Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

JANUARY 2019

Letter from the Editor

Happy New Year! We wish you a happy, healthy, and fruitful 2019.

We had a productive December. We closed five loans totaling $1.63M, all of which were First Trusts. Two of the loans were fix/flip loans and three were buy/holds. It looks like January will be a huge month. We have already closed five loans and have three more in the queue before the month's end!

CHUCKLE'S CORNER

"Success is walking from failure to failure with no loss of enthusiasm." –

Winston Churchill

Food for Thought

On April 6, we will be at our fourth Think Realty conference in Baltimore, MD, where we will have at least one speaking engagement. We are still in the process of selecting our topic. Please stay tuned for additional details!

We continue to be sponsors of the Northern Virginia real estate investment club TRACTION REIA. We are the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We lead brief presentations of 5-10 minutes at each meeting. We also sponsor a new group in Washington, D.C., the Heels and Deals Meetup.

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The Perfect Residential Investment Business Model (Part 1)

It takes a lot of time and work to build what I call the "Perfect Residential Investment Business Model" from scratch. This is not a get-rich quick model; it is an income producing asset-building model. It can be generational if you build it correctly. This is what we have been building for the last 15 years. There are four components to the model: Fix and Flips, Rentals, Hard Money Lending, and Tax Lien Certificates. In this article, I will discuss Fix and Flips and Rentals. Keep an eye out for next month's article covering Hard Money Lending and Tax Lien Certificates.

Fix and Flips:
This is a simple strategy where you fix/flip/renovate. There are at least 100+ different ways to find these assets. Our main focus over the years has been in the distressed asset space, which consists of pre-foreclosures, foreclosures, bank owned homes, estate homes, and more. The "pros" of this approach are that you generate cash flow with the flip profit (most of which should be re-invested back into your business), and it is a fast approach, taking between 120-180 days to complete. The "cons" of this approach are that selling flips will inhibit you from profiting from future appreciation.

Fix and Flip Strategies for Success:
* ***Buy Wholesale/Sell Retail*** - Buy non-MLS properties (wholesale) and sell via the MLS (retail). You will make your money on the buy!
* ***Renovation*** - You need to renovate to your product type. The finishes should reflect the property type and out price. Do not over-renovate, be sure to stay within your renovation budget for the most success.
* ***Understand your ARV*** - The ARV is the After Repair Value of an asset. You can get this value by doing an MLS search. If you do not have access to the MLS, call upon a good Realtor who is preferably in the investor space.
* ***Talk to Your Community Banks –*** They may be able to help you create Fix and Flip Lines of Credit.
* ***Build a referral network*** – Working with Realtors, wholesalers, and other professionals can help bring in deals.

Rentals:
We have a nicely sized portfolio of rentals. For each rental, we determined whether it made sense to keep the property as a rental by comparing the rental price with the purchase price and rental renovation costs. When buying a marginal cash flow deal, it will make sense to keep the property if you feel there might be a large future appreciation. The "pros" of this approach are market appreciation (the compounding of equity when owning more than one property); huge depreciation tax write-offs; and the ability to use the rentals as leverage to further expand and buy more rentals by putting low-interest loans against your rental properties, and using the rents to pay down your debt. This works well in a low-interest environment. The "cons" of this approach are the time investment of managing multiple properties; maintenance and vacancy concerns; untapped equity (it is very difficult to use the built-up equity to reinvest because banks do not want to put credit lines on the properties); and liquidity challenges.

Rental Strategies for Success:
* ***Buy Wholesale*** – Buy with a predetermined equity position.
* ***Use the Rule of Thumb: 100x Rents*** - If the purchase price is somewhere between 1-100x the rent price, we ALWAYS keep the property in our rental portfolio.
* ***Talk to Your Community Banks –*** They may be able to help you create Buy and Hold Lines of Credit.

I hope you found this article on the pros and cons of Fix and Flips and Rentals, as well as suggested strategies for success with each approach, to be helpful. I look forward to discussing Hard Money Lending and Tax Lien Certificates next month.

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DC Market Trends in Real Estate and Hard Money

We are off to the start of the Spring housing market! Investors, borrowers, buyers, and sellers are all reaching out to find out where this market is going. People want to know the impact of higher interest rates on consumer behavior and they want to know if the government shutdown is going to slow sales and price growth. These negative factors can definitely be a drag on the housing market. There are valid concerns about the market. However, I think there are some positive trends that are unique to our region that should be considered.

Regionally, we are fortunate to have a very balanced market. When searching listings in the MLS, I find that the supply of housing in the areas we are active can be absorbed in about three months. That means that at the current rate of purchases, all of the inventory of available houses on the market can be purchased/absorbed into the market within a period of ninety days. Looking at some of the hotter submarkets in neighborhoods we see even faster absorption rates. Construction/contractor pricing is up. Materials and labor cost more this year than in any recent years. I estimate that year-over-year for the past two years both our materials and labor costs have gone up 7% annually. This is a strong indicator that there is intense investment in our region, driving competition for the available construction resources.

Demand is still strong. Anecdotally, we have had listings go on the market and fly off in a day. Product that is entry-level or priced higher than the mid-level pricing does not seem to be adversely impacted by the government shutdown. The government personnel impacted by the shutdown are spread throughout the market, and there are still many private sector buyers at all income levels looking for homes. In October of 2013, the government shut down for sixteen days and the real estate market saw an immediate slowdown. We are not seeing that right now.

Supply is still anemic, as it usually is in January. There are not too many houses on the market at this point. A smaller housing supply tends to slow demand because there aren't a lot of choices for buyers. However, it is still very early in the 2019 market and it is likely that supply will increase dramatically as we get further into the year. Last year, the inventory on market increased approximately 55% between January and May. We will probably see a similar tend this year.

The demand for hard money is enormous. There are a lot of newbie flippers who find houses to fix up and are interested in entering the real estate market. Years of growth have drawn these new investors into the market. As a hard money lender, we spend a lot of time weeding through new investor deals and looking for good ones where we are confident that the investor can execute successfully.

So, while there are clouds looming in the market, I believe that flippers will be able to still find good deals this year and have a decent market in which to sell their product. The best strategy for a flipper is to have the best product in their submarket at the best price. Buying with that strategy in mind leads to investment success. We have never bought on the hope of an improved market. When we flip houses we make sure that we get a great buy price. We support the same kind of deals with our hard money business.

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Deal of the Month

The December Deal of the Month involves a quick close on a property in Vienna, Virginia. A loan officer from Prime Lending referred us this deal. She had been working on it for months and the deal had to close by the end of the year. She informed us around December 20 that this deal needed to close before the end of the year. Thankfully, the title was already pulled. We were able to close on a First Trust of $725,000 in less than a week during the holiday season. This was the second deal this loan officer has referred us. Thank you to her!

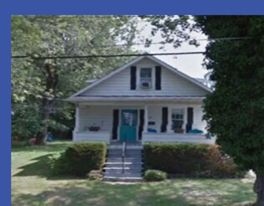
December Deals

1021 N Cathedral St.

8126 Gavin St.

300 Mashie Ave.

6167 Monroe Ave.



24 Aldyth Ave.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

February 2019

Letter from the Editor

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

We are having a productive start to 2019. In January, we closed eight loans totaling $1.56M. The loans consisted of six first trusts and two second trusts. We anticipate that February will be even a bigger month.

CHUCKLE'S CORNER

"It's good to have money and the things that money can buy, but it's good, too, to check up once in a while and make sure that you haven't lost the things that money can't buy." - George Lorimer

Food for Thought

On April 6, will be at our fourth Think Realty conference in Baltimore, MD, where we will have at least one speaking engagement (the topic of our presentation has not yet been determined.) Stay tuned for additional details!

We continue to be sponsors of the Northern Virginia real estate investment club, TRACTION REIA. We are the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We lead brief presentations of five to ten minutes at each meeting.

We also sponsor a new group in Washington, D.C., the Heels and Deals Meetup.

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It takes a lot of time and work to build what I call the "Perfect Residential Investment Business Model" from scratch. This is not a get-rich quick model; it is an income producing asset-building model. It can be generational if you build it correctly. This is what we have been building for the last 15 years. There are four components to the model: Fix and Flips, Rentals, Hard Money Lending, and Tax Lien Certificates. In Part 1 of this article, included in last month's newsletter, I discussed Fix and Flips and Rentals. This month's article covers Hard Money Lending and Tax Lien Certificates.

Hard Money Lending:
Hard money lending is essentially private lending, or becoming a private bank. This entails lending money on an asset in either the first or second position, and generating the income of the interest rate and fees. You own the mortgage/deed of trust instruments, and this is an asset-based loan, in which credit checks and income checks are not as important as the underlying asset. The "pros" of this approach are the ability to generate cash flow from the interest rate and fees, and the scalability/ability to do many more deals. The "cons" of this approach are the need to create a good collection strategy to deal with late-paying borrowers, complex bookkeeping, and challenges of liquidity.

Hard Money Lending Strategies for Success:
* *Lend conservatively on the ARV*
* *Build a repeat client base*
* *Diversify the areas where you lend*
* *Diversify the loan products you offer*
* *Offer consulting services to your end borrowers to help make their project a success*
* *Service your own loans*

Tax Lien Certificates:

A tax lien certificate is an instrument through which the local jurisdiction pays you an interest rate over time. This instrument is created when a property owner is delinquent on their personal property taxes. The jurisdiction creates this instrument and sells it to the public. We own D.C. Tax Lien Certificates that are currently paying 18%. This is the minimum return. If the taxes are not brought current by the owner, you can file a quiet title lawsuit where you can eventually obtain the title to the property. In some cases, the Tax Lien Certificate moves to the front of the lien food chain. The "pros" of this approach are the ability to generate cash flow from interest rates, the scalability/ability to do many more deals, and the ability to own a property at a very good price following a process of up to 18-30 months. The "cons" of this approach are complex bookkeeping, and the challenges of determining when interest accrual ends on lien payoff, as D.C. takes 30 days to issue the payoff check.

Tax Lien Certificates Strategies for Success:
* *Gain a thorough understanding of:*
  - *The jurisdiction requirements for selling the certificates*
  - *The procedure for a quiet title*
  - *The interest rate of the certificate*
  - *The underlying asset*
  - *Types of sales (ie. Auctions; first-come, first-serve; bulk sales, etc.)*

I hope you found this article on the pros and cons of Hard Money Lending and Tax Lien Certificates, as well as suggested strategies for success with each approach, to be helpful. I hope you have an enjoyable and productive rest of your month.

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Understanding Mortgage Funds

Mortgage funds are a useful way of managing and understanding note investment. A mortgage fund is an investment that is operated by a fund manager. Money invested in the fund is loaned out as mortgages to borrowers. The borrowers pay back their loans to the fund and the fund collects the interest.

If the fund is organized as a debt offering, the debt offering is essentially a vehicle for investors to loan the fund money and the fund to loan it out. Investors get interest payments during their investment period and then receive the return of their capital at the end of the term of their debt.

Once a fund is organized, the fund manager/organizer needs to inform investor of all risks and provide period updates. An essential role of the fund manager is disclosure. They provide disclosure through offering documents, updates, and investor communications whereby all material facts are stated. Information that would affect an investor's investment decision is the essence of what needs to be disclosed.

When assembling a fund, the fund organizer must pay careful attention to securities regulation. If the fund is raising capital by offering and selling securities; the fund must register with the SEC or rely on an exemption provided by the SEC. The federal regulation most commonly relied on is Regulation D: rule 506.

There are two types of exemptions under the rule: 506(B) and 506(C). Both structures allow unlimited accredited investors. Accredited investors are defined by regulation and have specific income and net worth requirements. 506(B) allows for a maximum of 35 non-accredited investors. 506 (C) doesn't allow any non-accredited investors. Importantly, 506(B) does not allow any advertising, whereas 506(C) does allow for general solicitation and advertising.

Clear Sky Financial has engaged Geraci Law Firm to ensure that we are following best practices as they relate to fund registration. As we receive guidance and recommendations from Geraci, I will provide an update on this subject area.

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January Deals

255 Van Buren St. NW

10604 Holleybrooke

21355 Lynn Dr.

902 E. Capitol St. NE

1318 Alderton Lane

11414 Eskridge Lane

11259 Edgewood Dr.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

March 2019

Letter from the Editor

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

We had a very productive February. We closed five loans, which consisted of four First Trusts and one Second Trust. March looks to be about ten loans, and our pipeline continues to grow.

CHUCKLE'S CORNER

"Don't worry about the world coming to an end today. It is already tomorrow in Australia."

– Charles Schulz

Food for Thought

On April 6, we will attend our fourth Think Realty conference in Baltimore, MD. This year's event is taking place at the Hyatt Regency Inner Harbor. We will be presenting at a breakout session, "How to Find Distressed Assets." We will be presenting from 11:15 am - 12:15 pm, and will also have a booth at the Expo from 8:30 am - 4:00 pm.

We continue to be sponsors of the Northern Virginia real estate investment club, Traction Reia. We are the only hard money lender sponsor. The club holds monthly meetings that attract an average of 100 attendees, most of whom are new to the investment space. We lead brief presentations of five to 10 minutes at each meeting. We also sponsor a new group in Washington, D.C., the Heels and Deals Meetup.

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Eight Habits that Help Average People Make Millions

I grew up an average person in an average community having average parents. I am also the most uneducated person in my family from a college viewpoint. What separated me from the rest? Well, it is simple but it is hard. Below are eight simple but hard habits that helped catapult me from an ordinary wage earner to making a much better living. You also have to understand that I started with zero: no trust fund, no money in an off shore account, and certainly no mentors...

1. Set Short-Term Goals and Long-Term Goals.
You need to get into a habit of setting goals. Here is a simple path that I have always followed. First, you need to set your long-term goals. Once you have set your long-term goals, do a list of the short-term goals needed to achieve the long-term goals. Once you have the list of short-term goals, you need to set your daily schedule to achieve your short-term goals. The most important part of this is to cross off the short-term goals as you reach them. This will give you the confidence to maintain the course. As you are crossing off goals, you might be also adding new goals as things change.

2. Aim continually to leave your 9-5 job behind.
The first thing you need to do is quit your job. It's called a J-O-B, which means JUST OVER BROKE. You are working a 9-5, you are getting someone else richer, you have got an hourly rate/salary, you are limited to how much money you can make, and you cannot really go beyond the industry average there, right? Most multi-millionaires and billionaires own businesses because there is no limit to how much you can earn in a business. You can flip one, 10, or 100 properties. But for the person with a job, there are only 24 hours in a day—and many of those hours are taken up while you're only getting paid an hourly rate/salary.

3. Understand Good Debt Vs Bad Debt
This country has so much unsecured debt (bad debt): student loans, car loans, credit cards, etc. Only spend what you can afford to spend, which means the money that you have in your account should be the money that you are spending. There is also good debt. Any debt or leveraging used for your investments is good debt. Just be cautious to not get over leveraged. Leveraging is a smart way to increase your net worth if used correctly.

4. Stay frugal.
When I started my journey as an entrepreneur and a business owner, I understood that I had to keep costs to a minimum and drive revenue. That means do not buy a new phone (unless you need one), do not buy a new suit, and do not buy anything that is not necessary for your day-to-day living. There is no need to spend money on things that do not give you a return on investment. Instead, spend one dollar and get two back.

5. Learn to sacrifice everything and anything.
This is probably the hardest step. There are not any walks in the park, and there are not any extravagant vacations. I worked very hard and I still do work 12 - 14 hour days. I try to take one or two days a week off. Every dollar that I have I invest back in my business. Nothing comes easy in life. You have to work hard, you have to sacrifice, and you have to do whatever it takes. You have to put everything on the line. If you want to succeed, there are not any excuses and it's going to take a lot of hard work. I do not believe in luck. I believe in hard work.

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6. Methodically invest in property.
I am not sure what the statistics are out there, but the majority of multi-millionaires and billionaires all have very large property portfolios. There are many ways that you can invest in real estate, as you know. Regardless of the niche you use, you want to get to a certain level of financial status where you can buy and hold. One way to create long-term wealth is by buying and holding properties. They hopefully will appreciate in value, which will hopefully continue to expand your multimillionaire status, and you will also receive residual income from them so you can achieve true financial freedom and enjoy your life.

7. Surround yourself with the right people.
You need to figure out where the people you aspire to be like, hang out. In real estate it is easier. I bet you, your first million dollars earned that some of these people might be at Real Estate Investor Association events. Just find the events. Surround yourself with other real estate investors who are doing great things. They say you are who you are with. So make sure that you network. Throw yourself out there. Go to conferences, shake hands, talk to people, email them, cold call them. Network equals net worth. If they are worth $10 million, at least they will pull you up and you will be worth a couple million. You are who you are with. Have the right people around you.

8. Become an Expert
I am an EXPERT in the residential real estate investment field. Did I just wake up one day and someone crowned me an expert? No, it took years of reading, educating and actually doing it. How do you find distressed assets? X's and O's of hard money lending, tax lien certificate investing, buy and hold investing. These are some of the areas that we are EXPERTS on! So take the time and work to and learn and do. Nothing can replace experience!

Sam's Corner

Changes for Flippers and Consolidation in the Hard Money Space

Nationally, there is a combination of higher costs and lower demand for flipped houses. However, in the DC area, we have higher costs and increased demand. These factors combine to make prices at the local auctions too high for flippers to get generous returns on their work. The key for flippers is to continue to focus on buying houses in the "hidden market". These are properties that might be headed toward financial distress but haven't made their way all of the way to the auction block. Investors/buyers who can find ways to solve housing and financial problems for sellers are still finding good deals.

In the last couple of years there has been a boom in entrants to the business-to-business (hard money) lending space. People entered the business who had no familiarity with lending. They loaned out their own funds that they had saved up in IRAs and property equity. These entrants enjoyed good returns in a steadily rising market. However, a market that is nuanced with street-by-street values is much harder to loan money into. Additionally, some lenders grew so large with staffing that they needed to keep driving down their rates in order to attract transactions just to fund the back office. Both types of lenders are now either leaving the space or consolidating by selling or merging with other companies.

We view consolidation as good as good for the lending industry. Lenders who continue to be alert to local trends and keep detailed track of their loans are great for business. They provide value and competitive rates. A lender that relies on rate alone to attract business tends to drive itself out of the market. Whereas, a lender that is of service to a borrower builds trust and adds value beyond a low rate. Our approach is to continue to deepen our lending in the DC/VA/MD market by continuing to service repeat borrowers and well-educated new entrants. Our focus on reviewing assets and meeting borrowers in person to review their job sites keeps us well informed about neighborhoods and borrower project progress. We are continuing to grow from organic growth in 2019.for general solicitation and advertising.

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1404 Devils Reach

2423 Phillips Drive.

2211 Oregon Ave

81 55th Street

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CLEAR SKY FINANCIAL NEWSLETTER

April 2019

Letter from the Editor

We hope you had a great April. Thanks to those of you who attended the Think Realty Expo in Baltimore. We had a GREAT March. We closed 8 loans, ALL first trusts. The total loan volume was 1.9 Mil with the average LTV on the ARV around 63.5%. Our goal is to keep this number between 65% and 70%. April proved to be another busy month as the business continues to grow.

CHUCKLE'S CORNER

"An investment in knowledge pays the best interest."

-Benjamin Franklin

Food for Thought

We launched the Clear Sky Lightning Fund. This is a 506 (c) fund open only to accredited investors. It will be a debt offering. Please call or email with questions if you want to participate. It is very similar to your investment in Clear Sky Financial.

All Clear Sky Financial notes will be automatically moved to a 506 (b) fund. There will be no changes to note holder interest payments. In the coming weeks we will send you updated paperwork.

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Top 9 Reasons Real Estate Investors Use Hard Money Loans

1. Fast loan approvals and funding
Applying for a hard money loan is a simple and straightforward process. In most cases, all a borrower needs to do is to fill out a standard loan application. In many cases, a borrower can receive a conditional approval after a five minute conversation with a hard money lender. Compare this to the countless pages a bank requires a borrower to fill out. Once the application is submitted to the bank, it could be weeks or longer until the borrower receives approval or even a response. The subject property could be snatched up by another real estate investor by that point. Once the real estate investor has been approved for the hard money loan, the loan can be funded within a week or two. If needed to save a deal, reputable hard money lenders can fund a loan within three to five days. Bank loans can take 30 to 45 days even without any major problems popping up.

2. Hard money loans make the real estate investor's offer stronger
An offer from a real estate investor with a hard money loan as financing is seen as strong. This is especially helpful in situations where a property has multiple offers from buyers with conventional bank loans. The hard money loan offer stands out.

3. Negotiating a lower purchase price with a quick close
As with offers that are all cash, real estate investors may be able to negotiate a lower purchase price with the promise of a shorter escrow period and a quick close. A motivated seller is more likely to negotiate when closing the sale as soon as possible is a top priority.

4. Income history and perfect credit scores are not necessary
The most important factors a bank considers when approving loans are typically the borrower's credit and income. If either of these is outside the bank's criteria, the loan will most likely not be approved. Hard money lenders primarily focus on the value of the property that will serve as the collateral for the loan, as well as the equity (down payment for a purchase) the borrower has in the property. The hard money lender must be comfortable with the valuation and equity, as this is what allows them to not be as concerned with the borrower's income and creditworthiness.

5. Using leverage to get more deals.
Real estate investors who can purchase properties with cash enjoy many benefits. They can get more of their offers accepted at better prices, and they can buy properties at all-cash auctions. The main disadvantage of doing deals with all cash is that it limits the amount of deals that can be done at one time. An investor may miss a great deal because all their funds are tied up in another project. Using a hard money loan (which generally allows for financing of up to 75% LTV) allows the investor to secure properties while still having enough funds on hand to purchase and complete other projects.

6. Reinvesting equity from an existing property into a new property
When a real estate investment opportunity arises, there is often a limited amount of time in which to make a decision and act. If a real estate investor needs to raise money to fund a purchase (or down payment for a purchase) there are usually few options available. Fortunately, cash-out refinance loans from a hard money lender are available to investors who have a sufficient amount of equity in their property. A direct hard money lender can process a cash-out refinance loan and have the funds available for the investor in about a week.

7. Getting approved for a loan with recent issues on record.
Many issues on a borrower's record could prevent a bank from providing financing, such as recent short-sales, bankruptcies, loan modifications, and foreclosures. Because hard money lenders are asset-based, they can look past these types of issues and instead focus on the borrower's equity (or down payment) in the subject property. A real estate investor doesn't have to stay on the sidelines for years because of a blemish on their record.

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8. Obtaining financing when a bank will not provide additional loans.
Many banks will cap the amount of loans to a single borrower at four. Hard money lenders do not have these types of limitations. They are primarily concerned with the borrower's equity in a property. Hard money lenders often view working with an investor with multiple properties as a positive because the borrower has more options and can cross-collateralize properties if needed.

9. Getting free advice from a real estate expert.
Working with a hard money lender is a partnership. The hard money lender wants the project to go as smoothly as possible, just as the real estate investor does. The last thing the lender wants is missed payments, unforeseen issues with the property, or any other potential problems that put the project in jeopardy.

A reliable and experienced hard money lender analyzing a loan request or project will give their honest opinion and bring up any issues that could jeopardize the project. The lender may bring up concerns the real estate investor was not aware of that could potentially hurt the project if not addressed. The advice from the hard money lender could also cause the real estate investor to reconsider moving forward with the subject property altogether in order to avoid taking a loss on the project.

Sam's Corner

Developing a Niche

To gain the depth of knowledge essential to becoming successful, it is important for investors to develop a focus. Taking the time to build a deep level of understanding in a specific area is integral to long-term success. Once a particular market is mastered, the investor can move on to additional areas using the same in-depth approach. This niche approach is iterative. A single niche is insufficient to expand an investment portfolio indefinitely. The market changes and the investor must adjust to new realities and find niches that work with the new market conditions.

We have iterated our business model by moving from one niche to another. Initially, we began investing in residential real estate and understanding the nuances of selling and renting renovated properties. This niche expertise came from repeating the acquisition, improvement, renting and resale model over and over again. Each time we purchased an asset, we identified the nuances of the acquisition process that made the buy successful. During each renovation, we tracked the timing and cost associated with each repair. Learning what repairs cost in general and then diving more specifically into repair costing at a granular level allowed us to develop expertise on renovation cost control. We didn't do this on just one project, but on dozens. After understanding acquisition methods and costs in detail, we were able to take a top-level view and find out what models work and what "rules of thumb" could be used to make pricing determinations quickly and accurately.

Taking our investment model to another level required understanding the niche of residential renting and property management. We rented to individuals with high credit scores, low credit scores, and government subsidies. The more we rented properties out and maintained landlord/tenant relationships, the more we realized that there is a lot of subtlety to having an efficient landlord/tenant relationship. The source of income or credit score turned out to be a lesser determinate of the success of a lease than the relationship built with a tenant. A tenant that is respected and has immediate resolution to physical problems with their property is much more likely to be retained. A tenant that feels comfortable enough to explain why their rent is behind and what the plan is to catch up is far more likely to get back on track than a tenant where communication is limited. How you communicate with a tenant and how you handle problems is not written in a procedure manual anywhere. Learning these methods requires combining industry best practices and figuring out how your organization can deliver them. This is organization-specific and a niche that we became expert in executing. Tracking performance in any niche is essential. In property management, tracking retention rates, vacancy rates, rent increases, and property maintenance expenses is needed in order to improve performance results.

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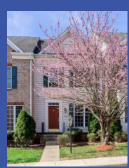
Our niche development for the last five years is in the hard money lending space. It is an extension of all of our prior niche learning. We are able to share our knowledge of the flipping and selling space with other investors. In the process of providing loans, we have developed niche expertise in collections and servicing. Our work in this space isn't limited to lending. Accounting and process control are essential to making hard money lending work. There is no one place to learn how to integrate best practices into our model. We are continuously evaluating the environment, looking for the best vendors to support us, and seeking the best practices to institute. Our team is growing and we are determining which metrics are best used to measure our growth and success in this space. When you are building a team and hiring professionals to support your organization, you want to be sure to bring on teams in areas where their niche expertise is also refined.

March Deals

11609 Bonaventure Dr.



4397 Palton Dr.

819 Clovis St.

2933 Ariel Ct.

8415 Yorkshire Lane

5701 Huntland Rd.

16724 Huron St.

5511 Helmont Dr.

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Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

May/June 2019

Letter from the Editor

We hope you are doing well, and we apologize for skipping the May 2019 newsletter – below, please find our May/June issue. We did six loans in April, and another six in May. All 12 loans were first trusts. June is off to a strong beginning.

CHUCKLE'S CORNER

"All I ask is the chance to prove that money can't make me happy." Spike Milligan

Food for Thought

We have launched the Clear Sky Lightning Fund. This is a 506(c) fund opened to accredited investors. It is a debt offering. Please call or email with questions if you want to participate. It is very similar to your investment in Clear Sky Financial. The Clear Sky Financial monies will be automatically moved to a 506(b) fund. There will be no changes on your part as to the interest payments received. We will have some updated paperwork for you to fill out. You should be getting this soon.

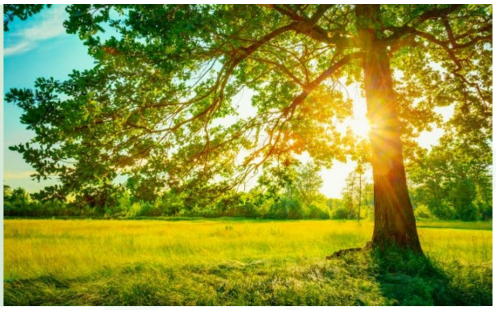
We have one new investor who is starting out with their investment into the 506 (b) fund. The difference between the 506(c) and 506(b) is that we can advertise the 506(c) fund. The 506(c) fund is only opened to accredited investors. The 506(b) fund cannot be advertised and can accept up to 35 non-accredited investors (we currently have approximately 14).

An accredited investor is defined as:
A. One who has earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year,

OR

B. One who has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence).

In This Issue:



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Charlie's Corner

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CLEAR SKY FINANCIAL NEWSLETTER

May/June 2019

Seven Steps to Setting Goals

Perhaps one of the most important things you will do to ensure your success is goal-setting. Many people, however, fail to recognize the importance of setting goals and tend to pass it over as unimportant. But nothing could be more vital to your success than learning how to properly set goals. One element that all successful people have in common is that they set specific goals and have a plan for achieving them. This means that they determine exactly what they want and know how they are going to get there.

Three basic types of goals:

1. Improvement goals: Things that we want to change or make better, such as losing weight, quitting smoking, or having better relationships.
2. Achievement goals: Things that we want to accomplish, such as top salesperson, greatest golfer, or best teacher.
3. Financial goals: Things that we want to acquire, like making a million dollars, being financially independent, owning cars, homes, etc.

Ask most people about their goals, and they will typically give some vague, general answer. If it's an improvement goal, they may tell you that they want to lose weight. While they may be able to lose weight without a clearly defined goal, their chances of really succeeding long-term are slim until they specify how much weight they want to lose and devise a plan for how they are going to do it. If you don't know where you're going, how will you know when you get there?

The keys to effective goal setting:

1. Be specific about your goal. State exactly what you want. Instead of just saying you want to wholesale your first house, state "I will wholesale a house in Woodbridge, VA using a bandit sign or out-of-state mailer."
2. Set a date for reaching this goal. "I will have achieved it by May 25, 2019."
3. Devise a plan for reaching the goal. "Through real estate investing, I will acquire at least two income-producing properties a month that will create a net cash flow of $300 per month each, and I will buy at least one property per month that I can fix-up and resell for a $10,000 profit."
4. Indicate where and with whom you will accomplish this goal. Who else will be involved and/or affected?

The seven keys to goal achievement:

Once you have written down your goals and developed a clear idea of what you want, you still have to get there. I have put together what I consider to be the seven keys to achieving your goals. They are the crucial elements from start, to implementation, and achievement of your goals. This information can be vital to your success. Please don't take it lightly.

1. Desire
It all starts with a dream, a desire to have or accomplish something. If you don't want it, then why bother going after it?
2. Belief
In order to accomplish or acquire something, you must possess the beliefs that it is achievable and worth pursuing. Reaching this goal must not conflict with your values, and no one will be harmed or adversely affected by it. You must possess the belief that you are capable of achieving it, and that you can learn whatever is necessary to accomplish it.
3. Knowledge
You need to acquire the knowledge and information that you will need to accomplish or achieve whatever it is you are attempting. This means learning the "how-to" of what you want to do. You will also need to read about, listen to, and model someone who has already done what you wish to accomplish in order to learn the necessary mental strategies.

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4. Opportunity
The opportunity must exist for you to take action. Is this something that you can do now? If not, when? Are there external (or internal) factors that are getting in the way?
5. Vision
In order to accomplish the goal, you must have a clear idea of what it is that you want and create a compelling internal representation in your mind that you can "see" vividly. You can also use external pictures of your goal that you review daily. The better you can visualize your goal and its achievement, the better your chances of getting it.
6. Planning
Devise a concise plan for the achievement of your goal setting long-term, short-term, as well as daily goals. Implement the use of a day-planner system to help you plan your time and to "track" your progress towards your achievement.
7. Commitment
Stick to it, no matter what. You must be prepared to do "whatever it takes" (without hurting anyone) to accomplish your goal. Use vision and planning to create such a great picture of your goal that you fall in love with the thought of its accomplishment. Post the following statement up on your bathroom mirror and recite it to yourself every morning:

"I will not give up, no matter how many obstacles I encounter, or how much pain I endure. Because these things are nothing compared to my desire to succeed."

Sam's Corner

Real Estate Trends and Their Impact on Investing in the D.C. Area

In order to profit at real estate investing, one needs to be alert to real estate trends. There are macro trends that impact every US housing market: growth/recession and capital costs are national drivers. Local trends include the availability of housing stock and labor/construction costs. While it is critical to monitor both national and local trends to maximize profits, this article will focus on local trends.

For those who are wondering if a recession is looming; most probably. Price growth in the housing market can't continue indefinitely. There are already submarkets in our region where prices have pulled back. Another indicator is the slowdown of residential multifamily construction inside the beltway. This is being driven by the reality that fewer large lots are available. The profit margins are very thin for big developments. All of the development gains are priced into the purchase price of the land. The cost of construction labor, materials, and taxes/permits continues to rise quickly in the D.C. market.

When looking for investment property in the D.C. area, the most important question to ask is, "Where are people going in the region?" They are leaving Montgomery County, where the school system is locked into no growth, and an aging population is being replaced by young families. The taxes in Montgomery County are insufficient to maintain the high level of services offered in prior years. Prince George's County is poised for growth. There is a lot of housing stock to revitalize and there is close access to job growth in Anacostia and Alexandria/Arlington.

Buyers continue to pay a premium to live in Virginia. Job growth, proximity to D.C., and Virginia's favorable business environment are the primary drivers. Buyers remain especially focused on Alexandria, Arlington, and Fairfax. The close-in locations are still commutable in a car. The effectiveness of metro stops far out into Loudoun County remains uncertain. A long ride on a Metro to the city and changing Metro lines may not be palatable to many commuters. Ridership continues to fall on Metro, which indicates to me that a location close to the city will continue to demand premium prices.

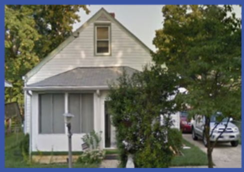
Whether you are looking for your next flip investment or are financing one, staying abreast of real estate trends is crucial. At Clear Sky Financial, we do so by attending industry groups, reading about changes in the market, and, most importantly, keeping an eye on price trends and available product. Once enough people identify a trend, you will read about it in the newspaper. If you wait to read about it, it will be too late to invest to maximize your profit.

Deal of the Month

The Deal of the Month involves a commercial deal purchased by our sister company, Clear Sky Properties LLC. We had the opportunity to invest in a three-acre piece of land that was supposed to be used as a parking lot for tractor-trailers. We were supposed to split the three acres into about 38 spaces for tractor-trailers and 50 parking spaces for other industrial vehicles of various sizes. We went under contract and purchased the land for 1.325 M. We figured it was going to take us about a year to get the parking yard fully leased with vehicles and the maximum rent would be around 21.25 K a month. However, between the time we were under contract and before we closed, we successfully negotiated a two year lease with one company for the entire three acres for 20 K per month.

Stay tuned next month when we will talk about an ongoing condo conversion and a newly purchased auto body shop.

April/May Deals



1709 Acadia Ave.

9 Elk Lane

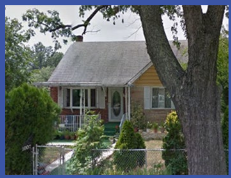
5490 Rodriguez Ln.

4235 Belvoir Rd.

7968 Jasons Ln.

12155 Penderview Ter.

3900 Mariposa Pl.



1007 Quietview Dr.

6733 Sunset Woods Ct.

6701 Kerman Ct.

4101 Cottage Ter.

2737 Devonshire NW Unit A/B

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

July 2019

Letter from the Editor

We hope you had a wonderful 4th of July holiday! This year is flying by… it's hard to believe that we're already midway through the summer. We want to welcome Renee and Steig Granrud as new investors. Sam has known the Granruds for many years.

June was another solid month for loan originations. We originated four loans, all of which were First Trusts. July will be a slower month.

CHUCKLE'S CORNER

"Experience is the name everyone gives to his mistakes." Oscar Wilde

Food for Thought

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Which is Better? Flipping Versus Holding

Some investors focus on flipping - that is, turning properties over quickly, rather than keeping them long-term. In some cases, holding property generates more long-term wealth for you than flipping. Therefore, you may consider flipping some properties and holding others. On the other hand, you may consider using the flipping strategy for a while, and then begin holding properties later. The big question is, "When should you hold versus when should you flip?"

The Advantages of Flipping - The main advantage of flipping is that you get your cash out immediately rather than later. For many people, the certainty of getting a check right away is highly appealing. Flipping takes the real estate market per se out of the equation. If you buy a property correctly, whether the market is rising or falling is almost irrelevant, except for how long it will take you to resell the property. (Of course, if you buy cheap in a soft market, you can afford to hold a property longer.)

The Advantages of Holding - Property holders can generate true wealth over the long term. Historically, property values appreciate at a rate greater than the rate of inflation in the United States. If you buy in the right neighborhoods, your annual appreciation may reach double digits. You can use properties with equity as collateral. You can provide rental income for your retirement years, and you can pass property down to the next generation. Once your rental properties are owned "free and clear," you have passive income from rents paid that gives you an income even when you're not working.

What's Right for You?

The important question isn't whether flipping is better or worse than holding, but which strategy is right for you. To discover the answer for yourself, ask these questions:

* Am I in a high-income tax bracket that would be adversely affected by more income now?
* Do I need additional income now or in the future?
* Does my local real estate market present opportunities to acquire bargains, yet still command high rents that would cover my expenses if I need to hold on to the properties?
* Do I have other income or savings that I could tap into in case my rental properties become vacant or need major repairs?
* Is the local real estate market rising or falling at this time?
* Does bringing in income now or later fit into my short-term and long-term financial goals?

Most investors start out flipping houses, and then gradually work into managing rental houses or becoming involved in larger, more complex real estate projects. Some people don't have the temperament to deal with tenants and the headaches that come with rental properties. Some look for side income by flipping. Others want to quit their jobs and make flipping houses their full- time business.

As you can see, many investors were once in your shoes making these decisions. Be sure to consider all options, including a mixture of flipping and holding properties. Reevaluate your financial goals on a regular basis and adjust your real estate strategies to support these goals.

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Cash Looking for a Home

There are a lot of capital-seeking investment opportunities in the DMV. This is pushing down yields on a variety of real estate asset types and making it increasingly difficult to find value investments. We have examined the local market in depth in the last couple of months and found examples of reduced yield. Tax sale results, property auction results, and commercial real estate pricing are all showing very clear indicators that the market is awash in capital.

On July 16th and 17th , the DC Office of Tax and Revenue held their annual real property sale. This sale is designed for the DC government to get private investors to take over the role of tax collection on real estate property with delinquent taxes. There were many more buyers than in prior years and the buying was aggressive. The government was selling tax liens with an 18% interest rate, and anyone who bid over the face amount of the lien reduced their potential yield. There was enough money in play that people were bidding amounts resulting in a 4% yield. If an active investor is willing to accept a 4% yield, that is a certain indicator that there is a lot of capital in the market.

Real estate trustee's auctions are awash in aggressive buyers. There maybe a few people buying these houses that believe prices have a lot of growth in them; however, most real estate investors recognize that the market has either stabilized or topped out. We are seeing buyers at the auctions who are deploying their money for very little returns. They are buying flips for the purpose of either keeping their work-crews busy or keeping their money deployed in the market. These are not sound investing strategies. The best approach is to continue to seek value buys. They are increasingly rare. The high cost of renovations is putting a squeeze on most buyers who have acquired assets in the last six months. With full employment in the regional economy, the cost of construction labor and materials are reaching new levels. Several flippers that we are dealing with have invested heavily in their assets and have only marginal returns for months of effort. We continue to advise our borrowers to buy conservatively and wait for value opportunities.

Anecdotally, we have looked at many commercial opportunities. This year we had the good fortune to locate two small commercial investments priced at value points. However, most of the yields we see for performing assets offer cash on cash returns (cap rates) between 5 and 7 percent. There is plenty of market risk and asset risk/depreciation in the system. Accepting a 5 percent long term yield on a fixed asset doesn't look as good to us as keeping your money on the sidelines or waiting for much better opportunities.

We view these market trends as the reason to stay patient and wait for great opportunities. High yields maybe far from the norm, but they certainly still exist. We continue to encourage our hard money borrowers to scrub every deal and make sure that their profit margins are acceptable. Our borrowers' success is vital to our long-term strategy so we spend a lot of time evaluating assets with them.

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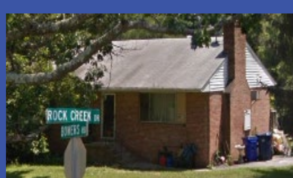
Deal of the Month

The deal of the month involves a wholesale deal done by Charlie's son, Cory Einsmann. He found a couple of houses to wholesale using a system called the "Hidden Market". It was a course that we sent him to via our affiliation with TRACTION REIA. He wholesaled two deals last month. One was very complicated in finding the owners. Both houses were vacant with overgrown lawns. He had to hire a skip trace to find the owners (brothers living separate). It was a very good wholesale deal as he wholesaled it to one of our courthouse auction bidders (competitor). It was actually a deal that he purchased and flipped a week later. CSF provided the TRANSACTIONAL FUNDING for a week. Congratulations, Cory, on a job well done!

June Deals



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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

August 2019

Letter from the Editor

We hope you enjoyed a wonderful summer! It's hard to believe that the kids are already back in school - this year is flying by!

July was a slow month for loan originations. We originated three loans (the same number as last July). All three loans were First Trusts. Two were in Virginia and one was in Maryland. Business development activity was slow in July due to vacations and the lack of REI (Real Estate Investor) meetings. August is shaping up to be a more productive month. We will have about seven loans.

CHUCKLE'S CORNER

"An investment in knowledge pays the best interest."
Benjamin Franklin

Food for Thought

As Clear Sky Financial/Clear Sky Properties get more mature, we are receiving more requests for speaking engagements, and our presentations are popular with the investor community. As I write, we are doing a presentation at a local REIA meetup on "How to Find Distressed Assets". This is the same presentation that we did at the Think Realty conference in Baltimore. Below are the presentations that we have given to date:

How to Find Distressed Assets
X's and O's of Hard Money
How to Find the $$$'s
The Perfect Residential Investment Business Model (This has been developed, but not yet presented.)

We were also recently featured on a national Think Realty podcast. The link to the podcast is https://thinkrealty.com/podcast/ . You can stay abreast of our upcoming events and presentations by requesting to be added to our weekly events email distribution list.

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Math Problems to Generate Leads and Success

It does not matter the scale you are working on; you just have to figure out the formula that works for you. To be a successful real estate investor, it's all about generating leads to find the right property in which to invest.

We have a large portfolio of fix and flips, buy and holds and hard money loans. No matter what business line we are focusing on, we approach finding the right properties/loans as a math problem. We know that it is a numbers game. We are looking for the formula to help solve the problem.

Let's look at direct mail as an example. You have to send a certain number of letters/postcards to receive a certain number of phone calls, which will, in turn, generate a certain number of investment candidates. The candidates will produce a certain number of walk-throughs and purchase agreements, which finally generates the number of properties we turn over in a month. Many people think that real estate investing starts with the property you buy. But there is so much more that needs to happen before that property even comes into play.

Seven years ago, the MLS was basically everyone's lead generation source. You could find deals on the MLS. Today, investors have to be more creative with how they are generating their leads, as the sources are frequently changing from market to market. Off-market deals, or those not listed on the MLS, Zillow, Trulia or property listing sites, are the best deals to find for yourself and your investors. Here are some things we do to find the deals that no one else knows about and generate as many leads as possible.

Direct Mail

We gather a list of homeowners who we think may be motivated to sell their home. These may be owners that are behind on their property taxes, have inherited a property, have bad credit, have city violations against them, or can't keep up with the property. We send them mail seven or eight times a year. We send a variety of mailers to reach the different personalities of the homeowners: simple postcards, professional postcards, handwritten letters, urgent notices, business letters, and invitations. We send out these mailers in hopes of the homeowner giving us a call because they want to sell their home.

Cold-Calling

We conduct "skip tracing" on the same lists we have for direct mail to generate their phone numbers. We then call them to gauge their interest in selling their property. This is a less expensive, but more time-intensive, alternative to direct mail.

Auctions

We attend/bid on all kinds of auctions. We bid on foreclosure auctions, bank-owned auctions, and tax auctions; both online and in person.

Networking

A large part of our business comes from networking with other wholesalers and real estate agents at events, REIAs or meetups. By creating your brand and talking to everyone in your market, leads will start coming to you.

For us, it is all about the math. We have a number of properties that we want to be able to buy and sell each month. To do that, we have to have many properties coming into our inventory. We know the number of mailers we need to send out, the amount of money we need to spend, the number of calls we need to make, as well as the number of networking opportunities we need to attend in our market. It does not matter the scale you're working on — you just have to figure out the formula that works for you. What are the numbers that you need to hit to make the next deal? Figure out that math, and you will be successful.

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Education – It's Critical in Risk Mitigation

On any given day, Charlie and I receive a half dozen phone calls/emails inquiring about getting financing for "flip". A lot of the callers are reach out to us after hearing about Clear Sky Financial at local real estate investor meet-ups. These prospective borrowers may have a specific property to evaluate, but more often they are calling to discuss the evaluation/acquisition process. Whether they are experienced or not, they want to know what we think makes sense for renovation costs, closing costs, sales prices, and profit margins.

Why do we care about their evaluation process? The best way for us to save time and reduce risk is to have our borrowers carefully evaluating their own deals. We want every one of our borrowers to make a good margin on their purchase so they come back to us for repeat business. We start on the phone with detailed discussions, share spreadsheet models, and visit properties so the borrower is well-informed and we know exactly what we are lending on.

Renovation costs can consume all of a flipper's profits if the scope of work is not properly evaluated up front. Nobody wants to go through all of the work and risk with acquiring a property only to give up their profit to unforeseen repairs. On older or dilapidated assets, the risk of scope creep on the project is high. How much can it increase? Missing or cracked foundations, windows that can't be salvaged, and water penetrations in basements are examples of surprises that really need to be avoided. A cursory review of a house may not be sufficient to identify these types of issues. In cases where the borrower is new to us, we have our own contractor go to the property and evaluate the scope of repairs. Another problem that comes up is unrealistic borrower expectations about saving money on their renovation. Does it really make sense that a house can be sold at a premium price without upgrading the roof and siding?

Having a total understanding of the marketability of an asset is essential to selling it. Not only what will the house support on an appraisal, but what other marketability issues might there be on the property. To what level is the house being improved? Is staging the house needed and is it part of the budget? Are there power lines, railroad tracks, or a busy road nearby that is going to impact marketability? If you know the neighborhoods like we do, these are questions you can answer quickly. If we aren't sure about a location, when we are out doing other things, a drive-by visit can clarify our thinking.

Making sure our borrowers are educated about the true costs of acquisition and are realistic about renovation costs and sale prices are the best way to protect our investments. Through this education process, we forge strong relationships with our borrowers. They know that our highest priority is their success and that keeps them coming back!

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Deal of the Month

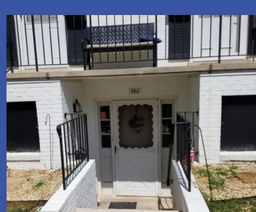
This month's Deal of the Month involves a pre-foreclosure that Clear Sky Properties purchased in less than a week (three days). Why is this relevant? Because if we did not have a performing team around us, we would have never been able to do this. .. as the seller was in California!

CSP sends out mailers to buy houses all-cash. We had a person respond to the postcard mailer and request an offer on his house. Upon doing research on the house, we realized that it was going to foreclosure the next Friday (one week away). We had to close this at least 24 hours before the Friday 11:00 am sale. It took the entire weekend, until late Sunday night, to get the California seller under contract. We had the deal closed by Wednesday, with FedEx packages flying across the country and the final payoffs in hand.

A big thanks to CSF investor Rick Oppenheim and his title company (Atlantic Settlement Group; 703-425-9777) for a valiant effort. It really helps to have a performing team!

P.S.... It was a $260K purchase on a property worth $425K!!

July Deals



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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

September 2019

Letter from the Editor

August was a great month for loan originations. We did seven loans, and our call volume has picked up dramatically. All seven loans were First Trusts. Three loans were in Virginia, three were in Maryland, and one was in North Carolina. September will be the same volume as August - we will do about seven to eight loans.

CHUCKLE'S CORNER

"The successful warrior is the average man, with laser-like focus." — Bruce Lee

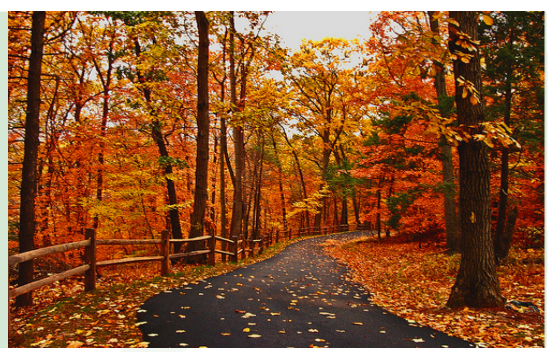
Food for Thought

We recently presented at a local REIA meetup on "How to Find Distressed Assets". This is the same topic we spoke about at the Think Realty conference in Baltimore. As Clear Sky Financial/Clear Sky Properties become more mature, we are getting additional requests for speaking engagements, and our presentations are popular within the investor community. Below is a list of the presentations that we have given to date:

How to Find Distressed Assets
X's and O's of Hard Money
How to Find the $$$'s
The Perfect Residential Investment Business Model (We have yet to give this one)

We were also recently featured on a national podcast for Think Realty, which is accessible at https://thinkrealty.com/podcast/. You can stay abreast of all of our upcoming events and happenings by asking to be added to our weekly email distribution list.

In This Issue:



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Six Action Steps For When New Real Estate Investors Feel Lost, Part I

If you are a new real estate investor, and are feeling at a loss as to what to do next, don't worry. We have all been there! Following the advice below is a step that you can take towards real progress in your real estate investing career. Implementing the below advice on self-assessments, staying focused, and finding a mentor, as well as the advice in Part II of this article (which will be featured next month), has helped us get to where we are today.

Do a Self-Assessment

When you are feeling a little lost, one of the best things you can do is look at yourself. Pause and consider what you like, what you're good at, and what you can see yourself doing in the long-term. Also examine what you do not like and what you might not be so good at. Some investors are really great at analyzing the numbers and really making them work. Others excel at marketing and branding. Some are great at negotiating and striking great deals. When you can identify your strengths, weaknesses, and desires, you'll better know what you actually want to be doing in real estate investment, and where you may need a partner.

Stay Focused

Do you want to be a rehabber, wholesaler, buy/hold investor, multifamily investor, commercial investor or even a hard money lender? Once you determine your path(s), you can create a plan and a niche market. Creating your niche is the most important thing that you will do as a real estate investor. You can do this by networking through your local Real Estate Investment Association. Once you have met a few new people, meet the ones you feel most connected to for lunch or coffee. It takes a while to build lasting relationships, and this is a good start!

Find a Mentor

When you are just starting out as a new investor, learning all that you need to know about real estate investment can be overwhelming, daunting, and even expensive! Instead of spending a ton of money on seminars or courses, why not find a mentor? You might think this is easier said than done, but once you begin networking, going to a few trainings or meet-ups, and proactively seeking one out, it is more likely that you'll connect with potential mentors.

Please stay tuned next month for Part II of this article, which will focus on finding partners, setting short term goals, and seeking knowledge from reputable sources.

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Seeking Opportunities in a Changing Market

We are surveying the economic terrain ahead. It is certain that the frothy market conditions in real estate won't last forever. We have been thinking about this for over a year. As a first measure, we increased our focus on our own risk mitigation. We have deployed processes for identifying borrowers that are getting themselves in trouble and have become aggressive in closing out their loans. Beyond that, we have decreased the amount of leverage we offer to borrowers, so they have more "skin in the game" on each project. Having put our house in order for new market conditions, we have started looking for opportunities that are going to become available when the market actually turns.

So, what do we see as we survey the marketplace? Most recently, one of our competitors foreclosed on 15 condo development projects in D.C. within a week. What has become obvious is that the thin margins associated with condo development in D.C. are going to put those developers at risk. Our experience in the development process puts us in a good position to evaluate these and other unfinished projects as they become available. Small condo development projects are likely to be the first projects adversely hit by market changes. Material costs are high, the permitting process is extremely challenging, and there are very few architects/engineers/builders that are capable of timely execution. We continue to build relationships with development professionals in all of the local jurisdictions so they can quickly "jump on" our projects as they come up.

We are tracking our competition to see how they are responding to changing market conditions. We don't know of any competitor with the depth of experience that we have in property redevelopment. Having completed more than three hundred flips ourselves, we know the ins and outs of renovations. This puts us in a great position to pick up distressed properties, notes, and even entire portfolios of houses or loans. The way we look at it, there are no bad properties, just bad prices. We are taking time to meet with our competition and discuss our interest in buying non-performing notes and troubled projects.

When we talk to other lenders about taking over their troubled assets, the first response we get is how great it is for them to find an outlet for their distressed assets. Because our goal is to buy these assets at extreme discounts, our next step is to educate the noteholder about the value of the asset and the expenses required to stabilize it. That means we need to identify all of the costs that they would incur to clean up their assets. This educational process takes some time because most lenders have a difficult time accepting that in order to maximize the value of a liquidated asset, they are going to have to be completely vested in the process. Even a simple foreclosure requires either in-house counsel or daily follow up with outside counsel. Because of the complexity of taking a property back and completing a project, a lot of lenders will delay the foreclosure process. By educating these lenders about the asset recovery process and building relationships now, we think that we will be the first in line to purchase their distressed assets at a discount in the future. At present we are talking with three lenders about these opportunities in the DC/MD/VA area.

So, what will we need when there are changes in the market? We will need access to capital, credit, and labor. The capital side requires discipline to increase cash available on our balance sheet. Beyond that, making sure that all of our credit facilities are refreshed and ready for use is critical. As discussed earlier, we are continuing to build on our relationships with people in the development community. We look forward to finding new niches where we can add value when faced with changes in the market.

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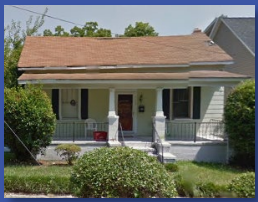
Deal of the Month

The September deal of the month centered around a loan on 6805 Farragut Avenue in Falls Church, VA. It was a loan to one of our previous borrowers, and we closed this loan in under 18 hours total from the time of the loan request to the close. The loan was a First Trust for $490,000 on an asset worth $750,000. The reason we were able to close so fast was that the title company had the title binder ready, and we have a very efficient internal team.

August Deals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8605 Mimosa Ave.


21453 S Essex Dr.


6805 Farragut Ave.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

October 2019

Letter from the Editor

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

CHUCKLE'S CORNER

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

Food for Thought

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

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

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

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

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

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

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

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

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

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

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Evaluating Note Assets from the Bottom Up

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

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

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

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

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

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Deal of the Month

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

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

September Deals

9707 King Crown Ct. #201

6004 Magnolia Ct.

2791 Shiloh Church Ct.

2787 Shiloh Church Ct.

43705 Sterling Dean Ln.

11813 Rivershore Dr.

2321 Kirby Dr.

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Private Money Update

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CLEAR SKY FINANCIAL NEWSLETTER

November 2019

Letter from the Editor

Happy Holidays! We hope you had a wonderful Thanksgiving, and wish you all a safe and enjoyable holiday season. Here at Clear Sky Financial, we also have something else special to celebrate…the anniversary of our founding! In October, we celebrated our sixth year in business, which means that some of our investors have had over 70 months of interest payments. Thank you to all of our investors, both those who have been with us from the beginning and those who are more recent!

October was another steady month for loan originations, and our call volume continues to be heavy. We originated seven loans in October, six of which were first trusts and one which was a second trust to a repeat client. Two loans were in Virginia, two were in Maryland, two were in Washington, D.C., and one was in North Carolina. In, November we will originate 10 to 11 loans. We are in the midst of a "mini growth" expansion.

CHUCKLE'S CORNER

Nats Nats Nats!

Food for Thought

In previous issues of this newsletter, we have discussed two funds that we created, a 506(c) fund and a 506(b) fund. We created these funds to ensure that we are compliant with state and federal laws. By the end of the year, we are going to convert current Clear Sky Financial monies into the 506(b) fund. This will not impact your investment(s) with us. We will be sending a letter and new subscription agreements shortly. We will be giving you a final opportunity to invest more monies with us at your current favorable returns. We are in the process of reducing these rates in the future.

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

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Charlie's Corner

Three Things Lenders Think About That Investors Might Not Anticipate

There are many reasons to use a hard money lender. Compared to traditional lenders, hard money lenders can offer faster funding, flexible construction draws, no prepayment penalties, and a willingness to look beyond a specific borrower's credit blemishes. This might beg the question, "When would a hard money lender turn down a deal?"
Our most common reason for turning down a deal is because we don't believe in the borrower's projection of repair costs or their After Repair Value estimate. If something else seems amiss, we have to spend a lot of time figuring out what is going on with the transaction. Assuming that we have a shared understanding with the borrower of the meaning of draws, plans, and prices – we look further. Here is a short list of our "rules of thumb" for turning down deals and examples of each:

Title Issues: Clouded Titles and Wholesale "Daisy-Chaining"
It is an immediate red flag if a title review by a third party is not permitted. A title company once told us that the title report was not subject to our third-party legal review, and that all titles have problems, which is why they sell insurance. We turned this down right away. What would happen if we had needed to clean up a title problem after a closing? We could make a title claim. However, waiting for a title company to resolve a title issue is difficult. If we wanted to expedite it, we would have had to get our own attorney to drive the process. As lenders, if we needed to take back a property, the title would have to be clear. Therefore, we don't want to start the process with any title issues.
"Daisy chain" wholesale deals are also a red flag for us. A single-wholesale transaction does not represent a problem. However, once two or more wholesalers are involved in a deal, the lender starts to wonder if the seller knows all of the facts around the value of their property. If it looks like the wholesalers are capturing more than a reasonable amount of the property's equity, it is worth exploring the situation further. A lender doesn't want to finance a deal where any of the parties are treated unfairly. In addition to the obvious moral implication of such a situation, the lender does not want to deal with title claim and lawsuits that could arise after closing.

Contractor Knowledge: Plans and Permitting
If a borrower suggests that they can outsmart a municipal inspector, we turn that deal down right away. We have had prospective borrowers insist that they can do their construction without permits and that it is perfectly legal. If they continue to insist on proceeding without proper plans and permits, we won't do the deal. If someone has started the project appropriately, and 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 with whom we have successfully worked in the past.

Investor Ability to Execute and Cross-Collateralization
We talk to prospective borrowers and review projects they have completed to determine if they are similar in scope to the one that is being planned. If their new project is much larger and more complex than any of their former projects, that is a red flag. We look to see what type of team they have assembled to make it a success.
If a borrower has more than one transaction with us, we look to cross-collateralize their projects. Even if the projects are held by separate LLCs, we want to protect our interests by making sure that a default on one of their projects equates to a default on all of the projects they have secured with us. To that end, we don't want the borrower to be cash poor and loaded down with debt obligations. We make sure to discuss the viability of all of the borrower's projects with them before lending on any one individual deal. We might view 20 deals before we find one that we want to lend on. This is usually because the values won't work, but sometimes the deal just presents too many other risks. Understanding what a lender is looking for should help investors seeking to secure their next loan.
There are many reasons to use a hard money lender. Compared with traditional lenders, hard money lenders can offer faster funding, flexible construction draws, no prepayment penalties, and a willingness to look beyond a specific borrower's credit blemishes. This might beg the question, "When would a hard money lender turn down a deal?"

Daisy chain: In real estate, a deal that has been contracted to multiple parties before the end buyer.

"Daisy chain" wholesale deals are a red flag. A single-wholesale transaction does not represent a problem. However, once two or more wholesalers are involved in a deal, we begin to wonder if the seller knows all the facts around the property. These deals are unlikely to close and full of unknowns, so we steer clear.
Our most common reason for turning down a deal is because we don't believe in the borrower's projection of repair costs or their after-repair value (ARV) estimate. If something else seems amiss, we spend a lot of time figuring out what is going on with the transaction. Here is a short list of our "rules of thumb" for turning down deals and examples of each:

Refusal Rationale #1 | Title Issues: Clouded Titles and Wholesale "Daisy-Chaining"
It is an immediate red flag if a title review by a third party is not permitted. A title company once told us that the title report was not subject to our third-party legal review and all titles have problems, which is why they sell insurance. We turned and ran. What would happen if we had needed to clean up a title problem after a closing? Sure, we could make a title claim. However, waiting for a title company to resolve a title issue is difficult and we might have to hire our own attorney to expedite the process. If we must take back a property, the title must be clear. Therefore, we refuse to start a process with title issues.

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Lesson Learned: Your hard-money lender will always try to avoid uncertainty.

Refusal Rationale #2 | Contractor Knowledge: Plans and Permitting
If a borrower suggests that they can outsmart a municipal inspector, we turn that deal down right away. We have had prospective borrowers insist that they can do their construction without permits and that it is perfectly legal. Possibly so, but we won't do the deal if they insist on proceeding without proper plans and permits. If a borrower is taking over a job that has already begun, then we will need to see copies of plans, permits, construction draws, and inspections. We may loan on a job that has been done with "inadequate" permitting so far, but only if the situation is set to rights before we get involved.

Lesson Learned: Hard money lenders are sticklers for legal minutia because they must be.

Refusal Rationale #3 | Investor Ability to Execute and Cross-Collateralization
If your latest project is much larger and more complex than any you've done before, that's not a deal-breaker automatically but it is a red flag. We talk to prospective borrowers and review projects they have completed to determine if they are similar in scope to the one that is being planned. We look to see what type of team they have assembled to make it a success.
Similarly, we are not comfortable when borrowers take on too many projects at once, so we review everything they're working on with us even if those projects are not under the same "management," so to speak, because they are held in different LLCs. This is a common asset protection technique and not a negative in and of itself. However, we want to make sure that a default on one project just does mean a default on all projects secured with us! If you have so many balls in the air that you are cash-poor and loaded down with debt obligations, we will want to discuss your latest project's viability before making a loan.

Lesson Learned: When investors succeed, hard money lenders succeed. We won't loan on projects likely to fail.

The Hard Truth: We might view 20 deals before we find one that we want to lend on. Usually, we refuse loans because the values won't work, but sometimes the deal just presents too many other risks. Understanding what a lender is looking for should help real estate investors seeking to secure their next loan.

Sam's Corner

Lending Trends

In early November, I attended the 10th Annual Conference for the American Association of Private Lenders (AAPL). My purpose was to learn about industry trends, and look for ways to lower our cost of funds. It turned out that our local competitors and colleagues across the country were looking at similar issues.

One of the breakout sessions was entitled "The Year of the Correspondent: Private Lending in 2019". This session really captured what is happening in the private lending space. The days of brokering loans to investors or exclusively using a mortgage fund are gone for many private lenders. The competition has moved to selling, participating and table-funding loans. They have done this in response to the vast amount of hedge fund and institutional money that has entered the private lending space. The private lending business is reverting back to a privately funded (not Fannie Mae/Freddie Mac) securitized model.

Institutional money is being deployed at a low cost for loans that conform to traditional lending standards. For our competition that is chasing this sort of funding, they are having to staff offices with lots of loan officers/processors to keep the deals flowing. These conforming products don't serve new investors and specialty borrowers well so it leaves open the niche we are in. From what I see, there is little reason to compete on loan pricing – we simply need to continue offering more flexibility and higher service/value to our borrowers. As long as we do that, there are plenty of deals with good margins coming our way.

Now that the private lending industry is maturing, there are a lot of software tools available to assist in the lending process. Innovative law firms are introducing state specific document sets that work for private lenders. In order to assemble a complete set of documents, the lender can use an app on the phone and setup the documents in just a few minutes. For lenders that want more control over the construction budget and draw process, there are very friendly estimation and draw management tools available. On the servicing side of the business, new entrants with web-based applications have entered the space as well. I took a look at all of these tools and compared them to our current information systems and practices. There are some areas to explore at the margin of our systems platform that could enhance our operations. Weighing the cost/benefit of the implementation of system changes is part of our regular process.

Lowering our global cost of funds is essential to our business performance. When considering bank financing alternatives there are a lot options. There are wholesale lines, institutions who will buy our loans and service them, and firms that will buy our notes and have us service them. All of these options have a myriad of variables such as whether there is recourse, whether our documents are used, whether the loan products are white labeled (our brand) or branded by others. Beyond the companies that are offering these products are service providers who are trying to connect private lenders with appropriate sources of capital.

Taking care of our existing customers is the very best way to grow our business organically. Working with our existing funding sources and using the latest products is the best way to quickly get to lower cost capital. We will spend some additional time thinking about refinements to optimize our processes. My overall view after going to the conference is that we are on the right track with our business planning.

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Deal of the Month

The Deal of the Month involves a deal that we did on 13706 Autumn Vale Court. We saved a house from foreclosure! The borrower closed the deal and we purchased the loan in less than a week, preventing the house from going to the courthouse steps. We were referred to this borrower from a loan officer friend of ours.

The borrower inherited the house from her father, and the loan was still in her father's name. She got behind on the payments and the bank would not cooperate with her because the loan was not in her name. The loan amount was only $30,000 on a property worth $300,000.

She originated a $70,000 first trust (that gave her some extra cash for breathing room) and we purchased the note. She is expected to refinance out in six months.

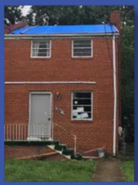
October Deals

1126 Woodland Ave.

4809 Illinois Ave. NW

5329 Pronghorn Lane

6007 Magnolia Ct.



4427 Texas Ave. SE

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

December 2019

Letter from the Editor

Happy holidays! We hope you and your family have a wonderful and joyous holiday season. This month marks the sixth anniversary of the initial investment of the following investors: Lesly/Jerry, Rick/Ronnie, Andy/Jody and Seth/Susan. These investors have received 72 months of CSF payment checks! Thank you so much to all of our investors for your continued confidence in us. **February 16, 2020 will be our annual Holiday Party at Chima Steakhouse in Tysons Corner, VA. Please mark your calendars!**

November was an incredible month. We originated 11 loans a (record for CSF!) for a loan volume of 2.715M. Ten loans were first trusts and one loan was a second trust to a repeat client. Five loans were in Virginia, and six loans were in Maryland.

CHUCKLE'S CORNER

"Mail your packages early so the post office can lose them in time for Christmas."
— Johnny Carson

Food for Thought

This month, we are pleased to announce that we are in the process of transitioning all investor notes to an updated form of note per a subscription agreement and other offering documents for our new Clear Sky Financial, LLC 506(b) Fund. We are doing so to ensure that all of the notes and the fund are in full compliance with the latest Federal and Virginia SEC filing, notice, and disclosure requirements.

Also we will be sending a questionnaire asking if you want to add money, keeping your note position the same, or cash out. Our recommendation is to add more money, as our business continues to grow and we are continuing to develop opportunities.

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Charlie's Corner

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

December 2019

The Four Stages of a Wholesale Transaction

A typical wholesale real estate transaction can be broken into four steps, or stages. You will find that each stage will require different skills, and each stage will get easier to complete as you become more familiar with it over time. You will find the same set of skills useful in the longer and more involved fix/flip investing business model.

The four stages are finding a property, negotiating the deal (getting the property under contract), finding a buyer (cash buyer list), and closing the deal. Let's look at each stage in greater detail, below.

Finding Deeply Discounted Properties

Not every property you find will work for this type of deal. The property needs to be deeply discounted so that there is a margin that will accommodate the purchase and rehab and make the profit fix and flip investors need. It takes a lot of work to find them, so getting really good at this will be the solid foundation your endeavors will need.

Properties that will work well for house flipping, and particularly for your wholesale endeavors will not be found on the MLS. You need to get to these opportunities before they even hit the market. You need to find motivated sellers before they list, perhaps before they even contact an agent. Motivated sellers will be those who have a pressing need to sell a property- a tax lien, a landlord tired of renting, a family group that inherited a property needing a lot of repair, etc.

Marketing campaigns are a crucial component of your deal finding strategy. You'll also want to develop a network of referral partners, people like trust or probate attorney's, contractors, long term care facility employees, and the like. This referral and marketing funnel will be what allows you to continually find the properties you need to evaluate to see if they merit further consideration about getting under contract.

Negotiating Your Deal

Negotiating with the property seller is the most important component of completing your wholesale real estate investment. Like every skill, you will get better at this each time you work through the details of a deal with the other party. A rule of thumb for negotiating a price point is to multiply the ARV (After Repair Value) by 70% then subtract out the renovation costs to get a good buy price. If you can get a lower price than this, that's even better!

Finding Potential Buyers

You will need to be able to move quickly once you have a property under contract. You need to develop a cash buyer list. Once way to do this is to go to your local courthouse auctions and get the names of the bidders. There are a ton of bidders in Northern Virginia alone. Having a list of cash buyers is crucial. It won't do you any good to find a profitable deal and then have to let it go because you cannot find someone who wants to acquire it from you and take on the rehab investment opportunity. When you find a great deal, you can reach out to the people on your list and offer the deal to them. By maintaining an active list, knowing what types of deals various investors want, and acting on it quickly, you should be able to get someone to grab your deal so that you can make your commission.

Closing Your Deal

Getting everything together and ready for closing will take some time, especially on your first wholesale real estate transaction. Make sure you understand the process involved here and the laws in your state surrounding these transactions.

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Understanding a Winning Deal in Private Lending

Imagine yourself as a hard money lender. You are at the closing table on the first day of the first loan that you are funding. You are putting your money to work. The borrower is signing a note on behalf of their company that you are about to get a 12% annual return and 3% in origination points for the use of your money. You might think to yourself that you are getting the best deal ever. However, one year later you can reflect on it and know that on the first day of the loan, the best deal went to the borrower. Experience will inform you that on day one of any new loan, you have all of the risk and the borrower is leaving with the money. Your entire job is to understand what the probability of recovery is on your money. A single mistake anywhere in the process can significantly impact profitability; your expected return can disappear, and you can be left trying to claw back your principal investment. What do we do to mitigate these risks and keep the anticipated returns? We have a three-step approach. Here is a brief description of it:

Step 1: Understand the asset you are lending on. Begin by understanding the "as is" value, the "after repair" value and the renovation cost structure. We reject half of all deals because the potential borrower has made valuation errors and poor assumptions. The top three reasons for rejection are that the borrower has overvalued the property in its current condition; the borrower has overvalued the after-repair value; or the borrower has an unrealistic view of the repair costs. So, you need to support buyers in determining what is a good deal for them. In order to control risk, you have to make sure that the borrower is going to make money in the deal. If they are not adequately incentivized for success, they will drag the project out or not complete it at all.

Step 2: You must have your back-office organized and your legal strategy in order. You need to deliver all the loan documents in the private lending business to the closing table. In order to get the document set that works for you, it takes a careful legal review of the loan type and jurisdiction that you are lending in. The documents that are signed at closing need to be enforced, so you must deliver a quality product. Once the closing happens, all the data associated with it and the original documents must be stored in an easily accessible and secure location. You need to track the borrower's loan activity and know when the loan matures and if payments are late. If you aren't receiving payments, your borrower is probably in trouble and can use help on their project. After a single late payment, it is important to reach out to the borrower and find out what is going on that is causing a delay. It might even be a good time for a drive-by site visit to see the project's progress. Knowing where each project is in the flip process is essential to managing risk. If the borrower is behind a few payments, it is time to force the issue/foreclose and move the loan to a default status.

Step 3: Manage payoffs and recovery effectively is your final step in maintaining profitability. The payoff is the time that the lender is finally going to get their total return on the investment. Managing that payoff process carefully is essential. A payoff statement is required, and needs to be precise. If the lender is eligible to receive penalty interest or extension fees, they need to be included. Every payment that the borrower has made needs to be accounted for down to the day it was received. Once the loan is paid off, the lender needs to confirm that they have released the borrower from obligation with a certificate of satisfaction.

If the borrower is in default, the loan is in a critical condition. The default period is a great time to help the borrower out by directing them to another lender interested in taking on the project under new terms. It is also a time where the borrower is very likely interested in marketing the asset and paying off the loan. If you have a good line of communication with the borrower, you can walk them through the steps needed to successfully sell the asset. Provided the lender and the borrower are communicating, the borrower might want to just turn the asset over to the lender via a deed in lieu of foreclosure. Allowing for this is a great way to lock in your principal recovery as a lender and have possible upside on the loan when it sells. Finally, if you drive the property to a foreclosure auction, you need to know at what price you are willing to release the loan obligation. This goes back to understanding the repair cost structure and the after-repair value.

Provided you are vigilant in all three steps of the hard money lending business, you can be met with success. Market information and communication are the essential elements of making any loan a winning deal.

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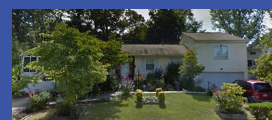
November Deals

3459 S. 22nd ST.

259 Moseby Dr.

6322 Mary Todd Ln.



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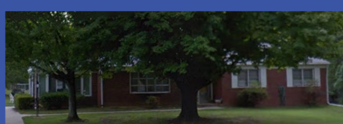

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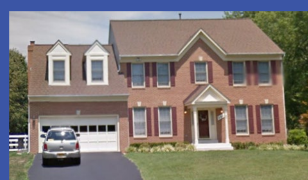

2608 Sagebrush Terr.

6 Virginia Ave

4073 Songbird Ln.

12631 Catalina Dr.

6210 Teaberry Way

208 McHenry St. SE

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