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How Loan-to-Value (LTV) ratio affects your mortgage

Helping lenders assess the risk associated with providing you with a mortgage

When purchasing a home, the amount you borrow is often represented as a percentage of the property's value – this is known as the Loan-to-Value ratio (LTV). Your LTV plays a crucial role in your mortgage application's acceptance; a lower LTV is generally more favourable to lenders.

The concept of LTV becomes significant when you're considering remortgaging or if you're a first-time buyer. It directly impacts your property's equity, the portion of your property's value that remains unencumbered by debt. This equity can act as a financial safety net should you need to sell the property or refinance the mortgage in the future.

Calculating the LTV

Suppose you're buying a £450,000 property and securing a £427,500 mortgage. Your LTV would then be 95% ($\frac{£427,500}{£450,000}$), indicating a 5% equity in your home. A high LTV ratio signifies less equity in your property, which could pose problems if you need to sell or refinance. You may lack sufficient equity to qualify for a loan.

Furthermore, a decline in your property's value could lead to a situation where you owe more than the property's worth, a

state known as 'negative equity'. Hence, it's generally advisable to maintain a low LTV ratio. This can be achieved by having a larger deposit at the time of purchase or waiting for your property's value to increase before refinancing your mortgage.

Factors that can influence the LTV

Saving for a larger deposit

A larger deposit means you own a greater portion of your property from the onset, reducing the amount you need to borrow. This could also unlock more competitive mortgage deals with lower interest rates.

The size of your deposit can influence the interest rate you're offered and the cost of your monthly repayments. Generally, the larger your deposit, the lower your repayments, term and interest rate. This is because a larger deposit reduces the lender's risk.

Overpaying your mortgage

Overpaying your mortgage can reduce your LTV ratio faster. A lower LTV could mean more competitive remortgaging deals.

Additionally, having more equity in your home could provide a safety net during

financial difficulties, giving you more options. Overpaying your mortgage can effectively save money on interest and clear your mortgage loan sooner.

Choosing to remortgage

Remortgaging at the right time can significantly lower your LTV. If you've been paying off your mortgage for a while and your property's value has increased, your LTV will be lower than when you first took out the mortgage. This could open doors to more favourable deals with lower interest rates. ■

Ready for a discussion about your mortgage requirements?

Understanding your LTV ratio and its implications can significantly affect your financial stability and the choices you make regarding your mortgage. Do you require more information or guidance on your LTV ratio? Our expert mortgage team is here to help you confidently navigate your financial journey.