LOAN PROGRAM GUIDE

Conventional Loan Guide

How conventional loans work, what the 2026 conforming limits mean in Los Angeles County, how mortgage insurance is removed, and what to have ready before you apply.

Reviewed November 18, 2026 against the sources listed at the end of this guide.

Who might consider a conventional loan

A conventional loan is a mortgage that is not insured or guaranteed by a government agency such as FHA, VA or USDA. It is the most common type of home loan and is often the best fit for:

- Buyers with steady, well-documented income and good credit
- Buyers putting down anywhere from 3% to 20% or more
- People buying a second home or an investment property (FHA, VA and USDA loans are for homes you will live in)
- Homeowners refinancing to a lower rate, a shorter term or to take cash out

How it works

Most conventional loans follow the rules of **Fannie Mae** or **Freddie Mac**, the two companies that buy mortgages from lenders. Loans that fit their rules and loan-size limits are called **conforming** loans. Individual lenders can add their own requirements on top, which is one reason quotes and approvals can differ from lender to lender.

The 2026 conforming loan limits

The Federal Housing Finance Agency sets the maximum loan size each year. For a one-unit home in 2026:

Area	Maximum conforming loan
Most of the U.S. (baseline)	$832,750
High-cost areas, including Los Angeles County (ceiling)	$1,249,125

Loans above the baseline but within a high-cost area's limit are often called **high-balance** conforming loans. They follow the same rules but can price a little differently. Loans above the local limit are **jumbo** loans, which follow each lender's own guidelines. Limits are higher for two- to four-unit properties and are reset every year.

Down payment

- **3% down** is possible through certain programs. Fannie Mae's HomeReady, for example, allows 3% down on a one-unit primary residence for borrowers whose income is at or below 80% of the area median income for the property's location. Freddie Mac has comparable programs.
- **5% down or more** opens the standard conventional programs without income limits.
- **20% down or more** means no mortgage insurance.

Mortgage insurance (PMI)

If you put down less than 20%, you will usually pay private mortgage insurance. Unlike FHA mortgage insurance, PMI on a conventional loan is designed to go away. Under federal law, you can ask your servicer to cancel PMI once your balance is scheduled to reach 80% of the home's original value, and it ends

automatically when the balance is scheduled to reach 78%, as long as you are current on payments. Conditions apply, such as a good payment history and no second liens.

Credit and income

Lenders set their own minimum credit scores, often 620. Fannie Mae's automated underwriting system (Desktop Underwriter) has no fixed minimum score, while Fannie Mae's manual underwriting requires 620 for fixed-rate loans and 640 for ARMs. Fannie Mae, Freddie Mac and lenders also set maximum debt-to-income ratios. A lower score doesn't automatically rule you out, so ask. Your credit score also drives your rate and your mortgage insurance cost, so a modest improvement before you apply can save real money. Lenders must make a good-faith determination that you can repay the loan, which is why they verify income, assets and debts.

Hypothetical example: how down payment changes the loan. The Parks are buying a $900,000 home in Pasadena.

Down payment	Loan amount	What it means
5% ($45,000)	$855,000	Above the $832,750 baseline but within the LA County limit, so it is a high-balance conforming loan with PMI.
10% ($90,000)	$810,000	A standard conforming loan, with lower PMI than at 5% down.
20% ($180,000)	$720,000	A standard conforming loan with no PMI.

The right choice depends on their savings, how long they plan to stay and what each option costs. The figures are illustrations only; actual pricing depends on credit, property and market conditions.

Common conventional options

Option	What it does
30-year fixed	The same principal and interest payment for 30 years
15- or 20-year fixed	Higher payment, less interest over the life of the loan
Adjustable rate (ARM)	A fixed rate for an initial period (for example 5, 7 or 10 years), then it adjusts
Rate-and-term refinance	Changes the rate or term without taking significant cash out
Cash-out refinance	Replaces your loan with a larger one and pays you the difference

What to gather

- [ ] Pay stubs for the last 30 days and W-2s for the last two years
- [ ] Federal tax returns for the last two years if you are self-employed or earn commission, bonus or rental income
- [ ] Two months of statements for each bank, investment and retirement account
- [ ] A photo ID for each borrower
- [ ] Gift letter and transfer records, if family is helping with the down payment
- [ ] Your current mortgage statement and homeowners insurance, if refinancing
- [ ] Leases and the last two years of tax returns for any rental properties you own

Questions to ask

- Is my loan conforming, high-balance or jumbo, and how does that affect pricing?
- How much would PMI cost at different down payments, and when could I remove it?
- Would a 3% down program fit my income and location?
- What would it cost to buy the rate down, and how long until that pays for itself?
- Is my rate locked on the Loan Estimate, and for how long?

Your next step

Tell us what you are trying to do and we will tell you, plainly, which options fit and what to gather. There is no cost to talk it through.

Start a free loan evaluation: journeymac.com/evaluation

Call: (626) 716-0585 **Email:** info@journeymac.com

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This guide is general education, not a loan offer, a rate quote or legal, tax or financial advice. Program rules change and lenders add their own requirements; confirm details for your situation before you act. Examples marked “hypothetical” are illustrations only.

Sources

Reviewed November 18, 2026. Program rules change; check the current version of each source.

1. Fannie Mae Selling Guide B3-5.1-01: General requirements for credit scores (11/04/2026)
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