Private Money Update

clear sky FINANCIAL

CLEAR SKY FINANCIAL NEWSLETTER

February 2021

Letter From the Editor

Happy February! We hope your family remains safe from COVID-19! January/February would have been the time for our annual holiday party, and we missed seeing all of you. My, times have changed. Hopefully we can plan something for the August 2021 time frame.

January was a slow month for us. We closed three loans, all in Virginia. They were all first trusts. We have a lot of deal flow in the pipeline, but because of short sale delays, lien payoff delays, and other delays, these loans have been pushed off until the Feb/March time frame. February should be an average month and March will be bigger.

CHUCKLE'S CORNER

"Without Valentine's Day, February would be … well, January." – Jim Gaffigan

Food for Thought

We have launched a weekly podcast called *Basement Tales*. There will be 14 or 15 episodes out by the time you receive this newsletter. 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 it on
https://podcasts.apple.com/us/podcast/basement-tales/id1541056033
or
https://www.youtube.com/channel/UC0R91IRsAunltHsXN9ygf_Q

In This Issue:

- Letter From the Editor
- Food for Thought
- Four Falsehoods About Money Lenders
- Diversification in a Volatile Market
- January Deals

clear sky FINANCIAL

www.cskyfinancial.com

Charlie Einsmann	Sam Jacknin
(703) 887-1039	(703) 587-2475
charlie@cskyfinancial.com	sam@cskyfinancial.com

Four Falsehoods About Hard Money Lenders

Hard money loans are the BEST loan vehicles for your fix/flips and for the purchasing of buy and hold properties. The reason for this is that hard money lenders (HMLs) provide more cash towards the purchase of the property and, in most cases, will provide 100% of the renovation costs. All you need to do is execute on the project. Sadly, most real estate investors remain in the dark about the many falsehoods surrounding HMLs.

Below are four myths about HMLs.

X Less Return on Investment (ROI) on Your Project

O This is not true. The ROI is simply the profit divided by the amount of cash the borrower (investor) puts into the deal. HMLs will loan a greater amount of money into a particular deal than any other lending types. Thus, you will have to put in less cash. You ultimately have a higher leveraged return. Isn't the name of the game OPM (other people's money)?

If you are interested in seeing the numbers, please reach out to me for a loan scenario where we compare a hard money loan, to a cash deal, to a soft money (community bank) deal. You guessed it - **the hard money loan has the best percentage return.**

X Hard Money Loans Are Too Risky

O Some borrowers mistakenly believe that HMLs are not as cautious as conventional banks. This is not true. **Most hard money loans are ASSET BASED loans.** They just look at the deal in a vastly different way. They will take more time to evaluate your deal and your contractor. This will further ensure the success of the project. HMLs do not waste much time poring through unnecessary paperwork regarding your deal. Also, if you need to consult with them regarding the project, most lenders are there to help. I cannot tell you how many deals that I have turned down because the deal was too TIGHT. In most cases, the ARV is overinflated or the renovation budget is underinflated.

X Private Money Loans Do Not Need Any Documentation

O This is another misconception. **HMLs do need documentation—just not tax returns and proof of income.** The documents required are the sales contract, renovation budget, draw schedule, broker price opinion (BPO) of the after repair value or appraisal, lender's title policy, government issued ID, and a hazard insurance policy. HMLs are a lot more lenient than conventional banks however all documentation is mostly project/asset based.

X Private Money Lenders Are Predatory

O Some real estate investors wrongly assume that hard money lenders want to foreclose and take back the property. After all, you found the deal! This is so far from the truth. **Great lenders like Clear Sky Financial are only after the return on the amount of the loan. The return consists of the points, fees, and guaranteed interest payments that are made on the loan. Our biggest concern is the EXIT strategy.** We have to know how we are getting our money back. HMLs are part of your team! If used correctly, they can be the most valuable part of your team. If you can find deals and execute on them, you will make a lot more money using a hard money lender. They can help you streamline any cash flow problems in your real estate business by giving you more leverage. I hope this has helped you overcome any fears regarding using hard money lenders!

Charlie Einsmann
(703) 887-1039
charlie@cskyfinanical.com

Sam Jacknin
(703) 587-2475
sam@cskyfinancial.com

Diversification in a Volatile Market

If you had purchased $7,300 in bitcoin five years ago, you would have made a million dollars by selling it in February 2021. While you might have had a hunch in 2016 that you could make a million in bitcoin, you would not have known for sure. An investment in bitcoin in 2016 did have higher odds than a lottery ticket for a big win, but not much higher. For purposes of financial analysis, a big bet on a risky business isn't much different than a lottery ticket. In 2016, far more investors purchased investments and lost all of their money than purchased bitcoin and sold it at its high. Investors want a big return, but they don't want to bear unreasonable risk. One way to achieve good yield while lowering risk is through diversification. You can even diversify in one asset type. Below, I'll describe how we use diversification to maximize our yield while keeping risk controlled and understood.

Business diversification—at the highest level, our business is diversified into three business lines. All of our lines complement one another and build on our core real estate and finance knowledge. We have three lines of business: fix and flip, buy and hold, and hard money lending. If any one business line slows down or experiences market disruption, we can focus on the other two. All three business lines don't move in the same direction all of the time. For example, we might be able to achieve high and consistent returns in our hard money business at the same time our buy and hold assets are going down in value because of an overall decline in market prices.

You have probably heard of "dollar cost averaging." That is the practice of buying into asset positions over time. We did this with each of our business lines. We entered the fix and flip space, and then entered the buy and hold space, and then we built a hard money business. This approach allowed us to diversify into different aspects of real estate and real estate finance and to diversify the timing of the investment in each business. By entering at different times, we further reduced our risk exposure. We didn't try to time the market entry, just "dollar cost average" into it.

Portfolio diversification is critical. Within our buy and hold real estate portfolio, we don't have all of our money in residential assets; we also have a small position in commercial real estate. Of the residential assets, we have them in various states and jurisdictions. Therefore, a regulatory change in one jurisdiction doesn't impact every property we own. Furthermore, while we have all single-family assets, the asset type isn't exactly the same. We have a good mix of detached houses, townhomes, and condos. This diversification is nice since we don't have to rely on the growth of just one asset type to raise the value of our portfolio.

If you take a detailed look at the holdings of our hard money business, you will find a lot of diversity. There are detached homes, townhomes, and condos. Again, they are diversified by geography including jurisdiction, as well as type such as urban and rural areas. Another great diversification in hard money is the timing associated with loan payoffs. All of the loans in our portfolio are less than one year in term. Since they were originated over the course of the year, there is no concentration of payoffs all at one time. Most importantly, loans that mature in the near term have a lower market risk than ones that have a year until the payoff. By having the origination and maturity broken up throughout the year, our portfolio risk is reduced.

When you are thinking about an investment, think about how it fits in with the rest of your portfolio. Don't bet everything on one investment and hope to exit at the exact right time; those odds aren't very high. However, entering a pool of diversified investments over time maximizes your long-term gains while mitigating risk.

clear sky FINANCIAL

www.cskyfinancial.com

Charlie Einsmann
(703) 887-1039
charlie@cskyfinancial.com

Sam Jacknin
(703) 587-2475
sam@cskyfinancial.com

January Deals

20517 20539 Dove Hill

13108 Putnam Circle

8370 Greensboro Dr. #603

clear sky FINANCIAL

www.cskyfinancial.com

Charlie Einsmann	Sam Jacknin
(703) 887-1039	(703) 587-2475
charlie@cskyfinancial.com	sam@cskyfinancial.com