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Free Educational Resources for Homebuyers

Conventional Loan Booklet

Low-down options, PMI, and how to get the best pricing.

In this guide you'll learn:

- Down payment & PMI
- Credit & DTI
- Conforming loan limits
- Low-down-payment conventional options
- How lenders set your rate
- Removing PMI: a closer look

Purchase

Conventional loans are the most common type of mortgage in the U.S. They're offered by private lenders and follow guidelines set by Fannie Mae and Freddie Mac.

Down payment & PMI

Many conventional programs allow as little as 3% down for first-time buyers. If you put down less than 20%, you'll usually pay private mortgage insurance (PMI). The good news: PMI can be removed once you reach roughly 20% equity, unlike FHA mortgage insurance which often lasts the life of the loan.

Credit & DTI

Conventional loans typically reward higher credit scores with lower rates and cheaper PMI. A score in the mid-700s or above generally earns the best pricing. Lenders also look closely at your debt-to-income ratio.

Conforming loan limits

"Conforming" loans fall under annual limits set by the Federal Housing Finance Agency. Loans above that limit are called jumbo loans and have stricter requirements. Limits are higher in high-cost areas.

Low-down-payment conventional options

Conventional doesn't have to mean 20% down. Several programs let qualified buyers put down as little as 3% to 5%. A smaller down payment means paying PMI for a while but lets you buy sooner and keep cash in reserve; a larger one lowers your balance, your payment, and your PMI cost. The right balance depends on your savings, your timeline, and how long you plan to stay in the home.

How lenders set your rate

Conventional pricing is driven by risk -- the stronger your profile, the better the terms you're offered. Three things move the needle most:

- Credit score and history -- the single biggest lever on both your rate and your PMI cost.
- Loan-to-value -- how much you put down; more equity generally earns better pricing.
- Property type and occupancy -- a primary residence typically prices better than a second home or rental.

Optional points let you pay a fee up front to lower your rate; whether they pay off depends on how long you keep the loan.

Removing PMI: a closer look

One of conventional's biggest advantages over FHA is that its mortgage insurance is removable. As your balance falls, you can request cancellation once you reach roughly 80% of the original value, and lenders generally terminate PMI automatically near 78% as long as you're current. Extra principal payments -- or an appraisal showing a higher value -- can move that date up and save you money.

Conventional vs. FHA: how to decide

Many buyers can qualify for either, and the better fit comes down to your credit and how long you'll keep the loan. FHA can be friendlier to lower credit and smaller down payments, but its mortgage insurance often lasts the life of the loan. Conventional tends to win over time for buyers with stronger credit because the PMI eventually goes away. Compare the full monthly cost and the long-term picture, not just the headline rate.

Common conventional myths

- Myth: you must put down 20%. Many conventional loans allow 3-5%.
- Myth: PMI never goes away. On conventional loans it can be removed as you build equity.
- Myth: conventional is always cheaper than FHA. It depends on your credit and down payment -- compare both.
- Myth: you need perfect credit. Solid, not flawless, credit is usually enough.