

## Letter From the Editor

We are growing. We apologize for missing the January newsletter. We have combined the two into this newsletter.

December was a good month. We originated five loans, all of which were first trusts. Four loans were in Maryland and one was in Virginia. January got off to a huge start in that we originated nine loans! Last January, we only did four loans. February looks to be equally big. As you can see, we are off to a huge start for 2022 (hence the missed newsletter, plus Sam was in Singapore for 3 weeks, haha).

## CHUCKLE'S CORNER

*If money doesn't grow on trees, then why do banks have branches?*

## Food for Thought

Clear Sky Financial has many different types of loans: fix/flip, fix/flip/renovate, transactional, bridge loans (cross collateralization), and loans for buy/hold investors. We are always trying to be creative with our offerings. A recent offering that we have started to implement is a loan program where the fix/flip investor buys, renovates, and sells without having to make a payment. We simply collect the loan due plus fees at the end of the loan. This is becoming a popular program. Also, we have implemented a similar program on new builds, provided the builder owns the lots and the soft costs (such as engineering specifications and permits).

### In This Issue:

- + Letter From the Editor
- + Food for Thought
- + Six Easy Tips to Have Your Hard Money Loan Approved
- + Managing Growth—Now Is a Great Time to Invest
- + December/January Deals



### Six Easy Tips to Have Your Hard Money Loan Approved

When acquiring investment properties to either fix/flip or buy/hold, the traditional mortgage loan application process can be too much! You may need to jump over various hurdles such as credit, appraisals, income, etc. before they can consider your loan. Furthermore, the traditional lenders can have you waiting for more than 30 days for your mortgage approval. Most *great* deals with equity need to be closed in 14 days or less!

Private money loans or asset-based loans are an excellent alternative, with private lenders having less stringent approval processes. The biggest caveat is that they will be more expensive in rate and points. If you understand how to use a hard money lender (HML), they can be your biggest ally in your investment business. Simply put, use HMLs like a rental car. Use the money short term, and when you are done, pay it back! The term 'hard money,' coined in the 1950s, meant that the loan program was asset-based. The private mortgage is based on the property value rather than the credit health or income of the borrower. As a real estate investor, you can secure funds to purchase a property by placing it as collateral. Here are six simple tips to get preapproved by a reputable HML.

#### 1. Exit Strategy

The first question that I ask a potential borrower is "What is your exit strategy for the loan?" You had better know this and be clear in your explanation. Is it a fix and flip? Is it going to be a buy and hold? If so, I need to understand their credit to see if they will qualify for a refinance event. Are you going to simply pay us back with other monies? Sometimes borrowers might fix the property up and keep it as their primary residence. We need to know that! Understanding the exit strategy for us is the most important question before we get into the numbers.

#### 2. Equity Position

Keep in mind that HMLs are asset-based lenders. This means that the value of the asset secures the loan, not necessarily the borrower. We are more interested in the deal than the borrower, but we need to know the borrower as well! We want to understand that the after-repair value (ARV) of the asset will meet our lending criteria. If the borrower is buying a retail property at a retail price, we simply make them put down a 25–30% down payment to create the equity for us to lend.

#### 3. Renovation Budget/Contractor

Know your numbers! If the property you are buying needs work, please show us a renovation budget from a reputable contractor. If you are doing the work yourself, let us know. We will have to understand the budget, see pictures, understand the timeline (is it doable?) and have a reasonable draw schedule. We will also need references from your contractor to understand the types of projects they have done in the past. Is the contractor licensed and bonded? Do they have the required insurance?

#### 4. After Repair Value Comps

It is very important that you understand the repaired value of the asset. Simply send us comps and let us know what you think the value is. We need to be on the same page here. I am also going to pull comps to see how reasonable you are as a borrower. I cannot tell you how many times a borrower thought a property was worth \$500K only to sell it at \$450K. Keep in mind this \$50K is part of the overall profit margin. Most of the time we will not do a loan if there is that much discrepancy in the ARV before a loan goes out. We err on the side of being conservative. So, if the numbers are too low, then more profit for you! This has happened many times in the last 2 years, and I cannot tell you how happy the borrowers were.

#### 5. Ability to Execute

It is important to let us know what projects that you have done in the past. When borrowing hard money, you must be able to execute and pay us back quickly, or the higher interest rate will start impacting your profitability. Who wants to make their HML more money than they deserve? If this is your first project, we can help with contractors, project management, deal evaluation, and any other real estate need. We do not look at this as a lender–borrower relationship (it is) but also a teaming relationship. Keep in mind if you are not successful, then odds are you will not be back for a loan!

#### 6. Find a Hard Money Lender in Your Specialty

The best way to find a reliable and dependable private mortgage lender in your area is to ask someone you trust for a referral. If you cannot obtain a referral, search the internet for "private hard money lenders" and call and ask questions. Ask your trusted friends, fellow investors if they know of a private hard money lender. Look on real estate investment and related forums, groups, blogs, and sites for private money lender referrals. Call the American Association of Private Lenders and make sure they do not have any problems.

Hard money loans provide quick access to ready cash to fund real estate deals. You may need to get the lender preapproval before signing any contract. For more information on how private mortgages can work out for your business, reach out to us. Our website is [www.cskyfinancial.com](http://www.cskyfinancial.com).

### Managing Growth—Now Is a Great Time to Invest

Our recent portfolio growth has been phenomenal. We are seeking additional investment to sustain the continued growth. Let's look at the numbers. Below we see the total amount of our loan originations for each of the last 3 years, ending in December.

- Dec 2019: \$17.9 Million
- Dec 2020: \$21.7 Million
- Dec 2021: \$30.9 Million

We grew 21% in 2020 and an additional 43% in 2021. This represents 73% growth in our loan origination over the last 2 years. Fortunately, we were well positioned for this growth. Our supportive investors and a robust back office enabled us to grow seamlessly. The risk profile of our loans improved over this time as competitors left the lending space and we took on their higher credit and more experienced borrowers.

What is driving this growth? Will it continue? What are the barriers to continued growth?

There is a huge decrease in housing inventory, so you might think that our business would be shrinking. If you examine only the availability of older housing inventory on the market that is suitable for renovation, our growth numbers are counterintuitive.

Our growth is being driven by two main forces. First, we have a wonderful base of repeat borrowers. These people know how to execute on their projects and use our loan products efficiently. They make the most of our fast closings to get good deals and follow up with predraws on their projects to get them kick started along with very fast follow up additional draws. As a consequence of offering a higher level of service with our loan products, our repeat borrowers are referring us out to new borrowers.

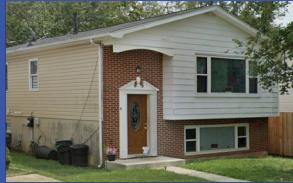
The second driver of our growth is consolidation in the lending space. Our largest competitors in the space use funds that are sourced from investment banks, and many of these investment banks stopped advancing funds at the beginning of the pandemic. When they did this, their customers left because of their inconsistent availability of cash. The one thing that a borrower needs to know is that their lender is there for them when needed. Even if you think of this in terms of a personal residential home purchase, you can imagine that you would have no loyalty to a bank that didn't have money for you at the time of your closing. This is what happened to a lot of our competitors: their borrowers lost confidence in them. Even though our competitors' loan pricing can be somewhat less expensive than our offerings, our consistency and customer service drew their borrowers to us. Other competitors had portfolios that were underperforming at the beginning of the pandemic, and they simply collapsed when the housing market shifted. A subset of their borrowers did not perform on their loans, and that simply drove those competitors out of the business. Fortunately for us, our portfolio performance has consistently been excellent, with an REO inventory level of less than 3%.

The primary barrier to our continued growth is the availability of capital. If you are thinking of investing more money with us, now is a great time to do it! We are looking at structuring a new fund using some portion of institutional money such that we could double again in the next 2 years. Our back office can handle a double without the addition of any staffing or technology changes. Our portfolio forecast is continued growth through the end of 2022.

## December/January Deals



2218 Hindle Lane



5 Kirby Ln.



22597 Redhill Manor Ct.



3904 Webster St.



6208 Kirby Rd.



9180 Broadlands Ln.



2702 Martello Dr.



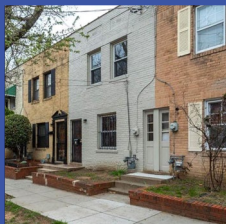
48393 Leachburg Rd.



107 Swan Creek Rd.



4226 Avon Dr.



3416 Croffut Pl. SE



1486 Potomac Heights Dr.



71 Rhode Island Ave. NW



3418 South Dakota Ave. NE