WHAT YOU NEED TO KNOW ABOUT LOAN-TO-VALUE RATIO

Freedom Mortgage®

Find out how much home you owe.

If you are purchasing or have purchased a home, you will encounter the term "loan-to-value ratio" or LTV. This is an important topic to understand, because it is a critical factor in obtaining your home mortgage.

What is LTV?

LTV is the ratio of the amount of your home loan to the amount of your home's value. Lenders will look at your LTV when determining your qualification. Borrowers who have a lower LTV are considered less risky, because they have more equity in their home and are therefore considered less likely to default on their loan. Your LTV will also determine if you will need to pay Private Mortgage Insurance (PMI). If you own less than 20% of the home on a conventional loan, you will need to pay PMI. If you have an FHA, USDA or VA loan, PMI doesn't apply. FHA, USDA and VA loans offer borrowers the ability to put no money or little money down. Please note that borrowers generally must meet other qualifications for these types of loans.

How to calculate your LTV

The LTV ratio is the amount of money you borrow from a lender, divided by the purchase price of the home you wish to buy (generally the appraised value of the property). The LTV ratio is expressed as a percentage.

For example, let's say you are interested in a home that is worth $200,000 and you intend to do a 20% down payment, or $40,000. This means you will need a loan for the balance of $160,000.

$160,000/$200,000 = .08 or 80% loan-to-value

What is a "good" LTV ratio?

For most conventional mortgages, a 'good' LTV ratio is 80 percent or better (less than 80%).

You can lower your LTV ratio to obtain better terms/interest rates on a home loan by making a larger down payment. Or, ensure that the value of the home you wish to purchase is at a price affordable enough to allow you to make a larger down payment.