Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

October 2019

Letter from the Editor

This year is speeding along, and it's hard to believe that Q4 of 2019 is upon us! We wish you the greatest of success in your endeavors as we enter this final quarter. September was another steady month for loan originations. We originated 7 loans. All 7 loans were first trusts. One was in Virginia and 6 were in Maryland. October will be similar to September. We will do about 7-8 loans. The phone call volume has picked up dramatically, bringing us new deals to review.

CHUCKLE'S CORNER

"The only place where success comes before work is in the dictionary." — anonymous

Food for Thought

In previous issues of this newsletter, we mentioned two funds that we created, a 506(b) fund and a 506(c) fund. These funds were formalized in order to maintain our compliance with state/federal laws. Our goal is to finalize the conversion of all current Clear Sky Financial monies to the 506(b) fund by 2020. This conversion will have no impact on your returns for money currently invested with us. In fact, there will be an opportunity to invest more money with us at your current yield. We will be sending a letter and new subscription agreements shortly. It is our expectation that notes offered in 2020 and beyond will be at somewhat lower yields.

We will officially be funding our 506(c) fund in December 2019. You can also invest in this fund if you are an accredited investor. An accredited investor is defined as:
A. One who has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence). Net worth is calculated by adding up all your assets and subtracting your liabilities.
OR
B. One who has earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year.

Other conditions apply for being an accredited investor if you invest through a corporate entity.

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Six Action Steps for When New Real Estate Investors Feel Lost, Part II

If you are a new real estate investor, and are feeling at a loss as to what to do next, don't worry. We have all been there! Following the advice below is a step that you can take towards real progress in your real estate investing career.

In Part I of this article, we focused on self-assessments, staying focused, and finding a mentor. In Part II, below, we will focus on finding partners, setting short term goals, and seeking knowledge from reputable sources. All six action steps have helped us get to where we are today.

Partner Up
If you are a new real estate investor, you may lack certain specialized experience and expertise. You can benefit from finding a partner to invest with! It might be someone to help offset a weakness of yours that you've identified, or just someone with more experience. Alternatively, a great option for new investors is partnering with a turnkey real estate provider, such as ourselves. We are a lender (Clear Sky Financial), Sam has a brokerage (Green Dot Realty), we have contractors, and we have a title company (Green Dot Title).

Set Short Term Goals
If you are feeling stuck, set some goals…they do not need to be big goals! If you are already feeling lost, a lofty goal may not be helpful. Short-term goals and small time lines are key to getting unstuck. Things like "Go to a networking event this month" or "Create a Bigger Pockets account today" are small goals that move you towards bigger goals.

Consume Good Material (Books/Online)
Real estate investors are lifelong learners. One of the best things you can do for your career is also one of the simplest: seek knowledge. A place like Bigger Pockets, for example, brings together real estate investors from all over the country in a digital community. People share their experiences, advice, and opportunities. Another excellent website/organization is Think Realty. We write many articles for their monthly publications and we have participated in one of their podcasts.

We wish you the best in your new real estate investments and endeavors! If you'd ever like to speak with us or seek our advice in greater detail, our contact information is at the bottom of this page.

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Evaluating Note Assets from the Bottom Up

There are two ways that we add notes to our portfolio. The first and predominant method is to originate them. The second is to purchase them after another hard money lender has originated them. We have experience with both methods. When purchasing an existing note, it can be a performing note or non-performing. A non-performing note is one in which the borrower is not current on their payments. We buy non-performing notes when the underlying asset is valuable and the current note-holder is uninterested in pursuing collections from a defaulting borrower.

There are a couple of outcomes that work well in these scenarios. Either the note terms can be negotiated and the note returned to a performing status or the note can be paid off through a property auction. Either way will work financially, but re-negotiating the note has the best overall result for all parties involved. The key to making this a financial success is buying the note at the right discounted price. The buy price for the note has to reflect the risk associated with perfecting the title and costs of liquidating the asset at auction.

How do we decide which notes to buy? What do we look at first? Buying either a performing or non-performing note requires the same due diligence we use when originating a loan. The very first thing that has to be done is we need to drive out to the property and look at it. Looking at the property is perhaps the most important step in our entire process. We recently reviewed a small portfolio of non-performing loans. On paper, they looked pretty good. If the properties needed normal improvements/repairs the notes would be worth nearly their principal amount. However, we found out a lot more information when we went into the field with our contractor and evaluated each property on an asset basis.

The first house we looked at from the outside looked to be in average condition. Once we opened the door we found out that the basement had been destroyed by mold and the entire house would need to be rebuilt. At the second house we went to, the house had already been gutted and the roof was leaking. On the same tour of homes, we arrived at a house that was only comprised of sheathing and had no exterior siding. The entire basement had filled with water, and there were more than a hundred thousand dollars in unsafe housing fines on the property, as well as a condemnation. All of these issues jumped out at us right away when we saw the assets in person.

The only basis on which to make an offer on these and other distressed notes is to consider the underlying asset. Any offer we make on these notes (or any others) will be after considering the existing condition of the property and our ability to collect on the note or improve the asset. If we didn't leave our offices to personally review the assets, we wouldn't be able to make effective purchase decision. While our method doesn't scale well for buying large portfolios of loans, it works well to protect us from downside risk. It is simply amazing that a project left unattended can be reduced to land value through neglect. Understanding property condition issues up front is a major risk mitigation strategy.

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Deal of the Month

The Deal of the Month involves a judgment that we purchased through the county tax lien process in Prince George's County, Maryland. When a property owner fails to pay their property taxes for a year, the county assesses a penalty and tries to collect the property taxes. If the homeowner does not pay, the county sells the tax lien to a bidder/purchaser of the lien. The bidder/purchaser gets a favorable yield on the money until the taxes are paid current. If the taxes are still not paid the bidder/purchaser files a quiet title action on the property through the county courthouse (6 months after the date of the tax lien sale). This process can take 1 to 2 years. The result of this process is a final judgment of the court. This enables the owner of the judgment to get the deed of the property once the balance of the purchase price, with unpaid taxes, is paid.

We attend many Meetups in the area, as well as doing our sponsorship at Think Realty in Baltimore. During our April Think Realty sponsorship/speaking engagements, we met an investor who exclusively buys and flips these judgments. Charlie also met him at another Meetup in Oxon Hill, MD. Clear Sky Properties purchased one of these judgments on Mohican for an approximate price of $119,000. The house is vacant (we have since rekeyed it). The renovation costs will be in the $50,000 to $60,000 range, The house has an After Repair Value of about $325,000.

September Deals


9707 King Crown Ct. #201


6004 Magnolia Ct.


2791 Shiloh Church Ct.


2787 Shiloh Church Ct.


43705 Sterling Dean Ln.


11813 Rivershore Dr.


2321 Kirby Dr.

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