Loan-to-Value (LTV) Ratio

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Loan-to-Value (LTV) Ratio Latest News

Providing relief to small borrowers, the Reserve Bank of India (RBI) recently increased the loan-to-value (LTV) ratio for gold-backed loans up to ₹5 lakh.

About Loan-to-Value (LTV) Ratio

- LTV Ratio represents the **proportion of an asset's value** that a **lender is willing to provide debt financing against**, usually **expressed as a percentage**.
- LTV is calculated by dividing the loan amount by the property's appraised value or purchase price, whichever is lower.
- **LTV Ratio = (Loan Amount/Appraised Property Value) x 100**
- For example, if you are planning to purchase a property that is priced at ₹1 crore and the bank's LTV is 70%, you will be eligible for a loan amount of ₹70 lakh.
- LTVs tend to be **higher for assets** that are **considered more "desirable" as collateral.**

- The **desirability** of an asset as collateral is generally **measured by how stable its value is**, **how active its secondary market** is, and **how easily the title can be transferred** to other parties (among other things).
- Typically, **loan assessments with high LTV ratios** are **considered higher-risk loans.** Therefore, if the loan is approved, it **has a higher interest rate.**

Recent RBI Changes to Loan-to-Value (LTV) Ratio for Gold-Backed Loans

- RBI has **increased** the **LTV ratio from 75% to 85% for gold loans of up to Rs 2.5 lakh** per borrower, **including interest.**
- In simple terms, if the pledged gold is worth Rs 1 lakh, borrowers can now get up to Rs 85,000 instead of the earlier Rs 75,000.
- **For gold loans more than Rs 2.5 lakh and up to Rs 5 lakh**, the **LTV ratio** has been set at **80 percent.**
- **For loans more than Rs 5 lakh,** the central bank has set an **LTV of 75 percent**.

Loan-to-Value (LTV) Ratio FAQs

Q1: What does the Loan-to-Value (LTV) ratio primarily measure?

Ans: The proportion of the asset value financed through a loan.

Q2: Why are higher LTV ratios generally considered riskier for lenders?

Ans: Because they indicate less collateral buffer if the borrower defaults.

Q3: How is the LTV ratio calculated?

Ans: (Loan Amount ÷ Property Value or Purchase Price, whichever is lower) × 100

Source: BS
