

# Cash Flow Planning



Residential Mortgage

*We straighten CURVES of mortgage financing*



## The Steps

- Determine amount of cash coming in
- Determine amount of cash flowing out
- Prepare a cash flow forecast
- Analyze the forecast
- Monitor cash flow on an ongoing basis

Cash flow is a process to assist in determining whether sufficient cash is available for planning future events, meeting any uncertainties and to meet one's monthly expenses as they fall due. It also helps to look for alternatives if there is a shortfall in cash over time.

It provides a glimpse into where cash is coming in from and where it is being spent. Cash –flow planning allows us to manage our hard-earned money.

## Helps determine flexible solutions for your personal needs

Although preparing cash flow forecast is simple, but there are numerous steps that need to be considered to budget and control your cash so that if there is a cash shortfall there are alternatives that can be considered

One needs to aware of the following:

- Assumptions you make
- Net cash from salary, wages, business, investment
- Fixed expenses such as mortgage, car payments, loan payments etc.
- Variable expenses such as groceries, gasoline, gifts etc.

### STEP 1: Determine your cash coming

- ◇ List your sources of monthly net income from employment
- ◇ List other sources of income such as rental income, dividends
- ◇ Sum all the cash received from various sources
- ◇ The amount represents your total cash flow in from all sources

### STEP 2: Determine cash out flow:

- ◇ Breakdown your household expenses by category such as mortgage, home insurance, etc.
- ◇ Calculate the amounts paid every month for these expenses
- ◇ Sum up these expenses
- ◇ The amount represents your total cash outflow for monthly expenses

### STEP 3: Calculating Net Cash Flow

- ◇ Subtract your total cash outflow from Step 3 from total cash in from Step 1
- ◇ The Net amount can be a positive or negative amount
- ◇ A positive net cash flow represents surplus cash position
- ◇ A negative cash position represents a deficit cash position

### STEP 4: Perform Net Cash Flow Analysis and monitor cash flows on an ongoing basis.



## NET CASH FLOW ANALYSIS

Once you have calculated your net cash position then you must analyze the situation and look for alternatives.

### Positive Net Cash Flow Position:

- ⇒ Can I pay extra towards outstanding loan
- ⇒ How much should I save for rainy days
- ⇒ Invest the cash in short-term investment

### Negative Net Cash Flow Position:

- ⇒ How can I finance the negative cash situation
- ⇒ Should I pull out money from previously saved funds
- ⇒ Should I borrow from line of credit. Note there would be interest costs
- ⇒ Should I cut some discretionary expenses for the future such as eating out, buying clothing etc.

### Monitor Cash Flows on an ongoing basis

- ⇒ Monitor all your cash flows on a monthly basis.



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