

HomeWise

Free Educational Resources for Homebuyers

Conventional Loan Booklet

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

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Conventional Loans

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.

Conforming Loans and Loan Limits

A conventional loan is one that is not insured by a government agency. The most common kind is a conforming loan, which meets the size limits set each year by the Federal Housing Finance Agency.

- Loans within the limit generally enjoy the most competitive pricing and widest availability.
- Loans above the limit are jumbo loans, with stricter requirements.

Knowing the conforming limit for your area helps you understand which lane your financing falls into.

Private Mortgage Insurance and How to Remove It

If you put down less than 20% on a conventional loan, you will usually pay private mortgage insurance, or PMI, until you build enough equity. The good news is that PMI is not necessarily permanent.

- You can typically request PMI cancellation once your balance reaches about 80% of the original value.
- Lenders are generally required to remove it automatically at around 78%, assuming you are

current.

- Extra principal payments or rising home values can get you there sooner.

This removable insurance is a meaningful difference from some government-backed loans where insurance can last the life of the loan.

Low-Down-Payment Conventional Options

Conventional does not always mean 20% down. Several programs allow qualified buyers to put down as little as 3% to 5%.

- A smaller down payment means PMI for a while, but lets you buy sooner.
- A larger down payment 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.

Credit, Pricing, and Points

Conventional pricing is sensitive to your credit profile and down payment. Stronger credit and more equity generally earn better terms.

- Check your credit early and correct any errors before you shop.
- 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.
- Compare Loan Estimates from more than one lender to judge whether pricing is competitive.

Common Conventional Loan Myths

Want the complete guide?

This is a free 3-page preview. The complete Conventional Loan Booklet runs about 10 pages with the full details. To get the full version, just add your phone number when you download it on our website -- iqhomeloans.org. Your phone number is used only for sending you updated emails and/or support information.