

**EPISODE 105**

**FT:** Happy Sunday everyone. Welcome back to So Money. I'm your host Farnoosh Torabi. This is our 'Ask Farnoosh' Edition, weekend edition, where I get to see where your heads are at. What are your money questions, what are your big career questions? Let's get right to it. We've got a question here from Carolina. She says:

**C:** "I'm 36, recently came back from abroad, a not yet working husband - he's waiting for his visa. We have no children for the moment but planning to have one soon. My annual income is \$100,000 and I don't have any debt. I just started a Roth IRA and I am contributing to my Roth 401K at work at a maximum, 5% matched by my employer. I wanna buy a house or condo in the near future and would like to make some investments. I have some savings, around \$30,000. I don't disregard to go abroad in the future, due to my work. Where do I start?"

**FT:** Well Carolina, sounds like you have a lot of great things going for you already. You have savings, you're making a really good salary, hopefully your husband will find a job soon and that visa will arrive soon. Sounds like you have an amazing company, 401K at 5% matched by your employer is pretty outstanding I'd say, and you have \$30,000 in savings. So if your goal is to buy a home, Carolina, I would say start by figuring out how much money per month you can comfortably put towards housing. And I like to see housing costs stay below 30% of your take-home pay, and that includes the mortgage, it includes insurance, it includes utilities. So once you do that first level math, figure out where that puts you in terms of price ranges for homes. And remember, you're gonna want to have to have at least a 20% downpayment these days to really qualify for a great loan and a great interest rate.

And speaking of qualifying for that loan, it's also critical that you have good credit - great credit in fact - to get the best interest rates. So I'm curious about this too because you said that you've been abroad, your husband - I'm not sure if he's a foreigner or if he's a US citizen - if you have not together established good credit yet, if you don't have good credit or if he doesn't have good credit, or if you just don't have credit because you haven't been in the country for very long and you don't have credit cards, things like that. It's really important to take the time now to establish credit, good credit for yourselves. And if your score, your credit score is not in the 700's out of 850, you will wanna make some improvements. So do this before you apply for a mortgage

because this is really the time to get your credit health in check. You can go to [annualcreditreport.com](http://annualcreditreport.com) for free once a year to get your credit report from each of the 3 major credit reporting agencies. And now you can get your credit score pretty much anywhere. There are a lot of different advertisements for it. But just make sure that whatever credit score you're looking at is the Fico score. 90% of lenders look at the Fico score. That's where I would start. You asked where I would start.

So check your credit, make sure you start to analyze the housing market, and also figure out how much you can comfortably put towards a home for a downpayment. You've \$30,000 in savings now, you don't wanna put all of that \$30,000 towards the house. You wanna get to a point where you can comfortably put money towards a downpayment and have money left over. You know, banks wanna see that you can very comfortably afford that mortgage. And so they're going to look at your net worth. They wanna see that you have enough in the bank to, not just put towards a downpayment, but also to have as an emergency reserve. And if you're gonna have a kid, you'll definitely wanna have at least 6 months of your income short up so that in the event that, you know, your husband still is out of work, or an emergency happens, you have some savings to tap. So that's where I would start, and it's an exciting time for you Carolina. I'm excited to, you know, hear about what happens with the house and with starting your family, so please keep in touch.

[00:04:29]

**FT:** Meredith writes and she says:

**M:** "Hey Farnoosh! I love your podcast. Thank you so much for sharing such valuable information with us, and for making it fun! I am a grad student and I'm working part-time. I am working to increase my income and get my finances in order before I graduate next winter and have to start on loan payments. Do you know of any in-person classes or financial support groups for young people in New York? I've been doing a lot of reading on my own, but I think the next step would to to find a community of like-minded individuals, for both additional motivation and accountability. Any suggestions?"

**FT:** Meredith, I love where you're head's at. I think this is a great goal to have, to create this accountability group for yourself. I think that we should all have these people in our lives. We talk a lot on the show about brain trusts, and I was talking to Jaime Tardy who hosts the Eventual Millionaire Podcast on this podcast. And she was saying how she has basically a board for herself. A board of advisors. So they help her not just with, you know, her money questions or her entrepreneur questions, or her business questions, but really questions about life. And I think that's a nice group to have. And so I will be honest, I don't know any in-person groups in New York City, although I would suspect that they're easy to find. You can go online to sites like meetup.com, General Assembly is another resource where they all have a lot of meet-ups at that place, basically a school. They have their own courses, a lot of it tech-gear, but then outside of that they're known for being a really great place for meet-ups of all sorts of interests.

I also have interviewed Tiffany Aliche on this podcast, who's also known as the 'Budgetnista', and if you recall that episode she talks about her 'Liverichorchallenge.com' website where basically she has about 15 thousand people following this challenge. It's how to live rich, and I think it's 7-days. It's a very short period of time, but it can maybe be a nice way to kind of get you on track. And then I would say too, honestly Meredith, start your own community. I think the fact that you're in grad school, you're probably not alone with this desire to get your finances, you know, on the right path. So do a little bit of networking at school, talk to classmates, find out is there anybody else, maybe 3 or 4 other people who have similar interest as you. And see maybe you guys get coffee one night, or you do a potluck and you talk about maybe becoming your own financial mastermind group. Your own financial brain trust group. And you can also find people through Facebook, so put the word out there. I don't think you'll have a hard time finding at least 3 or 4, 5 more people who share similar goals as you. So good luck with that. And let me know how it goes.

[00:07:14]

**FT:** Ursula writes and she goes:

**U:** "Hey Farnoosh! Love your show. Listening to it has become some what of a habit."

**FT:** Right on. She says:

**U:** "I started late with retirement savings because I freelanced most of my life and I didn't know much about my options, so I'm trying to make up for lost time now by contributing 25% of every paycheck, trying to max it, and also fully funding a Roth IRA. But the 401K at work has no matching. Should I still keep hard at it, especially since it does lower my taxable income, or should I invest it elsewhere on my own? Would that be a better option? Would love to hear your thoughts. Also would love to hear more on retirement for the self-employed as an episode topic. Thank you."

**FT:** Well Ursula, I think you're doing wonderfully. 25% of every paycheck is very, very good. You know, typically we talk about 10% of every paycheck, assuming you're starting in your 20's and 30's towards retirement, is a pretty safe-zone to be in. But if you haven't done much and you're in your 40's or older, then you wanna play some catchup, and as best you can. So 25%, if that's your way of kind of going to the edge there, I think that is a really, really, great, great aggressive way to go at it. Also, fulling funding your Roth IRA - fantastic. Unfortunately the 401K has no match, but you're right, it does offer to lower your taxable income, which is a benefit. And I like the 401K too because the fees may be a little less with the 401K than if you were to go out there and try to do your own kind of portfolio through a brokerage. I would say, stick with your 401K. If you leave the company you can always take it with you wherever you go.

As for being self-employed and wanting to save for retirement, that's a great topic. And for me, I fit into this category. So what I do is I have a SEP IRA. It's an IRA like any other IRA. It's, the contributions are tax deductible, and the great benefit to the SEP IRA is that I can contribute well above and beyond the typical IRA limit. So it's a really great vehicle to get ahead with retirement when you're self-employed, and that is tax-deductible too. So I'm a big fan for the SEP. Thanks Ursula.

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**FT:** Erin writes, and she says:

**E:** "I'm a 20-year-old college student, looking for ways to invest early. I'm already setting myself up for great income upon graduation. But I'm wondering, what can I do right now to grow my wealth? I have about \$2,000 of un-needed savings, sitting in a Money Market account at my bank, but I wanna be more aggressive. Do you have any tips for how to hit the ground running on wealth once I have a consistent salary? Thank you."

**FT:** Well Erin, do you really not need \$2,000 when you're in your 20's? I mean, if I had \$2,000 in my 20's, I would not be throwing it at the stock market. I think that you maybe wanna keep it where it is, to be honest. I know it's not earning a lot in the Money Market account, however, when you graduate from college there's gonna be a bit of a gap period between not working, and working. And that money can come in real handy as you look for an apartment - because sometimes landlords want a deposit. You might need that money when you're shopping for nice clothes to get those great interviews and make a really good impression at your perspective job.

So I think that you wanna keep that \$2,000 in a safe place. I agree, you may not need it right now because you're in college and what do you need \$2,000 for if you've got your tuition paid and you've got other expenses covered, you know, \$2,000 might be icing right now. But when you graduate, there is gonna be that interim time before you start making that paycheck where it can come in really, really handy and you're gonna wish that it wasn't tied up into something like a stock or a mutual fund. So I would say the Money Market account is great.

If you really wanna be a little bit more aggressive, but not really risk it, I would say there are some 5-year CD's out there that right now - I looked at bankrate.com, it's offering like 1.6%. Which again, you know, it's not like earning a 10% return. But it is something that is relatively safer. It's not super liquid. It's a 5-year CD so to really earn that 1.6% you'd have to keep it in there for 5 years. But if you say you don't need this money, that might be a good place to put it. That would be my advice. Sorry, I didn't give you anything sexy here, but I would just say because I've been where you are. You know, when you graduate, having money is helpful. You will be able to have more options as far east you wanna live. You'll just be happy to have that kind of money in the bank. And you never know, that job may not come right away. And then once you even start the job you don't get paid right away. It takes 2, 3 weeks for the payroll to kick in.

As far as getting that job and starting your wealth building, I would say sign up for the 401K the first day, if your company offers it. And outside of that maybe you wanna open up an individual retirement account, or Roth Individual Retirement Account, and start to save for your retirement as soon as you make that first paycheck.

Alright everyone that is a wrap for this Sunday. Thanks so much for all of your 'Ask Farnoosh' questions. Remember to ask me a question, just hop onto [somoneypodcast.com](http://somoneypodcast.com) and click on 'Ask Farnoosh' - I make it very literal - and just ask away. Whether it's about money, career, investing, retirement, college, babies - I get it all and I try to answer it all as best I can. So thank you so much in advance for your questions. And I hope the rest of your day is So Money!

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