IS A PHYSICIAN LOAN THE RIGHT PRESCRIPTION FOR YOU?

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A doctor loan is a specialized home loan financing program for medical doctors, including residents and fellows, looking to purchase or refinance their primary residence. In most cases, only a minimal down payment is necessary (if at all), Private Mortgage Insurance (PMI) is not required, and a range of fixed and adjustable rate loans are available.

The physician or doctor loan

In general, a physician loan or doctor mortgage is a portfolio loan product. This means that the bank or institution that is making the loan is actually going to keep and service the loan. This enables the bank making and servicing the loan to determine its own underwriting guidelines and risk threshold, resulting in more liberal guidelines for physicians. However, each bank's guidelines are different, so you may not qualify for one but may be a perfect match for another. For this reason, it is best to work with a loan officer that specializes in working with physicians and other health care professionals. As a result, he or she will be much more likely to understand your unique situation and circumstance and help you choose the loan that is right for you.

The following are several benefits of getting a physician home loan over a conventional loan:

Higher chance of approval: When some "outside of the box" factor makes you ineligible for conventional financing, a physician home loan might be your only option. Often residents, fellows, and new-to-practice physicians are declined for conventional loans because they just don't fit the guidelines due to student loans, time on the job, and/or the amount of down payment required.

Low down payment: The physician home loan will finance 90 to 100 percent loan to value depending on the bank making the loan, where the property is located, and the loan amount you are seeking.

No private mortgage insurance (PMI) required: Most lenders feel that borrowers who make low down payments (and therefore have little equity in the property) are more likely to default on a mortgage loan. As a result, they generally require you to purchase private mortgage insurance if you are borrowing more than 80 percent of the value of the home you are purchasing (your down payment is less than 20 percent of the purchase price). PMI ensures that your lender will be paid if you default on the mortgage. With a physician home loan, you do not have to pay mortgage insurance even if you finance greater than 80 percent of the purchase price.

Typically, the doctor mortgage is going to save you 0.5 to 1 percent in annual PMI, but you will pay 0.25 to 0.5 percent higher rate for this loan type.

Student loan(s) are not counted against your debt to income ratio: This is a significant difference between a physician home loan and a conventional loan, particularly for someone transitioning out of residency or fellowship where student loans might be deferred or in Income Based Repayment. Conventional underwriting guidelines do not allow you to exclude payments for any deferred, income based, or loans in forbearance. In any case, where the current payment is zero, conventional guidelines require underwriting to count that debt against your monthly debt to income ratio at 2 percent of the outstanding balance. Physician home loans will typically allow you to exclude or use an IBR payment to qualify, thus resulting in a higher loan amount.

Higher loan limits: Since physician home loan lenders do not sell the loans to Fannie Mae and Freddie Mac, they are not going to have the conventional loan limits. The loan limits will vary by the location of your new home and by the institution that is making the physician loan. Generally, you will be able to borrow a higher amount with less money down using a doctor loan than you could under a conventional loan.

Ability to close before starting work: Most conventional mortgage lenders will require that you provide two paystubs before you close on your new home. A physician home loan will allow you to close prior to starting work.

Flexibility in terms of proof of income: Conventional underwriting guidelines typically require two years worth of tax returns for proof of income if you are self-employed or an independent contractor (paid on a 1099 and not a W-2). This situation is very common for dermatologists and, as such, these physicians may have to wait until they have two full years tax returns, which is often nearly three years on the job before they can obtain conventional financing. A physician home loan will allow a self-employed

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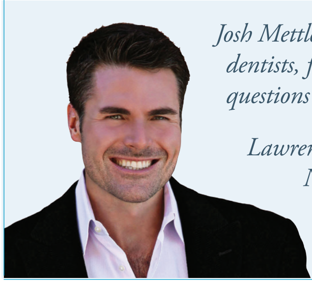

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Just as patients are told to seek second opinions if they want to confirm the diagnosis and explore all treatment options, dermatologists may want to consider second pathologic opinions for difficult pigmented lesions. Conflicting pathologic diagnoses do occur. In fact, one study in which six experts in pigmented lesion pathology reviewed difficult cases, there was unanimous agreement in only 11 of 38 cases.[4] Even though there was unanimous agreement on some of the cases, their diagnosis did not accurately predict the course of disease. For example, in one case in which all pathologists agreed on a diagnosis of pseudomelanoma, the patient ended up dying of metastatic disease. Until further biomolecular studies can help with diagnoses, second opinions for pigmented lesions with challenging pathology can improve the likelihood of an accurate diagnosis of melanoma or lead to further evaluation.

An important step in management of a newly diagnosed melanoma requires open communication with your patient. Notify the patient yourself immediately after confirmation of a melanoma diagnosis to explain the diagnosis, discuss management options, and to answer any questions. Refer the patient to a surgical oncologist and/or an oncologist when further management is needed, such as sentinel lymph node mapping, further surgery, and/or consultation for systemic treatment. Follow up with the patient, offer to provide additional information or answer questions, and remind the patient to return for dermatology checkups on a regular basis. Open communication not only has implications for improved clinical care, but studies have shown that an ongoing, trusting relationship between physician and patient reduces the risk of lawsuits for adverse outcomes.[5]

While patient education is an ongoing component of the doctor-patient relationship, patients who have been diagnosed with melanoma require focused education that prepares them and their family for ongoing surveillance for signs of disease recurrence and additional melanomas. Key items to cover with patients include:

- Discuss the future risk of melanoma for the patient and potentially for family members
- Review clinical warning signs of recurrent melanoma and new primary melanomas
- Demonstrate how to conduct a self-skin exam at home and explain the "ugly duckling" concept in addition to the ABCDs of melanoma
- Emphasize the importance of regular skin examinations and sun protection

Optimizing the management of melanoma requires thoughtful attention to all aspects of doctor-patient interaction and the clinical steps required to reach a diagnosis. Managing biopsy procedures, optimizing conditions for the most accurate pathology diagnoses, and open patient communication not only reduce the risk of errors and professional liability, but also result in improved patient care.

[1] Moshell AN et al. Characteristics of medical professional liability claims against dermatologists: Data from 2704 closed claims in a voluntary registry. *J Am Acad Dermatol* 2012; 66: 78-85.

[2] Marghoob AA et al. The most common challenges in melanoma diagnosis and how to avoid them. *Australasian Journal of Dermatology* 2009; 50: 1-15.

[3] Troxel, DB. Pitfalls in the Diagnosis of Malignant Melanoma: Findings of a Risk Management Panel Study. *Am J Surg Pathol* 2003; 27: 1278-1283.

[4] Cerroni L, Kerl H. Tutorial on melanocytic lesions. *Am J Dermatopathol* 2001; 23: 237-41.

[5] Hickson GB, Jenkins DA. Identifying and addressing communication failures as a means of reducing unnecessary malpractice claims. *NC Med J.* 2007; 68(5): 362-364.

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physician to qualify with as little as a six-month history of income, enabling you to buy a home almost two years earlier with a physician loan than you could with a conventional loan.

Mortgage types

The two most common types of mortgages are fixed rate mortgages and adjustable rate mortgages (ARMs). Fixed rate mortgages feature equal monthly installments over the term of the life of the loan. The most common fixed rate mortgages have terms of 15 or 30 years.

ARMs offer reduced initial interest rates, typically fixed for a specified time period, followed by an adjustable period where the rate floats with the market. These types of mortgages are often identified by their rate adjustment periods. For example, a 7/1 ARM offers a fixed interest rate for the first seven years and an annually adjusted rate for the duration of the loan. Since the term of your mortgage remains constant, the amount necessary to pay off your loan by the end of the term changes as your loan's interest rate changes. Thus, your monthly payment amount is recalculated after the initial seven-year fixed period.

Most ARMs specify interest rate caps. The periodic adjustment cap may limit the amount of rate change, up or down, allowed at any single adjustment period. A lifetime cap may indicate that the interest rate may not go any higher (or lower) than a specified percentage compared to the initial interest rate.

ARMs can be a valuable resource for physicians who plan to relocate and sell within the initial fixed rate period, as the initial fixed interest rate is often considerably lower compared to the rates on either a 15- or 30-year fixed rate mortgage. For this reason, it is important that young physicians seriously consider the length of time that they plan to remain in their first home.

Summary

Physicians, especially those early in their careers, have rapidly increasing incomes, fluctuating student loan liabilities, and need for specialized home loan products that allow for more liberal qualifying guidelines. Physician home loans allow for more flexibility in underwriting as well as principle reduction and re-amortization of mortgage payments once in the home. There are several mortgage programs that will allow you to make big principle reductions, which allow for both lower mortgage interest rates and lower minimum monthly payments without refinancing. For these reasons, a doctor loan may be something to strongly consider.