



FHA VS. CONVENTIONAL LOANS

How to compare two popular paths to homeownership



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The right answer depends on the borrower and the property

FHA and conventional loans can both be excellent choices. The better fit depends on credit, debts, down payment, mortgage insurance, property, pricing, and how long you expect to keep the loan.

Comparison	General difference
Who backs it?	FHA: insured by the Federal Housing Administration. Conventional: not government-insured; often follows Fannie Mae or Freddie Mac standards.
Low down payment	FHA: as low as 3.5% for eligible borrowers. Conventional: options as low as 3% for eligible borrowers.
Mortgage insurance	FHA uses upfront and annual mortgage insurance. Conventional may use private mortgage insurance when required.
Credit profile	FHA can be more flexible in some cases. Conventional pricing and approval can be more sensitive to credit.
Property review	Both require acceptable collateral; FHA also applies minimum property standards.
Do not compare labels alone: Compare the actual Loan Estimates, payments, cash-to-close, and long-term costs for your scenario.	

1. Down payment and mortgage insurance

FHA

- Minimum required investment can be as low as 3.5% for eligible borrowers.
- An upfront mortgage insurance premium generally applies and may often be financed.
- Annual mortgage insurance is usually paid monthly.
- How long annual mortgage insurance remains depends on the original loan structure and applicable rules.

Conventional

- Some eligible borrowers may put as little as 3% down.
- Private mortgage insurance may be required when the down payment is below certain thresholds.
- PMI cost varies based on credit, down payment, occupancy, coverage, and other factors.
- Borrowers may have cancellation rights after meeting applicable equity and payment requirements.

Key tradeoff: A slightly lower down payment does not automatically mean a lower total cost. Compare insurance, rate, cash, and payment together.

2. Qualification and property differences

Credit and pricing	FHA may offer a useful path when conventional pricing or approval is less favorable. Stronger credit may make conventional more attractive.
Debt ratios	Both evaluate obligations and income. FHA may allow more flexibility in some files; automated and manual underwriting results matter.
Past credit events	Waiting periods and documentation differ by program and event. Review the exact timeline.
Income/assets	Both require stable, documentable qualifying income and acceptable funds.
Appraisal	Both evaluate value. FHA appraisals also address FHA minimum property requirements.
Property type	Condos, manufactured homes, multi-unit properties, and unique homes can have program-specific requirements.

Neither program means “easy approval”

Every loan still requires acceptable credit history, capacity to repay, funds, documentation, property eligibility, and underwriting.

3. Which situations may point in each direction?

FHA may deserve a closer look when...

- Credit history or score makes conventional pricing less competitive.
- The borrower needs FHA's qualification flexibility.
- An eligible gift or assistance structure works well with FHA.
- The property and transaction meet FHA requirements.

Conventional may deserve a closer look when...

- Credit and overall profile support favorable conventional pricing.
- The borrower wants potential PMI cancellation flexibility.
- The property or transaction is a cleaner fit under conventional rules.
- The borrower is comparing different down payments or long-term insurance costs.

Questions Jerry will help compare

- What is the total monthly payment?
- What is the cash-to-close?
- How much mortgage insurance applies, and for how long?
- What are the rate and points?
- How does the comparison change after three, five, or seven years?

Your FHA vs. conventional comparison checklist

Loan amount	Use the same price and down payment assumptions.
Rate and APR	Confirm lock period and points or credits.
Monthly payment	Include principal, interest, taxes, insurance, mortgage insurance, and HOA.
Cash-to-close	Include down payment, costs, prepaids, credits, and deposits already paid.
Insurance timeline	Understand upfront, monthly, and potential cancellation differences.
Property fit	Confirm appraisal, condition, condo, occupancy, and program requirements.
Future plans	Consider expected ownership period and the possibility of refinancing.
Best practice: Ask for a side-by-side comparison using the same purchase price and timing. A fair comparison changes one major variable at a time.	

Let's talk about your mortgage plan

You do not need to know which loan or strategy you want before calling. That is what the education and comparison process is for.



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Consumer resources

HUD FHA information: <https://www.hud.gov/helping-americans/loans>

Fannie Mae 97% LTV options: <https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/97-loan-value-options>

CFPB Homebuying tools: <https://www.consumerfinance.gov/owning-a-home/>

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