



The
TotalPath

 Buying a 2nd Home

The TotalPath

Buying a 2nd Home

You may be at a point in your life where it's possible to purchase a second home. This purchase can be looked at as an option for a vacation getaway, or as an investment. Either way it's important to become familiar with the process of looking for and purchasing a second home. While purchasing a second home is in many ways similar to purchasing your first home, there are some important differences to be aware of. It's important to that you know what you're looking for, and the limitations that you have on your spending, before you begin this process.

Contents

1. Is the Timing Right?
2. What to Look For
3. Current Financial Situation
4. Financing Options
5. Things to Consider

1 Is the Timing Right?

Before you begin to search for a second home you need to assess your personal goals. Are you still in the midst of your career, or are you ready to retire? Depending on your answer you should ask yourself, “why am I buying this house?” “Do I want to use this home as a personal retreat or as a rental property?” “Can I afford this?” These are just a few of the questions that you must consider. You should also be aware of the current market. Maybe now isn’t the best time to buy. If you wait six months or a year, maybe the prices will drop. Trying to time the market can be a fool’s errand.

2 What to Look For

It may benefit you to hire an agent when you begin looking for a home. The ideal agent will have years of experience selling homes in the specific area(s) in which you are looking. This agent might also come as a recommendation from a friend, family member, or colleague. Express all of your goals to your agent, and they will help to guide you in the right direction.

When you tour a prospective home you need to ask yourself a variety of questions. You need to determine if the location and the property are an appropriate fit for your lifestyle, both current and future. Maybe you want a second home in close proximity to your first, to limit transportation expenses. Perhaps you desire a new atmosphere, and want to look for a home much further away. Regardless, if you can’t see yourself living in the house, then you obviously should not buy it. A good way to determine if a house suits your style is to rent it first (if possible). While you are renting you should become familiar with the area, talk to the locals, and experience everything that the area has to offer. The best way to feel at home is to treat the place like your home. Who knows, after living there for a week or two, you may stumble across a better property in the area, or one that better suits your needs.



3 Current Financial Situation

Maybe you have planned to buy a second home for years, and already have all of your finances in order. If that's the case then good for you, it's not easy to stick to long-term goals. If you're making this decision on a whim, and haven't had the time to set all of the necessary funds aside, then there are still some things you need to consider. First off, there will be stricter lending requirements when you go to apply for a mortgage on a second home, especially if that home is not owner-occupied. There are plenty of mortgage calculators online to help you figure out exactly what you can afford. Credit requirements on investment properties are strict, and if your score is lousy, you're in danger of not getting the loan.

Once you are cleared to take out a mortgage, you must consider your tax situation. Your personal taxes will change based on the use of your second home. The IRS has declared that if you live in your second home for more than 14 days, or more than 10% of the time you rented it out in a year (whichever comes first), then it is considered your personal residence. If neither of these conditions are met then

it is considered a rental property. If you do rent your home out for more than 15 days a year, then you must report all of your rental receipts to the IRS as income, but you can deduct all of your operating expenses against that income. Other expenses that you need to keep in mind are property taxes, utility expenses, and private mortgage insurance (PMI). PMI is usually only required when you have an initial down payment of less than 20% of the value of the property.

4 Financing Options

With your current finances squared away, you need to determine your next move. First off, it's always cheaper to purchase an existing home, rather than buying property and building a new home. The cost of construction alone will be enough to make most people cringe. With that being said, it's typical for owners to be much more flexible when they are selling their second homes. This may be because they have overextended themselves financially, or perhaps experienced a change in their lifestyle. Either way, their primary concern is selling the home as soon as possible. You can use this to your

advantage while you are negotiating a price. Do your research so that you know what other homes in the area are selling for, this way you'll be in the driver's seat when it's time to agree on a final price.

Sometimes you need to rent out your second home so that you can afford your mortgage payments, insurance, maintenance, etc. There's nothing wrong with that, just be sure to purchase a home in an area where renters will be drawn to it. For renters, the home is mainly about location, and less about what the home itself has to offer. You don't base your renting decisions on the type of cabinetry in the kitchen do you? No, it's all about the area and the activities that are available.

Considering that your second mortgage will almost undoubtedly have a higher interest rate than the first, you might want to consider a HELOC (Home Equity Line of Credit). A HELOC lets you tap into your primary home's equity line of credit, so that you will have sufficient funds to provide the lenders with the required down payment. You could also look into ownership options when purchasing your home. You could split the costs with a friend or family member, and own the house as Tenants

In Common. If you have the intention of keeping the property in the family for years to come, you may want to include your spouse or even children (if they are of legal age) on the title with Joint Tenancy With Rights Of Survivorship. This way if something happens to you, the house will pass directly to them.

5 Things to Consider

In addition to everything we've already mentioned, there are an abundance of home buying tips out there that may or may not help you through this process. Everyone is different, and we all have our own way of doing things. Here are some of the more important things to consider when you're buying a second home.

Get Insured

You will want liability insurance to protect you if there is an accident. This insurance is particularly recommended if you know that there will be children at the house. You also want title insurance. Although lenders often require this anyway, both parties can protect themselves if there is a problem with past ownership or debt after you sign

for the house. Lastly, you definitely want hazard insurance to protect your home from theft and weather related incidents.

Avoid Buying Overseas

If you are planning to buy a second home outside of the country, you better do your research. It's risky, and often very expensive to buy a home overseas. The laws will probably be very different, and not all countries have emergency response officials on call. This also makes home buying abroad dangerous.

Do Your Research

Rent the house first, and then make a decision on buying. If you only rent during one season, ask your agent or the locals to describe the other three seasons. Depending on how far away your primary residence is from your vacation home; you may need to hire a caretaker to tend to the property.

Contrary to popular belief, you don't have to be retired or wealthy to purchase a second

home. Middle class families and younger homebuyers are taking advantage of the second home market because they realize that there are some bargains to be had. There's also the satisfaction of owning your own vacation property. It's going to be expensive, but if you think owning a second home is the right choice, then live for the moment, and take the necessary steps to own the vacation home of your dreams.

