PETER KIM, M.D.

THE QUICK GUIDE TO PHYSICIAN HOME LOANS

PHYSICIAN HOME LOANS MADE EASY

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CURBSIDE REAL ESTATE - OUR STORY

Nothing in my medical training had prepared me for this moment.

I was sitting hunched over my laptop on Thanksgiving 2011. The rest of my family was just settling into their post-turkey, tryptophan-induced coma while I was frantically searching for home loans online. This was my first experience with a home purchase so the process was completely foreign to me. I was on the clock, however, because I had an accepted offer on a house without having a loan in place.

I had tried to get a conventional loan but because I was only four months out of fellowship, every bank had denied me due to my short work history. Luckily, a colleague suggested that I look for a “physician home loan.” I prayed for a miracle, and after a couple weeks of stress, panic, and sending my financial papers to what seemed like an endless run of lenders, I eventually found a loan through a physician loan provider.

Barely a month after closing on my home, desperate friends and colleagues started asking me to help them through the process. I quickly realized that there were many other people in the same boat with no one to help them navigate through these rough waters. Besides the difficulty of obtaining a home loan, they also needed a Realtor with a track record of success in winning offers for physicians who face stiff competition against offers with larger, often cash, down payments.

I decided to address both issues by starting a company - Curbside Real Estate. Over the past few years, we have helped many young physicians get into homes that they wouldn’t have gotten into otherwise.

My goal has always been to save other physicians time, money, and a whole lot of stress, and I’m proud of what we’ve been able to accomplish in such a short time. This eBook is only another contribution to this cause. Enjoy!

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ABOUT THE AUTHOR

Peter Kim is a full-time anesthesiologist working in Los Angeles, California. He's also the founder and director of Curbside Real Estate, a concierge brokerage that specializes in home-buying solutions exclusively for physicians. He strives daily to be a good husband, father, family member and friend. If not taking care of all of these things, you can probably find him out on the golf course.

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A FIRST GLANCE AT THE PHYSICIAN HOME LOAN

What is a Physician Home Loan?

A physician home loan, sometimes simply known as a physician or doctor loan, is an alternative to a conventional mortgage or home loan. Banks created these specialized loans specifically for young physicians in the home-buying process. These loans may be beneficial because a good number of young physicians may not qualify for conventional loans for various reasons (e.g., small down payment, large student loans, short work history, etc.). Not all banks offer this specialized product, and within banks that do, simply talking to the right mortgage loan officer makes a tremendous difference.

Why were Physician Home Loans created?

Physician home loans are special portfolio* loans, designed to remove some of the common obstacles that incoming and existing residents, fellows and new doctors face when trying to qualify for conventional loan products. So why would banks create such a product only for physicians and not for other professions? Aside from cutting you a break after going through numerous years of school and training, banks realize that you're a good bet.

**A portfolio loan is a loan that a lender keeps within its own institution and own investment portfolio. Such lenders are therefore able to use more flexible guidelines in qualifying people (such as physicians) for these loans. The vast majority of conventional loans are packaged and sold on a secondary market. Therefore, they have to conform to certain rigid guidelines, particularly those created by Fannie Mae / Freddie Mac, federal government institutions.*

WHAT MAKES A PHYSCIAN A GOOD VS BAD LOAN CANDIDATE

Why physicians are considered good loan candidates:

- Research has shown that they have an extremely low default rate on loans.
- They have high future or current earning power.
- They typically have stable jobs less affected by swings in the economy.

Why physicians are considered bad loan candidates by conventional standards:

- They have a significant amount of student loan debt.
- Young physicians have a short work history, for example receiving a 1099 with less than two years of experience.
- They usually have little saved up for a down payment.

COVENTIONAL LOAN VS PHYSICIAN LOAN

Conventional Loan		Physician Loan
Available to anyone who qualifies.	**Availability**	Available to residents, fellows, and attending physicians.
Must fit into Fannie Mae/Freddie Mac guidelines. Similar guidelines from lender to lender.	**Guidelines**	Does not have to fit exactly into Fannie Mae/ Freddie Mac guidelines (more flexible guidelines). Have different guidelines from lender to lender.
20% down payment or more	**Down Payment**	Lower down payment options including 0%.
Less than 20% down results in PMI.	**PMI***	No PMI.
Student loan monthly debt burden is calculated using 1% of the loan amount.	**Student Loans**	Student loan monthly debt burden may be calculated differently, depending on phase of repayment. (See student loan section.)
W-2, need minimum of two paychecks.	**W-2**	You may be able to close prior to starting work with an employment contract or offer letter.
1099, requires two years of tax returns.	**1099**	1099 - two years of tax returns or possibly fewer with an employment contract or well-worded letter.
Rates vary slightly from bank to bank.	**Rates**	Variable - banks may have the same, higher or, in some cases, lower rates than conventional rates.
Reserve requirement often times three to six months of PITI (monthly principal, interest, taxes and insurance).	**Reserve Requirement**	May not have a reserve requirement.
May have a cap on how much gift money you can receive.	**Cap on Gift Funds**	Some do not have a cap on how much gift funds you can receive.

**PMI (private mortgage insurance) - If you put less than 20% down on a house, you'll have to pay an additional monthly premium known as private mortgage insurance, or PMI. This additional cost protects the lender's investment if you fall behind on your monthly payments and default on the loan.*

CURBSIDE REAL ESTATE
SPECIALISTS FOR PHYSICIANS

How do you start the home-buying process?

You are going to need the help of these two people to make your purchase possible:

1. A lender (mortgage loan officer).
2. A real estate professional.

You should plan to speak to a lender first, get pre-approved and then search for a home with the help of a real estate professional. This allows you to have a clear idea of what you qualify for, and you can avoid wasting time looking at homes that you can't afford. In a seller's market, like it is today, most sellers will not even let you submit an offer without having a pre-approval in hand. (Please see the section on what financial documents to get together.)

However, we all know that things don't always work out as planned. You might be browsing online or venture into a random open house, fall in love with a home, and then scramble to find a Realtor to help you make an offer while trying to figure out the financing – all at the same time. This method produces much higher levels of stress, but sometimes that's just the way it goes. (That's how I bought my home; however, I'm trying to save you from doing the same.)

So, if possible, start by obtaining a pre-approval with a reputable lender. Do your research online, talk to your friends and colleagues, and perhaps look to a company that is an expert in helping you figure out which lenders would work well for you. Hopefully, this company is willing to help you (at no charge) throughout the entire process, from finding a physician home loan all the way to getting your new set of keys! (Hint, hint…Curbside Real Estate.)

Pre-Qualification vs. Pre-Approval vs. Pre-Underwriting

A pre-qualification is a large picture initial assessment of the potential buyer. It is a quick estimate of what you might be able to borrow. In a nutshell, it:

- Provides an estimate of your borrowing power.
- Is based on information you provide verbally about your income, employment, assets, credit and bank accounts.
- Does not always include an analysis of your credit report.
- Can often be done online or over the phone.
- Is offered by most lenders at no cost.
- Is neither a preapproval nor a commitment to lend.

It is a simple procedure and is only based on information you provide to the lender, so it is not a sure thing. Therefore, being pre-qualified does not carry as much weight as being pre-approved. Being pre-qualified allows for a lender to present various mortgage options and recommend the type that might be best suited to your situation. This will help you get a rough estimate of how much you can afford.

A pre-approval is a more in-depth assessment of your eligibility to secure a loan.

- The lender will ask you to fill out an application.
- You will need to provide documentation to look into your income and expenses.
- The lender will pull your credit score.
- You will receive a conditional commitment in writing for an exact loan amount, allowing you to look for a home at or below that price level.

The pre-approval sends the message to sellers and lenders that you are a serious buyer. It will also give you a general idea of your interest rate and potential monthly payment. You are not locked into anything with the lender, however, and may still decide to accept or walk away from this commitment before anything is signed.

Pre-Qualification vs. Pre-Approval vs. Pre-Underwriting

Pre-underwriting takes it even a step further than a pre-approval.

Not all lenders are able to provide this; however, some lenders will thoroughly review all documentation that would be required for a formal approval without having an accepted offer on a home. This includes complete verification of income and assets, with a total analysis of debt. They will essentially provide you a check at this point, with only the home appraisal as the last hurdle. The goal of this is to put you, the borrower, in a very similar position as a cash buyer, allowing for a more competitive offer.

FINDING A WINNING TEAM OF PROFESSIONAL TO GUIDE YOU.

How to Find the Right Lender

Every lender is slightly different, just like every individual's situation. Doing an online search will yield pages and pages of results. It's all about being meticulous and finding the right fit at the best rate.

- Don't be afraid to talk to friends and colleagues who have successfully bought a home. Ask them about their experiences.
- Search online.
- Use the "What Questions to Ask a Potential Lender" checklist included at the end of this eBook when interviewing lenders.
- Feel free to reach out to us at Curbside. All of our network lenders have been carefully vetted, as well as have great references and testimonials from fellow physicians. We've also pre-negotiated exclusive discounts for our clients, just ask!

What to Expect from Your Lender

- Your lender should be upfront and give you an honest assessment of your ability to qualify for their loan. The concern is that they will make promises that they can't possibly follow through on.
- They should be accessible and be able to communicate by your preferred method around your busy schedule.
- They should be patient and be willing to educate you on the process.

FINDING A WINNING TEAM OF PROFESSIONAL TO GUIDE YOU.

How to Choose the Right Real Estate Professional

Choosing a real estate agent can be a stressful process. According to the National Association of Realtors, there are over two million active licensed real estate professionals nationwide. There are approximately 180,000 active agents in California alone.

Then how do you choose a Realtor? Around half of buyers and sellers found their agent through a referral from friends and family. Of all the people who bought or sold homes, only ⅔ said they would use that same agent again. (Ref: National Association of Realtors)

At Curbside, we believe that choosing the right agent is vital. The right agent will be experienced, put your needs above all else, work tirelessly for you, and be an excellent communicator and educator. Sounds a bit like dating, but it's the truth - it requires the right mix of confidence, trust and chemistry.

Here are some of the questions you should be asking your agent:

- What is the level of your experience?
- Are you familiar with this particular geographic area I'm interested in?
- Have you worked with many physicians in the past and are you familiar with physician home loans?

Physicians in particular can be a tougher group to work with because of our schedules. The right real estate agent should be willing to work with you around your busy schedules with patience. This same agent should also have a good understanding of physician home loans and have a good relationship with these lenders. Competition for home-buyers is fierce and they have to be able to highlight you and your financing to the seller in order to compete against buyers who might be putting down large down payments or all cash offers.

We have a nationwide network of these quality agents and specialize in matching you with the right one at no cost. If you need help in finding someone like this, please feel free to reach out to us on our website http://www.curbsiderealestate.com, on our Facebook page, or email us at hello@curbsidere.com.

Student Loans

Most of us have it. Most of us have A LOT of it! Most recently in 2015, the Association of American Medical Colleges reported that the average medical student graduates with $183,000 in debt. I'm sure some of you see that number and think, "I wish I only had that amount!"

Depending on what stage you're at in your career, you might be in one of three phases of repayment:

Deferment / Forbearance

Deferment and forbearance are typically considered the same to lenders. Even though you're not currently paying off these loans, banks know that they will affect you some day. They typically take 1% of the full loan amount and add that to your monthly debt burden.

Income Based Repayment (IBR)

Banks know that your payments will increase as you get paid more, so they typically still use the same 1% amount of your loan in calculating your monthly debt payments.

Full Repayment

They simply use the exact amount of your payments in calculating your monthly debt payments.

Unfortunately, due to the large amount of student debt some physicians carry (I have friends who have $350,000 in debt!), by conventional loan metrics, it would be nearly impossible to qualify for a loan. Fortunately, they may be able to qualify with a physician loan provider because of the alternative way these lenders handle student loan debt.

How do some physician loan lenders differ in dealing with each of these?

Deferment / Forbearance

They may not count these loans at all towards your monthly debt payment.

Income Based Repayment (IBR)

They may use the exact current amount you are paying. This is typically much better than using 1% of the total loan amount.

Full Repayment

Same as with a conventional loan, but hopefully your income has increased by this point to safely qualify.

Refinancing student loan debt and thus lowering your monthly payment may also help with this qualification.

The good news is that today, there seems to be an expanding group of mortgage lenders to offer physician loans. They realize that physicians are a great bet. Our default rates are amongst the lowest, if not the lowest, of any population. We work hard and honor our commitments. At Curbside, we don't specifically handle the refinancing of student loan debt, but we know some great people who do. Feel free to ask us about it.

YOUR EMPLOYMENT STATUS AND OPTIONS FOR EACH

W-2 vs. 1099

What is the difference?

We get asked all the time about the topic of a W-2 vs. a 1099 and how that affects your ability to qualify for a loan. We'll try to summarize it in this short section.

There are many ways that physicians are paid or reimbursed, but these are the two main ways.

Simply put, if you're an employee, you will receive a W-2. If you're an independent contractor (self-employed), you will receive a 1099. The major difference between the two is how taxes and expenses are handled.

If you are a W-2 employee:

Payroll taxes are automatically deducted from your paycheck and paid to the government by your employer.

If you are self-employed / independent contractor (receive a 1099):

You are responsible for paying your own taxes and this often requires paying estimated payroll taxes throughout the year. You also report your own expenses and this can affect the taxes you owe.

We won't go into all the nuances or talk about which is better or worse. We just want to inform you about how lenders and banks treat these differently when it comes to qualifying you for a home loan.

Do You Need Two Years of Tax Returns?

If you are a W-2 employee:

No. The lender will use your "gross" annual income (before taxes) to qualify your monthly income. You will need to supply your most recent two years of W-2's and two paystubs dated within the last 30 days. If there is a significant increase in income from the prior year, the lender may ask for an explanation (e.g. when transitioning from residency to fellowship and beyond).

If you are self-employed / independent contractor (receive a 1099):

When trying to qualify for a home loan with a 1099, however, most lenders will typically require two years of tax returns with no wiggle room. This is mainly because the amount of taxes that are taken out and the reported expenses can vastly affect your net income. This is a government mandated guideline for most lenders. *Lenders will use the average of the last two years' income reported on tax returns to qualify the average income.*

How Do Physician Lenders Handle These Differently?

If you are a W-2 employee:

Normally, the banks require two paystubs to calculate your income and qualify you for a loan. With a physician loan lender, however, they are often able to qualify you for a loan with an employment contract even before you start your residency / fellowship or job. This works extremely well for the relocating physician.

If you are self-employed / independent contractor (receive a 1099):

The nice benefit of physician home loans is that these loans do not have to follow strict Fannie Mae / Freddie Mac guidelines. Therefore, they may be more flexible with 1099 income. You can often qualify without having a full two years of tax returns. For physicians, they may be able to calculate your income based on your employment contract *with a guaranteed base salary and / or hourly rate with guaranteed amount of hours* and a strongly worded letter verifying this. We work with lenders that have been extremely successful in this very situation.

What Questions Should I Ask a Potential Lender?

The Physician Loan

- Does your bank offer a physician loan and offer it in the state where you plan to buy?
- What are the down payment minimums and at what purchase prices?
- Is the loan a single lien or a combination of two liens?
- Do you require a banking relationship to get the physician loan?
- What is your current closing timeline?
- How does your bank handle my student loan situation? (Explicitly state whether you're in deferment / forbearance, income based repayment or in full repayment.)
- I receive a W-2 (or 1099) and have been working at this particular hospital or this practice for __ years? Are there any issues that you foresee with getting a loan?
- Do you require two appraisals on higher loan amounts?
- How much of a reserve do you require?
- How much of the down payment can I receive as a gift?

Rates and Fees

- What are the current interest rates for your physician loan?
- Do you require a banking relationship to get the rate quoted?
- What are your lender's fees?
- Do you charge an origination fee / points for the quoted rate?

What Questions Should I Ask a Potential Lender?

Mortgage Loan Officer

- How many years have you worked with physicians and these specialty loans?
- Have you closed loans in _____ (the state you are purchasing in) and understand how the closing transaction is handled in _____ (this same state)?
- Do you understand contingency dates (if required) in _____ (state)?
- Do you service your own loans or will I have to call a different vendor if I have questions on my loan after closing?

Financial Documents to Get Together

Always consult your lender, as each bank may require different items. Here's a good list to get you started:

Property of Interest

- Type of property (single family, multi-unit, condo), purchase price, address, year built and estimated property taxes.

Proof of Income

- Employment contract for your job (for residency, fellowship or as an attending).
- Two years of personal tax returns.
- If you have not filed the most recent year, the lender will require the most recent two years of tax returns with proof that the current year extension has been filed. If you owe money for the current year, you will have to show proof that the IRS has been paid in full OR qualify with the repayment plan in your debt-to-income ratios.
- W-2's from the last two years and current paystub dated within the last 30 days, if applicable.
- If currently self-employed (1099) with less than two years of work history / tax returns, you will need either a contract showing guaranteed work or a carefully-crafted letter that helps the bank calculate your expected income. (Our lenders can help you with this.)
- If you moonlight, have a second job or bonus / overtime income, lenders can only use this income if you have a two-year history (from the same employer).
- If you are self-employed or run your own practice, you will need to document all the income you claim in your loan application. This will include the most recent two years' K-1's, W-2's, 1099's, personal tax returns, business tax returns and year-to-date current profit and loss statement prepared by your CPA. The exact documents you need will be dependent on your business structure.

Proof of Ownership and Market Value for Assets Owned

- All information for any real estate you own, including address, lender information and documentation [current mortgage statement, recent property tax statement, current homeowners insurance policy, current HOA statement (if applicable), lease agreement (for rental properties only)]; and the lender may ask for a "letter of intent" for your primary home that you own if it is not sold and closed prior to closing on the new home loan.

- Have verification ready to document the source of funds for the down payment (a gift, own funds, etc.) Lenders want to know where the money came from for any large deposits made into your account. Examples of documentation may include a gift letter from parents and sale receipt or copy of title transfer for a car sold.

- Bank account statements from the past three months (checking and savings).

- Brokerage and retirement fund statements, including IRA, 401(k), and other investments for the last three months or most recent quarterly statement. You will also want to have your "terms of withdrawal" printed in the event you need to show the net reserves if you were to cash-out the account.

- Gift funds:
  - Require documentation and typically require a completed gift letter form that your lender can provide.
  - Will need proof the exact funds were deposited into your account - a copy of the check and proof the donor had the funds to gift you. The donor can either supply bank statements or a letter from their bank stating they had the funds to gift. This type of documentation is a regulated process, so please be sure to check with your lender in advance. Not being able to document this properly can lead to an avoidable stressful situation.

- Large deposits:
    - This is another regulated topic where lenders have to follow lending rules for every loan type. All large deposits (typically over 50% of your paycheck) have to be documented. Even if you transfer money back and forth to yourself amongst several accounts, the lender will have to collect each bank statement showing from where the money originated. Each time a new bank statement is supplied, the lender has to make sure they have at least two months for each account.

- If you plan on making large deposits, liquidating any accounts, selling a car or getting a gift, etc., it is best to tell your lender in advance so they can set the proper expectations on the items that will be required.

Final Words from Peter

Congratulations on making it through our guide! I hope that you feel more informed than you did when you first downloaded this eBook. You should now have enough knowledge to make some informed decisions. Before you go, I'd like to share a few final thoughts with you.

Renting vs. Buying

Unfortunately, this isn't an easy question to solve and is quite unique to the individual. You have to take into consideration many factors including how long you're planning on living there, your current financial situation, pride of ownership, the housing market, etc. This decision is best made after educating yourself on the process (which you've already started to do by reading this guide) and having a deep discussion with other family members and trusted advisors. We step in once the decision has been made to buy your own home, and we try to make that a reality for all physicians.

There is no "one size fits all" when it comes to finding a home loan.

Again, everyone's situation is different when it comes to buying a home. A physician loan may not even be the best for you. What worked well for your friends or colleagues may not be right for you. Educate yourself as much as possible, and keep your options open.

Don't be afraid to ask for help, you're not alone.

There is absolutely no way for you to know everything and you don't necessarily have the time with your busy schedules to figure it all out. There are people to help you so you can keep the focus on your family, friends and career. Curbside Real Estate was created with this exact thing in mind. We're here to save you time, stress, and money (with pre-negotiated exclusive discounts from our network lenders.) Our team is here to help at no cost!

Thank You So Much!

I really hope you got something out of this eBook. I found myself explaining the same thing over and over again to people and realized that there wasn't a quick resource to educate physicians on the topic. I appreciate that you took time out of your busy lives to read this, and hope that you will share it with your friends and colleagues. Let's transform the way physicians buy and sell real estate!

I'd like to hear your thoughts and comments. Please feel free to reach out through our website http://www.curbsiderealestate.com, through our Facebook page or by email hello@curbsidere.com.

Thanks again and good luck house hunting!

Peter Kim, M.D.

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