FHA VS. CONVENTIONAL

Which Loan Is Right for You? A Clear Comparison for Florida Buyers

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Welcome from Aaron Bath

As a top-producing mortgage loan officer serving South Florida, I've helped hundreds of families and investors navigate the home financing process. These guides are designed to give you clear, actionable information so you can make confident decisions. My goal is to be your trusted resource — today and for years to come.

FHA Loans — Flexible Entry to Homeownership

FHA loans, insured by the Federal Housing Administration, are designed to help more Americans achieve homeownership with lower barriers to entry.

- **Down Payment:** As low as 3.5% of the purchase price (for credit scores 580+). This is a major advantage for first-time buyers who have saved for a down payment but not the traditional 20%.
- **Credit Requirements:** More flexible than conventional. Minimum 580 FICO for 3.5% down; 500-579 FICO possible with 10% down. We can often work with credit scores in the 600-640 range that other lenders decline.
- **Mortgage Insurance (MIP):** Requires both an upfront MIP (financed into the loan) and annual MIP. For most purchase loans, MIP lasts for the life of the loan if LTV > 90% at origination, or 11 years if LTV ≤ 90%. This is a key consideration for long-term cost.
- **Debt-to-Income (DTI):** More lenient DTI guidelines than conventional in many cases, which helps buyers with higher debt loads.
- **Gift Funds:** 100% of down payment and closing costs can come from gifts (with proper documentation). Very flexible for buyers receiving family assistance.
- **Property Requirements:** Must meet FHA minimum property standards. Appraisals are thorough; repairs may be required before closing.

Conventional Loans — Long-Term Value & Flexibility

Conventional loans (conforming to Fannie Mae and Freddie Mac guidelines) are the most common mortgage type and often the best choice for buyers with stronger credit profiles.

- **Down Payment:** As low as 3% for qualified buyers (though 5-20% is more common and eliminates or reduces PMI).
- **Credit Requirements:** Generally stronger credit needed — 620+ minimum, with 680-740+ getting the best pricing and terms. Higher credit = lower rates and easier approval.
- **Private Mortgage Insurance (PMI):** Required if down payment < 20%. PMI can usually be removed once you reach 20% equity through appreciation or principal paydown (unlike FHA MIP which often stays for the life of the loan).
- **Rates:** Typically lower interest rates than FHA for well-qualified borrowers, which can mean significant savings over the life of the loan.
- **Loan Limits:** Conforming limits apply (higher in high-cost areas). We also have access to jumbo conventional options for larger purchases.
- **Flexibility:** Easier to remove PMI, more lender options, and often preferred for investment properties or second homes (with proper qualification).

Side-by-Side Comparison

Here's a practical comparison to help you see the trade-offs:

Criteria	FHA Loan	Conventional Loan
Minimum Down Payment	3.5% (credit 580+)	3% minimum (5-20% common)
Credit Score Flexibility	Excellent — works with 580-680 range	Best rates at 680-740+
Mortgage Insurance	MIP — often for life of loan if LTV >90%	PMI — removable at 20% equity
Interest Rates	Generally higher than conventional	Lower for well-qualified borrowers
DTI Tolerance	More flexible in many cases	Stricter front/back-end ratios
Gift Funds for Down Payment	100% allowed with documentation	Allowed but with more restrictions

Best For	First-time buyers, credit-challenged, minimal down payment	Strong credit profiles, long-term homeowners, lower total cost
Florida Consideration	Good for buyers in high-insurance-cost areas who need lower entry	Often preferred for move-up buyers and those with equity goals

Making the Right Choice for Your Situation

There is no universal "best" loan — it depends on your credit, down payment, how long you plan to stay in the home, and other factors. Here are general guidelines:

- **Choose FHA if:** Your credit is in the 580-680 range, you have limited funds for down payment, or you want maximum flexibility with gift funds and DTI. Great for first-time buyers or those rebuilding credit.
- **Choose Conventional if:** You have solid credit (680+), can put 5-20% down, and want the lowest long-term cost with the ability to remove PMI. Often the better choice if you plan to stay in the home 7+ years.
- **Other Options We Offer:** VA loans for eligible veterans (0% down, no PMI), Non-QM / Alternative Documentation loans for self-employed borrowers who don't fit traditional guidelines, and jumbo financing for higher-value properties.

■ We Run the Numbers for You

The best way to decide is to see actual payment scenarios side-by-side. I will prepare personalized illustrations showing your monthly payment, total interest paid over 5/10/30 years, and break-even points for PMI/MIP removal. This takes the guesswork out of the decision so you can choose with confidence.

Ready to discuss your specific situation?

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I'm here to help you achieve your homeownership or investment goals with personalized solutions and white-glove service. Whether you're a first-time buyer, self-employed professional, or real estate investor, let's build your financial future together.