What Should a Medical Student Know Now if Hoping to Buy a Home During Residency?

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.

RIGHT NOW: Open a savings or checking account with a bank that provides doctor loans.

Many banks only provide loans in certain areas of the country, but if you are already a customer with an account, they will try to make allowances. For example, the doctor loan through SunTrust Mortgage is limited to southeastern states for new customers, but if you have had a deposit account with them for at least 12 months, it opens up access to 33 additional states.

Find out your (and your spouse's) credit score from a loan officer at a mortgage company.

Online websites can be great for planning, but their scores are not a reflection of the exact score a lender would get (we have heard of variations of up to 50 points). If you know you have credit issues or just want to make sure you are in the best position to purchase a home, ask a loan officer how your credit history would be viewed on an application. Get advice now so you can be ready when the time comes, and, if you have lower scores, you can put a plan in place to improve. A better score might give you more options and a better interest rate. Taking these steps in advance could save you thousands of dollars in the long run.

Open some credit cards and use them responsibly.

After you find out your credit score, you might be advised to build up your credit history. It is not uncommon for someone finishing medical school to have very little credit history. This can create a problem on a mortgage application – having NO credit can limit options for financing. A credit card (used at least once per month and with a balance never to exceed 25% of the limit) shows a responsible use of credit. Also consider a secured credit card at a bank for building credit. (Being an authorized user on a parent's account may help you get a score, but it is not considered your trade line in the eyes of a lender).

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.

Petty fees and service bills can come back to bite you.

Lenders have told stories of parking tickets submitted to collections agencies, cell phone bills with unpaid disconnection charges showing as derogatory trades, and cable companies dragging credit down over an unnoticed $6 late fee. It is also important, although you may be moving frequently as a student, to always thoroughly update your address. That $25 bill from a doctor's visit might end up on your credit report and drag down your credit score – which can cost you thousands due to a higher mortgage rate – or potentially exclude you from qualifying.

Pay rent the right way and keep good records.

Most lenders have to document your rental history. Pay your rent on time – and, if possible, get your name on the lease, even if you live with roommates. Some management companies report to credit agencies, and paying on time will help give you another good trade line that you have "paid as agreed." Sometimes school means multiple roommates, and some couch surfing here and there. That is okay – but you may be asked for proof you paid rent. It is easiest to document if you can point to a check for your exact share of rent and pull it from your online banking. Trying to track down a handful of old roommates to write letters saying you paid them cash or picked up more than your share of bills instead of paying rent can cause you big headaches in loan processing.

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.

Keep your 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.