FREEDOM MORTGAGE®

FHA vs. conventional loans

What are the differences between FHA and conventional loans?

Many people look at FHA loans and conventional loans when they are thinking about buying a house. Both types of mortgages have advantages and disadvantages. Read on to learn more about the benefits of FHA loans versus conventional loans, and decide which one is a better fit for you!

What is an FHA loan?

FHA loans are mortgages offered by private lenders and insured by the Federal Housing Administration (or "FHA"). This insurance is designed to help make homeownership more affordable for people with moderate incomes.

Advantages of an FHA loan

It can be easier to qualify for an FHA loan compared to a conventional loan. For example, some lenders may have more flexible credit score requirements. You can often make a smaller down payment with an FHA loan and the interest rates on FHA loans can be as competitive as rates you might get with a conventional loan.

It can be easier to refinance an FHA loan too. Homeowners who qualify might choose an FHA Streamline Refinance, which can have less paperwork and faster approvals. You can only use a streamline refinance to replace an existing FHA loan with a new FHA loan, however. You cannot use streamline refinancing to switch from an FHA to a conventional loan or to refinance a conventional loan.

Our Eagle Eye Program looks for times when Freedom Mortgage customers might benefit from a streamline refinance.

Disadvantages of an FHA loan

One disadvantage of FHA loans is that there are limits on how much money you can borrow to buy a house. These FHA loan limits vary by county and are based on the median home price in that county. In counties where homes are the most affordable, the maximum amount you can borrow with an FHA loan is $331,760. In counties where homes are more costly, the maximum amount is $765,600. These loan limits are current as of 2020.

FHA loans come with two kinds of mortgage insurance premiums. The first is the Upfront Mortgage Insurance Premium (or "UFMIP"), which every person who gets an FHA loan has to pay. This upfront premium is currently equal to 1.75% of the loan amount. So if you are borrowing $250,000, you will need to pay an Upfront Mortgage Insurance Premium of $4,375.

FHA loans also come with monthly Mortgage Insurance Premiums (or "MIP"). The amount you pay for MIP depends on several factors, including the size of your down payment. For example, those who get FHA loans today with a down payment of at least 10% will have to pay Mortgage Insurance Premiums for 11 years. However, those who get an FHA loan with less than a 10% down payment will have to pay MIP for the full life of the loan.

Finally, you can only use an FHA loan to buy a "primary residence," which is a house where you intend to live. You cannot buy a vacation or second home, rental house, or investment property with an FHA loan.

What is a conventional loan?

Conventional loans are mortgages offered by private lenders without a guarantee from the federal government. Sometimes lenders talk about two kinds of conventional loans. There are "conforming" loans, which means the mortgages conform to loan limits set by Fannie Mae and Freddie Mac. And there are "jumbo" loans, which are mortgages for amounts greater than the limits of conforming loans.

Advantages of a conventional loan

Generally speaking, you can often borrow more money with a conventional or jumbo loan than you can with an FHA loan. There are no upfront mortgage insurance premiums with conventional mortgages. And you can avoid paying for mortgage insurance if you make a 20% down payment.

You do have to buy private mortgage insurance (or "PMI") when you make a down payment of less than 20% with a conventional loan. It can be easier to stop paying PMI for a conventional loan than it is to stop paying MIP for an FHA loan, however. If your loan is subject to the federal Homeowners Protection Act (HPA), you can request to stop paying private mortgage insurance when your home equity reaches 20%. Additionally, if you are current on your loan and it is covered by the HPA, your lender is required to remove PMI from your monthly bill once your home equity reaches

22%.

You can buy a home, vacation home, second home, rental house, or investment property with a conventional loan. You do not have to occupy the house as your "primary residence," as FHA loans require.

Disadvantages of a conventional loan

Because they are not insured by the government, it can be harder to qualify for a conventional loan versus an FHA loan. Lenders may require you to have a higher credit score, make a larger down payment, or meet other financial requirements before they approve your loan application.

FHA Loans
Down Payment: Yes
Mortgage Insurance: Yes
Credit: Lower credit scores
Type of Property: Primary residence only
Government insured: Yes

Conventional/Jumbo Loans
Down Payment: Yes
Mortgage Insurance: Yes if less than 20% equity
Credit: Higher credit scores
Type of Property: No restrictions
Government insured: No

Want to learn more about FHA or conventional loans?

You can use FHA and conventional loans to buy and refinance homes. Would you like to speak to one of our knowledgeable Loan Advisors? Please complete our Get Started form or call us at 877-220-5533.

FREEDOM MORTGAGE®

NOTES & REMINDERS