

## Letter from the Editor

July was a slow month for Clear Sky Financial. We did 4 loans. All loans were First Trusts. We closed 3 in Washington DC, and 1 loan in Maryland. August will be similar to June in that we had a lot of July deals fall into August.

We seem to be expanding our private lending business in an environment that is very challenging for those seeking distressed assets due to the ongoing foreclosure moratoriums. As a result, we are increasing our market share % in the DC, MD, and VA marketplace.

We want to welcome Tien Cotter and Elaine Delauder as new investors with Clear Sky Financial. Welcome!! Welcome back to Chris Iten as well. Also thank you to those who have increased their positions. We are humbled by the vote of confidence

## CHUCKLE'S CORNER

"Whether you think you can or think you can't, you're right." —  
*Henry Ford*

## Food for Thought

We have launched weekly podcasts called Basement Tales. We have 35 or 36 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 them on

<https://podcasts.apple.com/us/podcast/basement-tales/id1541056033>

or

[https://www.youtube.com/channel/UCOR91IRsAunltHsXN9ygf\\_Q](https://www.youtube.com/channel/UCOR91IRsAunltHsXN9ygf_Q)

IF YOU LISTEN TO THE PODCASTS, PLEASE LEAVE US A REVIEW!!

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### Five Tips for Bidding at Courthouse Auctions

Another 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 either a Third-Party bidder (investor/end user) or the bank will take the property back. Below are 5 tips when 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 of foreclosure ad in the newspaper will have the location. Keep in mind 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. 90% of all foreclosure auctions are First Trust's. Why does this matter? This 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 payoff 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 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 that 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. How much money should you bring.

All foreclosure sales need you to have cashiers 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 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 checks like multiples of \$5,000's or \$10,000's. I used to bring \$1,000's back in 2008/2009 but have since stopped using \$1,000 checks for simplicity purposes.

#### 4. Occupancy.

You need to go and do an occupancy check on the property. Keep in mind your 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 property is a tenant you might be subject to a lease. Another good rule of thumb is when you are checking on occupancy to 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 what 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. 3 of 5 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.

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!

## Should You Be on the Sidelines

The stock market is at record highs. The real estate market is at record highs. Even your kid's used car has never been worth more. The economic news is scary! Restaurants you have been your favorites are either 20% more expensive, are understaffed, or they are closed completely. Your ice maker is broken, and you can't get parts. You are building a fence for your small backyard, and it costs \$20,000. A lot of people are asking what do with their investments. Should they sell them now and get in a cash position? Will the market drop and offer a buy back opportunity?

If you are holding rental real estate and sell it, you are going to have to recapture all of your depreciation and pay taxes on it. By the time you do it, it is very likely that your capital gains tax will have increased. So, look at your real estate investment and the fundamentals of it. Does it perform well and give you a positive cash flow? If so, don't sell it. It is unlikely that the rent market is going to move down anytime soon. There are just far too few housing units available for renters and no sign of a material increase in inventory. This is the case across the entire nation in strong job markets. So, don't sell a good cash flowing asset because you are concerned about how it will appear on your balance sheet. Even a 30% reduction in value will come back over a 5-7-year period in real estate.

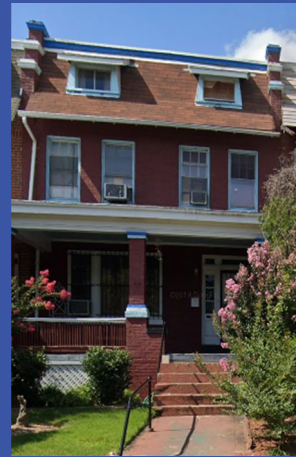
If your stock portfolio appears overvalued, look at the fundamentals of the companies you own. If they are positioned for long term success, stick with them. If you think the overall portfolio is too risky, switch part of it to US Treasury investments and balance it out. If you are working with enough money to employ an investment manager, see if they can help you get "insurance" on your stocks with covered calls. There have been only a few material dips in the stock market in the last 30 years. Over that time the market has appeared overvalued many times. If you were on the sidelines that whole time, you wouldn't have lost money to inflation. So, you need to find a way to stay in the game and protect yourself on the downside.

In answer to the question on whether you should be on the sidelines: No. You need to continue to participate in the markets actively and manage your risks. If you are in risky financial investments, diversify or buy investments that provide an inverse return to your riskiest ones. If you are in real estate and it is cash flowing well, keep it unless someone gives you an offer that exceeds the current market values and will offset your sales and tax costs. Whether the market is at its peak or at its low, you need to manager your financial risks. Make sure that you have access to cash in case there is a downturn. Get a line of credit on your real estate or even on your stock portfolio. If values really come down, you want to have cash available to buy in at the lower prices.

## July Deals



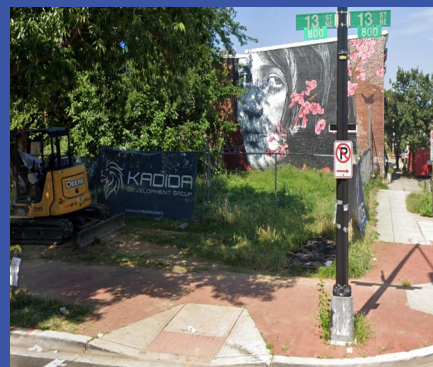
1431 New Jersey Ave. NW



1343 Randolph St. NW



7404 Greeley Rd.



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