

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/>.

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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.

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.

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