1. Conventional loan

A conventional mortgage is a home loan that's not insured by the federal government. There are two types of conventional loans: conforming and non-conforming loans.

A conforming loan simply means the loan amount falls within maximum limits set by the Federal Housing Finance Agency. The types of mortgage loans that don't meet these guidelines are considered non-conforming loans. Jumbo loans, which represent large mortgages above the FHFA limits for different counties, are the most common type of non-conforming loan.

Generally, lenders require you to pay private mortgage insurance (PMI) on many conventional loans when you put down less than 20 percent of the home's purchase price.

Pros of conventional mortgages

- Can be used for a primary home, second home or investment property
- Overall borrowing costs tend to be lower than other types of mortgages, even if interest rates are slightly higher
- Can ask your lender to cancel PMI once you've reached 20 percent equity, or refinance to remove it
- Can pay as little as 3 percent down on loans backed by Fannie Mae or Freddie Mac
- Sellers can contribute to closing costs

Cons of conventional mortgages

- Minimum FICO score of 620 or higher often required (the same applies for refinancing)
- Higher down payment than government loans
- Must have a debt-to-income (DTI) ratio of no more than 45 percent to 50 percent
- Likely need to pay PMI if your down payment is less than 20 percent of the sales price
- Significant documentation required to verify income, assets, down payment and employment

Who should get one?

Conventional loans are ideal for borrowers with strong credit, a stable income and employment history, and a down payment of at least 3 percent.

2. Jumbo loan

Jumbo mortgages are conventional types of mortgages that have non-conforming loan limits. This means the home price exceeds federal loan limits. For 2021, the maximum conforming loan limit for single-family homes in most of the U.S. is $548,250. In certain high-cost areas, the ceiling is $822,375. Jumbo loans are more common in higher-cost areas, and generally require more in-depth documentation to qualify.

Pros of jumbo mortgages

- Can borrow more money to buy a home in an expensive area
- Interest rates tend to be competitive with other conventional loans

Cons of jumbo mortgages

- Down payment of at least 10 to 20 percent needed
- A FICO score of 700 or higher typically required, although some lenders accept a minimum score of 660
- Cannot have a DTI ratio above 45 percent
- Must show you have significant assets (generally 10 percent of the loan amount) in cash or savings accounts

Who should get one?

Jumbo loans make sense for more affluent buyers purchasing a high-end home. Jumbo borrowers should have good to excellent credit, a high income and a substantial down payment. Many reputable lenders offer jumbo loans at competitive rates. Keep in mind: Whether or not you need a jumbo loan is determined solely by how much financing you need, not by the purchase price of the property.

3. Government-insured loans

The U.S. government isn't a mortgage lender, but it does play a role in helping more Americans become homeowners. Three government agencies back mortgages: the Federal Housing Administration (FHA loans), the U.S. Department of Agriculture (USDA loans) and the U.S. Department of Veterans Affairs (VA loans).

- **FHA loans** – Backed by the FHA, these types of home loans help make homeownership possible for borrowers who don't have a large down payment saved up or don't have pristine credit. Borrowers need a minimum FICO score of 580 to get the FHA maximum of 96.5 percent financing with a 3.5 percent down payment; however, a score of 500 is accepted if you put at least 10 percent down. FHA loans require two mortgage insurance premiums: one is paid upfront, and the other is paid annually for the life of the loan if you put less than 10 percent down, which can increase the overall cost of your mortgage. Lastly, with an FHA loan, the home seller is allowed to contribute to closing costs.
- **USDA loans** – USDA loans help moderate- to low-income borrowers buy homes in rural areas. You must purchase a home in a USDA-eligible area and meet certain income limits to qualify. Some USDA loans do not require a down payment for eligible borrowers with low incomes.
- **VA loans** – VA loans provide flexible, low-interest mortgages for members of the U.S. military (active duty and veterans) and their families. VA loans do not require a down payment or mortgage insurance, and closing costs are generally capped and may be paid by the seller. A funding fee is charged on VA loans as a percentage of the loan amount to help offset the program's cost to taxpayers. This fee, as well as other closing costs, can be rolled into most VA loans or paid upfront at closing.

Pros of government-insured loans

- Help you finance a home when you don't qualify for a conventional loan
- Credit requirements more relaxed
- Don't need a large down payment
- Available to repeat and first-time buyers

Cons of government-insured loans

- Mandatory mortgage insurance premiums on FHA loans that cannot be canceled in some cases
- Could have higher overall borrowing costs
- Expect to provide more documentation, depending on the loan type, to prove eligibility

Who should get one?

Government-insured loans are ideal if you have low cash savings or less-than-stellar credit and can't qualify for a conventional loan. VA loans tend to offer the best terms and most flexibility compared to other loan types for qualified borrowers.

4. Fixed-rate mortgage

Fixed-rate mortgages keep the same interest rate over the life of your loan, which means your monthly mortgage payment always stays the same. Fixed loans typically come in terms of 15 years, 20 years or 30 years.

Pros of fixed-rate mortgages

- Monthly principal and interest payments stay the same throughout the life of the loan
- Can more precisely budget other expenses month to month

Cons of fixed-rate mortgages

- Generally need to pay more interest with a longer-term loan
- Interest rates typically higher than rates on adjustable-rate mortgages (ARMs)

Who should get one?

If you plan to stay in your home for at least seven to 10 years, a fixed-rate mortgage offers stability with your monthly payments.

5. Adjustable-rate mortgage

Unlike the stability of fixed-rate loans, adjustable-rate mortgages have fluctuating interest rates that can go up or down with market conditions. Many ARM products have a fixed interest rate for a few years before the loan changes to a variable interest rate for the remainder of the term. Look for an ARM that caps how much your interest rate or monthly mortgage rate can increase so you don't wind up in financial trouble when the loan resets.

Pros of adjustable-rate mortgages

- Lower fixed rate in the first few years of homeownership
- Can save a substantial amount of money on interest payments

Cons of adjustable-rate mortgages

- Monthly mortgage payments could become unaffordable, resulting in a loan default
- Home values may fall in a few years, making it harder to refinance or sell before the loan resets

Who should get one?

You must be comfortable with a certain level of risk before getting an ARM. If you don't plan to stay in your home beyond a few years, an ARM could save you big on interest payments.

Other types of home loans

In addition to these common kinds of mortgages, there are other types you may find when shopping around for a loan. These include:

- **Construction loans** – If you want to build a home, a construction loan can be a good choice. You can decide whether to get a separate construction loan for the project and then a separate mortgage to pay it off, or wrap the two together. In general, you need a higher down payment for a construction loan and proof that you can afford it.
- **Interest-only mortgages** – With an interest-only mortgage, the borrower pays only the interest on the loan for a set period of time. After that time period is over, usually between five and seven years, your monthly payment increases as you begin paying your principal. With this type of loan, you won't build equity as quickly, since you're initially only paying interest. These loans are best for those who know they can sell or refinance, or for those who can reasonably expect to afford the higher monthly payment later.
- **Balloon mortgages** – Another type of home loan you may come across is a balloon mortgage, which requires a large payment at the end of the loan term. Generally, you'll make payments based on a 30-year term, but only for a short time, such as seven years. At the end of that time, you'll make a large payment on the outstanding balance, which can be unmanageable if you're not prepared. You can use Bankrate's balloon mortgage calculator to see if this kind of loan makes sense for you.

Before moving forward with any mortgage, carefully consider your financial situation. Review your circumstances and needs, and do your research so you know which types of mortgage loans are most likely to help you reach your goals.