EPISODE 554

[ASK FARNOOSH]

[0:00:32.9]

FT: Welcome to So Money everyone, I'm your host Farnoosh Torabi, it is Ask Farnoosh Friday. We've got topics ranging from relocating for a job, mortgages, and also debt versus savings. Which should take priority? I've got some answers.

Joining us as always is Sophia, our lovely and talented friend, assistant, millennial. You wear many hats.

[0:00:57.3]

SY: I do.

[0:00:59.3]

FT: I rely on you for many things. Welcome to the show.

[0:01:02.9]

SY: Thank you.

[0:01:03.0]

FT: It's the last day of March and it is officially spring, we are recording this prior to of course March 31st and it's still technically winter and where we are recording right now but it is almost 70 degrees in Brooklyn and I have windows open, I took a walk. It's wonderful that we have this occasional warm days but also a little frightening.

[0:01:26.4]

SY: A little frightening, I agree but definitely kind of nice.

[0:01:30.9]

FT: I mean, glaciers are melting, that's a problem.

[0:01:33.1]

SY: It is.

[0:01:35.9]

FT: It's nice sometimes, but let's go back to actually having our four seasons, please. All right, we have, as I said, lots of different kinds of questions today and I'm excited to tackle them. Some of them I've never been asked before and so let's get right to it, you got a question here form our audio recorder, Speak Pipe. Let's take a listen.

[0:01:56.1]

Stephanie: *"Hey Farnoosh, I got a question for you. I'm looking to relocate from the mid-west to the west coast for a potential job. I'm looking to move from Columbus, Ohio to areas like Portland, Oregon, Bend, Oregon, or even like San Francisco. I'm curious, what should I be thinking about other than salary? What should I be thinking about in my relocation package or, you know, what other opportunities are there with this new employer that I should ask for?*

Any advice you have is greatly appreciated. Thanks so much!"

[0:02:32.8]

SY: Okay, so what's your advice for Stephanie who is looking to relocate?

[0:02:36.7]

FT: All right, she's looking to relocate from the mid-west to the west coast which I think could be a little bit more expensive. In Portland, Oregon rental prices there are increasing. We just had some friends move out there for that reason, they want to start developing property and renting them out. Lots of people are moving to Portland, it's a beautiful part of the country, she's going to have a lot of fun there I bet.

She's also considering San Francisco? Yikes! that's like the most expensive place to live right now next to New York as far as rent. Other than of course her salary, she wants to ask her new employer about relocation help. Would they help to perhaps put her up in temporary housing for a couple of months?

I know that if she goes to San Francisco, it's going to be very difficult to find a place ahead of time. A lot of my friends who have moved out to the bay area literally moved out there and lived on a friend's couch for a month and they just basically go and see open houses, they go and look at different rental properties and things get picked up very quickly there.

If you think you can do this ahead of time, I would challenge that, I think it's better to be there on the ground and that way you can scoop something up in a second because things are going so quickly in San Francisco. Property is very difficult to find.

With that knowledge, I think she should talk to her employer about some help relocating maybe they can put her up somewhere temporarily, additionally, of course, moving cost, if she's moving from one region of the country to another, I suspect she's going to have to ship a lot of that stuff or hire movers to drive the distance.

That's going to be potentially thousands of dollars depending on how much stuff she's bringing with her and the distance. Talk about that as well. What else? I mean, I've never relocated for a job so I'm not familiar with everything that's involved but I can guess, it's got to be housing and moving, those are the two big expenses. What do you think Sophia?

[0:04:42.9]

SY: I think that's right. I mean, I also haven't had to relocate. I did have a friend who recently relocated from New York to San Francisco and as you mentioned, she just waited till she got out there to find housing, it's much easier once you're actually there and you can start going to look at some places.

I know I've also had friends relocate from Boston to New York, which is a little bit of a smaller move but at least, you know, start and relatively close by in New England. They were able to get temporary housing from their employers and I know that was also very helpful to just have that time and that space to move your stuff but then also be able to take a look at what's on the real estate market.

[0:05:26.3]

FT: This is a big move, if she was going from just a hundred miles or 50 miles then some companies have — this is something to ask too — I assume, because she's going a big distance here that they have some sort of package or offerings for new employees that are making this big leap, other companies will say, "If you're moving within a 50 mile radius, that's on you. But if you're coming from a further out location, we can help."

It's totally couture to bring this up Stephanie, don't feel hesitant or shy about it, this is a big expense and companies who hire people from all over the country should be familiar with this kinds of questions and they should have something ready to go for you. Let us know, I'd be curious to hear what they offer you.

[0:06:17.1]

SY: The other thing too is maybe they can help if she has to break a lease or something or they might be able to kind of provide some monetary assistance at that as well. I think that's also part of relocation package negotiation that sometimes you can work out with your employer.

[0:06:34.3]

FT: Great point. All right, well thanks Stephanie for sending us an audio question. We love hearing our listeners voices, you hear my voice all the time so it's nice to turn the table and hear you guys and gals and to hear your questions. Okay, so let's go on and what's next Sophia?

[0:06:49.9]

SY: Our next question is from James and he's a new home owner that's looking to reduce his mortgage. Right now it's $2,200 a month and he wants to decrease it to $1,500 by putting any additional money that he saves towards his mortgage. He says he's heard that every $10,000 you put towards the mortgage takes $50 a month off of your mortgage and he's wondering, is it worth it to chip away at his mortgage to achieve the goal or should he put extra money in the savings account?

[0:07:19.7]

FT: Yeah, well, you have some more info on him? Like, does he have any kind of savings?

[0:07:25.2]

SY: Yes, right now, he has an emergency fund of $30,000.

[0:07:29.4]

FT: All right, not bad. Not bad at all. $30,000 is a lot of money to have in an emergency and that will most certainly cover house repair. I don't know about a job loss because I don't know how many months he'll be out of work, but $30,000 is a solid cushion.

Listen, if you've got $10,000, I don't know if I'd be putting it all into a mortgage on top of the monthly payment. I feel like that could be better invested. The mortgage probably doesn't have a very high interest rate, you might be better off putting that in the stock market in the form of a retirement account, you might be better off putting that into renovating your home, you know, upgrading your kitchen or your bathrooms, that will raise the value of your home.

$10,000 for just a $50 a month shaving, I feel like is not a compelling tradeoff. It's not going to knock years off your mortgage. What is probably better to do is I would say, we've heard this from David Bach as well who has been on the show twice. He's rewritten many books, many best sellers and he's an advocate of putting a 13th mortgage payment a year towards your mortgage. So you have 12 payments a year, putting basically a 13th payment strictly towards the principle.

So if your mortgage is $2,200 a month, put another $2,200 at some point in the year towards the principle of the mortgage that over the long run will help you shave off probably several years and several thousands of dollars in interest on that mortgage. It's not so much where you're going to see the windfall every month of, in this case a $700 savings, but if you are just interested in getting out of this mortgage faster, that's definitely a sure fire way to do it as opposed to refinancing.

You can kind of do this DIY re-fi, which is basically you, yourself, putting more money towards the principle, shortening the length of the term of this mortgage and effectively paying less interest over the life of the mortgage. If you're concerned with having a little bit more money in your bank account every month, then, look to other ways to save. Look at your budget, how are you spending? How much are you contributing to savings every month?

Are you still contributing? You may not have to. Could you reallocate that to just your checking account? Could you take on a second gig, a side gig? The gig economy, we talk about that all the time on the show, there's many successful examples out there. So if that's something that you're interested in, that could be a way to bring in an extra few hundred or more per month. I'm not against paying down your mortgage more aggressively.

But if you have an extra $10,000 a year to play with, I think there are more effective ways to do it than putting it into your mortgage. It's just one of those things where, again, I don't know the interest rate but I could guess it's not extremely high considering the rates have been pretty low over the last decade. You might want to instead put that into other kinds of investments like your retirement account.

You can invest in a home but maybe through renovations, things like that. Investing in your skill set, education, learning a trade to increase your salary. Definitely you could put some towards the mortgage but $10 grand a year seemed very aggressive. That's just my two cents and maybe as you think about this, some things to think about are, "What are some other ways I could allocate that money that I would see a bigger return?" And maybe it's not a $700 a month return but in the long run, it will definitely prove fruitful and effective and definitely a good investment.

All right, good luck James. PS, I'm the process of a refinance right now and it's never fun. I mean, gosh, the amount of paper work they want from you, it's just…

[0:11:17.5]

SY: I can't even imagine.

[0:11:19.2]

FT: Here's my advice to anybody who — anybody — whether you're in the market for mortgage or not, whether you're in the market for refinance or not, whether you own a home or not, just keep all your financial documents organized. I mean, really, open up a Dropbox account start a folder called "My Finances" and in that folder, I want you to have the last three years of your tax returns there. I want you to have updated pay stubs, I want you to have a couple of utility bills in there, I want you to have — what else do they ask for? Gosh.

If you own a home, put your copy of your deed, put a copy of anything that's related to the mortgage that you have. The mortgage, put that in there because when you apply for a re-fi or a new mortgage, they're going to want this stuff within 24 to 48 hours and if you have to go scrambling for this, it could be such a headache. If you have to go to FedEx and scan this stuff, oh my god, forget it. It's like a whole day. Just do your due diligence now, it will be a piece of cake once you embark on any kind of housing related financial situation.

All right, that's my little spill on that. Let's talk about Rosario, she has. I'm sorry to say, a pretty heartbreaking situation going on.

[0:12:36.8]

SY: Yeah, it's not that great. She got married six months ago and now she's pregnant with her first child, she also moved to the united states eight months ago to marry her husband and she doesn't have any credit history and they want to buy a house.

They submitted the paper work and the credit wasn't approved because her husband has $15,000 in debt collection, which she just found out about. He hadn't told her this when they had their money conversation before they got married so she feels a little betrayed and powerless. Any advice?

[0:13:08.6]

FT: Yikes. I understand, I'll just say this, I do understand. I'm not justifying what he did but it just is an example of how difficult it is for some people to come clean about their financial past. He obviously was embarrassed by this. I'm not going to assume he had no idea, I'm sure he knew but he was embarrassed and he probably didn't want to tell her and obviously it blew up in his face and now that's something that they're going to have to work out in their marriage and this brings up a lot of trust issues, it brings up a lot of respect issues.

Rosario, what I will say to you as good news is that, even though you're new to this country, there is a way for you Rosario, you yourself, to become more financially empowered to start building your own credit. I mean your husband hopefully will work his stuff out and you'll have the necessary conversations around that and create a plan and hopefully, I mean, the best thing you can do I think with regards to your husband's debt is to just let him know that you understand a lot of people in this country, get themselves in a lot of financial situations.

Debt is a huge problem in the United States and $15,000 sounds like a lot, but in the grand scheme of things, I've heard of a lot worse. I mean, we've had even on this show, people calling in, writing in with six figures in debt so I think he can hopefully resolve this and the way you can help him is just to be supportive to encourage him to talk to you, let him know that this is nothing to be embarrassed about. People in the United States are always running into financial troubles, there are resources out there for you guys too to tap into, I'll mention a couple.

One is the National Foundation for Credit Counseling. The website is nfcc.org, there's also Money Management International, that's moneymanagement.org. Tap into this nonprofits and see if they can be of assistance and specifically, they come on board as your advocate and with your husband, maybe able to work with him and it might be nice to have a mediator between you and your husband so you're not the one who is always worrying, and he's not the one that's hiding things. There is someone else in the picture that's keeping him accountable and on track. That's what I'll say about that part of the situation.

You on the other hand, I would advise that you start looking at ways to build your credit and I've heard from many people in your situation that are new to the country, we don't have credit but you need credits, you get credits so it just seems like this sort of vicious cycle and there are ways for you to establish credit without any credit history.

One is to open up a secured card, and we talked about this recently on the show. A secured card is basically a card that you can access at many credit unions and banks. You open up an account, you put in this account a few hundred of your dollars and you use the card like a credit card. The goal here is that you use it and you pay it off every month in full. The activity on the secured card gets reported to the credit reporting agencies.

The credit reporting agencies are the agencies that determine your credit record. They're the ones that keep track of your credit activity, whether you are paying your bills on time or not, whether you're in collections or not, they're the ones who basically track that information and it's a good thing that with a secured card the credit reporting agencies track your behavior because when you do good things with this card meaning you use it and you pay it off in full every month, overtime you will be establishing good credit.

People who are successful at using secured cards usually within a year they graduate to an actual credit card with a real interest rate and then you're talking about really building some substantial credit. The other thing you could do, I just got off the phone with the founder of a great new company called LendUp, lendup.com, and their whole mission is to help people like you, Rosario, and others who may have fallen on hard times and cannot access credit.

Whether you are new to the country and can't access credit or you don't have credit so you can't get new credit, they actually will provide you with a credit card that has very low limit, it's like a few hundred bucks but like a secured card the idea is to get you on some training wheels to establish credit and eventually move onto more established credit cards and really start to build credit for yourself. So check out lendup.com, talk to a local bank, let them know your situation, you're new to the country, you want to establish credit.

Talk about secured cards, hopefully one of those two avenues will lead you down to a path where you're establishing credit for yourself and this is the other thing I want to tell you, if your husband opens up any credit, additional credit, which I doubt he can honestly because if he's not qualifying for mortgage and he's got money in collections he's probably not in a position to get approved for any credit cards or loans.

But let's just say he does, don't have your name on those applications. Make sure that if he's doing anything else with his financial life credit wise that he is doing it just with his own name because you don't want to be attached to any additional debt that he is taking on, if that makes sense. Talking to a credit counselor at National Foundation for Credit Counseling or Money Management will probably be a great way for you two to resolve this amicably and efficiently. Getting a third party involved I think will be really constructive.

Good luck Rosario, I'm sorry this happened. Good luck with the baby, I feel you, I'm with you on that. I'm about to have one myself so just don't stress out. Don't let this stress you out just know that there is a silver lining to all of this if you are committed to educating yourself, asking other people in your community about resources. Go to your local credit union or bank. Sit down with someone, talk to them and hopefully they can give you some more answers.

All right, thanks for your question and now we have a question from Izzy, a young woman. She's just recently out of college and has some questions about debt versus savings. Let us hear more Sophia.

[0:19:49.8]

SY: So she's two years out of her under grad and she's been paying off her loans but has been neglecting her savings. So she's wondering should she focus on paying off the loans first instead of having any type of savings, and is it possible to pay off debt and still strive to live a somewhat balanced life?

[0:20:07.2]

FT: Yes, I wrote a book on it. It's called *You're So Money: Live rich even when you're not* and I was also just a few years out of college, writing this book, living in New York and figuring it out. I had student loans, I was making a starting salary. How I did it, Izzy, was how I basically combined my responsibilities of paying off my debt plus saving, plus saving for retirement, plus saving for emergencies and having a cocktail with friends on the weekend was I got additional revenue streams.

I mean really when you're a millennial today in your 20's fortunately the job market is pretty good. You can usually find a job quickly but the bad news is, is that we just have been stagnant for over 10, 15 years and in that time frame everything has gotten to be more expensive. The cost of college has risen, the cost of housing has gone up, the cost of clothing, jeans, I mean how much are jeans now?

[0:21:08.2]

SY: Oh my goodness.

[0:21:09.1]

FT: $300? We don't even blink now at the price of jeans but when I was in college, a splurge on a pair of jeans was $40 from the Gap and now you'd be lucky to find a pair of really nice jeans for $90 or a $100, that's a steal in some places. So I digress; the point is that sometimes the best way in your 20's to address all of your financial goals is to bring in more money because what you don't have is necessarily a savings problem or a living within your means problem.

I might guess that it's more of an income problem and you might agree and I don't know how big your loans are. I don't know what the interest rates are on your loans and I don't know if you're spending out the wazoo, I hope not. Those are obviously would be the first things to look at, "Am I really being careful about how I'm spending?" If I'm not, let's look at cutting back then let's look at maybe refinancing these loans or modifying them if they're federal loans to get them to become more affordable.

Maybe if you could apply for income based repayment, that will give you some relief. But if after those steps, you're still struggling to save, the question becomes, "All right, am I making enough and if I'm not, how can I make more?" And the good thing about being young is that as they say you have the most to gain and the least to lose and you have time on your side. I suspect Izzy doesn't have kids, right? She didn't say anything about kids or even a pet, so it's just you.

So take advantage of you independence right now and take advantage of the time that you have on the weekends and when you come home from work to do something that is supplemental to your job that can bring in a couple hundred bucks a month or a week depending on how aggressive you want to be. So that's my top advice for you Izzy.

Of course look at your budget, look at your debt to see if you can make it more manageable, talk to your lender but if after that you're like, "This is not just cutting it. I'm just not able to save," and saving is very important. I want you to save, then you want to find some other ways to bring in money.

All right and then lastly, last but not the least we have a question from Jessica. Take it away Sophia.

[0:23:29.2]

SY: So her parents went through bankruptcy and lost everything back in 2009 and they have no investments but they have been saving and are debt free now, her father is in his mid-50's and is a small business owner with no retirement and she really wants to see him retire soon. So she's wondering what can he do now so that he could possibly retire within 10 years. Her mom has a 401(k) but not much in the account.

[0:23:55.2]

FT: Well she's a nice daughter to be concerned about her parents it sounds like, yeah. So they're in their 50's and hopefully healthy and they have a business, they don't have retirement unfortunately, yikes. So I hope that her parents have been thinking about this very seriously. Hopefully Jessica is not the only one that's concerned, hopefully. Hopefully your parents are also sitting down and thinking about, "Okay what are we going to do here?"

And what can he do now that he could possibly retire within 10 years? I mean gosh, so many different things. Maybe he could sell the business and that could give him a little bit of money to retire with? But first, I would say Jessica, before we come up with all of these big ideas, really if you are someone who's engaged with your parents and the three of you have been talking a lot about their retirement future is to sit down with them and actually crunch the numbers.

Because between social security and obviously when they retire they're not going to have the costs to the business that they are currently incurring so what are they really going to be — maybe could they save some money or will they able to save money once they retire? Could they sell the house? Do they have perhaps a long term health care insurance policy? This is a time for them to really look into that because people in their 50's looking at retirement, the chances of them actually becoming ill enough to require the help of a nurse or a nursing home is high.

So a lot of people in their 50's will apply for something called long term health care or long term health insurance and 50's is usually a good age to do it if you're still healthy because you can get it on this insurance at a relatively lower price and you'll actually qualify. But what it does is it's a huge, huge help in the older stage of retirement like in your 80's and late 70's, 90's when you need assistance to feed yourself, to get around, to take your pills. There's seven, I think, circumstances and if you qualify for one of these circumstances, you could probably qualify to tap that health insurance.

But anyway, my point here is that I think it's important for you all to really get close to the numbers and see what have you, what you anticipate having in retirement and then the "what ifs". Like, "What if we sell the business? What if we sell the home and downsize? What if we sell our stuff? What if we go from two cars to one? What happens when we sell the business and we make a little bit of money and then we stop obviously incurring those expenses? What kind of money are we talking about?"

I know that it seems like without a brokerage account with money in it or much in your 401(k) that it seems like you have nothing, but once you actually decide to retire, hopefully you're going to have a lifestyle shift, you'll be downsizing, your costs will be minimized and that is savings. Along the way too, as you crunch these number, another part of the conversation is, "Well you're in your 50's now, you're healthy, one how are you going to stay healthy, you know?" That's so important because health is wealth and especially at this stage in their life if they can get through their 50's and 60's without any health complications, that will ultimately mean a longer life for them.

Because studies have found that people who do have health complications in their 50's and 60's these are the people that tend to have issues again and live a shorter life but the 50's and 60's decades are very critical to long term health. So staying healthy now and through their 60's is critical. Getting the right exercise, getting the right diet, seeing their doctors regularly to doing preventative care, staying healthy because one of the biggest costs in retirement is medical related costs. So doing that care now is very important.

The other thing you want to talk to them about is well fortunately because you're healthy and you're still young, what are some ways you could see yourself still bring in money even after you retire from your business? A lot of people in this country, thanks to just I guess science and eating well and being more educated about what determines a longer life and being healthy. People are living longer and they're living better lives in old age and they're more active, their brains are still working well and their bodies are still working well.

So what can we do in our 60's and our 70's and even in our 80's to bring in more money and it doesn't mean getting up every morning and working a full shift and driving to work, what are some ways that you could, from home, make money or with this business that they have. Are there some insular consulting work, jobs that they can create for themselves to have something to retire to? That's really the goal, right? You're not retiring from your life, you're retiring to a new one. Think of it like that and be optimistic.

So that's my big rant about what she should do with her parents and their retirement. But it starts with, I think, just sitting down and looking at the numbers closely and then talking through this what if's and being positive. The good news, Jessica, is that your parents are still in their mid 50's. They're young, I mean, mid 50's is very young and their entrepreneurial which means that they probably have a nice fire roaring in their bellies, you know?

They're not lazy people, they're not beholden to a job market or the economic cycle. Like, they'll go out there and find stuff and that's really awesome and between now and when they want to retire, look at how they can actually cut their costs and downsize and shift their lifestyles to be able to retire with some more money than they have now and then how to continue bringing in income. Then of course, staying healthy.

Those are like all my bullet points for you Jessica. Keep us posted, I want to know how your parents work things out and if you have any follow up questions, if they have questions, have them write in, let's make this a family affair and good luck.

All right, that's a wrap, thanks everyone. Thank you Sophia.

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SY: Of course.

[0:30:00.8]

FT: Thanks to everybody who wrote in and also called in, and hope your weekend is So Money.

[END]

