Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JUNE 2017

Letter from the Editor

By the time you receive this newsletter summer will be here. This year has really flown by. We want to welcome a few new investors into the fold. A warm welcome goes out Michael, Diane, Jerome and Elizabeth. We also want to welcome our youngest investor Curtis (my son) to the group as well. We want to thank those who supported us at the Think Realty Expo on June 24th. We have a really strong team. Also, thank you to those who enjoyed and commented on our updated newsletter format.

May was a record month for loan originations. We originated 9 loans for a loan volume of 1,817,000 with a total LTV of the ARV of 60%. We originated 8 First Trusts and 1 Second Trust. We did 4 loans in Maryland, 3 loans in Washington DC and 2 loans in Virginia. June is already shaping up to be a very busy month as well.

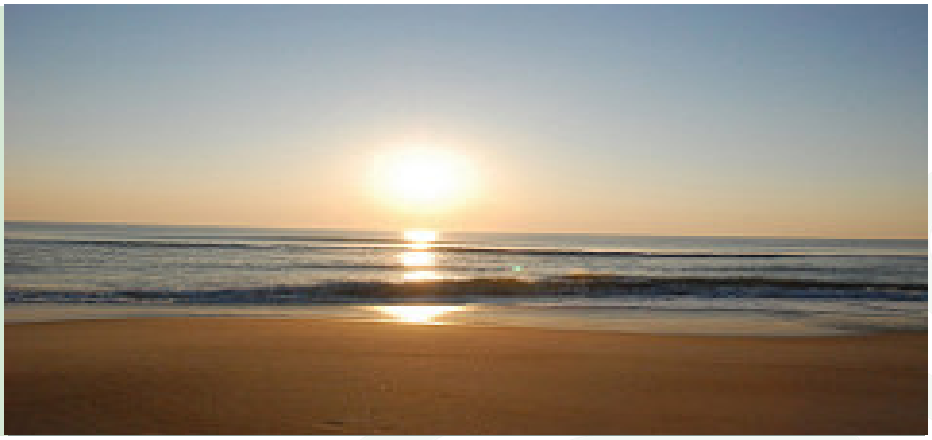
Please check out our refreshed web site at www.cskyfinancial.com .

CHUCKLE'S CORNER

"Where can you always find money? In the dictionary."

- Anonymous

In This Issue:



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Charlie's Corner

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10 Big Mistakes That Kill Real Estate Deals

Mistake #1: Bad Planning
When you make an offer on a house and it gets accepted and you put down your earnest money, you are probably going to have about 2-4 weeks in between until you actually close on the property. Everything from budgets, schedules and Scopes of Work should be in place.

Mistake #2: Under Budgeting Property Repairs
It is SO important to make sure that your contractor is on the same page as you are right from the start. You need to make sure that the product you are putting on the market is consistent with the neighborhood.

Mistake #3: Add-On's
After you have put together your schedule, your Scope of Work and your budget, and you have started, DEMO is NOT the time to decide you want to move walls around. If you decide you are going to move walls, that needs to be decided BEFORE you have finished your plumbing, mechanical, HVAC, etc.

Mistake #4: Missing the ARV
Figuring out what the correct After Repair Value (ARV) of your property is KEY. You need to figure out what sets your property apart from the other houses in the neighborhood – whether it has got neighbors in the backyard or it is wooded, the size of the lot, the finishes and fixtures, etc.

Mistake #5: Financing Costs
Sometimes I see when investors put together their budget, they do not factor in interest costs, paying points or paying for appraisals. They look at it like, "I am going to buy $100,000, put $20,000 and sell it for $180,000, so that's $60,000 in profit."

Mistake #6: Holding Costs
This is another big mistake that newer investors make that can eat into your profits. This includes insurance, utilities, property taxes, loan payment etc.

Mistake #7: Contractors Missing Days on the Job
This is a very important thing to keep in mind – most of the time, your contractor is NOT working JUST for you, so you will constantly be fighting a battle to get them to dedicate the time to your project. Setting expectations with your contractor is very important so you do not get behind on your schedule.

Mistake #8: Markup on Materials
It is incredibly important to find a contractor who will estimate the cost of materials and have a clear understanding of your budget and how much you want to spend to avoid markups.

Mistake #9: Not Selling Your Property Quick Enough
You put a good property on the market, so it should sell itself and it SHOULD sell quickly. But sometimes, properties just do not sell as fast as you expect them to. Days on market can kill a property. Make sure that when you go to sell, you are hiring an experienced, elite realtor who has been around for a while and has a great marketing plan of action.

Mistake #10: Your Buyer Flakes Out
What happens when you did an incredible job on your rehab, you list your property and it sells quickly, but then, your buyer flakes out? People think when they get their property under contract, they are good to go and start dreaming about their profit money. DO NOT make this mistake!

REAL ESTATE INVESTING MISTAKES HAPPEN
Trust me, I know better than anyone that mistakes will happen regardless, especially if you are a newer investor just starting out. The biggest thing is to TRY and not to make the mistakes that cost you money. Every extra day that your rehab goes longer than planned, that's costing you money.

Real estate investing is not as easy as they make it look on HGTV – that is why having the proper coach or a mentor helps you avoid mistakes like these.

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Selectivity and Default Management

On every deal, our focus is to mitigate risk and keep our money and our investor's money secure. In our alternative financing business, we are constantly executing risk mitigation strategies. The first part of the loan process is the very best place to "lay off" risk and set ourselves up for success. We do this by evaluating many deals before settling on ones to invest in. The mechanics of the process is multi step – borrowers become informed about our offering through many different marketing channels and reach out to us with a deal. We evaluate their opportunities as if we were going to do the deal ourselves. We will only lend as much on any deal as we would pay to enter it minus the cost of taking over the transaction mid-stream.

The second step is to determine how much it will cost us to take over a transaction mid-stream. If the project is a basic "fix and flip", we just need to know the length of time it will take us to step into the owner's position after a default. In Virginia, this is only about 3 months. In the District and Maryland, taking over the loan can take closer to six months. If the project involves extensive permitting or planning, we add in the time that it might take to resolve complex permit issues. That can be as long as six months in the District.

We minimize our market risk and exposure by all means possible. We prepare after repair valuations based on the current market and never on projected upward movements in the market. Any valuation we do is based on the current market or a down tick in it. Having a portfolio of short term loans with different origination dates enables us to reset our portfolio throughout the year. We have frequent points in time where we can evaluate each loan for renewal or payoff and review our total portfolio against market trends. When we see the market topping off, we become more conservative in projecting our out-sale pricing and lend less money per deal.

We have two cases where we have stepped in after default. In both cases we found that our risk was managed appropriately. In one of the cases, we had a Virginia loan and the borrower died. We foreclosed and brought the property to auction. It sold at auction and we were made whole on our investment. The entire process took about two months. On another case with a property in DC, our borrower defaulted during his construction phase. We foreclosed on the loan and it took about 6 months to get possession of the house and another 6 months to fully renovate the property. That property is listed on the MLS now and we will be made whole when the sale closes.

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FOOD FOR THOUGHT

What is the LTV of the ARV? It is simply the Loan to Value of the After Repair Value. Our business model is predicated around loss mitigation. In other words, we try to use certain gauges to generate the best returns at the safest level of risk. In some case we might lend up to 75% of the ARV. This property has to be neat/clean with not much work in order for us to go that high. A 60% LTV of the ARV is a very safe barometer to maximize the return on your money and keep it secure.

MAY DEALS

5 Jaybee Court

6998 Hanover Pkwy Unit 300

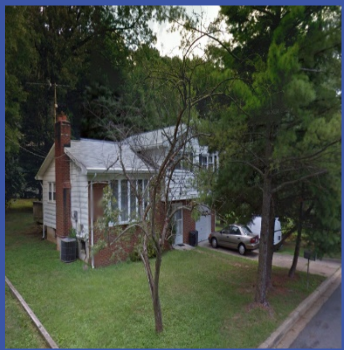
5608 Southern Ave. SE

1604 C Street NE

3407 White Fir Ct.

8626 N Centreville Rd. Unit 201

11365 Ethan Court



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