Conventional 97 loan guide: How to get a 3% down loan

What is a Conventional 97 mortgage?

If you're a first-time home buyer, you can avoid the higher down payment requirements — often 5%, 10%, or even 20% — that come with 'standard' conventional mortgages.

The Conventional 97 is a nationwide mortgage program that lets you buy a house with just 3% down. Most lenders can offer this mortgage — and you only need a 620-credit score to qualify.

Thanks to this 97 LTV program, first-time buyers can get into a new home with very little out of pocket. Here's how.

How the Conventional 97 loan works

The Conventional 97 mortgage allows a **loan-to-value** ratio (LTV) as high as 97%. LTV is the difference between your loan amount and the home's purchase price. Therefore, a 97% LTV means your mortgage loan covers 97% of the sale price while the other 3% is covered by your **down payment**.

This program is intended to make homeownership more affordable, especially for **first-time home buyers** who might not have a lot of cash saved up.

Qualifying for a Conventional 97 loan means you're able to buy with as little as 3% out of pocket. That's only $9,000 down on an asking price of $300,000. The next step up would be a conventional 95 loan, which requires 5% (or $15,000) down.

Thanks to the Conventional 97 loan and other **3%-down programs**, home buyers don't have to wait years to save the "traditional" 20% down.

Conventional 97 loans and PMI

The Conventional 97 loan makes it easier to purchase a house by lowering the upfront cost. However, this program does require **private mortgage insurance** (PMI).

PMI is typical when buying a home with less than 20% down. Although borrowers pay these premiums with their mortgage payment, the insurance protects their lender in the event of default.

Home buyers often don't like PMI because it increases their mortgage payments. But if it lets you buy a house sooner than you would with 20% down, **PMI is often worth the investment**.

Keep in mind that you can usually remove your mortgage insurance after a few years, once your LTV decreases to 80%. This happens as you pay down your mortgage and as your home increases in value. And with home values rising quickly over the last few years, many homeowners can remove PMI sooner rather than later.

Conventional 97 loan requirements

The Conventional 97 program requires a minimum credit score of 620. And, when applying with another person, at least one person on the mortgage must be a first-time buyer. That said, the program defines a first-time buyer as "someone who hasn't owned a home within three years of applying." So, you might still qualify if you've owned property in the past.

Basic Conventional 97 loan requirements include:

- 3% minimum down payment
- 620 minimum credit score
- Debt-to-income ratio (DTI) cannot exceed 43%
- You typically need a steady, two-year work history
- You must provide proof of income (e.g. W-2s, pay stubs, recent paychecks, and two years of income tax returns if self-employed)

- Mortgage can't exceed the local conforming loan limit
- At least one borrower must be a first-time home buyer
- The property must be owner-occupied (you can't use the program to buy an investment property)

The good news is, there are no income limits with a Conventional 97 loan. By contrast, Fannie Mae's **HomeReady** loan and Freddie Mac's **Home Possible** (both of which also allow 3% down) cap household income at 80% of the area median income.

Another benefit? You don't have to use your own funds for the down payment. The Conventional 97 program allows you to use **down payment assistance** or gifted money to cover your out-of-pocket cost.

In addition, if everyone on the loan is a first-time home buyer, at least one borrower must take a homeowner education course to qualify for the Conventional 97 program. These courses can typically be completed online in just a few hours and are free of charge. Your lender will walk you through the details.

Pros and cons of the Conventional 97

Here's a look at the advantages and disadvantages of a Conventional 97 loan.

Pros

- You can buy with as little as 3% down
- PMI is cancelable once you have enough equity
- No income limits
- Lower interest rates if you have good credit
- You can use grants or gifted funds for your down payment
- No upfront mortgage insurance (unlike FHA loans)
- Higher loan limits than FHA

Cons

- Monthly PMI payments are required
- Higher credit score minimum compared to FHA loans
- Cannot use the loan to purchase an investment property
- A low down payment can result in a higher interest rate and mortgage payment

Other conventional loan options

Keep in mind that the Conventional 97 isn't the only 3%-down conventional loan program. Other options for first-time homebuyers include **Fannie Mae's HomeReady and Freddie Mac's Home Possible**.

There are two main differences between these programs:

- HomeReady and Home Possible have income limits. Conventional 97 does not
- HomeReady and Home Possible have reduced PMI rates for eligible borrowers

To qualify for Fannie Mae's HomeReady, you'll need a minimum credit score of 620 and your household income cannot exceed 80% of the area's median income.

Freddie Mac's Home Possible program has an income limit, too, which is also set at 80% of the area's median income. This loan requires a minimum credit score of 660.

Similar to the Conventional 97, both programs only allow the purchase of a primary residence. And completion of a homeownership education course is sometimes required. These loans also allow the use of down payment assistance and gift funds for mortgage-related expenses.

Conventional 97 vs. FHA

The Conventional 97 loan is often **compared to the FHA mortgage program**. Both loan types are geared toward first-time home buyers and can offer low down payments. But each one has unique advantages.

Benefits of an FHA loan

Compared to a Conventional 97 loan, **FHA is usually better** for home buyers with low credit. The Federal Housing Administration (which insures this program) allows credit scores as low as 580 with just 3.5% down. By contrast, you need a FICO score of at least 620 for a conventional loan.

Another benefit of an **FHA loan** is that the program allows a debt-to-income ratio of up to 50% in some cases. So, if you have lots of existing debt (student loans, car loans, credit cards, etc.), it may be easier to qualify via FHA mortgage.

Downsides of FHA

On the downside, you'll pay mortgage insurance with an FHA loan (known as "mortgage insurance premium" or "MIP"). And, unlike conventional PMI, FHA mortgage insurance typically lasts for the life of the loan (or until you refinance). The only exception is when you put down at least 10%. In this case, you'll pay mortgage insurance for 11 years.

The other downside with FHA is that the program has a lower **loan limit** compared to conventional loans. So, you could be more limited in the range of homes you can shop for.

All in all, a conventional loan is usually cheaper if you have good credit, while FHA is the loan of choice for lower-credit home buyers.

But don't feel like you must decide right now. Your loan officer will help you compare both options side by side so you can see which one is truly best for your situation.

Conventional 97 FAQ

How do you qualify for a Conventional 97 loan?

To qualify for a Conventional 97, at least one borrower on the mortgage must be a first-time homebuyer. This is defined as someone who hasn't owned a property during the previous three years. The program requires a minimum credit score of 620, a debt-to-income ratio of no more than 43%, and borrowers must use the loan for a primary residence. At least one borrower must complete homeownership education before closing.

What credit score do you need for a Conventional 97 loan?

A Conventional 97 loan requires a minimum credit score of 620. To improve your credit, pay your bills on time, pay down credit card balances, dispute errors on your credit report, and limit your number of credit inquiries.

Is there an income limit for a Conventional 97?

The Conventional 97 loan doesn't have income limits. This is different from other conventional 3% programs. Fannie Mae's HomeReady and Freddie Mac's Home Possible also allow a loan-to-value ratio of 97%. But to qualify for these programs, your income cannot exceed 80% of your area's median income (AMI).

Does Conventional 97 require PMI?

Borrowers who use a Conventional 97 loan are required to pay private mortgage insurance (PMI). This is typically required when purchasing a home with less than 20% down. These insurance premiums are included with your monthly mortgage payments and protect your lender against default. Lenders can waive PMI once a borrower has at least 20% home equity.

Can you get a conventional loan with 5% down?

If you're not a first-time homebuyer, a Conventional 95 loan is another low-down-payment option. Unlike Conventional 97, HomeReady, and

Home Possible, this loan doesn't allow 3% down. You'll need a minimum of 5% down and are required to pay private mortgage insurance.

Is it better to have a conventional loan or FHA?

Choosing between an FHA loan and a conventional loan depends on your circumstances. Conventional 97 might be a better option for first-time homebuyers with limited cash. However, if you don't qualify for a Conventional 97, an FHA loan can help you purchase with as little as 3.5% down. Plus, you can get approved for an FHA loan with a credit score as low as 580.

What's the downside of a conventional loan?

Conventional loans have higher credit score minimums compared to FHA loans, and lower debt-to-income ratio requirements. There's also the added expense of private mortgage insurance if you purchase with less than 20% down. Qualifying for a conventional loan is sometimes harder due to stricter guidelines.

What lenders offer Conventional 97?

Different types of lenders offer Conventional 97 loans. These include banks and credit unions, mortgage companies, mortgage brokers, and online lenders. In addition to this loan, some lenders offer other 3% down conventional programs like HomeReady and Home Possible.

How to get a Conventional 97 loan

To get a Conventional 97 loan, contact a mortgage lender for a rate quote and complete an application. Ideally, you should compare rates with at least three different lenders.

Documents you'll need when applying for a mortgage include income statements, bank account statements, and a government-issued ID. The lender will review this information and your credit to see if you qualify for the program.