

The description below of the Liquidity Ratio was largely taken from *Testing the Risk-Rating Model for Federal Co-operative Housing Programs* (February 2006). This document was written by the Co-operative Housing Federation of Canada for presentation to Canada Mortgage and Housing Corporation.

### **Liquidity Indicator**

The liquidity indicator is a balance-sheet test, intended to reveal a co-operative's financial strength as measured by its ability to service its non-negotiable financial obligations.

The Liquidity Ratio is calculated using the following formula:

$$\frac{\textit{Adjusted Liquid Assets}}{\textit{Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities}}$$

where

- *Adjusted Liquid Assets* is the sum of all cash, restricted and unrestricted short- and long-term investments (at the lesser of book or market value), including accrued investment earnings, GST or HST rebates or input tax credits receivable, CMHC, provincial or municipal rent-gear-to-income or operating subsidies receivable, loan advances receivable and pre-paid expenses, minus the sum of any draft on a line of credit or bank overdraft, all accounts payable, construction holdbacks payable, any subsidy due to CMHC, a province or a municipality, payroll and other accrued liabilities, including accrued interest charges due within one month of the fiscal year end, and unearned income;
- *Effective Monthly Debt Service, Ground Rent, Property Taxes and Utilities* is the sum of current scheduled monthly principal and interest payments on all mortgages and loans, monthly ground-rent payments, if any, and, at rates reported for the previous year, property taxes and utilities for common areas and, if applicable, units, paid by the co-op less any current monthly operating subsidy to which the co-operative is entitled. The values used in the test derive from all of the co-op's properties, whether under a CMHC program, or not.

The ratio tells how many months' mortgage, ground-rent, property-tax and average utility payments the co-operative has on hand, thus serving as a broad indicator of its liquidity.

The following are the initial threshold ratios:

- a ratio of 3 or less returns a score of Poor;
- a ratio above 3 but less than or equal to 5 returns a score of Fair;
- a ratio above 5 but under or equal to 8 returns a score of Good;
- a ratio above 8 returns a score of Excellent.