

# “Buying a Home: Part I: When Not to Buy”



## Part I: When Not to Buy

Let's start with the easiest question: Should a graduating medical student purchase a home?

No!

Unless the physician, or their spouse, is independently wealthy, I find it impossible to imagine they could afford a home. Standard financial advice, backed up by the hard lessons of time, is that you should have a 20% down payment to buy a home. Since the average allopathic MD in the US graduates with almost \$200,000 of student loans (the average DO grad has about 20% more student debt), by definition, they will have minimal or no savings, certainly not the \$30,000 to \$50,000 or more required for the down payment on a starter home. Some might consider borrowing the money from their parents. I would remind them that a physician is a privileged member of society, at least 26 years old, and probably older. It's time to pay your own way in life.

There are companies that will finance a graduating physician 95%, or even more, of the funds to buy a home. I believe this is unwise, and borders on seductive. Undercapitalization is one of the most common causes of business failures. Buying a home with minimal down payment creates a precarious situation. If something goes wrong, and it always does (a new heating-cooling unit can cost \$8,000 to 10,000), you have nothing to fall back on. If you are forced to move, you might have to come up with money just to sell your home. Ouch!! Having less than a 20% down payment also requires you to take Private Mortgage Insurance, which I believe is rapacious, one of the worst contrivances of modern finance, and for which you receive nothing in return.

There are thousands of dollars of additional costs of starting a household: Appliances, yard tools, furniture. Unless you borrow even more (doubling down, very unwise), all you can afford is cheap furniture. Cheap furniture looks cheap, and has minimal resale value.

The next question that arises is if a physician should buy a home during their training. Even if they have saved enough money, there are two other issues which make this problematic: fees, and how long you will live there. The “round-trip” costs to buy and sell a home: real estate agent commission, closing costs, fees, and more fees, are at least 10%. The bull market in residential real estate from 2000 to 2006 was an aberration. Other things being equal, a home must be held for a minimum of 5 years, the duration of your training period, to recoup these costs.

Some might say there are advantages to buying a home, in that the interest on the mortgage and property taxes are tax deductible. This is a terribly misguided reasoning. You spend \$1.00 on interest to save 35 cents on your taxes? I do not consider that astute investing.

For practical purposes, the average physician will not buy a home until they finish training. This is just one more direct, and unfortunate, result of the longer and longer training periods that have turned our young physicians into professional students.<sup>1</sup> Compare this to the physician's high school contemporaries working at the steel mill or college contemporaries in the business world, who could have owned their own home for a decade or more before a physician can enter the housing market.

In Part II of this Editorial, I'll talk about when you should buy a home.

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