



Purchasing an **Investment Property or Vacation Home**



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Considering an Investment Property or Vacation Home?

Buying a vacation or investment property is a big decision and not one to take lightly. There are several factors to consider, and it can be challenging to know where to start. However, Penn Community Bank has put together this guide on buying an investment property with all the information you need, from what type of property you’re looking for, how much you want to spend, and if it offers value as an investment, a vacation home, or both.

The Difference Between a Vacation Home and an Investment Property

Some people choose to buy a vacation home that doubles as an investment property. An investment property is purchased to rent it out and generate income. On the other hand, a vacation home is a property you are buying to use for personal enjoyment for at least part of the year.

Investment Properties

When you buy an investment property, your goal is to generate income. If you’re purchasing an investment property, you need to ensure that the property will generate income higher than expenses, including mortgage payments, insurance, upkeep, and taxes.

Pros

- Rent out to generate steady income from the property
- Provide tax benefits, such as depreciation and the ability to deduct interest on mortgages

Cons

- Must bring the property to code and make renovations from time to time, which can be a significant investment
- Low monthly income from the tenants if there are late payments or no payment at all.
- Property can be expensive depending on where the property is located. Whether it is taxes, home owner association (HOA) fees, or other imposed costs which need to be factored into the equation.

Vacation Homes

When you buy a vacation home, you’re hoping to enjoy it for at least part of the year. If you’re buying a vacation home, you need to know the potential tax implications. For example, if your vacation home is rented for less than 14 days per year, you may not have to pay any income taxes on the rental income. Another thing to consider is how this will affect your ability to qualify for a mortgage. Most lenders require a 20% down payment for a second mortgage, among other stipulations.

Pros

- You can rent it out when you are not using it.
- Buyers can flip vacation homes for a profit if the market conditions are right.
- There are possible tax benefits from the IRS, depending on factors like how often you live in your vacation home.

Cons

- It can be challenging to qualify for financing if you haven’t built up equity in your primary residence.
- They typically cost more than primary residences.
- There’s usually no mortgage tax deduction for second homes.
- The housing market could be volatile and unpredictable, especially in a remote area or an economically depressed community.

Am I Ready to Buy?

Investing in vacation properties is a terrific way to enjoy your vacation home in your favorite destination while earning money. Benefits of owning a vacation property include a potential source of income and the potential to purchase a property below market price and sell it for a profit. But before you buy, it's essential to take some time and plan. Some critical steps to buying an investment property include:

- Deciding if you can afford a second mortgage.
- Creating goals for your investment property.
- Qualifying for a second mortgage.
- Finding the home that is right for your needs.



Things to Consider

Research, Research, Research

When considering taking out a second mortgage, it's important to do your research first. Figure out if this purchase is right for you, considering what your current budget is like and your goals. If everything lines up, take the next step in finding the perfect vacation or investment property for your needs. If buyers do their research and plan, they can make a wise and financially-sound decision.

Getting a Second Mortgage

Your qualifications will depend on factors such as the value of your home, your debt-to-income ratio, and other variables. Whether you wish to buy a vacation home or invest in a property, Penn Community Bank can help. Penn Community offers a variety of mortgage options that can fit your needs, including second mortgages. However, one thing's for sure: the more money you have saved up for a down payment, the higher your chances of qualifying for a second mortgage.

Find a Property for Your Needs

Consider whether this property is right for you; it's vital to remember that a second mortgage should only be taken out if necessary. Make sure that you're comfortable with the financial commitment you're making and that you can afford to make regular payments on both mortgages. If you're unsure a second mortgage is right for you, consider what type of property you want and whether or not your current budget can accommodate it. By doing your research and planning, you can make sure that you're making an intelligent decision that will be beneficial in the future.

Moving Forward with Your Investment

If things line up, take the next step in finding the perfect vacation or investment property. When you know that you're ready to purchase your ideal vacation or investment property, make sure to make an offer. Sit down with a real estate agent and discuss your proposal in detail. Be sure that this includes what type of home you want, when you want to close on it and how much exactly that is in terms of money. Consider all of the fees involved, including homeownership expense fees, before purchasing.

Other Considerations

The first thing to think about is whether or not this property will be used solely as a vacation home, an investment property, or both. Purchasing a second home is practical as it can bring in extra income. Remember that you will have to factor in the cost of property taxes, homeowners insurance, regular maintenance, and any association fees on top of your mortgage payment. In addition, you will need to have enough money saved up for emergencies and unexpected repairs if renting out the property.



Personalized Mortgage Options

If you are considering a vacation home or an investment property but are unsure of your loan options, Penn Community Bank can help you understand what might work best for you. We have a large variety of mortgages, including:

- Jumbo mortgages
- Adjustable-rate mortgages
- First time home buyer programs
- Federal Housing Administration (FHA) loans
- U.S. Department of Agriculture (USDA) loans
- Veterans Affairs (VA) loans

Your Team of Local Lending Experts

Our experienced team at Penn Community Bank is ready to help you purchase a vacation home or investment property of your dreams. We work with all clients to ensure you know your needs while helping you with several mortgage options. Vacation home mortgage financing is flexible today, and Penn Community Bank can work with home buyers to achieve their vacation or investment property goals.



Resources:

- <https://www.quickenloans.com/learn/how-to-buy-a-vacation-home>
- <https://www.fortunebuilders.com/investing-in-vacation-rental-properties/>
- <https://mymortgageinsider.com/the-complete-guide-to-investment-property-mortgages-in-2018/>
- <https://mymortgageinsider.com/the-complete-guide-to-investment-property-mortgages-in-2018/>
- <https://www.second-mortgage.ca/second-mortgage>

At Penn Community Bank, our commitment to helping families, businesses, and communities grow drives everything we do.

We know that, by working together, people can achieve remarkable things for their families, friends, neighbors, and community. As the largest independent mutual bank in eastern Pennsylvania, our mission is to stimulate and support those efforts—not only through the products and services we offer, but by sharing information and working side-by-side.



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