What Type of Home Loan is Best for Me? 2024 Loan Options

Find your best mortgage loan

There is no “right” answer to the question “*Which type of home loan is best?*". No two home buyers are the same, so it’s up to you and your loan adviser to choose the mortgage program that works best for you.

Today’s buyers are fortunate to have access to a wide variety of loan options. Below, you can explore the most popular types of home loans to see which one might be best for you. At the end of the day, you want an affordable mortgage payment and interest rate. How you get there is secondary.

	Min. Down payment	Min. Credit Score	Upfront Loan Fees	Mortgage Insurance	Features
Conforming Home Loan	3-5%	620	None	Required with less than 20% down	Most common type of home loan
VA Home Loan	0%	Often 580-620	1.4% to 3.6% VA funding fee	None	Eligible military service history required
FHA Home Loan	3.5%	580	1.75% upfront mortgage insurance premium (MIP)	0.55% of existing loan balance per year	Intended for lower-credit or lower-income buyers
USDA Home Loan	0%	Often 640	1% upfront mortgage insurance (MIP)	0.35% of the existing loan balance per year	For low- and middle-income buyers in "rural" areas
HomeReady and Home Possible	3%	620-660	None	Required with less than 20% down	For lower-income first-time buyers

Jumbo Home Loan	Often 10-20%	Often 680 or higher	None	Required with less than 20% down	For mortgages above conforming loan limits

Compare types of home loans

Many home buyers use a conventional **conforming mortgage**. When you have decent credit and at least 5-10% down, a conforming loan is often the most affordable option.

However, it’s not the only option by any means. Other common loan types include an **FHA mortgage** (for lower-credit borrowers), a **VA mortgage** (for service members and veterans), or a **USDA mortgage** (for buyers in rural areas). **Jumbo loans** are also popular for borrowers purchasing high-priced homes.

Exact loan requirements may vary by lender. The table shows typical requirements for sample purposes only.

What’s the best mortgage for you? How to compare

Each home loan program has unique benefits that cater to a certain type of buyer. Your goal should be to find the one that best suits your needs.

Here are a few questions to ask yourself as you explore the different loan types:

- Which loan has the lowest monthly payment?
- What option requires the least amount upfront?
- What option will cost me less over the life of the loan?
- Which loan type is suitable for my credit history?
- How does my income affect the products for which I’m eligible?
- What’s my price range for home buying?
- How long do I plan to stay in the home?

Your answers to these questions will help you evaluate the different types of mortgages below and think about which one(s) could be best for your situation.

Conventional mortgage

Conventional loans are the most common type of home loan for many borrowers today. They offer competitive rates, many down payment options, and flexible terms.

Many conventional loans are known as "conforming loans" because they conform to standards set by Fannie Mae and Freddie Mac. What this means for you is that most lenders across the country offer these loans. Banks, credit unions, and mortgage companies in nearly every U.S. city can offer conforming mortgages.

Most mortgage lenders require a credit score of 620 or higher for a conventional loan. So, if you don't have a strong credit history, you may have trouble qualifying for this type of loan.

These mortgages come with a feature that many others don't: Your mortgage rate is directly tied to your credit score and down payment. So, the stronger your finances are, the better deal you'll get.

Conventional loan pros:

- Down payments as low as 3%
- No upfront mortgage insurance fee
- Available for all types of properties: Primary residence (the home you'll live in), second homes, vacation homes, and investment properties
- Fixed and adjustable rates available
- Loan terms from 10 to 30 years available
- Private mortgage insurance (PMI) can be canceled with 20% home equity
- Loan amounts up to $766,550 and more in high-cost counties

Conventional loan cons:

- Private mortgage insurance (PMI) required with less than 20% down
- Lower credit scores mean higher interest rates
- Smaller down payments mean higher interest rates
- Debt-to-income ratio up to 43% is often allowed (under 36% is best)
- Not backed by the federal government

FHA home loans

FHA loans are the favorite for many of today's first-time home buyers. Their popularity is understandable. With low down payment requirements, ultra-lenient credit score standards, and flexible income guidelines, the FHA mortgage is turning more and more renters into homeowners.

Thanks to their backing from the Federal Housing Administration, FHA loans can be lenient with credit and income guidelines and still offer lower interest rates. However, borrowers pay for that flexibility in the form of upfront and monthly mortgage insurance premiums (MIP).

FHA loan pros:

- 3.5% down payment requirement
- Low credit score requirement: 580 with 3.5% down or 500 with 10% down
- Down payment gifts and/or down payment assistance can cover 100% of the down payment and closing costs
- Lenient income qualification
- Loan terms of 30 and 15 years available
- Fixed-rate and adjustable-rate mortgages available

- One- to four-unit homes are allowed; you can rent out additional units as long as you live in one
- Debt-to-income ratio of 50% or less

FHA loan cons:

- Upfront and monthly mortgage insurance premiums (MIP) are required regardless of down payment amount
- Mortgage insurance is not cancelable with 20% home equity
- FHA loan limits are lower than conforming loan limits: Currently $498,257 in most areas (but higher in expensive counties)
- The home must be a primary residence; no investment properties or vacation homes allowed

VA loans

Home buyers with eligible military service history can qualify for a 100% (zero-down) loan backed by the U.S. Department of Veterans Affairs. **VA loans** are often considered the best mortgages on the market, and for good reason. They offer lower rates than standard loans, and there is never any monthly mortgage insurance required.

Buyers with a qualifying U.S. military service history — including veterans, active-duty service members, and surviving spouses — should consider this loan first.

VA loan pros:

- Low mortgage rates
- No down payment required
- No ongoing mortgage insurance
- Lenient about credit scores
- 15- and 30-year fixed-rate loans available
- Adjustable-rate mortgages available

- One- to four-unit homes are allowed; you can rent out additional units as long as you live in one

VA loan cons:

- Only available to eligible active-duty service members, veterans, and some surviving spouses
- Upfront funding fee required, ranging from 1.4% to 3.6% of the loan amount (this can be rolled into the mortgage instead of paying upfront)
- The home must be a primary residence; no vacation homes or investment properties allowed
- Qualifying is more likely with a debt-to-income ratio under 41% (though higher DTIs are allowed by some lenders)

USDA mortgage

The U.S. Department of Agriculture backs a home loan program that goes by many names: The Rural Development (RD) loan, the Single-Family Housing Guaranteed program, or most commonly, the **USDA loan**.

USDA loans are designed for low-income to moderate-income home buyers who plan to live in rural and suburban areas. The USDA program is meant to make homeownership more affordable by eliminating the down payment requirement. It also offers reduced interest rates and mortgage insurance costs.

USDA loan pros:

- No down payment required
- Low mortgage insurance fees
- Below-market mortgage rates
- Credit scores starting at 640 are eligible
- No loan limits

USDA loan cons:

- The home must be in a USDA-eligible rural area
- Borrowers must meet household income limits
- A fixed-rate, 30-year term is the only option
- Debt-to-income ratio of 41% or less in most cases
- The home must be a single-family property (no multiunit homes allowed)

Jumbo loans

What if you live in a city or neighborhood with high home prices?

While conventional loans allow generous loan limits up to $766,550, and higher in many areas, even that amount is not enough in some high-cost cities where real estate values have soared in recent years.

Many buyers in this situation consider a non-conforming loan, more commonly known as a **jumbo loan**. This type of mortgage falls outside of Fannie Mae and Freddie Mac's stated loan limits, allowing buyers access to higher home purchase prices. Many banks offer jumbo financing up to $2 million, $3 million, or more.

While you might think higher loan amounts would come with higher interest rates, **jumbo loan rates** can actually be close to or even lower than those for conventional loans. But you need a strong credit score to get approved and qualify for the lowest rate possible. In addition, most jumbo loans require 10 to 20% down.

Jumbo loan pros:

- Buy high-priced or luxury real estate
- Fixed- and adjustable-rate loans available
- Down payments as low as 5% or 10% with some lenders
- Rates are often competitive

Jumbo loan cons:

- Good credit required; most lenders want a 680 FICO score or higher
- Large cash reserves may be required
- Larger loan amounts mean higher monthly payments
- Lenders have different requirements, which can make jumbos more complicated

FHA 203k rehabilitation loan

Buying an older or fixer-upper home can be a great way to save money on your home purchase. But you'll need a way to pay for renovations. A 203k mortgage can help. The **203k loan** is a type of FHA mortgage that allows you to buy a fixer-upper and borrow money for repairs at the same time.

Many homes today — foreclosures, short sales, or homes on the open market — are in disrepair. Often, they don't qualify for financing without significant work. Normally, you can't fix up a house before you own it. It's a catch-22.

The FHA 203k loan solves that problem by allowing you to buy the home as-is and borrow enough for rehab. Buyers often gain significant equity in the process.

FHA 203k loan pros:

- Finance a home purchase and renovations at the same time
- Save money by purchasing a fixer-upper home
- Save on closing costs and hassle by covering both amounts with a single mortgage
- Borrow up to $35,000 for renovations
- Lenient credit score and income eligibility
- Debt-to-income ratio of 43% or less

FHA 203k loan cons:

- Upfront and monthly mortgage insurance premiums are required
- The loan is subject to FHA loan limits
- FHA restricts the cost and types of repairs you can do (luxury improvements not allowed)

Adjustable-rate mortgages

The majority of home buyers choose a 30-year fixed-rate mortgage for its stability and low monthly mortgage payments. Yet if you plan to live in your home for less than 10 years, an **adjustable-rate mortgage** (ARM) might be right for you.

ARM mortgages come with an **initial fixed interest rate** that lasts a set number of years. After that, your rate can rise with the market. But if you plan to move or refinance before the fixed-rate period is up, you don't have to worry about your rate increasing.

The introductory rates on ARM loans are typically lower than 30-year fixed rates. And that low rate is still fixed for a certain amount of time — usually 5, 7, or even 10 years. The buyer can save a considerable amount over that time. Plus, today's ARMs come with built-in safeguards — called "caps" — that limit the amount the rate can rise after the initial period.

Adjustable-rate mortgage pros:

- Get an ultra-low rate for up to 10 years
- Potential to save thousands in interest over the first few years of the loan
- Allows enough time to sell the home or refinance before the first adjustment

Adjustable-rate mortgage cons:

- Your rate and monthly payment can increase after the fixed-rate period

- This is a higher-risk option unless you're certain you'll move or refi before the fixed rate ends

How to choose a home loan

The good news is that you're not alone when it comes to choosing the right type of mortgage. Your **loan officer or mortgage broker** will provide expertise and guidance to help you make the best choice.

However, you should keep in mind that not every mortgage lender or broker offers every type of loan. For instance, you might be qualified for a zero-down USDA loan — but if the lender you're applying with doesn't offer USDA mortgages, they might not bring this up.

That's why it's important to understand your options and come to the table prepared to discuss them. Pick a few of the loan types above that seem like they might be best for you. Then your loan adviser can help you compare rates, requirements, upfront fees, and long-term costs to find the absolute best fit. As a final note, KeyFactor&Co. works with preferred lenders that offer each of these loan types to best serve your needs.