Rural Assistance Authority

Loan to Value Ratios (LVR)

Fact Sheet

LVR is the amount of debt secured by mortgage(s) compared to the value of the property that the loan is held against.

Should there be multiple mortgages executed by various lenders then the LVR will be different for each lender, dependent upon the arrangements (i.e. priority agreement) between the lenders.

To calculate LVR, the lender will divide the value of the property (e.g. independent valuation, purchase price) by total or proposed mortgage debt.

Example 1		
Value of property	=	$2,000,000
Mortgage debt	=	$ 750,000
LVR	=	$ 750,000 / $2,000,000 = 0.375 (**37.5%**)

Example 2		
Value of property	=	$2,000,000
Existing debt	=	$ 750,000
Proposed new debt	=	$ 500,000
Total proposed debt	=	$1,250,000
LVR	=	$ 1,250,000 / $2,000,000 = 0.625 (**62.5%**)

LVR is one of the risk factors that lenders consider when assessing an application for a loan secured by a mortgage. The risk of default is taken into consideration during lending decisions, and the likelihood of a lender absorbing a loss increases as the amount of equity in the security property decreases.

Therefore, as the LVR of a loan increases, the requirements for some loan products may become stricter. In the case of home loans, lenders may require borrowers of high LVR loans to purchase mortgage insurance to protect the lender from the borrower defaulting, which increases the costs of the loan.

Different lenders will apply different LVR for their loans.

The RAA is unlikely to approve a loan with a LVR greater than 70% however each loan is assessed on its merits, taking into account the source of the valuation, loan history, serviceability etc.