The real estate market & student loans: Hot topics in a changing landscape

Featured topic and speakers
In this episode of Making the Rounds, Laurel Road’s head of mortgage and Bukky Ajagbe-Akingbola, MD, talk about the real estate market and financial strategies for residents.

Speakers

- **Eileen Derks**, head of mortgage, Laurel Road
- **Bukky Ajagbe-Akingbola, MD**, PGY-1 in OB-GYN, University of Minnesota

Host

- **Todd Unger**, chief experience officer, American Medical Association

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Transcript

**Unger:** COVID-19 has disrupted nearly every aspect of the economy, including real estate markets. However, it still could be the right time for young physicians to purchase a home.

**Derks:** “Most physician loans allow you to have a higher than normal debt-to-income ratio, which means that you can typically carry more debt, including student loan debt, which we know a lot of our residents are working through right now. And you may have a relatively high debt-to-income ratio, you might have a better chance of being approved than you may have in a traditional mortgage. So, were taking all of that into consideration having confidence and faith the income trajectory will occur and the credit quality is there.”

**Unger:** That’s Eileen Derks—head of mortgage with Laurel Road. On this episode of Making the Rounds—a podcast from the American Medical Association—she’s talking with Dr. Bukky Ajagbe-Akingbola, first-year resident, in OB-GYN, at the University of Minnesota. They’ll explore strategies and solutions including Laurel Road’s physician mortgage and historically low private-loan refinancing rates.

I’m your host, Todd Unger, chief experience officer at the American Medical Association. Here’s Dr. Ajagbe-Akingbola.

**Dr. Ajagbe:** Hi everyone. My name is Bukky Ajagbe-Akingbola. I am a PGY-1, or a first-year resident,
at the University of Minnesota and the department of obstetrics gynecology and women's health. I am very excited today to talk with Eileen from Laurel Road about the relationship with Laurel Road and the AMA, specifically, because this was something that I personally went through in the past year, as I moved from my medical school location, which was down in the south, back up to the Midwest and really had to look into some of these big things that honestly, over the last couple of years, I have not spent a whole bunch of time thinking about. Physician mortgages, whether or not I should rent or buy, what the market looks like right now. And as I had those personal interests, speaking with other friends who happened to be residents as well, I started to find out that a lot of people have these questions. So this was something that became a personal interest of mine. And I'm very excited today to learn more about it.

**Derks:** Hi everyone. Eileen Derks, head of mortgage for Laurel Road, a division of KeyBank, excited to be here.

**Dr. Ajagbe:** Laurel Road is the preferred provider of student loan refinancing physician mortgage, as we've talked about a little bit through our AMA Member Benefits Plus. Laurel Road for doctors is reimagining banking and financial management for physicians and dentists through a tailored digital experience. It's made up of banking, insights and benefits uniquely designed to provide the financial health peace of mind that they need through each career stage. I want to turn it over to Miss Eileen Derks again, just if you could give us some more information about yourself and more about Laurel Road, I think that'd be a great place to start.

**Derks:** Oh, awesome. Thank you so much. Happy to do so. So I have over 25 years of experience in the financial services industry. Prior to joining Laurel Road, I was the senior vice president of retail communications and knowledge management at PNC. Today, I'm leading out the build-out and growth of the mortgage business for Laurel Road and I'm responsible for establishing the strategic direction, the growth plan, the digital roadmap for our product, which offers a personalized simplified process for anyone looking to finance or refinance a mortgage and the benefits associated with doing so through a digital platform—and through the AMA, which includes flexible terms, low interest rates and a really digital application process that makes it easy and streamlined for AMA members to finance or refinance.

**Dr. Ajagbe:** So I think as someone like myself, who is hoping to buy a home sometime in this period of life, at some point during residency, I'm definitely really excited to really dive in and talk about this today.

So one of the very first questions that I have, I think it's just so relevant and pertinent to this period of time that we're in. Eileen, can you talk a little bit about from your perspective, how COVID has changed the real estate industry?

**Derks:** Absolutely, really a unique time for our economy perspective, as everyone knows, but
essentially COVID brought the real estate market to a halt. There was no activity. Our home viewing and listing, we just couldn't in a COVID environment. So, that really brought a pause to folks buying and selling homes. And then as the economy sort of opened up, there was a lot of this pent-up demand. So six plus months of pent-up demand. You add that to, you know, low record, low rates and we really have sort of the perfect storm as it relates to, you know, high demand now. So pent up as well as folks really sort of rethinking where they want to live because they can now work remotely. Coupled with, as I mentioned, low record, low rates, we have a very high demand, there's low inventory and that certainly translates to a seller's market.

First of all, I would say it really depends. It's very individualistic. However, with record low rates, this is really a time to connect with a financial institution, with Laurel Road, can refinance … can deliver an advance from a financial standpoint. Could it reduce your monthly payment? Could it help you pay off your loan faster? Could it save you money overall in interest? So, really sort of pausing, reflecting on when's the last time you've refinanced or purchase and if you haven't done so in the last year or two, see if there's an opportunity to save money, reduce the monthly payment or pay off your loan faster.

**Dr. Ajagbe:** Great. Thank you so much. I feel like saving money and paying off loans faster, all the things we like to hear as residents. Another really quick question I had was, what do we, as residents, know or for those who are interested, what do we need to know about where to start with physician mortgages?

**Derks:** Well, physician mortgages first and foremost, really take into consideration the income potential and credit quality that residents and doctors have. And so that really opens up a lot of doors for individuals that are looking to buy their first home or to upgrade their home. Most physician loans allow you to have a higher than normal debt-to-income ratio, which means that you can typically carry more debt, including student loan debt, which we know a lot of our residents are working through right now. You may have a better chance being approved than you would in a traditional mortgage. So we're taking all of that into consideration, having confidence and faith that the income trajectory will occur and the credit quality is there. So contacting a loan officer can help you better understand the benefits of the physician mortgage, which includes up to a hundred percent financing.

So 0% down and in most organizations outside of the doctors or physician mortgage, you would be required to pay PMI, which is called private mortgage insurance and private mortgage insurance is nothing that you get back. It's really an insurance policy of that. If you don't repay the loan, there's some coverage for the financial institution. So with the physician mortgage, there's no PMI, which could be as much as hundreds of dollars each month or even a thousand dollars a year.

**Dr. Ajagbe:** All of that, again, sounds extremely beneficial for all of us residents who are in this, you know, considering this right now. All right, Eileen, I think another big question, that's really at the top of a lot of both residents but also even fourth year medical students who are applying right now and looking at different cities and places to live is, do you have any good advice about renting versus
buying?

Derks: Great question. A lot of people ask me that, should I rent or should I buy? And my answer is always, it really depends. It depends on how long you anticipate being in that home. We talked about there’s an upfront cost of purchasing a home, whether it’s a down payment or closing costs. And so if you’re going to be in a home for less than four years, then it'll be harder to recoup those costs if you’re going to be in that home for or years greater than that allows you to really, to take advantage of the benefits of home ownership, where you can potentially write off your interest rate, start building equity and equity is a great thing because you can always borrow against that, should you ever need to fund any expenses for the home.

Dr. Ajagbe: As I think about this buying versus renting decision, I know a few of my friends … OB-GYN is a four-year program but others such as pediatrics and internal medicine, those are three-year programs and some of them had thought about buying a home to subsequently maybe Airbnb it out later, I'm not sure if you have any other personal or professional advice and opinions on that. And if that is something that the physician more engaged could be used for.

Derks: So the physician mortgage is available to doctors, dentists, residents for primary use and secondary use. We don’t support investment properties at this point in time. But if it is a home that individual is intending to live in, at an extended period of time, they … that property would be eligible for a physician mortgage.

Dr. Ajagbe: Okay, great. Thank you. I think that that's just something that's come up a lot, especially when I've had this particular conversation with a lot of friends of mine who are also residents.

Derks: It makes sense.

Dr. Ajagbe: As we are kind of, you know, really sitting down and let's say we've made a decision to buy, other than hop on Zillow or look for real estate agents as it relates to the physician mortgage, what is like one of the first places for us to start? Is it with an online search? Is Laurel Road, is there like a number we can just call and kind of get a brief consultation? What are some things we should think about? If we're really looking for the very first place to begin.

Derks: Sure. So the first thing anyone looking to buy a home should do is talk to a lender, get prequalified, know what you can afford. Ironically, especially with the physician mortgage because of its flexibility, often we find that residents and doctors can borrow more than they think they can. Inversely, sometimes we think we can afford more than we can. And so it's really important to start with, “Hey, what can I afford?” And many institutions, particularly Laurel Road, can really enable that insight with just 10 minutes on our online application. They'll ask you for a little bit of information to help scope sort of your credit profile. And right then and there, through the application, you can learn, “Hey, what can I afford? What would be my rate? What would be my closing costs and my down
payment?"

So you could really self-serve, with Laurel Road, whereas with some other institutions, it might take a dialogue but that’s clearly the first step for two reasons. One, you want to know what you can afford. So you don’t waste your time, seeing a home that you fall in love with, and then, oh, you can’t buy it. And secondarily in this really tough market, the seller’s market, most real estate agents won’t even let folks in the home, if they’re not pre-qualified or pre-approved, so much less making an offer, they won’t even consider it if there’s not a pre-approval letter. Getting that pre-call preapproval letter really puts you in the buying seat for when you want to buy a home.

**Dr. Ajagbe:** Wow. That’s actually really good to know. I didn’t even think about it, especially given the kind of housing market we’re in and needing to have some sort of a pre-qualification, per se, I think that that’s an excellent point to really, for those of us looking to buy homes to really start to consider. I think, again, as I think about conversations, I’ve had myself with myself and my significant other, and also with other friends. There’s a lot of kind of talk and conversation around potentially like a housing bust or how the market is kind of a big sellers’ market right now. I have a question for you—is in the next year or maybe two to three years given if, you know, maybe we purchase a house now or maybe want to put that off for a little bit. Do you have any insight on where you think the housing market is really going to go from here?

**Derks:** So I really wish I did. However, I can just talk to you a little bit of indicators on the short horizon. In the environment of COVID, the government has really stepped in to try to protect homeowners that are struggling to pay their mortgage. A lot of that sort of forbearance, that leniency actually expires fourth quarter and into the beginning of next year.

So what does that mean? That means that some folks are going to have to start paying back their mortgage consistently. And they may now be in a different place than they were before from a financial standpoint. And so they may be one looking to refinance, but two, now sell their home. So that can really turn the scale pretty quickly on home values that it … right now it's a very low inventory and high demand. That means home values are the highest that they’ve been in quite a long time. So what that means is that they’ll likely be more folks that are going to sell their home and when they sell their home and add inventory to the marketplace, that means home values are going to come down. So the recommendation would be to really anticipate that home values may come down and therefore, if someone wants to sell their home, really now would be the time to do it before the inventory sort of elevate as a result of that behavior, especially since today’s rates and the demand is high.

**Dr. Ajagbe:** Oh, that is definitely some great insights. I think if any of us had the question about where the market is going, we’d probably be making a lot more money than we are now but thank you. And one other question that I had, especially as it relates to physician mortgages is—I think it’s a common topic of conversation—that you really have to have like a perfect or near perfect credit score
in order to qualify for one. Do you happen to have any insights on that specific aspects of things?

**Derks:** Yeah. So for the physician mortgage, we’re literally looking at a FICO score of 720 or above. For other conventional products that we offer you could be at 680 or above.

**Dr. Ajagbe:** Okay, great. That is good to know. Good to have those numbers as we’re kind of starting out.

Eileen, thank you so much for all the information that you have really provided all of us with today. I think it's been really great to hear more about Laurel Road and also the relationship with the AMA and how AMA members can really benefit, as we are really at this kind of big changing point in life, which is starting residency and doing a lot of the things that of us have been looking forward to doing for quite a while. As we're ending out our time together, I was just wanting to ask if you had any last minute, just pieces of advice for residents who are looking to start this process and go through this.

**Derks:** Great question. Here’s what I would say. I see first and foremost, focus on your credit quality. So FICO score is a driver in every credit decision when you get a credit card or an auto loan or mortgage, and we've had AMA members come that haven't had the best of credit yet because they were young and not sure, you know, what priorities and focused on getting their education. And so one that's okay, you can repair your credit. So don't feel like it's impossible but get familiar with your credit score. There's all kinds of tools out there that can help you understand your credit and then focus on improving that credit. If you have great credit, keep the great credit growing and be responsible with your use of credit. The second is really sit back and think about goals and objectives, and that really will help you make that decision about, “Hey, what do I want to save for? How much do I need if I want to get a mortgage and purchase a home.” So, it's really sort of that life planning. And when we sit back and do that, sort of have a plan, sometimes it doesn't go as planned. But with that plan, then we can be diligent about our credit, about our savings and really being in a great place to get the credit that you deserve and earned when it comes to buying a home or anything else using a credit tool.

**Dr. Ajagbe:** Well, thank you so much, Eileen, and that was such a great advice and definitely advice that I will also, personally, we take under consideration but thank you so much for your time today and for giving us more information about Laurel Road and the relationship with the AMA really appreciate it.

**Derks:** My pleasure.

**Unger:** That was Eileen Derks—head of mortgage with Laurel Road and Dr. Bukky Ajagbe-Akingbola talking about strategies and solutions around physician mortgages. Learn more by visiting ama-assn.org/financehelp. I’m Todd Unger and this is Making the Rounds—a podcast by the American Medical Association. You can subscribe to Making the Rounds and other AMA podcasts.
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