

The 5 Most Common Loan Programs

While some of the most noteworthy exceptions to these rankings are listed below, you will always want to confer with a loan officer about your particular circumstances.

Some of these programs have very specific borrower and property eligibility requirements that make them available to only a very small, yet fortunate segment of buyers.

1. Conventional / Conforming

This program is available through most lenders to any who meet the underwriting rules as set by the two largest buyers of mortgages on the secondary market, Fannie Mae and Freddie Mac

Requirements: You can put a minimum of 5% down and, in some circumstances as little as 3%. These funds can be a gift from family. Private mortgage insurance, or PMI is required if there is less than a 20% down payment. The loan amount cannot exceed specified limits

Ranking: If you have a credit score below 680 and/or have a higher debt-to-income ratio, then FHA may offer better terms.



2. Jumbo

A Jumbo loan is any mortgage in an amount above conventional conforming loan limits. Since these loans are not eligible to be purchased on the secondary mortgage market by Frannie Mae and Freddie Mac, they have different guidelines and rates than you would see for conventional financing.

Requirements: Jumbo loans typically require a down payment of at least 10%. More favorable rates are provided when putting 20-25% down. They also require a higher minimum credit score and lower debt-to-income ratios than other programs.



The 5 Most Common Loan Programs Continued



3. FHA

This program is available through most lenders to any who meet the underwriting guidelines as set by the Federal Housing Administration. FHA offers current market rates and only requires a 3.5% down payment, all of which can be gift funds. This program allows for a credit scores all the way down to the mid-to-lower 600 range and has far more lenient debt-to-income ratio requirements and other underwriting standards as opposed to conventional financing.

Requirements: A one time upfront FHA Mortgage insurance premium is required but can be financed into the loan. FHA also requires an ongoing monthly mortgage insurance premium to be paid along with your regular payment. This monthly mortgage insurance can vary depending on down payment and terms of the loan so ask a loan officer for more details. The loan amount cannot exceed specified limits. **Ranking:** Don't let this program's 3rd place ranking throw you off. This popular program accounts for a lot of new mortgages and for many it is not only the best option, but the only option.

4. VA

This program is reserved only for past and present military service members and their families. It can be secured through most lenders but is managed by the Department of Veteran Affairs. It can be used to finance up to 100% of a home's purchase price at current market rates and with no mortgage insurance requirement, eliminating the need for any down payment. This program allows for credit scores all the way down to the mid-to-lower 600 range.

Requirements: You must be an eligible Veteran or married to one and applying together. The loan amount cannot exceed specified limits depending on the location. There is a one-time upfront VA funding fee that is usually required unless the veteran was disabled in the line of duty or a few other exceptions. The amount of this fee varies and can be financed into the loan.

Ranking: If you are making a large down payment, especially 20% or more, then paying the required upfront VA funding fee would not make sense.



5. USDA

This program is available through most lenders but is overseen by the United States Department of Agriculture or USDA. IT offers 100% financing at current market rates and allows for credit scores all the way down to the mid-to-lower 600 range.

Requirements: You must be in an eligible rural area and not make more than the allowed income. A one-time upfront USDA guarantee fee is required but can be financed into the loan. This program also requires an ongoing low annual premium this is paid monthly.

Ranking: If you are making a large down payment, especially 20% or more, paying the required upfront USDA funding fee would not make sense and conventional may be just as favorable of a loan.

