EPISODE 1353

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[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. This is May 6th. Friday, May 6th, 2022. I hope you've been holding on this week. It's been a rough week. It started out pretty positive for me, I have to say. I turned in my book manuscript. It was a long time coming. I realized it was almost a year since I first connected with my publisher, who then went on to make a bid for the book. Here we are, almost 12 months later, submitting 270 pages, 80,000 words. I can't believe it. I just can't believe it.

But then that was overshadowed by difficult News. This week, the Supreme Court leak indicating the court's opinion that abortion should no longer be a constitutional right and that Roe v. Wade ought to be overturned. I woke up in the morning. What was it? Tuesday morning and my husband said to me, "Did you see the leak?" I said I thought it was a plumbing leak. I didn't know what he was talking about. So I immediately went to the Internet and abandoned my family during what is normally a busy rush hour of lunch preparing and breakfast giving and clothes changing. I just disappeared for as long as I needed to to catch up on this horrific news.

I spent the rest of the day just working and pretending to be calm. But honestly, when I got to bed that night, I couldn't sleep, and I woke up around midnight and did not sleep for another four hours. So that rarely happens to me. I'm usually a pretty good sleeper. But I think my subconscious was just terrified of what this could potentially mean for our country, for women, and for our children, as they grow up in a different world than what the current generation has known.

So if you're catching up to this news, the Supreme Court, there was an opinion document that was leaked. Politico first released it essentially saying that they believe Roe v. Wade ought to be overturned. They want to leave the decision of if and how an abortion procedure takes place that should be left up to states. The New York Times says that a decision is not expected until this summer. It's just an opinion for now. It's not law yet. But many states are already moving forward with their own plans on how to regulate abortion. Roughly half the states, mostly in the South and in the Midwest are likely to quickly ban abortion. So those are the facts.

My opinion is this. The right to an abortion is a critical part of comprehensive health care, and to disallow a woman to choose what happens to her body and her decision to birth a child is a generational step backwards. What could be more fundamental to a human being than their body? In my waking hours between midnight and 4:00 A this week, I tried to stay off Twitter, but I did catch an interview with Gloria Steinem. Katie Couric had Gloria Steinem on her podcast, and she said this in response to Katie's question, which is, “How are you feeling?”

> *“***GS:** *First anger because female human beings are not going to be equal citizens who have power over our own physical selves. The right to make decisions over our own physical selves is the fundament of democracy.”*

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FT: That was Gloria Steinem on Katie Couric’s podcast. Let's just be clear. Those who will be most hurt by anti-abortion laws are the women who are minorities and women who are already marginalized. I was reading about how there is a racist history to abortion restrictions. They have directly impacted people of color, black, brown, indigenous people, people who are just trying to make ends meet who can’t easily afford to cross state lines to reach an abortion clinic in a state where it is permitted.

Now, to be clear, nothing's going to immediately change until the court hands down its decision. President Biden said earlier this week that a woman's right to choose is fundamental, and that basic fairness and the stability of our law demand that it not be overturned. So his administration has been preparing a response, and they said that they will “be ready when any ruling is issued.” He also said – President Biden also said that the midterm elections are especially really important this year. It's going to fall on voters, us, to elect pro-choice officials this November. He said at the federal level, we will need more pro-choice senators and a pro-choice majority in the House to adopt legislation that codifies Roe, and he's going to work on passing and signing that into law.

So this is obviously still developing, but nevertheless quite frightening, quite terrifying and angering. Hopefully, we can now put all of this emotion to productive use by voting, by voicing. I see now too a lot of women sharing their abortion stories and really bringing a humanized element to this very taboo topic and showing how it impacts so many more women than we often acknowledge. One in four women, in fact, have had an abortion. It was actually more than that in previous years, and I think contraception has helped to bring that number down.

But this is a non-negotiable in my opinion. I feel like if you believe in democracy, if you believe in human rights, if you want to take anti-racist actions, then that also means supporting abortion laws. For those of you who have stuck with this podcast over the years, you know that I don't shy away from difficult topics, and this is a difficult topic. I don't feel like I can afford to not talk about this on such a big platform. I'm just as afraid as everybody else. What can I do? I can stay informed, I can talk about it, I can rely on trusted sources, and I can vote. I hope you will too.

On the show this week, we welcomed Jaclyn DeJohn. She is my colleague at CNET, a money editor, and she had some relatively optimistic news about buying a home this year. It may seem impossible. I thought it was impossible. She changed my mind a little bit. She had some insights as she's also a licensed realtor and has a personal experience helping people buy homes. She herself has bought multiple properties. Her advice for buyers in 2022 might surprise you. She talks about what some bitters are doing successfully, a little out of the box maneuvering that I thought was a little risky. But she framed it a little differently. Those buyers who are, let's say, waiving inspections. Are they crazy? I thought so. She had a little bit of a different take. It's not totally irresponsible, she said, and there is a workaround. Check out that episode from Monday.

On Wednesday, we talked about our relationship with money, the broad spectrum of relationships. Whether you have a healthy relationship, a fearful relationship, much of this stemmed from our childhood, and relationship coach and clinical psychologist, Dr. Morgan Anderson, stopped by with insights about attachment theory and how it can explain certain money challenges when we become adults. That was on Wednesday.

Let's go to the iTunes review section and pick our reviewer of the week. This person gets a free 15-minute money session. This week, we're going to say thank you to Maui Tea Maven, who left a review several weeks ago, in fact. “Faithful five-year fan.” Maui says, “I've had the pleasure of listening to Farnoosh and So Money since 2017. Over these five years, I think Farnoosh has done an excellent job, curating and adapting her personal finance podcast themes and episodes to the issues of our time. So Money was initially recommended to me by a savvy friend. And in turn, I have recommended it to friends and family looking for advice on investing, saving for college, entrepreneurship, and the ever elusive work-life balance. Keep up the great work, Farnoosh, and aloha from Maui, Hawaii.”

Oh, what an honor. What an honor. Thank you so much for this review. I would love to connect with you. I know there's a huge time difference between you and I, but we will make it work. Appreciate you and thanks so much for the loyalty to this podcast and sharing it with your friends and your family and paying it forward.

Let's hit the mailbag. Our first question comes from Megan, and she is moving across state lines. She just got a new job. She and her partner are going to be moving out of state for her new position. She is going to be making more money, which is fantastic. Now, they're looking at housing options, and she says, “It looks like we may need to consider buying a house instead of renting due to breed restrictions with the dogs that we currently have. The company I would work for has offered to provide an agreement with a local brokerage, where I would receive benefits for getting a loan for the house through them. This includes not having to pay PMI, private mortgage insurance, even if we don't put down 20%. This program was specifically created for employees of this organization that moved to the area. So my understanding is that this is an established practice. My husband and I have some money put aside and a joint contributory that could go towards the down payment, closing costs, etc. This is the first time either of us will be buying a home. And especially since it will be out of state, what are some things that might be important to consider with this specific loan for home buying?”

All right, Megan. You didn't ask for some of the other advice that I want to give you. Before we get to the loan, I want to discuss this whole approach to buying a home. When you are moving out of state, arriving into a new scene, a new neighborhood and everything, buying home in and of itself is a feat. Then you are doing it in a place where you've never lived. I would really try to exhaust your research to find a place to rent for some time. Could your company, your new company, help you find a place? I know that you said that there are limitations with the sort of dog breeds that you have. Your company may be limited in terms of its scope of search, but Airbnb, Facebook to let people know that you're coming to this area. Are there people that say are going out of town for a month even? Just buying yourself some time to rent something.

In the meantime, you want to be boots on the ground looking for a home to buy, right? You don't want to be doing this hastily, remotely. I know a lot of us are just looking online and buying homes sight unseen. I don't know. This is the biggest financial decision of your life. Up until this point, I'm going to guess. So it deserves some time and more effort than some people are giving right now because they're just so overwhelmed by the supply shortage, and they're worried about missing out on homes.

But to the extent that you can research and look for a rental, even if it's just a month or two, short term, I would really recommend that, even if it means leaving your dogs with a trusted pet sitter so that you and your partner can live somewhere remote for a month or two without your dogs. I know that's really hard, but this is a trade-off that I think long term will be better off for everybody to be able to give yourselves the time necessary to look and examine the area and buy a home.

Now, as far as this loan, good news, the company that you're working for has this arrangement with this bank, where they don't require private mortgage insurance if you don't put down 20%. That's a pro with this bank, but you'll want to consider all of the factors. What will be your interest rate? Can you get a better interest rate someplace else, which may mathematically it'll compute to being a better deal in the end? Even without paying PMI, right? So you want to shop around still. I would still enlist the help of maybe a mortgage broker who's familiar with the lenders in the town that you're going to be buying in.

Talking to current employees as well, have this company that you're going to work for hook you up with some people who have recently made this transition too. Not people 10 years ago. People, let's say, in the last 18 months that have moved from out of state to this new state and have done what you're about to embark on. What were some things that they learned the hard way? Do they like working with this bank? Do they like – What things would they have done differently? What questions do they wish they would have asked? I'm not the expert on this, but you know who is, those who have already gone through it who are a few steps ahead of you.

So all in all, that's three pieces of advice. First, look for a rental. If your new company has exhausted its resources, continue to look. Continue to ask around. Look at Airbnb. Look at Vrbo. I mean, those are vacation rentals. But maybe you'll find something offseason in the town or nearby. Having presence in the area before you make a purchase to visit these homes, to be very thoughtful about this is extremely important. Number two, finding a pet sitter locally who might be able to take in your dogs for a little bit of time, for four weeks, six weeks, so that you can at least take on a short-term rental and then make a purchase.

Number two, shop around for the loan. That's nice that your company is offering you this program. But they're being incentivized, I'm sure, by connecting you with this bank. Everybody's winning. The bank is winning. The company is winning. Are you going to win in the end? I know PMI can be pricey. But if it means that you're going to not get the best interest rate, this is something to look into. You want to look at other banks for their rate, and they they'll give you some negotiating power with this bank that your company is referring you to to say, “Hey, I got a better interest rate down the road or at a different lender, and maybe they will match that, in addition to giving you a PMI waiver.” Then talk to current employees who have done this same transition, who've made this same track. What's their advice for you? Thanks so much for your question, and good luck. Congratulations on this move, the pay bomb. I'm very excited for you and your husband.

Massa writes in with a question for a future episode. She says, “Hey, Farnoosh. First off, thanks so much for the podcast. It’s the number one show on my list. So informative. In recent episodes, you have mentioned the talks around a potential recession. I'm wondering if you can dedicate an episode to recessions, what we should do to be recession-proof if it happens, and how to minimize risks. Absolutely would love to do this. I was planning on doing this. But since you are letting me know that you really want to learn sooner than later, I'm going to prepare this probably for next week.

Again, not to be an alarmist, but there are some legitimate signs that the economy is poised for a slowdown. I mean, we're raising interest rates. That is all in an effort to slow down the economy. That is an intentional effort to cool down the economy because of what we're seeing with inflation. So rising interest rates is something to keep an eye on because with that, plus rising oil prices, a lot of that can put pressure on corporate profits. When corporate profits go down, GDP tends to go down. What is the recession, technically? It's two consecutive quarters of negative economic growth, which we already had one. So if we have it again, then we are technically in a recession. So it seems like a good time to brush up on this.

I mean, I've been doing this podcast since 2015, and there was a little bit of a recession during 2020, obviously, during the pandemic, but not to the extent that we saw in 2008, 2009, which started this whole career of mine, to be honest. I got laid off in 2009 and never looked back. I said, “You know what? I'm taking this show on the road.” I started doing more books, more speaking, more brand partnerships, and all of that. So recessions can actually be a critical juncture for many of us. So we'll get into it for sure in an upcoming episode. Massa, thank you so much for your loyal listenership. More to come.

Next question from Tammy, who wants to know about whether or not she should close a particular credit card. So she has an old credit card that offers airline rewards. It used to be beneficial many years ago, but now she no longer uses it. It also happens to be her oldest line of credit. Her credit card has a high credit limit, and she's worried about closing it because the potential to negatively affect her credit score. She says, “I used it a couple of months ago out of fear that they would close the account, but it really offers me nothing anymore. What are your thoughts?”

All right, Tammy, great question, excellent question. We know there are a number of variables that compute towards a credit score. One of them is the length of your credit history. What this examines is how long you've had credit in your name, and that includes the very first credit card that you ever opened, the very first student loan, the very first car loan. That history factors in. Credit issuers like to see that you've had history with credit. The problem with closing a credit line, a credit card that has a long history is that over time it will drop off your credit report, and that history will also disappear. Not immediately but eventually. That's something to note. Your credit history, your length of your credit history is 10% of your credit score. It's not the biggest variable, but it isn't insignificant either.

Additionally, though, you're telling me that this credit card has your highest limit, and we know that the limit is important on a credit card, as far as calculating that debt-to-credit ratio. The more credit lines you have, that you're using responsibly, the bigger the denominator in that debt-to-credit ratio, the smaller your debt-to-credit ratio becomes, that's good for your credit score. The debt-to-credit ratio is 30% of your credit score calculation. So together, this Citibank card falls into two categories, two variables that are important to computing your credit score, credit history and credit line. For these specific reasons, I would say try to keep this card open. What I would do is attach a utility bill to this or something small that keeps it alive, that you pay off automatically every month with your checking account or whatever bank you clear your debts with. That way, you don't have to carry it in your wallet. You don't have to worry about it, but you know that it's keeping head above water, and you don't run the risk of the credit card issuer closing this line for inactivity because it went dormant.

If this was a card that you came to me and said, “Look, I was at a mall one day. I opened up the Victoria's Secret credit card. It's got a $500 limit. I opened it up last Christmas. I don't want it anymore,” I'd say get rid of it because in the grand scheme of your credit cards, it's probably the least significant. It has the least weight on your credit score. I’m not going to say it won't impact your credit score by shutting off that card, that card in this example, this store credit card that I'm giving this hypothetical example to, but it won't be very serious, assuming too you have other credit cards, other evidence of carrying credit for years. I think in the grand scheme of your credit mix that you've got, it's insignificant.

But this card that you have, Tammy, does feel a little bit more significant to me. It is annoying that we have to play this game with credit scoring, right? We shouldn't have to feel like we're carrying the weight of these credit cards, if we don't want to use them, they have no use to us. The only other thing that I would say, Tammy, is if there's an annual fee for carrying this card, that would be the one thing that would give me pause and think, “Okay. Well, is this actually worth it to keep it on my credit profile? And would shutting this off, yes, it may mean hurting my credit score for a little bit. It could mean losing 10, 15, I don't know how many points.”

If you're not in the market for more credit, it may not even matter because eventually you'll rebuild that score with good behavior. If it means not paying that annual bill, annual fee, maybe then you do shut it off. But if there's no annual fee, it's not really doing anything for you, I get it. But it could actually do more for your credit score, just by keeping it open. I will keep it open.

Last but not least, Nicole writes in with a question where to invest money for her child. She says, “Hey, Farnoosh. My son is seven. He's our only child. We opened a savings account for him when he was born. It has about $2,000 in it. At this point, I'm wondering what we can, should do with this money. I would like to have it earn more than what it's currently eating in a regular savings account. Is there something besides a 529 to put this money in? We're not sure what kind of higher education he may seek in the future, and we're also unsure if he will be able to contribute to this account on a regular basis. But I would hate to miss opportunities for this money to grow."

All right, Nicole. We have talked about 529s a lot on this show. It sounds like you're up to speed on them, and you're not really sure if it's the best move. I get it. If you're not sure about your child's future, higher ed, desires, it may feel a little restricting. Since he is your only child, it's not like you can easily say, "Well, if he doesn't use the money, we'll give it to a sibling." You really want this money to benefit him, so one option is a custodial account, a custodial account available through the Uniform Gifts to Minors Act, UGMA. This is the acronym you would look for online when you're opening this up at a brokerage account, or you're walking into a broker to talk about this and learn about this.

This is an account that for many families that don't want the 529 plan for probably the same reasons you are not into it. It can serve as a college savings vehicle, also a savings vehicle for whatever else. The money does get invested, so it's not just sitting in a checking account earning nothing percent and with inflation really losing value. Now, the UGMA account, this has been around for decades, and it's an alternative to trust funds for families that want to pass down some assets to children. Usually, a parent opens this up, transfers an unlimited amount of money to it, and can invest within that account through the broker.

The money can be used for any reason, any purpose once the child is old enough to assume ownership of the account. This depends on the state's law, typically 18 years old. That may be a little too young for some families, to be honest. Some parents get a little nervous when they hear that their 18-year-old could inherit tens of thousands of dollars, maybe more depending on how much you've contributed over the years. So if you are going to do this, I would definitely at some point have a conversation with your son maybe when he's a tween, a teen, and say, "Hey, we've set this money up for you. We're contributing to it. Here are our desires. Here's what our intention is with this money. We want this to be primarily, say, for college. But if you don't go to college, here's what else." Talk through this and let it be known that this isn't fun money. This isn't burn money. This is money to really set your son up for success.

The one thing to keep in mind, though, is I've been reading about UGMAs lately because we're looking into opening one potentially for our kids, and my son's also seven, turning eight soon. The funds in the account are considered the child's property, even if your kid hasn't reached the age of majority. So essentially, what this means is that when you fill out, let's say, the FAFSA, that very important Free Application for Federal Student Aid, if and when your child is applying for college, they have to list the UGMA funds as their asset. So the expected family contribution or the amount that a family has to pay in college costs could jump because of this. Even though maybe this wasn't intended for college or whatever, it's got to be disclosed, and it is found to actually increase a family's required contribution towards education.

There are other nuances with the UGMA versus the 529 plan that you might want to look into, just to make sure that you are signing up for the best possible investment vehicle. If you don't care for the UGMA, you don't like the 529, then I would say the next best thing could be a brokerage account that you open for yourself, that you invest in for yourself. Then eventually, when your child is an adult, you can begin to gift him some of that money on an annual basis. That way, it's you controlling the money. You're giving it as a gift every year. It's a little bit more controlled. Again, it's in an investment account, so it's compounding more than, say, in a standard checking account.

I would just be sure that wherever you invest, you do have a time period in mind as to when you want to start making withdrawals. If we're thinking 10 years versus 20 years, that matters because that would change the makeup of the account in terms of how aggressive you might be, how much of an allocation towards stocks versus bonds you're giving. For this, you might want to talk to a financial planner, but a lot of these robo advisors will ask you for your timeline. They should take that into account when creating a balanced portfolio for you.

All right, great question. Good luck. Your son's very lucky. And that is our show, everybody. Thank you for always coming back to So Money, where sometimes we have hard conversations. We try to help as many people as possible. Continue sending me your questions. You can direct message me on Instagram. You can email me, farnoosh@somoneypodcast.com. You can go to the website, somoneypodcast.com. Click on Ask Farnoosh and drop a note there.

I'm going to prepare a special Ask Farnoosh recession special for the 13th. That's May 13th. So if you have questions for that, do get your questions in by, I would say, the 12th, the 11th. Do you want to know how much to save, how to approach your debt levels, how to think about job transitioning, all of it? I've been through at least one recession now, and I'll also bring my journalistic hat to the program.

Thanks so much again. I'll see you back here on Monday. We'll be talking to Susie Moore about why we got to stop saying should, especially when it comes to our financial agendas. There's no should, only could. Happy Mother's Day to all my mothers out there, and I hope your weekend is So Money.

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