


A close-up photograph of a person's hands holding a small, brown cardboard house model. The house has a gabled roof and four rectangular windows arranged in a 2x2 grid. The person's face is blurred in the background. A semi-transparent dark grey banner is overlaid across the middle of the image, containing the title text in white.

# A GUIDE TO PHYSICIAN MORTGAGE LOANS

**FINANCIAL RESIDENCY**



*"A physician mortgage loan is a special mortgage product available to doctors. They have fewer restrictions for borrowers than conventional loans because lenders generally trust doctors to be responsible borrowers."*

Physicians are offered low down payment options by lenders, as low as 0%, which is a rarity in the mortgage world. Most mortgage products with 0% down come with huge fees or specific requirements. Let's explore why that is.

# A Guide to Physician Mortgage Loans

*What's in it for physicians?*

**Doctors often apply for physician mortgages when they're in residency or shortly after graduating medical school.**

When training to be a physician, it can feel like your entire world is a bit out of sorts. In your 20's, everyone else is starting a career while you are still going to school or busy being a resident with little to no social life.

By the time you become an attending in your early 30s, your non-medical friends have had a decade of retirement investments and other savings

While some of that is unavoidable, there's no reason why physicians have to stand on the sidelines while everyone else buys a home. The answer may very well be a [physician mortgage loan](#).

It can be tempting for physicians to pursue the physician mortgage route. This guide will help explain the need-to-knows.

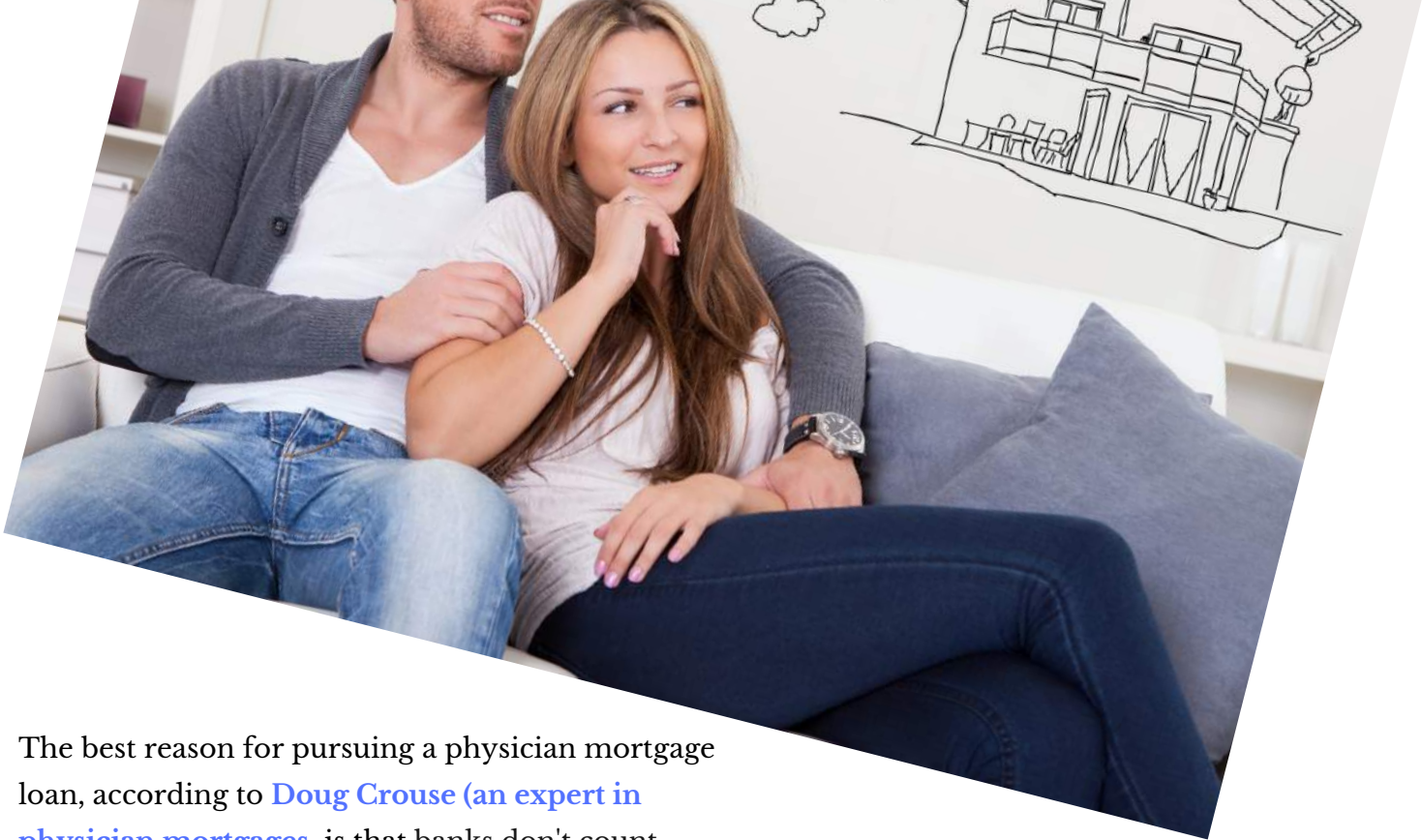
**What are physician home loans?**

The physician home loan is a mortgage product aimed at medical professionals who want to own a home before their income potential is fully realized.

Lenders will accept a signed offer letter as proof of income, which is an extremely rare scenario for other working professionals. Most banks want to see a stable history with a current employer.

In fact, some will let you take out a mortgage months before your residency officially starts.





The best reason for pursuing a physician mortgage loan, according to [Doug Crouse \(an expert in physician mortgages\)](#), is that banks don't count student loans that are in deferment as part of the debt-to-income ratio (DTI). This is usually the process that determines whether an applicant is creditworthy.

Typically, lenders want to see a DTI percentage of 43% or less. Since most doctors have student loans that are well over six figures, their DTI would render them ineligible for homeownership. That's not the case with physician mortgage loans. Other types of loans still count toward DTI, including auto loans, credit card debt and personal loans.

### **How can physicians qualify for physician mortgage loans?**

Though lenders are more lenient with physicians, you still need a credit score of 700 or more to open a physician mortgage loan. It pays to have good credit too – borrowers with the highest scores pay the least amount in interest due to qualifying for lower interest rates.

### **Why do lenders offer physician mortgage loans?**

Doctors have enormous salary potential, are considered responsible borrowers, and can even get their student loans forgiven after working at a public hospital or nonprofit for 10 years.

Doctors have an extremely low default rate on loans compared to the average consumer, which makes them very attractive to banks despite their initial financial shortcomings.

### **What are the alternatives to physician mortgage loans?**

If you're a doctor, you might not be aware that you qualify for other types of mortgages. Not sure if a doctor mortgage loan is your best option? Check out the other alternatives next.

# Alternatives to Physician Mortgage Loans

## FHA

FHA loans are backed by the Federal Housing Authority, which insures these loans to the lenders who provide them and are mostly targeted at borrowers with low credit scores.

Conventional loans are only available to people with scores of 620 or above, but FHA loans only require a 580. If you put down at least 10%, you only need a 500 credit score.

## Conventional

A conventional home loan is the most common kind of mortgage. It's what most of your friends and neighbors probably have. A conventional loan has a few requirements for borrowers: They need to have a credit score of 620, a DTI ratio of 43% or less and a stable income history.

## VA

VA loans are only available to former or current members of the military, and they're the best loan product available. Like a physician mortgage loan, a VA loan doesn't require a down payment and also doesn't charge private mortgage insurance (PMI). Interest rates on VA loans are similar to conventional loans, so there's no extra premium for choosing this kind of mortgage.

## Interest options for physician mortgage loans

### *Fixed*

A fixed-rate loan will have the same interest rate throughout the life of the loan, no matter how the market fluctuates.

Since interest rates are still at historic lows, it's a good idea to choose a fixed-rate loan to lock in the lowest possible interest rate.

### *Adjustable-Rate Mortgages*

Adjustable-rate mortgages are just what they sound like: mortgages with interest rates that change over time. The most common adjustable-rate option for a physician mortgage loan is the 5/1 ARM. You can also find a 3/1 ARM, 7/1 ARM or 10/1 ARM.

For instance, a 5/1 ARM has a fixed interest rate for the first five years and a variable rate for each year after.

## How do you choose a mortgage?

If you're struggling to decide between a physician home loan and a conventional loan, [use this loan calculator](#) to help you figure out the best option.

Compare the total interest difference and decide if you're comfortable with that variance. Look at your savings account and your monthly cash flow to see if you can afford the down payment and the monthly payment required.

## Why can physician mortgage loans be dangerous?

Banks love making money off of doctors.

They know physicians are reliable borrowers, so they don't mind lending them money. Unfortunately, this can lead to doctors borrowing more than they can really afford.



## Are you ready to buy a house?

It is a big responsibility to own a house. Most experts agree that you shouldn't buy a house unless you're planning to spend at least five years or more in the home. When you buy a home, the mortgage is structured so that your initial payments mostly go to interest. It can take a decade before the majority of your payments will count toward the loan principal. Don't rush into a decision, it could be the most expensive decision you ever make.

## Do you know how to choose a lender?

When comparing mortgage lenders, you want to look for a few things:

### Closing Costs:

What's the cost to open and complete the loan?

### Interest Rate:

How much interest you will pay?

### Customer Service:

Are the lenders responsive and friendly?

You want to get quotes from multiple lenders so you can find the best deal.

Buying a home and choosing a physician mortgage is a huge decision - one that you should take some time to think about. Consider all the possibilities and make the decision that fits your life the best.

**If you're not clear on what the best route is, contact a financial planner who can help you see what makes the most sense.**

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