

Conventional Loans

A Comprehensive Guide to Private Mortgage Financing

A **conventional loan** is a type of mortgage that is issued by private lenders—such as banks, credit unions, or online mortgage companies—and is **not insured or guaranteed by the federal government**.

This sets it apart from government-backed options like FHA loans (Federal Housing Administration), VA loans (Department of Veterans Affairs), or USDA loans (U.S. Department of Agriculture). Because private lenders absorb all the risk if a borrower defaults, conventional loans typically feature stricter qualification criteria, yet they offer higher flexibility once approved.

Types of Conventional Loans

Conventional mortgages fall into two primary categories based on whether they adhere to rules set by the Federal Housing Finance Agency (FHFA):

1. Conforming Loans

These loans "conform" to the underwriting standards and maximum size guidelines established by Fannie Mae and Freddie Mac (the two government-sponsored enterprises that purchase mortgages from lenders on the secondary market).

Property Type	Baseline Areas Limit (2026)	High-Cost Areas Ceiling (2026)
Single-Family Home (1-Unit)	\$832,750	\$1,249,125
Two-Unit Property	\$1,066,250	\$1,599,375

2. Non-Conforming (Jumbo) Loans

If a home purchase price is so high that the required mortgage exceeds the local conforming loan limits, it becomes a **jumbo loan**. Because these loans are too large to be sold to Fannie Mae or Freddie Mac, lenders take on significantly more risk. Consequently, jumbo loans require stricter underwriting, exceptional credit scores, and larger down payments.

Typical Requirements to Qualify

Because private lenders shoulder the financial risk without a government safety net, they look closely at a borrower's complete financial profile:

- **Credit Score:** Most lenders require a minimum credit score of **620**. However, a score of 740 or higher is usually required to secure the most competitive interest rates and lower insurance premiums.

- **Down Payment:** You do not necessarily need 20% down. Many conventional loan programs allow down payments as low as **3% to 5%** for qualified first-time or repeat buyers.
- **Private Mortgage Insurance (PMI):** If you put down less than 20% on a conventional loan, you will be required to pay PMI. This is a monthly fee that protects the lender if you stop making payments.
- **Debt-to-Income (DTI) Ratio:** Lenders look at how much of your gross monthly income goes toward paying debts. Ideally, your DTI should be **43% or lower**, though some lenders will stretch to 45% or 50% if you have strong credit or deep cash reserves.

Pros and Cons of a Conventional Loan

Advantages (Pros)	Disadvantages (Cons)
<p>Lower Overall Costs</p> <p>If you have strong credit and a solid down payment, conventional loans usually feature lower interest rates and fewer fees than government loans.</p>	<p>Stricter Qualification</p> <p>Harder to qualify for than FHA or VA loans if your credit history has a few blemishes or your debt load is high.</p>
<p>Cancelable PMI</p> <p>Unlike FHA loans (where mortgage insurance often lasts for the entire life of the loan), conventional PMI automatically drops off once you reach 20% to 22% equity in the home.</p>	<p>Higher Costs for Lower Credit</p> <p>If your credit score is right at the 620 minimum, your interest rate and monthly PMI costs will be significantly higher.</p>
<p>Property Flexibility</p> <p>Can be used to purchase primary residences, secondary/vacation homes, or investment properties. Government loans almost exclusively restrict you to primary residences.</p>	<p>Higher Down Payment for Prime Terms</p> <p>While 3% down is possible, you need a substantial chunk of cash upfront to avoid PMI completely.</p>

The Bottom Line: A conventional loan is the most popular mortgage option on the market. It is best suited for borrowers who have stable income, solid credit scores, and at least a modest down payment saved up.