4 things to know about buying a home as a resident physician

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Resident physicians are far from their peak earning power and often learning to properly manage sizeable medical student-loan debt. Nevertheless, experts say, these factors shouldn’t preclude residents from considering a home purchase before they finish residency.

A recent episode of the AMA’s “Making the Rounds” podcast examines strategies that could yield results for residents entering the housing market. Here’s a look at some of the key takeaways. You can listen to the episode on Apple Podcasts, Spotify or anywhere podcasts are available.

How the pandemic has changed the market

The pandemic has created unusual market conditions for potential buyers, including residents. In the initial stages of the pandemic, the market was brought to a near halt. However, after months of lacking movement, the market did a 180, according to Eileen Derks. She is head of mortgage with Laurel Road, a preferred provider of student-loan refinancing and physician mortgages for the AMA.

“There was a lot of pent-up demand,” Derks said in the podcast. “You add that to, you know, record-low [interest] rates and we really have sort of the perfect storm as it relates to high demand now.”

That, combined with “low inventory and that certainly translates to a seller's market,” she added.

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Favorable mortgage terms are possible

Residents are uncommon in that their income potential is substantially higher than their salary during training. That makes it possible to get a favorable mortgage, Derks said.

“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,” Derks said. “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.”

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When you’ll earn return on investment

The longer you are in a home, the better you are going to do in terms of recouping value. For residents, that might mean that renting during training is the better financial option.

“There’s an upfront cost of purchasing a home, whether it’s a down payment or closing costs,” Derks said. “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 four years or greater than that allows you to ... take advantage of the benefits of homeownership, 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.”

Read more on the do's and don'ts that M4s should know about homebuying during residency.

Where to start homebuying journey

Derks said a loan officer through a company such as Laurel Road can help a physician get pre-qualified. There are also loans that cater specifically to physicians, she added.

“The first thing anyone looking to buy a home should do is talk to a lender, get pre-qualified, know what you can afford,” Derks said. “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?"

Laurel Road offers practicing physicians or residents who are AMA members custom digital mortgages with no private mortgage insurance and low rates, whether you’re looking to buy a home or refinance your mortgage (disclaimer).