AUGUST
2020

Peak Possibilities

Your Monthly Guide to Informed Real Estate Decisions

ICOR™
Investment Community of the Rockies
COLORADO'S REAL ESTATE INVESTORS ASSOCIATION

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Join ICOR
Aug. 12th at 6 pm
Lending & Getting Funded

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Could You Tell Me What the Heck is Going on with Real Estate Finance Right Now?

By Justin Cooper, Pine Financial

"Yes, we are still lending."
"No, our loan terms have not changed."
"Yes we can save your deal and still get it funded."
"No, you are not the first person I have talked to today asking these exact same questions!"

I lost count that first week of how many times I had that same conversation. National lenders were shutting down left and right, other lenders were radically changing their terms and some were simply not returning phone calls. As the world was changing due to the Coronavirus, so was the real estate financing world.

As a hard money lender, we focus on high leverage loans to real estate investors and we need to move quickly to get deals funded. We like to lend the full purchase price, repairs and even the closing costs on the right deals. We have been able to maintain that, helping investors of all shapes and sizes through this new world but obviously not all hard money lenders can say the same. Some lenders closed completely. Some lenders stopped making loans for several months. Other lenders revised their loan terms, meaning they lowered LTV's and the amount investors could borrower and still others adjusted the personal qualifying, like requiring more liquidity or cash in the bank or down payments.

The world has also been changing for conventional lenders and local banks as well.

Conventional lending rates are at all-time lows. I know that is something we have been saying for years, but again, it is true. This seems to have been fueled by the stimulus from the government as well as the Federal Reserve buying bonds. The all-time lows have prompted seemingly record amounts of refinances and have helped stimulate more house buying as well as seeming to prop up values as folks can qualify for larger loans. That being said, qualifying for these loans has gotten more difficult.

FHA credit requirements have not changed much, but the banks that make the loans are adding in more overlays requiring higher credit. The minimum is a 500 score per FHA, but where banks used to have overlays requiring a 580 score, they are now requiring scores as high as 640. Reserve requirements have also been going up. Instead of requiring only 2 months of payments in reserves, these have increased to 6 months in most cases, and I just saw they could be as high as 18 months! Some banks are even requiring pre-payments of several months. This could be due to the recent forbearance agreements folks have been entering into. The rules for the banks have changed with the allowance of forbearance and the banks have certainly passed those savings on to us. One of the often-overlooked points of these forbearance agreements is the hit your credit could take. If you have entered into a forbearance agreement, then it will be very difficult for you to get any kind of loan until the forbearance has been worked out.

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The Return of the ICOR "Email Answerline"

"A long time ago in a galaxy far, far away…"

That is funny for many reasons. For many of you who are Sci-Fi folks, I got your attention. And for those of you that have been a part of ICOR for long enough, I hear you! Since coming back to ICOR the most repeated comment I've heard is "I miss the answerline." The forum that was created just wasn't the same, and you are absolutely right!

For those of you who were not around, the ICOR Answerline was a list-serv where members could send out to the entire membership:

- "haves & wants"
- questions
- looking for recommendations
- deals were done on this platform

It was a powerful tool, and huge when you would see over 500 Colorado investors participating by sharing ideas, best practices, and answering questions!

It was so powerful that members created archive folders in their inbox just for these emails allowing them to reference information, education, and resources. The time stamp allowed for the ability to know how fresh and relevant the information was, and perhaps someone had already asked the question and you didn't need to ask again.

One of the reasons that we ultimately had to find other resources was because it got too big. With its expansive reach the opportunity for misuse of the platform started to take place. Postings not related to real estate transformed discourse into debate. However, regardless of the few who may have misused the platform, it created unparalleled connectivity to an already strong Colorado real estate investing community!
Fast forward to March 13th 2020. Enter COVID. Many of us went from countless hours of events and networking to now being an island. Alone. As we know, networking is the bedrock of our industry and without it, we are working twice as hard to track down our next contractor, find our next deal, and verify that our lease is strong enough.

So, that being said, ICOR is getting close to relaunching (next 30 days) the NEW ICOR Email Answerline. To help keep the ICOR office and platform a safe environment, we're setting in place a process and protocol:

1. You must opt into the use of the Answerline in the ICOR Membership Area
2. By opting in to use of the Answerline, you are accepting the protocol and guidelines
3. First misuse of the Answerline will result in removal for 30 days, second misuse will result in permanent removal
4. Rule of thumb is, when in doubt, email the ICOR office to verify that that your post is appropriate or adhere to ICOR "Haves & Wants" rules that we follow at the ICOR meetings
5. Finally, create a folder in your inbox to capture important emails so that you go back and review on your own time.

Please add info@ICORockies.com to your address book (this includes all ICOR emails). Archive the emails so you can reference and review on your own time to stay up to date on all things ICOR and Colorado real estate investing!

Things are moving quickly and ICOR will continue to send you information on the most recent developments and information investors need to know. The market is hotter than ever. Investors need qualified and verified information more than ever before. ICOR and its answer line are back and better than ever!

So, members, see you on the ICOR Answer line very soon!

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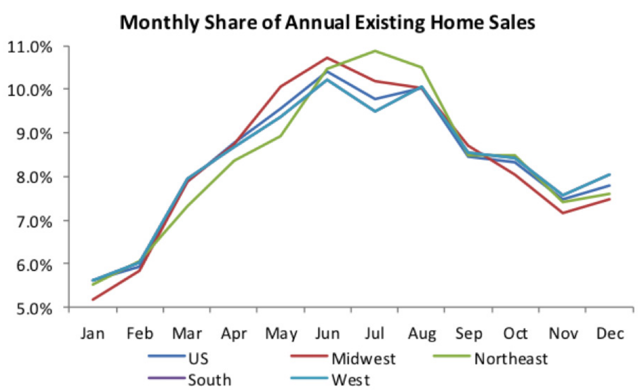
The Seasonal Benefit for Fix and Flippers

It is well known that the residential real estate market is highly seasonal, with activity and prices following the heat: warming up in the spring, hot in the summer, then cooling off in the fall and going into near hibernation in the coldest part of the year.

This chart shows the seasonality in home sales volumes and its consistency across regions by using the National Association of Realtors monthly existing home sales as a percentage of total homes sold in the year.[1]



Buy When Its Cold

Obviously: it is best to buy homes when the competition and prices are lowest. According to realtor.com, the best week of the year in 2019 to purchase a home after considering all factors was the week of September 22.

As summer winds down and kids return to school, many families hit pause on their home search and wait until the next season to start again. With dramatically less competition, persistent buyers will feel the scales tip in their favor as eager sellers begin to cut their prices in an effort to entice a sale. As seasonal inventory builds up and restores itself to more buyer-friendly levels, fall buyers will be in a better position to take advantage of today's low mortgage rates and increased purchasing power.

Sell When Its Hot

The peak in volumes is confirmed by looking at the busiest days to move, which are June 1st and May 31st. Movers speculate that people are realizing the prices are higher later in the year and enjoy the milder weather.[2] The increased demand means higher prices and fewer days on market.

But This Time Is Different...Or Is It?

Transactions depend on both buyers and sellers showing up, although sometimes in different quantities and with different motivations, leading to some of these seasonal patterns and anomalies. There are more buyers than sellers in the post COVID world at this point and prices have returned to their steady march higher after taking a brief hit. Buyers seem to be motivated to get into their own space, as well as the upward demand represented by millennials entering prime home-buying years. Sellers, on the other hand, continue to hold back and listings are at significantly lower levels than prior to the pandemic.[3] The seasonality effect may be different in Denver, as Chris Hodges (Homesmart Realtor) observes, "COVID has shaken the real estate market by surprise and really created a strong seller market in Denver that I expect to be prolonged into the Winter."

Conclusion

While local conditions continue to dominate, the seasonality effect seems unimpacted by the unexpectedly moderate changes in the SFR real estate market, with buying in the fall to have a home ready for sale in the spring or summer a plan likely to yield profits.

1. https://www.housingwire.com/articles/36855-heres-why-seasonality-matters-in-the-housing-market/
2. https://www.mymovingreviews.com/move/moving-statistics-2019-annual-moving-industry-infographic
3. https://www.fanniemae.com/portal/research-insights/surveys/national-housing-survey.html

Join ICOR, August 12th Lending & Getting Funded: "What Should You Expect as an Investor and Lender as We Continue in This COVID-19 Era?"

As we see the new world changing right before our eyes, so is the real estate industry, due to new norms and new lending practices across all real estate segments. The lending industry just like any other industry is going through a metamorphosis as we speak. National lenders consolidating or shutting down, terms and conditions changing as well. As the world is adapting to the new norms so is the real estate financing industry!

Conventional Lending rates are at an all-time low.

Does that mean that lenders are more flexible and lending more? Absolutely Not! On the contrary. Underwriting processes and guidelines will be different now, not like in the past. Ratios are lower and better credit scores are required.

Are Hard Money Lenders changing their ratios and terms?

Absolutely Yes! The Hard Money Industry is still trying to figure out their new "North". Some Hard Money lenders simply closed shop and stopped lending for good. Some others are waiting to see what is going to happen and stopped making loans until they feel comfortable with the market. Other lenders are revising their terms, requiring lowered LTV's and more cash or liquidity on the deals. For some lenders personal credit was not an issue before, but now it is.

Has Anything Changed in The Private Lending Segment?

Absolutely! This is a segment of the industry that is radically changing its strategy. Private lending is always looking for Yields, and that has not changed. One of the huge changes, however, is their practices- transitioning from funding new deals to purchasing non-performing loans due to the high levels of mortgages in default and forbearances that the traditional lending is experiencing and will result in lots of foreclosures.

So, what should you expect in Real Estate Investing and Lending as we continue in this COVID-19 era?

Don't miss the August meeting at ICOR! The August meeting will feature a panel of lending experts covering these questions and issues. We will have Mortgage Lenders, Hard Money Lenders, and Private Lenders, all discussing these vital issues during COVID and what to expect post-COVID.

Meeting Schedule

Northern Colorado
August 12th / 6:00 – 8:30 pm
Online Zoom Meeting

Denver
August 12th / 6:00 – 8:30 pm
Online Zoom Meeting

Colorado Springs
August 12th / 6:00 – 8:30 pm
Online Zoom Meeting

Wednesday, August 12th from 6 pm to 8 pm

Visit www.ICORockies.com/events to register for this event

Plus, Don't Miss Other ICOR Events...

August 25th | Colorado Real Estate Market & Investor Confidence Index
Check the ICOR Calendar for All Upcoming Events

For more Information or to register, visit www.ICORockies.com/Calendar

NEW DIRECTION TRUST
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The CARES Act:
Economic Relief from Covid-19, PLUS a Unique Opportunity to Tap Into Your 401(k) Plan

The Coronavirus Aid, Relief and Economic Security Act "CARES Act" was enacted to provide financial flexibility to those impacted by Covid-19. The CARES Act includes stimulus checks to individuals, small business loans, and several adjustments to retirement plan rules which allows for easier access to those funds. I will share what those retirement plan changes are, and importantly discuss a unique opportunity that may allow you to transfer funds currently in your 401(k) to an IRA, which you can then use for self-directed investing.

First, a question. Do you have funds in a 401(k) with your current employer, and wish you had more investment options? Like most employees, somewhere in your retirement savings journey you probably discovered your 401(k) is limited to the funds selected by your employer. That is, until you sever employment. The vast majority of 401(k) plans offer a limited menu of investment options, often to limit liability for the employer. Very few allow you to invest in real estate or private equity.

If this is striking a chord, I have good news! The CARES Act may provide an opportunity to move some or all of your 401(k) funds into an IRA, an IRA that opens up the possibility of investing in alternative assets like real estate, precious metals, or private equity.

However, and before you get too excited, this opportunity will not apply to everyone. While the CARES Act is the law of the land, restrictions apply, and I would encourage you to seek expert advice to determine if you qualify.

So how does it work?

First and foremost, this will only apply to individuals impacted by the Corona virus. This could include people who were diagnosed with Covid-19, are caring for a spouse or dependent diagnosed with Covid-19, were laid off or furloughed from work, or impacted financially as a result of Covid-19. If this applies to you, listen up.

The Cares Act allows individuals to distribute up to $100,000 from a qualified retirement plan, including 401(k)s, 403b's, and TSP's. The IRS will waive the 10% early withdrawal penalty for those younger than 59.5, AND they are offering a 3-year window to re-contribute the funds, so NO TAX is due. This final piece represents what could be your tax-free transfer to a self-directed IRA. Specifically, if the distributed funds are "re-contributed" to another qualified retirement plan within 3 years, there is no tax, and the funds can leave the 401k permanently to open up more investment options. Retirement funds that were previously locked up can now be made available for alternative investing as a result of this new legislation. This is especially useful for individuals wanting to diversify their retirement outside of publicly traded securities.

Here are some additional features of the CARES Act:

- **Required minimum distributions (RMD's) are waived for 2020** – Someone who would normally be required to take RMD's can forego the distribution in 2020 if they choose to. Normally people aged 72, and people with inherited IRA's must take annual RMD's
- **10% penalty on early distributions for Covid-19 are waived** – Taking a retirement plan distribution before the age of 59.5 would generally incur a 10% early withdrawal penalty
- **Take a distribution of up to $100,000 for Covid-19 related reasons** – As mentioned above, if you've been impacted by Covid-19 the IRS is allowing you to take a distribution from your retirement plan, and is allowing the following flexibility:
  - You can recontribute the distributed amount into another qualified retirement plan over the next 3 years and there is no tax on the distribution if you do this.
  - Alternatively, you can pay the applicable tax owed on the distribution over 3 years as opposed to the normal 1 year.
- 401(k) loan provision doubled – 401(k)s uniquely allow account holders to borrow money from and eventually repay their accounts. 401(k) holders may now borrow up to $100,000 under the CARES Act, which is double the standard limit of $50,000.

The Cares Act will be in place until December 31, 2020 so be sure to evaluate your options and act well before year end if any of the changes outlined above could help you. I strongly encourage you to seek guidance before acting on any of the provisions mentioned in this article, but the CARES Act certainly creates some unique opportunities that may benefit you. Feel free to contact New Direction Trust Company should have any questions about the new legislation.

New Direction
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How To Prepare For The Next Market Downturn Using Infinite Banking, Part II

Infinite banking is a wealth creation concept that has been practiced for hundreds of years by the wealthiest people in our country. So, why don't we hear about it? Rest assured, there is not a vast conspiracy by the wealthy to keep knowledge from the commoner. I believe it's because there is too much misinformation—or fake news—coming from misinformed and uninformed sources.

Infinite banking uses a tried-and-true system to grow wealth while still providing access to liquid cash. How does this work? Start by storing your money inside a properly structured dividend-paying whole life insurance policy. It's whole life—not universal life, indexed universal life, nor term life. Why do this? Whole life is a long-standing, tried-and-tested product designed to last your whole life. Whole life has existed for two hundred years; it has survived the Great Depression, and it will survive a global pandemic. It's not tied to the stock market, and it has a contracted minimum interest rate.

Most people selling life insurance are only doing just that—selling insurance. And life insurance as a product has value to a beneficiary, but it poses little value for most people who are young and looking for opportunities to grow their wealth.

Unlike insurance salespeople, we teach others how to become banks and how to think like a banker. Bankers know that a loan is repaid with interest. By learning how to become your own banker and paying yourself back with interest (or better yet, having someone else pay back the loan with interest, i.e., through rental property or private money lending), you not only recapture your basis, but also enable your money to grow and compound with interest. The money needs to grow regardless. Insurance companies have to guarantee the death benefit. At the end of the day, this is an insurance product. However, in a whole life policy, you have access to the cash value at any point, and you can use it for any purpose. That's right—there are no restrictions on what you can do. Want to invest in real estate? Go for it. Want to put it in stocks when the market drops? Go ahead. Pay for your kid's college? Absolutely. Supplement retirement? Why just supplement? Use whole life as your retirement.

"But why would I pay money back with interest to myself when I can just borrow from my savings?" you might ask. When you borrow from your savings, the balance goes down. Even if you pay it back, or pay it back with interest, a savings account is not a place to grow money. However, inside a whole life policy, if you borrow and pay back with interest, your money will continue to grow and compound as if it had never left the policy. Again, the money must be loaned, so why not let it be to you?

Storing your wealth in whole life is also extremely secure. Unlike actual banks that do not have to store your money in the vault beneath the building and will loan your one dollar out 11 times (see fractional banking), insurance companies must have a dollar in assets for every dollar they lend. They must guarantee the product they're selling you, the death benefit, and in order to do that, they invest your money in high-interest loans to the government. The money they make is given back to the owners of the business—policy owners—through dividends. As a policy owner, you own part of the company and have a contract. When you ask for your cash, they must send it to you.

In addition to being a secure place to store your cash, a whole life policy provides quick access to your money and allows you to be prepared the next time the market turns. Secure your financial future by learning how you can start your infinite bank today.

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Cheap Markets Equal High Cash Flow. Here's Why That Doesn't Work.

The thesis is simple. Rental properties in cheap markets will generate a higher cash flow. This sounds promising, if it were only true.

By "cheap markets" we're referring to cities such as Memphis, Birmingham, Jacksonville and Cleveland. The gurus, you know the ones selling expensive courses and seminars, their goal is to bring investors and wholesalers into these markets. They do so by promising higher cash flow while maintaining operating expenses (OPEX) at 30%.

The problem with investment properties in these cities is that the market rent is also cheaper, while the maintenance costs remain the same. A water heater for instance, is going to cost the same whether purchased in Colorado or in Tennessee. It will, however, eat up a larger percentage of the rent in markets like Tennessee. Instead of 30%, the true OPEX is now closer to 47 – 50%.

	Denver	Memphis Myth	Memphis Truth
Rent	$1,800	$800	$800
Open (%)	30%	30%	47%
Open ($)	$540	$240	$376
NOI	$1260	$560	$424
$2500 Turn	2 months		6 months

We know this from experience. One of our collogues is currently selling 14 Memphis single family homes with the goal of replacing them with better preforming assets in Colorado. The numbers above are based on his real-life experience.

Why are the Projections Misleading?

The pro forma and models these gurus are using are based off of general market data. In a larger city, a 30-31% OPEX is fair, but where rents are lower, the numbers begin to not add up.
This is because they often don't own real estate in the markets their selling in. One question you should always ask your advisors is "Can you show me the numbers on your properties?" and "What do you own in this market?"

If they don't have answer for you it's time to find an investment specialist who does.

Why we Invest in 20-year Markets

Location really does make all the difference. When we look to maximize return on investment, we do so by not only looking at cash flow, but at appreciation. Truly understanding the path of development in a particular city provides the specific knowledge required to make the right investment. One that not only produces solid cash flow, but that also has a higher annual appreciation year after year.

This is a long game. Markets like Denver, Boise, Charlotte and Phoenix are where we like to place our money and where we advise our clients to do the same. Don't be fooled by fancy accounting!

Could You Tell Me What the Heck is Going on with Real Estate Finance Right Now?

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In certain circumstances, banks and lenders have lowered DTI's (Debt to Income Ratio) to 40%, increased credit score minimums to 700 and folks must put at least 20% down!

Self Employed folks are up against much stricter guidelines as well. They must produce 2 years of tax returns, Year-To-Date Profit and Loss statements (possibly needing to be audited) and 2 months of bank statements, and you can bet that those bank statements will be scrutinized, as well as the viability of the business moving forward.

Jumbo loans have also been affected. Where jumbo loans used to require a minimum of 10% down, now they require a minimum of 15% down.

Every local bank operates independently, which of course is one of the reasons we like them, meaning they do not have to follow all the same rules and guidelines. One of the major rules local banks do have to follow is maintaining a certain level of liquidity. For the most part, banks have stayed true to this and have been positioned well as opposed to what we went through a decade ago. That being said, they have also been making adjustments. The banks I have relationships with are keeping a close eye on the future. They have not seen a huge delinquency rate but have been making changes to keep themselves in a good position. Some of the changes they have been making are:

- Ceasing all HELOC's (Home Equity Line of Credit)
- Reducing LTV's (Loan to Value) on HELOC's
- Reducing their appetite on spec builds (new builds), and
- Reducing the LTV's on cash-out refinances.

This is an ever-changing market and world we are living in and the financing aspects are changing every day. We must keep our ears and eyes open as businesses run out of PPP money, as the unemployment support changes, forbearance comes to an end on mortgages and the possibility of the distribution of another stimulus. These, and several other factors will all be part of the ever-shifting finance landscape and each of these could/will have an impact on our investing. There will be opportunity for us as investors to capitalize on this, as well as to help folks in need. If you would like to talk about any of this, I would love to hear it!