Loan-to-value ratio for mortgage: LTV definition and examples

What does LTV mean?

Your “loan to value ratio” (LTV) compares the size of your mortgage loan to the value of the home.

For example: If your home is worth $200,000, and you have a mortgage for $180,000, your LTV ratio is 90% — because the loan makes up 90% of the total price.

You can also think about LTV in terms of your down payment.

If you put 20% down, that means you’re borrowing 80% of the home’s value. So, your LTV ratio is 80%.

LTV is one of the main numbers a lender looks at when deciding to approve you for a home purchase or refinance.

Why loan-to-value ratio matters for home buyers

Your LTV ratio is important as a home buyer because it’s one of the main criteria mortgage lenders use to determine your eligibility for a loan.

Typically, buyers with lower LTV ratios are more likely to:

- Get approved by mortgage underwriting
- Qualify for lower interest rates
- Avoid paying private mortgage insurance premiums (on conventional loans)

Keep in mind, even paying half a percent lower interest rate can equal lower monthly mortgage payments — and over the life of the loan, that could amount to thousands of dollars in savings.

What’s a good loan-to-value ratio?

Generally, 80% LTV is considered a good loan-to-value ratio. If you’re buying a home, you achieve an 80% LTV by making a 20% down payment.

Homeowners with an 80% LTV do not have to pay for **private mortgage insurance** (PMI). And they typically qualify for lower interest rates. So, there are real perks to making a big down payment and getting your LTV to 80% or lower.

However, you can qualify for a mortgage loan with an LTV much higher than 80%. In some cases, even a 100% LTV is allowable (meaning you make **no down payment at all**).

LTV for home buying vs. refinance

Lenders use loan-to-value calculations on both purchase and refinance transactions. But the math to determine your LTV changes based on the type of loan.

- **Home purchase LTV** is based on the sales price of the home — unless the **home appraises for less than its purchase price**. When this happens, your home’s LTV ratio is based on the lower appraised value, not the home’s purchase price.
- **Refinance LTV** is always based on the appraised value of the property, not the original purchase price of the home.

Loan-to-value is especially important when using a cash-out refinance, as the lender’s maximum LTV will determine how much equity you can pull out of your home.

How to calculate your loan to value ratio

Calculating your loan-to-value is simple. All you do is take your loan amount and divide it by the purchase price — or, if you’re refinancing, divide it by the appraised value. Then multiply by 100 to get your LTV ratio.

(Loan Amount / Purchase Price or Appraised Value) X 100 = LTV

The loan-to-value ratio is always expressed as a percent. So, if your result is 0.75, for example, your LTV is 75%.

Loan to value ratio examples

Here are a few examples to illustrate the concept of loan-to-value for mortgages.

Example 1: LTV for a home that appraises above its purchase price

When you buy a home that appraises for more than the purchase price, your loan to value ratio is based on the purchase price rather than the market value of the property.

- House price: $100,000
- Appraised value: $110,000
- Downpayment: $20,000
- Loan amount: $80,000
- 80,000 / 100,000 = 0.8
- **LTV ratio: 80%**

Example 2: LTV for a home that appraises below its purchase price

If you're buying a home and the appraised value of the property is lower than the purchase price, your LTV is based on the appraised value instead. This will lead to a higher LTV ratio.

- House price: $100,000
- Appraised value: $90,000
- Downpayment: $20,000
- Loan amount: $80,000
- 80,000 / 90,000 = 0.89
- **LTV ratio: 89%**

Example 3: LTV for a mortgage refinance

If you don’t have a second mortgage on your home — like a home equity loan or home equity line of credit (HELOC) — LTV is calculated the same for a refinance as for a home purchase.

Just remember, you’ll use the appraised value of your home rather than the purchase price.

- Home value: $100,000
- Loan balance: $80,000
- Equity: $20,000
- 80,000 / 100,000 = 0.8
- **LTV ratio: 80%**

What are CLTV and HCLTV?

When you refinance with a second mortgage secured by the property, the loan to value calculation is a little different. You’ll have one or two new ratios to consider:

- **CLTV (Combined loan-to-value)** measures your first and second mortgage combined against your appraised home value. CLTV applies to both home equity loans and home equity lines of credit
- **HCLTV (High combined loan-to-value)** measures your highest possible loan to value ratio, including any untouched balance on your second mortgage. HCLTV applies only if you have a HELOC

Here’s how each one is calculated.

CLTV: Refinancing with a home equity loan

Calculating CLTV is relatively simple. You add your first and second mortgage balances together and divide this amount by the home’s appraised value.

See below how the LTV differs from the CLTV.

- Home value: $100,000
- Loan balance: $80,000
- Second loan balance: $10,000
- Equity: $10,000
- 80,000 / 100,000 = 0.8
- **LTV ratio: 80%**
- (80,000 + 10,000) / 100,000 = 0.9
- **CLTV ratio: 90%**

HCLTV: Refinancing with a home equity line of credit

When you refinance with a home equity line of credit, a lender will consider your full second mortgage in its LTV calculation — even if you haven't withdrawn the full amount available to you.

Because of this, you end up with three measures of your loan-to-value.

The standard LTV: the CLTV, which combines your first mortgage with the amount you've withdrawn from your second mortgage; and the HCLTV, which considers your full first and second mortgage balance, regardless of the amount you've withdrawn.

CLTV and LTV are the most important to understand.

- Home value: $200,000
- Loan balance: $100,000
- Available second loan balance: $80,000
- Amount of second loan drawn out: $40,000
- Equity: $20,000
- 100,000 / 200,000 = 0.5
- **LTV ratio: 50%**

- (100,000 + 40,000) / 200,000 = 0.7
- **CLTV ratio: 70%**
- (100,000 + 80,000) / 200,000 = 0.9
- **HCLTV ratio: 90%**

Whether you're buying or refinancing, your loan's loan-to-value is important because it helps to determine your mortgage rate and your loan eligibility.

Why LTV is important in real estate

LTV is important when you buy a home or refinance because it determines how risky your loan is.

The more you borrow compared to your home's value, the "riskier" it is for lenders. That's because if you default on the loan for some reason, they have more money on the line.

That's why all mortgages have a maximum LTV to qualify. The maximum loan-to-value can also be thought of as a minimum down payment.

For example, the popular FHA loan program allows a down payment of just 3.5%. That's the same as saying the program has a max LTV of 96.5% — because if you make a 3.5% down payment, the most you can borrow is 96.5% of the home price.

What is a good loan to value ratio?

When qualifying for a mortgage loan, an 80% loan-to-value ratio is ideal because it minimizes a lender's risk of losing money if the borrower defaults. That's why home buyers with 20% down, and an 80% LTV, get special perks like **avoiding mortgage insurance**.

From a lender's perspective, a lower LTV is always better.

But — and it's a big but — it doesn't always make sense to aim for 80% LTV. Because a 20% down payment is simply not doable for many home buyers, especially first-time home buyers.

Therefore, a good loan-to-value ratio depends on your home buying goals. For one person, 100% might be a good LTV. For another, 70% might be ideal.

Here's what to consider.

If your goal is to make a small down payment and buy a home sooner, look for one of these mortgage programs with high LTV ratio allowances:

- **USDA loan:** 100% LTV
- **VA loan:** 100% LTV
- **Conventional 97 loan:** 97% LTV
- **Fannie Mae HomeReady:** 97% LTV
- **Freddie Mac Home Possible:** 97% LTV
- **FHA loan:** 96.5% LTV

If your goal is to avoid higher interest rates, get the lowest monthly payment on your loan, or minimize your overall loan closing costs, you should aim for a lower LTV. This usually means getting a conventional mortgage with 10%-20% down.

Four high-LTV loans for home buyers

There are a few loan programs specifically geared toward homeowners with high LTV ratios. There are even some programs which ignore loan-to-value altogether.

Here is a brief review of the more common high-LTV loan types.

1. VA loan: up to 100% LTV allowed

VA loans are guaranteed by the U.S. Department of Veterans Affairs.

VA loan guidelines allow for 100% LTV, which means that no down payment is required for a VA loan.

The catch is, VA mortgages are only available to certain home buyers, including:

- Active-duty military service persons
- Veterans
- Military spouses
- Members of the Selected Reserve or National Guard
- Cadets in the U.S. Military
- Air Force or Coast Guard Academy members
- Midshipman in the U.S. Naval Academy
- World War II merchant seamen
- U.S. Public Health Service officers
- National Oceanic & Atmospheric Administration officers

2. USDA loan: Up to 100% LTV allowed

USDA loans are insured by the U.S. Department of Agriculture. USDA loans allow for 100% LTV, with no down payment required.

Many also know the program as “Rural Housing.” You can find USDA loans in rural parts of the country, but also in many suburbs.

3. FHA Loan: Up to 96.5% LTV allowed

FHA loans are insured by the Federal Housing Administration, an agency within the U.S. Department of Housing and Urban Development (HUD).

FHA mortgage guidelines require a downpayment of at least 3.5%. Unlike VA and USDA loans, FHA loans are not limited by military background or location — there are no special eligibility requirements.

FHA loans can be an especially good fit for first-time home buyers and buyers with less-than-perfect credit scores.

4. Conventional loan: up to 97% LTV allowed

Conventional loans are guaranteed by Fannie Mae or Freddie Mac. Both groups offer 97% LTV purchase mortgages, which means you will need to make a downpayment of 3% to qualify.

Conventional 97 loans are available via most mortgage lenders, and private mortgage insurance (PMI) will often be required on top of your monthly mortgage payment.

As compared to an FHA loan, conventional loans to 97% LTV are advised for homeowners with high credit scores. In most other cases, FHA loans are preferred.

Four high-LTV mortgage refinances

High-LTV mortgages can be simpler for refinance transactions than they are for purchases. Multiple federal agencies make *no appraisal* or *streamline refinance* programs available to U.S. homeowners.

1. FHA streamline refinance

The **FHA Streamline Refinance** is a special refinance program for homeowners with FHA mortgages. Official guidelines for the FHA Streamline Refinance waive appraisal requirements, which means the home's LTV doesn't matter — a good thing if your property value did not increase.

2. VA streamline refinance

The **VA Streamline Refinance** is a special refinance program for homeowners with existing VA home loans. The official name of the VA Streamline Refinance is the Interest Rate Reduction Refinance Loan (IRRRL). It's sometimes called the VA-to-VA loan.

Similar to its FHA cousin, the VA Streamline Refinance does not require an appraisal, nor does it require the verification of income, employment or credit.

3. USDA streamline refinance

The **USDA Streamline Refinance** is available to homeowners with existing USDA mortgages only. Like the FHA and VA streamline programs, the USDA refinance waives the need for a home appraisal. The program is currently in its pilot phase, and available in 19 states.

4. Mortgage relief refinance

Over the years, there have been several mortgage relief refinance programs designed to help homeowners who are underwater on their loans.

Being 'underwater' means you owe more on the home loan balance than it is currently worth. As a result, your LTV is over 100%.

For example, imagine you have a mortgage out for $150,000 on a home that's also worth $150,000. But your home loses value and is now worth only $125,000. Your new loan to value ratio is 120%.

Having an LTV above 100% would normally disqualify you from refinancing. But with a special mortgage relief program, you can refinance an underwater home into a lower rate to make your mortgage more manageable.

Find out if you qualify for a mortgage

Loan-to-value is the ratio of how much you're borrowing compared to the value of your home. It's a simple formula, but it's the basis for most mortgage lending.

Once you know your LTV, you can figure out which mortgages you're likely to qualify for — and which lender offers the best rates for your situation.