

1. What are Conventional Loans?

Conventional loans are best for borrowers with good credit scores. They are the most popular type of mortgage, come in two flavors: conforming and non-conforming.

Conforming loans: A conforming loan “conforms” to a set of Federal Housing Finance Agency (FHFA) standards, including guidelines around credit, debt and loan size. When a conventional loan meets these standards, it’s eligible to be purchased by Fannie Mae and Freddie Mac, the two government-sponsored enterprises (GSEs) that back much of the mortgage market.

Non-conforming loans: These loans do not meet one or more of the FHFA’s standards. One of the most common types of non-conforming loan is a jumbo loan, a mortgage in an amount that exceeds the conforming loan limit. Non-conforming loans can’t be purchased by the GSEs, so they’re considered a riskier prospect for lenders.

Pros of conventional loans

- Available from the majority of lenders
- Can be used to finance primary residences, second or vacation homes and investment or rental properties
- Can put down as little as 3% for a conforming, fixed-rate loan

Cons of conventional loans

- Need a credit score of at least 620 to qualify
- Lower debt-to-income (DTI) ratio threshold compared to other types of mortgages
- Need to pay private mortgage insurance (PMI) premiums if putting less than 20% down

If you have a strong credit score and can afford to make a sizable down payment, a conventional mortgage is the best pick. The 30-year, fixed-

rate option is the most popular choice for homebuyers. Compare conventional loan rates.

2. What are Jumbo loans?

Jumbo loans are best for borrowers with good credit looking to buy a more expensive home. Jumbo mortgages are home loans in an amount that surpasses FHFA's conforming loan limits. In 2024, that means any loan over \$766,550, or \$1,149,825 in higher-cost areas. Because these are bigger loans ineligible to be purchased by the GSEs, they can present more risk.

Pros of jumbo loans

- Can finance a more expensive home
- Competitive interest rates, nowadays on par with those on conforming loans
- Often the only option in areas with high home values

Cons of jumbo loans

- Not available with every lender
- Higher credit score requirement, often a minimum of 700
- Higher down payment requirement, often 10% to 20%