Why Your Personal Financial Statement (PFS) Will Get You in the Door

The financial world has acronyms galore, but one essential term is PFS: personal financial statement.

A PFS summarizes your assets and liabilities and provides a snap shot of your total net worth. You'll need to generate a PFS when you apply for a loan program. But you should be doing more than simply filling in the blanks on a financial worksheet. You should understand some of the finer points of a PFS and why it's a qualifier for lenders. Knowing your way around writing a stellar PFS will better prepare you and your finances for your next loan.

What you focus on expands

The law of attraction is more than just an idea. The core principle of the law of attraction is that "What you focus on expands." This principle applies to your finances because you can only manage and grow something when you hold it in the forefront of your mind. Being mindful of your current finances and financial goals will bring short-term and long-term returns.

There is a reason businesses hire CPAs and other advising professionals to help them make decisions. How you manage your personal finances should be no different. The better you care for them, the better prepared you will be.

Any lender will ask to see your PFS when you request a loan. If you're serious about building a portfolio or obtain a loan, updating your PFS regularly will make your life easier because you'll be ready to jump on the right property when it becomes available. We recommend you update your PFS on a quarterly basis.

With a qualifying PFS in hand, you have borrowing power. Many loan programs require a certain amount of net worth. A common metric is a 1:1 ratio of net worth to loan amount for the borrower(s). For example, if you want a $5 million loan, you need to show a total net worth of $5 million on your PFS to qualify for the loan.

Having a general idea of your net worth and how it's impacted by your daily financial decisions can be beneficial in positioning yourself. Forbes suggests benchmarking your net worth to help you adjust your finances and meet your goals.

Don't let a piece of paper get between you and your next investment or funding need. A PFS that isn't accurately and completely filled out could prevent you from getting the loan you need. A carefully prepared PFS reflects carefully managed finances.

Now that you understand why a PFS matters, let’s tackle what it should include.

What should I include in my PFS?

If you’re wondering what you should include in your PFS, the short answer is: everything. Generally, a PFS requires documentation of personal assets, investment assets, and liabilities.

Personal assets include:

Homes

Vehicles

Cash—checking, savings, money market accounts

Stocks and bonds

IRAs

401Ks

Health Savings Accounts (HSAs)

Precious metals and stones

Cryptocurrency such as Bitcoin

Collector’s items i.e. fine art

Personal property (Tip: Take a conservative approach in calculating the value of your personal property. Think: How much could I sell my property for at a garage sale? You do not want to overestimate your belongings to skew your net worth.)

Investment assets include:

Investment real estate

Ownership interests in businesses (Tip: One common mistake borrowers make in putting together their PFS is not including their ownership percentage. For example, if a business is worth $1 million, they should show that the business is worth $1 million. If they own 50 percent of the business, their share is $500,000. That is an important difference. Show both the total value and the share percentage.)

Mineral rights

Water rights

Accounts receivable

Notes

Finally, your PFS should include liabilities. It is essential to show all your liabilities. Go over the lists above and include any accompanying liability. This means any loans and lines of credit, whether for personal, business, or real estate use. You should also include any outstanding credit card balances, both personal and business. Additionally, include all accounts payable. This is not the time to hold back.

Be thorough, but fair and realistic

When putting together your PFS, be thorough and give yourself the benefit of the doubt when computing values, but also be fair and realistic. Try to think about what your assets would be worth on the open market. Separate any emotional value you may have attached to things—just because you have memories of fishing with your grandpa at the family cabin doesn't mean someone else would pay double the market value for that cabin.

Don't overstate assets like non-marketable securities and privately held stock because they are not highly liquid. Highly liquid assets are the most important assets in lenders' PFS evaluations. Overselling your net worth is not helpful to you or the lender. Instead, always aim for accuracy.

Good PFS templates are abundant on the internet, and sometimes lenders will provide their own worksheet for potential investors to use. There is no right or wrong format for your PFS, as long as all assets and liabilities are shown. Showcase your net worth the clearest and best you can.

A PFS is simply another piece of the puzzle lenders use to determine whether borrowers are qualified for many types of loans. When you take this information, and employ it to build your own PFS, you'll better understand your own potential strengths and weaknesses—and increase your borrowing power in the process.