Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

January 2020

Letter from the Editor

Happy New Year 2020!! We hope you and your family had a happy and enjoyable holiday season. Please mark February 16, 2020 on your calendars. This will be our annual Holiday Party. It will be held at Chima Steakhouse in Tysons Corner, VA.

We will be participating in our 5th THINK REALTY conference in Baltimore, MD. The event will take place on Saturday, March 21, from 8:30 a.m. to 7:00 p.m. at the BWI Marriott. We will have a booth and will also be hosting a breakout session. Our presentation is entitled "WHERE TO FIND THE MONEY". Our session is scheduled from 11:15 AM to Noon. Please join us!
https://thinkrealty.com/think-realty-conference-baltimore-speakers/

December was a good month for business, considering the holidays. We stayed pretty busy even during the break. December was similar to last year. We originated 5 loans (4 firsts and 1 second). Two were in VA, 1 in MD, 1 in DC and 1 in NC.

CHUCKLE'S CORNER

" And now let us welcome the new year, full of things that never were." —Rainer Maria Rilke

Food for Thought

Thank you to those who sent their packages back regarding the Clear Sky Financial 506(b) fund. We will be finalizing the promissory note phase by the end of January. So… be on the lookout for updated notes.

Also thank you to those who increased their investment. We are off to a good start in 2020.

In This Issue:

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6 Considerations to Determine Your Residential Real Estate Investing Strategies

There are many residential investment strategies to use in your residential real estate business. Below are examples of some strategies:

1. Wholesaling
2. Fix/Flipping (Rehabbing)
3. Buy/Holds
4. Tax Lien Certificate (s)
5. Hard Money Lending (or investing in a hard money company)
6. Multi Family Investing (Condo conversions, Apt Complexes)
7. Etc.....

If you are an experienced real estate investor, you have given some thought and effort to what types of investing strategies you use in your investment business in order to be most successful. As a beginning investor, you may not have developed a sense for what types of investments best suit you and your current situation. As far as what type of investing to practice, there is no right or wrong answer. Below we will try to make some sense out of it. There are a few things you should take into account when considering an investment strategy, whether it is your first or your two hundred and first real-estate deal.

Here are 6 considerations to take into account when deciding on an investment strategy (or strategies):

1. Current Real Estate Market

Knowing whether the current market is on an upward or downward trend or just plain flat is important as there are certain strategies that work better in one type of market than another. For example, buy and holds work better when the market is trending upwards. Rehabs and wholesales work in either market. However, in a down market, it is easier to find deals; but more difficult to sell them. Understanding the trends and what is currently working (or not) is the key to navigating the "ups and downs."

2. Knowledge/Experience Level

It is important to take into consideration your level of knowledge and areas of expertise when determining your preferred investment strategies. Some strategies require knowledge that may not be suited for a beginning investor. There is no timeline for knowing when to venture into new strategies. Consulting with your network including your hard money lender and knowing when you feel like a deal may take you into uncomfortable territory is key. Only embrace a new strategy when you have the knowledge, and skills to execute on it successfully.

3. Financial/Business Goals

What do you wish to accomplish? What are your financial goals? What do you hope to accomplish financially in the next year, 3 years and 5 years? How much income do you want to make for your efforts? Why are you even going through this effort? "Why" is a big question! No matter how well you run your business there will be times of challenge. If you can answer "Why" you want to accomplish your goals it will provide a solid sense of direction especially when your business is struggling.

4. Full Time vs Part Time

The beautiful part about real estate investing is that you can do it either full or part time. If you have a great job but want the extra income to have a few nice "extras" for your loved ones or if you want to build a portfolio of rental properties for your retirement, you can do that! If you decide that full time investing is what you want to do, you can do that too! Many of us started out as part time investors and did well enough that we graduated to doing it full time. Full time investors can derive most, if not all of their income from their real estate business.

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5. Connections/Networking

Real estate investing is pretty much impossible to do solely on your own. Surrounding yourself with a team of experts like a realtor, hard money lender, contractor(s), attorney and more can make a huge difference in your success. A great team will help move your business forward, help keep you out of trouble, and can provide advice and expertise on areas that may be new to you. Team members may help you get leads from referrals. They can also recommend other team members. The best way to meet team members is to network, network, network! One way to establish or to grow your network is to join Real Estate Investment Association (REIA) clubs.

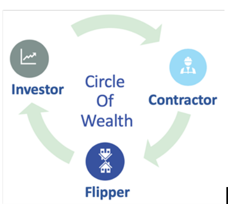
6. Assets/Access to Funds and Financing

It is true that you can invest in real estate with little or no money down. Actually, it is not that difficult. But at some point, you have to have some reserve funds in case something unexpected comes up. Having some assets makes the process a lot easier as does having some available cash – or at least access to it. If you do not have assets or cash, then find a HARD MONEY LENDER (I know of a great company!). For some, hard money may just be a steppingstone to get you to the next level. As you progress with your business, make sure one of your goals is to build assets in the form of cash reserves and equity in your properties. Holding rental properties is a great way to do all of the above and enjoy some passive income along the way. No matter what your investing strategy is, you should ultimately end up in a place where you are making passive income. This is so that whether you keep working or not, the income stream keeps flowing.

Sam’s Corner

A Financial Journey – Part 1 of a 3 Part Series

Some people avoid financial planning and some people embrace it. Whether you are starting out and have a zero net worth or you are working with millions of dollars, you are on a financial journey. We conceptualize our Clear Sky Financial business operations as a circle of activity or a “Circle of Wealth”. We have deep knowledge in every area within the circle. The expertise we have has been developed through, education, mentorship, and execution.



Home Valuation - Distressed Asset Acquisition - Investment – Property Management – Contractor Management – Direct Contracting - Capital development – Note Origination – Fund Development – Fund Management
If you are interested residential investment real estate, you can find financial and professional rewards in any one area of the circle.

In this month’s article, we examine Home Valuation, Asset Acquisition, and Property Investment.

Home Valuation is a core knowledge area that you need to understand before acquiring any residential investment asset. Before you acquire the asset, you will need to have a deep understanding of its value after you repair it and either rent it out or sell it. You need to understand how to determine an after-repair value yourself. You cannot depend on Zillow or a Realtor to tell you the out-sale price. Zillow is doing valuations based on square footage. Internet programs can’t tell you if there are unpermitted additions. Zillow doesn’t factor in issues like exposures to busy roads that lower your values. What if you look up in the backyard of the property and see power lines? Zillow doesn’t tell you that buyers are going to offer you 50k less because you have high tension lines. Lastly, you can’t rely on a Realtor to project your after-repair value. They might factor in market projections instead of the current value. The Realtor’s goals are not necessarily aligned perfectly with your own. The Realtor stands to earn money whether or not you make money on a deal, so they may not look at all of the downsides of a deal.

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Asset acquisition is where any investment begins, no matter where in the circle of wealth you are participating or starting. In our case, we specialize in distressed asset acquisition. What is a distressed asset? How is it distressed? There are various forms of distress that can be associated with a residential investment asset. The current owner may have financial issues that need resolution, or there could be legal issues associated with transferring the asset. The property can be physically distressed, functionally obsolete, not being used for its highest use, damaged, or environmentally contaminated. These are just a few of the physical distresses that can impact a property. When you are looking at a distressed asset, you have to determine what is impeding its sale and what is driving its lower market value. Do you have the skills or have access to the requisite skills to resolve the distress? If it is beyond your scope of knowledge and the knowledge of your network of professionals, you will want to pass on the deal. The easiest case to work with is a house that needs minor fixing and the Seller needs to sell it fast and be done with it. In these cases, the Seller is likely going to accept a quick transaction that will produce a lower yield than marketing the house through traditional channels. They can get to closing quickly without making a complex issue of their home sale. The key to being successful in these transactions is being able to quickly close while maintaining flexibility with the home seller. Maybe they need to sell the house to resolve their financial issues, but they need to stay in the property for a few months. This is something that you can work out as the new buyer. A deal like this puts you on the fast track to owning an asset in your portfolio.

In our scenario above, you need some kind of investment strategy, once you own the property. Charlie touched on this subject above in his Residential Real Estate Investing Strategies. Do you want to flip this house? Do you want to rent this house? How do you make this determination? If you have some simple criteria for evaluating flip properties and rental assets that will be helpful. You need to lay these out in advance of buying a property, so you don't get caught up in endless decision making once the asset is in your portfolio. Switching between a flip strategy and a buy/hold strategy can cost you money in financing costs and time to market. If we can make 10% of the after-repair value (ARV) on a flip with reasonable certainty – that meets our criteria for a flip. If our acquisition price is 100 times the monthly the rent rate or lower, we will keep a property in portfolio.

Next month we will continue to explore the Circle of Wealth.

December Deals

204 Schooner Way

6322 Mary Todd Ln.

9500 Prince William St.

3732 Patricia Dr. NW

7617 Devries Dr.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

February 2020

Letter from the Editor

Thank you to those who attended our annual party on February 16. We hope you had fun!!

We will be getting out the new updated Notes sometime this month.

We want to welcome three new investors into the Clear Sky Financial B fund. Welcome Rudy and Ashlee Shaw and Mitchell Shaw.

January was an incredible month considering both Sam and I were on vacations at different times. We originated 8 loans (all firsts!!!). Four were in MD and 4 in DC. Loan volume was over 2M. February looks to be another steady month.

CHUCKLE'S CORNER

"Never be limited by other people's limited imaginations."
– Dr. Mae Jamison

Food for Thought

We will be participating in our 5th THINK REALTY conference in Baltimore, MD. The event will take place on Saturday, March 21, from 8:30 a.m. to 7:00 p.m. at the BWI Marriott. We will have a booth and will also be hosting a breakout session. Our presentation is entitled "WHERE TO FIND THE MONEY". Our session is scheduled from 11:15 AM to Noon. Please join us!
https://thinkrealty.com/think-realty-conference-baltimore-speakers/

We were also on a Think Realty Podcast at the beginning of January. Below is the link.
https://thinkrealty.com/podcasts/think-realty-podcast-96-sam-jacknin-charlie-einsmann-clear-sky-financial/

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6 Considerations to Determine Your Residential Real Estate Investing Strategies

Most people simply do not understand how hard money loans work or what a hard money lender (HML) will and will not fund. A lot of our business is spent on what I call the "education process." The following are the most common examples of loans that we will not fund as hard money lenders.

1. Loans Against Soft Assets

Hard money lenders make loans against hard assets. The word "hard" in the term "hard money" implies that a lender makes a loan using a hard asset as collateral. By definition, a hard asset is a tangible, physical asset such as real estate. In contrast, a soft asset is an intangible asset such as a stock or a patent. In practice, hard money lenders will not fund a loan against a soft asset like stocks due to risks associated with unpredicted changes in the stock market or patents whose actual value is not easy to monetize. Hard money lenders just tend to avoid loans against a soft asset.

2. Loans with No Exit Strategy

A loan with no viable exit strategy is another prime example that will yield an immediate decline from a hard money lender. A hard money loan is short-term in nature and comes with a higher interest rate and points. The exit strategy is very important to the lender in order to determine how the loan will be paid back and when. Before originating a hard money loan, we have to understand if the project is a fix/flip, buy/hold/renovate/refinance, pay back directly (this happens more often than you think), or simply a refinance. When a hard money lender asks a borrower, "What's your plan for paying this loan back?" and the borrower has no viable exit strategy, the lender will certainly decline the loan.

3. 80% to 100% LTV of the ARV Loans

ARV is simply the After-Repair Value of a property. Have you ever wondered how a hard money lender assesses risk on a project? Well it is simply the Loan to Value of the After-Repair Value. Most HML's lend up to 70% of the ARV. We will even go up to 75% of the ARV on newer assets that do not need much renovation.

Why won't most hard money lenders make 80% to 100% loan to value loans of the After-Repair Value? The reason is simple. These loans are just too risky for a hard money lender who makes lending decisions based primarily on the asset itself. Unlike a bank, which takes tax returns/credit from a borrower to prove an ability to repay, a hard money lender can only rely on the asset to repay the loan in the event of a borrower default. Some HML's do not even pull credit or check income of the borrower.

4. Consumer Loans

Hard Money Lenders primarily make loans for business purposes like flip and fix or renovate and refinance. A consumer loan generally implies consumer purpose or "household use." A loan on a residential property that is occupied by the borrower falls under the category of consumer loan. Recently, consumer mortgage lending laws have become cumbersome and compliance due to complex disclosures and other requirements is difficult. For this reason, even the big banks have turned their focus away from originating mortgages and have instead opted for funding other types of consumer debt as a business model.

With these tighter lending laws in place, borrowers who can't qualify with traditional mortgage banks are seeking other options for home loans. These borrowers are starting to seek business with hard money lenders. However, they quickly discover that there are very few options available to them from hard money lenders. This is because most hard money lenders simply will not make consumer loans because of the same regulatory compliance and licensing requirements that are faced by big banks. Consumer loans are just too overwhelming for private hard money lenders who have limited resources.

5. Terrible Contractors

We turn down loans all the time because we do not feel the contractor is up to par. Most of our loans are either fix and flip or buy and hold loans where there is extensive work required on the asset. We typically vet out the contractor more than the borrower. First and foremost, the contractor must be licensed, insured and bonded. We also REQUIRE contractor recommendations. Next, we have to see what I call "MLS-able events". This means there must be pictures in the MLS of their work. Finally, we need a realistic renovation budget and draw schedule along with a timeline to complete. Contractors also need to understand the permit process in the local jurisdiction where the property is being renovated. We feel the contractor vetting process is very important because not only does it protect us, but it protects our borrower as well.

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6. Deals under 100K
This might not apply to all hard money lenders, but it certainly applies to us. The smaller the deal; the bigger the headaches. Most times; deals in this range are very RISKY because the underlying asset is at risk. Also, these loans are much more expensive as far as interest rate and points go which generally leads to borrower complaints. We do not like to be in that space. Happy borrowers become repeat customers. We also service all of our loans. Servicing costs on small loans are the same as for larger loans, so we feel that we may as well be in the higher loan category.

It is very important to understand what deals a hard money lender will not fund. I cannot tell you how many times I get calls regarding deals that we will not fund. Education is key.

Sam's Corner

A Financial Journey – Part 2 of a 3 Part Series

This month's article is part 2 of a series that is designed to help you conceptualize where you are on the roadmap to wealth in residential real estate investing. I've renamed this series from a "Circle of Wealth" to a "roadmap" as I think the word roadmap better describes the process. Whether you are starting out and have a zero net worth or you are working with millions of dollars, you are on a financial journey.

Home Valuation - Distressed Asset Acquisition - Investment – Property Management – Contractor Management – Direct Contracting - Capital development – Note Origination – Fund Development – Fund Management

If you are interested residential investment real estate, you can find financial and professional rewards in any point along the path.

In this month's article, we examine Property Management, Contractor Management and Capital Development.

Property Management is an essential part of residential real estate investment for the buy and hold investor. Your effectiveness at property management helps control expensive long-term maintenance costs, reduces physical and financial risk and impacts your rate of turnover/vacancy. Vacancy is a big driver of costs in your cash flow model, having a plan to reduce it is essential. If you aren't responsive to tenants needs through a well thought out property management plan, that will increase your turnover rate and reduce your profitability. Assuming you have 1-3 assets, you are in a good position to do the property management yourself. This means that you are in charge of collecting the rents, paying taxes, insurance, and HOA payments. If there is a physical problem with the property, the tenant is going to call you day or night. Assuming you have stepped into this role, you need to have a list of great responsive contractors who are available to fix problems. Since your tenants know you and you are efficiently solving problems, your personal relationship with the tenant is going to decrease vacancy rates. The tenant is going to enjoy living in the property and is going to stay a long time. Don't be surprised to find a tenant who will live in your property for 10+years if you are doing a great job managing the property. When you have 4-20 assets, managing these properties becomes a couple of days work each week. Keeping track of these properties on spreadsheets is a viable option but it is better to consider hiring a professional property management firm to stay on top of the assets. Property management costs approximately 7-8% of the gross rents. Paying the property management company is a financial burden, but it lets you spend time finding additional assets. Once you exceed 20 assets, you can consider bringing all of the property management in-house with a full-time property manager. This is your most efficient management price point. Through an in-house property management, you can be in close touch with your tenants and also manage your leases efficiently.

Contractor Management is a necessary part of any flipping or buy and hold business. Long term relationships with contractors are important. A lot of contractors will offer you discounted prices on your first project and then will steadily increase their pricing as your dependence on them increases and you move from project to project. You have to avoid this trap. Knowing what market prices are paid for services in your area is the first step. Ask other people in the industry what they are paying for services. Take the next step and research pricing with contractors and reference guides such as those produced by the American Institute of Architects.

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In addition to contractor pricing, project elements can significantly impact the cost of a project. The elements listed below significantly impact building costs. Understanding your project in detail is critical. You want your contractor to make money, at the same time you want to be sure that you aren't paying too much. Be sure to evaluate: • Scope of work • Geographic and site factors • Security • ADA requirements • Design factors • Qualitative and performance factors • Delivery process, legal, and administrative factors • Market, competition, and economic influences • Risk factors

Further attention should be paid to make sure that the contractor isn't leaving you with extra liability. Know the answers to questions such as: Are they fully insured? Do they have worker's comp? Do they perform their work by obtaining permits when needed? You need to check on these things before they come up as problems when the project is nearing completion or after it is sold.

Capital Development is essential if you are going to buy multiple houses to flip and fix or buy and hold. Where do you get the money to buy and hold houses? You might qualify with a traditional bank for a single investment property loan relatively easily. However, as you add more properties to your portfolio, the bank's scrutiny of your portfolio will increase. They will start measuring your debt service coverage ratios to see if your rentals are performing well enough to cover your debt by a factor of 130% or more. Furthermore, they will want a very detailed accounting of your finances including personal financial statements and three years of tax returns. If this is too much for you to deal with, alternative financing through a hard money lender is going to be a great option for you. A hard money lender is going to be looking primarily at the asset and giving you an asset-based loan without looking at everything in your real estate portfolio or your personal finances. This gives you greater flexibility than a traditional bank loan. Of course, that is where Clear Sky Financial can fit into your financial needs.

Next month we will explore the remaining stops on the roadmap to wealth in residential real estate investing.

January Deals

3124 Fait Ave.

6322 Mary Todd Ln.

15477 Baden Westwood Rd.

25 Akin Ave.

7615 Greenleaf Rd.

2926 W Street

4655 Hayes Street

212 54th street

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

March 2020

Letter from the Editor

Happy Spring! We had a very productive February. We closed four loans, which were all First Trusts. March will be slow due to COVID-19.

Please join us in extending a warm welcome to our new investors in the Clear Sky Financial B fund, Felicia & Colin Blair and Micah Strait.

CHUCKLE'S CORNER

"The best luck of all is the luck you make yourself."
– Douglas McArthur

Food for Thought

Like many others, we are very concerned with the economy due to COVID-19. To combat our concerns, we are tightening up our lending parameters. We feel the prices in the Washington, D.C. area are going to correct 10-20% during this market slowdown. Some borrowers are unhappy with the tightened parameters, but we feel that the measures we are taking are very prudent in these times. Right now, we believe your money is safer in hard assets, such as housing (Clear Sky Financial), than in the stock market!

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Six Best Practices for Flipping Houses and Maximizing Profits

One of the ways to earn huge profits in the real estate market is by flipping houses. Like any investment endeavor, however, it involves a lot of work and risks. It is important to approach flipping houses carefully and with as much knowledge as possible. So how exactly do you make money from buying houses, renovating them, and then selling them down the road? Below, please find six best practices for flipping houses and maximizing profits.

1. Make Sure You Have Many Funding Sources

The main idea behind flipping a house is to buy a relatively affordable property, renovate it, then sell it for a profit. The most important thing you need to have is the funds to enter into this business. Thus, you need to make sure you have many funding sources. A funding source can be your own cash, borrowing power from a bank or banks, HELOCS, credit cards, or, of course your regional hard money lender like Clear Sky Financial.

2. Invest in Standard or Entry-Level Homes

The housing market offers a wide range of property options, from condos to townhouses to semidetached (duplexes) to single-family homes. How do you decide which of these to flip? Answering that question depends on your level of capital, experience in the house flipping industry, and tons of market research. If you are a beginner, a good approach is to go for an entry level home in your market, as there should be enough demand for that. An entry level property should have three to four bedrooms, be appropriate for a small- to medium-sized family at about 1,200-2,000 square feet, and have an entry-level price tag (which will vary depending on the area). The idea is to find a property that will not be difficult to flip later on. Also, it is ideal to select a house for which renovation costs will not be too high.

3. Find a Profitable Location/Neighborhood

One key point to keep in mind when fixing or flipping homes is that, while you can increase a house's value, it will be more difficult to improve its neighborhood. Therefore, always research the locations of any investment property you are considering to maximize return on investment.

4. Research and Analyze Market Data

Assess your property options as carefully as possible. Do your due diligence, gather all of the important data, and make informed decisions. Analyze risk versus reward, understand the costs of renovation to avoid costly surprises and mistakes later on, and buy houses that only need cosmetic upgrades to maximize profits.

5. Buy/Renovate with an Excellent Team

House flipping is largely about working with the right people. You may be able to do market research by yourself. However, once you start the process of buying an investment property, you'll have to work with other professionals. Be prepared to interact with Realtors, lawyers, and lending partners. Once you are ready to start the renovations, you will also need to find an effective contractor. Make sure to vet any professional you decide to work with by checking their portfolio, finding out what their past clients are saying about them., and checking with your local jurisdiction to make sure the contractor is licensed and insured.

6. Flip the Home as Quickly as Possible

The longer your investment property stays on the market, the more expensive it will become for you. You will have to pay for holding costs while it is under your name. Holding costs may consist of loan payments, utilities, taxes, insurance, and maintenance or landscaping costs. Work with a Realtor and a staging professional to market your renovated house as effectively as possible. For maximum profits, a quick sale should be your primary goal at this stage.

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A Financial Journey – Part Three of a Three-Part Series

This month's article is the third and final part of a series designed to help you conceptualize where you are on the roadmap to wealth in residential real estate investing. Whether you are just starting out and have a zero net worth, or you are working with millions of dollars, you are on a financial journey that includes or may include:

Home Valuation - Distressed Asset Acquisition - Investment – Property Management – Contractor Management – Direct Contracting - Capital development – Note Origination – Fund Development – Fund Management

If you are interested in residential investment real estate, you can find financial and professional rewards at any point along this path. In this month's article, we examine the following steps:

Note Origination – Fund Development – Fund Management

Note Origination
If you have broadened your interest in real estate investing to note investing, there are several ways to invest directly in notes. You can originate a note or you can buy a note that is already originated. Note origination practices vary between jurisdictions, and you will need state-specific legal documentation for your note and the encumbrance on the property. Failing to originate a note within state guidelines may make the note difficult to enforce.

Additionally, there is an entire regulatory framework that needs to be understood. Every state has consumer lending laws to protect consumers from unfair lending practices. Unless you are a licensed lender, you don't want to originate any loan that is in any way a consumer loan. If you are originating a business to business loan as a note that is secured by real estate, you need to understand the legal parameters for doing it and the underlying asset. A good loan is not just about the underlying asset, it is also about the repayment strategy. You need to ask yourself and the borrower, "Does the borrowing entity have a way to service the debt? Are they able to repay the loan on or before the maturity date?"

Once you have covered your bases with understanding the legal side of the transaction, the underlying real estate, and the borrower, you can originate your own notes. You can also purchase a note that has been originated. If it is a non-consumer loan, it can be a fairly straightforward investment. In these cases, you will need to understand all of the terms of the loan and the payment history. You have to understand how the borrower is going to repay the loan and the risks of default. If the rate of return on the loan meets your investment criteria and you believe that you have a full understanding of the borrower and the asset, the note might be worth buying.

Fund Development and Fund Management
Fund development and fund management for real estate note related funds are very broad issues, which touch on every level of the real estate investment process. Organizing a fund and a management organization requires a committed legal team. There is a host of documentation and compliance work needed to put a fund and management company in place. Beyond the legal work, there is the larger process of raising funds and deploying them. This is an entire business line that can only be undertaken after careful planning.

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Deal of the Month

The Deal of the Month comes from one of our current/former competitors. We were approached by another hard money lender in our space to complete several loans that his firm could not fund. Our competitor foreclosed on one of his borrowers, and used our funding to acquire and complete his project. We gave him a loan on the property and we are paying the contractors directly to ensure that the work is executed completely.

February Deals

4707 Melwood Road

8427 Allentown Road

6402 Osborn Road

1330 Sycamore Avenue

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

April 2020

Letter from the Editor

Spring has arrived. With everything going on in the world this spring, March was a "wait and see" type of month. We did a couple of loans during this time. Our April loan volume will be much higher, as we have gotten used to and adapted to this new business environment. We are one of the few private lenders who are lending right now, and we have tightened up many of our parameters. April monthly loan payments were really good. We are anticipating a few more late payments in May.

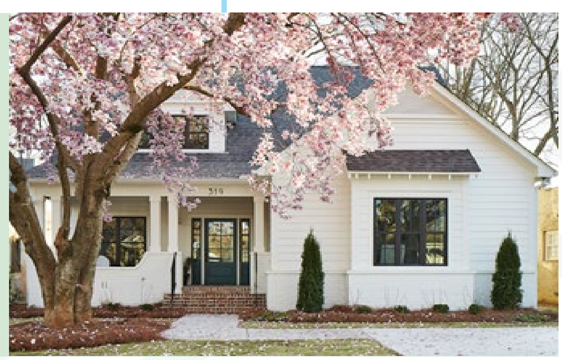
CHUCKLE'S CORNER

"The first of April is the day we remember what we are the other 364 days of the year."
– Mark Twain

Food for Thought

Thank you to everyone who attended our April webinar! This live webinar covered the topic, "Real Estate Investing During a Recession", and was held on April 30. Please visit http://www.cskyfinancial.com/upcominevents.html to view a replay of the webinar.

In This Issue:



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What Are Clear Sky Properties & Clear Sky Financial Doing During COVID-19?

We hope that this newsletter finds you safe and healthy as we all work through the difficult issues that COVID-19 has brought to our lives. The article below outlines the Clear Sky Properties (CSP) and Clear Sky Financial (CSF) response to the crisis.

We have recently participated in many virtual meetings and FaceTime calls with others in the real estate industry, and the same question keeps coming up: "What are CSP/CSF doing during these times?" Although each company has a different business model, both companies are staying active while maintaining a cautionary approach. We are anticipating a price decrease in the D.C. metropolitan area housing market. Price changes will be at the sub-development level, and will not impact each property in the same way.

There has been a huge shake up among our competitors in the private lending space. Those companies that totally relied on Wall Street Capital have effectively stopped lending. Other lenders are either going out of business or just not lending into this business environment. We (CSF) do not rely on Wall Street capital and we are continuing to lend! This is our approach for each company during this time:

CLEAR SKY FINANCIAL
----
1. We are continuing to lend money!
2. We have modified our lending parameters. We will be lending less money per transaction as a percent of the After Repair Value. Where would previously lend 75% of the ARV, we might lend 60% to 65% going forward.
3. We are modifying our Loan to Cost parameters (LTC). In cases where we might have provided 95% to 100% LTC, we are now adjusting to 80% to 90% LTC

CLEAR SKY PROPERTIES
----
1. We are continuing to complete our projects and get them on the market. We fully anticipate that we will have to rent out some of the properties that we would normally sell.
2. We are continuing to buy properties. We are starting to see good buys to hold as long-term rentals.
3. We are continuing to buy properties to fix/flip.

UPDATE 4/27/2020: In the past month, CSP has rented out two houses that were vacant, and has purchased or is in the process of purchasing five houses. Two will be flipped and the other three will be placed into our long-term rental portfolio. CSP has also gotten six houses under contract (all of which are flips). Our workers and crews are continuing to work, and CSF has closed five or six loans, with another seven to eight loans in the loan pipeline. We are open for business!

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Moving Forward with Real Estate Investing in a Disrupted Market

The pandemic has created a significant disruption to the national real estate market. As active investors in real estate, we created a response plan to the situation. Real estate isn't like a stock portfolio where there is always a market and you can elect to just move to the sidelines. So, how are we responding at Clear Sky?

First, we increased communication with our internal team. We have weekly conference calls to check in and make sure that everyone has access to everything they need to do their job. Even though we have all worked from home since the business inception 19 years ago, the stay home orders associated with the pandemic have caused some process disruptions. Beyond our internal team, we looked at all of our contractors and service providers to find out how they were working through issues. Materials delivery has slowed dramatically, and is stretching construction timelines. Our service providers and attorneys have moved to working from home models with varying degrees of success. Some of them don't have well-functioning remote work environments and have limited server and telephone access. We continue to support them and work with their teams with direct cell phone and email communication. As a result, some settlements are taking longer to be completed.

Secondly, we did a survey of every borrower and tenant to see how COVID impacted their ability to remit payments. Fortunately, less than 5% of our borrowers and tenants require any accommodation related to their payment obligations. Repairs on our rental portfolio assets have to be managed carefully as tenants don't want to be exposed to the contractors. Inspections of construction sites related to the lending business need to be conducted either through video contact or when the sites are cleared of workers.

Next, on our flip portfolio we got very active in the marketing of our properties. Since the stay at home order, we have started marketing our properties through 3D videos. We follow up with all in-person showings to answer any questions that come up. Even though at a national level the number of pending contracts is lower than it has been in a year, we were able to get all of our houses for sale under contract. Two of our higher-end properties in D.C. are in areas where sales have slowed, so we converted them into rental properties.

Finally, we took a look at our loan marketing. Many of our competitors have left the space, so there is a huge demand for our product. We significantly altered our lending criteria in response to the slowing economy. Every borrower has to put much more money into their deal. The out prices (after repair values) are projected to be lower than they were previously, and the borrower's ability to sustain payments in a down market are carefully evaluated. As a failsafe, we don't do a loan on a property unless we think that we could add it to our rental portfolio if we ended up taking it back. Even though these are much more stringent lending criteria, we are continuing to find great deals.

We look forward to the end of this financial down cycle. In the meantime, we will continue to react to it to find the best opportunities.

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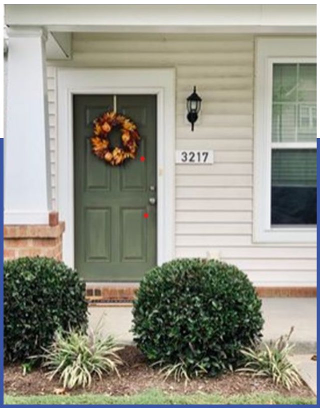
Deal of the Month

The March Deal of the Month involved Clear Sky Properties. We purchased three houses at great buy prices. We purchased two of the houses to keep in our rental portfolio, and one to flip. All three houses will meet our 100 times rents rule, but we have decided to flip one. The first rental property was purchased for $142,000; had $15,000 put into renovations; and will rent for $1,950/month. The second rental property was purchased for $129,000; had $25,000 put into renovations; and will rent for $1,650/month. Both houses have really good equity positions, as well (even after factoring in COVID-19 pricing).

March Deals



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Private Money Update

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CLEAR SKY FINANCIAL NEWSLETTER

May 2020

Letter from the Editor

Summer is right around the corner. We want to welcome Rahul/Aditi Ghate to the Clear Sky Family. I have known Rahul for almost 20 years. We worked together in my previous life in Data Warehousing. Welcome!!

April was a very good month at Clear Sky Financial. We were back up to eight loans which is our normal volume bringing in about 1.8M. We originated seven firsts and one second on a 3-property cross collateralization loan in Virginia. I will explain this deal in our Deal of the Month section. We expect May to be another strong month for loan originations and loan paybacks. We are one of the few private lenders who are still in the business of lending. We have tightened up many of our lending parameters in response to COVID-19 but we are still in the market. May monthly loan payments were better than expected. We expect June to be good as well.

CHUCKLE'S CORNER

"The biggest adventure you can take is to live the life of your dreams."– Michael Jordan

Food for Thought

Thank you to those who attended our May events. We were also asked to be on a Super Star panel of investors through Traction REIA on May 14. Then on May 22, we hosted our second webinar in the Clear Sky Financial Education series entitled The Roadmap to Wealth. It was well-attended and engaging. You can see replays of all our events at http://www.cskyfinancial.com/upcominevents.html

If you are not on our invitee list for these webinars, please let us know and we would be happy to add your email address to our contact list.

We are in the middle of building out courses for our Clear Sky Education Program. The first course in the Roadmap to Wealth series entitled Fundamentals of Real Estate Investing will be delivered as a pilot on June 4 to about 15 students. Stay tuned for more information.

In This Issue:

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6 Signs That You Should Walk Away from a Deal

1. After Repair Value (ARV) Is Based on Zillow/Trulia
Trying to determine the after-repair value of a home by doing an internet search is one way of setting yourself up for a disaster. It is not that you should not use the internet to get an idea of how much your ARV will be, but your research should not just end there. You need to pull the comps yourself through your local MLS. If you do not have access to the MLS then you need to speak with a local expert real estate agent. A real estate agent who knows a lot about the area where you want to purchase the property would be in a better position to give you a more accurate ARV.

2. Deal Does Not Have an Exit Strategy
Anything can go wrong when investing in real estate. Without an exit strategy, you might find yourself stranded. Some of the strategies you can employ include:

- Wholesaling to another real estate investor
- Fix/Flip
- Buying/Holding

If none of the exit strategies mentioned are feasible or you cannot formulate one, then you should let the deal go.

3. Eraser Math
Eraser math is the justification to cut corners by using an eraser on your numbers to make the deal look better. There are two places where this might occur. You might try and justify a higher ARV to make the deal look better. This is very dangerous. The next item that might get reduced is the renovation. YOU CANNOT CUT CORNERS ON THE RENOVATION; IF YOU ARE TRYING TO MAXIMIZE YOUR ARV!
There is a reason the 70% rule is so effective — so when you start using eraser math to figure out your 70%, you stand to lose a lot of money. When you get too excited about a house flip and then try to adjust the numbers to suit your situation, that's when you get into trouble. If you find yourself trying to adjust the numbers so that they can look good on paper, that is likely a sign that you are about to get into a bad deal.

4. Investing All Your Life Savings in The Flip
The bigger the risk, the greater the reward, right? Well; at times. But are you willing to take the risk with your life savings? If you want to invest money in real estate, you should consider using Other People's Money (OPM). Hard Money Lenders (HMLs) are the best/easiest place to start. You can always find people who are looking to invest by networking and forming relationships. A good place to start would be attending Real Estate Investor (REI) meetings. Get investors interested by offering them good deals. No one will give you their hard-earned money if you are the only one benefiting from it.

5. Managing the Rehab Without Experience
Reality TV shows have people believing that rehabbing a house involves slapping on a new coat of paint, replacing the flooring and selling the property for a profit. This misconception has people believing that anybody can renovate a house without experience. If you try to renovate a house on your own and you do not know what you are doing, you risk not renovating the home properly. As a result, a number of issues can come up in the future for the homeowner and even for you as the seller. If you don't have a clue as to how to renovate a home, find someone who does. There are plenty of talented contractors who are good at their job; you just have to find and meet them.

6. Your Gut Tells You Otherwise
Investing in real estate comes with a lot of fear, but with a few tips you can easily overcome it. However, if you have an overwhelming sense of fear about purchasing a house, then you probably should not. You should acknowledge that there is a possibility you are in over your head if you your gut constantly tell you that the deal might not work out well.

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The Impact of the Corona Virus on the Housing Market

You may have heard the expression that all politics are local which means that people are most interested in issues that relate to them and their community. This expression never been truer than in the current real estate market which is being impacted by the Corona pandemic. I would like to take the opportunity to bring this epidemic closer to home and make it local.

First, let's examine rentals. One of the big drivers of housing values is rental rates. With more than 38% of households renting in Northern Virginia and more than 50% of the households in DC renting, a reduction in rental rates and collections would have a huge impact on home values. If you do a search on Google for "corona rent default rate" you will find thousands of hits. The NY Times and Wall Street journal reported that nearly a third of Americans didn't pay their rent in April. That is a huge problem. However, we need to look more locally to understand the Corona impact on our region. In our portfolio approximately 5% of the tenants have had difficulty paying their rent as a consequence of the Corona virus. Rental payment rates have a very big impact on property values. There are a multitude of reasons why people are still able to pay their rent in our region despite the epidemic. These reasons include the role that government is playing in employment such as providing sustainability loans and grants and unemployment pay and the rate at which people in the DMV are effectively able to work remotely. If we extrapolate rent defaults from our own portfolio to the region, we can anticipate that rental defaults in the DC area are going to be much lower than in other parts of the country. A strong rental market will help stabilize rental prices and maintain asset values.

As a result of the Corona virus, real estate agents are coming up with creative ways to show occupied homes via online tours. Vacant houses are shown on schedules whereby just one group of buyers take a look at homes at a time. We are having no difficulty moving entry and mid-market houses in our region. Our flip properties are not staying on the market more than a week or two. Why? First, our properties are vacant so they are easy to tour. Second, they are in great condition. Third, there are very few properties on the market right now. Even though housing sales are down overall, prices are sustained because there are fewer properties available than there are buyers. This is a simple example of supply and demand. We are getting top dollar for well renovated homes.

What is going to happen next as the DC region reopens and more housing products are made available? Well, this isn't going to happen all at once and we will need to monitor changes over the near term. There is likely going to be a reluctance for buyers to put their homes on the market for a while. So, it is distinctly possible that there will be sufficient demand to continue to support prices with only a moderate decrease in values. So far, we haven't seen any trend activity that mirrors what happened in 2008 where values in some areas fell as much as 50%. There may be a higher number of defaults and foreclosures coming, but banks are working furiously on forbearance agreements with borrowers and are in no rush to drive up foreclosures. Stay tuned as we continue to monitor price activity over the coming months.

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Deal of the Month

The deal involved a 3-property cross collateralization loan that we did on a few townhouses in Dale City, VA. The purchaser bought the houses using a "Subject To" on the firsts. A "Subject-To" is a way of purchasing real estate where the real estate investor takes title to the property but the existing loan stays in the name of the seller. We provided the buyer with monies (SECOND) on each property so he could renovate/flip all 3 properties. The three properties were owned by the same seller. The first trusts on each property were appx $120,000 (each). Each property had an After Repair Value (ARV) of approximately $275,000. So, we put a SECOND on each property for about $75,000 ($225,000 Total) each for purposes of giving cash to the seller and to renovate the property. We always talk about the numbers when investing in real estate, in the end the LTV (Loan to Value) / ARV on each one was ($120,000 + $75,000) / $275,000 = 71%. We like to stay at 70% or below but we have very high knowledge of the assets. These assets are entry level and will sell.

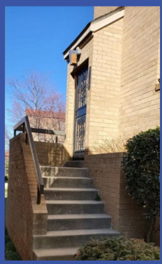
April Deals

87 Brent Point Rd.

1105 Jackson St.

5637 Obannon Rd.

14652 Earlham Ct.



2739 31st Place NE

3823 37th Place

9808 Broadmoor Ter.

14790 Barksdale St.

3218 Birchdale Sq

14474 Belvedere Dr.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

June 2020

Letter from the Editor

Happy Summer! May was a slow month for loans, but a busy month for new prospects. We did over $1 million of new loans in May - all of which were First trusts. June is going to be a RECORD month in terms of both the number of loans done and the total dollar amount. We have already done seven loans and are on pace for fifteen! We are STILL one of the few private lenders who are currently lending, and as a result, we are getting more experienced borrowers, as well as our current borrower base! We have tightened up many of our parameters due to what we think is the peak of the market.

CHUCKLE'S CORNER

"To plant a garden is to believe in tomorrow." - Audrey Hepburn

Food for Thought

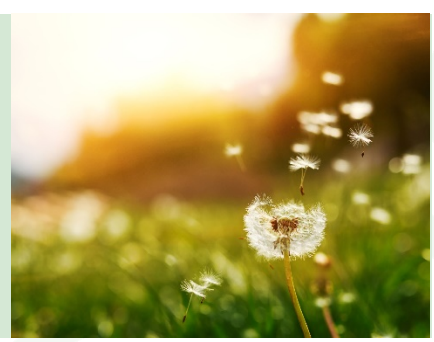
Thank you to those who attended our May events. We did our second COVID-19 webinar on May 22. We were also asked to be on a superstar panel of investors through Traction REIA on May 14. You can see replays of these events at http://www.cskyfinancial.com/upcominevents.html

We will be doing our third COVID-19 webinar on June 24. The recording will be publicly available. If you are not on the invitee list for our webinars and would like to see them live, please let us know and we will happily add your email address to our list.

BIG NEWS: We are launching Clear Sky Education. We extend a heartfelt thank you to Sandra Delancy for all of her help and hard work on this, and you can learn more about Sandra in this issue's Spotlight! We are creating courses on investing in residential real estate. We will have a beginner/survivor series, planner series, and a thriver series. We did a pilot on June 4 for 22 students. The course was titled "Fundamentals of Real Estate Investing". We got great feedback! These events are not viewable at a later date – to see the content, you need to attend the live event.

The next course will be on July 9, and will cover the topic, "Financing Real Estate Deals".

In This Issue:



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Eight Ways to Come Up with Money to Close

These days, hard money lenders are tightening their lending criteria because they feel the real estate market is priced high and they are trying to help mitigate future risk. They may lend less on the loan to cost (LTC) side. We used to lend 100% LTC provided we could loan 70% to 75% of the After Repair Value (ARV). Post-COVID, we are between 85% to 90% of the LTC. We are also being more careful at the multiple of lending on the ARV (60% to 70%). What does this mean to the buyer? It means more cash to close!

What is meant by money to close?
Whenever you are purchasing a house, there are always fees/costs that need to be paid when you close on the loan. These costs include title company fees, recording fees, title insurance, and loan fees. There are also costs associated with anything that needs to be paid in order for the title to be cleared.

As the buyer, you are responsible for any of the costs that you agree to pay in order for the sale to be completed. All of the costs for the transaction will be totaled, including the amount you agreed to pay for the property, as well as all of the previously discussed fees. Then, the credits for the purchase will be applied against that total. This would be things like costs that the seller has agreed to assume, earnest money, and the amount your lender is extending for the loan. If the sum of the credits is greater than the sum of the costs, you will not need to bring any cash to the closing table. If there is a difference and the costs are more than the credits, you need to have that money with you or the sale will not be completed. You may also be expected to bring some more down payment monies.

Example:
Purchase price $200,000
Renovation Cost: $40,000
After Repair Value: $300,000
Loan From Clear Sky Financial: $210,000 (70% of ARV (might have been 75%))
Loan/Title costs $10,000
Difference of $40,000 (This is the cash to close)

How can you come up with money to close for your real estate investment?
1. HELOC (Home Equity Line of Credit)
A HELOC is essentially a check book attached to one or more properties that you own. I ALWAYS attach a HELOC on whatever owner-occupied house that I own. You can get 90% of the appraised value minus your first mortgage on the house and the difference will be the amount a bank will attach to you house. If I move and decide to rent out this house, the HELOC is still attached. I will buy another owner-occupied house and do it again. This helps with liquidity in case you need cash quickly.

2. Business Line of Credit
If your credit is good enough (around 680) then you may be able to get a business line of credit. This is simply an unsecured credit line from a bank. We recommend using community banks to do this because they might have a bigger appetite for this product as compared to a bigger bank, like Wells Fargo. There might be origination fees for this money, but it is just a one-time fee, and the credit line is there for you as long as you keep it in good standing. Not only can you use this credit line for any cash to close you may need, but also for other unexpected expenses that may arise during the rehab that were not included in the original scope of work.

3. Unsecured Seller Carry Back
This is when the seller agrees to take an unrecorded note (meaning that they have no position on the property, not that it is not put in writing) and you would pay them back that amount and any agreed interest once the property has sold. The feasibility of this option will be affected by a few things, like the laws in your state, county and municipality, as well as the seller's willingness to utilize this strategy.

4. Reduction in Purchase Price
You can also work the example from above with the seller just agreeing to the reduction in the sale price. This works best with highly motivated sellers. Doing this will enable the hard money lender to lend more towards the purchase transaction.

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5. Cash Advance on an Existing Credit Card

If you have an existing credit card already in your name, you may just be able to cover the difference with a cash advance. Sometimes you can even negotiate for a higher line of credit from the card provider. You can also use credit cards to cover some of your renovation expenses if they are not covered in the loan.

6. 401k or Retirement Account

Check with your retirement plan. Many will allow you to take advantage of differing options in relation to the funds you have there. You may be able to withdraw some of the monies (there will most likely be penalties) to use in your transaction. Probably a better option would be for you to take a loan against the funds there.

7. Business Partner – Equity Position

This is similar to the above, but instead of loaning you the money, the business partner agrees to take a share of the profits. Because they are sharing in the risk, this generally is a bit more profitable for them when you make a profit on your flip. If the deal loses money they do too, although many times these agreements may be structured so that you, as the flipper, take the bulk of the loss.

8. Family and Friends

You can borrow money from family/friends. I need to caution that this can cause the relationship to be put at risk. If you go this route, you also need to make sure that the transaction is properly documented.

Sam's Corner

Preparation and Consistency

COVID-19 and the ensuing social changes are dramatically impacting the real estate market. It is no time to stop participating in the market, but it is time to carefully assess direction. This is a great time to buy a rental property that offers a little seclusion and does not require an elevator. The timing maybe off for buying a property that has limited outdoor spaces and requires elevator access. Older people and those with health concerns are making their housing choices with fresh air and limited neighbor interaction in mind. Where one is finding assets to buy is also changing. Properties listed on the MLS are not getting much traffic if they are occupied. A vacant house that has a virtual tour is likely to fly off the market. There is little inventory available generally, so having an asset to sell is a great thing. If you are looking to the foreclosure market for a buy, the auctions are just restarting. There are plenty of buyers looking for a value.

Our strategy is to be prepared for market changes and then execute our business model consistently in response to the environment. We have stayed active in all three of our business lines. We have added to our buy and hold portfolio with some fantastic buys. They have rented immediately, as there is a lot of rental demand in the mid-market. When locating tenants, we have screened carefully to make sure that people who are getting leases are able to pay their bills in the COVID environment. At the same time, we have been steadily flipping houses. All the renovation activity has taken a significant amount of additional energy and oversight. Some contractors have failed under the weight of long lines at construction supply companies and inconsistent staffing due to health issues. We have supported the contractors on our team and cut back on vendors that can't deliver. Finding a good flip isn't easy so we have gone back to the basics and are pursuing pre-foreclosures and off market deals.

We have doubled down on our commitment to the hard money lending business. Doubling down does not mean doubling volume. We have worked closely with our borrowers to make sure that they are positioned to get their properties repaired, make their payments, and have successful transactions. This is where we share with our clients our experience and knowledge. This is a clear separator from our competition, and it is appreciated by our clients. Our screening process on the loan acquisition end has had to triple in the volume of loans screened. Why? Many of our competitors no longer have access to capital to fund their loans. Their customers have turned to us. They have found that we are easy to work with, but we are priced somewhat higher than their old source of funds. When working with a repeat customer, our process is extremely fast. Each time we meet someone new, we must fully understand where we fit into their business model and determine how well they will execute. These steps are important, and we do them consistently. Our plan is to keep growing all our business lines while we move through these challenging times.

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In the Spotlight: Sandra Delancy

Sandra Delancy has worked with the Clear Sky Financial team since late 2019 to build out brand awareness in the form of the Clear Sky Educational Surviving to Thriving Program and the Clear Sky Roadmap to Wealth in Real Estate Investing. She and her husband are also a long-term investors with Clear Sky Financial. Ms. Delancy has a formal background in IT management where she was not only responsible for managing technology teams, but also developing and implementing enterprise-wide educational programs to meet organizational, legal, and regulatory requirements.

Sandra Delancy is currently the CEO of JADD Solutions LLC, a D.C.-based IT consulting firm that specializes in enterprise data management, IT security controls, and business intelligence. Previously, Ms. Delancy worked for over 20 years as a Senior IT Manager at a local financial services company. Ms. Delancy is a graduate of the Engineering schools of both Howard University and the University of Maryland at College Park.

Outside of work, Ms. Delancy is passionate about educating students on technology-related topics. She sits on the boards of two local non-profits whose missions are to expose middle and high school students to careers and topics related to STEM.

May Deals

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

July 2020

Letter from the Editor

Happy belated Fourth of July! June was a record month for us in terms of both number of loans and loan volume. We did 13 loans in June, all of which were first trusts. The loan volume was 3.963M. While July will be a slow month due to vacations and lack of investors finding new deals to flip, we are STILL one of the few private lenders currently lending. Because of this, we continue to get more experienced borrowers as well as our current borrower base! We have tightened up many of our parameters due to what we think is the peak of the market.

CHUCKLE'S CORNER

"*Who ever walked behind anyone to freedom? If we can't go hand in hand, I don't want to go.*" — Hazel Scott

Food for Thought

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Four Ways to Build Your Cash Buyer List (Wholesalers)

A strong cash buyer list is foundational to having a successful wholesaling business. This is the second most important aspect of wholesaling, after finding properties, so it's important to devote a lot of energy in this direction. Four ways to help build your list are outlined below:

1. Courthouse Steps

Every jurisdiction, whether a county or city, has public auctions for properties that are being foreclosed upon. This usually happens at the local courthouse. You can find the location and times for these sales in your local newspaper's legal/trustee sale ads section. This is where you will find most of your local rehabbers, who are always seeking to outbid their competition.

2. Local REIA (Real Estate Investment Associations) / Meetups

The Washington, D.C. area alone has over 25 local REIA's/Meetups. I take part in about one per week. We sponsor two REIA's in the area, as well. Search online for a REIA club in your area, or, if you are in the D.C. area, you are welcome to ask me for a list of REIAs. I have a list of REIA's of all sizes. Once you are at the REIA, you can ask for buyer/wholesaler referrals and determine who the big players are at your local REIA. Then, you can work on building relationships.

3. MLS Cash Sales

Have your realtor pull list of recent cash sales from the past 30-180 days. Look up who owns all of the ones in your area on your county's tax assessor website. Once you have the owner's name, use a resource like TLO.com to gain access to their contact information. Give them a call, find out what types of property they are buying, and ask if they want to be added to your list.

4. Online Marketing

Create a landing page for your wholesaling business, and work to drive traffic to the page. Make sure you have a link for cash buyers, where the buyer can opt in and put in their name, phone number, and email address, and be added to your buyer's list.

I hope you found this article helpful! Facebook and Craigslist are also cost-effective sites that you can use to help market your wholesaling business and gain more cash buyers.

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Sam's Corner

CLEAR SKY FINANCIAL NEWSLETTER **July 2020**

Coming Down from the Peak of the Real Estate Market-Make a Plan

If you were planning to climb to the top of a mountain, you would want to give some consideration to how you were going to get back down. That planning is best done in advance of your trek so you know that you will have enough supplies and a safe descent route. Now that we are nearing the top of the real estate market, it is an excellent time to evaluate how your portfolio will perform through a decline in values and/or a softening in the rental market.

Are we at the top of the market? Everyone wants to know. There are some strong indicators that we are at just such a place. Housing prices continue to accelerate despite the obvious problems with the underlying economy as it relates to COVID-19. The recent upward price movement in housing values is really related to the supply side. There are far fewer houses on the market than normal due to COVID, and the offsetting decrease in buyer demand in our region is not as great as the supply side change. Once the economy moves past COVID, it is likely that there will be plenty of inventory for sale, and the relative demand will come down - thus putting downward pressure on prices. Interest rates are at an all-time low. This month, they dropped below 3% for a 30-year mortgage. A 15-year mortgage can be obtained close to 2.5%. These low rates are really driving up demand. Since rates really cannot go much lower, there is only one likely direction – up! When the rates go up in the future, this will put downward pressure on housing prices.

For our planning purposes, let's assume that we are either at the top of the market or near a long plateau. If you are investing in real estate directly, you want to secure the longest-term funding at a fixed rate that you find available. If your investment property is on an adjustable rate product, think about getting it on a longer-term lock and evaluate the costs of doing it. If you have tenant-occupied property, make sure you have a valid lease in place. If you are renewing a lease, now is the time to make the lease for a longer term and also include annual rent increases. This will offset risk of downward pressure on the rental market should a lot more rental inventory become available in the future. When you are evaluating your rental property, now is a great time to think about capital improvements that are going to be needed within the next five years. A lot of contractors are currently looking for work, so you can schedule things like HVAC replacement, roof replacement, and appliance replacement. If you are refinancing a rental house at this time, it is a great time to take some money out and use that money to improve the asset for the long term. That way, you can avoid surprise repairs in the future and take advantage of low rates and available contractor labor right now.

If you are invested in the real estate market indirectly through a fund, now is the perfect time to evaluate what you are invested in. If you are in a commercial real estate investment trust, look at the underlying commercial market. Do you think there is upside in the commercial space during or after COVID? If you are invested in a fund that tracks along with house flipping and hard money loans, like our noteholders – look at the fundamentals of the fund. We have always originated loans with less than a one-year term to reduce our exposure to market risk. To address market timing issues as we near the top of the market, we have tightened our underwriting criteria. We are making borrowers have more money in their deals. We are increasing the amount of equity they have at the time of purchase, as well as what they are expected to have at the time of project completion. New borrowers also need to have two exists from our loans. They can pay them off, but in the case that they must hold them in a softening market – they need a strategy for financing them long term. For our current borrowers, we are driving them to formalize their exit strategy instead of taking loan extensions. We are encouraging everyone to have a plan for their safe descent from a peaking market.

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June Deals

209 Oglethorpe NE

21246 Pine Ridge Dr.

6800 Fleetwood Rd. #617

1109 Broadview Rd.

1508 N. Ohio St.

721 E. Juniper Ave

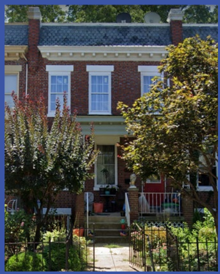
105 Belmont Dr.

4912 Nannie Helen Burroughs Ave. NE

707 Yorkshire Trail

4209 Anacostia Ave NE

7758 Decatur Rd.



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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

August 2020

Letter from the Editor

Happy August! July was a slow month for loan originations, most likely due to vacations and a lack of investors finding new deals to flip. We are STILL one of the few private lenders who are lending. Because of this, we continue to get more experienced borrowers, as well as our current borrower base, and August was another great month!

CHUCKLE'S CORNER

"If we begin with certainties,
we shall end in doubts;
but if we begin with doubts,
and we are patient in them,
we shall end in certainties."
— Sir Frances Scott

Food for Thought

Thank you to those who attended our July and August webinars. We did our 4th COVID-19 webinar on August 26. You can see replays of this webinar, and our other events, at http://www.cskyfinancial.com/upcominevents.html. If you are not on our invite list for these webinars, please let us know, and we will happily add you to the list!

In This Issue:

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How to Build a Residential Rental Property Portfolio

The COVID-19 environment is starting to lead us into a recessionary environment. If you ever wanted to start purchasing rentals this is a GREAT time to start. We feel prices will eventually start to fall and that there will be some good value buys. The most important factor to consider is CASH FLOW! We have not seen any indicators that rents will drop.

The most powerful tool in building wealth is the concept of residual income. Residual income is when an asset generates money for you every month. As you build on the number of assets, the income being generated should eventually replace your time-based income. One of the ways to build residual income in real estate is to purchase rental properties, convert them into performing assets, and manage them. You can always pay somebody to manage them, but we prefer to manage our own for the time being. It will cost between 8% to 10% of the monthly rents to hire a property manager. There are obvious cash flow reasons to purchase rentals, and there are also other reasons to purchase:

1. Income is paying down your mortgage for you (provided you have one). We always take mortgages especially in a low interest environment.
2. You get the leverage of market appreciation. Buy in areas that you feel will appreciate.
3. You get to write off depreciation on your income taxes as an expense against cashflow.

The best technique to purchase rentals is the "BRRR" Method. The "BRRR" method is widely known and it stands for "Buy, Renovate, Refinance and Repeat". Below, I will list the strategies that we (Clear Sky Properties) use to purchase rentals.

1. Buy one RENTAL at a time. Do not overdo it. Get the property performing with a stable tenant and make sure the property is in a stable rentable condition.

2. ALWAYS purchase into an equity position. This will shield you from a market downturn. If you buy into a 20% equity position and the market turns down 10%, you still have a slight equity position. We look to purchase into a 20 to 25% equity position.

3. Use the 100 times rent rule, or 1% of the purchase/renovation price. If the rents are $2,000 we look to purchase/renovate the property for $200,000. Keep in mind this is just used as a guide. If the purchase/renovate cost is between $180,000 to $220,000/$230,000 then it will fit our model.

4. Get stable tenants. Tenant stability means a lot of things to us. The obvious stability factors are income/credit. We take this one step further and focus on the time a tenant has stayed at a previous address. The longer the better. We want our tenants to move in and stay for a least 5 years or more, as this enables us to buy more houses and build a bigger and more stable rental portfolio.

Thank you for taking the time to read this article – I hope you found it helpful! If you follow these recommendations, you will be well on your way to building a residential rental property portfolio.

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CLEAR SKY FINANCIAL NEWSLETTER

August 2020

The Post Pandemic Real Estate Market

In the D.C. metro region, we are experiencing the lowest inventory levels for housing product in many years. It is a wonderful market for sellers. Sellers who are listing their homes now are seeing quick sales and in many cases, multiple offers. While there are fewer buyers than prior to the pandemic, there are disproportionately more buyers than sellers. Many people who would otherwise consider selling their house are not putting their house on the market because the inventory available for a "move up" opportunity is limited. This creates a cycle of low inventory levels and that is coupled with extremely low interest rates.

In June, the Commerce Department reported that homebuilding starts increased 17% from May. Compared with a year ago, housing starts were still down 4%. However, on a monthly basis, construction activity rose for both single-family properties (up 17.2%) and multifamily buildings (up 18.6%). Builders are clearly reading the market and understand the need for new homes to match overwhelming demand.

Buyers are acting aggressively. Buyers who are getting outbid in multiple-offer situations are competing with buyers who are willing to waive inspection contingencies and committing to make up the difference between the contracted purchase price and lender-appraised value if the appraisal comes up short. This aggressive buying reminds me of the run-up to the real estate crash of 2008 – a red flag.

Investors who sell in a seller's market face a problem. They need to figure out where to invest the proceeds of the sale. The circumstances that make it attractive to cash out are the same that make buying anything on the market right now a bad financial move.

In most cases, the asking prices for multifamily properties are too high to generate a decent return. I don't think you can assume that rents are going to go up enough in the medium term to offset the higher purchase prices. Commercial real estate post pandemic does not look promising at all. Retail and office space will take years to recover from the pandemic. A lot of office space won't even ever be used in the same way. So many people are going to choose to continue to work from home that there will be a major oversupply of office space. Shared work space concepts like WeWork may never recover and maybe overtaken by workers using Zoom and other online collaboration tools. Commercial retail and office space will be cheap, but that doesn't matter if there are no tenants. Warehouse and distribution centers supporting e-commerce and server farms are going to be an area for growth, but this is a very specialized kind of investment that won't work for the average investor.

Investors are trying to figure out how to convert commercial space to residential uses. I've heard of malls in Washington State being converted to housing. This type of use change will take a really long time to happen in the D.C. metro area. The likelihood that local governments will support changed uses in the near term is small.

With the exception of the current overbuying, all indicators tend to show price stabilization/moderate increase due to high demand in the residential real estate space.

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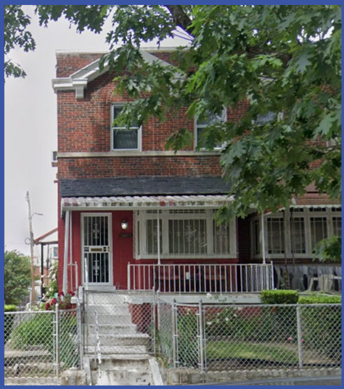
July Deals

8 Novak Dr.



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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

November 2020

Letter from the Editor

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

October was a slow month. We originated 3 loans. All the loans were First Trusts. The marketplace in the D.C. area is slowing down to the election season and the lack of distressed asset inventory. The current COVID government policies (limited foreclosures, no evictions) have put a mini damper on the market. We expect this to last another 4 to 6 months. November looks to be about 6 to 7 loans.

CHUCKLE'S CORNER

"The best investment you can make is an investment in yourself. The more you LEARN, the more you will EARN" - Warren Buffett

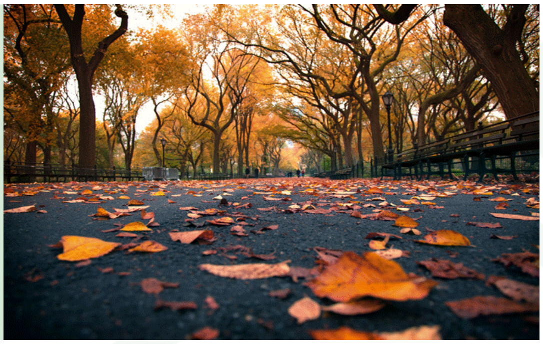
Food for Thought

We have a newly designed website. Please take a look at our communication/event page. We are starting to update our page with our past events, and also have a section on how we build a loan. All of our newsletters are there, as well.

Thank you to those who attended our November 12 "Status of the Market" update. We want to thank Lisa Hancock of Market Pro Homes for joining us. You can see the replay of this event at https://cskyfinancial.com/csf-events/.

We are in the process of launching a weekly podcast, "Tales of the Basement," which covers various real estate investing subjects based around stories that we have actually experienced. Stayed tuned for more information on the distribution of the podcasts.

In This Issue:



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Six Simple Ways of Locating Vacant Homeowners

The best way to make money in residential real estate is "driving for dollars," in which you drive through older neighborhoods and look for VACANT houses. This is the most profitable, low-risk and the least competitive real estate opportunity out there right now. The majority of these vacant houses fall into the distressed property/distressed seller categories.

Though potentially very profitable, vacant houses can be difficult to find. After finding a vacant home worth investing in, you will still have to find the property owner so that you can make them an offer. The difficulty in finding vacant houses and vacant homeowners has caused many investors to avoid investing in them at all. This means more deals for you. There are several different ways to locate a property owner. A list of methods for locating vacant homeowners is outlined below:

1. Tax Assessor's Office
The County/City Tax Assessor's Office can give you more information on where tax statements are sent, and most of these offices can be found online. The homeowner's name will be listed there, as well.

2. Visit Neighbors
Neighbors are not happy with the fact that there is a vacant property in their neighborhood. Vacant properties can invite vandals and squatters, and if left poorly maintained, can be an eyesore. Such a property can put their personal safety at risk, and also devalue their property. Ask the neighbors about the property and details about the owner.

3. Skip Trace
This is a popular method to find where the owner is located. Once you have the name of the owner you can look them online for free via thatsthem.com, whitepages.com, 411.com, or other websites. If you cannot locate them, you can pay for more sophisticated online tools such as TLO and/or IDI Core. The last resort is to hire a firm that specializes in skip tracing, which will be the most expensive option.

4. Leave a Note
In some rare cases, the property owner will return. Leave a big bold yellow note on the door stating you want to buy that property. If the property is close enough to the road, make the note large enough that neighbors and passerby can see it. They may contact the property owner for you.

5. County/City Land Records
If you know the homeowner's name, you can use that to find any documents signed by the homeowner to see if they own any other property. You may also find marriage licenses and voting records, which can contain information such as birth date, employment history, or other addresses.

6. Send a Postcard or Letter
This is one of the most traditional ways to locate a vacant homeowner. Send a postcard or letter to the vacant property with the words "Do Not Forward – Address Correction Requested" on it. If the Post Office has a forwarding address on file for that homeowner, the mail piece will be returned to you with the forwarding address listed.

I hope this article has been helpful to you. Please don't hesitate to reach out to me directly if you have questions.

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REO MANAGEMENT

REO is an abbreviation for Real Estate Owned. An REO is generally owned by a financial institution that has taken title to a property that was previously security for a loan. If a lender takes a loan through foreclosure and gets title to the asset, the lender now has an REO that it must sell. A lender can also get an asset in REO through a deed in lieu of foreclosure. This happens when a borrower facing foreclosure wants to wind up their obligations quickly and without additional legal fees. The borrower simply delivers a signed deed to the lender and the lender records it. In situations where the lender may incur significant legal costs to complete a foreclosure, a lender might even pay a borrower to surrender the deed to a property.

As a hard money lender, our goal is to minimize our REO inventory. We are seeking the steady returns that notes pay and not looking to capitalize on taking assets into inventory and then flipping them. We minimize our REO inventory by identifying slow paying customers immediately and reaching out to them to help them solve their problems. Despite our best efforts, we do occasionally get back an asset. This amounts to a couple of percent of our loan volume. When we get those properties back, we quickly put them into our fix and flip renovation model.

Our earliest exposure to the REO business was when we sold properties on behalf of other banking institutions between 2008 and 2013. In that time period, we sold hundreds of properties on behalf of banks. That gave us a lot of experience in taking over an asset, fixing any tax, utility, and construction issues, and getting the property back on the market. As an REO sales team, the first job was securing the property to minimize losses. Now that we are a hard money lender, the first job is getting the title and resolving any outstanding obligations that might exist against the title. That step is generally handled by a qualified title company that issues insurance for the title, at the same time we add the property to our fire and hazard policy. After we have title, the REO process is the same that we used to follow for our third- party bank clients.

This year we have taken back several properties, and then renovated and sold them. Our goal in the lending process is to make sure that our REO inventory is not a distraction from our lending business. Our lending parameters are designed for taking back REO inventory and having either a net neutral effect on our business or a slightly positive impact on the bottom line. In other words, we are looking to avoid losses on REO, and we treat it as a utility function in our business operations. Through careful and efficient REO management, we have done a good job in achieving this balance and have consistently maintained full debt recoveries of principal and generally full debt and interest/penalty recoveries.

Our most complex REO case was one where we stepped into the shoes of a developer who was subdividing land. It became necessary to collect all of the detailed engineering plans and walk them through the county approval process. We had all of the development plans and documents updated with our business entity name and ascertained exactly where the land was in the development process. Once the mechanics of the title and documentation were handled, we took care of the physical aspects of the property through property inspections and then obtained the bonding and approvals to subdivide the lots. This process ended successfully when we were given all of the county approvals and deeded the lots of subdivision.

Whenever we give a loan, we think about the "worst case" scenario where we would have to take the property back as an REO. We make sure that we never lend more money out than we could recover if we have to take the property back and flip it.

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October Deals

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER September 2020

Letter from the Editor

Happy belated September, and we apologize for the delay in sending this newsletter. August was a great month for loan originations. We did 10 loans (9 First Trusts and 1 Second Trust) for a loan volume of 2.56M. Our loan volume was spread pretty evenly geographically, with three loans in VA, three in D.C., two in MD, and two in NC. This was another steady month, and we expect a strong showing for September, as well!

Please join us in welcoming Bruce Schreiber as a new CSF investor. Bruce is a retired government employee and is very interested in the residential real estate investing field. Welcome, Bruce!

CHUCKLE'S CORNER

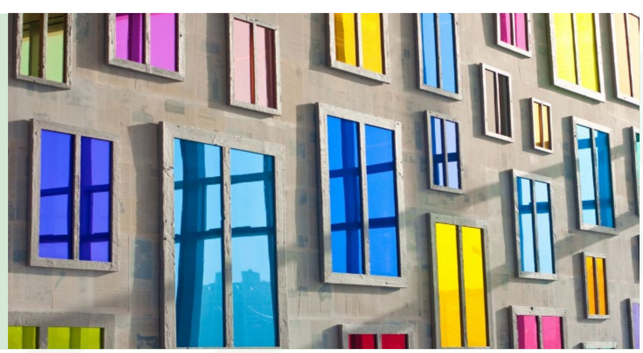
"The quickest way to double your money is to fold it over and put it back in your pocket." — Will Rogers

Food for Thought

We will be participating in our 5th THINK REALTY conference at the BWI Marriott in Baltimore, MD. The event will take place on Saturday, October 24, from 9:00 a.m. to 6:00 p.m. We will have a booth, and will also be doing a breakout session presentation, "Where to Find the Money," at 11:15 a.m.

This event will be a HYBRID event (with both online and in-person components). We hope to see you there! To learn more or to register, please visit https://thinkrealty.com/tr-events/baltimore/.

In This Issue:



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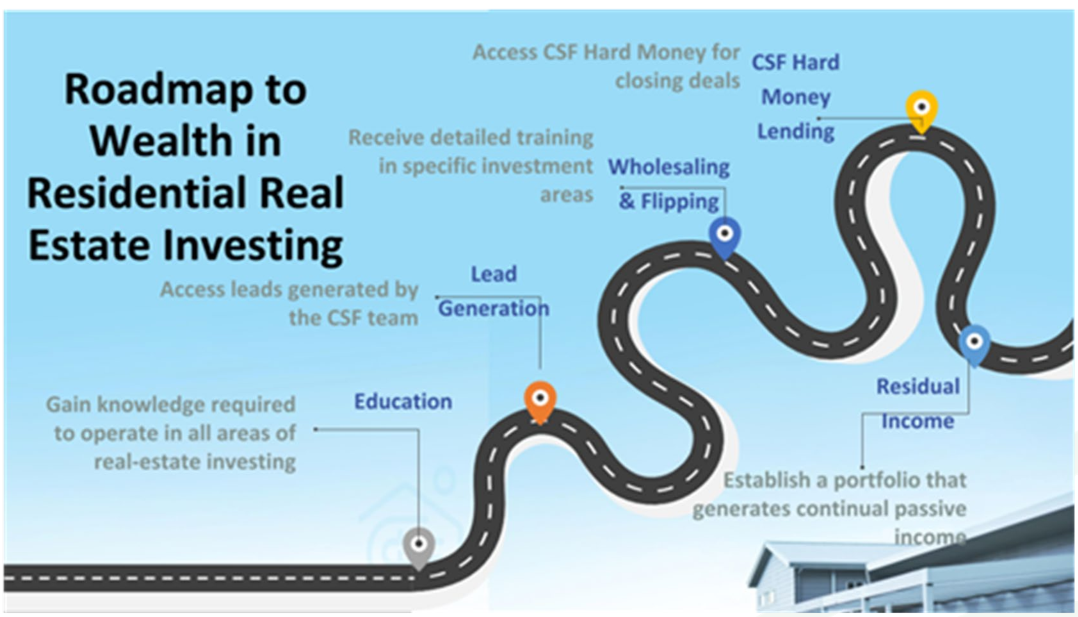
Roadmap to Wealth in Residential Real Estate Investing

The Clear Sky Group has created a Roadmap to Wealth in Residential Real Estate Investing. We have created an ECO System that will enable a beginning investor, novice investor, or an experienced investor to create more wealth in residential real estate investing. The roadmap has five components:

1. Education (Three series: survivor, planning, and thriver)
2. Lead Generation (Teaching how to get leads/providing leads)
3. Wholesaling/Flipping Strategies (Earning lump sum cash to begin creating residual income)
4. Hard Money Component (CSF) (Providing the hard money for your fix/flip deals)
5. Creation of Residual Income (Investing in our mortgage funds, building a rental portfolio, tax lien certificates, investing, commercial property acquisition, buying non-performing and performing notes, and more)

Our goal is to take students/investors on a pathway to the creation of asset-based income. We will do this with education, lead generation, lump sum cash creation and providing the advice/means to create some asset-based cash flows. We understand this will take a lot of time, and we are willing to start investing back into our community. Stay tuned for more exciting details to follow!



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CLEAR SKY FINANCIAL NEWSLETTER

September 2020

Three Reasons Housing Prices Keep Rising

During the recession of 2008, housing prices collapsed locally and nationally, and the housing market triggered the recession. The COVID-19 economic downturn has many different characteristics. Even though the global economy is seeing the largest downturn since the Great Depression, housing prices in the D.C. and United States markets continue to climb. Nationally, the second quarter of 2020 saw the median price per square foot rise more quickly than in any three-month period leading up to the 2008 recession. There are three factors supporting the rising housing prices: low interest rates, government intervention, and the changing preferences of buyers.

Interest rates are at record lows, and there is no movement from either political party to raise rates. As long as inflation does not accelerate rapidly, the rates will remain low for the foreseeable future. Low rates bring more entrants into the housing market and encourage "move up" buyers. What isn't being mentioned commonly in the press is that banks have tightened their lending standards. They have pulled back from riskier lending, and self-employed borrowers and investors are getting a lot more scrutiny of their loan files. They can anticipate longer approval periods and increasing denials from traditional lenders.

Government intervention has buoyed housing prices. In a normal recession, people lose their jobs, incomes fall, and foreclosures drag down housing prices. This time, the government has preserved income and stopped auctions. The foreclosure rate in the United States is at the lowest level since 1984.

The third factor driving up housing prices is consumer preferences. More people are working from home and need more space. Moving out to the suburbs or outer rural areas is making more sense to homebuyers. Homeowners are upgrading their electronics, and it looks like they are also seeking to upgrade their homes. There is a lot less interest in densely populated high-rise condos, and a lot more interest in entry-level attached housing, where common spaces don't need to be shared.

Will housing prices still rise? Nobody knows what will happen as economic supports are withdrawn by the government, and foreclosures commence. There is a lot of built-up demand, and it seems likely that the housing market will stabilize. Certainly, investors will be jumping back in the market. Banks won't be giving them loans on foreclosed homes, so there is surely a continued and expanded market for hard money once distressed assets start coming to auction.

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August Deals

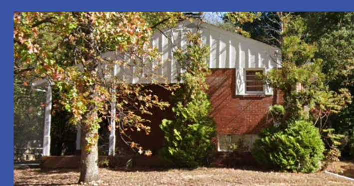

249 Opequon Ave.

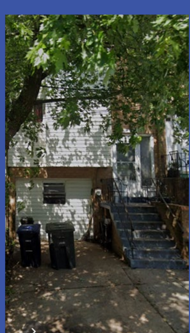

7611 12th St. street


5604 Kolb Street


220 Bountiful Lane


3686 Masthead Trail


6615 The Parkway


1827 29th street SE


9090 Moonshine Hollow #E


1343 Dexter Terr SE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Private Money Update

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CLEAR SKY FINANCIAL NEWSLETTER

October 2020

Letter from the Editor

Happy October to you, and happy birthday to Clear Sky Financial (CSF)! We turned seven years this month. We are proud to announce that CSF has done over $100 million in loan volume since our inception. We are very proud of this milestone!

September was another great month for loan originations, as well. We did eight loans (all Firsts) for a loan volume of 2.745M. Our loan volume was spread pretty evenly this month, with four loans in VA, two in D.C., and two in MD. October will be slower due to the upcoming election.

Please join us in welcoming Linda and Tom Hankey as new CSF investors. Linda and Tom recently moved here from Myrtle Beach, SC, and are both retired. Linda was formerly the Head of Finance at a high school, and Tom was an engineer. Welcome, Linda and Tom!

CHUCKLE'S CORNER

"A wise person should have money in their head, but not in their heart." --Jonathan Swift

Food for Thought

We are excited to announce our newly redesigned website, and we invite you to take a spin through it. The site features improved navigation and security, as well as a more user-friendly and informative events page.

Thank you to those who attended the 5th THINK REALTY conference in Baltimore, MD (either virtually or in person!). We did a presentation, "Where to Find the Money," and also participated in a panel with other private lenders, "Finding the Right Lender for your Specific Investing Strategy." If you missed the event(s), you can view them on our website at https://cskyfinancial.com/csf-events/.

In This Issue:

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Potential Clear Sky Financial Loan Defaults

Clear Sky Financial's mission is to provide financing for real estate investors, and enable real estate investors to make money. We provide money to fix/flip investors, buy/hold investors (acquire, renovate, refi us out) and wholesalers (transactional funding). CSF and our borrowers are on the same team, and we want our borrowers to succeed. When they succeed, they come back to us as repeat customers – it's as simple as that! Once in a while, we have borrowers that cannot execute on their projects, even though we are here to help. Below are some of the reasons we have seen a borrower default on their loan:

1. Bad contractors (or they are doing the work themselves)
2. Project taking too long (See #1)
3. Borrower taking on too many projects at one time
4. Not using the draw money appropriately (using it for other projects)
5. Not pulling permits and following the local jurisdictional requirements
6. Not keeping up with their monthly payment obligations
7. Overpricing their property on the out-sale/staying on the market (MLS) too long
8. Trying to sell the property themselves
9. Putting a second trust

CSF works with our borrowers to make sure their projects stay on track. We never underfund a loan, and we make sure we understand a property's after repair value (ARV) and renovation budget clearly before funding a loan. We even help to evaluate contractors, if necessary, and are here to help with any project and give advice. When a loan goes into default, we work with the borrowers in many ways. Foreclosure is the very last option. Below is how we help defaulting borrowers:

1. We reach out to the borrower immediately if they miss a payment to find out what is going on.
2. We continue to provide renovation draws to keep a borrower's project on schedule (even if they have stopped making us payments).
3. We review the project prior to each draw to understand where the project is at risk, and share our findings with the borrower.
4. We work with borrowers to extend their loan in the case that the project runs into a longer timeframe due to unforeseen circumstances.
5. If a borrower's contractor fails to complete the project, we recommend contractors from which they can receive a bid to get the project completed.
6. If the project is on the MLS and the borrower can't make payments, we consider adding the missed payments to the loan payoff instead of taking a foreclosure action.
7. If a project has failed to come to conclusion, we offer to accept a Deed in lieu of foreclosure (will not go after for a deficiency).
8. Foreclosure.

Foreclosure is our last resort. In seven years of being in the private lending business, we have auctioned off fewer than ten properties. We had four properties auctioned off at the same time after COVID hit. The defaulting borrower was overextended (reason three, above) and did not use our draw money for the intended projects (reason four). We try every means possible to avoid sending properties to auction. However, in some cases, we have to foreclose and send the property to auction.

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Sam's Corner

CLEAR SKY FINANCIAL NEWSLETTER **October 2020**

Forbearance – A Word In the News Lately

Clear Sky Financial, LLC is not a consumer lender, so we don't engage in forbearance agreements. However, you will hear a lot about them in the news because of the pandemic's impact on homeowners. Let's discuss them and find out what impact that they will have on the long-term real estate market.

What is a forbearance? A forbearance is temporary change to a loan that enables a borrower to re-establish their financial stability. It is not a long-term modification. A mortgage forbearance agreement is made between a lender and a delinquent borrower. In a forbearance agreement, a lender agrees not to foreclose, and the borrower agrees to a long-term plan to get current on their loan. Recent forbearance agreements have become more generous and result in a simple extension of loans. If you miss a month of payments, the loan term is extended by a month. The specifics of any agreement will vary among lenders and situations.

Forbearances are in full swing now. Fannie Mae- and Freddie Mac-sponsored loans must offer consumer relief under the CARES Act, which was passed by the government in response to the pandemic. Fannie Mae and Freddie Mac guarantee more than two-thirds of all mortgages and 95% of mortgage-backed securities. If a consumer has been affected, they are entitled to forbearance for 12 months. Servicers will start with a shorter plan period and reassess at the end of the period to evaluate changes in the borrower's financial situation. If the borrower still can't make a payment, they are entitled to the full 12-month forbearance.

The CARES Act began on March 27, 2020. If a loan was put into a forbearance on March 27, 2020, it may not come out until March 27, 2021. Assuming the borrower couldn't make payments at that time, the first day that it might go to foreclosure is May 1, 2021. The CARES Act expires on December 31, 2020. So, theoretically a consumer could get a forbearance agreement in place that lasts until December 31, 2021. If by December 31, 2021 that consumer still couldn't meet their financial obligations, the foreclosure auction wouldn't happen until at least April 2022. Right now, there are virtually no foreclosures happening. Given the timing of CARES, you are likely going to see foreclosures resume around May 2021 and continue to increase until February 2022.

In August 2020, about seven percent of consumer mortgages were skipping payments. The rates of forbearance tend to be higher for lower-income families. Ginnie Mae loans were at a ten percent default rate. In the absence of additional direct transfers from the government, these numbers might go up even further. Currently, around two-thirds of homeowners in forbearance have extended their forbearance arrangements with their mortgage servicers after the initial stage.

The absence of distressed assets for sale at auction is making the hard money industry contract. A lot of our competitors who relied on Wall Street financing for their loans are out of business. This industry consolidation has resulted in long-term flippers looking for a new hard money lender. We are picking up experienced borrowers even in the face of decreased inventory levels. Right now, we are among the leading hard money lenders in the D.C. metro area marketplace. Our plan is to stay the same size or grow by acquisition over the next six months.

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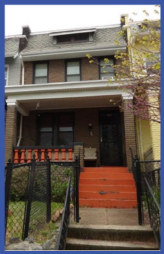
August Deals

4013 Kathland ave.



1327 E ST. NE

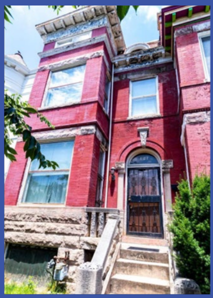
3635 Brockenbrough Dr.

18530 Corby St.

203 Short St.

4026 Songbird Lane

2915 2nd Ave.



121 U ST. NW

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

November 2020

Letter from the Editor

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

October was a slow month. We originated 3 loans. All the loans were First Trusts. The marketplace in the D.C. area is slowing down to the election season and the lack of distressed asset inventory. The current COVID government policies (limited foreclosures, no evictions) have put a mini damper on the market. We expect this to last another 4 to 6 months. November looks to be about 6 to 7 loans.

CHUCKLE'S CORNER

"The best investment you can make is an investment in yourself. The more you LEARN, the more you will EARN" - Warren Buffett

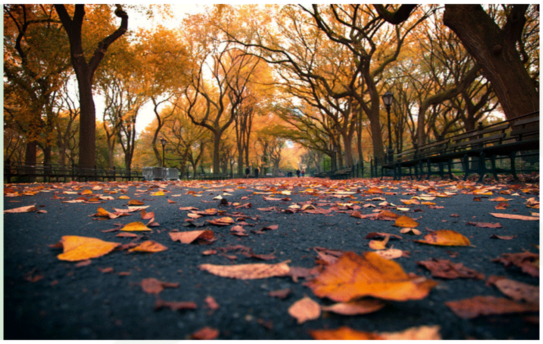
Food for Thought

We have a newly designed website. Please take a look at our communication/event page. We are starting to update our page with our past events, and also have a section on how we build a loan. All of our newsletters are there, as well.

Thank you to those who attended our November 12 "Status of the Market" update. We want to thank Lisa Hancock of Market Pro Homes for joining us. You can see the replay of this event at https://cskyfinancial.com/csf-events/.

We are in the process of launching a weekly podcast, "Tales of the Basement," which covers various real estate investing subjects based around stories that we have actually experienced. Stayed tuned for more information on the distribution of the podcasts.

In This Issue:



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Six Simple Ways of Locating Vacant Homeowners

The best way to make money in residential real estate is "driving for dollars," in which you drive through older neighborhoods and look for VACANT houses. This is the most profitable, low-risk and the least competitive real estate opportunity out there right now. The majority of these vacant houses fall into the distressed property/distressed seller categories.

Though potentially very profitable, vacant houses can be difficult to find. After finding a vacant home worth investing in, you will still have to find the property owner so that you can make them an offer. The difficulty in finding vacant houses and vacant homeowners has caused many investors to avoid investing in them at all. This means more deals for you. There are several different ways to locate a property owner. A list of methods for locating vacant homeowners is outlined below:

1. Tax Assessor's Office
The County/City Tax Assessor's Office can give you more information on where tax statements are sent, and most of these offices can be found online. The homeowner's name will be listed there, as well.

2. Visit Neighbors
Neighbors are not happy with the fact that there is a vacant property in their neighborhood. Vacant properties can invite vandals and squatters, and if left poorly maintained, can be an eyesore. Such a property can put their personal safety at risk, and also devalue their property. Ask the neighbors about the property and details about the owner.

3. Skip Trace
This is a popular method to find where the owner is located. Once you have the name of the owner you can look them online for free via thatsthem.com, whitepages.com, 411.com, or other websites. If you cannot locate them, you can pay for more sophisticated online tools such as TLO and/or IDI Core. The last resort is to hire a firm that specializes in skip tracing, which will be the most expensive option.

4. Leave a Note
In some rare cases, the property owner will return. Leave a big bold yellow note on the door stating you want to buy that property. If the property is close enough to the road, make the note large enough that neighbors and passerby can see it. They may contact the property owner for you.

5. County/City Land Records
If you know the homeowner's name, you can use that to find any documents signed by the homeowner to see if they own any other property. You may also find marriage licenses and voting records, which can contain information such as birth date, employment history, or other addresses.

6. Send a Postcard or Letter
This is one of the most traditional ways to locate a vacant homeowner. Send a postcard or letter to the vacant property with the words "Do Not Forward – Address Correction Requested" on it. If the Post Office has a forwarding address on file for that homeowner, the mail piece will be returned to you with the forwarding address listed.

I hope this article has been helpful to you. Please don't hesitate to reach out to me directly if you have questions.

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REO MANAGEMENT

REO is an abbreviation for Real Estate Owned. An REO is generally owned by a financial institution that has taken title to a property that was previously security for a loan. If a lender takes a loan through foreclosure and gets title to the asset, the lender now has an REO that it must sell. A lender can also get an asset in REO through a deed in lieu of foreclosure. This happens when a borrower facing foreclosure wants to wind up their obligations quickly and without additional legal fees. The borrower simply delivers a signed deed to the lender and the lender records it. In situations where the lender may incur significant legal costs to complete a foreclosure, a lender might even pay a borrower to surrender the deed to a property.

As a hard money lender, our goal is to minimize our REO inventory. We are seeking the steady returns that notes pay and not looking to capitalize on taking assets into inventory and then flipping them. We minimize our REO inventory by identifying slow paying customers immediately and reaching out to them to help them solve their problems. Despite our best efforts, we do occasionally get back an asset. This amounts to a couple of percent of our loan volume. When we get those properties back, we quickly put them into our fix and flip renovation model.

Our earliest exposure to the REO business was when we sold properties on behalf of other banking institutions between 2008 and 2013. In that time period, we sold hundreds of properties on behalf of banks. That gave us a lot of experience in taking over an asset, fixing any tax, utility, and construction issues, and getting the property back on the market. As an REO sales team, the first job was securing the property to minimize losses. Now that we are a hard money lender, the first job is getting the title and resolving any outstanding obligations that might exist against the title. That step is generally handled by a qualified title company that issues insurance for the title, at the same time we add the property to our fire and hazard policy. After we have title, the REO process is the same that we used to follow for our third- party bank clients.

This year we have taken back several properties, and then renovated and sold them. Our goal in the lending process is to make sure that our REO inventory is not a distraction from our lending business. Our lending parameters are designed for taking back REO inventory and having either a net neutral effect on our business or a slightly positive impact on the bottom line. In other words, we are looking to avoid losses on REO, and we treat it as a utility function in our business operations. Through careful and efficient REO management, we have done a good job in achieving this balance and have consistently maintained full debt recoveries of principal and generally full debt and interest/penalty recoveries.

Our most complex REO case was one where we stepped into the shoes of a developer who was subdividing land. It became necessary to collect all of the detailed engineering plans and walk them through the county approval process. We had all of the development plans and documents updated with our business entity name and ascertained exactly where the land was in the development process. Once the mechanics of the title and documentation were handled, we took care of the physical aspects of the property through property inspections and then obtained the bonding and approvals to subdivide the lots. This process ended successfully when we were given all of the county approvals and deeded the lots of subdivision.

Whenever we give a loan, we think about the "worst case" scenario where we would have to take the property back as an REO. We make sure that we never lend more money out than we could recover if we have to take the property back and flip it.

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Private Money Update

CLEAR SKY FINANCIAL NEWSLETTER

December 2020

Letter from the Editor

Happy Holidays! We hope everybody has a safe and fruitful holiday season! We want to welcome Janet Sue Rose to the CSF family. We also want to thank those of you who have increased your positions with us in the last few months.

November was a good month. We originated seven loans for $2M. Five loans were First Trusts and two loans were Seconds. All of the loans were in Maryland. Maryland seems to be the place for finding good inventory. December/January will be high volume even though the DMV marketplace is slow for distressed assets.

CHUCKLE'S CORNER

Dear Santa,

This year, please give me a big fat bank account and a slim body. And please, don't mix those two up like you did last year!

Food for Thought

We have a newly designed website www.cskyfinancial.com. Please take a look at our communication/event page. We are starting to stack up our page with events that we have done in the past. We have a section on how we build a loan, so, if you are interested please view that. All of our newsletters are there as well.

We have launched weekly podcasts called *Basement Tales*. It is a podcast on various real estate investing subjects based around stories that have happened to us in the past. Below are links to our podcast.

You can access them on
https://podcasts.apple.com/us/podcast/basement-tales/id1541056033
or
https://www.youtube.com/channel/UC0R91IRsAunltHsXN9ygf_Q
or
https://anchor.fm/clearskyfinancial

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Six Tips for Bidding at Courthouse Auctions

A good way to purchase properties is at the courthouse steps. We have purchased hundreds of houses at the courthouse steps. In Virginia/Maryland, 98% of the sales are at the courthouse steps. In DC, the sales are conducted by actual auctioneers. Examples of auction houses are Alex Cooper, Harvey West Auctioneers, Tidewater Auctions, and MDC Auctioneers.
These properties are being sold because the owner of the house has not paid on their loan, resulting in a lender foreclosure. This is the finale of the foreclosure process whereby the property is transferred. The property will either be sold to a third party bidder (investor/end user) or the bank will take the property back. Below are six tips for bidding at a foreclosure auction.

1. Know the location of the auction.
This is usually straightforward, except for the instances where a property borders on a city or county line. The trustee sale ad or foreclosure ad in the newspaper will have the location. Keep in mind that all of these sales are PUBLIC SALES and they HAVE to be advertised in a local newspaper. Also once in a while the sale might be held at the property that is being foreclosed upon.

2. Understand the position of the foreclosing instrument.
This is probably the MOST important tip. You have to understand the positioning of the loan that is foreclosing. Is it a First, Second, or possibly Third? Ninety percent of all foreclosure auctions are First Trusts. Why does this matter? It matters because if you are bidding on the Second Trust, you will be responsible for the First Trust payoff, etc. If you are bidding on a Second trust that was originated sometime after the First Trust, you might also need to pay off any liens or judgments that got on title in that time frame. It is always safe to do a title search on every property that you bid on! In our case, we do not have time for this, but we will always do this in case we think the bank is foreclosing on a Second or Third. Most times you can go back to the ad and determine what position the loan is in by looking at the origination date and loan amount. I cannot tell you how many times I have seen an investor overpay for a Second Trust not realizing there is a First Trust. What is the result? A lost bid deposit!

3. Know how much money you should bring.
All foreclosure sales need you to have cashier's checks. They will take cash (I would not recommend this), but they will not take personal checks. When I bid on houses, I have a stack of cashier's checks made out to me so I can simply endorse the checks over to the substitute trustee (usually a law firm). The ad will tell you how much the deposit will be. Sometimes they will say 10% of the bid or $30,000, whichever is less. The amount of money on each sale will range from $5,000 to $100,000. It is best that you bring increments of cashier's checks like multiples of $5,000 or $10,000. I used to bring $1,000s back in 2008/2009 but have since stopped using $1,000 checks for simplicity.

4. Occupancy.
You need to go and do an occupancy check on the property. Keep in mind you are buying the property *as is*, *where is*, and with or without an occupant. It is your responsibility to remove the occupant either by eviction or a keys for cash agreement. Furthermore, if the property is occupied, you have to understand whether the occupant is a *tenant* or the former owner. If the individual is a tenant, you might be subject to a lease. Another good rule of thumb is: when you are checking on occupancy, knock on the door and talk to the occupant to determine if they are hostile or not. Be careful here!

5. Know your numbers!
Obviously the first number you need to know is the ARV (after repair value). Once I get this number, I will just back into my highest bid. I subtract out buying costs, holding costs, selling costs, PROFIT MARGIN, and renovation costs. Three of five costs are fixed costs depending on the amount of purchase sale. You generated the profit margin that you want. The two costs that are variable and might either help you or hurt you are holding costs and the renovation. The renovation cost is your most important cost. This has to be estimated, because you are not allowed to enter the property before the auction. So you will have to get good at window estimating or front door estimating.

6. Understand any deed restrictions.
FHA could have a 1 year right of redemption. The IRS has a 120 day right of redemption. Usually these notices are in the trustee sale or foreclosure ad.

Keep in mind courthouse buying is very competitive. Most likely there will be a lot of bidders. Most of these bidders, like ourselves, will be high volume buyers who can afford a smaller profit margin. Do not get caught up in the bidding frenzy and overbid. I have seen this too many times where investors overbuy at the courthouse steps. Simply get outbid and move on to the next one!

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What to Watch in 2021

We are watching the market intently. The impact of COVID-19 is just starting to resonate in the residential real estate market. Prices in the DC metro area are stabilized and near their peaks. In order to avoid health risks, and also to wait out job market uncertainty, not a lot of people have their properties up for sale. Even financially distressed borrowers are not motivated to sell due to forbearance options that are currently available. Interest rates also remain at record lows. This is the perfect storm to sustain and drive up prices. Other markets such as New York and San Francisco are seeing material demographic changes as single professionals move out of the city centers seeking lower cost and larger housing arrangements.

We can assume that interest rates are going to stay low until the recessionary environment stabilizes. What we do not know is how housing supply will be affected in 2021. It seems likely that there could be two market moves in 2021 which will increase supply in the DC metro area. First, the regular spring market will start just as vaccines are made available to the public. People who have been holding off on marketing their home might decide to sell and add to the housing inventory. Second, as foreclosures restart in the later part of the second quarter, more inventory will come onto the market. It is not likely that these volumes are going to outstrip the supply and drive retail prices down in the DC area.

Macro price trends are more likely to impact the DC metro market. Due to COVID-19's adverse impact on remote working and retail, both markets are about to enter a free fall. It is difficult to establish if the collapse of business retail and commercial office space prices is going to spill over into the residential real estate market. At first glance, residential and commercial real estate do not appear to be tightly linked. However, value is driven up by the commercial offerings in a lot of semi-urban areas such as Reston Town Center, Old Town, and boutique neighborhoods in DC. Perhaps this will cause an equalizing of values, with prices coming down in semi-urban areas that no longer offer diverse retail experiences and prices going up in suburban and rural areas that offer more space and lower density. We have investors who are doing well by finding assets in the most remote commuter areas from DC where there is currently huge demand.

Here are some trends to look for to understand the major market drivers in areas where you want to invest. Check inventory levels of properties available versus properties that are sold each month. Look around and see if there are cars in the parking lots of office buildings to see if people are back in office spaces. Check and see if retail shops are closed for good or just have limited hours. Consider the local employers and if they are offering mostly telework opportunities. Read the newspaper to see if foreclosures have started, and check the courthouses to see if the eviction courts are busy. These are just some of the data points that we use to determine market trends. You can follow them, too, and be the first to know if it is a good time to buy or sell.

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November Deals

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6929 Lamont Dr.

35 Mountain Laurel Lane

4515 Riverdale Rd.

1525 Ruston Ave.

5807 66th Ave.

5401 Woodland Blvd.

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