

EPISODE 503

[ASK FARNOOSH]

[0:00:32.6]

FT: Welcome to So Money everyone, it's Friday. Happy — well, it's December, December 2nd. How did this happen? We just got back from Thanksgiving and boom, it's the holidays officially. We're going to get our tree this weekend, Evan thinks that anything that has ornaments or lights up is called snow and that's just his word right now for everything Christmas and holidays, it's super cute.

This week was also headlined with the fact that I went to visit Rebecca Minkoff. You guys remember Rebecca Minkoff, right? Fashion designer, cohost of Project Runway Fashion and she invited me to come to her store in New York to talk to her shoppers whom are largely young women with a bank account of sorts, working, trying to make a living and we talked about how to spend wisely around the holidays. Hopefully maybe we'll do a write-up on that and if you missed out, check out social media for all the posts and pictures.

If you hear a little bit of an echo, it's because I'm in a conference room today. We had a little bit of a technical difficulty so I am interviewing Sophia in person. Usually we do it remotely, but we are face-to-face. So if you notice some awkward tension, it's because we're actually talking to one another as opposed to just hearing the voices. It's always nice to be in person after all, right?

Okay Sophia, take it away, how are you doing?

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SY: Good, how are you Farnoosh?

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FT: I'm good. Do you have any holiday plans coming up? December's a big month, it's the end of the year. Do you have any last minute things you want to get done?

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SY: Always. I am so bad at getting my holiday shopping done and I probably should have braved Black Friday and Cyber Monday but I just couldn't bring myself to do it. But I have a few holiday parties and then hopefully just spending some time with family and looking forward to that.

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FT: Well, I think you're wise not to really go crazy on the black Friday and cyber Monday. Although I did buy a lot of baby clothes, 60% off at Carters, can you beat that? No. I've been around the Black Friday block enough now to know like what's a real deal and what's not. They literally start, the deals start like Monday before Thanksgiving.

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SY: Oh yeah.

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FT: So it's like Black Friday week. Black week just call it. Anyway, let's get to the questions and by the way, there's a new way to get in touch with me. You can leave a voice mail if you go to somoneypodcast.com, which by the way we are revamping. Come 2017, you should find a newer look, a fresher look to Farnoosh.tv and somoneypodcast.com. But in the meantime, go to somoneypodcast.com on the right, if you scroll down, there's a little widget that says "start recording". It says, "send a voice message to Ask Farnoosh, start recording," and then you can just record through your laptop's microphone and it goes into my inbox.

We'll hopefully — it will be coherent, it will be a good question and we'll air it on the show in a forth coming episode. Just, I thought, a fun way to elevate and add a new dimension to this

episodes. The first question we have Sophia is from Monique and she has a technical question about the podcast?

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SY: Yeah, so speaking of interviewing me in person today, she wants to know how we run the podcast in terms of what equipment do we use, when you do have cohost like me, do you use a separate microphone? Do you Skype with your guest? What software do you use for editing? So she's really intrigued about how we're running our show.

[0:03:54.1]

FT: Cool, hopefully she'll start her podcast soon after hearing my behind-the-scenes and basically, I've gone through a lot of trial and error in the tech space with this podcast. I think a lot of new, novice podcasters, first thing they do is they go out and they buy like the most expensive microphone, they buy a mixer. I mean, I did all of that and it was a waste of money.

So I have now figured out the system and it's not very expensive. I use Skype, which is pretty much free. I use my \$60 microphone, it's the Audio Technica ATR2100. You can get on Amazon and then I have a really spectacular editing team called We Edit. So whether I'm recording this podcast in a wind storm, or in a hollow studio like this, or in my bathroom with a blanket over my head — because I've done that too — to avoid a lot of ambient noise, they really do a great job of smoothing out the audio.

Especially if I have a guest who is overseas or doesn't have the best connection, trying to kind of synchronize the audio. So We Edit has saved me a lot in the past and will in the future. What else? Then I use Audacity, which is a free software you can download off the internet to basically edit the pieces. What else Sophia? Do we do anything else? Then guests just hook up using skype, sometimes landline. I like that if guest could put in a pair of headphones because it helps to block out a lot of the ambient noise, but it's not necessary. Sophia, sometimes you use a mic, sometimes you don't.

[0:05:31.8]

SY: Yeah, sometimes I use one of your extra mics or I just use my apple set of headphones that has a little microphone thing on the cord. So really easy.

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FT: Yeah, so the big investment is just in my editing team, really. There's a lot of magic that can happen in post. So if you have any more questions Monique about launching your podcast, not maybe just technical but also from a structural standpoint, from an editorial standpoint, let us know. We'd love to support you, especially — we think you're a woman? Monique, last I checked, is a beautiful woman's name. We want to promote more female podcasters and let us know.

Then we have a credit card questions, so we're back to basics now.

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SY: Back to the basics. So, Kim recently just paid off some debt and she's wondering if she should lower her available credit line or just leave it be because she really does not want to get herself back into debt. Her husband said, he thinks that she should lower the available credit line but she's heard otherwise from her friends. So, wants to know what you think?

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FT: Well, I agree with her, not her husband. She should not lower her credit limit. If anything, she should try to raise it and maybe the hesitation here, Kim, is you know, you've gotten yourself out of some debt so you want to essentially get rid of this credit card because maybe it's given you bad memories or there's just isn't like a happy history there. But for the sake of your credit score, it's important to keep your available credit limit reasonably high, not that because you're using it but because there's this factor called your "debt to credit ratio". It's about 30% of your credit score. It's a numeric value. They take all of your debt and they divide it by all of your available credit.

So, of course, the bigger your denominator is in that equation, the lower your debt to credit ratio can be and that's actually really good for your credit score. You want that debt to credit ratio to be like around 15 to 20% or lower. The people in this country with the highest credit scores, just a little nerd fact for you, have a debt to credit ratio of like six or 7%. Which means that if they have a credit card with let's say like a — let's just keep it simple — a \$1,000 credit limit, they're only using like \$60 or \$70 bucks at any given time of that thousand dollars.

So, I'm not expecting you to go into debt again, I'm not expecting you to go on a shopping spree with this credit card but just having that existing available credit limit in your name when you do go and charge a few expenses here and there, we'll be helpful to you, it does make sense? Hopefully it does.

[0:08:12.5]

SY: I would imagine. The other thing too is, I mean, I'm really good about this and I know maybe it's tempting to some people but just always keep in mind your budget every month and if it helps maybe Kim to do this but just think of — maybe don't think that you actually did increase your credit limit and just know what you can afford that month in terms of your expenses.

[0:08:32.8]

FT: Keep it open, keep it nice and healthy, keep that limit available to you. You just also don't ever know what the future holds. It's nice to be able to have access to credit just in case. All right, so now you mentioned student loans, Sophia, there is actually question we have about that from Justin looking to see if he should refinance.

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SY: Yeah, so he's looking into SoFi and he wants to know how much he should consider refinancing loans. Because right now they're offering him a variable interest rate as low as 2.24% and that would be including their auto pay feature.

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FT: Okay, so that sounds great but you also said “variable interest rate”, which I don’t like. I think that’s the “gotcha”. So, 2.24% sounds amazing. Why wouldn’t I not refinance? Because even if he’s got anything slightly bigger than that, if it’s like a 10 year loan or a 15 year loan, it adds up that interest and, you know, you benefit from refinancing.

But it is a variable interest rate, which means that it can go up, it could go down but most likely it will go up considering that the federal reserve has announced that they’re going to be raising interest rates most likely this month. If all goes to expectation, interest rates will continue to go up incrementally over the next year or two. The kinds of financial tools and debts and loans that are impacted most with a rise and the fed funds rate are variable rate loans, like credit cards, and also student loans and mortgages that have variable rates.

So, I would caution refinancing at this point in our financial history because we just know I think, most signs are pointy to hike interest rates so I worry that that 2.24% could become 3%, 3.4%, 4% in the next 18 months, and you’re kind of worse off than you are currently. I assume that whatever he has now as a fixed rate. So, maybe staying the course is the best course.

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SY: Yeah, he had actually shared with us that his lowest interest rate right now is 3.4% and he has \$30,000 total in student loans. So, you’re spot on.

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FT: Yeah. So, 3.4% is still really good Justin. I don’t know if you have a combination of loans and maybe there’s one that’s like 8%? But not knowing that, I would say, just be cautious of variable rate loans, especially right now. Because we know that they probably have nowhere to go but up and so do a little bit of math. If you really are insistent on getting out of this debt ASAP, I would say rather than refinancing, look to shore up a little bit more cash every month, once a year, to put direction towards the principle and knock down that principle tree sooner than later. Because that’s not only going to shorten your debt payoff time, but it also effectively will reduce the amount of interest that you pay or the life of that now shortened loan. Okay?

All right, we have time for two more questions. What do we got?

[0:11:32.0]

SY: All right. So, Emily is moving out of the country to support her boyfriend while he attends med school and they'll be out of the country until June 2019. They have \$30,000 in cash savings, he's going to be taking out loans and they'll obviously have living expenses while they're away. So she wants to know what they should do with this \$30,000 while they're gone. They plan to supplement these loans but the end certain job prospects for her while she's abroad and just sort of not knowing what their financial situation will be, she's wondering if that's the best option or if maybe they should invest the money?

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FT: Sounds like they have a lot of uncertainty ahead, and a lot of excitement too. So with that, I would just say, don't do anything rash or too decisive right now with that money. I think it's important to keep it in the bank and once you land, wherever you're going — hopefully somewhere warm — that you can better assess your situation, figure out what your priorities will be. There are a lot of unknowns to moving, you know? What will be your cost once you get there?

Also, the banking structure of wherever you're going to be might be different than what you're used to. So here now, you might be able to go to your bank, pull out money, easy. But there, there might be maybe a couple more steps, nothing moves that fast. So just, I would say, go feel it out and it makes sense, use some of that money to supplement the loans. But otherwise, keep it in the bank because cash will be king for you when you're abroad and I don't think you'll regret having the cash. If anything, make sure that you have enough in savings to cover you for like three to six months in case gosh, I don't know? You can't find a job right away, whatever. So just be prudent.

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SY: All right, so our last question, it's from Jennifer and recently her in-laws took out parent loans for their three sons. They went on to consolidate those loans but now they expect that each of their sons will contribute to pay them off. She says that her mother-in-law believes that Jennifer's husband owns most of the debt but they can't say exactly how much. They've been paying \$300 monthly and his brothers have not been paying their part consistently. But she wants to know, should they plan to take out a personal loan to pay off her husband's share?

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FT: All right. So, I'm not really sure why a loan is necessary here. I think you need to first, Jennifer, have a conversation with your mother in-law with your husband and maybe even also the two other brothers. Like, have a family meeting. I think this calls for a family meeting, everybody needs to get on the same page. Look, people, this is why we say, and parents too, I know you want to pay for your kid's education. That's a huge deal but you have to also realize that sometimes your kids aren't going to be good for the money if you expect them to pay you back.

This seems to be maybe what's going on here. You've got one responsible son and two deadbeats — I'm sorry. Or I should say maybe they haven't gotten the memo, we need to get them all at a family dinner and talking about how this is a burden on mom and dad and that you guys owe them and then, figure out strategy. I don't think you need to go out right now and start shopping for personal loans. I think that if you have been paying consistently, your husband has been paying consistently and your mother is satisfied with that or maybe wants him to pay a little bit more, then do that.

But if for some reason she wants a consolidated contribution from you like a lump sum and then you need to get a loan for that then that's something to think about. But the first thing that needs to happen is everybody needs to get on the same page. Understand what they owe and commit to it. Get it in writing. I mean, this is it. You're adults now, you've graduated from college, okay? That's clear. So that's what I would do. Just have your mother-in-law really take the lead here if she's the one that is on the hook for this money.

I wonder why — I mean, you seem like a really great daughter in-law that you're concerned that you're writing in about this and you seem to be a little bit more involved than you really should be honestly, and I'm kind of annoyed with your brother in laws.

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SY: It's true. The other thing too is, if — Jennifer did share with us what the current balance remaining on that loan is but she also mentions that the mother-in-law wasn't able to tell her husband and her how much was left of their portion. I think, again, it goes back to that family meeting, sitting down, saying, "This is what's left." Doing the math and figuring out who owes what, who's paid what so far.

Maybe you are going to ask to start breaking up the spreadsheets. Maybe a good old fashion pen and paper but everybody needs to go on the same page before you move forward and think about taking out a loan. You need to know how much money you owe first before you can even pursue looking into a loan.

[0:16:20.8]

FT: Well put. All right. So, family meeting, bust out a pen and pencil and keep us posted. This sounds like a really juicy story. I'd like to hear how the rest unfolds. Thanks everyone for tuning in. Happy December! Hope you have a great weekend. Next week actually is a special themed week. I visited the Forefront event earlier this fall which is an event that Ramit Sethi hosted for over 500 of his pupils and students and fans from all over the world. They all convened in New York, a lot of them, major entrepreneurs.

So I got the chance to sit down with two exceptional female online entrepreneurs. You don't want to miss that. In the meantime, thanks for tuning in, remember, you can really easily send me your questions, just go to somonypodcast.com, send me a voicemail, write in, we will add you to the list and in the meantime, I hope your weekend is So Money. Thanks Sophia.

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SY: Thank you.

[END]