

Understanding loan to value (LTV)

Education

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The aim of this blog is to help you understand how loan to value (LTV) can impact your investments and how we used LTV to determine the terms of our products. Let's start with the basics.

What does LTV (loan to value) mean?

LTV, in short, is a number that lenders use to determine the risk they're taking on when lending money. It is a measure we can use to establish a relationship between the loan amount and the market value of the asset that is being secured against the loan.

In TAB's instance, LTV measures how much a borrower has requested for a loan against the asset being used as the security, which is usually property, or in some cases it can be land.

Investors will see LTV listed as a percentage. We can use the LTV to determine how we price our investments, what interest rates we ask from the borrower, and what we can offer to investors. It can also be seen as an indicator of how risky investments are, the larger the LTV, the bigger the risk.

For example:

If a borrower requests a £100,000 loan, and the asset is worth £200,000 then the LTV would be 50%.

$$\frac{\text{£100,000} = \text{size of the loan}}{\text{£200,000} = \text{value of the asset}} = 50\%$$

Over time, as property prices change, the value of the asset can go up or down, this means that the value of the LTV can change too. Since bridging loans are short term loans, it means that the value of the asset won't fluctuate too much, note this doesn't mean that it can't fluctuate.

How does LTV tell us the risk?

A higher LTV indicates the loan carries more risk, and the lower the LTV, the lower the risk. This is because the higher the LTV means the amount borrowed is a higher percentage of the value of the asset. Should the value of the asset fall, then the gap between the size of the loan and the value of the asset is reduced.

LTV and TAB

TAB operates a maximum LTV of 70%, although in some cases we might go to 75% depending on the case. That means that the value of the asset would have to fall by 30% before the loan capital would not be covered by the value of the security. As of February 2021, TAB's average LTV was 62%.

TAB understands the value of keeping things simple and transparent, and our experience means we can be flexible. What this means is that we are able to look at every project singularly and adjust the terms accordingly. That's why in some cases, the interest returned to the investor can be different between different cases. We want our investors to be able to select and diversify their property portfolio depending on their own risk appetite.

It's important to remember that past performance and forecasts are not reliable indicators of future results and should not be relied on. TAB does not provide investment or tax advice and it is your responsibility to decide whether to make a TAB investment. If you are unsure of the risks and whether [TAB investments](#) are right for you we recommend that you seek professional advice tailored to your personal circumstances.

Capital is at risk. Property values can go down as well as up. Borrowers may default and investments may not perform as expected. Interest and income are not guaranteed. Returns may vary. You should not invest more than you can afford to lose. TAB is not authorised by the Financial Conduct Authority. Investments are not regulated and you will have no access to the Financial Services Compensation Scheme (FSCS) or the Financial Ombudsman Service (FOS). Past performance and forecasts are not reliable indicators of future results and should not be relied on. Forecasts are based on TAB's own internal calculations and opinions and may change. Investments are illiquid. Once invested, you are committed for the full term. Tax treatment depends on individual circumstances and may change.

You are advised to obtain appropriate tax or investment advice where necessary. Understand more about the key risks [here](#).

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