

Consider a Vacation Home

If your finances allow it, a vacation home can be a solid investment. Whether it's a summer home on the cape or a cabin in the woods to enjoy the snow each winter, owning a vacation home can give you years of memories.

You also can make some extra income, if you rent out the home when you're not visiting. But there are some important things to know before you take the plunge of owning a vacation home.

INCOME POTENTIAL

If you only plan to visit a few times a year, you will likely want to rent out the home to other vacationers in order to help offset the costs of your new home. Before signing on the line, you should know exactly what kind of income potential the home has. Consider the area. Is it a well known area that offers plenty for vacationers to do, or is it more out of the way? Talk with other nearby homeowners about how much they make on their rentals. Ask how often their units are vacant, and how they advertise their home. Do they do all the work of finding renters themselves or out-source the job to a property management company?

FEES, FEES, FEES

If you plan to use a property manager, it's important to have a thorough accounting of how



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Buying a home in your favorite vacation spot can make financial sense, especially if you rent out the home while you're not visiting.

you will be charged. Is there a flat monthly fee or are you charged a percentage of each rental? If you're buying a vacation home in a developed community, there may be an on-site property management company that services all the homes. Ask if you will be allowed to seek out another company on your own to try to get a better rate.

It's also important to have a plan in place for upkeep of the home. How will you be charged

in the event of a broken garbage disposal or an air conditioning unit that needs replacing while you're out of town. Thinking about these situations before they happen can help you decide if you're willing to take on the hassle in exchange for the rental income.

TAX IMPLICATIONS

Mortgage interest and property taxes you pay on a vacation home may not be tax deductible, and you'll likely

owe taxes on the rental income. Work with a tax adviser to know all the possible tax ramifications of renting out your vacation home. Present the adviser with all the information you have about the home and financing, so you can know how the purchase will affect your taxes before you make an offer on a home.

GETTING A MORTGAGE

Another consideration is that you may not qualify for a

REAL ESTATE 101

Vacation Home Hot Spots

Ocean City, N.J., leads MarketWatch's list of "10 Best Places to Buy a Vacation Home." This list was compiled in 2013 by analyzing the top searched vacation destinations on Trulia.com. To see the list and read about the 10 top towns, visit <http://on.mktw.net/KfRbz1>.

wide range of loans for your vacation home. Many affordable government-backed loans cannot be used for a vacation home. Rules for loans on vacation homes can be more strict than primary residences, so you may have to stay within a lower debt-to-income ratio, and the money you expect to make from renting the home likely won't count as income to qualify for the mortgage. This means you'll need a strong income and lower monthly debts to qualify. Your mortgage broker can take a look at your credit and let you know if you can secure the most desirable loans.

With all these factors considered, if a vacation home makes sense for you, it may be time to start house shopping — again.



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By ALEX MASON | Green Shoot Media

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If you plan to use a property manager, it's important to have a thorough accounting of how you will be charged. Is there a flat monthly fee or are you charged a percentage of each rental? If you're buying a vacation home in a developed community, there may be an

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Another consideration is that you may not qualify for a wide range of loans for your vacation home. Many affordable government-backed loans cannot

be used for a vacation home. Rules for loans on vacation homes can be more strict than primary residences, so you may have to stay within a lower debt-to-income ratio, and the money you expect to make from renting the home likely won't count as income to qualify for the mortgage. This means you'll need a strong income and lower monthly debts to qualify. Your mortgage broker can take a look at your credit and let you know if you can secure the most desirable loans.

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HOMESWISE GLOSSARY

Investment property: A one- to four-unit residential property, other than a Primary Residence or second home, that is owned by an individual, who is also a borrower, and suitable for year-round rental and occupancy.

Second home: a one-unit residential property owned by the borrower, occupied by the borrower for some portion of the year, and is not subject to any timesharing ownership arrangements. The property must be: in such a location so it functions as a second home; suitable for year-round occupancy; available for the Borrower's exclusive use and enjoyment; not subject to any rental pools or agreements that require the borrower either to rent the Property or give a management firm control over the occupancy of the Property

SOURCE: U.S. Department of Housing and Urban Development

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