Mortgage lenders increasingly targeting "financially naive" young doctors

■ Cite as: *CMAJ* 2018 August 7;190:E943-4. doi: 10.1503/cmaj.109-5638

Posted on cmajnews.com on July 17, 2018.

Banks, mortgage brokers and other financial institutions are putting more effort and resources into marketing special mortgage services to young physicians and medical residents. This isn't surprising, according to Dr. James Dahle, an emergency physician in Utah and founder of The White Coat Investor. "These people have little money, are financially naive, have vast sums of future earnings potential, and, best of all, almost all of them will soon purchase a mortgage," he wrote in a post called "The Doctor Mortgage Loan."

In the United States, these loans are targeted at residents or physicians in their first decade of practice. They require little to no money down (10% or less) and the borrower doesn't need to purchase mortgage insurance. Doctors must provide an employment contract and, in some cases, open a bank account at the institution offering the mortgage. However, the loans typically carry higher interest rates than conventional mortgages and may require additional fees.

Most medical students graduate with huge debts, sometimes hundreds of thousands of dollars. Typically, a younger person in this situation would struggle to obtain a loan of any sort. But medical graduates are exceptions. They are considered low-risk and potentially lucrative customers. The job market for doctors is considered much more stable than for most other professionals, and doctors have potential for high future earnings. Some banks consider offering special mortgages to doctors part of a "deepening relationships" strategy. The overall goal is to get physicians to sign on for multiple financial services, such as investment planning and credit cards.

The total value of mortgages provided to physicians by Bank of America, for example, increased nine-fold between 2008 and 2017. Other banks have, in recent years, increased staff who are dedicated to serving medical professionals. The website physicianbanks.com has an interactive map of the US to help doctors find physician mortgage lenders in every state.

This trend is not isolated to the United States. In the United Kingdom, the mortgage broker Private Finance noted that some British lenders have special terms for both practising physicians and trainees. The company promises to "arrange bespoke mortgages for doctors" and provide "a tailored advisory service."

In Canada, there are "a number of mortgage lending programs for pre-practice medical doctors," according to Richards Mortgage Groups in Alberta. Down payments are generally 20% for medical residents, dropping to 5% for young doctors with at least three months of billing behind them. Even medical students may be able to obtain mortgages. "Lenders love medical students, so even if you are still in med school and can access the required minimum down payment, exceptions can always be made," the company stated on its website under the heading "Mortgages for New Doctors and Medical Residents."

According to Dahle, however, residents should be wary of jumping into home ownership and consider renting instead. Residents may be in a location only for a few years and could lose money if the real estate market drops. Doctors also tend to upgrade from their "resident

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Mortgage lenders consider young doctors low risk even if they have large student debts.

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home" after they finish their training and start making more money, noted Dahle, so the cost and hassle of buying and selling a home may not be worth it. Home maintenance can also be a challenge for an overworked and underpaid medical resident. Even those determined to buy a home might be better off saving for a larger down payment and getting a traditional mortgage with a lower rate, saving themselves many thousands of dollars in the long run.

Many young physicians, however, seem ill-equipped to make sound financial decisions. "They take eight or so years off from the world to do nothing but learn how to be doctors, then receive a six-figure annual paycheck with no real idea of what to do with it," suggested Ron Lieber, a finance columnist for *The New York Times*. "If they can save lives, many believe, managing money ought to be easy. But self-certainty like that can lead to all sorts of horrible mistakes."

Some of these mistakes, according to Lieber, include making lavish purchases as a reward for their years of study and sacrifice; falling prey to real estate agents suggesting they deserve a home large enough to be worthy of their newfound professional standing (a malady dubbed "Residentia" by one financial planner); and being overconfident that their academic and professional achievements make them qualified to make complex financial decisions.

Another reason some young doctors make poor financial decisions, like purchasing trophy homes they can't afford, is that they receive little, if any, education on personal finance, according to Ryan Inman, a financial planner who specializes in helping physicians. Other problems include making hasty financial decisions because of lack of time and relying on equally uninformed colleagues for financial advice. Also, because people in medical circles work together for the good of patients, there tends to be considerably less guile or trickery in their professional dealings than in other industries — like, say, the financial industry.

"Many doctors actually enjoy helping people most days, and they also have a habit of seeing the good in people," wrote Inman. "This is a great quality, but it's also a quality that makes it hard to spot a financial advisor or salesman whose entire goal in life is to pitch products to physicians knowing they don't have a strong financial background."

Roger Collier, *CMAJ*