Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

AUGUST 2017

Letter from the Editor

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

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

CHUCKLE'S CORNER

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

- Ben Franklin

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Charlie's Corner

CLEAR SKY FINANCIAL NEWSLETTER

AUGUST 2017

Five Rules for Buying Foreclosures at Auction

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

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

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

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

2. Bidding/Deposit/Buyer Premium: Know how much you plan to pay and stick to it.
Not only do you need to stick to your bid, but you need to leave a cushion for the worst-case scenario. As long as you always leave room in your budget for surprises, you will be a winner in the end. Also, you need to know the required deposit amount and if there is any buyer premium. These two items will factor in to determining your maximum bid amount.

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

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

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

5. Don't Break the Law: Stay Away from anything that could be considered collusion.
Collusion and Bid Rigging are big no-no's. You might be at a small auction and there are only 3 of you there. Somebody says, "How about I buy this one and then you buy that one?" You agree, and suddenly you have committed a Federal Crime punishable by up to 10 years in jail. We have seen bidders go to jail for doing this with as little as a wink here and a nod.

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

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Risk Reduction and Performance Excellence

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

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

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

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FOOD FOR THOUGHT

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

JULY DEALS

4226 Ardmore Place

1596 Courthouse Rd.

262 56th Pl.. NE

128 Ingraham Street

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Private Money Update

Letter from the Editor

Happy holidays! We hope you and your family have a happy and enjoyable holiday season. This month marks the four-year anniversary of the following investors' initial investment with us: Lesly/Jerry, Rick/Ronnie, Andy/Jody and Seth/Susan. These members have received 48 months of CSF payment checks!

In November, we originated 3 loans for a loan volume of 855K. This was the calm before the December storm: we have already closed 5 loans, and have another twelve in the queue (most likely, at least 6 of those loans will close this month.) It looks like it is time to expand our banking relationships – keep reading for more information!

CHUCKLE'S CORNER

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

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6 Daily Habits of Real Estate Investors Who Seek Financial Freedom

1. Decide and conquer.

Focus, focus, focus. You, the person reading this, are a gifted person with many talents. However, you still have a limit as to how many things you can do successfully at one time. Real estate investing is no different. Choosing a real estate specialty to focus on and dominate in your desired market will allow you to put your energy and daily action towards helping one group of sellers. Be loud and proud. Make sure to network with other real estate investors to find out what they do, and inform them of the properties you are looking for. You can always partner or wholesale unwanted leads you get to investors with other areas of real estate expertise.

2. Make incremental improvements.

Aim to not make the same mistake more than one time. At the end of each week, write down all the successes and failures of the week. Mentally walk through each day with an open mind to objectively point out what actions have produced results or continue to waste time and money. Always be reading and continuing to educate yourself. Consider joining or forming a REI (Real Estate Investment) club with other like-minded real estate investors and entrepreneurs. There are many REICs in our area.

3. Keep your eyes on the prize.

It is too easy to let hours pass by without being productive. These hours turn into days, which turn into weeks and longer. The real world oftentimes has a habit of distracting us from our long-term financial goals and ambitions. For this reason, a prudent investor may write down and hang up a list of weekly/daily must-do's. Hang this physical reminder around your home and office to help keep you on track. Motivate (or guilt) yourself into consistently producing results. Post reminders, quotes, and pictures of goals and achievements you wish to attain through your real estate investing all around your home, office, and car—a dream board everywhere you go. However, also make sure to include the custom list of action tasks to perform daily to help grow and maintain your investing business.

4. Consistently advertise.

When does the advertising stop? With enough time and data collected, an investor will begin to see which advertising methods work better than others. You'll be able to work out how many dollars spent on advertising equal what specific profit from real estate deals closed as a result of that advertising. For many investors, advertising and marketing is a consistent and ongoing necessity of the business.

5. Be a sponge.

Consider joining a local real estate investment club. Still, hold onto your wallet closely, as some real estate clubs are more about selling you programs as opposed to providing quality content. Additionally, listen to podcasts that interest you and thoroughly look through this website to learn more and ask more questions. Aim to ask a minimum number of real estate-related questions daily. Asking questions and gaining answers from knowledgeable folks in the business is a great way to network and grow your knowledge.

6. Take daily action.

Nothing happens without action. As explained above, aim to have daily clarity on your daily must-do list. This list may include calling and seeing sellers, buyers, owners, advertisers, real estate agents, brokers, clients, etc. These calls, appointments, offers, follow-ups, etc. all need to happen within your already busy day. Plan when to take action daily and aim to not burn yourself out with too much work. Always remember why you began your real estate investing career in the first place. It was most likely to be able to spend more quality time doing things you love and enjoy. This may include spending time with your family and friends. Real estate investing is absolutely a journey and rarely a destination. Always aim to love and appreciate your family and friends daily along your way towards financial freedom.

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Flipping Houses in Changing Neighborhoods

The phenomenon taking place in Southeast D.C. is also taking place in Compton, Los Angeles. It's change: big changes that are starting small.

Ten years ago, these neighborhoods were shunned by home buyers looking for opportunities. At that time, crime rates were high and property values were stagnant. When trying to flip homes in these distressed areas, there were many challenges, including: theft and damage to vacant properties, slow police responsiveness, buyer biases against homes in the area, unwelcoming neighbors, squatters, appraisers who wouldn't search out comps and make adjustments, and the more frequent use of complex specialty loan programs by buyers. So, what makes these areas attractive for flipping?

Buyers are seeking properties with more land at lower prices due to affordability issues. Many buyers are riding mass transit to work, and their main focus is access to the transit and the quality of the product they are buying. Prices have gone up enough to motivate sellers to unload dilapidated properties, and margins are high enough for flippers/investors to seek out opportunities. The D.C. government has approved major development projects that have 5-10 year time horizons in some of the most troubled neighborhoods. For example, the entire St. Elizabeth's complex is under redevelopment, and the Anacostia Park Bridge project is another one of many major infrastructure projects that will drive long-term change.

Here are some examples of value changes on properties that we recently renovated. Below is a chart showing the year a property transferred ownership and the price at which it transferred.

Congress Heights = 427% increase in value from prior owner acquisition

- 2001 $92,437
- 2016 $210,100
- 2017 $395.000

Hill Crest = 258% increase in value from prior owner acquisition

- 2005 $155,000
- 2017 $190,000
- 2017 $399,900

Congress Heights 386% = increase in value from prior owner acquisition

- 1993 $82,847
- 2017 $149,000
- 2017 $320,000

The key to participating in these opportunities is to make sure that your profit margin will cover any unforeseen events. You need to buy assets at 50% of their future resale value so you can cover risk of loss, permitting delays, and the general risks associated with renovating a property that was built more than 100 years ago with only basic improvements since that time. All of these risks need to be viewed objectively as a cost of doing business in order to obtain good returns. If you personalize them or form judgements about these neighborhoods without looking at the numbers, there is the potential to miss out on a lot of opportunities.

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DEAL OF THE MONTH

The deal of the month revolves around a multiple asset collateralized loan. What is such a loan? It is a situation in which one loan is done, but many assets are brought in to protect the loan. In our case, we did a loan collateralized by 4 assets. This was our first loan of this nature. One of our repeat borrowers needed funding to complete the renovation of several projects, and she did not have enough equity in any one asset to do the loan. So, we pooled 4 assets together as collateral to make one loan. We have a payback schedule for the loan as to when we will release the assets. Next month, we may have our first-ever transactional loan (a loan that is paid back in a day or less) – we'll keep you posted!

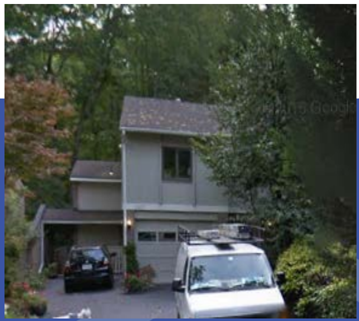
FOOD FOR THOUGHT

November was a monumental month for the Clear Sky family. We completed an audit of our 2016 finances by public accounting firm Cherry Bekaert. Thanks to our team at Cherry Bekaert for finishing this complex task. Also, thank you to Sam, Karen and Mary for supporting this undertaking. This project is significant because it gives the banks that we deal with an extra layer of comfort in knowing that a reputable accounting firm is keeping a close eye on our finances. It also demonstrates that we have the correct accounting/financial processes in place. We are a small company, and we maintain this level of financial competence because of our focus on excellence.

NOVEMBER DEALS

1272 Oates St. NE

7637 Barlowe Rd.



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Private Money Update

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CLEAR SKY FINANCIAL NEWSLETTER

NOVEMBER 2017

Letter from the Editor

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

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

CHUCKLE'S CORNER

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Mistakes New Real Estate Investors Make, Part 2

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

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

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

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

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

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

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

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

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

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

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Sam's Corner

Vertical Growth – An Evolution to Alternative Financing

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

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

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

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

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DEAL OF THE MONTH

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

OCTOBER DEALS

2905 Stuart Dr.

14543 Stephen St.

4001 74th Pl.

236 Peabody St. NW

408 Oglethorpe St.

9013 Allentown Rd.

1517 41St ST. SE

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Private Money Update

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OCTOBER 2017

Letter from the Editor

It's October, which means that the leaves are falling, the air is crisp, and the Nats just choked in the playoffs. Being a D.C. sports fan can be challenging, making work a welcome distraction. With that in mind…

In September, we originated six loans for a loan volume of 1.155 MIL. These loans included three first trusts, two second trusts, and a third trust (only our second in four years). Four of the loans were in Virginia, and two were in Washington, D.C. The percentage of total loan volume (LTV) to after repair value (ARV) was about 57% LTV/ARV, which includes adding the senior trusts of the junior liens to the calculation.

CHUCKLE'S CORNER

"I sold my house this week. I got a pretty good price for it, but it made my landlord mad as hell." –

Garry Shandling

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Charlie's Corner

Mistakes New Real Estate Investors Make, Part 1

Being a new real estate investor can be tricky business. There are many details to keep track of and things to consider, from knowing the market to marketing. In the first of this two-part series, we'll look at four common mistakes relating to knowing the market, valuing properties, estimating repairs, and choosing contractors, and identify solutions.

Mistake #1: Not Knowing the Market Numbers
Knowing your market is as important as any other factor in real estate investing. This means having a neighborhood- by-neighborhood analysis of the supply curve and average days on market.

Solution #1: Both of these data formulas can be found through a real estate broker using the MLS.

Mistake #2: Incorrectly Determining Value
Most new real estate investors use Zillow, or Trulia (or worse, an average of the two) for determining the value of a property. I would not rely on these sources for your values, as their algorithms are flawed. Some known flaws are: comparing houses outside the subdivision, comparing properties over six months or longer, and not comparing similarly-aged homes.

Solution #2: You will be better served by doing a "comparable sales" analysis. The best tool for determining a value of residential real estate is the MLS.

Mistake #3: Underestimating Repairs
If you have no experience in rehabbing homes, then you shouldn't be estimating repairs yourself.

Solution #3: Get at least three different contractors to give you bids. Get these bids in writing with detailed breakdowns of labor and materials.

Mistake #4: Choosing the Wrong Contractor
A bad contractor won't have a license, will bill you by the hour, and/or won't work by a written contract drawn by you.

Solution #4: A good contractor agreement is essential. Have a local attorney draw one up for you. Make sure you get signed lien releases every time you write a check.

Stay tuned for the second installment in next month's newsletter! There, we'll identify frequent missteps relating to contracts, legal entities, marketing, and scripts, as well as workarounds and ways to avoid them.

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Sam's Corner

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What's in a Day

I discussed business with a new borrower recently, who was confronting the complexity of getting organized to finance an investment purchase. Among the documents she was assembling were certificates of good standing for her corporation, corporate organizational documents, insurance certifications, etc. She could not believe the complexity of preparing for the closing, and said she wished she had our business model: just wire money and wait for payments. I laughed, but she was serious. This got me thinking about how much time I spend daily on compliance and administrative tasks as compared to actual "deal-making".

To try to figure out the answer to that question, I looked at the last 100 sent e-mails on my computer. About 5% of my time is spent on deal-making. That's right - reaching out to clarify transactions to prospects and get them comfortable and ready for closing accounts for just 5% of my time. But I'm not lounging on a beach the rest of the day, so what's taking up the remaining 95% of my work time?

The answer (drumroll please) is: administrative accounting, reporting, and compliance. Accounting for income and reviewing invoices takes up about 15% of the time. Reviewing the work of others to make sure that deals are getting documented correctly accounts for another 15%. Reporting takes around 15%, and compliance takes about 50%. Compliance includes licensing requirements for maintaining the business entities, all manner of permitting for our projects, insurance, tax prep, and providing documentation to creditors.

We also have an additional three people internally who support our business operations. That leaves Charlie focused on business development, on which he spends about 80% of his time. It takes a whole lot of back office support to turn a deal into income. Approximately 85% of our work effort is spent handling mundane details. However, if we don't pay attention to these details of administrative accountancy, reporting, and compliance, we will expose ourselves to real business risk. In this way, our internal business operation works every day to manage our business risk and exposure.

Food for Thought

We originate junior liens, as well as first deeds of trust. This month differed from the norm, because half of our loans were junior. We do this from time to time. Our risk mitigation when evaluating these deals is very similar to when we evaluate firsts. The only difference is that we have to account for any senior liens when doing the LTV/ARV calculation (included in the Letter from the Editor). We earn higher yields on the junior paper. When originating seconds and thirds – thirds are very rare for us - we do the normal evaluation of the asset, and we go a few steps further when evaluating the senior liens. We have to fully understand the senior liens to determine if we are comfortable with the amounts in case we have to step in and take over the property.

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DEAL OF THE MONTH

I will stay on the topic of junior liens for the deal of the month. An investor friend of ours bought a house in Manassas, VA. The house came with a vacant lot, as well, but the lot had not yet been subdivided. The house and lot were purchased for $110,000 (with a $100,000 first trust). The investor had difficulty getting someone else to lend him the money to perform necessary renovations on the house. Enter the LOLR (Lender of Last Resort). This investor is a builder/contractor by trade. He needed $100,000 to renovate, which we loaned him in March. We knew that we were in second position behind the original $100,000.

Since March, he renovated the house and subdivided the lot. The first house is under contract for $399,999. Our second loan covers both the renovated house and the newly subdivided lot. He came back to us for a construction loan for a house on the newly subdivided lot. This house will also be worth close to $400,000 when complete. He needed another $150,000 to finish the second house. We gave him the $150,000 so he could finish the second house, thus creating the rare third-position lien. Once the first house sells, he will pay off the first trust of $100K, our second trust of $100K and then our third trust of $150K will become the first trust on the new house. This trust will eventually be paid off, as well.

SEPTEMBER DEALS

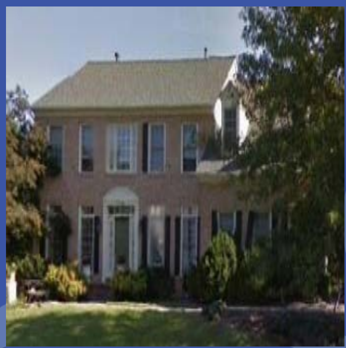
4142 2nd Street SW

5310 Kansas Ave. NW

5589 Shadybrook Dr.

7601 Poplar Street

1200 Market Street #476.



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CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

PRIVATE MONEY UPDATE

Clear Sky Financial Newsletter April 2017

Letter from the Editor

Happy April!!

March was a GREAT month for loan originations. We originated 7 loans for a loan volume of 1.095 Million. We originated 5 First Trusts and 2 Second Trusts. We did 4 loans in Maryland, 1 loan in Washington DC and 2 loans in Virginia.

Our branding exercise for CSF is almost complete and you will see a total makeover in the May/June newsletter. Stay tuned!!

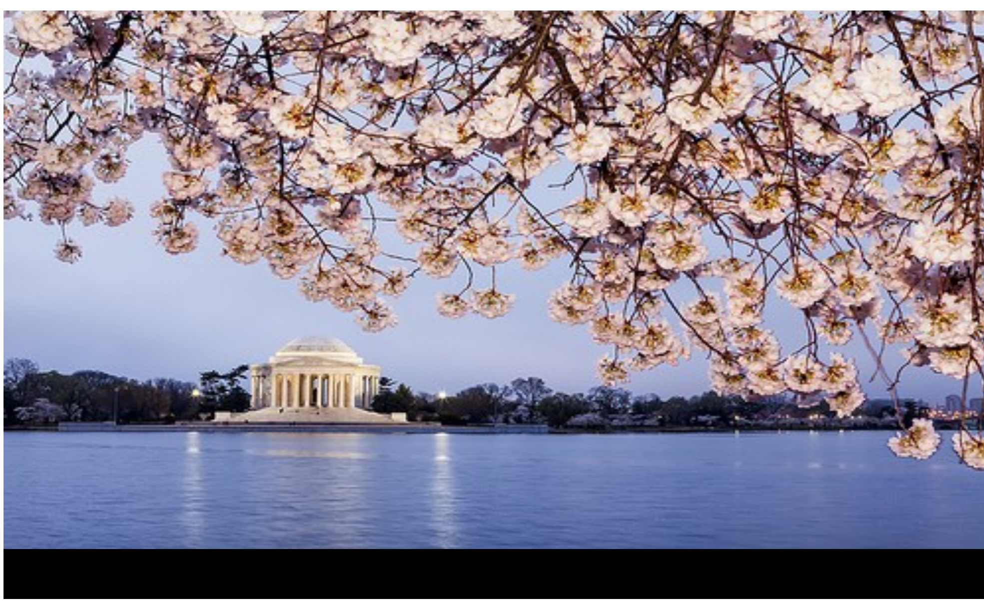
Food for Thought

CSF has made two big strides to help facilitate our growth. The first measure that we took was to transition all of our loans to a third party servicer. The third party servicer that we chose was FCI. FCI collects payments and is also a loan information and reporting service. We want to thank Karen and Don for all their hard work helping us do this. This was a big undertaking. The second measure that we did was sign up for a service called Land Gorilla. We have many clients that have our Fix/Flip/Renovate loan product. This loan product contains a draw schedule for the renovation piece. We simply have Land Gorilla show up at the house and take pictures for us and give us status on the project. This saves a lot of running around time. Why is FCI and Land Gorilla so important? This will allow us to sell off some loans to bigger companies to help us with growth if we choose to go this route. It makes us more flexible as a finance company.

Chuckle's Corner

" Every day I get up and look through the Forbes List of the richest people in America, If I'm not there, I go to work."

- Robert Orben



In This Issue

Your Private Money Team!

Charlie's Corner - 8 Tips for Real Estate Investing Success

As you prepare to become a successful real estate investor, I encourage you to take the following tips into consideration. They have helped me greatly as I have navigated my way through the world of real estate. I hope these tips will make just as big of an impact on your real estate investing success.

Tip #1: Create a game plan.

Decide what you want to accomplish and outline the steps that you must take to get there. Who will be involved? How will you meet them and gain their cooperation? How much time will it take? Where will you find this time? How much will it cost, and where will you get this money? What's the risk? How will you handle it?

Tip #2: Have an expert review your plan.

The first real estate investing plan I created involved me single-handedly buying 50 houses in a year. And it listed several different marketing strategies that were completely cost ineffective. I had a friend of mine (who isn't even involved in real estate) review the plan, and he said it looked good. How silly of me! About eight months into working this over-reaching and misguided plan, I had an expert investor review it. He tore it apart, and together we reconstructed a better plan with more realistic goals (buy 12 houses, not 100) and a more effective marketing plan. Shortly thereafter, I bought 6 houses, and I actually felt good about my progress. Six out of twelve feels much better than six out of 50!

Tip #3: Don't give up.

The life of a new real estate investor is filled with countless highs and lows. You're on a high when you think you have a property all locked up to purchase, and then you hit a low when it suddenly falls though at closing. Or you're on a high when you finally do close on that house, but you hit a low when you hit a 3-week dry spell and it feels like you couldn't get a seller to agree to your price--even if you paid double. That's probably the #1 key to success: Don't give up!!

Tip #4: Take baby steps.

When you break it all down, big goals, big dreams, and big plans are nothing more than a series of miniature action steps or "to do" items. When you dissect the daily life of a successful investor, you'll find that he or she does 8 to 12 things each day that are real estate related. All of these little tasks each day adds up to what is, or what eventually will be, a large and highly profitable real estate investing operation. So don't toss that "to do" list by the wayside, thinking that your small efforts today don't mean much. They mean everything.

Tip #5: Become comfortable with discomfort.

I was actually nervous at the first real estate investing meeting that I attended. I was wondering if I would say something stupid or if I wouldn't fit in. After all, most of the investors in the room were 40 or 50 years old, and I was 22. But by the third meeting I attended, I became comfortable with the crowd. Had I quit after the first meeting, I would have missed out on the very information that enabled me to buy so many properties. I've learned that one of the biggest keys to success is persisting though uncomfortable situations until they eventually become comfortable. This is where true growth occurs.

Tip #6: Do what you say you're going to do.

As a real estate investor, your reputation means everything. They say it's a small world, but the world of real estate investing is even smaller. So be honest, be courteous, and for heaven's sake, do what you say you're going to do. If you say you're going to buy another investor's house, by golly, you better move mountains--if that's what it takes--to buy it! Otherwise, your name will eventually become mud, and you'll have a tough time buying from not only that investor, but just about every other investor in town. Believe me, I can count at least 10 local investors of the top of my head who I will NOT do business with because their word means nothing. And I know several other investors who won't deal with them either. You DO NOT want to be black listed.

Tip #7: Be on time.

Showing up late is just about one of the most disrespectful things you can do to another real estate investor, inspector, contractor, or anyone for that matter. It shows them that you don't value them or their time, and time is MUCH more valuable than money. Money can be replaced. Time cannot. When someone shows up late for a meeting with me, they instantly lose credibility. And there are countless other investors who feel the same way I do. On the other hand, when an investor or business associate shows up on time or early, it makes me want to smile, reach out my hand, and strike a win-win deal. So be on time. You're much more likely to create trusted allies who can help you along your path to success.

Tip #8: Eliminate certain activities.

I'll wrap up with one more tip that is closely linked to the first tip, "Create a Game Plan." That game plan will involve a series of goals and steps or "to do" items that you must follow to become successful. But what many people don't seem to realize is that for all of these things to happen, certain activities in your current schedule must be REMOVED. For example, if you're going to attend two real estate meetings and make five offers per week, what must go? Possibly TV time. Possibly a friendship. Possibly your workout plan. Of course, what has to go is unique to each of us, but you must realize that if you're an extremely busy person, you'll have to make some TOUGH sacrifices. But these sacrifices are only for the short run. If you have to quit your exercise program to have enough time for real estate, for example, then so be it. You can resume in two years after you've achieved financial freedom through real estate. And you'll have more time to exercise than ever.

Sam's Corner - Prioritizing Opportunities– Dealing with Choice

In 2001, Charlie and I went into business pursuing two basic business lines. We were focused on retail residential sales opportunities and a nascent fix and flip business. At that point, we were both experienced on the retail side and we knew that keeping a robust business going was essential to staying self-employed. Our equity growth opportunity was the fix and flip business. At the time, we had only a rudimentary understanding of house renovation/construction but we knew that an asset's "buy price" would be the determining factor for any successful transaction. We spent 80% of our time on retail sales and 20% of it on fix and flip. Eventually we developed sufficient equity and experience to change the balance of our activity and then incorporate other real estate investment opportunities into our daily workflow.

In 2017, a myriad of investment opportunities are presenting themselves. We are continuing to grow our fix/flip business while balancing the efficient growth of the hard money business. Within each of these business lines we have to prioritize our daily activities. Without doing so, we would just be running from task-to-task without a strategic prioritization of effort. Essentially, we are prioritizing our "sales pipeline". In order to do this, we have to find the right balance between level of engagement (effort) and the probability that a transaction will close. We determine this balance after considering all risk factors in the sales pipeline. Red flags that we look for are, deal size, lack of familiarity, conflicts, alignment with our business, and resource requirements. For example, if a deal is exceptionally large, it tends to have a longer sales cycle and a smaller win rate. If we are unfamiliar with a deal or it presents conflicts with local government, it will be harder to close and has risks that we may not want to take on. So, we look for deals that have inherently positive characteristics. If they have a high success probability and have a high revenue potential based on their size, they are probably a good fit. If the deal is repeat business, an excellent new business opportunity or has a good referral source – we are more likely to pour our energy into it. We are constantly re-evaluating opportunities in light of their risk factors.

At the front end of the sales process, we use a tool called the "pipe report" to evaluate our pipeline. It is a comprehensive list of all deals that are in process. Each deal is assigned a probability of closing. If the deal has a high economic value and a high probability of closing, we commit resources to it. If the deal is a hard money loan and is already funded, we focus on loan performance. The projects that present more risk require more involvement with the borrower. On the flip side, those projects with contracts on them that are near closing require a laser like focus to bring them to completion. A careful prioritization of all of our work stream leads to more efficient and planned growth. Using these organizational strategies allows us to execute on the high priority projects profitably.

Deal of the Month

The deal of the month revolves around a program that we developed called the "Little Birdie Program". This is where we allow investors to participate in our business at a loan level. What that means is that the investors money is tied to that particular loan and not across the entire enterprise. Once that particular loan is paid off then the investor gets their money back. This is done in the form of a pledge - we pledge individual loans to an investor. Now, the downside for the investor is that sometimes there might not be any loans available to be pledged so the investor money will be in the investor's account not earning an investment return. However, this month we did a deal where we pledged 10 loans for a total amount of 1.435 Million. The ARV of these loans was 2.35 Million. This enabled us to do more loans in March and to help grow CSF!!!!

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March Deals

7501 Poplar St.

10 Locust Ln

11395 Farmland Dr.

3700 Ridge Rd.

4294 Southern Ave. SE

1620 Winterberry Rs.

9912 Rosaryville Rd.

CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

MAY 2017

Letter from the Editor

Happy MAY!! How do you like our new update format? Thanks to Don P. and Laura D. for the newest design. This newsletter incorporates standard fonts and our new logo, we hope you like them. We will be launching our new website in June along with a refresh of all of our marketing collateral. It has been a hectic few months getting this completed.

April was a good month for loan originations. We originated 4 loans for a loan volume of $526,250. Of those originations, 3 were First Trusts and 1 was a Second Trust. We did 3 loans in Maryland, and 1 loan in Virginia. May looks to be a crazy month as we have already closed 4 loans with about 10 or 11 more in the cue, so probably 6/7 will actually close.

CHUCKLE'S CORNER

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

- Ben Franklin

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What You Should Know About Out-of-State Owners

Buying properties from out-of-state owners is what I consider to be the most overlooked method for getting great deals. Why? Because many top investors are NOT pursuing this method. Here's the situation: Those who aren't pursuing out-of-state owners often tell me, "Yeah, I need to be doing that." And the ones who are already doing it--absolutely LOVE it!

The worst comment I've heard about this method was as follows: "I tried mailing to out-of-town owners. I got a deal from it, but it seemed like the sellers I talked to were getting a letter about once a month from another investor or Realtor. So the competition was a little stiff."

I disagree. Compare that to the pre-foreclosure list where sellers are getting 10 to 30 letters a DAY. Truth is, sending an effective letter to out-of-state owners works wonders.

Note that I'm referencing out-of-STATE owners, not just absentee owners. An absentee owner could live down the street or across town. So their level of motivation is likely to be lower. They can more easily rent, sell, or take care of the property. An out-of-state owner, on the other hand, is usually too far away to deal with the property.

Out-of-state owners typically have one or more of these problems:

1. The house is vacant, so they're worried about vandalism.
2. The house is vacant, so they're paying for a house that they're not using. And on top of that, they're probably paying for their new house, so they have two house payments.
3. If they have it on the market, they're probably frustrated that most potential buyers are too picky. And they're not there to make the house look nice for showing.
4. They have a non-paying tenant in the property.
5. The property needs repairs, but they're not in town to oversee the renovation.
6. They have a property manager who is not taking care of the house.

So, how do I find these out-of-state owners? There are several ways to get a list of out-of-state owners, ranging from free to costing $400 or more. You decide how much you want to pay. But the more you pay, the better the list gets.

For free, you can go to your county's property tax website and pull up property records one at a time to see if the owner lives out of state. Free? Yes. Unbelievably time consuming? Big yes. I don't advise doing this. There are better things you can do with your time.

Another way to getting these lists is to purchase them from a list provider. There are many of these companies out there that could help. Once you get the file that contains the list, sort by the mailing address state field. You can delete those that are in the state where you're looking to buy. And you're left with out-of-state owners.

But you're not done yet... There's a VERY good chance that 20% to 30% of the mailing addresses are no good. Tax districts just aren't good at keeping that info up to date. So, if you want to get the current addresses for those people, you'll need to "clean your list." You can do this by paying a "list cleaning" company $250 to $450 per thousand names. It can be pricey, but I highly recommend it.

Another good way to get this information is to call a list broker. They can get information from many sources, compile it, cross-reference it, etc., and come up with a list of out-of-state homeowners. Okay, so some of them can. I recently called 14 different list brokers and only two of them had a list. You can expect to pay about $250 for a list of 1,000 out-of-state owners.

Little or no competition for some of the best deals.

Pursuing out-of-state owners requires a little bit of time and money up front--which turns out to be a great thing! After all, that's what scared most other investors away, leaving you with little or no competition for some of the best deals in your market. Don't delay. Start generating your list of out-of-state owners today and profit tomorrow!

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Sam's Corner

Managing through Vendors and Partners

Effective vendor management enables us to control costs, drive service excellence and mitigate risks. It allows us to gain increased value from vendors throughout the life cycle of each deal. Since we have multiple vendors doing similar tasks on different transactions, this has become a critical area for our backoffice management and a focal point for me.

We are in a steady expansion of our flip and our hard money business. This business expansion requires us to evaluate current vendors and partner organizations to make sure that they are ready to handle expansion. When we evaluate the "eco-system" of entities that we interact with in order to transact business we have to understand their capacity. These entities include contractors, accountants, lawyers, settlement companies, etc. We have to maintain a very clear dialogue with our vendors so they are aware of changes in our organization and know what we need in order to support our expansion. In cases where our vendors are unable to support our expansion, we help them by augmenting their staffing and processes.

Let's look at a couple of examples of creating more depth in our vendor relationships. In DC we have a couple of preferred construction contractors. We worked with them to make sure that they had an understanding of our expansion plans so they could have the correct licensing and inspection network in place in advance of doing work in the district. Licensing and networking fell on the contractors. However, they were not prepared to work with our expanded back office and budgeting needs. We stepped in and helped direct them in budgeting/planning so we could manage our payments to them and they could plan their cash flows accordingly.

Closing management and backoffice processing have grown tremendously with the expansion of the hard money business. We have added processes both internal and external to process payments and manage loan files. On the closing side we have had to reach out to multiple vendors to drive the closing process. Ordering title work and following up to make sure that all documents are in order post closing requires us to manage through a myriad of settlement companies that close loans for us. While we would like to consolidate closings to one or two companies, that isn't possible since borrowers ultimately need to choose the settlement company that works best for them.

We look at each vendor and try to understand their key performance indicators. For example, are we measuring success by quality, timeliness, or cost control? We share our thoughts on this with each vendor. Then we let the vendors know how things are going, both good and bad. By mutually supporting one another, we can grow along with our vendors.

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Deal of the Month

211 PROPERTIES ACQUIRED SINCE 2009

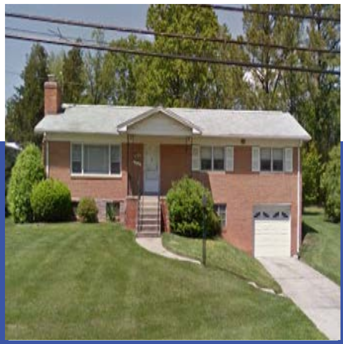
The deal of the month involves a deal from a flip investor that we have built a relationship with for eighteen months. He wholesaled a deal to us in the past and has been wanting to do his first flip. When we tried to get him to flip a house previously, he didn't feel like he was ready and ended up wholesaling it to us. More recently, he brought us a deal to finance at 810 Venice Drive. He purchased it for $200,000 and it needed an $80,000 renovation. The house is worth between 430K - 470K. The great part of this deal is that the seller is holding a first trust for 200K at 0% interest. We put a 100K second trust on it to help him with the renovation costs. This is the beginning of a good deal for the flip investor. We shared our contractor network with him, helped him price the asset, and will list it for sale as his real estate brokerage. I will update you in a future newsletter on his performance results.

FOOD FOR THOUGHT

We will be at the Think Realty National Conference & Expo on June 24, 2017 at the Baltimore Convention Center and will be involved in two speaking engagements. First we will be giving a presentation on "How to Find Distressed Assets". This is similar to the one we gave last year at the National Harbor event. For our Second speaking engagement, Charlie will be on an expert panel of Hard Money Lenders. See us at a speaking event or visit our booth. Please make time to attend. Go to https://thinkrealty.com/think-realty-conference-baltimore-speakers/ The early bird cost for the event is $25.00. Paid at the door, the cost is $45.00. The event is from 8:30 AM to 4:30 PM. Our presentation will be from 2:00 PM to 3:00 PM. The expert panel on "How Investors Successfully use Private Money to Fund Fix & Flips" will be from 9:30 AM to 10:30 AM.

APRIL DEALS

14510 Hamowell St.



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CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

PRIVATE MONEY UPDATE

Clear Sky Financial Newsletter February 2017

Letter from the Editor

Happy Belated Valentines Day & Presidents Day!!

This month, we welcome two "San Diego Sluggers" to our growing pool of investors: Sanat and Sherman. Sanat and Sherman are part time real estate investors in San Diego CA as well as longtime employees of Qualcomm.

We had a very good January. We closed 6 loans totaling $1,000,000. They were all first trusts. 5 of the loans were fix/flip loans and 1 was a buy/hold. 3 of the loans were to repeat clients. The ARV of the combined properties is $1,610,000 for an LTV of 62%.

Food for Thought

We are having our annual party on 2/26. This party is a good way for us to visit with our investors and a way to say, thank you. It has been another great year. We are very proud of the fact that we can offer nice returns on your money for nominal risk. I believe we have made about 40 or so monthly pay outs to our investors. So.... thank you and we hope to see you on 2/26!!

Chuckle's Corner

" Money isn't everything but it sure keeps you in touch with your children "

- J. Paul Getty

In This Issue

Clear Sky Financial

Investment Opportunities

Your Private Money Team!

Charlie's Corner - 5 Real Estate Investment Strategies with No Money Down

Successful real estate investors can make money in any market. Here are 5 real estate investment strategies you can implement right now without using any of your own money or credit.

1. Wholesaling

This is the classic buy low/sell low strategy and it's the best way to make fast cash. Basically, here's how it works. 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 $300,000 for $200,000. You "assign" your contract to your new buyer for $215,000. You never actually "owned" the house, you never used your own money, and your credit was never an issue. You just profited $15,000. Now you must make sure that your "new buyer" is a cash buyer or someone who can get money to close.

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. Sounds crazy, doesn't it? But it's not. Motivated people who need to get rid of their house do it every day. Be careful because most banks have a "due on sale" clause and if they find out you must payback the mortgage. Now almost every case as long as you are current on the mortgage the bank will not exercise this clause.

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. "Hard" Private Money

THIS IS WHAT WE DO. Hard Money is ALWAYS more expensive than other private money. The lender looks solely to the property for repayment, so your income/credit is not an issue. The maximum loan amount is 70% of the After Repair Value (ARV). The interest rate is very high (minimum 12% maximum 18%), and you have to pay 3 to 7 "points" for the loan. Each "point" equals 1% of the loan amount. The benefits to hard money is the quick access to the money with very limited paperwork.

5. "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 who keep their savings in CDs getting less than 2% interest? Perfect for private money. At 6%, they are tripling their yield.

Sam's Corner - House Flipping – Details. Details. Details. and Ownership.

There are a lot of ways to approach project management. There are cost models and there are productivity management tools, but ultimately there is only one thing you need to do… THINK LIKE THE OWNER. Adopting the viewpoint of the project owner focuses attention on cost effective decision making rather than on competitive pricing offered by various contractors or excuse making by service providers.

An owner is working on a project from the cradle to the grave. Construction costs represent only one portion of the overall life cycle costs. If details are missed on a project, it puts the entire project in jeopardy. When we are renovating houses, the details can very small, like having the right or wrong color plug sockets throughout a house. Some of these details require investigative inquiry that only an owner would consider. If you are renovating a house you bought to flip – did anyone go in the attic to see if the wiring was OK up there? Did someone walk up to the house like they were just seeing it for the first time to see if there are little bits of trash left in the yard? All of these details make a HUGE difference when it comes to selling a property.

Optimizing performance at one stage of the renovation/construction process may not be an overall benefit if additional costs or delays occur elsewhere. For example, a bargain architect that creates excess construction costs actually results in no savings at all. Determining which details are a priority is essential. The owner can do this and the owner can train his/her subcontractors to do the same.

Most projects require a lot of coordinated activity to reach a timely delivery. Good communication and coordination among the participants is essential to accomplish the overall goals of the project. If the participants are thinking like owners. they will be working together instead of creating excuses for delays. Quality of work is critically important to the success of a project. That means that every detail needs attention. If the plumbing is completely redone in a house that we are flipping but the faucets aren't set neatly set, that makes a buyer feel uncomfortable and may result in the loss of a sale.

We bring the same attention to detail to Clear Sky Financial projects as we do our own flips. Many of properties we finance require construction draws. We are concerned and focused on details upon each draw request. Upon a draw request, we check and see if the work that was initially projected for the earlier draws was done in a workmanlike manner. We trust the borrower, but at the same time we verify the quality of their work product. That way if we have to take over a project we know exactly what we are getting. If it looks like a contractor is not working to our standard, we hold up funding until the work is upgraded. This may slow down a project, but ultimately the borrower is the beneficiary of having a good work product. This approach secures our investors interests along with our own.

Deal of the Month

The deal of the month involves a loan that we gave out to an investor. The loan was in Washington DC on 1866 Alabama Avenue, SE. You see one of the investors was a friend of mine that I met at a local REI (Real Estate Investor) meeting. Under normal circumstances this is one of our normal ways of doing business. However, there was a catch. This investor is confined to wheel chair and had never done a flip before. He purchased 1866 Alabama for $120,000 and sold it for $355,000 with about $50,000 in renovation. CSF financed the entire deal. Why is this relevant? Fast forward this to a January meeting with the same REI club. The head of the club brought this investor to the front of the meeting because she overheard his success story. He told the entire meeting of his story (more then 100 people in attendance). The room was moved to tears because the person in the flipper (Travis) told the audience how a hard money company gave him the chance to get into the investment business. We gave him a chance as a new flipper and possibly changed the life of a newby investor!!

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January Deals

5322 James Place

1159 46th Place

3170 Oakmont Ave.

8280 Saint Marys Lane

4382 Rock Ct.

CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

PRIVATE MONEY UPDATE

Clear Sky Financial Newsletter January 2017

Letter from the Editor

Happy New Year!!

This month, we welcome Chris G and his wife, new investors with Clear Sky Financial. We had a productive December. We closed 4 loans totaling $700,000. They were all first trusts. 3 of the loans were fix/flip loans and 1 was a buy/hold. Two of the loan originations were with repeat clients. We had a significant amount of loan "churn". Churn Is when a loan pays off and the money goes out again for a new loan. We had 5 loans payoff totaling $792,500. This is what we would consider a uniform month. The loan payoffs and the loan originations were very close in volume. In a perfect world we would love to do this every month!! But as we know this NEVER happens!!

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 articles from Title Companies, Mortgage Companies, Insurance Companies, etc. If you are promoting your business, you will need to include an informative article. We can put this article on our back page.

Chuckle's Corner

" I put a dollar in one of those change machines. Nothing changed!"

-George Carlin

In This Issue

Clear Sky Financial

Investment Opportunities

Your Private Money Team!

Charlie’s Corner - Year End Clean Up For Real Estate Investors

2016 is over, and it’s time for real estate investors to start tying up loose ends and preparing for next year. However, just because the year is almost over does not mean that it’s time to relax. In fact, there’s no better time to dive head-first into your business. The end of the year is perfect for revising your real estate strategies, preparing for taxes, preparing for banks and of course calculating your liquidity!!! With that in mind, here are some real estate business tips you will want to implement before the ball drops.

Evaluate and Revise your Business Plan

As you approach the end of the year, you need to take a look at your business plan. Evaluate the information in it, and compare it with the statistics from the year. This will allow you to revise so you can eliminate tactics that did not work, change your goals as needed, and readjust the information so that it’s more accurate. This is an important real estate marketing tip, as the more precise your business plan, the easier it is to achieve your goals moving forward.

Prepare for Taxes

The end of the year may not be the end of your fiscal year but for us it is our end of year. However, it may still be the perfect time for you to gather, organize, and prepare for taxes. In addition, by covering this task now, you can free up your schedule for later when you might need to better focus on marketing. So, hire an accountant or purchase a tax software system, gather your receipts, analyze your income, and take care of taxes while you have the availability to do so.

Prepare for Banks

If you are like us you might have some credit lines with a bank or two or three. There are a few things that you need to do for the banks. The first thing each bank will want to see is your taxes (see previous section). The second thing the bank will want to see is a year end balance sheet (or net worth statement). A balance sheet is just simply a compilation of your assets and liabilities used to compute a net worth. We do this on many fronts. We do this for all of our LLC's which eventually become part of our personal balance sheet. The next thing that a bank will want to see is an income statement. This is a spreadsheet of your income minus you expenses. Again we will do this for our LLC's and then factor that into our personal income statement. Having these things ready by late January early February is always a good way to get a head start on the year.

Liquidity

We do this at least once a quarter but you should ALWAYS do this at the end of the year. Liquidity means how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it. Liquidity also plays an important role as it allows you to seize opportunities. Liquidity is the sum of your cash on hand, availability on HELOCs (Home Equity Lines of Credit), easily cashable instruments such as bonds etc, other bank line availability (including credit cards, be careful here), access to other forms of cash from friends and family etc... If you have cash and easy access to fund and a great deal comes along, then it's easier for you to cease that opportunity. Again for us we have two different forms of liquidity. We have it held by our LLC's and also in our personal holdings.

Coming out on top for the year’s end may require different tactics from what you use throughout the year. However, these small preparations / adjustments to your real estate business can help you end the year successfully, whether it’s with more sales, more investment properties or a clear and organized path for the future.

Sam's Corner - Clear Sky Financial's Commitment to Continuous Improvement

The New Year is traditionally a time to reflect on what you did in the prior year so as to improve your upcoming year's results. As a company, we like to do this more often than annually so we are continuously improving our processes. There are minor "tweaks" to our transaction handling and marketing throughout the year. However, for larger projects, we lay out project schedules and work on them steadily over time. I think of this as "moving the ball forward" toward our overall goals every day. In 2016 we put together some major initiatives and laid the groundwork for excellence. Two of our major back office initiatives for 2016 were the streamlining of our document prep and the automation of our loan and investor account tracking. Both projects were successfully deployed and we are able to leverage the benefits of them every day.

Going into 2017 we have three major project initiatives identified for our back office improvement. First, in order to promote ourselves beyond our current investor base, we are developing audited financials. This effort involves the employment of an outside accounting firm to review the financials that are prepared by our CPA. Our second initiative is to work with a third party servicer for the collection and tracking of all of our outstanding loans. This will free up internal resources to work on exceptions and not the entire stream of loan receivables. Additionally, borrowers will have seven different ways that they can make payment and will be able to review their account status online. Finally, our third initiative is going to systematize the handling of construction draws. We are evaluating a software platform whereby we can track all construction projects and have a third party construction inspector upload photographs and data related to all of the ongoing construction loans.

All of these initiatives are designed to lower overall costs and reduce risks. We have the internal capability to execute on all of them and look forward to giving you an update next year on our successes related to these projects.

Letter from Investor:

I'm excited to be working with Sam and Charlie on a new plan to significantly increase Clear Sky Financial's lending capacity in 2017. CSF's pipeline of requests for new loans from home-flipping investors has consistently shown over the past year that market demand is very strong. Investors in Virginia, DC, and Maryland are looking for a lending partner with CSF's expertise and track-record who can quickly analyze each deal opportunity, quickly say 'no' to the ones that don't make sense, quickly close the ones that do make sense, and provide support where required to complete each project. CSF is well-positioned and we need to scale up faster to meet the market's demand. This the top priority for 2017, so last month Sam and Charlie asked me to help make it happen. I've been in the housing finance industry for 30 years; most recently as a Vice President at Fannie Mae leading the company's teams that manage its loan servicing portfolio and developing various capital markets capabilities. Building and growing business with talented people is what I thoroughly enjoy doing, so we have a great opportunity to do so here with Clear Sky. Our high level plan for early 2017 includes scaling our loan servicing administration, streamlining pre-draw progress inspections, and update the company's branding. We will then pursue additional funding sources that will give CSF the flexibility it needs to meet market demand. I'm looking forward to sharing more about our progress in the coming months.

- Don Palumbo

Contact Us

Give us a call for more information about our services and products

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Deal of the Month

The deal of the month revolves around a flip property that we did for our contractor. This is the 3rd loan that we have done with him. We are excited because it involves what we call a TRIPLE HEADER. We, Clear Sky Properties, purchased a house from a wholesaler for $253,000. We sold it to our contractor for $265,000. The After Repair Value on the Property is about $370,000 and the house needs about $30,000 in work. We gave our contractor a hard money loan for $270,000 (to help a little with closing costs, etc...) So... why is this a triple header??? Because we will have made money on the loan, wholesale fee and Green Dot Realty will get the listing. Oh by the way the contractor will stand to make about $30,000. This is typical of our win-win transaction strategy!!

December Deals


587 Ramoth Church Rd.


9 Shelton Court


10324 Sarajevo Ct.


27115 Yowaiski Mill Rd.

CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JULY 2017

Letter from the Editor

We hope you had a great 4th of July!! This year has really flown by. We want to welcome Raj as a new investor. We have known Raj for almost 10 years. I met him at the various county court house foreclosure auctions. Our new website has been a hit. We have received calls from London and Switzerland from a couple of money managers.

June was another good month for loan originations. We originated 7 loans for a loan volume of 1.4 Million with a total LTV of the ARV of 56.4%. We originated 6 First Trusts and 1 Second Trust. We did 2 loans in Maryland and 5 loans in Virginia. July WILL be a slow month.

CHUCKLE'S CORNER

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

- Ben Franklin

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Charlie's Corner

Flippers and Real Estate Agents - Building Relationships

When we sell our listings, there are times when we bring in listing agents and don't sell the properties ourselves. Sometimes these agents have brought us deals or they have access to private networks of people looking for off market listings. Building a relationship with a dependable real estate agent can open up a lot of doors for both parties. For flippers, working closely alongside a real estate agent provides valuable inside knowledge about how property is bought and sold and what properties are up-and-coming in the market.

Unfortunately, both groups have had various misconceptions about the other, and these perceptions have made some flippers and agents reluctant to work together. Creating a relationship with a real estate agent may require some work, but by helping agents understand the specific needs of a real estate investor, you can create a beneficial partnership. So how do you go about developing this relationship?

1. Begin with Referrals

Networking is an important part of developing any successful business, including house flipping. If you're looking for a real estate agent that you can work closely with, ask around. Have you been investing in real estate for a while? There's a good chance that you've built a respectable network in the process. Ask some of your closest colleagues and business acquaintances if they can introduce you to a reliable agent.

2. Clarity

Real estate agents only want to work with flippers who are serious about their purchases. Nothing will send an agent running away faster than an investor who does not value their time and expertise. For this reason, it's important that you gain the trust and respect of your real estate agent. As an investor you need to do your due diligence so that you are not pulling out of deals at the last minute because you have changed your mind or lack the proper funding.

3. Volume

The best way to build a strong relationship with a real estate agent is to show them that you are serious about doing business. Let them know that you intend to buy and flip a lot of houses. If you develop a relationship with them your goal is that they will have a steady stream of business when working with you.

4. Level Set

Once you start working with an agent, make sure to let them know what you expect from them right from the start. It's up to you whether you want an agent that's going to be involved in your process, offering input and helping make decisions, or if you want someone who's only handling the offers and the paperwork. This will help the agent determine if this is the kind of relationship they want to develop as well.

5. Helping the Agent be Successful

Your real estate agent is working on commission, so the busier their month is, the better it is for them. If you are planning on building a successful relationship with an agent, you are going to have to prove to them that working with you will increase their revenue. This is where trust and honesty comes in. The last thing you want to do is promise an agent a busy month and fail to deliver, so be realistic about what you are able to provide on your end of the agreement.

Real estate agents have a working knowledge of the industry that most flippers do not have. Not only can they help you buy and sell houses, they can also give you valuable advice when it comes to spending money on renovations. For this reason, creating a professional relationship with a dependable agent can be great for business and increase your earnings.

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CLEAR SKY FINANCIAL NEWSLETTER

JULY 2017

House Flipping – A Great Chain of Dependencies

We are all familiar with the expression that a chain is only as strong as its weakest link. No expression could be more analogous to house flipping. When reviewing prospective deals presented to Clear Sky Financial, we try to look at every element of the underlying asset and the plan to renovate it. Our foremost interest is making sure that the underlying asset has a value that will make us whole in the case of default. Our secondary concern is making sure that the borrower can properly execute on their flip. We are not in the business of taking back assets on failed projects but will do so on an "as needed" basis. In order to minimize the possibility of a project failure, we help our borrowers understand the entire deal lifecycle. Here is a short list of what we are looking at throughout the project lifecycle.

1. Clear title
2. Appropriate legal organization and registration
3. Ability to pay on the note
4. Proper insurance
5. Appropriate expectations about the ARV
6. Experience with the construction permitting process
7. A comprehensive understanding of the repairs needed
8. Marketability of the underlying asset – does it conform to inventory needs
9. Access to a contractor network of qualified and licensed professionals
10. A marketing plan for the exit strategy

If the flipper doesn't have a clear understanding of the above elements, we educate them and work with them before starting the project to maximize the probability of success. Since we are in the business of flipping houses ourselves we have a great depth of experience with each of these steps. Even as I write this article Charlie and I are working with prospective borrowers to clarify title, tax obligations, insurance, and permitting/repair issues before they make a purchase.

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FOOD FOR THOUGHT

One of the biggest reasons why we are successful at our business and have happy customers is our ability to move faster then our competition. A case in point is what happened to me one day this month. I have been working with this particular investor for almost two years now. He calls periodically to run deals by me. He has done 1 flip deal and 2 wholesale deals in 2 years. We were the hard money lender on his FIRST flip deal and he wholesaled us his FIRST his wholesale deal. I was on the phone with this investor and he needed first trust information on a property in the City of Alexandria. We do not have access online to the City of Alexandria records. So, while on the phone I emailed a title company. Within 10 minutes, while I was still on the phone, I had the answer to the question and I am in the process of helping the investor structure a Subject To deal. Thanks RICK!! Now we probably will not get a loan out of this transaction, but the fact that we helped this guy so quickly reinforced an already solid relationship. We will certainly get the listing to sell the house once he has renovated the property. Stay tuned!!

JUNE DEALS

9825 Pebble Weigh Ct.

3424 Milstead Ct.

2835 Cherry St.

52 Brent Point Road

1580 Pin Oak Dr.

9902 Copeland Dr.

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Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

JUNE 2017

Letter from the Editor

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

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

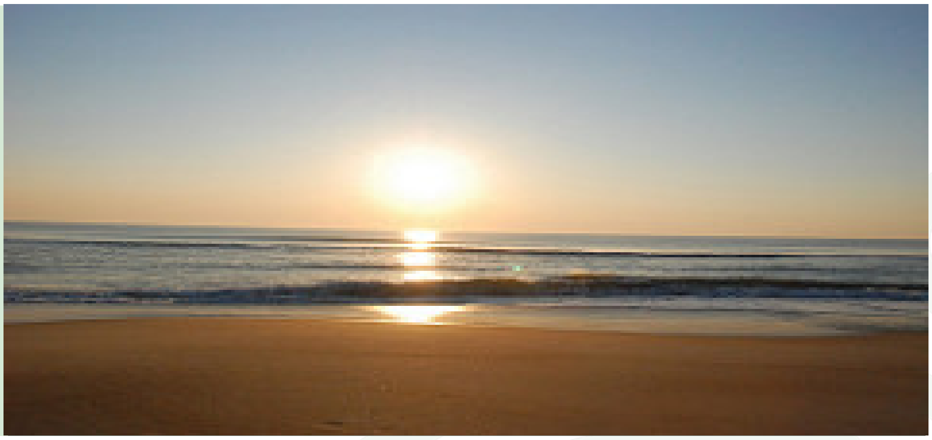
Please check out our refreshed web site at www.cskyfinancial.com .

CHUCKLE'S CORNER

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

- Anonymous

In This Issue:



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Charlie's Corner

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CLEAR SKY FINANCIAL NEWSLETTER

JUNE 2017

10 Big Mistakes That Kill Real Estate Deals

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

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

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

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

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

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

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

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

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

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

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

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

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Selectivity and Default Management

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

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

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

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

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FOOD FOR THOUGHT

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

MAY DEALS


5 Jaybee Court


6998 Hanover Pkwy Unit 300

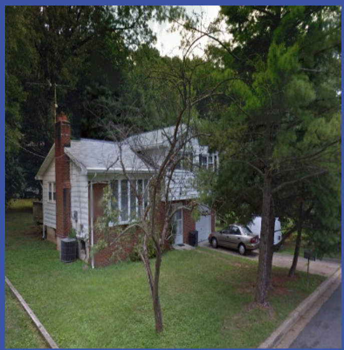

5608 Southern Ave. SE


1604 C Street NE


3407 White Fir Ct.


8626 N Centreville Rd. Unit 201


11365 Ethan Court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CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

PRIVATE MONEY UPDATE

Clear Sky Financial Newsletter March 2017

Letter from the Editor

Happy Spring!!

Happy SPRING!! Thanks to those of you who attended our Annual Party. We hope you had a good time and for those of you that could not make it, we want to thank you for being investors.

February was a slow month for originations. We originated 3 loans for a loan volume of 340K. March is shaping up to be a big month for originations and for loan paybacks. We will keep you updated.

We are undertaking a new Branding exercise for CSF. We hope to have this completed by the end of April. Stay tuned!!

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?

Chuckle's Corner

" Money will buy you a fine dog, but only love can make it wag its tail."

- Richard Friedman

In This Issue

Charlie's Corner - Converting Leads From Motivated Sellers

Do you ever wonder why we get so many distressed houses? It is because we are really, really good at lead conversion. There are a lot of real estate investors out there who get good leads but for some reason they cannot convert.

It is true that house flipping is all a numbers game. The higher number of leads you generate the better your chances are of getting that house. Some of the commonly cited formulas are not always correct. It is said that it takes 100 calls to get 10 great leads that ultimately results in 1 DEAL. We blow those numbers out of the water. In our house flipping business we make offers on 40% to 50% of the calls that we get. From these offers we typically get 25% of those houses. Here are 4 ways that we do it.

1. We Answer our Phones OURSELVES

When we get a call from a motivated seller, we immediately answer, that call not matter what we are doing. If for some reason a call is missed from a number that is unrecognizable that person gets a call back right away. Almost all of our advertising campaigns have either my cell phone number or Sam's. I am constantly told by motivated sellers that they are so glad a person has answered the phone. Some investors use call centers to handle their leads and get information from the sellers. The biggest problem with that is that you completely lose all ability to create RAPPORT with the seller. Building this RAPPORT with the seller is the most important thing you can create. Most of the time it is more important then the offer you end making.

2. We are VERY Confidant on the Phone

Now this comes with time. Since we have purchased over 500 homes from motivated sellers this is simple for us. Part of building great rapport with the seller is to sound confident over the phone. Being confident comes from being prepared to answer any/all questions over the phone. Most questions come from what is the process of buying their house. How does this work? How much can you give me for my house? Will I have time to move? etc.... It is very interesting that after building this Rapport (TRUST) that I have never had a motivated seller ask me for a Proof Of Funds. They just assume that we have the money to buy the house.

3. We Immediately Set an Appointment

I cannot tell you how many times that we have set an appointment within the hour. Think about the situation from a motivated seller's perspective. This person has a house that he/she wants to sell and is searching for someone to buy it. If you were in that seller's shoes, you would probably be a little nervous about the process and possibility embarrassed about the condition of your house. The Seller would be happy talking to someone who answered the phone right away, was friendly, confident, and sounded interested in buying your home. As an investor, you let that seller know that your are interested by immediately setting an appointment to see the house. If the seller meets this person who did all those things, they would less likely try to sell the house to another investor, virtually destroying your competition.

4. We Are PREPARED

There are two things that we do before we go to see the house. The first is the obvious one, we run our comps to determine the After Repair Value (ARV) of the house. The second thing we do is pull title on the house. This can be difficult to do if we set an appointment within a few hours. If you do not have time to do this, do not worry. However, this needs to be an important part of the discussion with the seller. We like to have the details of the title in hand so when the seller starts talking we can be a better facilitator of the transaction. Once we have determined the ARV we will make an offer before we leave. The offer can be 70% of the ARV minus the repairs. You will calculate the repair cost once you are inside and have walked the property. We ALWAYS LEAVE A WRITTEN OFFER. We also tell the seller that they can have as much time to decide as needed. We collect as much information from the seller as possible especially all ways of contacting that person (home phone, cell phone, email (all addresses), etc). Besides the offer that we present, we always ask the seller if we can help them with any other issues they might have with the sale of the house (move out date, trash removal, new place to live, etc.). Remember the deal is only one part of the puzzle, sometimes the easiest.

Sam’s Corner - Making Money on Tax Lien Sales– NOT as Seen on Late Night TV

When you have exhausted yourself looking for bank owned properties, trolled every courthouse auction in town, approached every pre-foreclosure owner and bid on all of the properties available for sale on-line…there is still one thing left on the bottom of the barrel – Tax Liens in Washington DC. Tax liens can be acquired in several ways in DC. A tax lien gives you a lien hold interest in a property. If you “perfect” your lien you can foreclose on the property and either force a sale or get title to the property directly, if it is owned by an LLC.

Traditionally, the way that you acquire a tax lien is at a tax lien auction. This is held in the DC Tax office where a plethora of bottom feeders show up and bid. The tax lien is treated pretty much like a bond and bid up in price and down in yield. The DC government guarantees that they pay an 18% yield so investors come in from all over and bid on the liens. Since the investors bid over the lien amounts, the yields get pushed down to the 10% range.

When the feeding frenzy at a tax auction ends, there are some tax liens left over that had administrative problems and couldn’t be sold on the day of the auction. These leftovers are sold at a “First Come First Serve” sale. That means, if you are the first person to be at the purchase window on the date of the sale, you can get any lien you want at a guaranteed yield of 18%. This makes for a real thrown-down of line pushing and such on the day of the sale.

If you haven’t had your fill of tax lien scrapping, there is one final, large, complicated auction in which you can get tax liens. This is the “surplus sale”. The surplus sale wipes out all taxes due for the years prior to the year of the sale. The amount you bid will entitle you to a title to the property if you are able to foreclose. If the amount you bid is less than the past taxes owed, then you get 18% yield on the money you pay for the property until the date of the court foreclosure. However, an owner can pay all of their back taxes and negate your ability to get title. If that happens, you still get 18% on the money you bid. This doesn’t happen often because the owner had a chance to do it previously and would probably not have let it get this far if they wanted to keep the property.

There are a lot of additional nuances and rules associated with tax lien sales. Our good friend and partner Ed Grass has educated me extensively on tax liens. If you want to find out more about tax liens, feel free to give me a call.

Deal of the Month

The Deal of the Month is an update to a deal that we did in December and was the deal of the month in the January newsletter. This was the TRIPLE HEADER DEAL on 10324 Sarajevo Court where we wholesaled the deal to our contractor, gave a hard money loan to our contractor and received the listing. Well if you remember our contractor purchased it for $265,000 and it had an ARV of $370,000. This deal closed on the out sale for $379,900 with a Seller Subsidy of $7,000 giving our contractor a net of $372,900. The appraisal came in at $380,000. Our contractor put in about $40,000 in renovation, giving him an approximate profit of $30,000. This is typical of our win-win transaction strategy!!

Contact Us

Give us a call for more information about our services and products

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February Deals

1549 Pin Oak Drive

119 Woodland Drive

29 Shelton Court

CLEAR SKY FINANCIAL
LOANS - INVESTMENT OPPORTUNITIES

Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

SEPTEMBER 2017

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 reasonably strong month for loan originations. We originated four loans for a loan volume of $1.2 million. All of the originations were First Trusts. Two loans were in Virginia and two loans were in Maryland. To date, September is also looking strong: by mid-month, we have already closed 5 loans.

CHUCKLE'S CORNER

"The safest way to double your money is to fold it over and put it in your pocket."

– Kin Hubbard

In This Issue:

- Letter from the Editor
- Food for Thought
- Why Most Real Estate Investors Fail
- Understanding Demand
- Deal of the Month

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Charlie's Corner

CLEAR SKY FINANCIAL NEWSLETTER
SEPTEMBER 2017

Why Most Real Estate Investors Fail

I see many new real estate investors at the various Real Estate Investment (REI) meetings that I attend regularly, as well as at conferences throughout the year. I estimate that only one to two of every 10 new investors will actually complete deals. This does not necessarily mean that they are succeeding, but simply completing deals. Below are four reasons why many investors fail to reach their goals and/or fail to produce adequate returns for the amount of time and money invested.

1. Concentration on Technique (Lease Option, Subject To, Foreclosure, etc.) Rather Than on Property

Most investors new to real estate get mesmerized by a technique for acquiring control of real property and or a technique for turning a quick profit. These "techniques", often taught by "gurus" at $5,000 - $10,000 for training, workshops and tapes, emphasize no need for extended time and financial commitment (lease option, subject to) or emphasize quick turn profitability (foreclosures, flips, over financing).

Successful real estate investors concentrate on the property itself rather than on a specific technique. This not only allows the investor to concentrate directly on where most profitability resides, but also opens a much wider array of potential "deals" for the investor to consider. Furthermore, the investor can concentrate on the much more reliable profitability formula of "adding value", rather than on the more suspect and ethically questionable formula of finding a naive individual to work the other side of the real property transaction.

2. Plan on Doing Many Deals Each With a Small Amount of Profit Rather Than a Few Deals Each with Substantial Profit

Many investors both experienced as well as new are thrilled with a small profit on each deal. We call this a "base hit" or a "single". We are always trying to hit home runs but most of our deals are singles and doubles. Since unexpected expenses always seem to creep up when least expected in real estate investing, the actual profitability of these transactions range from half the expected profit to no profit. In order for the investor to earn enough income to warrant the time commitment, monetary commitment and risk involved, he would have to participate in a large number of deals annually. And since it always takes many negotiations to produce a single deal, and many property inspections to find a single property worth negotiating on, real estate investment will become a full time real estate business.

In my many years investing in real estate, financing real estate ventures, and observing successful real estate investors, I have come to the conclusion that participating in a small number of highly profitable transactions not only produces more monetary success but also leads to a much more leisurely, less stressful and more satisfying experience.

3. Having No Sustainable Plan

"I want to make a lot of money" is not a sustainable business plan. "I want to specialize in foreclosures, lease options, and subject to" is not a sustainable business plan. "I buy property for cash or terms" is not a sustainable business plan. Enough said. If you don't know how to develop a workable plan for real estate investing buy a book on business plans, attend REI meetings, attend conferences etc... Beginning investors will more in likely need a full time consultant available to coach them.

4. Trying to Do Deals with No Equity Contribution

Yes, it's possible to purchase real estate with no money. Yes, it's possible to flip properties for large profit with no investment. Yes, it's possible to option property for $100. That being said, it's infinitely easier to successfully participate in real estate transactions when you as a real estate investor have an equity contribution in the deal. When you put some money in a deal three great things begin to happen. Conventional lenders become interested in financing your transaction and 20 % hard money rates or 30 % equity shares become 6 % conventional financing. Life becomes easier and the deals are much more profitable.

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

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Sam's Corner

Understanding Demand

When Charlie and I entered the alternative financing business in 2013, we questioned how much demand there would be for our loan products. We thought that our growth could be potentially limited by the demand for rehab loans in the region. Since we observed so many people bidding at the auctions, we assumed that there was broad access to capital for renovation projects. We were partly right - there is capital available for renovation projects; however, we didn't originally recognize the competitive advantages our rehab knowledge would bring to our lending business. Using our rehab experience, we differentiate ourselves by structuring our loan products around our loss mitigation strategies. Our competitors have much higher loss mitigation costs. They have no expertise in rehabbing properties and are not closely associated with real estate brokerages for liquidating houses.

When Clear Sky Financial decides whether or not to lend on an asset and how to price a loan, the loss mitigation strategy for Clear Sky Financial is totally different than our competitors. Where our competitors rely on loss mitigation through quick sales and auctions, we consider what the deal would look like if we took it back as a rehab and sold it through our real estate brokerage. We put on our "expert renovator" hat and determine how much a property would cost us to renovate and how much we could obtain for a fully renovated property. Since we are renovating 6 to 12 houses at any given time in the parent company Clear Sky Properties, LLC, a loss mitigation event like taking a house back in Clear Sky Financial would not require us to develop any new skills.

By understanding the borrower's complete renovation strategy, we can share our expertise with the borrower and add value to our loan products. Beyond information, we can lend in situations where other lenders might not have experience. We understand the risks of rehab and the costs associated with architects and permitting. Our clients are very loyal to us as they know we can deliver a loan very quickly. Deep knowledge and strong service has resulted in our obtaining a concentration of great repeat customers. The better we know our customers, the more likely they are to call on us again for their next loan.

Food for Thought

Our business is all about cash flow! Cash flow is the heart and soul of a business, and some people believe it is more important than any financial statement or tax return. It is the blood flow of a business, and without cash flow, there is no business.

Currently, we have 70 loans in the Clear Sky Financial family. Each loan has a payment stream associated with it. On some of the loans we originate, we collect 6 months to 1 year of payments in advance of their due date. These loans make up about 10% of our loan volume and don't play into our cash flow projections.

The remaining loans generate approximately 60 cash flow-related payments each month, which is a relatively large number of transactions. On the outbound side, we make interest payments on Clear Sky Financial's note obligations.

Earlier in the year, we tried using a third-party servicer to handle the inbound payment processing and ease the burden of collecting payments. This approach proved limiting because the payment processor took 10 - 11 days to remit funds to us. This processing time extended our timeline for collecting and reinvesting cash, which slowed our growth.

Beginning October 1, 2017, we will process our own payments to gain greater control over our cash flow.

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DEAL OF THE MONTH

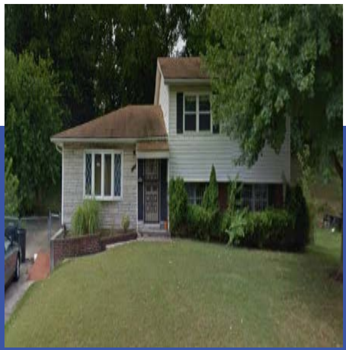
This month's deal was a foreclosure purchase that was made by Clear Sky Properties (the affiliate property company to Clear Sky Financial).

We attend many auctions throughout the month at the various courthouses in the Northern Virginia/DC area. In Virginia, the foreclosure auctions are handled at the courthouse steps through a substitute trustee. The substitute trustee has the authority of the bank to sell the property. In D.C., auctions are done through auction houses such as Alex Cooper and Harvey West.

In Virginia, there are many law firms that are the substitute trustees for the banks. All experienced investors know the most common law firms that do auctions. We call the law firms that do very few auctions "one off firms". The one-off auctions are harder to track as they are not advertised consistently in any one publication or at any one time. Through persistent research, we know about almost all of these auctions.

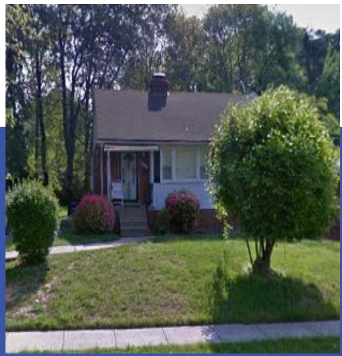
The real pros are at the one-off auctions. This past week we attended a one-off auction and purchased a property. We were the only bidder there! This does not happen very often; however, this was not our first time in this situation. It takes a lot of work and dedication to find these deals but they do exist! The profit margin on this particular house was much higher than the margins we achieved at our other auction purchases this year.

AUGUST DEALS



8611 Reicher Street

8532 Springman Street



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