The Conventional Loan Guide

How conventional loans work, what it takes to qualify, and how much cash you'll actually need to buy.



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What is it?

A conventional loan isn't backed by the government. It follows Fannie Mae and Freddie Mac's rules, and it's the most common mortgage in the country. With decent credit and steady income, it's usually the first loan I look at.

First-time buyers, meaning anyone who hasn't owned a home in 3 years, can put as little as 3% down, and everyone else 5%. In 2026 the loan limit is $832,750 in most counties, and $1,249,125 in New York City. Above that, it's a jumbo loan.

Usually a good fit if
Your score is 620 or higher and you have steady income you can document.

Maybe not the best fit if
Your score is under 620 or you've had a recent bankruptcy. An FHA loan (Federal Housing Administration) is usually easier.

What documents do I need?

If you get a regular paycheck, this is usually the whole list:

- Pay stubs from the last 30 days
- Bank statements from the last 2 months
- A gift letter, if family is helping with the down payment
- W-2s from the last 2 years
- A photo ID
- Tax returns, if you're self-employed or earn commission

Let's run the numbers

Here's the down payment on a $400,000 home at each level. Closing costs are on top of this, usually 2% to 5% of the price, and the seller can sometimes cover part of them.

Down payment on a $400,000 home — Closing costs not included

First-time buyer 3% down	**$12,000**
Everyone else 5% down	**$20,000**
Putting 20% down What many people assume	**$80,000**

Your debt-to-income ratio

Lenders also look at your debt-to-income ratio, or DTI. It's all of your monthly debt payments, including the new house payment, divided by your income before taxes. Conventional loans can go up to 50% with an automated approval, but I like to see people a bit lower so there's room in the budget.

$8,000 a month in income before taxes Example



All monthly debts, including the new house payment · The rest of your income

Things most buyers don't know

1. **PMI doesn't last forever.** If you put less than 20% down, you'll pay private mortgage insurance. You can ask to remove it once you owe 80% of the home's original value, and it drops off on its own at 78%. If your home goes up in value, you may be able to remove it sooner with a new appraisal.
2. **Your credit score affects your rate more than most people expect.** Conventional pricing is tied closely to your score, so even a small bump before you apply can lower your payment. Paying down credit card balances is usually the fastest way to get there.
3. **Putting 20% down isn't always the best move.** Putting 5% down on a $400,000 home instead of 20% keeps $60,000 in your account for repairs, emergencies or your next goal. PMI is the cost of keeping that cushion, and it comes off later.

Lesser-known strategies

1. **Pay every two weeks instead of once a month.** Paying half your payment every 2 weeks adds up to 13 full payments a year instead of 12. Conventional loans don't have prepayment penalties, so that extra payment goes straight to your balance.

About 6 years
paid off sooner

About $136,000
less interest

Example: $400,000 loan at 7% for 30 years, principal and interest only. Make sure your servicer applies the extra to principal, and don't pay a company a fee to set this up.

2. **Look at 2 to 4 unit homes.** You can buy a 2 to 4 unit property with 5% down as long as you live in one of the units. The rent from the other units helps cover the mortgage and can count toward your income.

A real example

A nurse I worked with was renting and watching her rent go up every year, so she decided to buy. She thought she needed 20% down and hadn't saved that much. Once we went over her options, she saw she only needed 5%. She ended up putting 10% down so her payment stayed within what her income could qualify for, and we closed in 25 days.

30-second recap

- As little as 3% down for first-time buyers, 5% for everyone else
- A 620 credit score or higher, and a better score gets a better rate
- DTI can go up to 50% with an automated approval
- Closing costs are extra, usually 2% to 5% of the price
- PMI comes off once you reach 20% equity
- Paying every two weeks can take years off the loan



Want to see your actual numbers?

A quote takes about 2 minutes and doesn't touch your credit. Once I see your situation, I'll walk you through your options and what each one would actually cost you.

Get a Quote →

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