WHAT IS LOAN TO VALUE RATIO (LVR)?

Loan to Value Ratio is one of those things you'll hear about a lot in the world of home loans. It's important because it may affect your borrowing power. So what is LVR?

The Loan to Value Ratio (LVR) is the amount you need to borrow as a percentage of the total value of the property.

Let's break it down a bit more. Here's an example (for illustrative purposes only), where the value of the property is the same as the purchase price:

- Let's say the value of the property is $500,000
- You have a $100,000 deposit
- This means you need to borrow $400,000 to buy the property (generally you will be required to have a 20% deposit).

LVR is calculated by dividing the amount of your home loan by the value of the property we have as security like this:

$400,000 ÷ $500,000 = 80%

So now you know how an LVR is calculated, but remember, the value of a property may differ from the purchase price which will affect how much ANZ will lend you. Talk to your ANZ Home Loan Coach for more information.

So what does it mean when it comes to your borrowing power?

GENERALLY, THE LOWER THE LVR, THE BETTER

Why is a low LVR considered better? From the lender's perspective, a lower LVR generally carries less risk as the lower the LVR the more equity you have in your home and the less you need to borrow from the bank.

A lower LVR is also good news because it usually means you will have more equity in your home right from the start (equity is the difference between a property's value and the amount you owe on it. Using the example above if your house is worth $500,000 with a home loan of $400,000 – you will have $100,000 of equity in the property).

WHAT HAPPENS WHEN YOUR LVR IS OVER 80%?

If you want to borrow more than 80% of the property's value there will be added costs that you will need to consider. This is because borrowers with a LVR of over 80% are required to pay a Low Equity Premium (LEP) and a registered valuer's report is required for lending over 80% of the property's value.

A Low Equity Premium (LEP) covers the Bank's costs and risk when lending over 80% of the sale price of the security property.

There are different tiers, but generally speaking the higher your LVR, the higher the LEP cost.

A word about fees and costs

There are a few upfront fees and costs you may have to pay when buying a house. If you haven't taken these costs into account, you may end up having less money left for your deposit. The less you have for your deposit, the higher your LVR will be.

TO SUM UP

- Loan to Value Ratio (LVR) is calculated by dividing the loan amount by the value of the property.
- Generally speaking, most lenders consider a LVR of 80% or more as being riskier.
- If the LVR is higher than 80%, you may need to pay a Low Equity Premium.

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