

**EPISODE 572**

[ASK FARNOOSH]

[0:00:32.0]

**FT:** Is debt management better than debt settlement? How do you budget when your income fluctuates, welcome to So Money every one, it's Ask Farnoosh time. Just little preview of some of the great questions we have coming up in this episode, I'm your host Farnoosh Torabi. It is Friday May 12<sup>th</sup> and it's nice to be back in New York, I was traveling a little bit this week. Started my weekend in state college Pennsylvania where I went to school, Penn state university, main campus and an honor to be back to give the commencement speech to the Smule College graduates, the business students graduating class of 2017.

It was 15 years since I was them, sitting in that very seat, at the Bryce Jordan center. I don't remember who my commencement speaker was, and I hope at least in the year from now, they'll still remember me. But Sophia, you know I was really nervous about this.

[0:01:28.8]

**SY:** I know

[0:01:29.1]

**FT:** 2,000 students.

[0:01:30.9]

**SY:** How did it go?

[0:01:31.9]

**FT:** It went well I think. Obviously you know, as I say, it's always... I hate the process of writing but I love having written and I love having spoken. You know, in the moment I'm nervous and I'm hoping that I'm making people feel — looking forward to their next steps and it was also great to be back because you know, Tim also went there and my stepfather in law went there and we were all there. Of course Collette and Evan, you know, it was nice to show them the campus because maybe they'll decide to go there some day. Who knows?

[0:02:07.8]

**SY:** It will be here before you know it.

[0:02:09.7]

**FT:** My gosh, please don't say that. Who is your commencement speaker? You went to?

[0:02:14.9]

**SY:** Smith College and I had Ariana Huffington, which is a very great speaker to have.

[0:02:19.9]

**FT:** Oh my gosh.

[0:02:21.5]

**SY:** Yeah, and it was right before she came out with *The Sleep Revolution*, she had just been in the process of doing all of her research so it was all about how we've just probably endured four years of burnout and now when we go out in the corporate world, make sure that you get your sleep and rest up. This year, Smith college is lucky to have Oprah Winfrey.

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**FT:** No. Wow, Smith gets some top notch speakers.

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**SY:** Yeah, I know. I'm a proud alum. So I'm very excited to see what she has to say.

[0:02:52.1]

**FT:** I joked that the only reason I spoke at Pen state was because Oprah was unavailable and Michelle Obama was unavailable. But no, it was really fun and then I spent the rest of the early part of the week in Lancaster, Pennsylvania on the way back, introducing Collette to some of her family members or extended family members out in PA. But nice to always be back at home in New York, in your own bed.

Now we have some great questions to answer and I tease a little bit of it at the top. We've got a question first here about how to really make your money work for you when you have a fluctuating income situation as Emily does. Let's listen to Emily's SpeakPipe question. For those of you who don't know, you can also leave a voice mail for me through SpeakPipe. Just go to [somonypodcast.com](http://somonypodcast.com), click on Ask Farnoosh, and you can leave a voice mail. Sophia, take it away.

[0:03:45.2]

**SY:** All right, let's hear what Emily has to say about her fluctuating income.

[0:03:49.3]

**Emily:** "Hi Farnoosh and Sophia. I'm just starting my career as a real estate appraiser and as such, I'm self employed as a sub-contractor. Therefore, I never really know how much money I'm going to earn paycheck-to-paycheck. Well, I know, it's just that it varies a lot. I was wondering if you have any advice on the best ways to manage and budget savings goals when you're not sure exactly how it's going to be. Also, my job is pretty seasonal and I'm wondering if you have any advice on the best ways to deal with seasonality in a job? Thanks."

[0:04:22.9]

**FT:** All right, well good luck to you Emily, starting your career in real estate as an appraiser. I would love for you to come and reappraise my place because I had an appraiser come not too long ago. I was refinancing my mortgage and yeah, I felt like he really low-balled us.

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**SY:** It's funny you say that. My dad just felt the exact same way about his house in Connecticut.

[0:04:43.1]

**FT:** Well, the problem is is that I understand that in this case they were using comps from homes that were sold like more than six months ago and so in Brooklyn especially, the market moves very quickly and within a year, six months, prices can go up significantly. The other thing too is that he use comps for homes that were pretty far from our place. I mean, again, maybe a couple of miles isn't a lot when you're in the suburbs but in Brooklyn it's a difference between one neighborhood and another and it all worked out, I didn't need to borrow too much to refinance.

But it can be an issue, just a side bar, if you're getting an appraisal and you're looking to price your home to sell it, it's important that you get an appraisal that is close to what you want to sell the home for. Because if that buyer needs to get a loan from a bank, that appraisal will matter. They're not going to necessarily give a bar where more money than what the home is appraised for. So you either have to price it close to the appraisal price or hope that someone comes by with cash. But anyway, that's just a little FYI.

So her question is really about an important question and I kind of went through this in the beginning of me transitioning to a small business. How do you budget, how do you manage savings goals when you're not really sure how much you'll be making? So, Emily, I hope that you're starting your career with a savings cushion because this is going to be essential for you as you launch your career, and as you say, your income is not going to be consistent, you may

go a month and make nothing and then in two months, you'll make a ton of money and then it will be crickets again.

So it's important that you have, and this is an advice for everybody as you make this kind of transition from full-time to a job that is more commissions based or not consistent, that you have at least a six month cushion so that you can continue to pay your bills, you can continue to keep your life's status quo while you get some sort of continuum going with your new gigs.

That way, whatever money you make in the next six months will just sort of help you to fill in the blanks a little bit, maybe streamline some of your finances. But you won't ever feel like you're never going to be able to make your rent, you're never going to be able to put food on the table. It's just one of those kind of growing pains of making a transition to a job that has inconsistent pay and then eventually you'll get the hang of it.

Eventually, I'm not going to say that eventually you'll get to a point where you're making money all the time and you can always expect a paycheck every two weeks or every month. But you'll hit a month where you'll make enough to cover yourself for three months. It's very important that when you do make the big money, or when you do get a relatively sizeable paycheck that you automatically do two things with it: you carve out some of that for taxes, you make kind of a tax account for yourself. Because now you're going to have to probably pay your taxes on a quarterly basis and secondly, you want to save it. You want to save at least 10% of it for yourself then the rest can go towards expenses.

This way you'll always have your bases covered and you won't ever get a bill from uncle Sam that you're not prepared to pay, you won't ever have an emergency that you won't be able to cover, and this is extremely critical for people who have your kind of income setup where the money is coming in here, a little bit there, some months nothing. Really important that you be conservative for at least the first year or two. This is not the time to be making big purchases, this is not the time to be going on big spending sprees, it's really about hoarding right now, hoarding your cash so that you can afford yourself a flexibility down the road.

She says, some seasons you know maybe more lucrative than others. Anticipating, that's important so that you really shore up the cash now so you can make do during those slower

months and not have to be hustling or worried about making ends meet. So Emily, long story short, you just really need to save a lot of money right now so that you can prepare for some of these inconsistencies and fluctuations and hopefully the fact that you're pursuing this new career, you're going to be happier, that's going to make up for the fact that the money is not going to be as consistent.

But also the upside here is that you have the potential to make more money than you were making, because your career is now in your hands, you are now your own boss and that's always a nice thing. Good luck to you Emily. What do you think Sophia? I mean, it's kind of one of those situations that a lot of people are experiencing, many people are piecing together gigs or taking the freelance route or becoming entrepreneurs and that's why it's so important to have savings before you make that leap. Don't quit your day job yet if you've got nothing in the bank.

[0:09:38.6]

**SY:** Definitely. I was going to say, I feel like this is a problem that we've been hearing more frequently, especially from listeners on the show and having talked to some entrepreneurs as well, it's, as you mentioned, you really just — when that big check does come in at some point, you definitely want to make sure you're banking that and holding on to that for the next couple of weeks, days, months, however long it's going to take until you know you're going to get that next check.

So really, just making sure that you're putting the money aside now and not going out and spending on any large purchases right now until you know that you can truly afford it and then have some more in the bank as more of a cushion.

[0:10:18.6]

**FT:** Yeah.

[0:10:19.0]

**SY:** That's a good idea.

[0:10:20.0]

**FT:** Yeah, I mean, it's going to take a while for you to really understand the flow of your work and the kind of expectations you can have as far as how much money you may make in a given month or given year, that's going to take some time. But you'll figure it out, and if you don't, if you can't, you're struggling, we're here for you.

All right, let's go to our next voice mail.

[0:10:41.7]

**SY:** All right, the next voice mail is from Lane and she wants to know about some budget friendly apps. Let's hear what she has to say.

[0:10:50.2]

**Lane:** "Farnoosh, I wanted to ask if you have any suggestions for apps that you can enter your day-to-day expenses without connecting your bank account. I have used the Spend Free app since 2010 but the app has not been updated for nearly two years as such is very slow. I had been the victim of credit card fraud twice, which my credit card company was great at catching but I had decided to find a simple app to enter my day-to-day expenses in cash and on my credit card so I could monitor trends and keep a budget for myself. I just want an app to keep me honest with my money on a daily basis."

[0:11:24.7]

**FT:** All right Lane, I'm really sorry that you had that experience with security fraud. That's enough to give anybody the jitters and to be cautious about giving up your bank account information to an app. I will say though, the reputable apps out there like Mint, obviously I write for Mint, I blog for Mint and the many others that we talk about on this show. We featured their founders and their CEO's. These are safe apps.

I mean, the thing is if you're in Fin Tech right now, your number one priority is making sure that your customers are protected. Cybersecurity is of utmost priority for this founders of this new and robust Fin Tech apps that help you budget, help you save, help you invest. From, we've featured Bestow, which helps you donate money on the go by linking your bank account. There is Acorns, which helps you invest on the go by linking your bank account, et cetera and all of this different apps, I'm not saying that there's never going to be an issue but know that cybersecurity is very important to them and they want to make sure that their customers feel secure and are secure.

So having said that, I hope that you'll reconsider working with some of these apps that if you really do need the help, they can be very instrumental in getting you to save more, invest more, budget better. If you're still kind of — if it's too soon, Lane, you know, and you're like, "Oh god, maybe down the road but right now I just need to kind of get squared away, do something that's still going to help me but maybe not offer up all my bank information," I would just say, Excel is great, you know? Maybe it's not the sort of thing that you can check on your phone, you can keep a running list in your notes, app on your phone. Also, Evernote is a great tool for people who want to stay organized, have lists.

But you know, eventually I would say, start to reconsider some of this apps that have gotten a lot of credibility, they've been road tested, and cybersecurity is very important to them. Apps like mint and there's Level and some other budgeting apps. Let us know how it goes. I will say too, for me, it's very helpful to download my bank's mobile app and check that regularly. Periodically once a week or in your case, maybe you're worried about fraud, you want to check every day for a while.

Banks are also getting better at contacting you in the event that they suspect there's a purchase that wasn't made by you. In my case, I've had my banks always contact me, it doesn't happen often but when they do, I'm surprised because I had no idea. I should have, but it literally might have happened 10 minutes ago and they're on top of it that quickly. Sophia, I know you've had some really good experiences with that as well.

[0:14:20.3]

**SY:** I have, and it's been great and like you mentioned, they contact me before I've even had time to go into my app and check. The nice thing about the bank that I work with is they'll even leave me a voice mail if I don't answer and they'll say, you know, "Hi Sophia, this is so and so, I'm calling to let you know that we noticed this charge on your account and we just would like to run it by you and ask you a few questions. We believe there might be some fraud going on but we just want to check with you so your purchase has been, you know, your card has been suspended at the moment."

I'll call back and then once we firm everything up, in some cases it's been, "No, I have made that purchase," and it's just something a little bit out of the ordinary that maybe they weren't anticipating or know in fact they haven't made that purchase and they clear it up so quickly. I've really been pleased with the way that they handle it.

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**FT:** Like I said, it behooves banks and apps to make sure that you are protected. Because first of all like customers, like in this case Lane, don't feel secure, they're going to leave and that's money lost for them and if they start to get a reputation as a bank or a FinTech app that is loopy-goosey about cybersecurity, they are not going to last very long. Because clearly it's the most important thing and so they need to, and I know banks are putting more dollars behind, making sure that they are able to detect when fraud happens or at least see those red flags more quickly and they're being more serious about connecting customers right away.

[0:15:56.3]

**SY:** Totally, and one thing that I would just add quickly is make sure that you have all of those large purchase protections, notifications in place for your card because that's great especially if you work with some banks when once they detect a large purchase they send you an email and either you can be like, "Oh that in fact was a purchase that I just made," or, "Oh, wait a second, that doesn't look familiar." So make sure that you are using that.

[0:16:20.8]

**FT:** I do that with my credit card and it's just a nice notification. They don't require you to approve it. Don't worry about that. But they'll send me FYI's like, "Hey large purchase just made on your credit card." I have some reoccurring expenses on my credit card that are relatively large. I think I set the limit for over \$500. So I get those emails once in a while and I usually know what they are about but I always check them because you just never know.

All right moving on, Dustin has a really, really good question. I am so glad he asked this because there can be a lot of confusion in this department. Take it away Sophia, tell us the question.

[0:17:00.8]

**SY:** Yeah, short and sweet. He says, "Which is better? Debt management or debt settlement?"

[0:17:05.2]

**FT:** Yep, really simple question but yet very different. Debt management versus debt settlement. So you may see a lot of advertisements on the web, on TV for debt settlement and these advertisements usually have a jingle, there's infomercials around them, they're very compelling. They'll say something like, "We'll get you out of debt in six months, no fees." Or, you know, "Get out of a \$100,000 in debt without filing bankruptcy. We'll take care of it."

Debt management on the other hand is not so sexy. It's not so quick and for that reason I'm a bigger fan of debt management. So here's the difference: debt settlement is usually when you pay a company to help you settle your debt with your creditors and when they settle the debt, they are settling it for a fraction of your balance. So let's say for example you've got a \$10,000 credit card balance, you just can't pay it, you're out of work, whatever, whatever.

So you pay this debt settlement company money either upfront or you give them a percentage of the debt that they settle for you. Maybe it's a few percentage points, and in either case, you are paying them for this service. They come to an agreement with your creditor to have you pay off the debt in a lump sum for say 50 cents for every dollar, 20 cents on the dollar. It just sort of depends on what they can do for you and you pay it off.

You settle it for a fraction basically of your balance. This sounds great, right? It sounds like, “What’s the catch?” The catch is that when you do this settlement, it gets reported typically on your credit report as a settlement and in the future if you ever go to apply for more loans let’s say a mortgage, or a car loan, a student loan, a business loan, it can work against you. It can severely work against you. So that’s something to keep in mind.

Debt management on the other hand is something that you might sign up for through the National Foundation for Credit Counseling, Money Management International, two great non-profits, we’ve talked about them on the show. You basically work through them. They also will work with you as an advocate and as a mediator between you and your creditors, but their plan is a little bit more methodic, slower, and it involves you. It’s not a quick fix, they are not going to take the band aid off really quick. They are going to enter you into a debt management program.

There usually is a monthly fee associated with this, although it can be very nominal and if you’re in really dire straight, they can wave it for you. It’s like \$10 to \$15 a month sometimes but sometimes it can be free if you can’t do it. They will also contact your creditors for you, but rather than settle the debt for pennies on the dollar they will work with the credit card company to let’s say eliminate your fees, or reduce your interest rate, or get you to a zero percent rate for 12 months so that you can catch up on payments and put more towards principle and the average debt management payoff plan I believe is like three years, two years, four years. It’s not going to be 60 days.

And I actually think going through a debt management program because it’s slower and because it requires a longer course action plan, it’s better for you in the long run. We talked about this, Sophia, before. It’s like when you have to go through the pain of a process and in this case getting out of debt, that pain is good. It’s going to prevent you from making — if this was something that you ended up in because of silly mistakes over spending, you’re probably not going to be inclined to do it again.

But if you enter a debt settlement program and boom by Thursday you are out of debt, it’s maybe less painful and you are more likely to go back to bad habits, old habits. So I like debt

management better, Dustin. Debt settlement, if your other option is bankruptcy maybe debt settlement could be a better route but there is a big difference and I am glad that you asked that question.

All right, Monica, money and family is the scenario here.

[0:21:37.5]

**SY:** I was going say oil and water.

[0:21:39.6]

**FT:** Yeah, tell us what she is struggling with.

[0:21:42.2]

**SY:** Her husband's sisters rely on him for financial support and his siblings are a bit older and retired with no savings and their pensions aren't enough to make ends meet. She says her husband who makes an average salary sometimes needs to go into debt to buy his sister's medicines or pay their bills and so she feels that this of course threatens their own financial security and stresses them out.

She's fine with him helping family but she thinks that taking on the debt is just too excessive. So her husband now feels trapped and she says, "Help." This is adding to her money anxiety and admittedly also she feels a little resentful for the obvious reasons.

[0:22:22.8]

**FT:** Yeah. I talk a little bit about this in my last book, *When She Makes More*, and it's relevant to any couple-hood where, regardless of who is making how much. But the situation here is such that you want to help your family out, which I think is a very noble thing to do and I hope all of us if we can we would help out family members when they're in real need and in this case it sounds

like it's urgent because it's medical bills, and it could be life or death and so how can you say no?

But she's right. Going into debt to help them make ends meet is not sustainable. It's not sustainable for her and her husband and so this is very emotional, obviously. I think, Monica, what you need to do is have you and your husband sit down with his sisters. It's going to be not the funnest conversation, but you are all adults here and this is a serious matter and I think you all need to agree to meet in the middle somewhere and talk it out and explain that you want to help to the best of your ability and the best of your ability does not mean taking on credit card debt and then you're screwed for however long because you are trying to catch up and you can't meet your goals and then you become retired and then you need financial help and then who's going to help you out? Who's going to bail you out, right?

So his siblings need to have a conversation with you and your husband. The four of you. I don't know how many siblings there are, but all of the relatives need to get together and talk about how to make this work so that everybody wins. So that everybody feels good and comfortable and it's not going to be to the detriment of anybody. I don't know if your husband has told his siblings that he has taken on credit card debt to help them pay their medical bills? Maybe he has and they don't care, and I don't think that would be the case. I mean, that seems strange to me but I think you should all talk and research some other ways for them to get help.

If they are on disability and they are not able to pay their bills and they make very little income, they may be able to qualify for some federal programs, some state programs to help them at least get their medical bills addressed, their prescription drugs paid for. I've written articles, and you can go to the Mint blog to find them, about how to care for relatives that are sick or who need medical attention if you can't pay it for yourself out of your own bank account. There are non-profits out there and you just have to apply and apply and hopefully you will get some kind of assistance.

But especially for people who make very little or nothing and have medical needs and have maybe disability or just too old to work, there's help out there. You have to research it. So this is all stuff that the four of you or all of you should really look into, and that's it. That's really, I don't know what else to tell you, Monica, and I hope that your husband will be able to come around

on this and hopefully by talking to his sisters, he'll feel and them hearing them out and maybe they have no idea the stress that you guys are in and they think you are just able to pay it freely?

So they haven't looked into their other options, even though they know they might have some. So the communication needs to happen first and foremost and hopefully through that dialogue and that ongoing dialogue, you'll find more reasonable solutions so that's what I would say to Monica, Sophia.

[0:26:15.3]

**SY:** I think that's great, and as you mentioned, most of the time not all the time but most of the time, people don't know what's really happening behind the scenes and especially it sounds like Monica probably does put on a happy front in front of them. So I'm sure they really have no idea.

[0:26:30.7]

**FT:** And her husband probably, yeah.

[0:26:32.3]

**SY:** Yeah and of course you always want to help out the older relatives in your family but you can't sacrifice your own financial future on behalf of them, and as you mentioned, if they are a really tight-knit close family, they wouldn't want that either. So I'm sure it won't be a comfortable conversation but as you mentioned, once they sit down and they have it and everything is on the table hopefully they will be able to better understand one another and find a game plan that works better for everybody.

[0:26:58.4]

**FT:** Monica, if you want to blame someone, blame me. Just say, "I heard this woman that I listened to. She's a podcast and I asked anonymously what she thought about our situation and

she really feels that we should talk and that we should look into some alternative resources.” Maybe talk to friends. The thing is there are many people right now that are supporting their aging parents, aging siblings who have dependents, so to speak, who are immediate family, ask them, “How are you making through this and what are some of the resources tapping?” You might learn something from them as well.

All right, time for one last question. Let’s talk to Jessica here.

[0:27:46.0]

**SY:** Yes, it’s a real estate question, which we know you love. So she sold her place and she moved to a new apartment that’s double the size and she was able to pocket some of the money when all was said and done. She really likes it but she admits that it’s not necessarily her dream home. Initially she thought she could update the home and sell it in five years to buy a bigger home but now she’s wondering if maybe she should just use that money to pay down the mortgage and keep it as a rental? She wants to know what you think.

[0:28:15.5]

**FT:** Both ideas seem viable to me, Jessica. Maybe it’s more of a matter of what your preference is. You know, becoming a landlord that works for some people and it doesn’t for others. If this is something that you can see yourself doing and you think that the rental market where you lived, did she say where she lives?

[0:28:36.0]

**SY:** She did, she lives in a ski town in Colorado.

[0:28:39.8]

**FT:** Okay, well maybe at least half the year you’ll be making a lot of money renting it out to frequent vacationers and skiers in the neighborhood or in your town. So you have to do the math; is it going to be such that if you become a landlord, will you actually be making a positive

cash flow every month? Is it enough to help pay down that mortgage quickly and pocket some money perhaps along the way? That would seem like a great option.

And then if you don't have to really renovate or do work to it because people who are staying there don't really care that you have the finest furnishings because they are just there for the weekend or for a week, you know what? I think that could be a really great option, but you have to be committed to being a landlord and you can of course hire a management company to maybe help you with finding renters and dealing with last minute toilets breaking or whatever, so you are not woken up in the middle of the night and that's going to be an extra cost for you.

So you have to really do the math and make sure that it makes sense. But if you think that with a little bit of TLC and renovation, you could really enjoy living in this home and then you can sell it down the road and profit to buy your dream home and that's more important to you, then that's what you should do. So this is really, it is a math question. You've got to make sure that making this a rental would actually make sense and of course if you do the renovation, you want to spend as little as possible so that you can have the biggest profit when you go to sell it down the road. But really this is also a question about your preference. What do you want to do? What's your comfort level? I think that'll help steer you down the right path.

All right good question Jessica and I assume she's got all the other bases covered. She's got the emergency account, no credit card debt hopefully.

[0:30:34.2]

**SY:** She did share with us that she does have some credit card debt about \$19,000, but she's planning on having that paid off by the end of this year and she's also working on building that six month emergency fund. She didn't say exactly how much she has, but she's working on it.

[0:30:49.0]

**FT:** Okay, so work on the debt, work on the emergency fund before you start spending more money on the home and I know she made a little bit of a profit when she sold the place. So maybe she could use that to first pay off the credit card debt before she goes and spends it on

renovations. But I love a good renovation project. I've been there and you'll hate it during the process, probably, but you'll love having done it.

Okay thanks Jessica, thanks Monica and Dustin, Lane and Emily. Lane and Emily thanks for your SpeakPipe questions. I know it's a little maybe more nerve wracking to leave a voice mail but we love hearing from our listeners. We love actually hearing your voice so I encourage you all to use that tool. Go to [somonypodcast.com](http://somonypodcast.com) and click on "Ask Farnoosh" and you can voice away.

Thanks so much everyone, Sophia have a great weekend.

[0:31:40.5]

**SY:** You too.

[0:31:41.2]

**FT:** Monday, just FYI, stay tuned. Monday is going to be a really great episode. We've got Danielle LaPort back on So Money. She was one of my initial interviews back in 2015. She helped me launch the show, she's a very wise woman with a massive following and she's got a new book out called *White Hot Truth*. Stay tuned for that on Monday morning.

Have a great weekend everyone and I hope your weekend is So Money.

[END]