

Question: I'm applying for a loan and the bank is asking me to provide them with a net worth statement. What is that?

Answer: A net worth statement is simply a piece of paper that illustrates your overall financial strength at a particular point in your life. In essence, it's a snapshot of everything you own (your assets), less all your debts (your liabilities). The calculation is as follows: Assets minus liabilities equals your net worth (personal bottom line). You are said to have a positive net worth when your assets exceed your liabilities. You are said to have a negative net worth when your liabilities exceed your assets.

Assets: Take out a piece of paper and make a list of everything you own; bank accounts, investments, retirement accounts, cash value life insurance policies, savings bonds, money owed to you, personal residences, investment real estate, collectibles, art, autos or other vehicles, business assets, etc. Once you have your list, provide an accurate value of what the asset is worth. It will be easy to value your investments but in the case of a car or your home, you'll need to provide a guesstimate of what someone would be willing to pay you for the asset.

Liabilities: On that same piece of paper, make a list of everyone you owe money to; parents, student loan, car loan, home equity loan, boat loan, mortgage loan, credit cards companies, business loans, personal loans, etc. Once you have this, write in your current outstanding loan balances.

Once you have your assets and liabilities organized, subtract your liabilities from your assets and determine if your net worth is positive or negative. Preparing a net worth statement annually will allow you to keep tabs on your progress toward meeting goals such as college or retirement. The goal, of course, is to have a net worth that increases over time. Good luck with your loan.

Bill's Bottom-line: Whether you have a positive or negative net worth, remember it does not determine your self worth.



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