What Should a Resident or Fellow Keep in Mind When Preparing to Buy A Home?

What is the Doctor Loan Program?

The Doctor Loan Program is a residential mortgage loan with special underwriting developed specifically for physicians, dentists, and sometimes optometrists, podiatrists and veterinarians. It allows physicians to finance 100% of the purchase price on a primary residence with no mortgage insurance (some scenarios require a down payment). The maximum allowable loan for residents, interns and fellows is $650,000 per program guidelines. Student loan debt is not included in the debt ratio used for qualification as long as student loans are deferred, and the physician can qualify on future income and move in 60 days before starting their residency. Because it is common in this market for sellers to assist with closing costs, it is possible for one to purchase a home with very little money out of pocket and wind up paying less on a mortgage payment than one would for rent.

You do not have to wait to start your job to buy.

Unlike conventional loans, many doctor loan programs allow you to close 30 or 60 days before your start date – so you can get settled in before residency. If you begin July 1, you may close in either May or June. Your first official mortgage payment will not be due until after the start of your residency.

You will need to get a copy of your medical school diploma, an official transcript from medical school, a copy of your offer letter showing your future income and your license to practice in order to obtain a doctor loan.

Keep loans in deferment or put them in forbearance.

A lender approves loans based on your monthly payments, not on your total debt. Doctor loans were created because standard loan programs (conventional, FHA, and VA) require a payment to be counted even when loans were in deferment. (Under traditional loan programs, even if there is no current payment, 2% of the balance is assumed. It is not uncommon for residents to graduate with six figures in student loan debt, and an assumed $2,000 payment almost immediately disqualifies someone on a resident salary from purchasing a home – even though by the time that payment is due, income will be much higher.) Defer your loans or put them in forbearance to ensure you have flexibility in qualifying for your mortgage. You can always set up a payment plan once you have your house.

GET PREQUALIFIED NOW.

You may not know where you are matching just yet, but many lenders can work in multiple states. Prequalifying early in the process not only gives you time to shop confidently for a home, but also time to correct any surprises on your credit report. If you happen to match in an area the bank does not provide loans, most lenders will be happy to refer you to someone in your area that does.

If you do not meet the minimum credit score requirements with one bank, do not give up or get discouraged. Try another bank that offers a physician loan. Every bank has different requirements for a doctor loan.

Do not add any additional installment debt (car loans or leases, furniture, electronics).

Keep debt (outside of student loans) to a minimum and whenever possible take longer repayment periods. Mortgages are approved based on monthly debt payments, not your total amount of debt. Therefore, a $250 car payment reduces your allowable mortgage payment by $250. Having a $150 car payment instead of a $250 car payment allows you to qualify for $100 more on your mortgage. Based on a 30-year loan schedule and a rate of 4%, having an extra $100 in a mortgage payment means you can qualify for almost $21,000 more on a home.

If your spouse has poor credit, do not add them as an authorized user on your credit card.

A resident can usually qualify for a home purchase on his or her own income and good credit history. A spouse's income and credit history should only be added to the application if it strengthens the application.

If you buy in residency, buy in the first or second year.

First, owning the home longer gives you more time to build equity and pay down your loan. Second, you could actually find yourself in "loan limbo" if you wait until you are further in your program. Most lenders can exclude student loans in your first year or two because they understand it will be multiple years before you have to pay on those loans. Someone in is in the last year of residency (or in a one-year post-residency program) may have difficulty qualifying for a home. If you will finish your program within a year of your closing date, the lender may have to consider your anticipated student loan payments in qualifying ratios. However, they will not be able to use your anticipated income until a month or two before that job starts – even if you may have a contract six months or a year in advance. Moonlighting income often cannot be counted, as it is not guaranteed and will not necessarily continue once you start your primary employment. You could find yourself in limbo where a lender cannot count your projected high income, but is forced to count your high payments.

You will need to have some money in your account.

For physicians purchasing a home, who do not own any other property, a bank will generally like to see at least one month reserve in your bank account for the payment at the closing. So if your mortgage payment is $1,200, a bank will want you to have at least that amount in your bank account after the closing. If your credit score is not as high as they would like, they might want to see two months. Some banks now allow the doctor loan on second homes, but in that situation, or if someone is leaving a house behind and not selling it, a bank might like to see six months reserves.

Let us discuss out of pocket costs.

When you sign a contract to purchase a home, you should be prepared to put down an earnest money deposit (roughly 1% of purchase price), which is good faith money that you are serious about buying the home (do not worry – this applies to what is owed at closing and is refunded if you back out of the contract for a reason that is covered). Soon after finalizing the sales contract, you should also be prepared to pay for a home inspection (roughly $300-$400) and an appraisal (roughly $400). At the closing (30 to 45 days later), the buyer is also expected to pay for the remaining "closing costs," which include lender costs, attorney costs, your first year of insurance, and other charges. In the Charleston area, total closing costs (including the earnest money deposit, home inspection, and appraisal) are generally around $4,000-$5,000 for a $250,000 home, but each home can be different. Ask your Realtor and lender to help you come up with a good number for closing costs by asking for what is called a "Good Faith Estimate" up front. The initial earnest money deposit you gave upon agreeing to purchase the home will be applied towards any costs that are due at closing.

What if you do not have the money for closing costs?

It is possible to negotiate for the seller (or a builder, if you are building a new home) to cover closing costs if negotiated up front. Keep in mind you still need to be prepared to come out of pocket for some items (like the home inspection and appraisal), even if you will be reimbursed for them at the closing by the seller. Many residents purchase a home and are able to negotiate for the seller to pay the buyer's closing costs. If all costs are covered by the seller and you borrow 100% of the sales price, you will actually be refunded your earnest money at closing. That beats putting down first and last month's rent plus a security deposit!

Can I get a gift from my family for closing costs?

If you do not negotiate for the seller to pay your closing costs, or if you wish to make a down payment, “gift” funds are acceptable, provided they are given to you by family. Make sure your lender is aware that you will be using gift funds up front because there are specific requirements to document the gift (do not ever get gifts in cash – you have to be able to show a paper trail and prove whom the gift is from).

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