

EPISODE 224

[ASK FARNOOSH]

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FT: Welcome back to So Money everyone. I'm your host Farnoosh Torabi, it's Sunday, Ask Farnoosh time! Thank you for joining me. And as I mentioned yesterday, our weekend editions are coming to a close soon. Starting in September, September 18th, I will be changing the format. I've decided a date actually. Up until now the show has been Monday through Sunday, seven days a week. But the weekends reserved to answering your money questions, weekdays to interviewing interesting people about their financial habits and failures and stories.

Now we're gonna change the show soon so that Monday through Thursday will have guest interviews as always, but Friday's gonna be the "Ask Farnoosh Day" and I'll spend a little bit more time on Fridays addressing your questions. And then the Saturdays and Sundays will be, well they'll be vacation days for me and I'm really looking forward to it, and thank you all of you for sending in your feedback. I got overwhelming "yes's" and "You go girl!" for changing the format, and I really appreciate the support.

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Let's start with our questions. Today I got a bunch to go through and I'm gonna start here with Vernique. Vernique says:

V: "Hey Farnoosh, I am absolutely obsessed with your show!"

[00:01:48]

FT: Well thank you. I love your name too Vernique. It's so - what's the word? Sophisticated! She says:

V: "I binge listen and send episodes I think my friends will like to our group chat."

[00:01:59]

FT: Oh my gosh, you're the best!

[00:02:01]

V: "I also send them through text if I remember having a similar conversation as the topic that you and your guests are discussing. My question is, can you please have a guest on your show who can really break down how credit scores are computed? For the last 2 years, I have been really diligent about getting my finances in order after making some big mistakes in my 20's. There is lots of conflicting info out there so any help is great! Thanks!"

[00:02:26]

FT: Yeah Vernique, I'd love to do that. I mean I consider myself quite the credit expert, I have corrected some guests on the show in the past when they've said things that were completely wrong about credit scores, like I had one guest who said to me, "You know it's a good thing when you don't pay off your balance in full every month, right? It's actually good for your score to keep a balance everything month." And I was like, "What?" And this was a very smart person.

Just goes to show you, you are correct. There's a lot of misinformation out there and I don't fault this person for believing that what he believed because it was something that was passed down to him from his parents. And so there is a lot of incorrect information out there. It needs to be demystified, I totally agree, and I will think about who is gonna be a good guest for that particular episodes. Maybe somebody from FICO - I'll think about it. But that's a really good point, Vernique, and I will add it to my to do list.

[00:03:21]

Patrick says:

P: “Hey Farnoosh, love the podcast! Just started listening and cannot get enough. I'm 24, just graduated college last year...”

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FT: Congratulations Patrick!

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P: “...and finally can afford to save money. I've saved \$3,000 over the last year, just started at a web design job where I make \$35,000 per year. However, I'm currently sitting at \$33,000 in student loan debt. I'm not sure if I should begin investing, continue regular savings until I have more of a 'rainy day' fund, or try to pay extra on my student loans. What would you say should be the highest priority? Thank you and look forward to listening to more podcasts!”

[00:04:03]

FT: Well, you know, this is a tricky question because everything here is a priority. But as far as your, the priority that's gonna get you into trouble if you don't pay it and pay it regularly, is your student loans. So no one's gonna come after you if you don't start investing, no one's gonna come after you if you don't start saving. But, you be sure that someone will come after you if you don't pay down your student loans. And so at the very least, make sure you have enough money to go towards paying those student loans, maybe even an extra few bucks, 20 bucks, 50 bucks towards the principle every month, if the interest rate is high. What high? I would say over 6%, 7%.

I like that you have saved \$3,000 so far. That's excellent. If that can last you say a few months, you're in a really good shape. You're making \$35,000 a year, which is not that much, but it is what a starting salary is these days for people who are graduating from college, in many cases. So what I would say is, see if you can, with your skill set, bring in some extra money every week or every month. Work on a side project, if you've got the time, or something else to bring in extra money. Use that extra money to save and then use your income, a percentage of it, to go towards a Roth IRA or your work 401(k).

So what I guess what I'm saying here is, try to do everything simultaneously. What will really move the needle for you and help you is to bring in some extra money. Because making \$35,000 per year - and I suspect that is before taxes - doesn't leave you with a ton of money. I'm very impressed that you were able to even manage to save \$3,000 over the last year. So you're experienced, you're very skilled - web design is something that's really hot right now - so see if you can find a way to freelance on the side.

Bring in an extra \$1,000 bucks a month, that can go 50-50 towards savings, and then the other 50 towards investing in retirement like maybe a Roth IRA or your work 401(k). And then from your income, make sure you're automatically paying off that student loan, come rain or shine. Hope that makes sense. So there's not really - so the hierarchy is student loans. Gotta pay the student loans. But really next thing of business is making a little bit more money so that you can comfortably continue to save and invest, and then your income can address all of your other needs, which I'm sure, you now, we still gotta eat right? Pay rent, gas?

So I'm just being realistic with you. When I was your age and making around the same as you, what made the difference for me was a couple nights of babysitting every week, a freelance assignment here or there, that was the money that I used to really get ahead, save up, and put more towards retirement, put more towards savings, and of course pay off those student loans eventually. So good luck Patrick. Your head's in the right place, let me know if you have more questions.

[00:07:03]

Sarah says:

S: "Getting to a So Money lifestyle myself but how can I get my mom there? I'm concerned about her financial situation. Here's some background info: She's 57, currently renting, and has done so most her life. She also has some money in a 401(k). She went back to school for her masters in the 90's but I recently found out she still has unpaid student loans - about \$40,000! She hasn't been transparent about money with me until lately when I started pushing the subject. How can I help her without giving her money? I've already given her a significant

amount and want to help in other ways as she raised me by herself, sometimes working two jobs. This is a big part of who I am and so I need some advice.”

[00:07:50]

FT: Well Sarah, I think - I like the fact that your mom's warming up to you from a financial perspective. It's hard, you know, for parents to talk money with their kids. Even though she's 57 and you're an adult now, she still sees you as her child, her baby, so it's hard for her to really take help from you and especially this sort of help. Because this is like, traditionally, an area that parents are supposed to have it together and be the ones who take care of their kids.

I would say, depending on the distance you wanna go here with helping your mom financially, without of course giving her more, and more, and more money. I've heard of stories where parents and their kids move in together. And I don't know if that's something that you wanna even consider, but perhaps it's a way for you to help her financially, where you could say, "Mom, let's move in together, I'll cover the rent so that you can use your income to pay down that student loan."

Maybe it's that you get a third party involved here; you go and you meet with a financial advisor or a credit counsellor. Go to the National Foundation for Credit Counselling - Nfcc.org - their website. There you can find a certified credit counsellor in your neighborhood. Have a meeting with this person, the first meeting is free. There they will assess the budget, the debt, the issues that need to be addressed, and it's nice because you have a third party coming in and giving objective advice. And I think for your mom, and for you, it's kind of a nice relief right? It's taking pressure off you to be the bad guy or the one sort of like, "Mom, you gotta do this, you gotta do that." And your mom also doesn't have to feel threatened or overwhelmed or feels insecure.

Those would be my two tips. One is think about how you can, together, maybe it's doing groceries together or living together or carpooling together to be able to alleviate some of her costs. And rather than writing her a check, you're sort of absorbing some of those costs by spending more time with her, cooking with her, living together with her. If that's not your jam, maybe it's that you wanna get a third party involved and/or you get a third party involved. You know, someone who can also just be a good sounding board for you and your mom. Nfcc.org is

a site that I've been recommending for over a decade and so check them out and let me know if you need more advice. Thanks Sarah!

[00:10:15]

Janelle - this is gonna be our last question. She says:

J: "My husband and I want to buy a house on Long Island. What are some ways we can save for a down payment for a house?"

[00:10:24]

FT: Well Janelle, you remember a down payment, typically, in this marketplace if you wanna be competitive as a buyer you wanna have at least 15-20%. In New York City it's not uncommon for people to have 25%-30% down, just so that they can have a say in the purchasing process because people are coming in with cash, 100%. So the first step is understanding what your budget is, right? What kind of homes are you looking at? What are the prices? What can you comfortably afford? And from there take 20% of it, and that's your goal that you wanna save that much, and give yourselves at least a year, or year and a half - maybe longer if that goal is really, really tall.

So how you actually start to save for this is you gotta go back to the initial budget that you're currently working around, and see where you can cut costs. And if you can't cut costs enough, you gotta start making more. And so as a couple, really thinking about, "If our primary goal is to buy a home in the next year or two, and we need this much money," let's say \$30,000 for a downpayment, "and then these are the things that we're willing to trade off in order to reach that goal." And something again that a lot of my guests have said on this show, you can't manage your money unless you've got goals.

So really, as you are searching for homes, get to understand what kind of a house you want? Where is this house? What does it look like? What are the taxes like? What would the insurance be? Really visualize it because then it becomes real. And go to as many open houses as you can between now and when you're ready to make an offer. Educate yourselves simultaneous to

saving, because when it comes time to buy, you're gonna be that much savvier, that much more educated, and maybe you'll be able to get a better deal as a result of it.

Saving for a downpayment is obviously important, but at the same time you wanna educate yourself about what's happening in the real estate market you're interested in, what the going prices are, and how to be really competitive buyers. And so sometimes the longer you wait to save, the more competitive you can be. If you go in and say, "You know, I've got a 30% downpayment ready for you, but in exchange I want the asking price to come down by 10%." So it gives you a lot of negotiating power when you have a healthy downpayment. So don't be impatient and good luck! I love real estate so keep the questions coming as you go through this process. Looking forward to hearing from you.

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Thanks everyone. Thanks to Janelle, and Sarah, and Patrick, and Vernique. I really appreciate all of your questions. Very simple to get in touch with me; head over to Somoneypodcast.com, click on "Ask Farnoosh". Hopefully I will be answering your question very soon on the show.

Thanks again, have a wonderful rest of your Sunday. See you right back here tomorrow for a fresh episode of So Money. Hope your day is So Money.

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