Mortgages for nurses

Overtime. Night differential. Employment gaps. All things your mortgage lender is having a hard time with.

As a nurse, proving your true income to a mortgage lender can be tricky. Lenders like inside-the-box applicants. The kind that works Monday through Friday 8-5, make the same amount each month and are never between jobs.

That’s just not a reality for the typical nurse, and that’s okay.

Travel nurses have it even tougher. Employment gaps are the norm, not the exception. Changing employers? Yep, all the time. And non-taxable income — can you use it to qualify? In this guide, you’ll learn how to get approved despite the unique challenges that nurses and travel nurses face when trying to buy a home.

Plus, some special loan programs for nurses.

The first section is for staff nurses. Many of the points could apply to travelers, too. If you’d like to skip to the section for travel nurses, you can do that here.

Part 1: Getting a mortgage as a staff nurse

Staff nurses have many opportunities to make extra money. Shift differentials, extra shifts, and overtime all add up. But will the lender count this extra pay toward qualifying for a mortgage?

Nurse Pay

You might be able to use all your income to qualify. It depends on how long you have been making the various types of income.

Base pay

You can use base nursing pay immediately after starting work, even if you’re a new grad.

Lenders require you to be in your line of work for two years prior to using that income to qualify for a mortgage.

But another lending rule states that the lender can consider nursing school part of your work history. Because RN schooling is longer than two years, you already have the work history needed on day one of your nursing career. You may need an employer's offer letter stating your base pay and hours expected.

According to PayScale, an entry-level RN makes $21.51 per hour. Not too shabby. A starting nurse could qualify for a home costing $200,000, assuming $350 per month in other debt payments, a 3.5% down payment, and an FHA loan at an interest rate of 3.75%.

***Related**: See what you qualify for with our FHA loan calculator.* However, you might wonder if you can use your extra pay to qualify for a house. You might want more houses than your starting base pay might qualify you for.

Shift differentials, overtime, and other "extra" pay

It sure would be nice to use that shift differential to qualify for a mortgage. And you might be able to. Your mortgage lender considers your "extra" pay like it does variable income (overtime, bonuses, etc.) in other occupations.

That means they want to see 12 to 24 months of history to consider the income for qualification purposes. *Example* You have been working some night shifts off and on for two years. Your night differential is $5 per hour. In addition, you worked some overtime over that time period. Here's how the lender would calculate your income:

- Current base pay: $30 per hour, guaranteed hours of 36 per week: $30 X 36 X 52 weeks / 12 months = $4,680/month
- Night differential: Two-year total of 520 hours X $5 per hour / 24 months = $108/month
- Overtime: Two-year total of 240 hours of overtime X $45/hr. / 24 months = $450/month

In this case, your total income used to qualify would be $5,238 per month. It's no surprise that extra RN pay like overtime and differentials can go a long way toward helping you qualify for a house.

Unfortunately, nurse pay isn't always as "clean" as in the above example. Sometimes, you might only have 12 months of history for a certain type of income. For instance, you've only been picking up some night shifts for a year. In this case, you may need to get a letter from your employer saying whether the income is likely to continue.

If you just started making a certain "extra" income type, though, you will not be able to use it to qualify. The best way to get an accurate assessment of your income is to request a pre-approval from a lender. It will send your income documentation to an underwriter who will determine the income you can use to qualify.

Tips to use all your nurse pay to qualify

Here are some ideas on what you should do to document your pay

- Keep all your paystubs for the past 2 to 3 months
- Find your last pay stub from the prior year (it shows the year's totals of your various income types)
- Get your W2s for the past 2 years
- Request a letter from your employer stating your shift differentials and overtime are likely to continue (many employers won't do this, however)
- Give your lender a contact name and number for your HR department
- If you've changed employers, find your final pay stub and the W2 from all your former employers over the past 2 to 3 years

All this may seem like overkill, but you'll be glad you did your prep work when you go to apply for a mortgage.

Staff RN employment gaps

It's common practice for staff RNs to change employers, take a few months off, pick up per diem work, and travel. These aren't deal-killers, but remember to document everything.

Your lender will see any employment gaps. Your loan application requires you to complete your full two-year work history. Be prepared to explain any gaps: describe what you were doing during that time via a letter of explanation.

The lender isn't nosy, it just wants to prove you have will have a stable income in the future. The best way to do that is by looking at your past. So, if you took three months off and picked up per-diem shifts or became a travel nurse for a time, no big deal. But, you will need to be a staff RN currently to count your base pay. Also, the lender might have a hard time using shift differential and other pay types from your short-term nursing gigs.

If you plan to buy a home, you may want to stick to being a staff RN for at least two years prior to buying.

New RN grads who are first-time homebuyers

If you just landed your first nursing job, congratulations! If you're a go-getter, you might be thinking of buying a home already. Good for you. I can't think of a more stable profession than nursing. That stability will help you be a successful homeowner. However, you must weigh certain factors when deciding to buy a home. Basically, you have two choices.

1. Buy a smaller/farther-out/older home now, using only your RN base pay
2. Buy a larger/closer-in/newer home later using all your RN income

Remember that lenders typically need two years' history of "extra" income like overtime and shift differential pay to count it toward qualifying income. Your base pay is "usable" right out of the gate since your schooling counts as work history (lenders require two years' work history even to count base pay).

A lot depends on your long-term goals. If you want to become a landlord someday, you could buy a lower-end home that you can rent out later. If collecting rent and fixing stuff makes you queasy, you might hold out for the home that will suit you longer. Other things to consider:

- How many bedrooms/bathrooms do you need now and in the future
- Do you want a yard?

- Do you plan to start a family which will need a bigger home eventually?
- Can you afford a long-term residence on your base pay?
- Do you plan to stay in the area for at least five years?

Related: First-time buyer's guide to finding the right home So, as a new grad with your first nursing job, it's not a bad idea to buy a home, just one that takes a lot of consideration and careful planning.

Part 2: Addressing concerns of the travel nurse

As a travel nurse, you may be wondering if you'll ever qualify for a mortgage. A loan officer may have told you "NO" due to "unstable income." Or you know someone who has gone through that experience. Below are common obstacles travel RNs face, and how you can deal with them.

1. Travel nurses and "unstable employment"

Loan officers often don't know (or understand) the nature of a travel nurse's work.

On paper, it might appear to a lender that you are a contract employee or "job-hopper" because your contracts are typically only 13-weeks long. You jump from agency to agency, making it look like you can't stick with one company for long.

Your work situation appears quite stable to you. You can pick up another contract as soon as the previous one is done. If all else fails, you'll pick up per diem work or (gasp!) become a staff RN.

But that's not how the lender sees it.

Keep in mind the kind of applicant's lenders like to see: full-time, salaried employees with base income only and no employer changes…ever. That's just not a realistic standard for travel nurses, and that's okay.

Here's how you can get qualified despite your "unstable" situation.

Write a letter of explanation. Describe the nature of travel nursing. Add details such as why your specialty is in high demand and there is virtually no shortage of contracts you can take. Explain why travel nurses like yourself are extremely sought-after.

Get two years of traveling under your belt. History, history, history. This is what the lender wants to see. It's very tough to average three months of income. However, 12-24 months of travel nursing experience will give the lender more confidence in your ongoing earning potential.

Use staff RN experience as part of your history. If you are a travel nurse, you will likely be considered self-employed. This is true even if you receive some W-2 pay along with your 1099 (contract) pay. Lenders need a 2-year history of self-employment to use the income to qualify. If you have been a travel nurse for less than two years, *but at least one year*, your previous staff RN experience might help. Here's what FHA guidelines say: "To be eligible for a mortgage loan, the individual must have *at least two years of documented previous successful employment* in the line of work in which he/she is self-employed, or in a related occupation."

Conventional loans use a similar rule.

In short, you might be able to add your staff RN experience to your more recent travel RN experience to verify enough self-employed history. However, if you have been traveling less than a year, you likely need to get at least 12 months' experience before you can qualify for a mortgage.

Take a W2 assignment and stick with one agency if you're a new traveler. If you plan to start traveling, pick one agency to work for, and make sure they pay you as a W-2 employee. A lender may still consider you non-self-employed if you are simply moving to another company.

Keep your paystubs, W-2s, and agency contact info. Your lender may need information from each of the agencies you've worked for. Keep all your pay statements and year-end documentation from each agency. Keep handy a contact name and number at the agency that is willing to complete a "verification of employment" for your past work, and even write you a letter regarding your previous history

2. Travel nurse employment gaps

Travel nurses often take long periods of time off between assignments. For example, you'll work for 6 months, save money, then take 1-3 months off for leisure.

That's just part of the travel nurse lifestyle.

Also, the time between one contract ending and your next contract could be 1-2 weeks. Is this a "gap in employment?"

How long is a gap in employment? This depends on the type of loan you're getting. FHA defines a gap as at least one month. Conventional loan rule-maker Fannie Mae doesn't set a specific time but says that lenders must look at the history of any variable income and determine if any gaps are consistent over time or longer than usual. If longer than usual (or more than 1 month for FHA), you'll need a letter explaining the time you had away from work.

What's the "secret" to qualifying when you have employment gaps? In a word, history. You'll need to build up at least 12 months, but preferably 24 months, of history as a travel nurse, for a couple of reasons.

First, you need to prove how long a typical gap is. Second, the lender needs to average your income including any gaps and various pay rates. That also takes time.

As mentioned in the previous section, get as much history as a travel nurse as you can. If you plan to become a travel nurse next year, but you also want to buy a house, you might consider starting to travel now.

Write a great letter of explanation. Mortgage lenders don’t know the ins and outs of the nursing industry, let alone the travel nursing industry. Write as detailed a letter as you can about how travel nursing works. Put it in context for the lender. That letter goes a long way toward your approval. You could also request a letter from your recruiter or agency HR department. A letter on letterhead from the company explaining the travel nursing process will help your case.

3. Variable income

Travel nurse pay is seasonal and varies contract-to-contract and by location.

For example, a travel nurse working in California will make more than a nurse working in Florida. Additionally, hospitals will pay travel nurses more to work in Wisconsin during the winter. (No one wants to be stuck in a snowstorm).

There are also states that travel nurses like to work (Hawaii) just for the experience, hospitals in these locations can pay lower because of the lifestyle.

Each individual contract is negotiated differently — agency by agency and hospital by hospital.

But how do you explain all this to a lender when applying for a mortgage?

One thing lender’s do understand is seasonable work and variable pay. Lots of industries — construction, agriculture, and others — are variable in nature. The key is getting enough history.

Get at least 12 months’ history, but preferably 24 months, before applying for a mortgage. Keep everything: contracts, pay stubs, W2s, and offer letters. You can get approved if the lender can average out the variable and seasonable pay over a reasonable amount of time.

According to Fannie Mae, the nation’s lead mortgage rule maker, “Two or more years of receipt of a particular type of variable income is recommended; however, variable income that has been received for 12 to 24 months may be considered as acceptable income, as long as the borrower's loan application demonstrates that there are positive factors that reasonably offset the shorter income history."

So, if you have at least a year under your belt, it can't hurt to apply for a home loan.

4. Taxable and non-taxable income as a travel nurse

Most travel nurses receive their pay in the form of taxable plus non-taxed income.

The non-taxed portion of their pay is per diem pay. Per diems are reimbursements for meals, housing, travel, incidentals while they are working away from their "tax home," an IRS term meaning where they live when they're not traveling for work.

Per diem income is not considered by the IRS to be income or compensation.

However, travel nursing agencies do include this pay on the nurse's paycheck. And, many agencies bump up per diem pay, and pay lower rates for the actual work. This is advantageous for nurses at tax time, but not so much for when they apply for a mortgage.

A travel nurse's pay may appear to a lender to be much lower than it actually. This is why it is important for travel nurses to educate themselves on taxable/non-taxable pay. Per diems could be considered a liability.

Can per diem pay be used to qualify for a mortgage?

Fannie Mae as well as the other major rule-making agencies like Housing and Urban Development (HUD, the overseers of FHA), don't address most per diem pay specifically.

Therefore, some lenders may be able to use it, others won't.

The fact that it doesn’t show up on tax returns doesn’t help. Typically, a lender uses tax returns to verify the history of income. In any case, keep all your contracts, pay stubs, and any other paperwork that documents the pay structure.

One bright spot is around housing stipends. Fannie Mae states that you can use housing reimbursement as qualifying income if it has been received for the most recent 12 months, and is likely to continue for three years.

Should you agree to receive non-taxable income?

If I were giving advice to a travel nurse who wants to buy a home someday, I would say to take as much money as possible in taxable pay rather than stipends. It’s just too much of a risk to work for two years, only to discover a lender can’t use all that income history.

And if you’ve already got a history of high per diem pay? You might as well try to apply at a few lenders. They might say they can’t use the income to qualify. In that case, start negotiating lower per diem pay and higher base pay. Starting immediately will increase your average pay and help you qualify sooner.

If you’re really in a hurry to buy, you could take a staff nurse position. You can most likely use your pay structure to qualify after a few months of pay stubs, or in some cases even just an offer letter.

That may seem drastic, but mortgage rules do not state you can never change jobs again. Once your loan closes (and, I would add, you feel comfortable with your new house payment), you are free to explore other job opportunities including travel nursing again.

5. General tips for travel nurses who want to buy a house

The Mortgage Reports asked former travel nurse recruiter and current content director for Nurse.org Angelina Gibson for her advice to nurses looking to buy in the near future. Here’s what she had to say.

Save all travel nursing contracts. Keep physical copies of the contracts between yourself and your travel nursing agencies for all your travel nursing assignments.

Your broker will ask you to explain all gaps in employment and to also provide proof of consecutive assignments. It is also a good idea to keep copies of your contracts online in a cloud service like Dropbox or another digital format to easily access.

If you are able to, you could save copies of your pay stubs. You should also be able to ask your agency for a copy of your deposits. Keep in mind that some agencies may not keep these records or they may not be readily accessible. Save yourself the hassle by keeping all your own records.

Do not accept travel nursing assignments with high non-taxed stipends and low taxable pay. Though it may be tempting at the time to accept an assignment offering a low taxable hourly rate and high non-taxed stipend, it will not be worth it in the long run. Especially if you have plans to purchase a home.

Why?

Because non-taxed stipends are not considered wages by the IRS, your broker may not count the stipend as income. If your taxable hourly rate is too low, it may decrease the amount of your loan.

As a rule of thumb, I recommend rejecting assignments offering a taxable hourly rate of less than $18 per hour, the national average hourly pay for registered nurses.

Understand the IRS tax guidelines for traveling/contract workers. Travel nurses are paid very differently than staff nurses. That’s because they travel for work and receive non-taxed stipends to help with housing and living expenses while they are away from work on assignments.

Why do travel nurses receive non-taxed stipends? Because they are duplicating expenses. This means that they are maintaining a tax-home residence while maintaining a temporary residence where they are working a travel nursing assignment.

The IRS considers non-taxed stipends reimbursements, not wages.

As a travel nurse, it is up to you to understand why you are eligible for non-taxed stipends, and, to make sure that you are paying the appropriate taxes when required.

Get acquainted with IRS publication 463 for additional information regarding travel, entertainment, gift, and car expenses.

If you are a travel nurse and are receiving non-taxed stipends, you must maintain a tax-home. There are three requirements to establish and maintain a tax-home. Travel nurses must meet two out of three of the requirements to be eligible to receive non-taxed stipends. If you do not meet at least two of these requirements, you should not be receiving or accepting non-taxed stipends.

The requirements include:

1. Maintain regular employment within the area of your tax home
2. Maintain a permanent address within your tax home area. The permanent address must be a physical address, not a P.O. box. You must also maintain the residence while you are away for work. This includes paying the mortgage, handling repairs, and paying utility bills.
3. Do not abandon your tax home. Travel nurses must return to their tax-home area about every 12 months to work (this helps maintain requirement #1.) We recommend working in your tax home area for at least 30 days per year. Otherwise, the IRS may assume that you've abandoned your tax home, in which case you are not eligible for non-taxed stipends because you are not duplicating expenses.

By understanding travel nurse taxes and the non-taxed stipend, you are setting yourself up for the best-case scenario for purchasing a home.

6. Is a house a waste of money as a travel nurse?

One concern travel nurses have is what they will do with the home while you are gone on travel nurse assignments.

Why pay all that money when you’re not there?

One option is that you can break even or even make money by using your home as a short-term rental while you are gone.

Related: Can Airbnb wreck your refinance?

Or get a roommate who is there all the time. These practices are allowed by mortgage rule-making agencies, to some extent. Just remember that you have to actually move into the home, and live there while you are not traveling.

Mortgage rules say you have to move into a home within 60 days of buying it. So, make sure you can do that even if you have some extended contracts coming up.

If you plan to set up some short-term rentals, get familiar with Airbnb and hire a property management company. You don’t want to be handling booking and other details while working 12-hour shifts a few states away.

Many companies will manage your property for 10-20% of your rental fee. There are plenty of companies to choose from, but do your homework before selecting one. Make sure they provide the services you need and aren’t too expensive.

Don’t want to have random strangers in your fresh new home? That’s understandable.

Simply put up an ad in a travel nursing forum or Facebook group, and only rent to fellow travel nurses who will be in your area.

Because of a shared profession and online community, there’s instant trust and accountability between you. You are much less likely to get taken advantage of or incur damage to your new home.

Part 3: Dealing with student loans as a travel nurse/staff nurse

Many nurses — especially newer ones — have high college debt.

In fact, a lot of nurses are traveling to “pay off debt” because they make a lot more money than if they worked on staff.

Staff nurses are dealing with high student loans now, too. Hospitals are pushing for 4-year degrees for nurses now. There’s a target to push for 80% of the nurses in hospitals to have BSNs by 2020. That comes with a higher price tag and higher student loans.

Higher education is great, but it can affect a nurse’s debt-to-income ratio or DTI.

What is DTI? It’s the relationship between income and debt.

For instance, your DTI is 50% if you make $5,000 per month before taxes and have $2,500 in debt payments (student loans, auto loans, credit card payments).

Most lenders want to see a DTI of 43% or less, including your future home payment.

It’s easy to see why a $500-, $700- or even $1,000-per-month student loan payment can really wreck your chances of buying a home. Following are some strategies to work around student loans.

Pay off high-payment debt first. Don’t concentrate on your huge student loan balance. Pay off a car that has a high payment but a low balance. You want to eliminate as many high payments as possible, and debt with a $0 balance also comes with a $0 payment.

Have the lender calculate your payment correctly. Lenders will “hit” you with a student loan payment equal to the actual payment, or 1% of the balance if it’s a deferred loan or the actual payment is not otherwise calculable. If you are on an income-driven repayment plan, the lender can use that lower payment instead of what would be owed if not on the program.

Remove debt payments paid by others. Are parents footing the tab for your student loan (or any other debt)? The lender can remove that from your DTI calculation if another party has been paying it for 12 consecutive months.

Refinance your student loans. When it comes to debt, lenders only care about the payment, not the balance or repayment period. Reduce your student loan payment with a lower interest rate, longer loan term, or a combination of the two.

Student loans are no joke if you're trying to buy a house. Fortunately, there are ways to qualify despite high payments.

Part 4: Special housing programs for nurses

Many nurses wonder if there are special programs specifically for RNs. They may have heard of doctor loans and wonder if there are similar financing options for nurses.

Grants for nurses buying a home - be weary

There are few nationwide programs specifically for nurses, and no government-sponsored programs. There are a few that claim to be "housing grants" for nurses, such as teachernextdoor.us. However, further investigation reveals that this site is run by Pipeline ROI, a lead generation company.

Another website, usehhaf.org, claims to offer grants to nurses and professionals in order to build solid communities. However, it claims to be a fund of The Virtual Sports Academy, an organization whose website was shut down at the time of this writing.

The point of these examples is to be careful when looking for home loans for nurses. There are many disreputable companies looking to take advantage of nurses.

Plus, many programs claim to offer grants that could actually be down payment assistance. Conventional and FHA loans allow down payment assistance from certain approved organizations, and many of these companies are probably not on the list.

Home loans for nurses

In our research, we did find one example of a nurse mortgage, from Seattle-based Salal Credit Union. It offers:

- Down payments as low as 10%
- No monthly mortgage insurance
- Down payment and closing cost funds can be gifted
- Adjustable rates with several term options

However, this credit union only serves residents of Washington State. Look around in your area for local and legitimate RN home loans.

Standard loan programs that nurses can use

While nurse home loans are few and far between, standard loan types are worth looking into. Contrary to popular belief, no home loans today require 20% down, and all of them come with low rates.

Following is a brief description of the major loan types.

Conventional loans / conforming loans. Conventional loans, also known as conforming loans, are ones offered by local and national lenders across the country. Their rules are formulated by Fannie Mae and Freddie Mac. You can put as little as 3% down. While anything less than 20% down requires private mortgage insurance, these are still affordable even with that extra expense. Plus, you don't have to save forever to make that huge down payment. These loans are best for those with good credit and at least 3-5% down. Read more about conventional loans here.

FHA loans. These require just 3.5% down and are very flexible on employment gaps, change in employment status, and credit score. These are the go-to loans for anyone that doesn't fit into the conventional loan "box" and needs more leniency on certain aspects of their situation. Learn more about FHA here.

USDA loans. These are the best-kept secret in mortgage finance. They require no down payment whatsoever. There are income limits, and you must purchase a house within eligible USDA areas. Beyond those requirements, buying with

USDA is not that different than using a conventional or FHA loan. See our USDA loan guide here.

VA mortgages. For nurses with military service in their backgrounds, VA loans are perfect. They require zero down and are lenient about credit scores and income types. These loans typically require 2 years of active service or 6 years in the Reserves to be eligible. Learn more about VA loan eligibility here.

Are you ready to see if you qualify?

There are hurdles to overcome when buying a house as a nurse or travel nurse. That's certain. But a home can be a great investment and a place to set down roots.

Remember: there's no harm in applying for a mortgage. It won't hurt your credit score, and, even if you are not approved, at least you'll know what you need to do to get on the road to homeownership.