#### Personal Financial Statement (PFS)

A Personal Financial Statement (PFS) is a common loan document that shows an individual’s net worth and net income.

**Net worth** is a calculation of assets minus liabilities. A positive net worth shows that an individual owns items that are valuable enough to pay off any and all debt that belongs to that individual.

**Net income** is a calculation of income minus expenses. Positive net income shows that an individual has enough income to meet all of the monthly expenses to sustain your lifestyle and make the payments on your loan. A lender wants to ensure that both these measures are positive, *and* that you have both excess assets and excess income to pay off your loan in case the project for which you are using the loan does not work out exactly as you hope.

Net Worth

When constructing a PFS, you have to be exhaustive and complete in reporting your assets and liabilities. Think about everything you own that could be converted to cash. When you list a value for each of the items listed below, you should list the value as of the date of the financial statement. For items that do not have an absolute cash value, list the amount of money for which you believe the item could be sold quickly. For real property, its best to use a recent appraisal. If you use the tax assessor’s value or an online service like Zillow or Trulia, you should disclose this is what you used. You can find values for automobiles from a number of services online, such as Kelly Blue Book. Types of assets you must disclose include:

* Checking and savings accounts in banks
* Current value of your home (if you own it)
* Property (partial or total interest or ownership of land, buildings, etc.)
  + If you own rental property, you must include a list of every individual rental unit (think individual apartments) and information about each of those units and the lease status. You must list: unit location (address), unit number at address, square footage, occupancy status, tenant name, rent rate, type of lease, duration of lease, move-in date and dates for lease inception and expiration. If you need a template for a Rent Roll, request one and NewTown will provide it.
* Retirement accounts
* Jewelry
* Artwork
* Collectibles
* Brokerage accounts (equities, mutual funds, bonds, etc.)
* Insurance (if for instance your life insurance can be surrendered for cash)
* Pension plans (if you have a guaranteed income or cash payout option)
* Certificates of Deposit
* Privately held company stock (if you own part or all of a business)
* Mortgages (if perhaps you owner financed a piece of property you sold)
* Notes Receivable (if you loaned money to anyone else and there is a written agreement for them to pay you back)
* Inventory

You also must be complete and exhaustive with your liabilities. Liabilities include any and all obligations that you have to pay someone else, including:

* Outstanding bills
* Credit card balances
* Medical bills
* Lease balances
* Auto loans
* Personal loans
* Mortgages (on your personal home and any and all investment property)
* Student loans
* Unpaid taxes
* Child support/alimony obligations

If you have any assets or liabilities for which there is not a label, use one of the line items labeled “other” and change it to list the item you need to add.

Net Income

After you have completed the list of all your assets and liabilities move on to the Net Income worksheet where you will write down every source and amount of monthly income and expense to operate your household. Start by listing your salary or average income from your primary employment. Continue to disclose any and all sources and amounts of income on a monthly basis. When you complete a listing of your income, move on to the list of expenses and list these on a monthly basis. If you have any income or expense for which there is not a label, use one of the line items labeled “other” and change it to list the item you need to add.

In addition to these typical types of assets and liabilities, lenders will often also request a list of partnerships, partial ownerships, memberships or officer positions for the borrower. The PFS will also usually require you to disclose whether you are subject to any ongoing legal suits.

Disclosures

If there are any other conditions, special notes or obligations that are required to understand your financial situation, you must disclose these items. At a minimum, you must answer the following questions either “yes” or “no:”

* *Have you provided a personal or corporate guaranty or co-signed any debts that are not listed in the financial statement?*
  + “Contingent liabilities” are debts that are not in your name, but you have made a personal pledge of some or all of your assets to back the loan if the borrower cannot make payments. Therefore, these liabilities are “contingent” on the borrower not making payments. Common types of contingent liabilities include student loans, auto loans for friends and family or real estate loans for which a separate entity or business partner is the borrower. If you have contingent liabilities, you must add a schedule of these liabilities to your PFS, including the name of the borrower, the description and value of asset that was financed, the outstanding balance of the loan, the monthly payment amount, and the condition(s) under which you would be required to pay this debt. If you have contingent liabilities, request a Contingent Liabilities template from NewTown and we will be happy to provide it.
* *Are you a partner, owner or officer in any business, venture or entity that is not listed in your PFS?*
  + It is important for a potential lender to understand all of your business interests and obligations to determine potential conflicts of interest or interests that could become assets or liabilities in the future. If you answer yes to this question, the potential lender may request documents that show how the venture is organized, what your obligations are and/or K1 or other tax documents and/or operating statements.
* *Are you obligated to pay alimony, child support, maintenance or restitution?*
  + Although these expenses will appear on your Net Income statement, your potential lender will want to understand what the terms are for any obligated payment, including the total amount owed and or total time period for the commitment, including any contingencies that could make the payment higher or lower. Be prepared to share any documentation regarding such obligations with your potential lender.
* *Are you currently a defendant in any legal suits or actions?*
  + Efforts to defend yourself even from frivolous actions can impair your time commitment to the project you are hoping to finance, and costs of legal defense can be a liability that otherwise would not be listed in your PFS. If you are a defendant, be prepared to describe the case accurately and completely with your potential lender and expect to share documentation to verify your description.
* *Have you ever been bankrupt?*
  + One of the best determinants of how likely you are to repay a loan is how you have repaid loans in the past. If you have a previous bankruptcy, it is going to be a major challenge to borrow money in the future. If you have been bankrupt, be prepared to describe the bankruptcy in detail and share any and all documents regarding the bankruptcy with your potential lender. Also ensure that you disclose any and all garnishments as expenses on your Net Income statement.

Certification and Authorization

Your PFS is not complete until you sign and date it, certifying that everything contained in the document is true, complete and accurate. Many times, errors and omissions on your PFS become conditions of default on your loan. That means that if the lender makes a loan and later discovers that information on your PFS was not completely accurate, they can require you to pay off the loan immediately or impose other penalties listed in your loan documents. In addition to certifying your PFS, your signature also authorizes the lender to obtain and review your personal credit by ordering credit reports from Experian, TransUnion and Equifax.