

Second Home and Vacation Home



Have you considered buying a second home? A secondary property can be a great investment in your future. It can also help you earn additional income and provide a getaway from everyday life. If you've been thinking about purchasing a second home, here are some key considerations and tips for getting started.

What Is A Second Home?

A second home is property you purchase in addition to your primary residence that you intend to live in for part of the year. Secondary homes are different from most investment properties because your lender may have limitations on when you need to occupy the residence and when you can rent it out to prospective tenants.

Uses For A Second Home

Some buyers already have a clear vision for their second home before making their purchase, but it's okay if you're not sure. Below are some of the most common ways to use a second home.

Vacation Home

If you have a large family, vacation often or simply want your own spot to call home when you're away, a vacation property might be what you're looking for. You should choose a location you love visiting and exploring.

For many home buyers, a jumbo loan or conventional loan is the best option for a vacation home mortgage. It's important to remember this mortgage process is similar to taking out a loan on your primary home – just with slightly stricter requirements. We'll discuss your mortgage options for a second home later on in the guide.

Secondary Residence

Does your job require a good deal of travel or time spent in another city? You might consider using your property as a **secondary residence**. Buying a second home in a location you frequent for work or other purposes can allow you to come and go without having to worry about booking other accommodations. As with a vacation home, a mortgage for a second residence will likely come with stricter requirements.

Investment Property

Some homeowners will buy a second home as an **investment property**. Typically, this means either flipping and reselling the home, or turning it into a rental property. Investment properties have different requirements and mortgage rates than other types of second homes, like vacation homes.

For example, many homeowners can't use a jumbo loan to finance an investment property, because many lenders consider it an "investment" if rented out more than 14 days of a year. This is unlike a conventional loan, where you can rent your second home for up to 6 months. Government-backed loans such as Federal Housing Administration (FHA) loans and Department of Veterans Affairs (VA) loans also can't be used to finance investment properties.

Make sure to speak with your mortgage lender to make sure your mortgage matches your real estate investing goals. At Rocket Mortgage, you can get a jumbo loan on an investment property

starting at a 20% down payment, depending on the property type and number of units you want.

You can use your second home for any combination of the reasons discussed above. You could vacation there for a designated period of time and rent it out via Airbnb and short-term leases for the rest of the year.

Can You Afford A Second Home?

Are your personal finances ship-shape to the point that you can afford to buy a second home? Even if you plan to collect rental income from the property, you'll want to be sure it's a purchase you can afford – particularly if it will remain vacant for several months a year.

Here are some financial factors to keep in mind before buying a second house.

Down Payment And Interest Rates

As with purchasing any new home, buying a second home will require a down payment and a mortgage (with interest, of course) – unless you plan to pay with cash.

In fact, a higher down payment for a second home is required. Why? Purchases of a second home are a higher risk for mortgage lenders because there's greater chance borrowers will default on a second home (versus a primary residence) in the event of financial hardship.

The same logic can be applied to mortgage interest rates. To hedge against potential losses in the event of a mortgage default, there's almost always a higher interest rate on a second home mortgage. To determine the terms of your loan for a second home, your lender will take a look at your credit score and history, current housing market conditions and your debt-to-income ratio (DTI).

Debt-To-Income Ratio Requirements

You'll have to meet DTI requirements to qualify for a mortgage on a second home. DTI refers to the amount of debt you hold versus the amount of money you make. You can quickly calculate your DTI by adding up the monthly debts you pay and dividing by your monthly pre-tax salary.

Most lenders require a DTI of 43% or less to approve you for a second mortgage.

Monthly Budgeting

You may be approved for a second mortgage on paper, but you'll want to crunch the numbers to see if an additional mortgage makes good financial sense. The best way to do this is by adding up all of your monthly payments and subtracting this number from your monthly net income. The remaining money is where your second mortgage payment will come from.

You might be counting on the extra income from renting to help balance out your second monthly mortgage payments, but you'll still want to make sure you can afford the payment on your own if your property doesn't rent as quickly as you'd like.

In addition, you'll want to consider property taxes, homeowners association fees and general upkeep costs before making this decision to take out a second home mortgage.

Rental Maintenance

You'll also want to be prepared for the cost of buying a rental property and the maintenance that comes with it. As both owner and possibly landlord, you'll be responsible for handling all repairs and damages. This could mean paying a repair person for services, purchasing paint, buying new doorknobs and other home improvement products, or paying a lawn service to maintain the yard.

Save at least 10% of the yearly rent for upkeep and property management. For example, if your property rents for \$2,000 a month, the annual rent would be \$24,000. Therefore, you should save \$2,400 in case of emergency repairs. Keep in mind, repairs could cost more or less than this estimate, so it's always a good idea to have more money saved.

How To Buy A Second Home

If you've already been through the process of buying a house, you know there's a lot to keep track of.

Ready to start looking for your second home? Here's a complete list of the steps you need to take when considering how to buy a second house.

Step 1: Decide Where To Buy Your Second Home

Deciding where to purchase your next property is a major decision. Should you get a home close to your family? Or would you prefer one on a beach, in the mountains or in a city you love?

It's important to discuss locations with your spouse and other family members who might need to be included in this decision. From there, spend time researching the best local neighborhoods. Partner with a local real estate agent who's familiar with the areas you're interested in and can help find the best property for you.

Step 2: Determine How To Finance The Home Purchase

The type of mortgage you qualify for will largely depend on how you're planning to use the second property. Borrowers may have to meet different requirements when qualifying for a mortgage on a second home, because these loans are riskier for lenders. Second home mortgages may also have different interest rates than loans for primary residences.

Two of the most common mortgage loans to consider when purchasing a second home are conventional and jumbo loans. You'll be required to make at least a 10% down payment on

a conventional loan, and 20% or more on a jumbo loan. The specific income, credit score and DTI requirements can vary by lender and loan type.

You can't finance the purchase of a second home with government-backed mortgages, like Department of Veterans Affairs (VA) loans and Federal Housing Administration (FHA) loans. These loans can only be used to purchase primary homes.

Keep in mind that your lender will only qualify a property as a second home if you occupy the home for a certain amount of time throughout the year (compared to renting the second home to tenants). If your lender (or the Internal Revenue Service) determines that the house is instead an investment property, you may need to meet a different set of requirements when applying for a mortgage.

Step 3: Get Preapproved For A Second Home Mortgage

Beginning the mortgage process as soon as you're ready to start looking for a home is important for a few reasons. First, starting the process early will eliminate any financial obstacles during closing and can help you close on time with no surprises.

Second, getting mortgage preapproval early will give you a better idea of how much you can afford for a second home, which is helpful once you start shopping for houses.

You can shop around for local lenders or research options online. Rocket Mortgage allows you to finance your second home completely online and provides helpful tools to guide you through the process. The income verification process is also fast and easy, since Rocket Mortgage allows you to instantly verify your income with online documentation.

Step 4: Partner With A Local Real Estate Agent

Your real estate agent is the most important person in this second home process. They'll work to find you the perfect home and

negotiate on your behalf, and they'll be there to guide you through the rest of the buying journey.

Be sure to look for an agent local to the area where you'll be purchasing. They'll know the intricacies of the real estate market better than a regional agent, which means they can offer advice on finances and neighborhoods to explore.

When you search for a REALTOR®, be sure to look for a buyer's agent only. Working with a dual agent, or an agent who represents both you and the seller, can cause conflicts of interest.

Step 5: Find Your Dream Second Home

Your agent can help you find your dream second home after you're preapproved for a mortgage. They'll assist you in finding homes that fit your criteria (like the number of bedrooms, square footage, location, amenities, etc.) and will show you homes that fit your budget and preferences.

Once you've found the home you want to buy, your agent will work with you to make an offer with the selling agent and negotiate any counteroffers. The next step begins once your offer is accepted.

Step 6: Close On Your Second Home

When the seller accepts your offer, it's time to begin closing on the home. The closing process takes 30 – 40 days, on average, and includes several steps:

- **Choose a real estate attorney or closing agent.** Depending on the state you're closing in, you may need a real estate attorney to handle the settlement and closing paperwork. Your buyer's agent can help recommend a trustworthy attorney to represent your interests.
- **Buy homeowners insurance.** You'll need to confirm proof of your homeowners insurance at closing in order for your lender to release your funding. Shop around for local policies

and be sure to review extra damage protection (flood, wind, hail, etc.) depending on your home's location.

- **Buy title insurance.** You'll also work with a title company to research any outstanding liens on the property and make sure it's clear to buy. Your title company will issue title insurance to protect your purchase.
- **Schedule your home inspection.** Your home inspection is separate from the appraisal and does a more thorough examination of the property. You'll work with your agent to negotiate with the seller on pricing or repairs if issues are found. If no issues are found, you'll move on to the next step.
- **Wait for appraisal results.** Though you can do the appraisal before the inspection, the inspection will flag major issues before you spend money on an appraisal. Your lender will arrange for a home appraisal to ensure your home's value is accurate. If the value is the same or higher than the listing price, you'll move on to the next step. If it comes in lower, you'll work with your agent to negotiate with the seller's agent and decide if the property is still a worthwhile investment.
- **Arrange a final walk-through.** You fell in love with the home during your tour, but you'll want to schedule a final walkthrough to ensure the home is move-in ready.
- **Close on your second home.** The last part of the process is paying closing costs, signing all of the closing paperwork and receiving your keys. Your agent, closing agent or attorney will manage this process to ensure all paperwork is in order.

Buying A Second Home FAQs

Buying a second house could be an option for you. Do you have more questions about the process? Check out some additional FAQs on how to purchase a second home below.

What's the difference between a second home vs. investment property?

The biggest difference between a second home and an investment property is how you intend to use the residence. A second home is a house you plan to live in throughout the year, while an investment property is a house you sublet to renters.

Second homes and investment properties also have different lender requirements, and mortgages for investment properties typically carry higher interest rates than those for second homes.

What is considered a second home for tax purposes?

Mortgage interest is only deductible on second homes if they're intended for personal use (like a vacation home). If you purchased the property before December 15, 2017, tax filers who are single or married filing jointly can deduct up to \$1,000,000 in interest on your second home mortgage (\$500,000 for those married filing separately).

If you bought the second home after December 15, 2017, you can deduct up to \$750,000 if you're single or married filing jointly (\$375,000 if you're married filing separately). You can also deduct property taxes on second homes.

Can I use an FHA loan to finance a second house?

No, you can't finance the purchase of a second home with an FHA loan. FHA loans can only be used to buy primary residences.

Can I buy a second home without a mortgage loan?

Yes, there are other ways to finance your second home without taking out a home loan. If you built up a large amount of equity in your primary residence, you may be able to use it to purchase your second home. You may qualify for financing options like a cash-out refinance, home equity line of credit (HELOC) or a home equity loan.