What Should a Practicing Doctor 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 up to 100% of the purchase price on a primary residence with no mortgage insurance (some scenarios require a down payment). The maximum allowable loan for attending physicians or faculty is $650,000 for 100% financing. Loan amounts from $650,000 to $1MM might require a 5% down payment, and loan amounts from $1MM to $1.5MM might require a 10% down payment. 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 position.

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 beginning your new job. 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 position.

You will need to get a copy of your medical license, a certificate of completion for your residency and fellowship/internship (if applicable), and a copy of your employment contract showing your future income and start date in order to obtain a doctor loan.

Ease into student loan payments.

Everyone's financial plan is different. Tackling your student loan debt is going to be high on your list of priorities, but remember that a lender approves you for a home payment based on your other monthly payments – not on your total debt. Putting the student loan on a 10-year repayment schedule might be a great idea in terms of saving interest, but it could prevent you from qualifying. Start out with a longer term or with income-based repayment, which will give you flexibility in your mortgage approval. You can always restructure your student loan payments or pay extra monthly.

Consider your compensation options.

You do not want to pass up a good career opportunity, but if your goal is to buy a home, you should know that some types of compensation can be considered fully by a lender immediately, and some require a history. It is becoming more common for doctors to be offered 1099 positions or production/RVU-based compensation. Remember that many lenders need a two-year history of non-guaranteed income in order to consider it on a loan application. If you do take a position with production-based compensation, try to make sure there is at least a 12-month "worst-case" guarantee that a lender may use to consider your loan as an exception (only a handful of banks consider these exceptions). Some doctors (especially those in a small practice) have the ability to work with their employers to start with guarantees and ease into partnership or other variable income that has upside.

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 physician 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.

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 physicians 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).

Trust the professionals.

You made it through medical school, residency, and the stress that came with each – so you are an intelligent and capable individual. There is plenty to read out there about investing, buying a house, financing loans, and taxes. That, however, does not mean it is all accurate information, and it is not a substitute for experience and industry knowledge. Find professionals you trust. Good CPAs, Financial Advisors, Realtors, and Mortgage Bankers have knowledge that you cannot find in a web search. (Your patients still need to consult you after reading WebMD, right?). Find the right group of people, tell them your goals, and let them tailor a plan to help you get there. The type of home you buy and the loan you get may be different than those of your colleagues – and they should be. Not everyone has identical goals and strategies.

All of the content presented above is intended for informational purposes only. None of the information presented here is intended as legal advice, lending advice, or tax advice. For a fuller explanation of these relevant areas, please consult a lawyer, loan officer, or tax professional of your choosing. If you do not know any such professionals, we will be happy to assist you by providing names of such professionals from which you can choose.