Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

APRIL 2018

Letter from the Editor

We hope your April is off to a wonderful start. March was an incredible month for originations for us. We originated ten loans for a loan volume of 2.877 M - WOW! We originated nine First Trust loans and one Second Trust loan. Seven of the loans were in Virginia, two were in D.C., and one was in Maryland. It was a very productive month, and April looks similarly productive. We're definitely keeping busy!

CHUCKLE'S CORNER

"Never lend money to a friend. It's dangerous. It could damage his memory." - Anonymous

FOOD FOR THOUGHT

Thank you to those who heard us speak at the THINK REALTY conference in Baltimore, MD, on April 14. The presentation was successful, and also very interactive. The audience listened intently, asked thought-provoking questions, and was very appreciative.

We are new sponsors of the Northern Virginia real estate investment club TRACTION REIA. Beginning in June, we will be the only hard money lender sponsor. TRACTION REIA has monthly meetings that average 100 attendees each, most of whom are new to the investment space. We speak for about five to ten minutes at the meetings.

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5 Real Estate Investment Strategies with No Money Down

Real estate investment can yield an impressive return on investment. This month, we'll explore options for those who wish to begin investing in real estate, but don't necessarily have a large amount of money to put down. These strategies include wholesaling, taking title "subject to existing financing", lease options, "soft" private money, and "hard" private money. Let's dive in:

1. Quick Flipping – Wholesaling

This is the classic buy low/sell low strategy, and it's the best way to make fast cash. You find a seller who is motivated, negotiate a low purchase price, and you both sign a purchase contract. Now you can "assign" your contract to another buyer. For example, you contract to buy a house worth $250,000 for $150,000. You "assign" your contract to your new buyer for $25,000. You never actually "owned" the house, you never used your own money, and your credit was never an issue.

2. "Subject To" the Existing Mortgage

With this strategy, you use the seller's existing financing, taking title "subject to the existing financing." You agree to make the seller's mortgage payments, and the seller gives you the deed. This may sound a little bit crazy, but it's not. Motivated people who need to get rid of their house do it every day.

3. Lease Options

A "lease option" couples a real estate "option" with a "lease" on the property. A real estate "option" is the right to buy a property at a specific price within a specified period of time. But even though you have the right to buy, you do not have an obligation to buy the property if you chose not to exercise your option. With a lease option, a tenant is placed in a position to ultimately own the property they are renting. The tenant makes a non-refundable deposit (called "option consideration") for the right to ultimately buy the home. The lease option tenant also makes monthly rental payments and handles minor maintenance.

4. "Soft" Private Money

"Soft" private money is usually a lot less expensive than hard money, though it may be tougher to find. Do you know people (like your family and/friends) who keep their savings in CDs getting less than 2% interest? They're the perfect candidates for private money. At 6% interest, they're tripling their yield.

5. "Hard" Private Money

Hard money is much more expensive than other private money. The lender looks solely to the property for repayment, so credit is not an issue. The maximum loan amount can be from 65% to 75% of market value, the interest rate is very high, and you have to pay 3 to 5 "points" for the loan. Each "point" equals 1% of the loan amount. It is expensive money. But it can really serve a purpose, and has launched many successful real estate investing careers.

I hope you find the strategies outlined in this feature to be clarifying and helpful. Have a great rest of your month!

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No Name-Changers

There are a lot of legitimate reasons to use a hard money lender. Compared to traditional lenders, hard money lenders can offer faster funding, flexible construction draws, no prepayment penalties, and a willingness to look beyond a borrower's specific credit blemishes. This might lead you to ask, "Why would a hard money lender turn down a deal?"

The most common reason we turn a deal down is because we don't believe in the borrower's projection of repair costs or their After Repair Value estimate. If something else seems amiss, we have to spend a lot of time figuring out what is going on with the transaction. Assuming that we have a shared understanding with the borrower of the meaning of draws, plans, and prices – we look further. Here is a short list of our "rules of thumb" for turning down deals and examples of each:

- **Not Allowing a Title Review by a Third Party:** A title company told us that the title report was not subject to our third party legal review, and that all titles have problems, which is why they sell insurance. **NO DEAL.**

- **No Name-Changers:** We realize that the prospective borrower who we're talking with is someone with whom we have previously spoken, and they are using a completely different name. **NO DEAL.**

- **No Borrowers with Outstanding Warrants:** We become aware that the applicant is likely to be incarcerated during the term of the loan and will be unable to conduct business. **NO DEAL.**

- **No Houses of Cards:** The borrower has many properties in many company names and wants to cross-collateralize all of them to raise more money to keep the deals going. **NO DEAL.**

- **No People who Think They Can Outsmart Municipal Inspectors:** The borrower insists that they can do their construction without permits and that it is perfectly legal. **NO DEAL.**

We might view 20 deals before we find one that we want to lend on. This is usually because the values won't work, but sometimes the borrower is more than a little fishy. It adds a bit of detective work to our workflow, and some interesting stories to our days!

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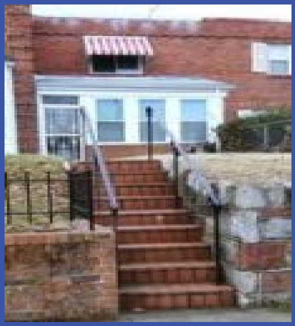
March Deals



258 33rd St., NE

1098 Swan Point Rd.

7147 Academy Rd.

13116 Haddock Rd.

1840 Cherri Dr.

301 Braehead Dr.

5502 Sumerduck Rd.

7389 Greenwich Rd.

320 West Rd.

827 51st St., NE

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

August 2018

Letter from the Editor

It's hard to believe that summer is almost over! We hope you had a chance to rest, relax, and enjoy some family time in the sun.

July was a slow month for loan originations. In July, we originated three loans for a loan volume of 800K. All three loans were first trusts, and one was in Virginia and two were in Maryland. Business development activity was slow in July due to vacations and the lack of REI (Real Estate Investor) meetings. August is shaping up to be a more productive month.

CHUCKLE'S CORNER

"Only when the tide goes out do you discover who's been swimming naked.'"
– Warren Buffett

FOOD FOR THOUGHT

Do you have an article you want to write or a business that you want to promote? We would be interested in promoting any business in the financial/real estate arena if it correlates with our finance company. Examples include title companies, mortgage companies, insurance companies, etc. The only requirement for this completely **free** advertising opportunity is that you need to submit a strong article to accompany your ad.

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Four Components of Setting Goals (in Real Estate Investment and Beyond!)

No matter who you are or what you've chosen as your profession, one of the most important things you can do to better yourself and your life is to begin setting strong, achievable goals.

Once you've set goals, the next important thing to do is to follow through on those goals until they are met. In both real estate investing and in life, setting small, attainable short-term goals to help keep up your momentum as you work towards more long-term goals can be incredibly helpful.

Four main areas of your life can help you set goals and achieve them:

1. **Good health**

When it comes to living a healthy life, there are many goals that can be set, including starting a new exercise regimen, quitting smoking or drinking less alcohol, or switching your diet to healthier, more nutritious foods.

2. **Relationships**

You can set goals to help foster deeper, more communicative relationships with your spouse, your children and any others that you care for.

3. **Knowledge and Learning**

Learning and expanding your skill set is always an asset! Set a goal of learning a new skill in real estate or another field, a new negotiation tactic, or a new finance tip.

4. **Financial**

This doesn't necessarily mean making a lot of money (although it can), but rather taking care of your financial situation, getting yourself out of debt, or learning and new skill that allows you to be more successful in your chosen field or profession.

Good luck with your goal-setting! We hope you attain – and surpass – your short- and long-term goals.

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Financial Controls - A Pathway to Success

Whatever kind of real estate professional you are, you need to review your financial controls and see that they are matched to your business needs. Whether you are a flipper; investor; lender; or real estate broker, understanding all of your financial transactions is essential to your success. It is best to use multiple processes and methods to manage finances. Five strategies are outlined below:

1. **Two sets of eyes**

Once you are doing multiple projects or transactions, you can no longer rely on a single person to review your numbers. At the most basic level, an investor flipping one house needs to have an accountant review their finances at the end of the year. As layers of complexity are increased, more people need to be involved in tracking and reporting. Invoices should be received/reviewed/approved/paid through a defined process involving multiple people. Project expenditures need to be recorded in a way that the project manager can see what was paid and what remains to be paid on your project.

2. **Checklists**

Checklists are a systematized way to go through a process without relying on your memory. This is not a to-do list. To-do lists can stress you out. They are big tasks without the specificity of steps. A checklist should de-stress you because you know exactly what steps to take to get something done. When building a checklist, avoid building a cookbook, because there is some variability in all tasks. You should build a checklist that tells you the critical items to your success that cannot be missed.

Build a short pause point into your checklist that give you time to reflect and verify that you have not missed anything. Also, at the end of any checklist, take time to review similar situations where there have been failures. Make certain that you have accounted for the learning from prior failures before determining that a task is complete. Checklists are a path to lower stress and more consistent data reporting.

3. **Spreadsheets**

If you are working on multiple tasks, you need to handle financial data in a spreadsheet. This gives you a way to categorize and sort expenditures and revenues. It is handy for keeping multiple versions of baseline budgets vs. actual budgets so you can closely monitor any budget deviations. Ideally, the person who is managing the expenditures directly is the person who is going through the budgets every time an expense is planned or made. That person is held accountable for tracking, notifying the team of deviations, and the overall financial success of a project.

4. **Automation**

There are an array of software tools available for expense tracking and control. Some tools, like Quickbooks, give you very detailed levels of control and can scale you from a mom and pop operation up to an enterprise handling tens of millions of dollars of transactions. The key to most software tools is the setup process. Invest in the setup. You don't want to use a software tool for five years only to find out that you have entered your detailed data into it in a way that doesn't maximize the tools reporting and export functionality. If you are new to Quickbooks or a property management tool, find an expert and ask them to spend time with you setting up your organization on the software product.

5. **Common Sense**

Now that you have spent a lot of time and effort having your work checked by our peers, putting checklists together, distilling projects to spreadsheets, and automating your accounting – you may think all of your work is done. This is not true. You can't rely entirely on systems and processes and leave your brain turned off. Common sense is the best final cross-check for all of your data.

Ask yourself if you used the right inputs, if your vendors billing came in completely, if you have ever had failures after taking all of the necessary steps in the accounting process and if you have considered those failures before moving forward. Another common-sense financial check is a ratio analysis. If all of your prior expenditures amounted to 20% of the project costs – how does your current project stack up against that statistic. Ask yourself what might be causing any variances from past performance.

Use these five methods for tracking and controlling your finances on all of your projects and you will definitely know where you are every step of the way. It is a lot better to find out early in a project if you are looking at a financial success or failure so you can plan accordingly.

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Deal of the Month

The deal of the month revolves around a property in Catlett, Virginia. We acquired our first loan related to a divorce settlement case. This case had been going on for a long time and the lender bailed out at the last minute (ran out of money). We got a referral from Rick Oppenheim (Atlantic Settlement Group) through some high-powered divorce attorneys in the Northern Virginia area. The property had an appraisal of $760,000 and the loan was for $425,000. A new lender originated this loan in less than a week and we purchased the paper immediately thereafter. The attorneys were very impressed.

July Deals

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292 Possum Court

4401 Cotuit Circle

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JANUARY 2018

Letter from the Editor

Happy new year! We hope 2018 sees you meet or exceed your professional and personal goals.

Here at Clear Sky Financial, we didn't wait until 2018 to exceed our track record. December was an incredible month for us, as we did a record 11 loans and a record volume of 2.720 M. We originated nine first trusts and two second trusts. Four loans were in Virginia, four were in Maryland, and three were in D.C. Our Loan to After Repair Value ratio continues to hold steady at around 65%, which is a very healthy indicator.

January appears to be another heavy month for originations, so stay tuned.

CHUCKLE'S CORNER

"I made my money the old- fashioned way. I was very nice to a wealthy relative right before they died." – *Malcom Forbes*

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5 Key Wealth-Building Principles for Real Estate Investors

Real estate is an increasingly trendy investment. Prices are moderately low, interest rates are low, and opportunity is everywhere. But why is it right for you? Do you know the right investing niche for you?

Know Your Niche

Creating a niche is the most important process for real estate investors. We have many niches and they change as the markets change. For example, between 2009-2011 in Northern Virginia, we could buy new townhouses for between $150,000 to $170,000 and the rents were around $1,800. This satisfied our 100 times rent rule so we kept more properties in our portfolio. Soon after that, prices rose and rents stayed steady so we just flipped more properties.

When creating a niche, you need to determine if you are you an active or passive investor. Do you want to be active and involved in the day-to-day grind? Or do you like getting paid each month for the diligence you did up front, such as the buy-and-hold or fix-and-flip investor?

Wealth Building Principles

Knowing your niche is as important to real estate investing as it is to any business. Let's review the five wealth-building principles so you can figure out which ones fit your plan.

1| Income: Cash Flow
2| Deductions: Income from tax benefits
3| Equity: Tenants paying down your mortgage
4| Appreciation: 50-year national average is 6 percent per year
5| Leverage: Income generated by using other people's money

How to Achieve these Principles

Active investors who do wholesaling and flipping can indeed capture four of the wealth building principles while the passive investor can obtain all five wealth building principles. The big difference comes in the holding time. If you buy and quickly sell, you lose the long-term benefit of each of these wealth-building principles. Passive investors enjoy these benefits over the long term and they simply continue to compound. So, review the principles and get the right fit for you.

1| Income: Both passive investors and active investors can earn income from flipping, wholesaling or buy, rent, and hold.
2| Deductions: Passive (rent and hold) investors can deduct interest payments, depreciation, and costs associated with the business. Active investors (flippers and wholesalers) can deduct their cost of improvements and holding costs only.
3| Appreciation: Passive buy and hold investors love this one, as they can capture this for the duration of ownership. This is often considered the best wealth-building principles and one that has made many millionaires. Active investors capture some appreciation through the value-play of converting the property to its highest and best use.
4| Equity: Equity build up is when tenants pay down your mortgage. Therefore, this one is only for the buy-and-hold investor.
5| Leverage: Both active investors and passive investors can utilize leverage.

Diversity is Key

Seasoned investors who have mastered their skills have learned to navigate back and forth as the market dictates which strategy will work effectively in the current market within a defined location. These active investor strategies can be used to create quick chunks of cash to allow for more passive investments. Each investment category has benefits. Finding the niche that works for you, and accomplishes your short- and long-term goals is the key. You should always master your niche before attempting another.

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Can Bottom Feeders and Rodents predict the Top of the Real Estate Market?

The belief that animals can predict earthquakes and other natural disasters has been around for hundreds of years. In 373 B.C., historians recorded that animals, including rats, snakes and weasels, deserted the Greek city of Helice in droves just days before a devastating earthquake. Anecdotal evidence abounds of animals, fish, birds, reptiles, and insects exhibiting strange behavior anywhere from weeks to seconds before an earthquake.

When trying to predict a downturn in the real estate market, you have to take a look at what the most gritty and aggressive market players are doing. Oddly, all of the "bottom feeders" in the industry are very visible right before the peak. Here are some indicators that I have been watching.

1. Charlie and I attended a "working lunch" with about 30 real estate professionals in DC. The people putting on the conference were experts in condo conversion. Notably, they had assembled all of us to sell their knowledge, services, and "packaged deals". I can tell you with certainty that nobody sells deals that are worth keeping.
2. The most aggressive regular auction participants in the region are being outbid every day at courthouse sales and auctions. We watch all of the local courthouse auctions and follow who is buying what properties. There are several market participants that for more than 5 years have been outbidding us at auction. Now, those people are being outbid by a flood of new and inexperienced participants. The new players are willing to buy on very thin margins that don't allow for any errors or changes in market direction.
3. There is a group of successful former house-flippers whose name we see coming up all of the time. Those flippers have exited the flipping business and only sell deals and educational classes.
4. Community banks have loaned so much out to house flippers that they no longer have an appetite for that kind of loan product. In years right after the 2008 crash, those same community banks had opened their doors to the flip industry.

So, does this mean that I know exactly when the market will peak? No, I don't. But in anticipation of the market topping out, I recommend approaching investing with additional scrutiny. Understand how long you are committed to any deal and what will happen to you if the market adjusts in the next couple of years.

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FOOD FOR THOUGHT

Thank you to those who attended our winter party. You will receive this newsletter after the event, and it means a lot to us for all of you that can attend. It is our way of giving thanks to our investors on both sides of the fence. We hope you have a prosperous 2018!

DECEMBER DEALS

8412 Myrtle Ave

6608 Cimarron St.

917 Larchmont Ave.

6427 8th St. NW

7601 Poplar St.

7771 Oak St.

3914 Bryant Park Pl.

2725 13th St.

1596 Courthouse Rd.

6333 Goral Ct.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

DECEMBER 2018

Letter from the Editor

Happy holidays! We hope you and your family have a happy and enjoyable holiday season.

This month marks the five-year anniversary of the following investors' initial investment with us: Lesly/Jerry, Rick/Ronnie, Andy/Jody and Seth/Susan. These members have received 60 months of CSF payment checks! Two of the investors took out some money recently to purchase a house – congratulations, Seth and Susan!

In November, we originated four loans for a loan volume of 910K, and December is shaping up to be about the same.

CHUCKLE'S CORNER

"You've got to tell your money what to do or it will leave."

- *Dave Ramsey*

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Six Issues Rehabbers have with Wholesalers

Wholesalers are real estate investors who find discounted properties and turn them around for a profit. A wholesaler gets the property under contract and assigns the right to that contract to either a buy/hold investor, end user or, most likely, a REHABBER. Rehabbers fix and flip the house. Rehabbing homes is more labor intensive and involves much more risk than the wholesaler takes on. The rehabber relies on the marketplace to realize the estimated After Repair Value (ARV). The rehabber also needs to keep the renovation budget tight as to not have too many cost over runs. Below are six issues that rehabbers may have with wholesalers.

1. Renovation budget is too low - Many times, we see wholesalers off by a wide margin on the proposed renovation budget. It is usually too low. The causes the margin of the deal to be too risky for the rehabber.

2. ARV is incorrect - Wholesalers sometimes do not take enough time to fully understand the asset they are selling. Surely they get comps, but sometimes the comps are outdated. I see too many wholesalers providing sold comps that go back over a year in time. This is too far out and the market has changed. I see comps out of the subdivision or just too far away from the subject property. There are many other reasons as to why the ARV is not correct but keep in mind the wholesaler is often just trying to justify the out price to make as much money as possible.

3. MLS deals - If the deal is in the MLS how can it be a wholesale? I see too many times where a wholesaler is trying to sell an ACTIVE listing in the MLS or even a short sale. Do you even have control over the deal? Very doubtful. The first thing we do when vetting a deal from a wholesaler is to look in the MLS. If we see it there, 98% of the time we move on unless the wholesaler can prove any kind of control.

4. Cascading/Layered Wholesales - This is where there more than one wholesaler is involved in a deal. Time and time again we will see a deal from a wholesaler where the wholesaler does not have direct control over the deal. It is a wholesale from another wholesaler. This makes things very complicated and reduces the chances that the deal will ever close. It also increases prices to unrealistic prices.

5. Title Issues - One big mistake wholesalers make is not understanding the title. They need to understand who the actual owner(s) is/are. They need to understand that the deal under contract will satisfy all of the liens against the title.

6. Wholesalers prices are too high. The wholesale model has recently evolved from a fee-for-service model ($5-10K) to one of extracting maximum value out of every deal. This has caused asking prices to be way too high. One important criterion that wholesalers should ask the buyers from their cash-buying list is "What is your profit margin?"

The Bottom Line:

Wholesalers have to understand that the REHABBERS are a valuable part of their team. It must be a win-win situation. It is too risky for a wholesaler to overvalue a property/undervalue a renovation and sell to a rehabber that breaks even or potentially loses money. This will be one more rehabber off your cash-buyer list!

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CLEAR SKY FINANCIAL NEWSLETTER DECEMBER 2018

Three Tips for Using Social Media to Improve Business Outcomes

Social media is a powerful tool that you can leverage to reach new potential customers, engage more deeply with existing customers, and build more positive partnerships with other businesses in allied fields – all of which can help improve your business outcomes and your bottom line. Here are tips for using social media:

1) Your social media presence should reflect a relationship.

Everyone knows someone who monologues about themselves endlessly – and, usually, they're not the person you value most in your network of friends, family, or business associates. Why? Most likely, because you don't feel heard; it doesn't seem like they're listening to you or valuing your input. This approach can be very off-putting in-person, and it's not less so when deployed on social media. Some businesses exclusively spout out their own marketing and promotional content on their social media channels, which isn't usually the most effective method of communicating.

Rather, put yourself in your desired audience's shoes. What content would you like to see? Industry news and tips for success? Photos of people at fun events, and information on how they too can attend these events? Thank you letters you've received from non-profits for your work with them? These kinds of posts are more engaging, and focus on building a relationship over time, rather than pressuring someone into a purchase immediately. They're a better choice for long-term success.

2) Mix it up!

Your content should look different on each of the social media platforms you have a presence on. It's okay – and even beneficial – to have some overlap between platforms, but if you're promoting the exact same thing using six different technological tools, it begs the question of why someone would want to follow you on all six platforms if they're just receiving the same thing everywhere. Also, each platform has its own unique focus, personality, and users, so promoting the same content on all of them can be a missed opportunity to maximize the unique attributes each environment offers.

Take the time to really understand the audience you're reaching on each platform. Who are your followers on each site? What is the overall tone of each site? Instagram, for example, is very visual, with its roots in artistically sharing photos, so that could be a good platform for sharing a picture of a home of the week. Facebook has a vast reach, so that could be a good place to tag photos of customers that they can then share with their networks. Twitter is very time-sensitive, with its roots in breaking information, so maybe that's where you'd share industry news and time-sensitive company announcements. However, keep in mind your followers might not necessarily reflect the broader tone of the platform. Use analytics, figure out who they are, and then you'll be able to communicate with them most effectively.

3) Get it done!

Don't try to "go it alone" if you are making social media part of your business plan. In all likelihood you don't have the knowledge to quickly deploy content on Facebook, LinkedIn, and all of the other social media platforms. You might not even have time to keep even one platform current. Employ a consultant or a firm to do it for you. Experts in social media have tools that make posting very efficient. Once a consultant understands your business, they can help scan the web for interesting posts and expand your content.

Social media can enhance your professional relationships and advance your strategic objectives. I hope you find this article to be a good jumping-off point for utilizing social media effectively for business gain. There are a vast quantity of resources available online that can further assist you, and, if you're time-limited or would prefer not to manage your social media presence yourself, there are many professionals who can help, as well. Good luck!

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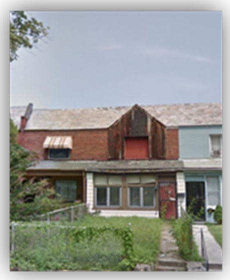
Deal of the Month

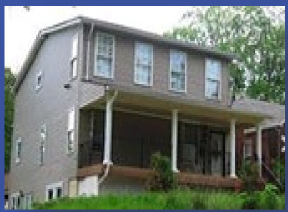
The deal of the month involves a property that we took ownership of via a quiet title lawsuit involving DC tax lien certificates. We invest in quite a few of these instruments in another holding company. The address of this property is 3322 Blaine Street NE. The property had fire damage. The former owner owed back property taxes to Washington, D.C. When an owner owes back property taxes, the D.C. government auctions off these back taxes and creates an instrument called a tax lien certificate. The tax lien jumps to the front of the line as far as liens are concerned regarding the property. It becomes the superior lien of the property. Also, this certificate pays back a generous interest rate to the certificate owner when the property owner catches up on the back taxes. If the property owner does not catch up on the back taxes, the owner of the certificate can start a quiet title lawsuit. This lawsuit can be filed six months after ownership of the certificate. The quiet title lawsuit can take anywhere from one to two years to make its way through the court system. In this instance, the property owner did not pay back the property taxes and we are now the owners of this property. We are currently renovating it for a spring sale.

BEFORE



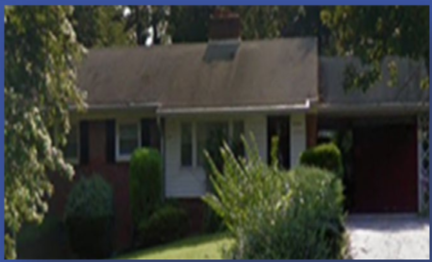
AFTER

November Deals



3721 30th Place NE

4117 Ellis Street



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Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

FEBRUARY 2018

Letter from the Editor

Happy February! We hope you had a wonderful Valentine's and President's Day holidays.

January was very favorable for us. We closed four loans, which totaled $1,154,000. They were all first trusts. Three of the loans were fix/flip loans and one was our first-ever transactional loan! You can read more about this loan in the Deal of the Month section.

CHUCKLE'S CORNER

"The best time to plant a tree was 20 years ago. The second best time is now." – *Chinese Proverb*

FOOD FOR THOUGHT

We are new sponsors of the Northern Virginia real estate investment club TRACTION REIA. Beginning in June, we will be the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We will lead brief presentations of 5-10 minutes at each meeting.

We also have some upcoming speaker engagements. On March 1, we will speak about the X's and O's of hard money lending to a Woodbridge, VA REIA. On April 14, will be at our third Think Realty conference in Baltimore, MD, where we will have at least one speaking engagement. We may also be participating on an expert panel for hard money lenders. Stay tuned for additional details!

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5 Mistakes That Will Prevent You From Attracting Real Estate Leads

Acquiring leads in real estate can be a difficult obstacle for some people. This is because those who are in the marketing game reap the benefits over time. If you want to compete effectively in your market and become a success story, it is necessary to avoid the following mistakes:

1. Not Answering Your Phone
One of the biggest mistakes someone can make is either not answering their phone or having an answering service. Too many times, an incoming call is a hot lead. It can easily become either a hang up call or a call to a competitor who answers their phone.

2. Not Having a Personal Website
This may be one of the worst offenses. If you're an agent, you must a have personal website. Amateur real estate people are not spending the money to get online and build their online presence. Most of them are not aware of the extent to which not having a website is preventing them from attracting leads.

3. A Nonexistent Online Presence
There is nothing worse than having a nonexistent online presence. This is guaranteed to hurt your overall success. The amateurs seem to not have social media accounts, websites, profiles, or business listings online. To get the upper hand amidst local competition, the key is to be everywhere.

4. No Business Cards or Terrible Business Cards
How and why people do business without business cards is beyond me. You, as a real estate professional, must have a way for those who you meet in the market to easily contact you. A business card is a short, sweet intro to who you are and what you do. Additionally, steer clear of cheap business cards . The idea is to promote yourself with your business card.

5. Not Networking
We have a decent-sized business, but I spend about 20% of my time going to Real Estate Investment Associations (REIA's) or meeting with other investors for lunch, dinner, or coffee (even though I do not drink coffee).

The question most people ask is, "Where do I start?" When things get confusing, so many of us just throw our hands in the air and give up. I recommend the following ideas: stay on track, get a website, build your online presence, network with at least one person every day, read at least one or two books or investor magazines per month, and follow a great real estate website, such as thinkrealty.com or biggerpockets.com daily.

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There Is No Tomorrow To Remember If We Don't Act Today

In last month's article, I discussed a potential market peak. That raised some interesting questions from our readers that I'll address this month. Readers asked how I think the market looks for 2018. They also wanted to know how we plan on proceeding with our own flips and investments in light of a potential market peak.

The DC/MD/VA market is "tight" right now. There are many fewer listings than there are buyers for them. All of our inventory has sold and the properties that our borrowers have on the market is selling fast. Sometimes we see a slow-down in the market when inventory levels get low because buyers want to wait until more product comes on before making a selection. We have not seen this at all.

A lengthy government shut down in our region has been averted so I think our local market looks like it is strong and solid for the next 3 months. Some neighborhood prices have stabilized and in other areas there are minor adjustments both up and down. Even with interest rates rising slowly, our market prices are firmly supported through late spring.

What do we do today to plan for future gains and maintain our same risk profile? We continue to add value to the properties that we buy so they are profitable when we sell them. We buy them with a plan in mind on what kind of improvements to the property will raise the values the most.

We don't overpay for properties based on the hope of a market upswing or some unanticipated savings in the construction phase of the project. We simply make sure that the price we are paying today is a good price with upside that meets our profit goals. We also make sure that we are not entering projects with very long completion schedules.

Additionally, we consider what might happen in a market downturn. We determine if we would prefer to quickly liquidate the property at a lower than projected profit margin or if would we prefer to keep it as a rental.

There is not enough market uncertainty at this point to move to the sidelines. It is still a great time to invest in residential assets in our region. So, we keep moving forward today with an eye to the future so we can respond quickly to market changes as they happen.

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INVESTOR SPOTLIGHT

This month, we are welcoming our youngest-ever investor, Dillon Jacknin. Dillon is a 20-year old sophomore at the University of South Carolina, who also happens to be Sam's son. Welcome, Dillon!

DEAL OF THE MONTH

In January, we completed our first transactional loan. Transactional funding is a very short-term loan to facilitate a real estate deal. Real estate wholesalers need this type of funding when they have a house under contract and a buyer lined up to purchase the house immediately.

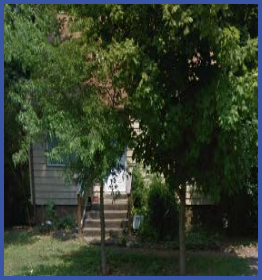
Our transactional deal was from a wholesaler who had a developer buyer lined up for 7577 Alleghany Road in Manassas, VA. Our loan was out for exactly 24 hours. That's right - we funded the loan and received the proceeds within a day. We made a few points on the deal and the money was returned.

DECEMBER DEALS

9412 Brentsville Rd..

1709 Gould Dr.

1819 Anderson Rd.



7577 Alleghany Rd.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JULY 2018

Letter from the Editor

Happy July! We hope you had a wonderful 4th, and are enjoying summer as it kicks into full swing. June was another very productive month. We originated five loans for a loan volume of 2.755M, which was almost the exact same volume as we had in May. The loans were all First Trusts, and three loans were in Maryland and two were in D.C. We also had one large loan close (it was 1.75M; see the Deal of the Month section for details). July will have a smaller volume than June as our available capital is currently outstripped by borrower demand.

CHUCKLE'S CORNER

"If you would know the value of money, try to borrow some.'" – Benjamin Franklin

FOOD FOR THOUGHT

The stock market is going through some rocky times and the housing market looks like it is starting to peak. As an alternative investment, we believe that our notes offer an excellent return. A note from us is a great vehicle for generating a monthly income stream. We have paid out 55 straight months of interest checks since 12/2013. Please reach out to us if you would like to increase your note position.

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Seven Ways to Find Owners of Vacant Houses

Vacant houses are usually the best deals. No one is living there, and someone would probably like to get rid of the property, especially if they're still making payments on it. To make a deal, you have to find the owner. Here are some tips for finding the owner of a vacant house.

1. Tax Records
Check the tax records to see if the owner filed a new address. If so, send them a postcard or letter asking if they would like to sell their house.

2. Postcard
If there is no new address for the owner, send a postcard to the existing address and write DO NOT FORWARD – ADDRESS CORRECTION REQUESTED on the front of the postcard. The post office will send the postcard back to you with a sticker on the front with the owner's new address. Why would you want to do this? Once you get the owners new address, you may want to just knock on their door instead of waiting for mail to get delivered. Time is of the essence, especially in foreclosure situations, so you need to act quickly.

3. White Pages/Internet Search
Look in the white pages for people with the same last name. Call everyone asking if they know how to reach the owner. Be careful here. They may think you are a debt collector. It is a good idea to explain that you are interested in buying their house at such and such address. Some popular websites you can use include www.thatsthem.com, www.zabasearch.com, www.411.com, and www.whitepages.com.

4. Skip Tracer
Hire a skip tracer in your town. Give a local private investigator the name and last address for the owner, and they can usually find them within 24 hours. The cost is $75 – $100 per search.

5. Personalized Note
Leave a note on the front door for the owner to find. Sometimes, the owner will come back to check on mail or get more things out of the house. Leave a bright yellow note taped to the front door that says, "I'm interested in buying your house. Please call me at ###-###-####."

6. The Neighbors
My favorite and most effective method for finding owners of vacant houses is to talk to the neighbors on either side of the property and perhaps the neighbor across the street. Once again, explain that you are interested in buying the house. The neighbors almost always know how to get in touch with the owner. ***ALWAYS*** leave your card!

7. Estate/Obituary Search
The owner of the house may have passed away. You can do an internet search for their obituary or simply go to the courthouse to find out if this person passed away. You can also do a "List of Heirs" search on the property.

I hope these tips prove helpful to you as you try to find the owners of vacant houses!

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Three Negotiation Tools Borrowers Can Use for Working with CSF

Here are three ways our borrowers achieve better terms when they approach us for a loan:

#1: Increase their down payment.

Hard money lenders are constantly managing risk. However, nobody can be sure whether or not a borrower will default. The only way to prove to a lender that a borrower is reducing their default risk is when they increase their down payment. That way, the lender knows that the borrower will do everything possible to avoid a default and the loss of their own money that they have in the deal.

#2: Pay a higher rate and lower points.

In the hard money business, the lender is trying to "turn" their money as fast as possible in order to "churn points" and reduce deal risk. If a hard money lender is charging three points to originate a loan and twelve percent a year in interest, they really want the loan to pay off as fast as possible, so that they can increase their yield.

If the borrower believes that they can get in and out of a deal very quickly, they can ask us to increase their rate and lower their origination points. That way, we get a good yield if the borrower ends up having a longer maturity and we also get the upside of churning the money if they pay it off quickly.

#3: Execute faster.

Executing fast reduces risk and raises everyone's yield. If a borrower has a typical three draw project, they can take three weeks off of the timeline by using a general contractor that we have worked with previously. Assume that the borrower completes all of the framing on your project on a Friday, and their contractor plans on ordering the framing inspection on Monday. After that is complete, the contractor will need to purchase electrical and plumbing materials.

If we trust the contractor, we can advance the draw at the conclusion of the framing and prior to the inspection. If we wire the next draw for the materials on Monday morning instead of waiting a week for the framing inspection to be completed, the borrower has saved a week of time on their project. Assuming that it is a three draw 12-week long project, that can save 25% of the construction time just by expediting the draw process.

Borrowers show their commitment to the deal by increasing their down payment; paying a higher rate and lower origination points to help the CSF "churn money"; and executing faster by using a general contractor that we know well.

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Deal of the Month

The deal of the month revolves around a property on Capitol Hill in Washington, D.C. The property address is 902 East Capitol Street, NE. It is a huge row house minutes from the Supreme Court and the Capitol building. The loan was a purchase/renovation loan. This type of loan is our bread and butter. The difference in this case was the size of the loan - a total amount of 1.75M (1.35M Purchase and 400K Renovation). The property has an After Repair Value of 2.5 M. The LTV to ARV is 70% (pretty conservative). The borrowers are experienced flippers in this high-end space. Stay tuned for more details on their progress!

June Deals

11204 Cherry Hill Rd, #T3

4320 Hawthorne Rd

420 Chesapeake St. SE

618 Southern Ave. SE

902 East Capitol St. NE

Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JUNE 2018

Letter from the Editor

Happy June! We're excited for the arrival of summer around the DMV… and for #ALLCAPS! May was another great month for us (as well as for the Caps). We originated seven loans for a loan volume of 2.798 M. We did all FIRST Trusts. We originated four loans in Virginia, and three loans in Maryland. It was a very productive month. We had on large loan close (1.4M) and another large loan that closed on June 1. June is shaping up to be nearly identical to May. Stay tuned for next month's newsletter to see how the month wraps up!

CHUCKLE'S CORNER

"They say money talks but all mine ever says is 'Goodbye.'" – Jill Shalvis

FOOD FOR THOUGHT

Thanks to everyone who supported us by participating in Catholics for Housing's 5K Run/Walk for Affordable Housing on June 16. Congratulations to Don Palumbo, who won his age group!

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The MLS is Dead.... Here are the Top Ways to Find Real Estate Deals

Marketing to motivated sellers is the key to success in real estate. All of the real estate investing techniques you learn are academic until you find some motivated sellers. The MLS is dead, auctions are thin, and many people are throwing in the towel. But not you… Here are the top ways to find real estate deals that are not the usual MLS listings or auctions.

1.Door Knocking
Nothing beats personal interaction. Knocking on doors is still the best way to find real estate deals. I suggest going to random houses in a defined set of neighborhoods, and asking if the person who answers the door if they know anyone with a house for sale. You can also leave a personalized, handwritten note at homes that are pre-forclosure.

2. Mailers
Mailing letters, postcards, and fake handwritten "yellow letters" to different groups of people can be very effective. It's a good idea to make the letters personalized and to hand-write the envelope. Some possible lists could include non-owner occupied properties (absentee owners), out-of-state owners, those with homes in probate, people who are late on their mortgage but not yet in foreclosure, those who have filed foreclosures, and properties with code violations from the county.

3. "Driving for Dollars"
Drive around targeted neighborhoods and look for "For Sale by Owner" signs, "For Rent by Owner" signs, and abandoned properties with grass grown up, a pile of mail on the stoop, and other indicators that no one is living there.

4. Leveraging Others
You can benefit from relationships with wholesalers, bird dogs, brokers with "pocket" listings, or even hiring a virtual assistant to comb through online listings.

5. Cold Calling
Cold call the For Sale by Owner and For Rent by Owner leads you found from driving around or find them online on Criagslist, Rental.com, 4SalebyOwner, and online classifieds.

6. The Internet
Having a presence on social media, blogs, and real estate investor community websites can be very helpful.

7. Everything Else!
Try magnetic car signs, bandit signs, and *especially* networking – who knows YOU matters!

Finding real estate deals are definitely still possible – it may just require some out of the box creativity on your end!

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Three Things Borrowers Can Do to Foster Faster Closings and Positive Relationships with Their Lenders

When a borrower has a "hot deal", time is always of the essence. Often, the borrower has convinced their seller that the buyer's offer is strongest because of their ability to close fast. Buyers often use time as a key element to negotiation. Fast offers, fast responses, and fast closings tend to bring lower purchase prices that favor buyers.

For lenders funding these kind of deals, time is also of the essence. The lender wants to know when the deal is going to need funding, so that they can plan accordingly. They need loan documents ready and funds available on the day of the closing. A short time until closing is wonderful for a lender because they can deploy their funds and get a deal on the books quickly.

Since both the lender and the borrower benefit from a fast closing, the best practices for getting a deal done should be examined closely. Here are three great ways to make sure a loan gets closed fast and stays on track once it is funded.

1) Be ready to close before a deal is even started.

The borrower needs to know who can deliver a timely hazard/liability insurance binder, as not every insurance carrier wants to work with investors. Some insurance carriers have inspection requirements and others will accept pictures provided by the borrower. The borrower should take time to make sure that their organizational documents (org docs) are in order. Org docs include: a certificate of good standing for the purchasing entity from the state, an employer identification number for their entity from the IRS, and documents that explicitly state who is an authorized signer for the entity. Knowing which title company can close a deal quickly is also critical. In many jurisdictions, the buyer selects the closing company. There is no reason to wait until the last minute to identify a quality closing company.

2) Begin planning and permitting early.

A lender is going to want as many details about a project as possible before committing to the deal and funding it. There is no reason for a borrower to wait until they own a property to determine which contractors they plan on working with throughout the project. Often, a borrower can get access to a house before owning it so they can get an exact price quote. If that isn't possible, then the borrower can certainly meet a contractor outside the house, discuss the scope of work and understand the contractor's availability.

Beyond that, a borrower can determine if architectural plans are going to be needed and start working to understand the permit process. Weeks can be saved on a project by lining up contractors and doing early planning. In urban environments, it can take more than a week to even get a dumpster/demo permit. There is no reason for a borrower to wait until they own the property to start the planning and permitting process. The more details the borrower has about permits, plans, construction budgets and timelines that they can share with the lender, the faster a lender can make a decision on funding a loan.

3) Communicate, communicate, communicate!

Once a project gets going, some borrowers keep quiet and provide no project updates to their lender. This can work out okay if everything goes right, all payments are made in a timely manner, insurance is maintained, taxes are maintained, permits are completed on time, and the final exit strategy goes off without a hitch. However, if there any unexpected events in the project, it is a lot better to have a great communicative relationship with a lender before those exceptions happen. The best way to do this is for the borrower to drop the lender a weekly or bi-monthly email that outlines progress on the project. That way, if the need for an extension comes up or the borrower needs to request a payment forbearance, then the lender already has a great relationship that they want to work to preserve.

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Deal of the Month

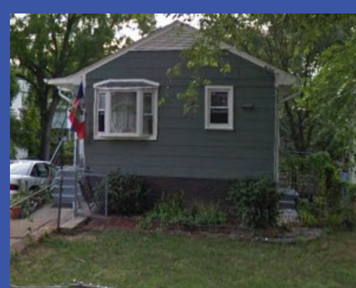
The deal of the month revolves around a property on 5108 Woodland Way in Annandale, Virginia. We closed a loan in **18 HOURS** from the initial phone call! This type of service and execution is unprecedented in the real estate industry. Many thanks to Rick Oppenheim with Atlantic Settlement Group for helping us to close so quickly!

Charlie received a call at 6:00 p.m. on May 21 to fund a deal that was foreclosing on May 23 at 2:30 p.m. The property was worth $625,000. The owner only had one loan (the foreclosing loan) in the amount of $289,725. This house was under contract in the MLS for $625,000. The listing agent, who was a previous client of CSF, called us to see if we could help save her deal.

Upon receiving the call, Charlie immediately phoned Rick to do a quick title bring down. We needed a title search so we could get title insurance for the loan. We received the results of the title search the next morning and we had the deal closed at noon on May 22. The house is still under contract and should sell to the new purchaser on June 30 and our first trust will be paid off!

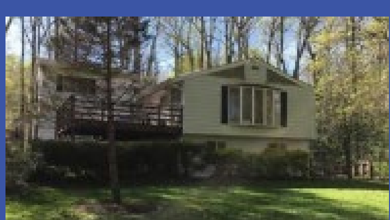
May Deals

31055 Lumber Road



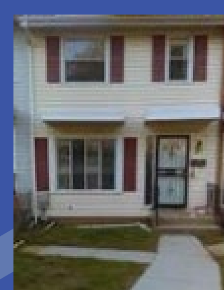
3711 35th street

411 Briggs Chaney Rd



5108 Woodland Way

13201 Putnam Circle



90 Daimler Dr.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

MARCH 2018

Letter from the Editor

We hope your springtime is off to a wonderful start. February was a slower month for originations. We originated three loans for a loan volume of 1.115 MM. March is shaping up to be a busy month for originations and for loan paybacks, so stay tuned! We have already done five loans so far this month, and we still have almost half of the month left to go.

CHUCKLE'S CORNER

Sometimes all you need is a billion dollars.

- *anonymous*

FOOD FOR THOUGHT

We will be participating in our 3rd THINK REALTY conference in Baltimore, MD. The event will take place on Saturday, April 14, from 9:00 a.m. to 5:00 p.m. We will have a booth, and will also be doing a breakout session after lunch. Our presentation will be "THE X'S AND O'S OF HARD MONEY LENDING". Please join us!

Additionally, we are new sponsors of TRACTION REIA, a Northern Virginia real estate investment club. TRACTION REIA has monthly meetings with an average of 100 attendees, most of whom are new to the investment space. Beginning in June, we will be the only hard money lender sponsor. We also speak for 5-10 minutes at each meeting. We hope to see you there!

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The Nine Biggest Real Estate Mistakes and What to Learn from Them

As a real estate professional, you are constantly being challenged. You need to make decisions that ultimately affect your buyers and sellers and, of course, your business. These choices can lead you down one of two paths: success or failure. Mistakes are inevitable, as with any venture, but your response to those mistakes can mean the difference between a successful business and an early exit from the industry.

1. Understand Your Investment Personality
Gaining a deep understanding of your style of investing is crucial with real estate. Some like to be adventurous and flip for profit, others like a steady cash flow. Whichever you choose, make sure it's something you see yourself doing day in and day out. Otherwise, you'll wake up in 10 years having created a job for yourself and not the dream you wanted.

2. Hire A Professional Home Inspector
Spend the time and money to hire a professional home inspector. Even for smaller deals that might be all cash, an inspector can help you negotiate a better price or avoid a money pit altogether.

3. Trust, But Verify
Relying on representation about a property's condition when investing may not always work out favorably. Having independent reviews by licensed professionals can allow you to validate any representations about a property's condition. For example, an inspection report or an appraisal before buying a property can provide an independent opinion on the potential risks that need to be addressed.

4. Don't Be in A Rush
As the old saying goes, "bulls make money, bears make money, pigs get slaughtered." The real estate market is cyclical. If you have the wherewithal to hold an asset long term, you should not be in a rush to sell over market speculation. However, if you are looking to offload an asset quickly, ask yourself if it is really worth that extra percentage point or two by holding out for a specific price.

5. Keep Your Cash and Make Huge Profits
Some grew up learning that you pay cash for everything, including your house. Living debt-free is a great way to live. However, real estate investing is a different animal. Spend a fraction of your liquid cash to purchase 10 homes instead of one. Have the renters pay off your mortgage in 10 years, and now you have 10 homes providing cash flow instead of one. Let renters pay off loans and you will profit.

6. Make You and your Business Scalable
We always have the discussion of what business should we focus on - hard money vs. flipping. The problem with flipping houses is that it is not as scalable as hard money or even wholesaling. Also, as any realtor knows, it is much easier and scalable to just collect listings than to work with buy clients!

7. Stick to Your Criteria
You know that sickness we all get from time to time, called "dealitis?" When you just need ONE more deal or feel excitement around a property so you loosen up your buying criteria? The side effects can be lost money, lost time, frustration, sleepless nights and general malaise. Leave yourself open for better deals. Stick to your guns; an ounce of prevention is the only cure.

8. Make Sure You Hire the Right Contractors
Contractors will make or destroy a beautiful, rehabbed house and investment. They can break the bank or work with it! Find a good, reliable contractor when doing rehabs. This is the best advice that I can give from my experience.

9. Don't Hold on for the Turnaround
We had six rentals that were upside down due to the market crash in 2007/2008. We had to pay the banks money for a capital call. We thought about selling the rentals but would have lost a lot of money. Instead we met the capital call, held on to the houses and both the houses and rents are closing in on record highs.

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Institutional Funding of Alternative Financing Companies

There are many changes taking place in the alternative financing space. Investment companies and individuals are anxious to deploy capital at high rates of return into what they see as a stable real estate market. Most interesting is the entry of institutional money into the space. We recently spoke on a panel with a competitor whose capital comes from large financial institutions. It was a great conversation that gave us an opportunity to clarify our understanding of their product positioning and of how they are funded/capitalized.

While the competitor's lending operation is local, they are selling all off the underlying notes and most likely the servicing of the notes to an institutional investor. Effectively, our competitor is a loan broker for hard money loans. The institutional investor who they sell their loan product to manages risk just like any traditional lender. They run credit and require a 20% down-payment from investors. While this might seem like a good qualifier, it doesn't get to the fundamentals of any flip.

To know if a flip is going to work, the borrower's track record and ability to execute needs to be qualitatively evaluated. How much equity the borrower has in the transaction is important, but not as important as their motivation and how much they stand to make upon completing the transaction. A 20% down-payment helps mitigate risk, but not nearly as much as understanding the marketability of the property after it is repaired. For example, a house that could technically appraise but is located in an area that is moving slowly is a serious risk and could slip through the traditional lender's risk evaluation model.

Nationally funded hard money companies have entered the marketplace for the last 12-18 months, but they are not here to stay. As institutional interest rates rise, our competitors who use institutional financing will find that their margin between their cost of funds and the rate they lend at will be compressed. They rely on scale to make money and a large staff will be a huge burden in a downturn. If and when the market takes a downturn, they will have their funds deployed in areas and houses that are hard to move and their exit strategy won't be locally driven. They won't have a network of local contractors to call on to finish products and their cost of liquidating properties will be higher than ours.

I believe that in the long term, fix and flip lending will continue to be driven by lending businesses who are close to their customers and understand their projects. Having a principal spend time close to a customer may limit the scalability of our loan operations. However, this is the best way to mitigate risk and provide positive results in the long-term for investors and borrowers alike. To that end, Clear Sky Financial is staying close to both our investors and our borrowers.

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DEAL OF THE MONTH

This deal involves our sister company, Clear Sky Properties, LLC. We own and have flipped many properties in this LLC. We recently did our first Contract for Deed (Land Contract). A Contract for Deed is a contract in which a property title is transferred only after the buyer performs on a contract to buy the property. The deed is held in escrow until the completion of the contract. This type of transaction is performed when a buyer cannot qualify for a mortgage, but has a good income and a decent down payment.

We purchased this property as a foreclosure from the courthouse steps for $322,746. The occupant was the former owner who was going to bring the loan current but couldn't access her money to stop the sale. She wanted to stay and continue her ownership interest in the property. We agreed to do a Contract for Deed. About a month later, we sold it back to her in the form of a Contract for Deed for $425,000 with a 50/50 split of any profits above $475,000. The After Repair Value of the house at the time was $480,000. So it is a win/win. We are the bank on this transaction as we are holding the loan for $410,000. Once she pays off the $410,000 plus a 50/50 split of any valuation over $475,000, she will own the house. She has three years to do this. We will help the former owner get her credit restored, as there is a foreclosure on her record.

DECEMBER DEALS

2425 Central Ave.

6300 Dana Ave.

7536 Campbell Court

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Private Money Update

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CLEAR SKY FINANCIAL NEWSLETTER

MAY 2018

Letter from the Editor

We hope you're having a wonderful May. It's hard to believe that spring is already in full swing! April was another strong, steady, and productive month. We originated six loans for a loan volume of 1.362 M. All of the loans were First Trusts, and two loans were in Virginia, two were in D.C., and two were in Maryland. We also have been preparing for two very large loans coming up in May and early June.

CHUCKLE'S CORNER

"If all the economists were laid end to end, they'd never reach a conclusion."
– George Bernard Shaw

FOOD FOR THOUGHT

We have been or will be participating in multiple charitable events. On April 28, Sam, his wife Laura, and our crew of about five workers participated in Rebuilding Day with Rebuilding Alexandria. Our team was assigned a house to work on for the benefit of an elderly gentleman. They spent the entire day doing odd jobs around the house, which included landscaping, painting the porch, and some interior work. The owner was very pleased with their work.

We are also participating in an upcoming event, Catholics for Housing's 5K Run/Walk for Affordable Housing, which is taking place in Bull Run Regional Park in Centreville, VA, on June 16 at 9 a.m. You can register now or learn more at http://cfhva.org/2018-5k-for-affordable-housing/. We will be hosting a barbeque at the end of the race for our group and their families.

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Six Factors to Consider When Searching for a Hard Money Lender

Thank you to those who attended our presentation on the "X'S AND O'S OF THE HARD MONEY BUSINESS" at the THINK REALTY EXPO in Baltimore! One of the questions we were asked at the event was, "How do you vet a hard money lender?" Below are six factors to consider when searching for a hard money lender.

1. Experience
Many lenders are generalists. They lend money for all types of properties and all types of borrowers. This lender does not really understand the intricacies of hard money loans or the specifics of lending to investors. You want a lender who specializes in lending to investors and has experience doing it. If the lender has prior experience being an investor, that's even better. Clear Sky Financial not only has five years of experience in the hard money business - we also have 17 years of experience flipping houses. We have flipped over 250 houses and we have experienced and managed almost every concern that our investors may encounter.

2. Speed
Often the difference between a successful deal and a failure is the speed at which it can be done. You want a lender who can do your deal quickly. You also want one who will get back to you on a timely basis when you have questions or concerns. Clear Sky Financial can close a deal in less than 24 hours, provided the title search has been completed. Typically, we close most of our deals in two weeks or less.

3. Professionalism
Anyone with enough money can call themselves a hard money lender. It is important you choose a professional. A few years ago, the hard money lender was a scruffy person sitting in the corner at REI meetings, holding whispered conversations with customers. Today, they're more likely to be college graduates who majored in business and finance, and who have specific, verifiable programs for loans and do not make up the terms as they go. A professional will have a website, business referrals, and, most importantly, several customer referrals.

4. Reliability
The lender you choose needs to be able to show you proof of his reliability. They will have a good reputation and verifiable references and testimonials. They will also provide lender letters and proof of funds, if necessary.

5. Competitive Rates
Thankfully, the old days of 15%-20% rates on hard money loans are long gone. In today's economy, rates are much more favorable to the borrower. Make sure your lender has kept up with the times and offers you the best rates available today. They should also be able to offer you a variety of programs for Fix/Flip, Buy/Hold, Bridge Loans, Transactional Loans, and Cross-Collateralization Loans. Clear Sky Financial offers all of these loan types.

6. Audited Financials
If you have two or three lenders that you like, this factor might be the hard money deal-breaker or hard money deal-acceptor. A company that has audited financials from a third-party accounting firm carries a lot of weight. There are a lot of new companies in the space that are not organized enough for this level of detail.

The right hard money lender can add immense value to your investment program. They can make the difference between just getting along and being wildly successful. Once you have found the one who is the right match for you, you will be able to form a relationship that can last through the years and be very beneficial for both parties. If you are in the process selecting a hard money lender, or may be in the future, we invite you to consider Clear Sky Financial. We are experienced, fast, and reliable professionals, and we offer competitive rates and have audited financials.

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Making Moves- Times to Raise Capital

We are positioned for growth. There is much more demand for our loan products than we can satisfy with available capital. This demand has been generated through our original marketing methods and client outreach. We haven't added additional marketing support staff or started reaching out into the marketplace in new ways. Our processes and systems are in place that will readily support doubling our production and holdings. So, our biggest constraint is the availability of capital.

We are seeing a trifecta of events that are expanding the number of contacts we have with borrowers looking for loans. First, deal finders are finding fewer deals to wholesale and now the wholesalers are turning into direct investors. Second, hard money lenders are seeing that the market has topped off and are taking a very conservative approach to lending which sends borrowers into the market looking for new money and relationships. Finally, some deals that borrowers have done with their old lender have not worked out well and the borrowers are looking for a fresh start with new assets and new lenders.

We have three vehicles for capitalizing our business: notes to investors, community bank loans, and our own capital. While we enjoy great banking and investor relationships, expanding organically through those channels limits our ability to lend on excellent transactions that are coming up in the region. Therefore, we are seeking to expand our reach into other parts of the investment community. Soon, we will establish a fourth path for raising capital to meet the demand from borrowers. The new approach maybe a private placement fund or a direct investment from a family office/high net worth investor. Look for an update from us over the summer about how we are handling growth.

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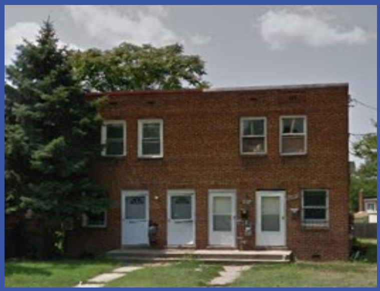
April Deals

6160 Coventry Ct.

6100 Maple Rock Way

150 Polk Dr.

2605 Irving Street NE



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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

November 2018

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. 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 nine loans for a loan volume of 1.445 MIL. Seven loans were First Trusts and two loans were Second Trusts. We originated four loans in Virginia, four loans in Maryland, and one loan in Wilmington, NC. The percentage of the total loan volume (LTV) to after repair value (ARV) was about 57% LTV/ARV.

CHUCKLE'S CORNER

You can't wait for inspiration. You have to go after it with a club.

-Jack London

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Eight Habits of Successful Real Estate Investors

Real estate investing is a competitive industry, but there are certain characteristics that many top real estate investors share. Here are eight habits that can help propel you to the top of the field:

1. Make a Plan
Real estate investors must approach their real estate activities as a business in order to establish and achieve short- and long-term goals. A business plan also allows investors to visualize the big picture, which helps maintain focus on the goals rather than on any minor setbacks. Real estate investing can be complicated and demanding, and a solid plan can keep investors organized.

2. Know the Market
Effective real estate investors acquire an in-depth knowledge of their selected market. Keeping abreast of current trends – including any changes in consumer spending habits, mortgage rates and the unemployment rate, to name a few – allows real estate investors to plan for the future. This enables them to predict when trends may change, creating potential opportunities.

3. Develop a Niche
It is important for investors to develop a focus in order to gain the depth of knowledge essential to becoming successful. Taking the time to build this level of understanding of a specific area is integral to long-term success. Once a particular market is mastered, the investor can move on to additional areas using the same in-depth approach.

4. Be Honest
Real estate investors are usually not obligated to uphold a particular degree of ethics. Although it would be easy to take advantage of this situation, most successful real estate investors maintain high ethical standards. Since real estate investing involves people, an investor's reputation is likely to be far-reaching. It is better to be fair, rather than to see what one can get away with.

5. Build Your Referral Network
Building a referral network extremely important. This should generate a sizable portion of a real estate investor's business. This includes realtors, insurance agents, lawyers, accountants, financial planners, and anyone with whom the investor has a business relationship. Effective real estate investors pay attention to detail, listen and respond to complaints and concerns, and represent their business in a positive and professional manner. This builds a positive professional reputation.

6. Stay Educated
As with any business, it is imperative to stay up to date with the laws, regulations, terminology and trends that form the basis of the real estate investor's business. Investors who fall behind risk not only losing momentum in their businesses, but also legal ramifications if laws are ignored or broken. Successful real estate investors stay educated and adapt to any regulatory changes or economic trends.

7. Understand the Risks
There are several risks associated with real estate investing depending on what strategy(ies) you are using. The macro economic indicators along with micro indicators are important as well. Understanding the property as much you can, so you can make an informed decision. How much renovation is required for a flip, or a rental? Could a future development impact the property?

8. Find Help
Learning the real estate investing business is challenging to someone attempting to do things on their own. Effective real estate investors often attribute part of their success to others – whether a mentor, lawyer or supportive friend. Rather than risk time and money tackling a difficult problem alone, successful real estate investors know it is worth the additional costs (in terms of money and ego) to embrace other people's expertise. Attend local REIA's (Real Estate Investment Associations) to find experts.

Despite abundant advertisements claiming that real estate investing is an easy way to wealth, it is in fact a challenging business requiring expertise, planning and focus. In addition, because the business revolves around people, investors benefit in the long run by operating with integrity and by showing respect to associates and clients. Though it may be relatively simple to earn short-lived profits, developing a long-term real estate investing business requires skill, effort and these eight important habits.

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Focus and Action

Every real estate investor has a three-part dream. Firstly, they hope to find a deal of huge economic value. The second part of the dream is that they recognize the opportunity that they see. Finally, the investor must be ready and able to act on their discovery. The investor is rewarded when he/she makes all parts of the dream happen. If you really want to experience regret, find a great deal and then pass on it because you don't see the value. When the next person comes along and extracts the value, you might have a real fit over your missed opportunity. Recognizing that there is a deal may cause excitement; but wait until it is complete before celebrating. The final step of acting/closing can require courage; but being well-prepared to act reduces stress. Action alone is insufficient to bring success because acting on bad deal or without direction can cause devastating monetary losses. Knowing that there is a deal but not being ready to act on it is also a recipe for long-term regret.

Getting prepared for the last step, action, is our first step in the process of putting a successful deal together. We don't have knowledge of when deals will come up in the market or what they will be; however, we do know that we need to be ready for the times that the deals show up. Our banking, accounting, back-office, and contractor network is always at the ready. When we discover a deal, we are ready to "roll out" and put it together. This readiness enables us to focus on deal acquisition and analysis at critical times. We do not find ourselves in front of a prospective seller debating on if and when we can buy a property. We arrive ready to buy the property at any moment and close in a day.

The ability to act is the value that we create for our borrowers in the hard money business. Prior to the borrower finding a deal, we discuss the characteristics of a successful deal. We go over in detail how our closing process works and what is involved with bringing a deal to closure. This empowers new and experienced investors to compete on an even playing field. When a borrower sees a deal that makes sense financially, we can issue a lender's letter immediately and close in a few days. This puts the borrower in a "ready" state for success. Our long history of residential investing is something that we leverage every time we invest. The great thing about our hard money lending business is that we have found a way to share our experience and preparedness with other investors while diversifying our own financial interests. This sharing of experience and capital creates a win-win for Clear Sky Financial and our borrowers.

The Clear Sky Financial borrowers can spend the bulk of their time focused on the first two parts of the investor dream; identification and recognition. It is a full-time job to scour the environment for properties with upside after repair and good entry prices. Someone needs to review the property in person, understand how it can be transformed, and build a good relationship with the seller. These are areas of the business where investors with ambition and persistence (focus) can really be successful. Our perfect scenario for financial success is when we work with an investor who is focused and works with us to act on investments that they uncover. Focus and action, those are the core ingredients for prosperous real estate investment.

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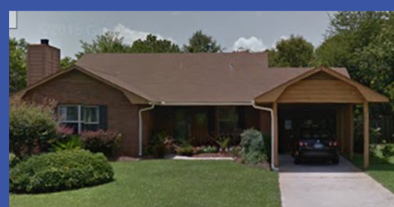
October Deals

1533 Aiden Drive

5515 Heming Ave.

2001 Griffith Road

21481 Rusty Blackhaw Sq.



3418 Marsh Hawk Ct.

11403 Berland Pl.

18939 Birdseye Ter.

102 Daimler Street

12300 Lisborough Rd.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

OCTOBER 2018

Letter from the Editor

This year is chugging along really quickly – it's hard to believe the fourth quarter of 2018 is upon us! We wish you the greatest of success in your endeavors as we enter this final quarter.

September was a relatively slow month for loan originations for us. We originated four loans, two of which were First Trusts and two of which were Second trusts. Of the four loans, three were in Maryland, and one was in Virginia. October has been a very fast-paced month so far. We have already closed seven loans, and we expect an additional three or four to close soon.

CHUCKLE'S CORNER

"If plan A fails, remember there are 25 more letters.

– Chris Guillebeau

Deal of the Month

This month's Deal of the Month was a Second Trust, located at 1620 Fort Fisher Court, Dumfries, VA 22026. This deal was small but mighty! The property was undesirable to banks because it was both for sale in the MLS and under contract. The deal wouldn't make sense for a bank, because the money would come right back to them very quickly after they made the loan.

What might not make sense for them, however, definitely made for good business for us! The return on an investment like this would be very high with consideration to the interest received, the origination fees, and some payoff fees. As a result, these kinds of loans are exactly in our wheelhouse.

The seller needed funds quickly – before the sale of his house closed. We closed/purchased this loan in less than 24 hours with the assistance of a local attorney who originated it. The loan was a $55,000 Second Trust, and was behind a First Trust of $70,000. The total encumbrance on the house was $125,000. The house was already under contract for $212,000, giving us a Loan to Value Ratio (LTV) of the After Repair Value (ARV) of 58%. This represents a very safe loan… and the loan has since been paid back.

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Six Tips for Purchasing Properties at Real Estate Auctions

There are many ways to purchase real estate. The most popular is through the Multiple Listing Service (MLS). However, there are many additional ways to purchase properties, as well. These methods include buying the property directly from the owner and at real estate auctions. Here are a few tips to keep in mind when purchasing properties at real estate auctions:

1. Get to Know Your Local Bank or Hard Money Lender

Homes sold at auction are often foreclosures or they have already been foreclosed (REO's). The lender wants to make a quick sale and get a portion or most of their investment back. Depending upon the equity in the home, this means you can sometimes find good deals through these auctions. Take the time to reach out to your local banks and let them know you're interested in investment properties. They may even let you know when they have foreclosures available and are getting ready to hold an auction.

2. Study Local Real Estate

If you are not familiar with the local real estate market, it will be impossible to know whether that auction price is a good deal or a bad one. One of the elements both buyers and sellers like about auctions is that you do not have to negotiate terms and go back and forth. However, this is also a drawback if you aren't familiar with what that home is worth in the exact condition it's in.

3. Talk to Contractors

Auctioned homes are almost always sold as-is. That means you need to become familiar with potential problem areas and how much it costs to fix and upgrade the house. For example, if the roof looks as though it's ready to fall in, how much will it cost to replace the roof? Take the time to talk to local contractors and get general estimates. While you may be able to complete smaller jobs on your own, you'll need a list of professionals to come alongside you and fix serious issues. Knowing the potential cost also allows you to determine if you can afford that "great deal" at the auction or not.

4. Learn How Auctions Work

Buying a property at auction is entirely different than going through a realtor. There are two models for auctions — they're either instant, in real-time, or they happen over a few weeks with a minimum bid set or online bids taken. When the bidding gets down to a single bidder willing to pay the top price, the auction closes. You'll either need to pay immediately, which means you will need financing ahead of time, or you'll place a five- to 10-percent deposit and pay the remainder within 30 to 45 days. Talk to the auctioneer ahead of time to learn the terms of a specific auction. It is also very important to know if there is a buyer's premium and, if so, how much it is, so you are prepared to bid.

5. Figure Out the After Repair Value (ARV)

If you need to secure funding from a lender, understand that they typically only lend 65 to 75 percent of the purchase price. Hard money lenders will lend 65 to 75 percent of a home's after repair value (ARV). You will likely have to make up the rest in the form of cash down. This is where knowing the market and what a home is worth after rehabilitation comes in handy — you'll be better able to determine if that great deal is one you're ready to bid on or not.

6. Drive by the Property

Much of the time, the home is foreclosed, and you'll be unable to get inside to determine the condition of the house. If the person has not paid their mortgage, it can be a good idea to assume they have not had the funds to keep up with maintenance, and to plan for multiple repairs and cosmetic upgrades. Take the time to drive by the property and get a general idea of the condition from the outside. Take the time to look at the roof carefully. Does it look like it needs to be replaced? You can also determine a lot from the age of a home. A newer home may not need a new furnace, while an older home likely will. These types of big-ticket item costs add up quickly.

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Back Office Management Through Tracking Systems

How does a hard money company track all of its transactions and accounting? How do we know what borrowers owe us and when we owe noteholder's money? Here at Clear Sky Financial, we rely on a lot of systems and processes to keep us informed. We have a loan tracking system and an accounting system. Beyond ordinary software backups, we keep a manual accounting of data with which to cross-reference our automated systems.

Our adoption of a loan tracking system evolved over the life of our company. When we first started tracking loans, spreadsheets were adequate. Once our company outgrew spreadsheets, our first foray into a fully-automated loan tracking system resulted in the use of a cumbersome system that couldn't deliver logically compiled reports and management information. From there, we migrated to a fully outsourced loan tracking system. The outsourced system inhibited communication between our borrowers and our company. Finally, in late 2017, we adopted a loan tracking system that is web-based and enables us to quickly review any loan account. This web-based system also allows borrowers to check their account status and make payments online.

After capturing all of the loan transaction data, we need to get that data into our accounting system. The accounting system is Quickbooks and it is hosted by an authorized provider that backs up our data. Our most recent system integration effort is designed to automatically get the data from our loan tracking system transferred directly to Quickbooks without any manual data entry. Once this is completed, it will speed up our back-office process and reduce the possibility of data errors. Integrating two programs like these requires consultation with technical professionals from each software provider. We have targeted Q4 to complete this full system integration.

What actionable outputs are there from a loan tracking and/or accounting system? The loan tracking system lets us know when a payment is late. We can immediately contact the borrower to get their payments on track. If a loan is maturing in 30 or 60 days, we can start working on an extension for it or plan for the payoff. Late payments and extensions are a source of additional revenue, but they need to be closely managed so that a loan doesn't get in trouble. The late report and maturity report are good tools to reference when planning physical site visits to properties. If a loan is late or maturing, it is likely a good candidate for a field visit to check on the physical status of the property. Our accounting system produces a plethora of actionable reports.

Our back-office process is designed to "close" our books monthly so we can track our P&L and Balance sheet at any given point in time. This enables us to be prepared for our annual audit, banking requirements, and tax preparation. Staying on top of our numbers enables us to have the most accurate information about our business to make effective and profitable lending decisions.

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Food for Thought

Are Higher Interest Rates Hurting the DC Metro Housing Market?

Recent market data for the Washington, D.C. metro area suggests that this could be the case.

According to Bright MLS and data collected through October 3, 2018, the D.C. Metro area median sales price rose 3.7% to $420,000 compared to this same time last year. This brings the median sales price in our area to the highest September level of the decade. Average 30-year fixed rate mortgages currently sit at 5.00%, according to Mortgage News Daily, which is the highest level in the past seven years. The average 30-year fixed rate this time a year ago was around 3.92%. A full percentage point move like that means on a $400,000 loan amount borrowing costs have increased approximately $237 per month on average.

Bright MLS data shows that closed sales for the month of September were down 10% from last year and 28.2% from August. This was the largest single month drop in year over year sales since May of 2014. Interest rates made their most aggressive move towards the high side at the end of August and into the beginning of September. The yield on the 10-year treasury note, which doesn't set mortgage rates but is the general benchmark of U.S. rate movement, sat at 2.86% on August 31, 2018. It had moved to 3.07% as of October 1, and currently sits around 3.19%, a significant 33 basis point movement higher. The 3,636 closed sales in September fell below the 5-year average of 3,909 and the 10-year average of 3,694. September's new pending sales also fell and were down 7.6% from last year and 6.4% from last month. With that being said, new listings in September were also down 3.3% from the same time last year, but were up 11.1% from August. Active inventories were down 3.3% compared to September of last year; however, they were up 8.9% from August.

Time will tell for sure, especially when we get into the busier spring buying months. It will be interesting to see how active the market will be at that time, the year-over-year changes, and if interest rates continue their upward pace.

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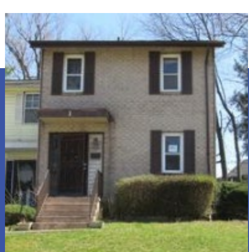
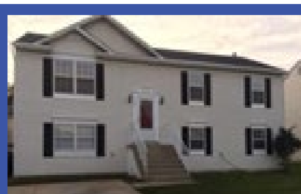
ACM ATLANTIC COAST MORTGAGE

September Deals



1 Daimler Street



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4108 Havard Street

1620 Fort Fisher Court

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

September 2018

Letter from the Editor

As we transition to fall and welcome the kids back to school, we want to wish you a happy September! We hope you had a chance to enjoy some family time,and catch up on rest and relaxation over the summer. August was a good month for loan originations. We originated four loans. All of the originations were First Trusts. Two loans were in Virginia and two loans were in Maryland.

CHUCKLE'S CORNER

"The lack of money is the root of all evil."

– Mark Twain

FOOD FOR THOUGHT

Do any of you have an article you want to write or a business that you want to promote? We would be interested in promoting any business in the financial/real estate arena if it correlates with our finance company. Good examples would be Title Companies, Mortgage Companies, Insurance Companies, etc. The only requirement that we have is that you need a good article that accompanies your ad. WHAT IS BETTER THAN FREE ADVERTISING?

In This Issue:

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Ten Questions to ask a Hard Money Lender Before Applying for a Loan

Hard money lending is a quick and easy financing solution to fund real estate investments, such as rental properties, rehab financing and fix & flips. Find out if hard money lending is the right financing option for you by knowing the right questions to ask.

1. How much experience do you have in hard money lending?
Dose the lender have sufficient experience in hard money lending loans? How long has the company been in business? The more experienced the hard money lender, the better.

2. Are you a direct hard money lender or will you broker this loan to another company?
A direct hard money lender will process and fund the entire loan with internal resources. A hard money lender who only brokers loans will send the request to another source for funding.

3. Do you have references from previous borrowers?
A reliable hard money lender will share plenty positive reviews and testimonials from satisfied clients. You can also check their website, Google and social media platforms for reviews.

4. What is your interest rate and how many points do you charge?
Interest rate and points are generally the two factors that determine the overall cost of the loan. Your lender should be able to explain it in detail.

5. Any other fees for originating a hard money loan?
Ask about upfront fees and factor them into the total cost of the loan. Standard transaction fees such as escrow, title insurance, recording and notary fees apply to all loans but these are not fees paid to the hard money lender.

6. What loan to value of the after repair value are you able to offer?
In the hard money business hard money lenders loan out based on the after repair value (ARV) of the asset. The loan to value ratio (LTV) of the (ARV) is the loan amount the lender will allow based on the fixed up value of the property. This ratio can vary from lender to lender. The LTV/ARV percentage will also vary based on the property type and age.

7. Is there a pre-payment penalty?
Some lenders have a small pre-payment penalty which means a minimum amount of interest must be paid on the loan.

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8. How long will it take to fund the loan?
Hard money lenders should be able to approve and fund a hard money loan within 2 weeks, or even 3-5 days in some cases (to save a deal). Loans against owner occupied properties usually take longer.

9. What are their loan terms?
Hard money loans are normally for short term use only. In general, terms of 12 months to 5 years are available but some lenders may only offer 1 to 2 years.

10. Do you lend rehab costs for a fix and flip project?
Find out if the lender offers rehab cost financing. At times, investors need a loan to cover rehab in addition to purchasing the property. Some hard money lenders are able to provide financing for all or a portion of the rehab costs.

Sam's Corner

Demographics, Real Estate Trends and Targeted Investment

There are some very negative demographic trends in the real estate market. In the DC metro market, not many people discuss them. However, they impact our market and are worth examining. The population is aging, and low fertility rates reduce the number of adults that come of age each year. Behaviorally we are seeing other changes that are adverse to an expanded housing market. An all-time low in household size was reached in 2001 and 2003. Since then, household density has been on an upward trend.

The national trends toward low fertility and increased household size may have an overall softening effect on housing; however we can use this information to make targeted purchases of more desirable assets. Looking at Millennials, we see that they are very social and are living together with family and friends their own age. They are marrying later and are comfortable living with their adult parents that are not seeking empty nest lifestyles. What we find here is that "group" lifestyles matter to consumers. Building or modifying houses to include extra bedrooms or semi-private units increase their marketability. Anytime we can add a bedroom to a flip we do it. Housing that is suitable to an aging population is also very desirable. We recently flipped a disability accessible house and it moved very fast with multiple of escalating offers.

We invest locally and so do our borrowers. Finding a property at a value price point and adding value is critical to success in the flipping business. Watching national trends and applying the lessons locally is also essential.

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August Deals

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