NAME(S) ______________________________________ DATE ____________

FINANCIAL RATIOS

BASIC LIQUIDITY RATIO

Importance: the basic liquidity ratio reveals the number of months a household could meet current expenses using liquid assets without additional income.

Liquid Assets (from Net Worth Statement)		$______________
Monthly Expenses (from I and E Statement)	÷	$______________
Basic Liquidity Ratio	=	______________

Recommendation: 3.0 or more

DEBT-TO-ASSET RATIO

Importance: measures solvency. If a person owes more than they own, they are insolvent. They would not be able to sell all their assets to pay all their debts.

Total Liabilities (from Net Worth Statement)		$_______________
Total Assets (from Net Worth Statement)	÷	$_______________
Debt-to-Asset Ratio	=	_______________

Recommendation: the further below 1.0 the better. Over 1.0 is insolvent.

DEBT PAYMENT-TO-INCOME RATIO

Importance: shows ability to make current debt payments.

Annual Debt Payments (from I and E Statement)		$_____________
Gross Income (from I and E Statement)	÷	$_____________
Debt Payment-to-Income Ratio	=	_____________

Recommendation: below .36 is adequate, .36 to .41 is marginal, above .41 is risky.