EPISODE 1521

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FT: So Money episode 1521, Ask Farnoosh.

[INTRO]

[00:00:31]

FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is Ask Farnoosh Friday. Today, we're going to be tackling your money questions about whether or not to do a cash-out refinancing, whether to continue contributing to a 401(k), prioritizing emergency savings versus retirement savings, and then smart ways to get out of credit card debt quickly.

Before we get to all of that, I want to share a parenting fail that happened to me this week. I dropped the ball. I didn't know that my son who is in the third grade had a spring concert last night that he was supposed to be in beginning at 6pm. I discovered that the morning of the spring concert. My husband and I had not read the email that had come in, I guess, a week or two ago about it.

By the way, that was the only correspondence that they had given us. Of course, my son is not much of a talker as far as what happened at school and what's happening at school. So he wasn't going to be the messenger. Needless to say, he did not go to the spring concert. There was a moment where I could have decided we're going to scramble and make this happen. But truthfully, that would have meant canceling my husband and my plans that evening, which I didn't want to do.

I should mention, my son did not want to go to this spring concert. He was begging us and probably why he didn't bring it up all these weeks. He didn't tell us what was going on, didn't tell us about the songs he was learning. So I was like, “Well, I don't want that fight.” So I didn't send him. I just – I made the decision, and I will say that this happened right after I was so proud of

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my parenting for helping my son make a deadline for his class project. We worked on his Steve Jobs biography poster. By the way, I know everything about Steve Jobs now.

What can I say? It's just my book is coming to life every single day. I write about the fear of failure in my book and as it pertains to my Life as a parent, this fear of failure being a constant nag when you're a mother. Honestly, sometimes, rather than fearing the failure, as a parent, we should just embrace the failure because maybe that's the point. Parenting is an incredibly humbling occupation. You are always doubting yourself. You always feel like you're coming up empty with solutions, ideas.

But what anchored our decision yesterday to keep mom and dad's schedule intact and not our son's schedule intact, skipping his concert, was the fact that, you know what, this wasn't going to define his childhood experience. We were maybe going to let his school down. But honestly, their communication over this was not great. It was minimal. We missed the email, and I have to believe that there were other families too that couldn't make it for other reasons. So I just thought I would share that with you all. It's not a financial tip, but it's just a behind the scenes of what goes on daily as I am about to record a podcast, what's all on my plate.

But I was very productive today, this Friday. I paid an overdue dental bill, a Pennsylvania Turnpike toll that we apparently didn't pay because our E-ZPass was out of commission. I also paid the tax estimate to New York that was also late. In my defense, I did send in that tax payment on time, but I did not complete the form correctly. So it bounced back, and now it's late. So that is three overdue items that I paid for today. The world is still tilting on its access people, yes. Hello, weekend.

Speaking of *A Healthy State of Panic*, have you pre-ordered your copy yet? Are you enjoying Scared Smart as a result of that? So what is Scared Smart? I developed a three-video series that helps you get a hold of your financial fears starting today. This is a big part of the book that has essentially been formatted in a video series, plus a workbook. Then also, you get the introduction and prologue to *A Healthy State of Panic*. This is all free to you if you just order one hard copy of *A Healthy State of Panic*. You can go to the website, ahealthystateofpanic.com. Learn more about it there, submit your receipt, and it will be in your inbox within seconds of submitting that receipt.

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A reminder, to anyone listening who has a friend or a friend of a friend over a connection at work, or you are that person at work who puts together events, brings in virtual speakers because you have an employee resource group or a professional development group, maybe you're in a book club, maybe you have some brunch friends, and you want to introduce me and *A Healthy State of Panic* to this group, to this audience, I am – I rarely do this. But for the next few months, I am waving my virtual speaking fee and instead asking groups that want to hire me for a financial session to pre-order copies of my book. I'm just doing this until the end of the summer.

A few notes, this is only for virtual engagements. It's not for podcast requests or media bookings. That's a whole other thing. This offer is not valid for stage keynotes or to be a moderator at your next in-real-life event. For that, it's a different structure. Thank you to everybody who's already taken me up on this offer. I announced this earlier last week. Since then, I have struck a bunch of conversations, and we're booking things, and it feels great to know that this book is resonating with you, that there is interest in talking about money and financial wellness and fear and mental health. So if you're interested in that, I've got the form in the show notes for you to fill out, and I will be in touch very quickly once I get that form.

All right, let's go to the mailbag and pick our reviewer of the week. This person gets a free 15-minute money session with me. Patalina787 wrote a review calling the show, "So good and so money. I've been listening to Farnoosh for three years now, and her advice is always welcome. It's more than just a personal finance podcast, and I'm always recommending the show to my friends."

Thank you, patalina787. I'm happy to know the show is resonating with you and that you're being so kind to share it with your friends. I hope they're listening. Let's get in touch. Email me, farnoosh@somoneypodcast.com, or direct message me on Instagram. Let me know you left this review, and I will be in touch with a link where you can pick a time for us to connect. Everybody else, if you'd like to have a free money consult with me, please do this. It's probably easiest ways to lock in a free call with me.

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Last week, I spoke to a So Money listener who left a review. I thought we were going to talk about like we what we usually talk about, which is like your personal finances, your investing, your financial plan, big money decisions you're about to make. This time, the person said, "I'd like to pitch you an idea for your podcast. I like to come on your show as a guest." We ended up talking for about 25, 30 minutes. Loved the concept and she will be on the show later this month, hopefully, to talk about all of the ways that as parents we communicate directly and indirectly about money with our kids, and then how that shapes their narrative growing up.

She's a therapist, and she wants to talk about how as families and parents and caregivers, we can elevate the financial conversation, have more of a consciousness around what we say about money around our children so that they can grow up to have a healthier relationship with money. A little different of a conversation than we normally have on this show, where we have talked about how to save for your kids and how to teach your kids good money habits. But this idea of like really being careful about what you say and what you think even about money that gets interpreted by your kids, whether you like it or not, is something that we can control, and we can pave a better road for them if we're just a little bit more careful with the words that we choose and the framing that we choose as we talk about money with our kids.

In case you missed any of our episodes this week, I encourage you to go back and listen. On Wednesday, we talked to Amy Morin who's a psychotherapist, mental strength trainer, and host of Mentally Stronger. We talked about lifestyle mistakes that keep you from growing your money. I did a whole unpacking of like what does it mean when people say they don't care about money. Is that really what they're saying? Is there something more to it?

Then on Monday, Memorial Day, I re-aired my conversation with Samara Bay, who's the author of *Permission to Speak: How to Change What Power Sounds Like, Starting with You.* I love this conversation so much. I wanted to re-air it because for me too it really hit home. I have been told many times throughout my career, especially as I was coming up in my career, that I didn't have the right tone, the right voice, the right name even. That's a whole other podcast. But just presentation-wise, I was always critiqued. I guess it's par for the course when you're trying to be a broadcaster. But Samara gave me and so many people permission to be who we are, to voice how we are, and to find our power in our voice. I don't feel like that anymore. I don't cringe when

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I hear myself speak anymore. But there was a time when I absolutely did. Samara is doing incredible work, and that episode was on Monday. Please check it out.

All right, let's hit the mailbag and answer your money questions. Our friend, Kim, in the audience writes in, talking about how she recently went through a divorce. Now, she needs to pay her ex $76,000 for his share of the house. “He is not on the mortgage,” says Kim. “So I don't need to refinance, but I don't have the cash to pay him without borrowing. So I'm considering two options,” and she wants my opinion. The first is doing a cash-out refinance of her mortgage. The second option, take a second mortgage or a HELOC out for the $76,000 at a higher interest rate and leave her low-interest-rate mortgage intact. Her current mortgage, she owes still $125,000 on it. There are 13 years left to pay, and the interest rate is just 3.375%. What should she do? Should she take out a home equity loan or a HELOC? Or should she refinance and do a cash-out refi?

Before I get to what I think, Kim, I assume that you've exhausted all other potential options. Like maybe could you come up with a payment plan with your ex to pay this $76,000 over time, so you could possibly avoid as big a loan or even any loans? Maybe if you do a 12-month installment over the next year, could you swing that? Or maybe say, “Look, I'll give you $20,000 now and then pay the rest in installments,” and so your debt would be less. I'm just trying to think a little bit in those terms because if we can at least minimize your debt load, that's the goal. That should be the first goal. Like how can I maybe pay upfront a little bit, and then whatever I have to borrow would be less.

I assume you've exhausted those options, and maybe that's not a good option for your ex. So here we are, choosing between doing a cash-out refinance or, on the other hand, doing like a home equity line of credit or a home equity loan. Do you know what I'm going to say? I mean, you have to do the math to figure out which is ultimately the lower cost option. I would start by exploring with a few banks what a cash-out refinance would mean financially and also work-wise and stress-wise and closing cost-wise.

Just for everybody listening who's like, “What's a cash-out refi,” so quickly, this is when you take out a new mortgage to pay off your existing mortgage. So that's the refi part. But then you take out the cash from the equity and not all of it. The bank won't let you take out all of it. Usually up

to 80%. So you refi and then you take the cash out that you have built in the home, the equity, so up to 80%. In this case, she just needs $76,000, so it's probably not all of the equity.

But then you have a new mortgage and a new interest rate, which right now, I looked it up, a 30-year fixed is seven percent. That's with good credit. Of course, that's different based on maybe the bank and where you are geographically and the type of home you own. But let's just call it seven percent. Let's just call it double at least what you currently are paying on this mortgage. By the way, there are closing costs associated typically with refis. That includes cash-out refis.

A home equity line of credit or a home equity loan, on the other hand, would not require refinancing. It would not disrupt your current mortgage. Your interest rate, that 3.375% would stay intact. But you take out, essentially, a second mortgage or a second loan that's attached to the equity that you have. So in this case, you're still facing a higher interest rate, again, probably seven percent or more. But the process is a little simpler. It probably is a little bit faster to get the money that you need. It doesn't require a refinance. It doesn't reset the clock on your mortgage either, which is one thing I wanted to point out.

You have 13 years left on this mortgage, so close. You've paid more than half on this mortgage. If you refinance, unless you go for a 10 or a 15-year mortgage, which might have a smaller interest rate attached to it but a much bigger monthly payment, I don't think you want that. Then you're talking about resetting that mortgage to a 30-year term most likely. For some people, that just doesn't feel like progress. You've come so far. That's more interest you're going to pay overtime. More likely, you'll continue to have this mortgage years and years later in retirement, when you were hoping to be maybe mortgage-free.

Having said all of that, without having done any research or the math myself, but I think I have gone through a HELOC process recently. It's pretty quick. It's like 30 days. So from a stress and time standpoint, that could be your faster route. It seems to me that the HELOC would be a better path. Again, caveat, I haven't done the math. I don't know what's out there, and I don't know what kind of cash-out refis options are available to you. But like I said, I took out a HELOC earlier this year.

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I will just say that not a lot of banks are continuing to offer HELOCs. But TD Bank, Citizens Bank, and some online banks are still offering HELOCs. So you wouldn't have to do a huge search. You could probably compare rates at like three places. Then down the road, if you go with the HELOC or the home equity loan option, you can try to refinance in some cases if rates drop. So something to ask before you proceed is like what are the terms around refinancing this at some point. Maybe I start out with seven percent, but then I have the option to go down to a different interest rate if rates do go in that direction.

That's my advice. First, make sure you've exhausted all of the like installment plan options with your ex. Maybe he's open to that. If he's not, then okay. I think if it's between the cash-out refi and the home equity loan or line of credit, which are two different things, essentially, home equity line of credit is more like a credit card. You don't have to use it right away. With the home equity loan, you would have to use it right away, which sounds like maybe you do go for the Heloan.

Bottom line, I think with the refi, the cash-out refi, in addition to like a much higher interest rate, you're also going to be faced with resetting the clock on the mortgage, which if you continue to follow that pace of 30 years starting again tomorrow, you'll pay a ton more in interest. Then there are closing costs associated, whereas I think with our HELOC, our closing cost was like a hundred bucks. It was minimal. So I think financially – again, I don't know all the details. But financially, for me at least, if I were to do this today, if I had to choose, I would probably do a HELOC, which is what I actually did in February.

Next up, Nicole. “Hey, Farnoosh. I love your show. Here's my question. I'm 53, making approximately $200,000 a year, and I plan to work until my early 60s. I have about a million dollars in my Roth 401(k) at work, and I've been maxing it out, plus the catch-up.” FYI, once you turn 50 and you have a 401(k) at work, you have an allowance to contribute more than your colleagues who are younger. You can contribute what's called the catch-up contribution. I forget the exact amount, but it's a nice bit of change to catch up if you're kind of like, “Okay, I got maybe 10, 15 years left, and I really need to invest more.” Now, maybe you're making more, so you have more capacity. It's a great option if you can do it.

Okay, back to Nicole. So she's been doing this catch-up contribution the past couple of years. She also puts $500 a month into a brokerage account to diversify her investments. So here's her question. “Since statistically,” asks Nicole, “the one million dollars that I have in my 401(k) should double by the time I retire, and most of it is pre-tax money, would I be better off contributing only to my Roth 401(k) up to the six percent match and hammering more cash into the brokerage account from now through retirement?” She says, “I know the brokerage is great for flexibility. What are your thoughts? Our needs will likely be around $10,000 a month in retirement, and I will have a small pension of around $2,000 a month.”

All right, so the question being now do I put more into the brokerage and less into the 401(k) but at least up to the match. Here's what I think, Nicole. You're not planning to retire until 62 or 63. At which point, you can tap into that 401(k) without penalty. So I say contribute while you can contribute. You can't contribute to this 401(k) once you leave the job, which might be in another 9, 10 years. At that point, I wouldn't stop investing. I would put more into the brokerage account for maybe the money that you need 15 years down the road. But I think, look, you got access to a Roth 401(k) and a six percent match, and you get to make that catch-up contribution. I think you should optimize, maximize. Fully, fully take advantage of this 401(k) while you can.

Don’t worry about, “Oh, I already have a million dollars in it.” You'll have more if you keep contributing to it. Think of it like that. I mean, yes, the brokerage account is great for flexibility. But you're not planning to retire before 59 and a half. In which case, it would be important to have access to another source of capital to pull from without penalty. But unless you're telling me you want to retire in five years, I say stay the course and continue to really take advantage of that raw 401(k) and the match and the catch-up contribution. You're doing so well. Keep the momentum going.

Okay, another 401(k) question from Jordan. Jordan is starting a new job, making around $100,000 a year. This job will come with a 401(k) match of up to five percent. By the way, where are you all working where you have these fantastic matching programs? This is a little bit of a surprise to me, I have to say. Jordan wants to know, “How do I prioritize contributions to the 401(k), my Roth IRA, and my high-yield savings account?” Jordan lives in Austin, a pretty expensive part of the country. Jordan does save 15% of their salary but says, “I'm going to be more limited once student loan payments resume.”

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Okay. So, Jordan, I would say that if you're looking across all of these sort of investing/savings vehicles, I would start with that 401(k) match of up to five percent and fully utilize that. Do not leave money on the table there. Now, also save in your high-yield savings account to get close to that six months of bare bones expenses shored up. Once you have done the savings part in the high-yield savings account with your six months' worth of expenses, then I think you can go and turn to a Roth IRA.

I don't want to ever say don't invest in a Roth IRA. But in this case, you have to choose because you don't have all the money, and you're living in a high – in a very expensive part of the country. I think, look, you're addressing investing to the extent that you can, and you're going to use the best vehicle here, which I think is the 401(k) with the match, not the Roth. You probably can get more out of that 401(k) than you can the Roth. The Roth has, of course, different tax benefits, and we don't want to completely neglect a Roth when we're young and we can.

Eventually, I say go back to the Roth once you feel like you have your savings in a good place. I mean, look, if you can do all of these three things at the same time, great. If you can invest at least five percent in your 401(k), you can contribute to your high-yield savings account to get to that nice six-month cushion. You can contribute even a little bit to a Roth IRA. Do it. Don't completely neglect your Roth IRA if you can at least do something. But if you can only pick two out of the three, it would be the 401(k) and the savings. Then once you are in a good place with the savings, turn on the Roth IRA.

Okay, next up is Samantha who says, "I have an embarrassingly large amount of credit card debt. I was wondering if it is ill-advised to use some of my savings. I only have a minimal amount in there to pay off a bit of the debt. It's really bothering me to carry around credit card debt. Thank you for all you do."

Okay, Samantha, well, you know, first thing I'm going to say is don't be embarrassed. Don't be ashamed. It bothers all of us to have debt. You are not alone there. But don't let this emotion sabotage your savings. I don't think that I would want to take money out of savings to pay off credit card debt at this point, where you're telling me you only have a minimal amount. The risk there, of course, is that you do use all of the savings or even half the savings to pay off a little bit

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of that credit card debt. The credit card debt in large part is still there. Your savings is the only thing that's really taken a big sacrifice.

Then what if something happens, right? What if your car breaks down or you lose your job or you get this unexpected medical expense? Well, you're back to this scenario where you have to pull from credit to make ends meet. We don't want that. It's frustrating to think that you have to do these things in steps. But it truly is, I think, what I would advise in this scenario is to get your savings to a place where it is better than just minimal, where you have at least a few months' worth of savings tied away. Then use that to pay off your highest interest rate card first.

I assume you're paying the minimums on everything right now, which feels like you're not getting ahead, just on a treadmill to nowhere. So once you have the capacity to put two or three or four times more or multiples more of what is the minimum on your highest interest rate card, start doing that. Make a plan. Okay, I think that it can be frustrating maybe because there isn't a plan. There isn't a light at the end of the tunnel that you're seeing. You're not like, "Okay, if I put 100 extra dollars a month towards the debt from my paycheck, which means I'll have to find ways to cut $100 out of my budget, well, then that will mean in a year, this nasty credit card that I opened two years ago that I had, this stubborn balance that will not go away will go away in a year because I've actually planned it out.

If you need help with a plan, I have a resource for you and anybody else out there who wants help with getting out of debt. The National Foundation for Credit Counseling, I have been recommending them since day one of my job at Money Magazine, when I was like 22 years old. I got a job at Money Magazine as a reporter, a junior reporter. I've been working with them and talking to them and recommending them for, I guess, 20 years.

It says something when a financial resource has been around for 20 years, longer actually. I mean, I've only been introduced to them 20 years ago. National Foundation for Credit Counseling, nfcc.org, I'll put the link in our show notes. They're essentially a credit counseling service. They are nationwide. You can work with them virtually. You can go to one of their clinics. They help you budget. They help you come up with a debt management program. Sometimes, it costs money. Sometimes, it doesn't.

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But it's not debt settlement, not to be confused with debt settlement. It's debt management. So they may advocate on your behalf, call your creditors to lower your interest rates, get rid of some of the fees, make your payments more affordable. It's just someone to talk to. The service is pretty free. Again, if you enter their debt management program, I think it's like 10, 15 dollars a month. But sometimes, they waive it, depending on your financial situation. So we're not talking thousands of dollars or even hundreds and hundreds of dollars. We're talking an affordable amount of money every month to get you a plan, to get you an advocate, and to ultimately bring down your payments if they can do that for you so that you cannot be frustrated anymore, and you can move on with your life.

I think that if anyone thinks that getting out of debt is a solo project, that's where you're wrong. That's the first mistake. This is something that should involve someone else, a community. Even it could be like someone you know, a friend, a parent, a loved one who's been there, done that that can help you with some of the things that they did. I mean, advocacy, feeling supported throughout this. I'm glad that you're listening to this show, Samantha. That proves that you're not the person that's choosing to go it alone. But take it to the next step and maybe work with a counselor from the National Foundation for Credit Counseling. But I wouldn't sacrifice savings.

You've done a – I can guess you've worked very hard to get to the savings to where it is. So keep going. Keep going. Don't derail that momentum. Come up with a plan for your debt. Establish that light at the end of the tunnel. You will get there. Stick with the show. Keep asking me questions. We're rooting for you, and we're rooting for all of you.

Thank you so much for listening to Ask Farnoosh this Friday, June 2nd. I hope you all have a fantastic weekend. Tomorrow, I'm hosting some J Schoolers, my Columbia friends from Journalism School. It's our 20th anniversary this year. The school decided not to do anything for us, so I'm getting some catering and inviting some folks over to my home for a barbecue. We're going to recognize this huge milestone, 20 years working in media and all of its evolutions and more to come.

I'll see you back here on Monday when our guest is Firoozeh Dumas, who's the author one of my favorite books in the world, *Funny in Farsi*. That episode also funny and sometimes in Farsi. Stay tuned. In the meantime, I hope your weekend is So Money.

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