Why a doctor's loan could be right for you during residency

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When it comes to borrowing money, physicians are some of the most credit-worthy loan candidates out there. Even residents, who are yet to realize their full earning potential, have options.

Residents who are looking to purchase a home may look into what is known as a “doctor’s loan.” Tal Frank is the president of PhysicianLoans—a preferred home-loan provider for AMA members—which is one of the first organizations to offer that type of loan.

Compared with standard loans, doctor’s loans are “easier to qualify for, given a resident’s situation for their work and education,” Frank said. “It can be a favorable option for both relocating residents and those who are a year or two in to training and then decide to buy a home.”

What is a doctor’s loan?

According to Frank, the key elements to a doctor’s loan are that it doesn’t require money down or private mortgage insurance (PMI). Typically, with a standard home loan, any borrower who puts down less than 20% is required to get PMI. Frank estimates that not having to pay for PMI can save a borrower upward of $100 a month.

Doctor’s loans also view student loan debt in a different light, putting more weight on a physician’s credit score and less on their debt load. Frank said that his organization is willing to explore the possibility of offering a loan to physician borrowers with a credit score higher than 700.

“Student loans don’t negatively impact your credit score,” Frank said. “It’s your payment history. Are you paying back your loans as agreed to? That does matter.”

Other benefits

In addition to requiring less or no money down, doctor's loans offer physicians who are moving from medical school to residency some leniency with securing a license. A typical loan is likely to require a physician to be licensed, but Frank says documentation that indicates a physician has matched with a residency program may be enough. A doctor's loan can also be available to a physician so he or she can close on a home before starting a position.

Potential drawbacks

If you can pay 20% down and meet the additional underwriting guidelines for a conventional loan, you're likely to pay less interest that way. A doctor's loan must also be used for a primary residence, not an investment property.

Frank points out that it might be harder to find a doctor's loan.

"You can't just go through any company," he said. "There are a select number of companies that offer a true doctor's loan. And you need to speak with the right person. Just because a company offers a doctor's loan doesn't mean every one of their loan officers is an expert at it."

The key question: Should you buy?

If you're a resident or fellow with good credit, you can probably qualify for a doctor's loan, but that doesn't mean it is the prudent measure.

A physician needs to perform due diligence to determine whether a mortgage will save on what would be paid in rent. Another key consideration is how long you will be staying in the location where you are training.

"In some markets, it makes sense to buy for three years," Frank said. "In other markets, I would advise a resident to rent for three years. With real estate the general rule of thumb is the longer you're going to be in the property the more the numbers are in favor of buying versus renting. So, typically residents who will be somewhere for four or five years or more, I advise they should at least look into buying. This is, of course, assuming they are buying in a city where housing is affordable. Residents who match in L.A. or New York, they are forced to rent no matter how long they are going to be there."

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