

THE FIRST-TIME HOMEBUYER'S DEFINITIVE GUIDE

FHA or conventional? Pick the loan that fits your life.

How the two most common first-time buyer loans really compare on credit, down payment, mortgage insurance, appraisals and debt, and how to tell which one is built for you.

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The big question: which loan is right for me?

Buying your first home is an exciting milestone, and it can feel both empowering and, at times, overwhelming. Choosing the mortgage is a big part of that. This guide isn't a list of rigid rules. It's here to give you the knowledge to move through the process with confidence and find the financing that fits your situation and your long-term goals.

The two most common paths for first-time buyers are a Conventional loan and an FHA loan. There's no universal right answer. It's a personal decision that depends on your credit history, your savings and your debts. Understanding how these two loans differ is the first step toward an informed choice and a stress-free move. Think of this as a roadmap to get you home, with straightforward guidance to help you do this thing the right way.

THE CORE DIFFERENCE

It comes down to who stands behind the loan.

The primary difference between a Conventional and an FHA loan is who stands behind the mortgage. That single difference drives nearly every other variation in requirements and benefits.

PRIVATE MARKET

Conventional loans

Private mortgages that aren't backed by the government. They follow guidelines set by Fannie Mae and Freddie Mac. Because they carry private-market risk, they typically ask more of the borrower, and they reward a strong financial profile.

GOVERNMENT-INSURED

FHA loans

Insured by the Federal Housing Administration, a government agency created to expand homeownership. That insurance protects lenders if a borrower defaults, which allows more lenient requirements, especially for buyers with limited savings or lower credit scores.

That's why FHA is often the more forgiving option, while Conventional can reward borrowers with strong finances. It's not just different rules. It's two different philosophies: one driven by the private market, the other by a government initiative to promote homeownership.

Credit score: the first hurdle.

Conventional

Since November 2025, Fannie Mae's automated underwriting system no longer sets a hard minimum credit score. Manually underwritten loans still need at least 620, and most lenders still look for roughly 620 or higher. Scores above about 720 typically earn better rates and cheaper private mortgage insurance, which adds up to real long-term savings.

FHA

More flexible. You can qualify with a score as low as 580 and put down just 3.5%. With a score between 500 and 579, FHA is still possible, but it requires 10% down.

That flexibility comes straight from the government's insurance on the loan, which gives lenders the confidence to finance a wider range of borrowers. It's also the answer to a common myth: less-than-perfect credit doesn't put homeownership out of reach.

The down payment: busting the 20% myth.

20%

You don't need 20% down. Both FHA and Conventional loans offer low down payment options designed to make buying more accessible. Twenty percent only matters if you want to skip mortgage insurance entirely.

Conventional: as little as 3%

- **First-time buyers, any income:** standard 3%-down loans (Fannie Mae's 97% loan, Freddie Mac's HomeOne).
- **Income-qualified buyers, first-time or not:** HomeReady and Home Possible allow 3% down for buyers earning up to 80% of the area median income.
- **Everyone else:** typically 5% minimum.

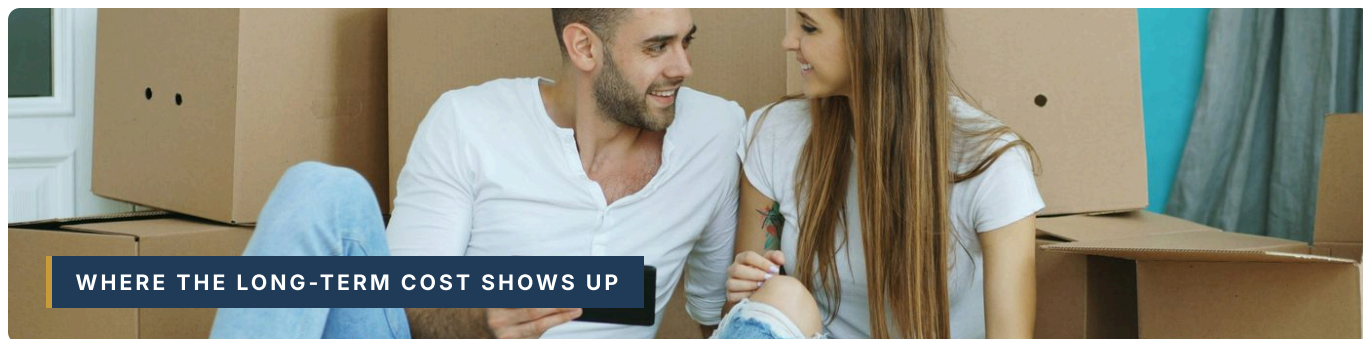
FHA: 3.5% minimum

3.5% down with a credit score of 580 or higher; 10% down with a score between 500 and 579. Note that some Conventional loans allow a *lower* minimum (3%) than FHA (3.5%), a nuance a lot of buyers miss.

BUYING IN COLORADO?

The Colorado Housing and Finance Authority (CHFA) offers down payment assistance as a grant or a deferred second mortgage, with income and price limits. Ask your lender whether you qualify before you assume you need to save more.

Mortgage insurance: the biggest long-term difference.



Mortgage insurance protects the lender if a borrower defaults, and it's common on low down payment loans. How it works is perhaps the most significant difference in the long-term cost of these two loans.

CONVENTIONAL

Private mortgage insurance (PMI)

Required with less than 20% down, usually paid monthly, and priced by your credit score and down payment. The big advantage: **it comes off**. You can ask to cancel it once your balance reaches 80% of the home's original value, with a good payment history, and it ends automatically when your balance is scheduled to reach 78%. If your home gains value, many lenders will consider removing it sooner with a new appraisal, usually after a few years of on-time payments.

FHA

Mortgage insurance premium (MIP)

Required on every FHA loan, whatever the down payment, in two parts:

- **Upfront (UFMIP):** 1.75% of the loan amount, usually financed into the loan.
- **Annual (MIP):** paid monthly. Less than 10% down, it lasts for the life of the loan. 10% or more down, it lasts 11 years.

FEATURE	FHA'S MIP	CONVENTIONAL'S PMI
Upfront premium	1.75% of the loan, often financed	None
Monthly premium	Added to the payment	Added to the payment
How long you pay	Life of the loan under 10% down; 11 years at 10% or more	Cancel at 80% of original value; ends automatically at 78%

The permanence of FHA's mortgage insurance is the long-term price of its upfront flexibility.

Loan limits and debt-to-income.

Loan limits

Both loans have maximum loan amounts. In most of the country, Conventional limits are higher than FHA limits, which matters if you're shopping in a higher-cost market. Limits are set every year and vary by county: look up conforming limits on the FHFA website and FHA limits with HUD's loan limit lookup.

Debt-to-income (DTI)

The share of your gross monthly income that goes to monthly debt payments. Both loans go higher than many people think. Fannie Mae's automated underwriting allows up to 50% on conventional loans. FHA's automated approvals have no fixed published cap and can sometimes go above 50% with strong compensating factors. Manual underwriting is tighter on both.

No single number decides the loan. A borrower with a high DTI and a modest credit score may find FHA easier to qualify for, while the same DTI paired with strong credit may qualify just as well with Conventional, often with cheaper mortgage insurance.

Quick reference: the key differences

FACTOR	FHA	CONVENTIONAL
Who it's for	Lower credit scores (580+) or higher debt-to-income	Solid credit and financial stability
Backing	Insured by the Federal Housing Administration	Not government-backed; Fannie Mae / Freddie Mac guidelines
Credit score	580 for 3.5% down; 500–579 needs 10% down	No hard minimum in Fannie Mae's automated underwriting; most lenders look for about 620
Down payment	3.5% minimum	3% for first-time or income-qualified buyers; typically 5% otherwise
Debt-to-income	Automated approvals can go above 50% with strong compensating factors	Up to 50% with Fannie Mae's automated underwriting
Loan limits	Generally lower	Generally higher
Mortgage insurance	Always; upfront plus annual	Under 20% down; cancellable
Ideal buyer	Wants lower barriers to entry; limited savings or higher debt	Larger down payment; wants to build equity and drop PMI

Appraisals: two different approaches.



WHAT THE APPRAISER IS REALLY LOOKING FOR

Every mortgage requires an appraisal, a professional opinion of the home's market value. But the scope of the appraisal differs a lot between FHA and Conventional loans.

Conventional appraisal

Focused mainly on market value: the appraiser confirms the value supports the price by looking at the home's condition and comparing recent sales nearby. Major health or safety hazards get noted, but the process is generally less stringent, leaving buyers and sellers more room to negotiate repairs.

FHA appraisal

Special emphasis on the home's "safety, security, and soundness." Because the government insures the loan, the home has to meet a higher standard. An appraiser on FHA's Appraiser Roster does a more rigorous review, including a "head and shoulders" look at attics and crawl spaces and a check for peeling paint in homes built before 1978. Safety issues must be fixed before closing.

That stricter FHA appraisal cuts both ways. It adds a layer of protection, because the home has to be safe and livable. But in a competitive market, some sellers prefer a Conventional offer, which they see as faster and less likely to hit repair hurdles.

FEATURE	FHA APPRAISAL	CONVENTIONAL APPRAISAL
Primary focus	Safety, security and soundness	Market value and general condition
Key areas	Peeling paint (pre-1978), foundation, roof, utilities, ventilation	Foundation, roof, utilities, major defects
Repairs	Safety issues must be corrected	More room to negotiate
Who appraises	An appraiser on FHA's Appraiser Roster	Any appraiser meeting Fannie Mae / Freddie Mac guidelines

Which loan fits you?

The choice isn't about which loan is "better." It's about which one fits your financial situation and your goals.

An FHA loan might be your best choice if...

- ✓ **Your credit score is on the lower side**
If your score is below what most lenders want for Conventional (typically around 620), FHA's 580 minimum for 3.5% down is often the most workable option.

- ✓ **Your debt-to-income is high**
Significant student loan, car or credit card debt plus a moderate credit score can be easier to work with on FHA.

- ✓ **Your savings are limited**
FHA's 3.5% down is a strong advantage if you haven't had the time to save a large down payment.

A Conventional loan might fit better if...

- ✓ **You have strong credit**
A score of 680 or higher makes you a prime candidate and earns a more favorable rate.

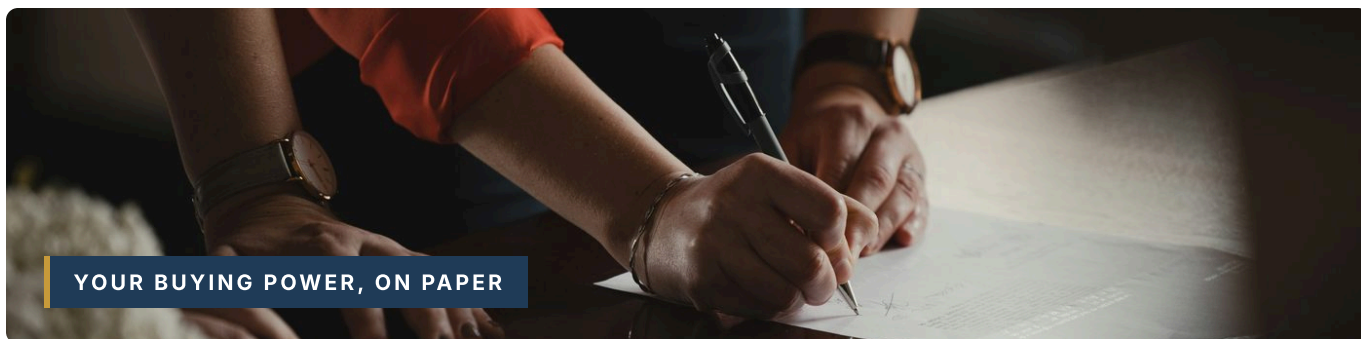
- ✓ **You can put 20% or more down**
You'll avoid mortgage insurance altogether.

- ✓ **You want mortgage insurance to go away**
Even with a low down payment, PMI comes off once you reach 20% equity based on the original value, or sooner with appreciation and a new appraisal.

- ✓ **You're buying in a competitive market**
Some sellers see a Conventional offer as a faster, cleaner close.

- ✓ **The home may not pass a strict FHA appraisal**
Older homes with minor issues often close more smoothly with Conventional.

Get pre-approved first.



The first and most critical step is getting pre-approved. It isn't a formality: it's the step that defines your buying power. It shows you what you can truly afford, which keeps your home search realistic, and it's the best way to have an informed conversation with your loan officer about whether FHA or Conventional fits you best.

Rules of the road once you've applied

DO

- ✓ Be completely honest on the application
- ✓ Keep paying bills on time
- ✓ Have W-2s, pay stubs and bank statements ready
- ✓ Ask questions if anything is unclear
- ✓ Stay in regular contact with your loan team

DON'T

- ✗ Make big purchases like furniture, cars or boats
- ✗ Apply for new credit or close existing accounts
- ✗ Spend the down payment money
- ✗ Change jobs if you can avoid it
- ✗ Co-sign loans for anyone else

"The fastest way to delay closing? Buying a Tesla while we're reviewing your tax returns."

THE EVERETTS LENDING TEAM

You don't have to figure this out alone.

Buying a home doesn't have to be overwhelming. With the right team and the right guidance, it's completely manageable. This guide gives you the roadmap, but the most important step is finding advisors who act as problem-solvers and advocates, so you never feel lost about what comes next. Honest, straightforward guidance, every step of the way.

ARE YOU READY TO LIVE HAPPILY EVERETTS
AFTER?

Not sure which loan fits? Let's run both.

We'll put FHA and Conventional side by side with your real numbers (payment, mortgage insurance and cash to close) so you can see the difference before you choose.

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Everetts Lending Team at Edge Home Finance · NMLS #891464 · Equal Housing Lender. Program rules and loan limits change; check the sources below for current figures.

Sources

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[FHFA: conforming loan limits](#)

[HUD: FHA loan limit lookup](#)

[CHFA: down payment assistance](#)

Photos: Unsplash (Andrew Mead, Vitaly Gariev, Sasun Bughdaryan, Romain Dancre)