

CONSIDERATIONS BEFORE BUYING A SECOND HOME

By Ryan Fleming

It is estimated that between 6 and 10 percent of homes in the United States are second homes. If you are considering buying a second home, now could be a good time to take the leap with interest rates still near historic lows. Ryan Fleming, a Commerce Trust Private Banking Relationship Manager in Bloomington, Ill., discusses some common considerations for second-home buyers.

Q. WHAT ARE SOME OF THE PROS AND CONS OF A SECOND HOME?

A. A second home purchase can fulfill a lifelong dream or become a nightmare. Many buyers can avoid the nightmare scenarios by making a balanced and informed decision. The downside of buying a vacation home is that you will have two of everything – mortgages, property tax bills, water bills, fuel bills, etc. It also means additional responsibility for repairs and general upkeep. At the same time, owning a second home can be very rewarding in tangible and intangible ways. It can be the source of relaxation, a place to get closer to your family or to engage in your passions or hobbies. It can also generate income if you choose to make it an investment property.

Q. WHAT SHOULD A POTENTIAL SECOND-HOME BUYER CONSIDER BEFORE MAKING A PURCHASE?

A. Think about your goals for the property. Do you want to buy a vacation home that will one day become the place you retire to, and perhaps even pass on to your children? A second home for vacations is very different from an investment property that you buy to generate income. That difference can affect your taxes and the insurance coverage you will need. Many second-home buyers rent out the property part of the year to offset their expenses. There are different tax rules depending on how much you use the property for personal or rental use. There are many more considerations that are best explored with your accountant or financial advisor.

Q. WHAT ELSE SHOULD BE CONSIDERED?

A. Take a look at the numbers. Consider whether you can afford to take on a second mortgage, plus insurance, maintenance, repairs, furnishings, and property-management fees, if you choose. Prices can vary greatly by region. Developing communities are less expensive than established vacation hot spots. Closing costs can also vary in prices from state to state and city to city. Florida has a tax on all mortgage transactions and Colorado does not. Chicago has a transfer tax while Phoenix has none. These nuances could be a difference of a few hundred dollars to a few thousand dollars in final closing costs. Rely on an experienced real estate professional to help uncover the different closing costs.



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Q. WHAT ABOUT GETTING A MORTGAGE ON A SECOND HOME?

A. An experienced banker can be invaluable in helping to understand the costs of purchasing a second home and the loan options available to you. They can look at your current financial situation and the property you want to purchase, and advise you on what type of loan you may be eligible for. A banker can also help you get prequalified or preapproved for a loan before you start looking at properties, so you know what you can afford to buy.

Q. ANY FINAL THOUGHTS?

A. Before searching for a second home, it is important to clearly define your goals for the home – whether it is a retirement destination, an investment property, or used for other purposes. Next, build your team of professionals, including a banker, tax advisor, and real estate agent who can help you navigate the process. Remember that purchasing a second home is a big decision that should be made carefully, and in the context of your total financial life. So be sure to include your financial advisor or planner.

KEY TAKEAWAYS

- Think about your goals for the property. A second home for vacations is very different from an investment property that you buy to generate income.
- Consider whether you can afford to take on a second mortgage, plus insurance, maintenance, repairs, furnishings, and property-management fees.
- Closing costs can also vary in prices from state to state and city to city.
- An experienced banker can be invaluable to understand the costs of purchasing a second home and the loan options available to you.

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Ryan is a private banking relationship manager for Commerce Trust Company. As a member of the private client team and an experienced, tenured private banker, he and his dedicated client support staff are responsible for ensuring each client's experience with Commerce Trust exceeds expectations. Ryan's specific responsibilities include management of our clients' day-to-day banking, cash management, and credit needs, while also helping them navigate the wide array of our financial services to find the solutions that best fit their needs. Prior to joining Commerce Trust in 2013, Ryan was a branch manager for Commerce Bank in Champaign. Ryan has a bachelor of science degree in agribusiness, farm, and financial management from the University of Illinois.



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