations as either Sam or I were on vacation for most of the month. As a rule, we never take vacations at the same time. There is always a partner in the office to run the business. In July, we originated 4 loans for a loan volume of 700K. We originated three first trusts and one second trust. We did two loans in Virginia and two loans in DC. August is shaping up to be a huge month. The business development activity in June, including our speaking engagements at the Think Realty conference, is paying dividends.

CHUCKLE'S CORNER

"If you would know the value of money, go and try to borrow some."

- Ben Franklin

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Five Rules for Buying Foreclosures at Auction

I have been attending various real estate auctions since 1997. After about 10 years, we became a major regional buyer/participant. Since 2007 we have been steadily purchasing properties at court house auctions, special events and online auctions.

The following rules may seem simple enough to follow, but I have yet to attend an auction where the majority of the bidders didn't fail to follow one, if not all of these rules. This failure prevents them from truly leveraging the huge pricing advantages that can come with buying properties at foreclosure auctions.

1. Due Diligence: Know what you are buying.

This one seems simple enough, right? Wrong! You will never go to an auction and say "Wow, those were all reasonable bids." Investing blindly is dangerous and very common. Thanks to the internet, due diligence gets easier every day, but investors also become much more complacent about doing their research.

We drive by every property that we bid on. We review things such as the occupancy, exterior condition and if vacant try and assess the interior condition to come up with a rough renovation budget.

2. Bidding/Deposit/Buyer Premium: Know how much you plan to pay and stick to it.

Not only do you need to stick to your bid, but you need to leave a cushion for the worst-case scenario. As long as you always leave room in your budget for surprises, you will be a winner in the end. Also, you need to know the required deposit amount and if there is any buyer premium. These two items will factor in to determining your maximum bid amount.

3. Pay Attention: Be prepared.

Again, seems like a pretty simple rule right? Believe it or not, sometimes people end up bidding on the wrong house and end up saying, "Oh, I didn't mean to buy that." We are prepared and we take copious notes at the auction. I have information on every bidder that I have come across. By monitoring frequent bidders I know what asset classes they like and what percentage of the after repair value that they will go up to!

4. Keep Your Temper: Leave Your Emotions at Home.

If you choose not to follow any other rule, follow this one! You would think there would be a level of professionalism at auctions, but guess again! Want to get out some built up frustration and intimidate somebody? Then an auction is just the place for you. If you are soft skinned and a little shy, then the auction is definitely NOT for you.

Many seasoned buyers consider it their job to intimidate, confuse, and question your bids and thereby decrease your confidence. It's part of keeping the prices down. On the flip side, you may get angry and irritated by these tactics, throw caution to the wind and break all your set rules just to prove a point and win the bid. If I break your confidence, you are going to stop bidding and I will get the property for what I wanted to pay. If I anger you, you are going to bid too much and not be back to compete against me next month.

5. Don't Break the Law: Stay Away from anything that could be considered collusion.

Collusion and Bid Rigging are big no-no's. You might be at a small auction and there are only 3 of you there. Somebody says, "How about I buy this one and then you buy that one?" You agree, and suddenly you have committed a Federal Crime punishable by up to 10 years in jail. We have seen bidders go to jail for doing this with as little as a wink here and a nod.

Buying distressed real estate at an auction can be extremely profitable and also a lot of fun. However, it does require a little more than just common sense. If you are interested in bidding at auctions, I suggest you attend a few first. There are many different categories of distressed real estate and a different auction format for each auction. Go learn who the usual bidders are and who is there to just buy one or two. As long as you are not bidding that day, talk to the other buyers and ask questions. Most buyers will not share their strategy, but they will be happy to talk about all the other buyers' strategies.

Risk Reduction and Performance Excellence

In order to maintain the lowest risk profile possible, we continue to **work with our borrowers to make sure their projects are successful**. This starts when we qualify the borrower. We make sure that the borrower is able to make timely payments on their loan. Once the project gets going, if there are construction draws, we personally review the job site. We collect copies of the borrower's plans and permits. If they aren't in order, the construction draws stop until the issues are resolved. If the borrower's contractors or inspectors are not adequate, we refer in ones that we have used successfully in the past.

We **maintain an engaged understanding of our business operations**. That means that at any given time we understand our costs and revenues and where are borrowers are on each of their projects. We constantly monitor the real estate marketplace so we know if the loans we are giving are into an upward or downward trending market. Given that virtually every loan we originate has under one year in term, a focus is kept on market trends that could impact the transaction over the course of a year. We are very focused on keeping enough capital on hand to address a downturn in the market.

Keeping the right vendors in our network is critical to success. In order to keep the operation moving efficiently we have a support network of outside software vendors, accounting, legal, banking, and property inspectors. These companies and people are essential to our continued success. We keep open lines of communication with all of these parties and address issues as they come up. Most recently, we found that the software vendor we use to track our loans is not nimble enough to address the nuanced loans that we offer. As a consequence, we are transitioning all of our loan tracking to another established software vendor more able to meet our needs. A good match between our vendors and our business needs is always a key focal point for us.

FOOD FOR THOUGHT

Execution is a very important part of our business. There are many facets of execution that go into running a private lending business. There is the marketing piece, which is necessary to bring in new clients and keep the repeaters. There is the loan pricing piece, where you price a loan to the particular client's needs. The closing due diligence part requires attention; which is the time between when the term sheet is signed and when the deal actually closes. At the same time we are doing due diligence we are preparing the loan documents. Once the loan is closed you have the most important part of the business, which is the operational side. The operational side consists of juggling the loans being paid off that month versus the loans going out. You have to decide which deals get priority in case you do not have enough funds reserved to meet the product demand. The demand for our product is very high and prioritization of loans is always an issue. The operational side also must ensure that all of our clients are paying on time. This is important because we have many investor obligations!!! We are proud to say that we have a very talented execution team.

JULY DEALS



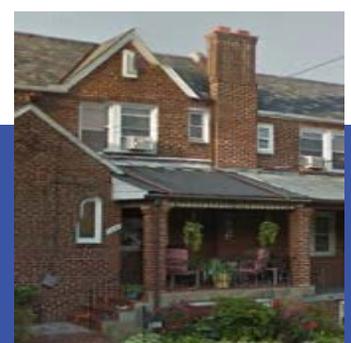
4226 Ardmore Place



1596 Courthouse Rd.



262 56th Pl., NE



128 Ingraham Street

