VABASSO MORTGAGE

Conventional Loan Guide

Down payment, PMI and loan limits
Eligibility, appraisal and closing
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Conventional Loan Guide

A complete guide to conforming financing: eligibility, credit and income analysis, down payments, private mortgage insurance, loan limits, appraisals, closing costs, and the full purchase and refinance process.

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In short

> A conventional loan is a mortgage that is not insured or guaranteed by a government agency such as FHA, VA, or USDA. Most conventional loans are conforming loans, meaning they are underwritten to Fannie Mae or Freddie Mac guidelines and fall within annual conforming loan limits. Qualification is driven by credit, income stability, debt-to-income ratio, assets, occupancy, property type, and appraised value.

Key takeaways

- Conventional financing is the most widely used mortgage category in the United States and covers primary residences, second homes, and investment properties.
- Most conventional loans are conforming: they follow Fannie Mae or Freddie Mac guidelines and stay within the annual conforming loan limit for the county and unit count.
- Down payments commonly range from 3 percent for eligible first-time buyers to 20 percent or more. Twenty percent down is not a requirement; it is the point at which private mortgage insurance is generally not required.
- Private mortgage insurance applies below 20 percent equity and, unlike FHA annual premiums on many structures, can generally be removed once equity requirements are met.
- Conventional pricing is risk-based. Credit score, loan-to-value, occupancy, property type, and loan purpose all influence the rate and any pricing adjustments.
- Conventional is not automatically better or worse than FHA or VA. The right comparison is total monthly cost, cash to close, and long-term cost on your actual numbers.

Who this guide is for

- First-time buyers comparing 3 percent down conventional financing against FHA
- Repeat and move-up buyers using sale proceeds toward a new purchase
- Borrowers with strong credit seeking the lowest long-term cost
- Buyers who want mortgage insurance they can eventually remove
- Second-home and investment-property buyers

- Condominium and townhome buyers
- Homeowners refinancing for rate, term, or cash out
- Self-employed borrowers documenting income with tax returns

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What is a conventional loan?

A conventional loan is a mortgage that is not insured or guaranteed by a federal agency. FHA loans are insured by the Federal Housing Administration, VA loans are guaranteed by the Department of Veterans Affairs, and USDA loans are backed by the Department of Agriculture. Conventional financing sits outside those programs and is instead underwritten to private-market standards.

In practice, most conventional loans are conforming loans. That means the loan is underwritten to guidelines published by Fannie Mae or Freddie Mac, the two government-sponsored enterprises that purchase qualifying mortgages from lenders, and the loan amount falls within the annual conforming loan limit for the county and the number of units.

Because those guidelines are published and widely used, conventional financing is the most standardized category in the market. It is also the most flexible in terms of occupancy: conventional loans can finance primary residences, second homes, and investment properties, while FHA, VA, and USDA financing is generally limited to owner-occupied primary residences.

A conventional loan that exceeds the conforming limit is generally a jumbo loan. Jumbo financing is still conventional in the sense that no agency insures it, but it is underwritten to individual investor or portfolio guidelines rather than agency guidelines.

> Conventional means no government insurance. Conforming means the loan follows agency guidelines and stays within the loan limit.

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Conventional, conforming, high-balance, and jumbo

These four terms are used loosely in everyday conversation, and the distinction matters because it changes the guideline set, the pricing, and sometimes the documentation.

How the categories relate

Term	What it means	Typical guideline source
Conventional	Not insured or guaranteed by a government agency	Agency, investor, or portfolio
Conforming	Conventional loan within the standard conforming limit	Fannie Mae or Freddie Mac

Term	What it means	Typical guideline source
High-balance conforming	Conventional loan above the standard limit in a designated high-cost county, still within that county's ceiling	Fannie Mae or Freddie Mac with additional pricing
Jumbo	Conventional loan above the applicable conforming ceiling	Individual investor or portfolio guidelines

> Conforming loan limits are published annually and vary by county and unit count. Confirm the current figure for your county before assuming a loan is jumbo.

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Who conventional financing tends to suit

Conventional financing is often the lowest long-term cost option for borrowers with solid credit, because pricing is risk-based and because mortgage insurance can generally be removed once equity requirements are met. It is also the only mainstream category that finances second homes and investment property.

That does not make it the automatic answer. A borrower with a rebuilding credit profile, limited reserves, or a property that will not meet conventional appraisal expectations may find FHA financing produces a better payment or a cleaner approval. Eligible veterans frequently find VA financing produces the lowest cash to close and no monthly mortgage insurance at all.

Conventional often works well when

- ☐ Credit is established and payment history is clean
- ☐ You want mortgage insurance you can remove later
- ☐ You are putting down 5 percent or more
- ☐ You are purchasing a second home or an investment property
- ☐ The property is in good condition and will appraise conventionally
- ☐ You want to avoid an upfront funding fee or upfront mortgage insurance premium

Another program may fit better when

- ☐ Credit is rebuilding after a derogatory event
- ☐ Debt-to-income is elevated and needs a more forgiving framework
- ☐ You are an eligible veteran and VA financing is available
- ☐ The property is in a USDA-eligible rural area and income limits are met
- ☐ The property needs repairs that conventional financing will not permit

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What conventional eligibility involves

Eligibility is reviewed across three dimensions at once: the borrower, the property, and the transaction. A strong borrower with an ineligible property will not close, and an excellent property does not fix an unsupported income calculation.

Most conventional files are run through an automated underwriting system, which returns findings and a document list. Those findings, not a generic rule of thumb, define what your specific file must document.

Commonly reviewed

- ☐ Credit history, scores, and derogatory event seasoning
- ☐ Income stability, history, and likelihood of continuance
- ☐ Employment verification, including a verification close to closing
- ☐ Monthly debt obligations and resulting debt-to-income ratio
- ☐ Assets, sourced funds to close, and required reserves
- ☐ Occupancy: primary residence, second home, or investment
- ☐ Property type, condition, and eligibility
- ☐ Appraised value and loan-to-value ratio
- ☐ Automated underwriting findings and lender overlays
- ☐ Title, survey where applicable, and insurance requirements

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Credit: scores, history, and pricing tiers

Conventional pricing is risk-based, which means credit score interacts with loan-to-value to determine both eligibility and cost. Two borrowers with identical loan amounts and identical down payments can receive materially different rates because of score alone.

Score is not the whole picture. Underwriting also reviews the depth of the credit history, the number of active tradelines, recent inquiries and new debt, the pattern of late payments, collections and charge-offs, and the seasoning of any major derogatory event such as a bankruptcy, foreclosure, short sale, or deed in lieu.

Because the three bureaus can report differently, lenders typically use a defined selection method across borrowers and bureaus rather than a single score. Improving the weakest of your scores is often more valuable than improving the strongest one.

Credit actions that usually help before application

- ☐ Pay revolving balances down well before the application, since utilization is a major factor
- ☐ Keep older accounts open rather than closing them
- ☐ Dispute genuine reporting errors early, because corrections take time
- ☐ Avoid new financing, credit applications, or co-signing
- ☐ Do not consolidate or move balances without discussing it with your advisor
- ☐ Keep every account current, including accounts you rarely use

Credit actions to avoid during the transaction

- ☐ Financing furniture, appliances, or a vehicle before closing
- ☐ Opening a store card for a discount at checkout
- ☐ Closing a long-standing account to simplify finances
- ☐ Allowing an authorized-user account to go delinquent
- ☐ Letting a medical or utility item fall into collection

> Underwriting commonly re-checks credit and liabilities shortly before closing. Financial changes during the process can alter or invalidate an approval.

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Income, employment, and how earnings are calculated

Qualifying income is not the same as gross pay. Underwriting calculates income that is stable, verifiable, and reasonably likely to continue, which means variable earnings are usually averaged and unsupported income is excluded.

Salaried income is typically the most straightforward. Hourly income with fluctuating schedules, overtime, bonus, commission, tips, and shift differentials generally require a documented history, often averaged over one to two years, with attention to whether the trend is stable, rising, or declining.

Self-employed borrowers are generally qualified from tax returns and business documentation rather than deposits. Business structure matters: sole proprietorships, partnerships, S corporations, and C corporations are each analyzed differently, and add-backs such as depreciation may be permitted while certain deductions reduce qualifying income.

Other income types — retirement distributions, Social Security, pension, alimony or child support, disability, rental income, trust income, and asset-based income — each carry their own documentation and continuance rules.

Common income types and how they are usually documented

Income type	Typical documentation	Common considerations
Salaried W-2	Recent pay stubs, W-2s, verification of employment	Base pay is generally used as stated
Hourly	Pay stubs, W-2s, hours history	Fluctuating hours are usually averaged
Overtime, bonus, commission	Pay stubs, W-2s, sometimes an employer letter	History and trend both matter; declining income may be limited
Self-employed	Personal and business tax returns, P&L, business license	Net income after deductions drives the calculation
Retirement or pension	Award letters, statements, tax returns	Continuance for a defined period is generally required
Rental income	Tax returns, lease agreements, appraisal rent schedule	A vacancy factor is typically applied
Alimony or child support	Court order and proof of receipt	Continuance period is reviewed

> If your income is variable or newly structured, share the details early. Income calculation is the single most common source of surprises late in a file.

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Debt-to-income ratio

Debt-to-income compares your total monthly obligations, including the proposed housing payment, against qualifying monthly income. The proposed housing payment generally includes principal, interest, property taxes, homeowners insurance, mortgage insurance where applicable, flood insurance where required, and homeowners or condominium association dues.

There is no universal conventional debt-to-income cap. Automated underwriting evaluates the ratio alongside credit, reserves, loan-to-value, and other factors, so one borrower may be approved at a ratio that another borrower cannot reach.

Living costs that are not credit obligations — groceries, utilities, insurance premiums paid outside escrow, childcare, streaming subscriptions — are generally excluded from the ratio, which is why an approval amount can exceed what feels comfortable. Set your own target payment before you shop.

Generally counted as monthly debt

- ☐ Auto loans and leases
- ☐ Student loan payments, using the payment defined by guideline
- ☐ Minimum credit card payments

- ☐ Personal loans and installment financing
- ☐ Court-ordered obligations such as alimony or child support
- ☐ Other mortgage payments including taxes, insurance, and dues
- ☐ Co-signed obligations unless documented exclusion applies

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Down payment: from 3 percent to 20 percent

The idea that conventional financing requires 20 percent down is one of the most persistent myths in housing. Twenty percent is simply the equity threshold at which private mortgage insurance is generally not required. Conventional programs allow substantially less.

Eligible first-time buyers may access 3 percent down conventional programs. Repeat buyers commonly use 5 percent, 10 percent, or 15 percent. Second homes and investment properties require larger down payments, and multi-unit properties generally require more than single-family.

A larger down payment lowers the loan amount, lowers or eliminates mortgage insurance, and often improves pricing. A smaller down payment preserves cash for reserves, moving costs, and immediate home expenses. The right answer depends on your total financial picture, not on a rule.

Illustrative structures — actual eligibility depends on program, occupancy, property, and findings

Structure	Typical use	Mortgage insurance
3% down	Eligible first-time buyer programs, primary residence	PMI required
5% down	Standard primary residence purchase	PMI required
10% down	Move-up buyers, some second homes	PMI required at this LTV
15% down	Cost-conscious buyers reducing PMI	PMI required, typically at a lower rate
20% down	Buyers with sale proceeds or savings	PMI generally not required
25%+ down	Investment property, multi-unit, pricing optimization	Generally not required

> Down payment is not the same as cash to close. Closing costs, prepaid items, and escrow funding are additional.

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Gift funds, sourcing, and reserves

Conventional guidelines permit gift funds from eligible donors on many transactions, typically with a signed gift letter confirming the funds are a gift and not a loan, plus documentation of the transfer. Donor eligibility can differ by occupancy type, so confirm before money moves.

Every dollar used to close generally must be sourced and seasoned. Large deposits that do not match documented income will be questioned, and cash on hand is generally not usable. The cleanest approach is to consolidate funds into one account before applying and to avoid unusual deposits during the transaction.

Reserves are funds remaining after closing, usually measured in months of the new housing payment. Reserve requirements vary with occupancy, property type, credit, and findings; second homes, investment properties, and multi-unit purchases typically require more.

Asset documentation to prepare

- ☐ Two months of complete statements for every account used
- ☐ Explanations and paper trails for any large or irregular deposit
- ☐ Gift letter and evidence of transfer for gifted funds
- ☐ Retirement account statements plus terms if funds will be withdrawn or borrowed
- ☐ Documentation of the sale of an asset, including a bill of sale where applicable
- ☐ Proceeds documentation if you are selling a current home

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Private mortgage insurance: how it works

Private mortgage insurance protects the lender against loss when the loan-to-value ratio exceeds 80 percent. It is a cost of financing paid by the borrower, and it is priced by risk: the higher the loan-to-value and the lower the credit score, the higher the premium.

PMI is not a single product. Borrower-paid monthly PMI is the most common structure, but single-premium PMI paid at closing, split-premium structures, and lender-paid PMI built into the rate are also used. Each shifts cost between the closing table and the monthly payment.

The important structural difference from FHA is removability. On many FHA structures the annual premium remains for the life of the loan, and refinancing is the only exit. Conventional PMI is designed to end.

PMI structures compared

Structure	How it is paid	Where it fits
Borrower-paid monthly	Added to the monthly payment	Most common; removable when equity thresholds are met
Single premium	One payment at closing, often financeable	Buyers with extra funds or a seller credit to apply
Split premium	Smaller upfront amount plus a lower monthly amount	A middle path between the two
Lender-paid	Built into a higher interest rate	Lower payment sometimes, but the cost never falls off

> Lender-paid PMI is not free. It is priced into the rate for the life of the loan.

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How to remove private mortgage insurance

There are generally three paths off PMI. The first is automatic termination, which the servicer applies when the loan balance reaches a defined percentage of the original value based on the amortization schedule, provided payments are current. The second is borrower-requested cancellation once the balance reaches the applicable threshold, again subject to payment history and servicer requirements, sometimes supported by a current valuation.

The third path is a change in value. If the property has appreciated or you have completed improvements, some servicers will consider cancellation based on a new appraisal or broker price opinion, subject to seasoning requirements and their own policy.

Refinancing is the fourth practical route. If equity now exceeds 20 percent and current pricing supports it, refinancing into a loan without mortgage insurance can lower the payment even at a similar rate.

Practical steps toward removal

- ☐ Track your loan-to-value against both the original value and current value
- ☐ Keep every payment current, since a late payment can delay eligibility
- ☐ Ask your servicer for its written cancellation requirements
- ☐ Consider whether extra principal payments accelerate the threshold
- ☐ Compare the cost of a new valuation against months of remaining premium
- ☐ Review a refinance analysis when equity clearly exceeds 20 percent

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Conforming loan limits and high-balance financing

The Federal Housing Finance Agency publishes conforming loan limits annually. There is a baseline limit that applies to most counties, higher ceilings in designated high-cost counties, and larger limits for two-, three-, and four-unit properties.

A loan above the standard baseline but within a high-cost county ceiling is generally called high-balance conforming. It remains an agency loan, but pricing adjustments typically apply and some guideline parameters tighten.

Above the applicable ceiling, financing becomes jumbo. Jumbo loans are underwritten to investor or portfolio guidelines, which often means higher reserve requirements, tighter credit expectations, and more detailed documentation — though pricing on strong jumbo files can be very competitive.

> Because limits change annually and vary by county, a purchase price that required jumbo financing last year may be conforming this year. Always confirm the current figure.

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Occupancy and property types

Occupancy is a core pricing and guideline input. Primary residences receive the most favorable terms, second homes sit in the middle with occupancy and distance expectations, and investment properties require the largest down payments and typically carry the highest pricing adjustments.

Property type matters just as much. Single-family detached homes are the baseline. Condominiums require a project review that examines budget, reserves, owner-occupancy, litigation, insurance, and delinquency, and a project that fails review can stop an otherwise strong file. Planned unit developments, townhomes, manufactured housing, and two-to-four-unit properties each carry additional requirements.

Occupancy at a glance

Occupancy	Typical down payment	Notes
Primary residence	3% to 20%	Best pricing; broadest program access
Second home	10% or more	Occupancy, distance, and rental-use expectations apply

Occupancy	Typical down payment	Notes
Investment property	15% to 25% or more	Higher pricing; reserves generally required; rental income may be considered
Two-to-four units	Varies by occupancy	Higher limits, higher reserves, rent analysis in the appraisal

> Occupancy is certified at closing. Misrepresenting occupancy is mortgage fraud, not a technicality.

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Appraisal, value, and appraisal waivers

The appraisal establishes an independent opinion of value used to calculate loan-to-value. Conventional appraisals focus on value and marketability. They note obvious condition issues, but they are not the health-and-safety review that an FHA appraisal performs, and they are never a substitute for an independent home inspection.

On some conventional transactions with strong data and sufficient equity, automated underwriting may offer an appraisal waiver or a limited valuation product. That can save time and cost, but it is offered by the system rather than requested by the borrower, and it may be revoked if the file changes.

If the appraised value comes in below the contract price, the loan amount is generally based on the lower of value or price. The usual options are renegotiating the price, bringing additional funds, requesting reconsideration of value with supporting comparable sales, or terminating under the contract's appraisal contingency if one exists.

If value comes in low

- ☐ Review the report with your advisor and agent for factual errors
- ☐ Identify comparable sales the appraiser may not have considered
- ☐ Submit a formal reconsideration of value where supported
- ☐ Renegotiate price or ask for a seller credit
- ☐ Increase the down payment to bridge the gap
- ☐ Exercise your contract rights if the gap cannot be resolved

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How conventional rates are priced

Conventional pricing starts with market conditions and is then adjusted for the specific risk characteristics of the loan. These adjustments are applied consistently across the industry, which is why quotes from different lenders on the same profile tend to cluster.

Because pricing is layered, small changes to structure can produce meaningful savings. Moving from 3 percent down to 5 percent, or from just under a credit tier to just above it, sometimes changes both the rate and the mortgage insurance premium at once.

Factors that commonly affect conventional pricing

- ☐ Representative credit score
- ☐ Loan-to-value ratio
- ☐ Occupancy type
- ☐ Property type and number of units
- ☐ Loan purpose: purchase, rate-and-term refinance, or cash-out
- ☐ Loan amount, including high-balance status
- ☐ Loan term and whether the rate is fixed or adjustable
- ☐ Escrow waiver, if requested and permitted
- ☐ Discount points paid or lender credit received

> A rate is only comparable alongside its points, credits, and mortgage insurance. Compare the full Loan Estimate, not the headline number.

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Fixed-rate versus adjustable-rate structures

Fixed-rate conventional loans hold the same interest rate for the entire term. Thirty-year fixed financing produces the lowest payment among common fixed terms; fifteen- and twenty-year terms cost more per month but dramatically reduce total interest and build equity faster.

Adjustable-rate mortgages carry a fixed introductory period followed by periodic adjustments tied to an index plus a margin, subject to caps. They can be appropriate when the expected holding period is shorter than the fixed period, but they carry payment uncertainty afterward and should be evaluated against the worst-case cap scenario, not just the introductory rate.

Structure trade-offs

Structure	Strength	Consideration
30-year fixed	Lowest fixed payment, full predictability	Most total interest over the life of the loan

Structure	Strength	Consideration
20-year fixed	Meaningful interest savings	Higher payment than 30-year
15-year fixed	Fastest payoff, lowest total interest	Substantially higher monthly payment
Adjustable rate	Lower introductory rate in some markets	Payment can rise after the fixed period

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Closing costs, credits, and cash to close

Closing costs fall into three broad buckets: lender fees for originating and underwriting the loan, third-party services such as appraisal, title, settlement, and recording, and prepaid items such as homeowners insurance, property taxes, and initial escrow funding plus per-diem interest.

Prepaid items are not really a cost of the loan. They are your own future expenses collected early, which is why an escrow account can make cash to close look larger than expected while lowering ongoing budgeting risk.

Seller credits toward closing costs may be negotiated in the contract, subject to conventional limits that vary by occupancy and loan-to-value. Lender credits can also be used, funded by accepting a slightly higher rate. Neither can generally be converted into cash back to the buyer.

Cash to close is generally

- ☐ Down payment
- ☐ Plus lender and third-party closing costs
- ☐ Plus prepaid items and escrow funding
- ☐ Minus earnest money already deposited
- ☐ Minus seller credits negotiated in the contract
- ☐ Minus lender credits applied to the transaction

> Your Loan Estimate and later Closing Disclosure are the authoritative documents. Review both line by line with your advisor.

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Conventional versus FHA

This is the most common comparison in first-time-buyer transactions, and there is no universal winner. FHA tends to be more forgiving on credit and ratios and often produces a lower rate at lower scores. Conventional tends to win on total long-term cost for stronger credit profiles, largely because mortgage insurance is removable and there is no upfront insurance premium financed into the balance.

Structural differences

Feature	Conventional	FHA
Backing	None; agency or investor guidelines	Insured by the Federal Housing Administration
Occupancy	Primary, second home, investment	Primary residence only
Mortgage insurance	PMI, risk-based, generally removable	Upfront premium plus annual premium; often life-of-loan
Credit sensitivity	Pricing rises noticeably as scores fall	Less score-sensitive pricing
Property standards	Value and marketability focus	Additional safety, soundness, and security review
Best fit	Strong credit, equity growth, non-owner-occupied	Rebuilding credit, tighter ratios, low down payment

> Run both scenarios side by side on your actual numbers. The comparison should include payment, cash to close, and cost over your expected holding period.

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Conventional versus VA and USDA

For eligible veterans, service members, and surviving spouses, VA financing is usually difficult to beat: no monthly mortgage insurance, no down payment on many transactions, and competitive pricing, offset by a funding fee that is waived for some borrowers.

USDA financing serves eligible properties in designated rural areas with household income limits and provides a zero-down structure with its own guarantee fees. Conventional financing generally becomes the better answer when the property or income falls outside USDA parameters, or when a buyer is putting meaningful money down.

Program comparison

Program	Down payment	Ongoing insurance	Key constraint
Conventional	3% and up	PMI below 20% equity, removable	Risk-based pricing
FHA	Low down payment	Upfront plus annual premium	Primary residence only

Program	Down payment	Ongoing insurance	Key constraint
VA	Often none	None	Eligibility required; funding fee may apply
USDA	Often none	Guarantee fees apply	Geographic and income limits

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Conventional versus jumbo

When the loan amount exceeds the applicable conforming ceiling, the file moves to jumbo guidelines. Jumbo underwriting is typically more conservative on reserves and documentation and often expects stronger credit, but it opens financing above agency limits and can offer flexible structures for complex income.

Some buyers near the limit intentionally structure the transaction to stay conforming — a slightly larger down payment, or a combination of a conforming first mortgage with a second lien — because the pricing and documentation burden can be lighter. That analysis should be run on real numbers rather than assumed.

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Refinancing a conventional loan

A rate-and-term refinance replaces the existing loan to change the rate, the term, or both, and it may also be used to remove mortgage insurance when equity supports it. A cash-out refinance increases the loan balance and returns the difference to you at closing, subject to loan-to-value limits that are generally tighter than purchase limits and pricing adjustments that reflect the added risk.

The right decision is rarely about the rate alone. Compare the total cost of the new loan against the remaining cost of the current one over the period you expect to hold the property, and be careful about restarting a thirty-year amortization schedule when you are years into the existing loan.

Questions to answer before refinancing

☐ What is the total cost to complete the new loan?
☐ How long until the monthly savings recover that cost?
☐ How long do you actually expect to keep the property?
☐ Does the new loan remove mortgage insurance?
☐ Are you extending the term, and what does that add in total interest?
☐ Is there a higher-cost debt that cash-out would responsibly retire?

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The conventional loan process, step by step

Most conventional purchases follow the same sequence. Knowing the order helps you anticipate what will be requested and when.

From preparation to keys

- ☐ Preparation: review credit, income, and available funds; set a payment target
- ☐ Pre-qualification: an advisor reviews your profile and outlines a working range
- ☐ Pre-approval: documentation is submitted and reviewed for a stronger offer position
- ☐ Shopping and offer: your agent negotiates price, credits, and contingencies
- ☐ Application: the full file is submitted and initial disclosures are issued
- ☐ Loan Estimate review: confirm rate, costs, and cash to close
- ☐ Processing: documents are verified, appraisal and title are ordered
- ☐ Underwriting: the file is decisioned and conditions are issued
- ☐ Conditions: outstanding items are cleared, often in more than one round
- ☐ Insurance and title: coverage is bound and title work is completed
- ☐ Clear to close: final approval is issued
- ☐ Closing Disclosure: reviewed at least three business days before closing
- ☐ Final verification: employment and credit are typically re-checked
- ☐ Final walkthrough: confirm condition and any negotiated repairs
- ☐ Closing and funding: documents are signed, funds disburse, recording occurs

> Many conventional purchases close in roughly thirty to forty-five days. Appraisal timing, condominium review, and document turnaround are the usual variables.

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Document checklist

Preparing documents before application is the single most effective way to shorten a transaction. Provide complete documents — every page, including pages that appear blank — because incomplete files generate repeat requests.

Identity and general

- ☐ Government-issued photo identification

- ☐ Social Security number
- ☐ Current and prior two-year address history
- ☐ Contact information for employers and, where applicable, landlords

Income

- ☐ Most recent pay stubs covering the required period
- ☐ W-2s or 1099s for the past two years
- ☐ Federal tax returns with all schedules, where required
- ☐ Business returns, profit-and-loss statement, and business license for self-employment
- ☐ Award letters or statements for retirement, Social Security, or pension income
- ☐ Lease agreements and rental history for rental income

Assets

- ☐ Two months of complete bank statements for all accounts used
- ☐ Retirement and investment account statements
- ☐ Gift letter and evidence of transfer for gift funds
- ☐ Documentation of proceeds from the sale of a current home
- ☐ Explanations and paper trails for large deposits

Property and transaction

- ☐ Fully executed purchase contract and any addenda
- ☐ Earnest money receipt and evidence of clearance
- ☐ Homeowners insurance quote or binder
- ☐ Homeowners or condominium association contact and documents
- ☐ Flood determination follow-up where applicable

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Common mistakes to avoid

Before application

- ☐ Assuming 20 percent down is required and delaying a purchase for years
- ☐ Shopping for homes before understanding your payment comfort level
- ☐ Making a large purchase on credit shortly before applying
- ☐ Moving money between accounts without a clear paper trail
- ☐ Comparing rates without comparing points, credits, and mortgage insurance

During the transaction

- ☐ Changing jobs or compensation structure without discussing it first
- ☐ Opening new credit accounts of any size
- ☐ Depositing undocumented cash
- ☐ Skipping an independent home inspection because the appraisal came back fine
- ☐ Waiting to bind homeowners insurance until the final week
- ☐ Missing the three-business-day Closing Disclosure review window

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Notes for Florida buyers

Florida transactions carry a few recurring considerations that affect conventional financing more than they do in many other states. Homeowners insurance availability and pricing should be investigated early, because the premium feeds directly into the escrow payment and therefore into the debt-to-income calculation.

Flood zone determination matters throughout the state, and coastal and near-coastal properties may require separate windstorm coverage. Condominium buyers should ask about reserve studies, structural inspection status, and any special assessments, since project review can affect eligibility even when the borrower is exceptionally strong.

Property taxes on a newly purchased home may be reassessed after the sale, so budgeting from the seller's current tax bill can understate the eventual escrow payment. Homestead exemption timing should also be discussed for primary residences.

> These items are highly property-specific. Raise them with your advisor before writing an offer rather than during underwriting.

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Conventional buyer checklist

Before pre-qualification

- ☐ Review credit reports from all three bureaus for errors
- ☐ Pay down revolving balances where practical
- ☐ List monthly debts and required payments
- ☐ Total available funds for down payment, costs, and reserves
- ☐ Choose a monthly payment target you are comfortable with

Before shopping

- ☐ Get pre-approved and understand your working range
- ☐ Estimate insurance and taxes for the areas you are considering
- ☐ Ask about condominium project review before touring condos
- ☐ Review an estimate of cash to close, not just the down payment
- ☐ Compare a 3, 5, 10, and 20 percent down scenario side by side

After offer acceptance

- ☐ Submit documents promptly and completely
- ☐ Schedule an independent home inspection
- ☐ Obtain homeowners insurance quotes and confirm flood status
- ☐ Avoid new credit and financial changes of any kind
- ☐ Review the appraisal with your advisor and agent
- ☐ Confirm wire instructions verbally with a known number before sending funds

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Important disclosure

Document requirements, eligibility, rates, costs, mortgage insurance, loan limits, and loan terms vary by mortgage program, lender, investor, property, transaction type, and borrower profile. This guide is educational and is not a loan approval, a commitment to lend, a Loan Estimate, or legal or tax advice. Vabasso Mortgage is not affiliated with, endorsed by, or acting on behalf of Fannie Mae, Freddie Mac, or the Federal Housing Finance Agency. Program rules and conforming loan limits change; current requirements should be confirmed with your licensed mortgage advisor and with official agency guidance.

Frequently asked questions

What is a conventional loan?

A mortgage that is not insured or guaranteed by a government agency such as FHA, VA, or USDA. Most conventional loans are conforming, meaning they follow Fannie Mae or Freddie Mac guidelines and fall within annual loan limits.

What is the difference between conventional and conforming?

Conventional describes the absence of government insurance. Conforming describes a conventional loan that meets agency guidelines and stays within the conforming loan limit for the county and unit count.

Do I need 20 percent down for a conventional loan?

No. Eligible first-time buyers may access 3 percent down programs, and 5, 10, and 15 percent structures are common. Twenty percent is simply the point at which private mortgage insurance is generally not required.

What credit score do I need?

There is no single universal answer. Conventional pricing is risk-based, so score interacts with loan-to-value to determine both eligibility and cost. Higher scores generally produce better rates and lower mortgage insurance premiums.

What debt-to-income ratio is allowed?

It varies with automated underwriting findings, credit, reserves, and loan-to-value. No single ratio guarantees approval or disqualification, and the ratio your file supports may differ from someone else's.

What is private mortgage insurance?

PMI protects the lender when the loan-to-value exceeds 80 percent. It is a borrower-paid cost of financing, priced by credit score and loan-to-value, and it is separate from homeowners insurance.

How do I get rid of PMI?

Common paths include automatic termination by the servicer at a defined balance, borrower-requested cancellation once the equity threshold is met, cancellation supported by a new valuation where the servicer permits it, or refinancing into a loan without mortgage insurance.

Is conventional PMI better than FHA mortgage insurance?

Structurally it is removable, which is a meaningful long-term advantage. Whether it is cheaper today depends on your credit score and down payment, so both should be quoted side by side.

Can I use gift funds?

Gift funds from eligible donors are generally permitted on many conventional transactions with a signed gift letter and documentation of the transfer. Donor eligibility can vary by occupancy type.

Can a seller pay my closing costs?

Seller credits toward eligible closing costs may be negotiated, subject to conventional limits that vary by occupancy and loan-to-value. Credits generally cannot be returned to you as cash.

What is a lender credit?

A credit toward your closing costs funded by accepting a slightly higher interest rate. It lowers cash to close and raises the long-term cost, so it is best evaluated against your expected holding period.

Are conventional rates lower than FHA rates?

Not always. At stronger credit profiles conventional pricing is typically very competitive, while at lower scores FHA pricing is often better. Total cost, including mortgage insurance, is the meaningful comparison.

Can I buy a second home with a conventional loan?

Yes. Second homes are eligible with larger down payments and occupancy, distance, and rental-use expectations that must be met.

Can I buy an investment property?

Yes. Investment properties require larger down payments and generally carry higher pricing and reserve requirements. Rental income may be considered under guideline.

Can I buy a condominium?

Yes, if the project passes review. Underwriting examines budget, reserves, owner-occupancy, insurance, litigation, and delinquency, so project status should be confirmed before writing an offer.

Can I buy a duplex or a multi-unit property?

Two-to-four-unit properties are eligible. Loan limits are higher, reserve requirements generally increase, and the appraisal typically includes a market rent analysis.

What is a conforming loan limit?

The maximum loan amount for an agency loan, published annually by the Federal Housing Finance Agency. It varies by county and unit count, with higher ceilings in designated high-cost areas.

What is a high-balance loan?

A conforming loan above the standard baseline limit but within a high-cost county ceiling. It remains an agency loan, generally with pricing adjustments and somewhat tighter parameters.

When does a loan become jumbo?

When the amount exceeds the applicable conforming ceiling for the county and unit count. Jumbo loans are underwritten to investor or portfolio guidelines rather than agency guidelines.

Do I need an appraisal?

Usually yes. On some transactions with strong data and sufficient equity, automated underwriting may offer an appraisal waiver, but that is offered by the system rather than requested and can be revoked if the file changes.

What happens if the appraisal comes in low?

The loan is generally based on the lower of value or contract price. Common responses include renegotiating price, bringing additional funds, requesting reconsideration of value with supporting comparable sales, or exercising contract rights.

Is the appraisal the same as a home inspection?

No. The appraisal serves the lender and focuses on value. A home inspection serves you and evaluates condition. You should obtain an independent inspection regardless of the appraisal.

Can self-employed borrowers get conventional financing?

Yes. Income is typically calculated from personal and business tax returns and supporting documentation, with attention to business structure, stability, and likelihood of continuance.

How long do I need to be at my job?

Underwriting looks for stable, continuing income rather than a fixed tenure. A recent job change in the same field with similar or higher compensation is often acceptable; a change in structure, such as salary to commission, requires more review.

Are student loans counted in my ratio?

Yes. The payment used depends on the reported payment, the repayment plan, and applicable guideline treatment for deferred or income-driven plans.

Can I qualify after a bankruptcy or foreclosure?

It may be possible after applicable seasoning periods with re-established credit and documentation. Timeframes vary by event type, circumstances, and whether extenuating circumstances apply.

Should I choose a 15-year or a 30-year term?

A 15-year term saves substantial interest and builds equity quickly but requires a higher payment. A 30-year term maximizes payment flexibility. Some buyers choose 30 years and pay extra principal voluntarily.

Should I consider an adjustable-rate mortgage?

Only after evaluating the worst-case payment after the fixed period, not just the introductory rate. It can suit a clearly shorter expected holding period but adds uncertainty otherwise.

Can I waive escrow for taxes and insurance?

Escrow waivers may be permitted at certain loan-to-value ratios, sometimes with a pricing adjustment. Waiving escrow means you are responsible for paying large bills directly and on time.

What is the difference between pre-qualification and pre-approval?

Pre-qualification is a preliminary review that outlines a working range. Pre-approval involves documentation review and generally carries more weight with sellers.

Can I refinance a conventional loan to remove PMI?

Yes, if you qualify and current equity supports a loan-to-value at or below the applicable threshold. Compare the total cost of refinancing against the remaining premium you would otherwise pay.

How long does a conventional loan take to close?

Many purchase transactions close in roughly thirty to forty-five days. Appraisal scheduling, condominium project review, insurance availability, and document turnaround are the most common variables.

Tools, related pages, and next steps

A stronger plan begins before the application. Understand the loan, prepare the funds, estimate the payment, and take the next step with greater clarity.

Calculators

→ Mortgage Payment Calculator vabasso.com/calculators/mortgage-payment
→ Home Affordability Calculator vabasso.com/calculators/home-affordability
→ Down Payment Calculator vabasso.com/calculators/down-payment
→ Closing Costs Calculator vabasso.com/calculators/closing-costs
→ Debt To Income Calculator vabasso.com/calculators/debt-to-income
→ Refinance Calculator vabasso.com/calculators/refinance

Loan programs

→ Conventional Loans vabasso.com/loan-programs/conventional
→ Fha Loans vabasso.com/loan-programs/fha
→ Va Loans vabasso.com/loan-programs/va
→ Usda Loans vabasso.com/loan-programs/usda
→ Jumbo Loans vabasso.com/loan-programs/jumbo
→ Investment Loans vabasso.com/loan-programs/investment

Related reading

→ Fha vs conventional vabasso.com/resources/article/fha-vs-conventional
→ How the mortgage process works vabasso.com/resources/article/how-the-mortgage-process-works
→ Understanding down payments vabasso.com/resources/article/understanding-down-payments
→ Documents needed for a mortgage vabasso.com/resources/article/documents-needed-for-a-mortgage
→ Mortgage Glossary vabasso.com/mortgage-glossary
→ Guide library vabasso.com/resources/guides

Next steps

→ Estimate my conventional payment vabasso.com/calculators/mortgage-payment
→ Explore conventional loans vabasso.com/loan-programs/conventional
→ Get pre-qualified vabasso.com/get-pre-qualified
→ Talk with a mortgage advisor vabasso.com/contact
→ Apply now vabasso.com/apply
→ Mortgage Readiness Assessment vabasso.com/pre-qualify

Sources

Program rules referenced in this guide are maintained by the applicable agency, investor, and lender. Confirm current requirements with your licensed mortgage advisor and official program guidance before making decisions. Editorial review dated 2026-08-02.

Disclosure

Document requirements, eligibility, rates, costs, mortgage insurance, loan limits, and loan terms vary by mortgage program, lender, investor, property, transaction type, and borrower profile. This guide is educational and is not a loan approval, a commitment to lend, a Loan Estimate, or legal or tax advice. Vabasso Mortgage is not affiliated with, endorsed by, or acting on behalf of Fannie Mae, Freddie Mac, or the Federal Housing Finance Agency. Program rules and conforming loan limits change; current requirements should be confirmed with your licensed mortgage advisor and with official agency guidance.

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