Conventional Loan

When buying a home, many people opt for a conventional loan, a type of mortgage that's readily available from most lenders.

What is a conventional home loan?

"Conventional mortgage" or "conventional loan" is a term you're bound to encounter when you're shopping for a mortgage. After all, this common mortgage type is offered by most lenders.

A conventional loan is any type of home loan that isn't insured or guaranteed through a federal government agency. Conventional loans aren't backed by a government agency, but they usually follow some government guidelines. Most conventional loans conform to loan limits set by the Federal Housing Finance Agency (FHFA), and conventional loans follow the income, credit score and down payment minimums set by the government-sponsored enterprises known as Fannie Mae® and Freddie Mac®.

Conventional loans often cost less than government-backed mortgages such as FHA loans, but conventional qualification requirements are more difficult to satisfy.

The following types of properties can have a conventional loan: a **single-family dwelling or multifamily dwelling** with no more than four units after your down payment, can be purchased using a loan amount within current conforming loan limits:

- Single-family homes (detached homes)
- Planned Unit Developments (PUDs), which typically consist of detached homes within a homeowners' association
- Condominiums
- 2-, 3-, and 4-unit properties
- Some co-op properties
- A conventional loan can be used to buy a **vacation home** or an **investment property**, as well as a primary residence.

Conventional loans can also be used for second homes where the buyer plans to reside for less than 12 months.

What kinds of conventional loans are available?

“Conventional” just means that the loan is not part of a specific government program. Conventional loans typically cost less than **FHA loans** but can be more difficult to get.

There are two main categories of conventional loans: Conventional mortgages fall into two categories: “conforming” and “nonconforming” loans.

Conforming conventional loan: follow the guidelines and have maximum loan amounts that are set by the government Federal Housing Finance Agency **(FHFA)**. Other rules for conforming loans are set by **Fannie Mae and Freddie Mac**, two government-sponsored enterprises (GSE) companies that provide backing money for conforming loans in the U.S. housing market. The best-known rule has to do with the size of the loan. In 2024, the current maximum **conforming loan limit** for single-family homes in most U.S. counties is $766,550, up to $1,149,825 for single-family homes in **high-cost** areas, and even more in some cities in California and higher cost areas such as Hawaii and Alaska.

Nonconforming conventional loan: Many nonconforming loans are **jumbo loans**, which are for home buyers who need to borrow an amount that's higher than the conforming limit for the area. Lenders are free to set their own limits for nonconforming conventional loans, which include **jumbo loans**. In most cases, jumbo loans are capped around $1 million to $2 million, depending on the borrower's financial situation.

Other types of nonconforming loans include those made to borrowers with poor credit, high debt, or recent bankruptcy, or to self-employed borrowers with nontraditional incomes.

Lenders typically charge higher rates for jumbos and other nonconforming loans. These loans may carry other fees or insurance requirements due to their riskier nature.

6 Types of Conventional Loans All Home Buyers Should Know

Conventional loans are a popular mortgage option, even for first-time homebuyers, but they come in more than one flavor. It may surprise you to learn there’s more than one type of conventional loan and each type has its own costs and qualification requirements.

1. Conforming conventional loans

If a conventional loan is less than the maximum loan amount set by the Federal Housing Finance Agency and meets additional loan standards set by Fannie Mae or Freddie Mac, it's called a **conforming loan**. Because Fannie and Freddie are government-sponsored enterprises, you may also hear conforming loans referred to as "GSE loans."

2. Nonconforming conventional loans

If a conventional loan exceeds FHFA loan limits or uses underwriting standards that are different from those set by Fannie Mae and Freddie Mac, it's called a nonconforming loan. A **jumbo loan** is a common type of nonconforming conventional loan. You may need a jumbo loan to finance more than $766,550 in most U.S. counties.

Whether they're conforming or nonconforming, all mortgages require you to pay interest. With a **fixed-rate conventional loan**, the interest rate stays the same for as long as you have the mortgage. Many buyers choose a 30-year fixed-rate conventional loan because it usually results in an affordable monthly payment, but shorter terms are also available.

4. Adjustable-rate conventional loans

The alternative to a fixed-rate mortgage is an **adjustable-rate mortgage**, or ARM. Conventional loans with adjustable rates, also known as hybrid ARMs, have rates that may go up or down over time. ARM rates usually adjust annually, after an initial fixed-rate period of three, five, seven or 10 years.

5. Low-down-payment conventional loans

There was a time when getting a conventional loan required a 20% down payment. Because borrowers who meet this requirement only have to finance 80% of the home's value, it's often referred to as an "80/20 conventional loan." But conventional loan down payment requirements has since become more flexible.

3% down payment

HomeReady and Home Possible are conventional mortgage options that allow down payments as low as 3% — sometimes referred to as "3 down conventional loans." If you qualify for a 3% down payment through one of these programs, you'll need to finance the other 97%. That's why you may hear them referred to as “conventional 97 loans.”

5% down payment

Borrowers with lower credit scores might be required to make a down payment of 5% or more to get a conventional loan, meaning they'd need to finance 95% of the home's value. This is sometimes referred to as a “5 down conventional loan” or a “conventional 95 mortgage.”

Zero down payment?

If you're wondering “Can I get 100% conventional loan financing?” the answer is yes, but it may be hard to find. Some lenders — often credit unions — offer in-house, nonconforming conventional mortgage programs that feature 100% financing, but special qualification requirements often apply. Be aware that **zero-down-payment mortgages** are risky: It will take you longer to build equity than someone who makes a down payment, and you'll pay more interest as a result.

6. Conventional renovation loans

It can be hard to find the perfect house in your budget. **Buying a fixer-upper** is one way to achieve home ownership when prices are high or move-in-ready inventory is low. The **CHOICERenovation loan** and **HomeStyle loan** are two types of conventional mortgages that allow you to finance a home purchase, as well as the necessary renovations, at the same time.