

Loan-to-Value (LTV) Ratio: What It Is, How to Calculate?

What Is the Loan-to-Value (LTV) Ratio?

The loan-to-value (LTV) ratio is an assessment of lending risk that financial institutions and other lenders examine before approving a mortgage. Typically, loan assessments with high LTV ratios are considered higher-risk loans. Therefore, if the mortgage is approved, the loan has a higher interest rate.

Additionally, a loan with a high LTV ratio may require the borrower to purchase [mortgage insurance](#) to offset the risk to the lender. This type of insurance is called private mortgage insurance (PMI).

KEY TAKEAWAYS

- Loan-to-value (LTV) is an often used ratio in mortgage lending to determine the amount necessary to put in a down payment and whether a lender will extend credit to a borrower.
- Lower LTVs are better in the eyes of lenders, but require borrowers to come up with larger down payments.
- Most lenders offer mortgage and home-equity applicants the lowest possible interest rate when the loan-to-value ratio is at or below 80%.

- Mortgages become more expensive for borrowers with higher LTVs.
- Fannie Mae's HomeReady and Freddie Mac's Home Possible mortgage programs for low-income borrowers allow an LTV ratio of 97% (3% down payment) but require mortgage insurance (PMI) until the ratio falls to 80%.

Understanding the Loan-to-Value (LTV) Ratio

Determining an LTV ratio is a critical component of mortgage [underwriting](#). It may be used in the process of [buying a home](#), [refinancing](#) a current mortgage into a new loan, or borrowing against accumulated [equity](#) within a property.

How LTV Is Used by Lenders

A LTV ratio is only one factor in determining eligibility for securing a mortgage, a [home equity loan](#), or a [line of credit](#). However, it can play a substantial role in the interest rate that a borrower is able to secure. Most lenders offer mortgage and home-equity applicants the lowest possible interest rate when their LTV ratio is at or below 80%.