# Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

NOVEMBER 2017

## Letter from the Editor

Happy Thanksgiving! We here at Clear Sky Financial are thankful for our investors, who believed and continue to believe in us. We are also thankful for our staff: Heather, Karen and Alexandra. Without their support, we would not have been able to scale our business as we have. And we are especially thankful for our clients, ranging from borrowers who have done one project with us to those who have done many. Special thanks to our repeaters!

October was a **GREAT** month. We originated 7 loans for a loan volume of 2.231 MIL, and *all* of the loans were First Trusts. We originated 2 loans in Virginia, 2 loans in Maryland, and 3 loans in Washington, D.C. The percentage of the total loan volume (LTV) to after repair value (ARV) was about 68% LTV/ARV.

### CHUCKLE'S CORNER

"A nickel ain't worth a dime anymore." – *Yogi Berra*

### In This Issue:




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# Mistakes New Real Estate Investors Make, Part 2

In our October newsletter, we looked at four common mistakes that new real estate investors often make, and identified solutions. These four mistakes related to knowing the market, valuing properties, estimating repairs, and choosing contractors. This month, we'll identify frequent missteps relating to contracts, legal entities, marketing, and scripts, and introduce workarounds and ways to avoid them.

***Mistake #5: Bad Contract***
Most real estate courses have poor contracts because they are not written by attorneys.

***Solution #5:*** My advice is to learn your local Realtor form and draw up a few addenda. An attorney can help you with this.

***Mistake #6: Wrong Legal Entity***
Most real estate investors form an LLC for their investing practices. Is this right? Maybe, maybe not. There any many tax issues involved in choosing an entity.

***Solution #6:*** When choosing an entity, be sure to review your options with a tax professional, in addition to with an attorney.

***Mistake #7: No Marketing Plan***
Most real estate investors hire a real estate agent to find them deals and that's all they do. There aren't enough good deals on the MLS to make a living on.

***Solution #7:*** You need a better plan to market to FSBOs, foreclosures, estates, divorces, and other sources of motivated sellers. You can approach this yourself or work with a marketing professional.

***Mistake #8: No Script***
Once you have a motivated seller on the phone…now what? What questions do you ask?

***Solution #8:*** Have a written script and keep it by the phone, so you always know what to say.

I hope this two-part series has been helpful. I'm always available to help walk through the tough situations that come up in real estate investing – feel free to reach out.



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# Vertical Growth – An Evolution to Alternative Financing

I've recently met college students who are picking career directions, thinking of opening businesses, and generally getting to know the working world. On several occasions, they have asked me how we became hard money lenders. They want to know if we started with our current business as a goal in mind and if we put a start-to-finish plan together to get there. A lot of our current business partners and borrowers probably have wondered that, as well. The entire business history is built on a combination of licensure; education; and transactions, transactions, transactions. I'll skip the transactions and focus on some milestones that led us to the current business model.

Charlie and I were working full time in the technology sector when we met in 2001. We had both been licensed real estate salespeople since the late 1980s/early 1990s. In some casual discussions, we talked about our mutual experience with investment and distressed real estate. Shortly after we left the tech jobs, I became licensed as a real estate broker and Charlie and I started working together to identify investment assets. Our earliest work included late stake outs, oddball personal referrals, and the circus sideshow of foreclosure auctions. We didn't know much about renovating houses when we started, but we assembled a team of people who could help. Even the contractors that we use today started with us then and learned along the way. We were finding deals with good returns as rentals and started collecting houses in our portfolio. To support ourselves, we were busy during the day listing properties and representing buyers in traditional retail transactions.

In 2008, the housing bubble burst. What were a couple of real estate agents to do? Charlie came across a strange lead when he was looking to buy a house for himself at auction. One of the properties he was chasing was taken off the auction market and sold by a real estate broker. He chased down the source of the listing and it was a company called Res.net. With the hope of getting a future listing, he started doing broker price opinions for Res.net. After some months, he started getting listing assignments. I went guns blazing and signed up as an independent broker to sell bank-owned listings with as many banks as I could find. It wasn't long before we had more than 300 listings and were selling houses every day of the week. At the same time, we were building a commercial car wash and flipping houses as fast as we could buy them. At one point we were flipping 50+ houses a year. The entire business is built on us, one full-time employee, and a consistent team of outside contractors.

Fast-forward to 2013, and the bank-owned sales boom has ended. We are still flipping houses, but have garnered some capital together. Margins are really contracting on the auction properties at this point, and bank funding is largely unavailable to flip investors. We saw this as a great opportunity to start a hard money lending business. We started small by giving loans to investors that had been our competitors for years. They were glad to work with us, as they knew we understood their market. The rest is grassroots marketing. We continue to build personal relationships and expand our business and personal networks. This vertical growth from sales to ownership to lending wasn't laid out in a specific plan. It was a natural progression and our response to a changing economic environment.

## DEAL OF THE MONTH

The deal of the month revolves around 14543 Stephen Street in Nokesville VA. An investor sent us this deal in September. We evaluated it and liked it, but were concerned the investor was using us for a backup plan, so we did not follow up on it. They were honest with us from the beginning and I had met them once or twice before. Time went by and we did not think about this property. This property was a short sale, so there were many reasons why we had not heard back. I received an email on 10/16/17 at 3:00 PM with the investor asking for a loan from us but there was a catch. IT HAD TO CLOSE THE NEXT DAY! We went back and forth that evening to determine a good loan amount and fees. This investor already had the title binder from the title company, which saved a lot of time. I inspected the property early on the morning of 10/17/17. I liked what I saw, and we had the loan closed by 1:00 PM! The investor loved our service so much that we are working on a few more deals with them, and we think we might become their primary source for HARD MONEY. So we basically closed a loan in under 24 hours!

## OCTOBER DEALS


2905 Stuart Dr.


14543 Stephen St.


4001 74th Pl.


236 Peabody St. NW


408 Oglethorpe St.


9013 Allentown Rd.


1517 41St ST. SE

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