



**YOUR HOME LOAN SURGEONS**  
THE GOLDBERG TEAM

## **FHA vs. Conventional Loans**

-What's the difference?

FHA loans require a 3.5% down payment. They require monthly mortgage insurance (.55% of the base loan amount and this may vary depending upon the loan amount and down payment) as well as upfront mortgage insurance (1.75% of the loan amount). The upfront mortgage insurance can be paid out of pocket and added to the closing costs, but it is almost always financed and added to the loan amount.

The monthly mortgage insurance will never go away on FHA loans, unless you refinance into another loan type or put down 10% or more. FHA loans have slightly lower interest rates than conventional loans and are typically easier to qualify for.

Conventional loans do not have mortgage insurance if a 20% down payment is made. If the down payment is less than 20%, there is monthly mortgage insurance, but the amount will depend on the parameters of the loan including credit score, debt to income ratios among other things. When you have 20% equity in your house (based on the value of the home and your loan amount), you can request that the servicer remove the monthly mortgage insurance and when you have 22% equity, they are required to remove it. There is no upfront mortgage insurance.

Depending on the amount of the mortgage insurance on a conventional loan, you might have a lower payment despite having a slightly higher interest rate. In addition, even if you have the same size down payment, you will have a lower loan amount with a conventional loan because of the upfront mortgage insurance that FHA loans have. One final difference is that if an applicant is married, their spouses debts must be considered on government loans (FHA & VA) whether they go on the loan or not, but not on conventional loans.