

Whether you're looking for a vacation home or an investment property, buying a second home comes with a variety of risks and rewards.

There are many reasons for buying a second home, but it's important to weigh the pros and cons before moving forward. You should consider the following:

**Rental income** – If you buy a vacation home, you can also rent it out when you are not using it. This is easiest if the property is located in a popular tourist destination.

**Vacation savings** – You will save the cost of hotel rooms by staying in your own vacation home.

**Tax benefits** – There are potential tax benefits to owning a second home, but they depend on whether you use the home as a vacation property or for rental income. Talk to a qualified tax professional to understand the rules in your situation.

**Investment opportunity** – In addition to making money through rental income, you may make a profit if your second home increases in value. Of course, you also run the risk of your second home losing value over time.

**More responsibility** – Owning two homes means that you will be fully responsible for both properties, even when you are only occupying one.

**Added expenses** – In addition to the usual home maintenance costs, taxes, and insurance, you may incur housekeeping or property management fees.

While buying a second home is a major investment, careful planning will help you make the best decision. When you are ready to buy, your lender can often help you find the financing you need to make your dream of owning a second home come true.

## Understand your options for home financing

Loans often have different rules for homes used as a primary residence, a vacation home, and a rental property. Always be honest with your lender about the way you plan to use your second home to avoid serious consequences down the road. Your lender is the best resource for explaining your options, but here are a few common ways to finance a second home:

**Cash** – If you have the available funds, buying with cash is usually the easiest option, and there are no limitations on how you can use the property.

**Conventional loans** – Conventional loans are often used for second homes, but the requirements may be stricter than on a primary residence, such as a minimum down payment of at least 20% to 35%.

**Home equity loans** – If you have substantial equity in your current home, you may be able to take out a home equity loan to finance your second home. However, some lenders will not approve the mortgage on your second home if you've taken too much equity from your first home.

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