



MORTGAGE EXPLANATION CHEAT SHEET

Understanding Mortgage Options: FHA, VA, Conventional & More

Buying a home is one of the biggest financial decisions you'll ever make. One of the most important pieces of that puzzle is choosing the right mortgage. This guide will walk you through the most common mortgage options so you can feel confident about your decision. No jargon, just straightforward information. Welcome to the home buying journey!

- Ali Banks

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CONVENTIONAL LOANS

BEST FOR	Buyers with good credit and stable income
DOWNPAYMENT	As low as 3%, though 5–20% is typical
CREDIT SCORE	Typically 620+
PMI	Required if putting down less than 20%
PROS	Widely accepted, competitive interest rates
CONS	Stricter credit and income requirements



WHO'S IT FOR?

Buyers with solid credit history who want flexibility and potentially lower costs over time.

Conventional loans are not backed by the government, which means they're offered and serviced by private lenders such as banks, credit unions, and mortgage companies. Because they're not insured by a government entity, lenders often have stricter requirements. However, they also tend to come with fewer fees and more flexible terms in the long run.

There are two main types of conventional loans:

- **Conforming Loans:** These meet the loan limits set by the Federal Housing Finance Agency (FHFA).
- **Non-Conforming Loans:** These exceed the conforming limits and are often called jumbo loans (discussed later).

Conventional loans can be used for primary residences, second homes, and investment properties, making them a versatile option for many buyers. While they do require mortgage insurance when the down payment is less than 20%, once the homeowner reaches 20% equity, the PMI can usually be removed—unlike with FHA loans.

Conventional loans are ideal for buyers who are financially stable and want to build long-term equity in their home with fewer ongoing costs.



FHA LOANS (FEDERAL HOUSING ADMINISTRATION)

BEST FOR	First-time buyers or those with lower credit scores
DOWNPAYMENT	As low as 3.5%
CREDIT SCORE	580+ (or 500+ with 10% down)
PMI	Required for the life of the loan
PROS	Lower down payment and credit score requirements
CONS	Ongoing mortgage insurance can be expensive

WHO'S IT FOR?

Buyers who may not qualify for a conventional loan but want a manageable path to homeownership.

FHA loans are government-backed mortgages insured by the Federal Housing Administration. This insurance protects lenders if the borrower defaults, which allows them to offer more lenient qualification requirements. As a result, FHA loans are especially popular among first-time homebuyers and those with lower credit scores or smaller down payments.

There are a few key features of FHA loans:

- **Low Down Payment:** FHA loans require as little as 3.5% down for borrowers with credit scores of 580 or higher.
- **Flexible Credit Requirements:** These loans are accessible to buyers with less-than-perfect credit.
- **Government-Backed Assurance:** Since they're insured by the FHA, lenders are more willing to work with a wider range of applicants.

FHA loans are generally used for primary residences only, and borrowers are required to pay mortgage insurance premiums (MIP) both upfront and monthly—regardless of the equity built over time. Unlike conventional loans, MIP typically remains for the life of the loan unless refinanced into a different loan type.

FHA loans are ideal for buyers who may need a bit more flexibility upfront and are looking for a more accessible path to homeownership.

VA LOANS (VETERANS AFFAIRS)

BEST FOR	Active-duty military, veterans, and eligible family members
DOWNPAYMENT	0% (no down payment required)
CREDIT SCORE	No official minimum, but typically 620+
PMI	None required
PROS	No down payment, no PMI, competitive rates
CONS	VA funding fee (can be rolled into the loan)



WHO'S IT FOR?

Eligible military service members and veterans seeking affordable terms.

VA loans are mortgage loans guaranteed by the U.S. Department of Veterans Affairs and offered through private lenders. These loans are designed to make homeownership more accessible and affordable for those who have served our country.

One of the most significant benefits of a VA loan is the 0% down payment requirement, which allows eligible buyers to purchase a home with no money down. Additionally, VA loans do not require private mortgage insurance (PMI), which can result in substantial monthly savings. These loans also typically offer competitive interest rates and more flexible qualification requirements compared to conventional loans.

While there is no official minimum credit score requirement set by the VA, many lenders prefer a score of 620 or higher. The VA also charges a funding fee, which helps offset the cost of the program to taxpayers. This fee can vary based on factors like down payment amount, type of service, and whether it's the borrower's first VA loan. The funding fee can be paid upfront or rolled into the total loan amount.

VA loans can be used to purchase single-family homes, condominiums, and even multi-unit properties (up to four units) as long as the borrower intends to occupy one of the units. In some cases, VA loans can also be used for refinancing or making energy-efficient upgrades.

Overall, VA loans offer one of the most powerful home financing options for eligible military borrowers, with the opportunity for homeownership on very favorable terms.

USDA LOANS (U.S. DEPARTMENT OF AGRICULTURE)



BEST FOR	Buyers in rural or suburban areas
DOWNPAYMENT	0%
CREDIT SCORE	640+
PMI	No traditional PMI, but there is an upfront and annual guarantee fee
PROS	No down payment, lower rates
CONS	Geographic and income eligibility requirements

WHO'S IT FOR?

Buyers with moderate income purchasing in USDA-eligible areas.

USDA loans are backed by the U.S. Department of Agriculture and are intended to encourage homeownership in designated rural and suburban areas. These loans offer 100% financing, meaning qualified buyers can purchase a home with no down payment.

In addition to the zero-down feature, USDA loans tend to have lower interest rates and more affordable mortgage insurance costs than FHA loans. Instead of traditional private mortgage insurance, USDA loans include a guarantee fee—an upfront cost (usually 1% of the loan amount) and an annual fee (approximately 0.35%) that is paid monthly.

To qualify, the property must be located in a USDA-eligible area, and the buyer's household income must not exceed certain limits, which vary by region and household size. The program is generally aimed at low- to moderate-income families.

USDA loans can be used for single-family homes that will serve as the borrower's primary residence. These homes must meet USDA safety and livability standards. USDA loans are an excellent option for buyers looking for an affordable way to enter the housing market in eligible rural and semi-rural areas.

JUMBO LOANS

BEST FOR	High-value home purchases above conforming loan limits
DOWNPAYMENT	Typically 10–20%
CREDIT SCORE	700+
PMI	May be required if less than 20% down
PROS	Access to higher loan amounts
CONS	Stricter credit and income requirements



WHO'S IT FOR?

Buyers purchasing
luxury or high-priced
homes.

Jumbo loans are non-conforming conventional loans used to finance properties that exceed the maximum loan limits set by the Federal Housing Finance Agency (FHFA). Because these loans are not eligible for purchase by Fannie Mae or Freddie Mac, they are considered riskier by lenders and therefore come with stricter approval criteria.

Borrowers typically need a higher credit score (usually 700 or above), a low debt-to-income ratio, and a strong financial profile with significant cash reserves. Down payments are generally larger—often 10–20% or more—depending on the loan amount and the borrower's overall financial strength.

Jumbo loans can be used for primary residences, vacation homes, and investment properties. Interest rates on jumbo loans can be slightly higher than conforming loans, although this depends on the lender and current market conditions. While PMI may still be required for lower down payments, some lenders offer jumbo loans without PMI if other financial qualifications are strong. Jumbo loans are the right fit for buyers seeking to finance luxury homes or properties in high-cost markets that require loan amounts beyond standard limits.

A modern living room with a light-colored sofa, a wooden coffee table, and a large circular window with a grid pattern. A white armchair is visible on the left. The background is softly lit with warm tones.

What you **CAN EXPECT**

The right mortgage depends on your financial situation, credit history, and long-term goals. Speak with a trusted lender to explore your options and get pre-approved before you start house hunting.

Have questions or want a referral to a great lender? Contact us at alibanksrealty.com. We're here to help you every step of the way.

This guide is for educational purposes only and should not be considered financial advice.

-Ali