Financial Ratio Guide

Using the cash flow figures you've listed on your financial projection worksheets,
you can calculate the key financial ratios your lender will be interested to see. Check if they are within the 'safe zone' by comparing your results to industry benchmarks.

Personal Debt Service Ratio (PDSR)
This is a debt service measurement tool that lenders use to give a preliminary assessment of the borrower's personal financial health. It shows the percentage of personal income that is already spent on house-related and other debt payments. Your Personal Net Worth Statement will list the figures you need to calculate PDSR. Use average monthly figures as a basis for this ratio. Your PDSR should be no more than 40%.

$$PDSR = \frac{\text{Mortgage + Property Taxes + Heating Costs + Credit Card Payments + Other Loan Payments}}{\text{Pre-Tax Household Income}}$$

Debt Service Ratio (DSR)
Similar to the PDSR, the DSR measures a company's ability to repay debt. However, the DSR refers to the company's ability to generate enough income to cover its debt (including lease or mortgage) payments.
A benchmark that lenders like to see is 1.25:1 or greater.

DSR = Net Operating Income / (Interest Payments + Loan Principal + Lease Payments)

Debt to Equity Ratio
This ratio is another good indicator of your company's financial health. It compares the dollar value of liabilities the company holds and the dollar value of shareholder's equity the owners have invested and the company has earned. Again, this is an important ratio that lenders look for. A benchmark that lenders like to see is 4:1 or lower.

DE = Debt / Equity

Contact your local Community Futures office for assistance in calculating your financial ratios:

1.877.851.9997

Community Futures Saskatchewan