

3 WAYS TO FINANCE VACATION HOMES

By Kenneth Wohl, RCB Bank Mortgage Officer



With mortgage rates still near historic lows, it may be time to buy that home you've been eyeing in your favorite vacation destination. Government loan programs, like FHA, VA and rural development, are not available for second home financing, so let's look at other options.

Cash-Out Refinance involves refinancing your primary residence mortgage and receiving cash for the remaining equity. You will need sufficient equity in your home for this to be an option. For example, if you owe \$100,000 on your home worth \$500,000, you may be able to cash out up to 80% loan-to-value (LTV), which would be \$400,000 minus the \$100,000 you owe. This leaves you \$300,000 in cash to purchase your vacation property. You have flexibility in term options and fixed or adjustable rates and you'll have one mortgage payment, not two.

Home Equity Line of Credit (HELOC) attaches your loan to your primary residence. Typically, this loan will not pay off your current mortgage, but be a second lien adding to your monthly expense on top of your current mortgage. HELOC lenders may allow LTVs higher than 80%, but this loan is typically adjustable and at a higher rate than today's conforming loans.

Conventional Financing

involves taking out a loan on your vacation property, not your current residence like the prior two options. The process is similar to purchasing a primary residence with small differences, e.g., second homes require at least 10% down, and your lender will verify you have sufficient funds for closing and between 2-6 months worth of reserves to cover both your primary and second home loan payments.

Defining a Second Home

Before you start home shopping, familiarize yourself with Fannie Mae's second home requirements:

- Occupied by the borrower for some portion of the year
- Restricted to one-unit dwellings
- Suitable for year-round occupancy
- Borrower must have exclusive control over the property
- Must not be rental property or timeshare arrangement
- Cannot be subject to any agreements that give a management firm control over the occupancy of the property

Buying a second home in the same city where your child is going to college is not a second home; it's defined as an investment property, which has different requirements.

Scouting a second home

Find a real estate agent who is familiar with your desired location. They can fill you in on weather and traffic patterns, help you evaluate the location and amenities of a property and provide information about comparable sales, resale prospects and long-term property value.

Before you start scouting, get pre-qualified so you know upfront what you can afford and your specific financing options.

RCB Bank Mortgage is here to help, even if you are not an RCB Bank customer. Give us a call.

Apply Online.

Start your vacation homebuying process from the convenience of your home. Apply online at RCBbankMortgage.com or give us a call at 855-BANK-RCB



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