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

ASSET-TO-DEBT 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 Assets (from Net Worth Statement)	$ ________________
Total Liabilities (from Net Worth Statement)	÷ $________________
Asset-to-Debt Ratio	= ________________

Recommendation: the higher the better. Under 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 X 12)	$______________
Gross Income (from I and E Statement X 12)	÷ $______________
Debt Payment-to-Income Ratio	= ______________

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