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Meta Description: If you're in the market to buy a new home, you might be wondering, "What type of home loans are there?" There are several, so click below to learn more!
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WHAT TYPE OF HOME LOANS ARE THERE? EXPLORE YOUR OPTIONS

Every family is different and all homes are different, which is why there's a range of mortgages to cater to different needs and wants. Whether you're a first-time buyer or a homeowner looking for a change— it can be confusing when navigating all your options.

Our quick guide can help you figure out what types of home loans are available and which one might be best for you.

AN OVERVIEW OF DIFFERENT MORTGAGE LOANS

We can split mortgages into two broad categories to help answer the question, “What type of home loans are there?” Government-backed home loans come with certain conditions and offer great benefits if you're eligible. For everyone else, a conventional loan is probably best.

Conventional Loans

These loans are offered by private lenders like credit unions, banks, and online mortgage brokers. They may be conforming (meet the guidelines of Fannie Mae and Freddie Mac) or non-conforming.

- **Fixed-rate home loans**: Offer a steady interest rate over loan terms of 10, 15, 20, or 30 years for your primary residence.
- **Adjustable-rate mortgage (ARM) loans:** Offer a low, fixed rate for an initial period and then adjust with market rates on a predetermined schedule.
- **Jumbo Loans:** These non-conforming loans let you borrow higher loan amounts if you have the necessary down payment and meet other criteria.
- **Bare Land Loans:** Help you buy land on which you plan to build a home (Build Land Loans) or empty land that you don't plan to develop (Raw Land Loans).
- **Vacation Home Loans**: Give you the financing to buy a second property for vacation purposes.

Government-Backed Loans

These loans are partially insured by government departments so private lenders can offer loans to people who may not otherwise qualify, or offer better rates than the person might get for a conventional loan. The insurance covers the lender in case the borrower defaults.

- **FHA Loans:** Insured by the Federal Housing Authority so more people may qualify for a home loan, as long as the property meets appraisal guidelines.
- **VA Loans:** Insured by the U.S. Department of Veterans Affairs to provide competitive home loans to veterans and other eligible military personnel, with appraisal guidelines.
- **USDA Loans:** Insured by the U.S. Department of Agriculture to help people buy a home in eligible rural areas, as long as their household income is below a certain limit.

FIXED-RATE MORTGAGE LOANS

A fixed-rate mortgage is a popular choice because you get to lock in a rate for the life of your loan, so your monthly payments remain steady which makes budgeting simple.

Key Details

- Rates: The APR you get may be slightly higher than the initial rate for an adjustable-rate mortgage (ARM), but then your rate stays the same, while an ARM may go up and down.
- Fees: You'll need to pay private mortgage insurance (PMI) if your down payment is less than 20%.
- Loan terms: Choose from 10, 15, 20, or 30 years. Shorter terms get lower rates and accrue less total interest, while longer terms give lower monthly payments.
- Qualifying: You'll need good credit, a steady income, and a down payment to qualify.

Pros and Cons of a Fixed-Rate Mortgage

- Pros: Budgeting is easy because your payments will remain steady apart from any changes to taxes and insurance.
- Cons: Market rates may drop compared to what you lock in, so then you may need to refinance your mortgage to get a lower rate.

ADJUSTABLE-RATE MORTGAGE (ARM) LOANS

ARM home loans offer a low, fixed rate for an initial period that may be around 5 or 7 years which means you can enjoy lower payments at the start of your home loan. ARMs often suit people who plan to move, sell, or refinance in the short term.

Key Details

- Rates: The APR you get for your initial period may be slightly lower than a fixed-rate loan, but then it will adjust with the markets and therefore could go higher or lower.
- Fees: You’ll need to pay private mortgage insurance (PMI) if your down payment is less than 20%.
- Loan terms: ARMs offer a range of terms so be sure to read the fine print. There are caps on how much your rate can adjust the first time, each time, and in total over the life of your loan.
    - A 5/6 ARM means you get a fixed rate for 5 years, then it will adjust every 6 years until your loan is paid off in full.
    - A 7/6 ARM means you get a fixed rate for 7 years, then it adjusts every 6 years.
- Qualifying: You'll need good credit, a steady income, and a down payment to qualify.

Pros and Cons of an Adjustable-Rate Mortgage

- Pros: You get lower payments at the start of your loan term and you may get a lower rate if market rates fall in the future.
- Cons: Your rate may go up if market rates rise and your monthly payments may also go up and down over the life of your loan, so you need to plan for a possible increase.

JUMBO LOANS

A jumbo-loan is ideal if you want to buy a home that has a purchase price above the amount set by the Federal Housing Finance Agency (FHFA) each year.

Key Details

- Rates: Jumbo loan rates are sometimes slightly higher than conforming loans but your rate will depend on your financial situation and chosen loan term.
- Fees: You'll need to pay private mortgage insurance (PMI) if your down payment is under 20%—though this may be the minimum down payment needed for a Jumbo Loan.
- Loan terms: You may have fewer choices than for a conforming loan. For example, you may get the choice of a 15- or 30-year fixed-rate loan or a 10/1 ARM.
- Qualifying: You may need very good credit, a significant down payment, and significant cash reserves to qualify.

Pros and Cons

- Pro: You can buy a high-value home.
- Cons: You need to have a large down payment and/or borrow a large loan amount so you should make sure you can comfortably afford the payments.

BARE LAND LOANS

A Build Land Loan is ideal if you have your eye on a nice piece of empty land or a vacant lot and you want to eventually build your home there. You might then get a construction loan and convert it to a regular home loan once your build is complete.

If you don't plan to develop the land, you can consider a Raw Land Loan.

Key Details

- Rates: Land loan rates tend to be slightly higher than a mortgage for an existing home.
- Fees: You don't need to pay private mortgage insurance (PMI).
- Loan terms: You may get a term of 10 or 20 years.
- Qualifying: As well as good credit and steady income, you may need to make a down payment of around 30% or as much as 50% for raw land.

Pros and Cons

- Pros: You can buy the perfect spot for your future dream home.
- Cons: You may need to prove you plan to build within a certain time frame and you may need a sizable down payment.

    - Build Land financing isn't available if the land can't be developed or doesn't perk.
    - Raw Land financing isn't available for commercial or industrial zoning.

VACATION HOME LOANS

You may qualify for a Vacation Home Loan if the property you want to buy is at least 50 miles from your primary residence and you don't plan to rent it out. Mortgages for primary homes, vacation homes, and rental or investment properties each have different rules.

Key Details

- Rates: Rates for second homes may be slightly higher than for your first mortgage.
- Fees: The standard down payment is 10% vs the typical 3%-5% for primary residences. PMI is needed for any purchase with less than 20% down.
- Loan terms: Terms are available from 10, 15, 20, and 30 years.
- Qualifying: You'll need to show you have a debt-to-income (DTI) ratio that can carry two mortgages, you have great credit, a sufficient income, and a sizable down payment to get approved.

Pros and Cons

- Pros: You can buy that alpine cottage or beach house to enjoy vacation time with the family.
- Cons: You'll need to manage two mortgages and use the property strictly as intended.

FHA LOANS

Federal Housing Administration (FHA) loans are designed to help more Americans become homeowners. You can be a first-time or repeat homebuyer as long as you meet the lending criteria and your home passes appraisal.

Key Details

- Rates: FHA rates might be slightly higher than conventional homes.
- Fees: You need to pay a Mortgage Insurance Premium (MIP) to help offset the risk of your loan. You might pay some MIP upfront, and some may get rolled into your APR.
- Loan terms: You may get a choice of 15 or 30 years.
- Qualifying: You may qualify with slightly lower credit and income levels compared to conventional loans and you need a down payment of just 3.5%.

Pros and Cons

- Pros: FHA loans tend to offer easier qualifying criteria than conventional loans and lower down payments.

- Cons: You need to buy a property that meets the appraisal guidelines, and this extra step sometimes means sellers prefer buyers with conventional loans.

VA LOANS

Veterans Affairs (VA) loans are available for eligible U.S. Veterans, active-duty service members, reservists, National Guard members, and surviving spouses. It's a lifetime benefit you can use to buy successive homes with no down payment needed. Your home needs to meet VA appraisal guidelines.

Key Details

- Rates: VA loan rates tend to be slightly higher than for conventional loans.
- Fees: You need to pay a VA funding fee (upfront or rolled into your APR) but you don't need to pay mortgage insurance.
- Loan terms: You may get fewer or no choices compared to conventional loans. The most common term is 30 years.
- Qualifying: You may qualify more easily than for conventional loans as long as you meet the eligibility criteria and minimum income and credit requirement, and pass the home appraisal.

Pros and Cons

- Pros: You don't need a down payment and don't need to pay mortgage insurance.
- Cons: You need to pay a VA funding fee and the property needs to go through the VA appraisal process. Because of this extra step, some sellers prefer buyers with conventional loans.

USDA LOANS

U.S. Department of Agriculture (USDA) Loans are available to people with moderate income who want to purchase a home in an eligible rural area. You may not need a down payment if you meet the other eligibility criteria.

Key Details

- Rates: USDA loan rates tend to be slightly higher than for conventional loans.
- Fees: You pay an upfront guarantee fee equal to 1% of the loan amount and an annual fee equal to 0.35 percent of the loan amount. You don't pay PMI.
- Loan terms: You may get fewer choices than for conventional loans. The most common term is 30 years.
- Qualifying: You may qualify with a lower income than for conventional loans and your income must be within a limit determined by where you live. The home must be in an eligible rural area and meet USDA appraisal guidelines.

Pros and Cons

- Pro: You likely don't need a down payment.
- Cons: Your income cannot be above a certain limit and your home must be in an eligible rural area and pass the appraisal.

CHOOSING THE BEST MORTGAGE LENDER

We hope we've answered your question, “What type of home loans are there?” But if you still have questions about which exact home loan and term is best for you, the most important thing is to choose a lender you trust who can work with you to make sure you have an enjoyable home buying experience.

Click below to see how Fibre Federal Credit Union can serve your needs!

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