

EPISODE 479

[ASK FARNOOSH]

[00:00:31.5]

FT: You're listening to Ask Farnoosh. It is Friday, October 7th, welcome to the show. I'm your host, Farnoosh Torabi. We are well into October now. It is almost the end of the year, not quite but seriously once Halloween happens, Sophia and I were joking like it's pretty much 2017. Sophia welcome to the show.

[00:00:53.0]

SY: Thank you.

[00:00:54.6]

FT: Yeah, so if you were listening last week, I'd mention that I had gotten my son this firetruck costume, really cute from Pottery Barn. This really nice felt material, it's beautifully constructed, he won't wear it. He refuses to wear it, it's currently sitting in his room. He's put his toys in it but he refuses to get in it himself and so we're hoping that in the next two and a half weeks, we will convince him otherwise but Tim said this morning, he was like, "Well if he doesn't want to wear it, I'll sort of wear it and then we'll just make him a fireman." I don't know how he plans on getting in it.

[00:01:31.8]

SY: That's a good dad.

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FT: But maybe we'll have to cut the sides out or something.

[00:01:36.9]

SY: Get creative.

[00:01:37.9]

FT: I don't want to let it go to waste and by next year, he'll totally just be into batman or something because so many of my friend's sons and some daughters are 24/7 superhero. They wear the cape, the outfit all day, every day, to school, to naps, to bed. So that might be in my future and this poor firetruck that I got, well I have to give it.

Hey by the way guys, I am having another baby. P.S. if you follow me on social media, you saw me on the today's show or you follow us through our e-mail list you already know. This isn't news to you but for those of you who didn't catch that we are expecting a baby girl in March and so my point in saying this as well is she will wear the firetruck costume if Evan won't and we're really excited to have a girl this time to experience that.

Any parents of girls out there, I am open to all your advice. Part of me is a little afraid of being a mom to a girl and also really excited but also a little afraid because girls are super smart and I just see them on the playground. They are way ahead at this age than boys generally speaking in terms of vocabulary and strategy and scheming, it's pretty awesome but also how do you deal with that? I'm open to your suggestions and speaking of opening to your suggestions and wanting to hear from you.

Every month, every week actually I write for Mint.com now. I am their featured columnist and we wanted to dedicate one column per month to auditing a Mint user's account. So you don't have to give me your account username and password, you just tell me generally how much you make, how you spend, your debt, things like that and what you want to accomplish whether it's getting out of debt, saving more, getting your retirement account going, saving for college or all of the above and then together, we'll come up with some strategies and then we'll publish those results on mint.com for everybody to see and learn from.

And the first one goes up in a week or two and we're just continuing to reach out and say, "Hey, if you've got any interest in participating, just get in touch with me and we'll follow up with you." The e-mail to reach out to me at is farnoosh@somoneypodcast.com and let us know that you heard this through the podcast and that you have to be a Mint user to qualify. That's the one thing. But Mint is free. So hopefully, if you're already on there, great. If you haven't, check it out.

All right, so let's go to our questions this week. I understand that we have some people who are talking pre-nup, we have some people who want to start businesses.

[00:04:28.6]

SY: We've got it all. Our first one now is about student loans. It's from Sarah. She writes in and she's currently using the income based repayment program to pay for her student loans. She has about \$176,000 at 7.8% and she's done her research and noticed that a bank is offering a great rate of 3.75% for a 15 year fixed and she also heard a rumor that rates might go up by the end of the year. So she's wondering if maybe she should refinance with this new opportunity or stay with her income based repayment program.

[00:05:07.3]

FT: Right. Wow, okay first of all, \$176,000 in student loans that is a lot and 7.8% is a lot of interest especially for that amount of debt. The income based repayment program can be very helpful the way that works is that it's a government program. If you are a federal loan borrower you may be able to qualify if your debt is just too much to carry and in this situation, a \$176,000, I would think she would qualify. She sounds like she did.

How it works is it pegs your monthly payments to no more than 10 or 15% of your income and if your income rises, then of course your monthly payments will rise because it's a percentage base and if you haven't after 25 years paid it all off, then the remaining balance is forgiven. So that's great. But enter this new possibility to refinance with this bank at 3.75% fixed for 15 years. I kind of like that. Knowing nothing else, I think that that's a very low interest rate and yes, interest rates have nowhere to go but up at this point and so over the next few years, you could see rates go up.

So it's smart to lock in a fixed rate now and just read the fine print, make sure this is not too good to be true and then do the math and see if it makes sense. The one thing I would say about this IBR program is that when they peg your payments to no more than 10 or 15% sometimes that doesn't cover the interest depending on what your income is. So if that happens, the program says they will pay your interest for the first three years but the interest then gets tacked on to the total amount that you owe.

So your balance could go up in an IBR program. Your monthly payments will be more affordable because it's pegged to what you can afford but just be cautious of that happening as well. For anyone out there who takes on an IBR program, you might find one day that your balance is not getting any smaller. That may be because that the interest is getting tacked on to it because the government was taking care of it for you when you thought you were taking care of it.

So for this particular person, Sarah, given what she's told us and I know nothing else, I'm just doing the math in my head 3.75 is less than 7.8. But one caveat Sarah to remember is that if you refinance with a private organization, a private bank, this federal loan, you will no longer be able to qualify for federal programs. So if you find yourself in a bind again, the federal programs for federal loans will no longer apply to you. So that's just something to keep in mind, you might be okay with that but just putting it out there.

All right we have Ashley next, she owns a small business?

[00:08:22.7]

SY: Yeah and she recently got engaged.

[00:08:24.5]

FT: Oh, congratulations.

[00:08:26.4]

SY: She recently read that a pre-nup might be a good idea in her case. But she's not sure she can wrap her head around it so she wants to know what you think.

[00:08:35.6]

FT: You know who got divorced recently? You know, Girl Boss.

[00:08:40.4]

SY: Oh yes.

[00:08:42.7]

FT: Sophia, it was in the news and she Instagram-ed it so I think it's okay to talk about it now. I know nothing other than what I just read in the paper or the internet and she had a super tight pre-nup. She is worth a lot of money, she continues to make a lot of money and so she also lives in California, which is a community property state. Very important for people in that state who want to protect their assets in a marriage before going into the marriage, during the marriage to have a pre-nup.

Because a community property state and there are nine of them, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin, the way it works there is if you don't have a pre-nup then you are beholden to your state's divorce settlement laws and there, when you enter a marriage, your property becomes basically community property owned equally by husband and wife. So in the divorce, it is basically a 50-50 split, not everybody is okay with that.

So the first thing I always say to Ashley is you want to be aware of your state's laws. What does your state say is the defacto, the default process of divorce in your state and if you live in one of these community property states, then most likely you will want a pre-nup especially if you're asking this question, it sounds like you're probably interested in protecting your assets and also your income that you might be earning in your marriage.

You could have a business that's a small business now but it could grow very quickly and, in your marriage, could become a very lucrative and big entity and if your marriage breaks up, I hope that doesn't happen but if that does happen would you be okay with splitting all of that growth with your partner? And if you are not, then that's when a pre-nup may be able to help you out. But again, it all depends on what your state says.

Maybe your state is more flexible, more lenient and there is more of a work around in the event that there is a divorce. But having a pre-nup too ensures that your divorce proceedings go by faster and time is money when you're working with lawyers and court systems. So for all these reasons, if you want to protect your money and assets going into the marriage, during the marriage then you want a pre-nup.

And if you also want a fast and clean exit, also have a pre-nup and make sure too that your partner reads it carefully and make sure that he also has a lawyer look at it carefully because what's happening Sophia, you know, I did a lot of research on pre-nups as I wrote my book, *When She Makes More*, and what's happening now is pre-nups are getting thrown out the window because people were signing them in duress.

Like the husband and the wife would show up the night before the wedding with this 20 page pre-nup and of course, you're going to sign whatever at that point. You might be a little ticked off but you're like, "Okay, I mean my relatives are in town and I have a dress and I've got to sign this," and what judges are finding is that if you sign the pre-nup in duress, if you signed it and actually the pre-nup is completely one sided, it may not hold in a court of law once you get divorced.

So it's important that obviously, the person initiating the pre-nup is self-serving here. You want to protect your assets but you also want be mindful of the other person's needs as well and make sure you know that is a collaboration not just like, "Hey, I wrote this pre-nup, here sign it, you have 24 hours." And I know that pre-nups are not romantic and the other thing to keep in mind is that post-nups are also an option. For those of us who are married and realized, "Oh you know what? I should have gotten a pre-nup and I didn't," you can get a post-nup. It's essentially the same thing but it's done after the fact.

So good luck Ashley. Congrats on getting engaged and hope your business continues to flourish and just be smart, and I mentioned earlier that pre-nups aren't romantic but in this day and age, it's really important to be realistic. I think that if you have a partner who's mature and understands where you're coming from, I think this shouldn't be too big of a point of contention. Hopefully it's just something that you do along with getting your marriage license and all the other to-dos as you head down the aisle. All right good question.

[SPONSOR BREAK]

[00:13:29.4]

FT: Need a website? Why not do it yourself with Wix.com? No matter what business you're in, Wix.com has something for you. Used by more than 84 million people worldwide, Wix.com makes it easy to get your website live today. You need to get the word out about your business, it all starts with a stunning website.

With hundreds of designer made customizable templates to choose from, the drag and drop editor, there's no coding needed. You don't need to be a programmer or designer to create something beautiful. You can do it yourself with Wix.com. Wix.com empowers business owners to create their own professional websites every day.

When you're running your own business, you're bound to be busy, too busy. Too busy worrying about your budget, too busy scheduling appointments, too busy to build a website for your business and because you're too busy, it has to be easy and that's where Wix.com comes in. With Wix.com, it's easy and free. Go to Wix.com to create your own website today. The result is stunning!

[INTERVIEW CONTINUED]

[00:14:30.3]

SY: All right, our next question is about credit and it comes from Brianna. She's wondering about applying for an extended credit line on her current credit card or if she should just apply for a

new credit card. She knows that both will pull a credit report and she doesn't know in the long run which would be better.

[00:14:47.2]

FT: True, no matter whether you're getting an extended credit line from your existing credit card issuer or you are applying for a new credit card, chances are each of these companies will do a "hard inquiry" on your credit report. One hard inquiry is not the end of the world. So at this point, I wouldn't say that that is going to be the game changer. What is going to matter Brianna for you as far as which route to take is are you happy with your credit card company. What kind of a credit line will they grant you, is it enough?

And so if you go to your credit card, maybe start with your credit card issuer and say, "I am interested in an extended line of credit before you run my credit check what can I earn? what's the additional line that I can earn?" And if you are happy with that and you like this credit card company and I like the idea of having everything under one roof for the most part, then stick with them. If they offer you a very little amount of credit and you're also maybe in the market for a different kind of credit card that offers cash back, rewards something like that, then maybe yeah you move into another card.

But as far as the inquiry, I think that is the same either way you go but the real differentiator here is what do you want and are you happy with the card company that you have, what do you want out of the credit limit, what do you want out of the card? If you get everything you want from the same place you're at currently, then great. That's great because it's just more streamlined but otherwise just go shop around and you can look for credit cards at sites like bankrate.com, nerdwallet.com, creditcards.com.

We actually answered a question about an extended credit line or we mentioned it on the Today's Show last week on Friday when we were answering people's questions. Somebody was asking about how to increase their credit score quickly? And one thing that I mentioned was you could potentially call your existing card issuer and ask for some extra credit, an additional five, \$10,000 because what that does is that it reduces your debt to credit ratio and that is about 30%

of your credit score calculation and within one or two billing like those you might see your credit score move higher, noticeable higher. So that's my little nerdy credit hour for you right there.

[00:17:22.2]

SY: That's a good fun facts.

[00:17:23.1]

FT: Yeah, fun nerdy credit fact.

[00:17:26.0]

SY: Well sticking with the credit card theme, we've got a question now about rewards comes Carrie, and she recently got a rewards credit card to earn travel rewards after doing a lot of research. And basically they've adjusted the card as there's a one to one dollar the point system and one to two for travel and restaurant expenses and she has the ability to pay rent using her credit card but there is a 3% fee. So she's wondering if it's worth putting the rent to get the points on her card even though she says she doesn't feel at all silly that she would be paying a fee.

[00:18:05.3]

FT: So the question is, "Is it worth paying the fee to get the extra points?" And that really depends on what that fee amounts to every month, 3% of her rent, did she mention how much her rent is?

[00:18:20.6]

SY: No, she didn't.

[00:18:21.9]

FT: Okay. So that's really the math that Carrie needs to do first and I just did a hypothetical. I was like, let's say her rent is \$1,000 a month then a 3% fee every time she charges that is \$30 a month, \$360 a year. So will your points from all your spending add up to more than \$360 in value? That's what she needs to estimate, so whatever you end up doing with your points, will you get something back in value that is more than if you were to just shell out \$360 for it?

So because I don't know her rent and I don't really know how much she spends on this card, I can't answer this specifically but that's the thinking, the rationale and that's why I don't have a points — I do have a points card and I don't think my landlord charges us a 3% fee. Although I don't have a landlord, I have a mortgage. But I used to pay my rent with the credit card and I don't think I got charged a fee. Maybe talk to your landlord and see if he can reduce that fee for you? Everything is negotiable. That seems pretty high.

[00:19:39.1]

SY: I agree. Nowadays, I think most people want you to pay with either cash, a check or your debit card though because that way it's instant money and I think maybe in order to process money from a credit card, it might just require, maybe they have charge the fee because it requires extra expenses on their part.

[00:19:59.3]

FT: Well yeah, the banks charge you a fee whenever — the bank charges you the merchant or the swiper a fee. So it's like using PayPal or any one of these online payment systems for the convenience. Well with cards it's actually called an interchange fee or a bank fee. So that is why some places, although it is prohibited now, will say, "We don't accept credit cards or we don't accept certain kind of credit card or you have to spend a minimum of 10 or \$15 before it will process the credit card."

Because they don't want to keep getting that bank fee but now what they are doing now to get around it is just charging consumers and saying, "You pay it for me." So I get it but maybe if she's been there for a while and they can play nice-nice, she can go in there and say, "Can we make this maybe 2%, or 1%?" Or whatever. See if he'll negotiate.

[00:21:00.8]

SY: Definitely. We're already at our last question and it comes from the token male this week.

[00:21:07.4]

FT: The token male.

[00:21:09.4]

SY: Fred and he says that both he and his wife are 38 and he has a stable job and she's a visiting doctor and right now they have about one month of savings and in December of this year, they'll have taken their credit card from \$49,000 down to \$13,000. So they have paid off a substantial amount and she really wants to open up her own medical practice next year but they also want to buy a house now that they have determined a location where they want to live and she'll be the guarantor for her business loan but he wants to know if they should both apply for both loans at the same time, the business and the mortgage or space them out.

[00:21:52.6]

FT: There's a lot going on with Fred.

[00:21:56.6]

SY: It is a lot.

[00:21:57.4]

FT: What I'm still stuck on is they only have a month in savings.

[00:22:01.1]

SY: Yeah, I think they need to boost that up a little bit.

[00:22:03.6]

FT: Don't you think? Yeah, I feel like you should space it out just for even if you had a year's worth of savings, I would still say space it out because if you're suddenly going out there, well you said your wife's only going to be going for the business loan I guess. But if she's also going to be on the mortgage, if she's going out it's going to look like she's a little credit crazy right now. That's what it's going to look like because when lenders start to look at her credit, they'll go, "Wow, she's also applying for a mortgage. Or she's also applying for a business loan," and that could raise some red flags or some alarm bells.

It's all those hard inquiries could potentially impact her negatively and it's not that she won't get the loans but they may not be the best interest rates or it's a risk. So I would just say space it out for that one reason and for another reason is too, to just give yourself some breathing room. I think that's a lot to take on, a home and a business at the same time, the debt of that and so maybe first things first, increase your savings. Because that's going to be a big factor in determining your qualification for a mortgage.

You know, when I applied for a mortgage, every time I've done it they want to know immediately before they even just to get prequalified they want to know your income, your savings, your debt. They want to know what that pie looks like and if you only have a month of savings and that could be a red flag. They would probably want to see more like three to six months and so liquid and also remember for mortgage you're going to need a down payment and all of that. So you're going to need a lot of cash for a house. Despite the fact that you'll be getting a mortgage, cash is king.

Then after a few months of that, maybe you've bought the house, you've settled in a little bit, you've been showing good payment behavior with the mortgage, you've been all the while boosting your credit score. Now maybe go in for the next opportunity, which is the business loan and you know I just think pace yourself because I know you want to get everything done now. It's an exciting time and you're eager, I get that.

But you also want to be mindful some of the overwhelm that could happen when taking on all of these debt and also the realities of being people in the market place shopping for big loans, multiple big loans at the same time. That could raise some concern from underwriters. Like, "Wow are they taking on too much." So step by step, baby steps I think is the best advice and you don't have to wait too long. I am just saying space it up by six months to a year.

[00:24:51.2]

SY: The other thing too is that if you are buying a home, you also want to have some money saved up for maybe some unforeseen expenses that might occur because being a homeowner obviously means a lot of new responsibilities and again, going back to being realistic. Sometimes things happen for better or for worse and you might need to make a few repairs and things like that. So you definitely want to have the money to make sure that you can afford those repairs when you need them.

[00:25:19.9]

FT: That's a great point and maybe your wife could start her practice by boot strapping it a little bit at first and then once she's in it can understand better the real amount of money that she's going need to borrow as opposed to just saying, "I think it's going to be \$100,000," or whatever. Maybe borrowing more than she needs and spending more than she should.

So that is the other benefit to waiting it out and being a little bit more prudent in your steps towards building a business. I do think it is a great time to buy a home, interest rates are super low and the fall is a bit of a quiet time to buy but that also may mean that you won't have as much competition. If you find the house that you love, maybe you'll be the only ones to bid or just one of five instead of one of 50 as the summer proved.

All right guys and gals, Fred, Carrie, Brianna and Ashley, Sarah, thank you so much for writing in. We hope these answers were helpful to you and as a reminder, if you have any questions for me, always just click on "Ask Farnoosh". Visit somoneypodcast.com and click on "Ask Farnoosh" and if you would like to be considered for a Mint audit, I mentioned earlier that I am doing this monthly reviews of people's budgets. People who are Mint users, let me know if you

like to be considered. E-mail me at farnoosh@somoneypodcast.com and thanks so much for your support. We hit three million downloads last week, that was huge.

[00:26:57.2]

SY: Woo-hoo.

[00:26:58.1]

FT: Yeah, burying the lead a little bit but thank you so much and hope you have a great weekend. I think Monday is Columbus Day, right?

[00:27:06.8]

SY: Yes.

[00:27:07.2]

FT: Hope you guys have a great long weekend and see you back here on Monday. We've got Aaron Task on the show. He is a dear friend, one of the first people I've ever worked with in my career and now he is at Fortune.com running the digital side of Fortune Magazine. So stay tuned for his advice and his experiences with money.

Hope you have a So Money weekend.

[END]