

What is a conventional loan?

Buying and refinancing homes with conventional mortgages

Conventional loans are what many homeowners call “traditional mortgages” or simply “mortgages.” They are offered by private lenders without a guarantee from a government agency like the VA or FHA. Conventional loans often have higher credit score, income, and financial requirements compared to government-back mortgages. They sometimes have higher interest rates too.

However, conventional loans also have advantages when you want to buy or refinance a home. You can finance more kinds of properties with a conventional mortgage. You may qualify to borrow more money with these loans, which can help you buy or refinance a more expensive house. And you can often avoid paying for mortgage insurance with a conventional loan. Here are answers to frequently asked questions about conventional loans.

Who can get a conventional loan?

Any person who meets the lender’s financial and income requirements can qualify for a conventional loan. Anyone can be eligible for FHA and USDA loans too. [VA loans](#) are different. You need to be a veteran, active duty military, or a surviving spouse to qualify.

Do conventional loans have limits?

In 2021, you can borrow up to \$548,250 with a conventional loan that conforms to the limits set for mortgages that can be acquired by Fannie Mae and Freddie Mac. These are often called “conforming” mortgages. You may be able to borrow more than this limit with a jumbo loan.

FHA loans have limits that vary depending on where your house is located. These [FHA loan limits](#) can be lower than the limits on conventional loans. VA loans and USDA loans do not have limits. USDA loans have limits on the income homebuyers can have.

What kinds of houses can you finance with conventional loans?

You can buy and refinance primary homes, vacation homes, rental properties, and investment properties with conventional loans. This is different than homes financed with government-backed mortgages. You can only buy or refinance primary homes with VA, FHA, and USDA loans.



Where can you buy a house with a conventional loan?

You can use a conventional loan to buy a home in any community in the United States. The same is true for VA and FHA loans. USDA loans are different. You can only use USDA loans to finance houses in rural and certain suburban communities.

Do conventional loans have mortgage insurance?

When you buy a house with a conventional loan, you will need to pay for private mortgage insurance (which is also called "[PMI](#)") unless you make a down payment of at least 20%. The same is true when you refinance with a conventional loan. You need to have at least 20% equity in your home or you will need to pay for PMI.

Government-backed mortgages are different. You need to pay an upfront and monthly mortgage insurance premiums when you finance a house with a FHA loan, regardless of the size of your down payment or the amount of your home equity. USDA loans have upfront and annual loan guarantee fees. VA loans have a one-time [VA funding fee](#) you need to pay at closing or add to your mortgage amount.

What kinds of mortgages can you refinance with a conventional loan?

You can refinance any type of mortgage with a conventional loan. These [mortgage refinances](#) are sometimes called "full document" refinances because you need to complete a new application and provide a new set of income and financial documents as well as pay new closing costs to qualify.

Government-backed home loans have "streamline" programs which allow you to refinance your mortgage with less paperwork and faster closings. You can't change the type of mortgage you have however. For example, if you have an FHA loan you can only use the streamline program to refinance into a new FHA loan. VA streamline refinances are also called "[VA IRRRLs](#)". USDA loans have a streamline program too. Streamline refinances come with closing costs you will typically need to pay.

Speak to a Freedom Mortgage Loan Advisor today!

Freedom Mortgage can help you buy or refinance a home with conventional, FHA, VA, and USDA mortgages. To speak with one of our experienced loan advisors, please visit our [Get Started](#) page or call 877-220-5533.



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