EPISODE 1626

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FT: So Money episode 1626, Ask Farnoosh.

[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. We did it. We survived January. Hopefully, we thrived through January. The joke is that January is the longest month of the year. I agree with that. I don't think it's a joke. I think it's very serious, and I'm really happy to be in February, one, because it's my birthday month. Shout out to all my fellow Aquarians out there. I just learned that my rising sign is Sagittarius, which is a very interesting combination. I was born in the morning February 15th, middle of the morning. It was like 3am, 3:30am.

I've also learned that that was right before the completion of a full moon. What does this mean? I'm not super into astrology. But if it works in my favor, if it flatters me, I will believe it. What I've discovered is that because I was born right before the completion of the moon, I tend to be somebody who's really intuitive, knows what she wants, has this kind of feel. If I have a spidey sense that I shouldn't do something or I don't want to do something, I follow it. I may be wrong, but I'm really – I stick to my guns.

The other thing about being born right before a new moon or in a completion phase, as they say, is that you tend to have a lot of deja vu. You're here maybe to complete things that were unfinished in a past life. What does this mean? It's like if I run into people and I feel a serious connection to them, or I hear about something, or I think of a new idea and I'm really drawn to it, it may be just because it was something that was uncompleted in a past life. I actually was told that there are certain people in my life that I was immediately drawn to, and that's because of the timing of my birth.

I will say, when I met my husband at 19, although we didn't start dating until I was about 25, I knew that we were going to get married, and I actually said so to myself and whoever would listen, not to him. But I did make that statement, and it ended up working into our vows when we got married. It's just interesting, right? I don't know if anyone out there is into astrology, but I've recently started to kind of look into my own chart. It's really fascinating stuff.

All right, that's not what you're here for. You're not here for my chart read. You're here for financial advice. We have questions about credit scoring. We actually had a guest on this week, Vrinda Gupta, who talked about the credit industry. She worked at Visa and actually developed the very popular Chase Sapphire Rewards card. She herself did not qualify for that card unintentionally but learned a lot about the way that the credit system works and sometimes not in favor of certain people. Go back and listen to that episode.

I wanted to dedicate some time today to just clarifying for anyone out there who's interested in boosting their credit score because maybe you're looking at the spring housing market, and you want to be ready to buy a home. You want to maybe buy a car. You are in the market for a new loan. Your credit score is going to matter. Even if you just want to rent an apartment, your credit health will matter. I want to go through some of the best practices for managing your credit health.

Also a question about starting a new job, which some of us may be doing right now or later this year, and how to approach the whole retirement plan with the new company, especially if this is not your forever job. You're not even thinking you'll be here for the next year or two. Should you bother participating in the 401(k)? Then, also, a member in our audience has student loan debt, Cathy. She has credit card debt as well and wants to get my two cents on her payoff plan. What do I think?

Going back to our shows this week, Vrinda Gupta, as I mentioned, was on the show on Monday. Vrinda is the Founder of a company called Sequin. It's a fintech, a women's financial guidance and high-interest banking membership club designed by women for women. As I mentioned, Vrinda used to work at Visa. She helped launch the popular Chase Sapphire Reserve card. She's a globally recognized credit expert. We talk about the state of the banking world, the credit world, how it underserves women sometimes and immigrants sometimes and those who are new to the credit landscape.

Then on Wednesday, we talked about million-dollar businesses. Do you have a million-dollar idea? Well, our guest, Noah Kagan, who is a serial entrepreneur and author of *Million Dollar Weekend*, posits that you could turn a million-dollar idea into a real thing over the course of a weekend, in 48 hours. The subtitle of his book is *The Surprising Simple Ways to Launch a Seven-Figure Business in 48 Hours*. We get into it. I'm a little skeptical, of course, a lot skeptical.

Noah gives really great insights and offers some strategies for how to just start because that, he says, is the piece, the part that so many entrepreneurs just don't do. They don't get around to just starting because they psych themselves out. They give themselves a number of obstacles before they've even experienced a real obstacle.

Shifting gears, many of you, thank you, have joined my So Money Members Club. I've decided that I'm going to end enrollment soon. I want to start this first cohort with just 100 people. We are about 50% sold out. So if you're interested in joining the So Money Members Club early, be a founding member. Get in at the lowest price I will ever charge for this membership. Follow the link in our show notes. It's somoneymembers.com. You're going to get one training every single month around money. We did one in January on investing. February, there are actually going to be two trainings about how to earn more in 2024, my negotiating tactics for both nine-to-fivers and creators and experts and solopreneurs. We got the whole year's schedule of trainings at somoneymembers.com.

Additionally, you'll have one live office hour with me every single month where you can ask me your financial questions. Everything's recorded, too, by the way, so you don't have to make all the live trainings. You can learn on the go. There's also the community of like-minded peers from the So Money community who care about their finances, want to learn and connect around financial independence. This is what you've always told me you wanted. You want more access. You want deeper learning. You want connection.

The So Money Members Club is what I've created in response, and I'm really excited to kick things off. We've already kicked things off. So if you're interested, go to the link in this episode's show notes. Or if you've got a good memory, it's somoneymembers.com. The other perk about signing up early and being a founding member is that we are evolving. In fact, on Monday, I'm making a huge announcement. It's going to be really exciting for all of us who decided to join the club early. Get in now. If you're listening to this episode on Friday or Saturday or Sunday, head over to somoneymembers.com. Again, we're going to close enrollment as soon as we hit those first 100 founding members.

Let's go to the Apple review section and pick our reviewer of the week. Right before we go to the mailbag, we're going to do this, so we can pick our reviewer of the week who's going to get a free 15-minute money session with me. I invite everyone to do this. You can go on to the Apple Podcast app. Leave a review. I pick someone every week to get a free money session with me.

This week, I'm going to say thank you to Foxie.Roxie, who writes, "Ever since my initial foray into the world of podcasts in 2017, I've been a regular listener of So Money. Farnoosh's expertise in finance shines through in every episode, and she has a knack for breaking down complex money matters into easily understandable segments. The guests she brings on are fascinating and intriguing, and she engages them with insightful relevant questions. I find myself recommending this podcast to others who are interested in enhancing their personal finance understanding. Thank you for all you do."

Foxie.Roxie, thank you for listening, for sharing this podcast with your friends. I would love to invite you on a call with me to talk about whatever you want about; your money, your career, maybe your financial fears. This is the topic of my latest book, *A Healthy State of Panic*. All you have to do is get in touch and let me know that you left this review. There are a few ways you can do that. You can email me, farnoosh@somoneypodcast.com. Or you can go to Instagram. DM me there. I'm @farnooshtorabi on Instagram. You can DM me and let me know you left this review. I will write back promptly with a link where you can go to pick a time for us to chat. Thanks so much and looking forward to chatting with you.

All right, let's go to the mail bag. First, I just want to answer what I think is on a lot of our minds. This is not a specific question from one person but how to actually grow your credit score. On Monday's episode with Vrinda Gupta, she talked about kind of a trick that she teaches people that helps, in some cases, boost your credit score within days. It is this. Pay your credit card balances on the go throughout the month. Don't wait until the pay cycle or the due date to pay off your bill, if you can.

Obviously, not all of us can do this. But if you have the capability to go in and just pay off maybe once a week. Here's why she says this helps is because when you apply for your credit score or when your credit score gets pulled by a lender, it's at any point in the month, right? They're not doing it just at the end when you have a zero-dollar balance. They're doing it maybe on the 12th, and you still have a balance. That balance gets reflected onto your credit score. Your credit score, unfairly, is lower than it really could be or should be because you're planning on paying it off. But, hey, it got pulled earlier than you paid it off, so here we go. Now, your credit score is a little bit higher.

This, again, is really only important for those of us who know that we're going to need to get our credit score pulled in the next few months. Let's just take a step back. If any of you out there are wondering, what are the real ways to maintain a healthy credit score? I've heard a lot of different things. I've heard some myths even. There's this one big myth that I don't know who started this. I think it may have even been the credit card industry because it only incentivizes credit card companies and banks.

People often think that you need to maintain a balance every month, just a small amount even, because that is what the credit bureaus define as credit utilization. No, that's just a mistake. You want to pay off your bills in full, at least once a month, in order to boost your credit score. In fact, your payment history, which is how often you're paying your bills on time, how consistently you're paying your bills on time, is 35% of your credit score. I'm using the FICO credit scoring model. Paying your bills on time is most valuable. Automating your credit card bill payment is the easiest way to ensure you never miss a payment, and you can schedule it. You can schedule it by an amount. Usually, it's like pay in full or whatever you can do.

Variable number two that really matters when it comes to maintaining good credit is reducing those credit card balances above all other debts. Your student loan, your mortgage, even your car loan, those are installment loans, right? You pay what you pay every month. You know what you're paying. The revolving credit like credit cards or a line of credit that you've drawn upon, this is considered revolving credit. As far as the credit score calculators are concerned, this is the credit that needs to be maintained best. It is considered a more accurate reflection. How you manage this is considered a more accurate reflection of your credit usage and your trustworthiness as a borrower. Okay.

I don't make the rules, but keeping those credit card balances low, this is important, in relation to your credit limit. This is what we call utilization. That's what we call credit utilization. This has an impact on your score. In the episode with Vrinda on Monday, we talked about how often in the industry we say keep the utilization to no more than 30%. If you have credit cards and in total the limits added up on all these credit cards, let's say, that you have is $10,000. Across these credit cards, at any point in the month, maybe you’ve racked up $4,000 worth of balances. So what? You're now 40% utilized. You want to keep it to 30% or less.

What Vrinda mentioned on the episode, and I've heard this before, is that those of us who are in the 800 club, like 800 credit score better. By the way, your credit score is 300 to 850. 800 and higher is stellar credit. If you're in the 800 club, your credit utilization is not hitting 30%. It's more like 10, 9, 8 percent. So keep that in mind if you want to aim for those really high scores. How do you avoid having a high utilization? Well, clearly, you pay off the bill every month. If you can't do that, do at least, I would say, two to three times the minimum. Or you just do the math. How can I get to a place where my balance is less than 30% of the limit on this card?

Another important step in maintaining good credit health, avoiding too many new accounts. Don't open up too many new accounts. We often give this advice around the holidays or Black Friday when people are hitting the stores. This is maybe before COVID when people actually went into a mall and were shopping from store to store to store. In one mall run, you might face three to four store credit card requests. “Hey, enroll in our Victoria Secret credit card, our Banana Republic credit card.”

When I was in my 20s, I did this. I opened up all the store credit cards because, why, you get the discount. I wanted the discount, but the discount means nothing if you are not able to manage that card responsibly. The cards are almost set up to make you fail because the limit on these cards starts you out at like 500 or 1,000 dollars, so you can very easily max out these cards. It's tricky. I wouldn't recommend that.

The advice is be really thoughtful before you open up any credit cards. If you are in the market for a loan, I wouldn't be going on a credit card shopping spree because what it's signaling to the credit score algorithm is that maybe you're somebody who is not in a great financial place. You need to go out there and start borrowing money and taking out all this credit. It's really important to diversify your credit mix. This is something that you may not be able to establish right away, as you are just beginning your financial journey, your credit journey but, ultimately, having a diverse range of credit. That includes credit cards and installment loans. We talked about the student – not to say like intentionally go out there and get a student loan. But it does actually work in your favor when, this is the big when, you are managing all of these different types of credit responsibly.

Having a student loan, plus a credit card or two, plus a mortgage and a car loan, but managing it all well and responsibly, meaning you're paying off the balances. You're paying those bills on time. You're not overcharging. You're not late. That actually does mean something when it comes to your credit score. If you are somebody that feels like, “Oh, I have so much debt,” but you're managing it, well, there's one plus to that, which is that it's probably not hurting your credit score. It might be even helping your credit score.

Again, it all has to work in concert. You don't want to have all these credit cards and all these other loans and go, “Oh, my credit score is going to be great.” No, because maybe your balances are too high. Maybe you're missing a payment here or there. So it has to all kind of work together as this one nice recipe. This was the hierarchy that I just laid out. It's paying your bills on time followed by reducing your credit card balances. Then it's avoiding too many new accounts and then diversifying your credit mix. There's other variables as well, but those are the biggies.

If anyone wants to know what their credit score is right now, you can probably go to wherever you're banking and ask for it for free. You can also get your credit report, which is not your credit score but a free copy of your credit report from every single one of the major credit bureaus; Equifax, Experian, and TransUnion, at least once a year. This is important because the stuff that's reported on your credit report is what then goes into calculating your credit score. It's really important to check because there may be errors. There may be some fraud that you weren't aware of. Somebody opened up an account in your name. You're like, “What is this card? I don't recognize it.” This is where you might be able to spot those red flags.

All right, moving on to Cassie who plans to switch jobs within a year. She's wondering, “Should I open a 401(k) with my current employer? So I'm with this job. I don't plan to be there for very long. I want to leave in a year. They've got this 401(k). Should I bother?” I think yes. I think 401(k)s, Cassie, have unique benefits. You can automatically contribute from your paycheck. That's number one, which we know that automation from your paycheck, making it so painless and seamless, it goes a very long way in making sure that you stay on track. You can also contribute up to $23,000 this year, which you may not hit, and you have no interest in hitting. But it's there for you. It's an option, and it's a much higher limit than, say, a traditional IRA or even a Roth IRA. I don't know this. But if your employer offers a match, then you really should contribute because that is free money. You're not going to really get that opportunity outside of that 401(k).

I know it can be operationally annoying when you leave your company, and you've got this 401(k). Now, you got to do something with it. Honestly, it takes not even your whole lunch hour. It's just going onto the website, selecting where you wanted to go. Often, you can just move it into an IRA at that existing institution. Then you can decide what you want to do with it, if you want to port it over to a different brokerage. I've just always kept it at the same institution, but I've changed the account. I've rolled it into the IRA. It's not painful. Yes, I think if you have access to a workplace retirement account that offers a match and you want to invest, it's a great place to start. It's an easy, low-hanging fruit place to start. Then don't worry about later. Who knows? You don't know. Maybe you'll end up loving this job, and you'll want to stay.

Next question is from Cathy who writes in. She says, “Farnoosh, I'm really overwhelmed with my student loan debt.” Cathy just graduated from college with a degree in business. She's got

$32,000 in student loans. Here's the other thing. She has 20,000 in credit card debt. The interest is really high, she says, on the credit card debt compared to the student loan. She says, “I plan to pay it off aggressively this year, the credit card debt. So I'm going to make $1,600 monthly payments to this credit card. My salary is a little bit over $82,000 before tax. I will start paying the school loan in March,” because you need to get that grace period. “Is that a good plan,” she says. “Or am I setting myself up for failure?”

Oh, my gosh. Failure, Cathy? No, no, no, no. First of all, you have a job that pays $82,000 a year. Congratulations. You just graduated from college. That's outstanding. I know the student loans feel high, and they are. I mean, $32,000 is not a little bit of money. Comparatively, I mean, I've heard much worse, as I'm sure you have. This is a rule of thumb that we often talk about when it comes to how much student loan debt is safe to have, where you don't want to go over a certain limit. Usually, the rule of thumb is to not borrow more than your anticipated, first, salary. Your first-year salary is $82,000 and your debt is $32,000, so you're fine with the student loans.

The credit card debt I would prioritize, and that sounds like what you're doing. You're going to pay this off, hopefully, by the end of the year or this time next year. That's awesome. I think that should be your priority. Along the way, I mean, you're making $82,000. I don't know what your other expenses are. But if you've got a 401(k) through work and there is a match, can you invest at least to earn that match every single pay cycle? I would want that for you because you're making a really healthy salary.

Here's what I'd love for you to do. Just start with that workplace retirement account whatever you can do, while you're paying off this credit card debt. Then, of course, the student loans are going to kick in. Hopefully, it will all be manageable and just start. We talked about this in my investing class last week. Just start with one percent, two percent, three percent of your income, whatever. I mean, if there is a match, try to get that full match. When the credit card debt is done, that $1,600 a month is going to become free to you now. You have that now.

I would look at investing more closely and see how you can get to a place where you're in investing 10% of your income every year. Maybe some of that is going to be afforded by your company because you'll pay for it through your match. So maybe you're not putting in 10%. You're putting in 5, and then your company puts in 5, and you've got your 10. I like your plan, Cathy. I would try to build in a little bit of investing as well, but congrats to you. I am really excited for you. This is – I hope you're celebrating. I want you to feel good about where you're at. I know it is not fun to have the debt. It may feel, to use your words, like a failure.

Let me just tell you my situation. I had about $32,000 in debt when I came out of grad school, which was right after college. I went to a 10-month graduate program. I had 5,000; 6,000; 7,000 dollars in credit card debt; 25-odd thousand dollars in student loan debt living in New York City. Guess what? I was making half of what you're making. Now, I know with inflation and everything, but $42,000, $44,000 a year back then with all that debt, the thing that really helped was living in a rent-stabilized apartment. I paid $500 a month for rent, but it meant living with a married couple and their cat. There was that tradeoff.

All right, everybody. I appreciate you joining here on this Friday. Or maybe it's the weekend that you're listening. I hope these answers were helpful to you wherever you are in your financial journey. Once again, if you're interested in getting more access, more education, some community around financial wellness, I've put together a really fun and engaging group over at somoneymembers.com. Again, I'm limiting this first cohort to just 100 of us. We're about 50% sold out. You can get in at the lowest price right now. Be a founding member. If you've got any questions about it, just DM me on Instagram. I'm pretty quick there. I hope to see you in the club. In the meantime, I hope your weekend is So Money.

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