EPISODE 1239

[INTRODUCTION]

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ANNOUNCER: You're listening to Money with award-winning money guru, Farnoosh Torabi. Each day, you get a 30-minute dose of financial inspiration from the world's top business minds, authors, influencers, and from Farnoosh herself. Looking for ways to save on gas or double your double coupons? Sorry, you're in the wrong place. Seeking profound ways to live a richer, happier life? Welcome to Money.

[INTRODUCTION]

[00:00:30]

FT: Welcome to So Money, everybody. I'm your host Farnoosh Torabi, you're joining us today on Friday, August 13th. Friday the 13th I've just realized that. Today we've got some questions from listeners about, how to afford a down payment on a home, without having to sell your current home? Is there even a way, how to manage living in a very expensive city where over half of your income is going towards rent? Is there a way to ask for more money at work? Or what do you do? What do you do in that situation? Then increasing your credit score by paying down your credit cards but with your 410(k)? Thoughts on that Farnoosh.

Alright, I have many opinions waiting for you. Ahead of that, just want to give you some updates on what's happening on the So Money front, in my life. Lots of lots of cool changes, I had my first week-ish of work, my new job at CNET as editor at large off to the races, y'all we've a lot of plans. Plans for a brand new So Money newsletter, So Money YouTube channel, updating a little bit of this podcast, cover art, and oh my gosh, I'm so excited for all the changes in the pipeline, you're going to love them as a sign of starting a new job, you will appreciate this, if what I'm talking about.

I bought 24 post-its. I bought a bulk pack of post-its, because I quickly realized that I was having a hard time keeping track of my to-dos, and that was one of those Instagram posts of like, “Tell me, you started a new job without telling me you started a new job.” I took a picture of the post-its. Hopefully, people got that.

The other thing I was really grappling with in the first week of work was combining all of my calendars and the scheduling of this podcast. This new job, everybody uses outlook. I'm a Gmail girl. I'm going to continue being a Gmail girl, but I also have to work with Outlook to coordinate work related or Red Ventures and CNET related appointments. The problem was that my Gmail and the Outlook, were not doing the best job of communicating with one another. Even though there is a way to sync up the calendar so that your Gmail appointments show up on Outlook and vice versa, but that wasn't really happening. Apparently that's a glitch that sometimes that just happens. It took a while before even after the sync that I started to see the appointments show up on the different calendars.

Well anyway, that I thought would resolve a lot of issues, but it didn't resolve all the issues. There's still the issue of the people out in the world that I bring on as guests to the So Money Podcast. What they would use was like, this service called schedule one's, similar to Calendly to find the time on my calendar to book a recording. The problem with that was that it would was only hooking up to my Gmail calendar, and they were not able to see my CNET appointments. So they were booking appointments, when I had other appointments, long story short, I decided to hook up schedule ones to my Outlook, because that had more of the that had about 90% of my schedule anyway, at this point, but there was a firewall. To get that resolved, I finally got it figured out.

It's a lot of orchestrating and I haven't worked for a company in 13 years, just acclimating to the tech, acclimating to Outlook, which Oh, man, I just feel it's so punishing sometimes, like I don't understand it. It's not intuitive to me. I've been I've been so used to Gmail all of these years. If that's the worst thing about this job and it's not even that big of a problem, things are going well, I'd say, it's an A, instead of an A plus for the first week, but really incredible meetings this week with everybody on the team. I'm really excited about all that multi-platform ways that we're going to bring important financial content to you and you will be the first to learn about it.

If you missed any of this week's episodes, run. Run and listen to Wednesday show. I had on Ramit Sethi, who is a friend of the show, as many of you know him. The author of, *I Will Teach You to Be Rich*, a website called, I Will Teach You to Be Rich, which I think he now has a million readers. He has now launched a podcast. Hooray, finally Ramit has entered the podcast world. The way that he is going at this is brilliant. He is bringing on couples who are tackling money issues in their relationships. He helps them through it. It's complicated, it's sticky.

He's got people on his show that make lots of money, but are afraid to spend. Another case where a partner just revealed, he is multiple, six figures in debt. Yeah, already married, hasn't told his partner this until recently. Obviously, that is a huge explosion on the podcast and on Ramit always in the middle of things, trying to balance his role as somebody who is sensitive to these people's issues, but also straightforward and his advice. It's just a – I mean, I told him, I said, I want to see this show. I don't want to just hear it, I want to see it. So, go back and listen to our conversation with Ramit, as he talks about the behind the scenes of his new podcast, which is also called, I Will Teach You to Be Rich. You can subscribe everywhere. Everywhere podcasts are available to that show.

On Monday, my friend Kabir Sehgal, came to talk about the book that he co-wrote with the late John Lewis, Congressman and activist, John Lewis. So, Kabir has been on this podcast before because he's super dynamic, and accomplished, he is a Multi best-selling author. He's a Grammy Award winning musician. His latest book is called, *Carry On: Reflections for a New Generation*. It's a book that he co-wrote with his family friend, family friend, John Lewis, before he passed.

He worked on this book with him and it finally came out about a year after his passing. For most people, you remember Congressman John Lewis as this iconic civil rights activist who fought for so many of our civil liberties, but he had many reflections on money as well and Kabir unveils a lot of this in the book with him where he talks about not just his views and his sentiments regarding activism and courage, but also money and how his activism was really also financial activism. Really great connections there that we made with Kabir, on Monday's episode, urge you to go back and listen to Ramit and Kabir.

This week, we're going to get to the mailbag very quickly. First, let's go to the review section. I'm not going to go to iTunes this week, because I actually got an email from a listener who pleaded with me, she said, "I don't have an iPhone, I listened to your show on an Android device. I would love for you to pick reviewers once in a while from other platforms." She's absolutely right. I have been meaning to do this for some time, but it was just good to get the reminder and really pushed me to do this and I say, "Okay, great. You're absolutely – where do you listen to the show?" She said, "Podcast Addict." So, let's go to Podcast Addict, and I don't believe she has left a review yet on Podcast Addict.

I won't be picking her this week, but maybe in the future if she leaves review I shall – alright on June 15th. I see okay, I see some reviews here. Carol Mac on June 15th, left a review on Podcast Addict said, "Hey, Farnoosh your podcast is a fantastic breath of fresh air. The content is unique helpful and your attitude, fun dialogues and voice make for a very pleasant listening experience. My favorite episode is with Stephanie O'Connell. Keep doing the great work." Carol Mac, thank you so much for your review. I will be checking Podcast Addict and other players throughout the weeks to make sure that I am spreading the love and offering my 15 minutes of service, phone service to as many people as many listeners as possible.

So would love to connect with you Carol Mac, you can email me farnoosh@somoneypodcast.com or go on Instagram and direct message me there. Let me know you left this review on Podcast Addict. This was dated June 15th, I will follow up with a calendar link which will work now, because I have figured out the kinks for you to pick a time to connect with me and ask me your money questions, looking forward to it. Just a heads up that next week we're going to be dedicating all three of the So Money episodes, To how to quit your job? It's funny that I'm going to be doing this, given that I just started a new job. Looking at the headlines, seeing how 41% of Americans are considering leaving their jobs this year. Had to do something around that, how to actually quit and make it work, how to afford this?

We have two people coming on the show, who have done it. One as recently as this month, quit his job at the New York Times and then of course, we're going to answer your questions about how to quit on the Friday, Ask Farnoosh Episode. I've been gathering those questions and we have employment expert Dan Schawbel, joining me to assist in answering questions about like how to leave without burning bridges? How to leave when you don't have a job lined up? What to do if your boss's toxic, doesn't like you and you need a reference for your next job? And of course, how to afford it, if you don't have the savings cushion? Is there a way to quit and still be okay? More on that front next week starting on Monday. So make sure that if you aren't subscribed yet to this podcast, you hit that subscribe button, because that ensures that you receive these episodes automatically when they go live. You don't have to go looking for it, and you won't miss the coverage.

Okay, 10 minutes of housekeeping. Let's hit the mailbag. First question, Farnoosh I make about $50,000 a year, but I live in a very expensive city where 55% of my income goes to rent. I love where I live. I keep changing jobs within the same salary range. Most jobs I've had, I end up leaving because I either hate them or they're a toxic environment or just not challenging at all. I don't have any debt besides student loans. I'm not worried about the loans, because they are government backed loans, and they have low interest rates. I work in the tech industry. Is there anything I can do to increase my primary income?

All right, now, I know that I have said before that when you live in a high cost of living city, whether that's New York, maybe in your case, it's San Francisco, although I've heard rent has dropped dramatically in San Francisco. I might give you a pass at spending more than the recommended Max 30% on housing costs. I definitely spent way more than 30% on housing when I first lived in New York City. You have to make trade-offs, right. You're working in an incredible city that you love. The city might be affording you this opportunity to also work in this job. So, there's no quick fix here other than walking into your boss tomorrow and saying, I need to make more money and here's why. I've done tons of episodes on how to negotiate and ask for more, so check out those episodes.

But basically, it comes down to showing your worth, right? How are you going to make this raise an investment for your company, improving your track record and saying I'm worth way more than what I'm making now? I also see perhaps people in my industry with my experience at competing companies making more and you can look at places like PayScale and salary.com for those numbers. Yes, of course, you can go in tomorrow and ask for more money. It's easier said than done, but you should try anyway, if you haven't. But there seems to be some larger issues here at play. I'm stuck on this storyline that you have changed multiple jobs throughout the years, always staying in the same range. I think those were missed opportunities to ask for more money.

When we switched jobs we'll always do it for the money, but we should try to earn more than what we were making. It's as an employer, hiring somebody from another company who's continuing to work there, they're not unemployed, they're already working and now I want to attract them to my company. There are a lot of things that make a job attractive, but money is one of them, money is a big one of them. I'm not going to dwell on the past. I will say that I think there were some missed opportunities over these years of switching jobs and not getting paid more. If you've switched jobs multiple times, and you're still in the same salary range, it's either because you didn't negotiate more on your own behalf or these jobs just stink and it does sound they stink, it doesn't sound you love these jobs.

You hated them you said in one case, toxic environment. Maybe there was an even bigger issue here, right? Or you're in the wrong type of work, or you haven't yet landed on the right place to work. This might require a bit of reflection on yourself and thinking about what your skills are and how you've been applying them. You might have great skills, but you're applying them in the wrong way. You're applying them in this particular industry where you've had a lot of strikeout. Are you in the right industry? Do you love your work, the work that you do? Forget about where you work, but the actual work that you're doing, do you like it? How can you do what you love and make more? Sometimes it means getting an advanced degree, investing more in your education.

I'm not saying like, go further into debt to do this. Sometimes it's an online certification. It's some classes that you can take at night to increase your skill set to make your resume more attractive. If you like your current job, perhaps it's about going to your boss and saying, “Look, I've been here, I've been here to the pandemic. I've been working very hard and I want to outline some of the value that I have driven for this company, because I want to make a case for earning more money here and I want to make 20% more or 25% more.” There's different ways you can approach this and I would recommend trying all of these things. Try to ask for a raise, try to look at your career and think about deeply reflect on where you want to go, and how much you need to make in order to make where you're living work.

Let's also address the fact that maybe where you're living is problematic. I know you love it, but you might love something else that's more affordable. Today, in the world that we are in, far fewer of us today, would say that I have to live where I work, right? Or I have to live even close to where I work. My husband works for a company where literally everybody's all over the world now. Whereas two years ago, most people were in Brooklyn where the company was, and now everybody is dispersed, and still working for the company and the company is successful. So could you move? 55% of your income is a lot to go towards just rent. I know that you don't have a lot of debt. That still doesn't leave a lot of money left to live, to save, to invest, to build wealth. Something's got to give here. It's either where you live has to change, the income where you're currently working has to increase or you switch jobs and when you switch jobs, you quit your way to a richer job.

Then I want to give you a toolkit, a free toolkit. My friend, Mandi Woodruff, who is a financial expert, and she's been on this podcast, she's actually the co-host of The Brown Ambition Podcast with Tiffany Aliche, the Budgetnista. Mandi is amazing. She's got a lot of great advice, mandimoney.com and she has a free toolkit on how to quit your way to rich. Mandi has quit, I think six jobs in the last 10 years or 12 years. I think she has a lot of advice to give people on, how to negotiate more on the job? How to negotiate for more at your next job? Just how to career arbitrage, right? So that you're making more every time you make a move. I wish this had been your story up till now, it hasn't been but it doesn't mean you can't change your career narrative, and your earning narrative.

It's going to take being a better advocate for yourself, figuring out what you deserve to earn. If you're not interested in doing what you're doing and earning what you're earning, if you realize like, "If I stay where I'm at, or close to where I'm at, this is it for me." Like some jobs, just pay what they pay, you might have to consider a career shift. These are the hard things we have to consider, but I want this to be fun for you, I want you to realize the incredible opportunities that you have right now, to decide what you want to do, to be in that driver's seat. The fact that you only have these student loans on the books as a debt is an opportunity to navigate your next move with not a lot of financial stress.

I mean, 55% of your income going towards rent, not so great. Here's the other thing, and I'm going to move on after this. Can you talk to your landlord about reducing your rent? If you're living in San Francisco, right now, that should be no problem, because I have been watching rents drop and drop, drop drop. Could you switch apartments? Could you break your lease and go somewhere else that's more affordable? Yeah, you got to make a move here, right? Either make an actual housing move or career move or both, but you've got to make a move, but you're in the driver's seat here.

Our next listener is asking, Farnoosh I want to get my credit up, so I can be eligible for a commercial loan for a building that I want to rent out as a hotel/short term rental business. I have $11,000 in my 410(k) and $8,000 on credit cards that are carrying anything from 19 to 23% interest. I want to increase my credit score, is that a good move to wipe out my 410(k) to pay my credit card and improve my score?

All right, well first of all, this is a really huge financial endeavor and I support this, if this is something that you're really passionate about, and you've got a business plan behind this, opening up a hotel/short term rental business. This is like starting a business right. What you're looking for is a commercial loan, which will look at your personal assets in order to give you this loan that the building will have collateralize as commercial loan, but you're going to have to have good personal financial numbers including a credit score, but guess what they're also going to want to see, is savings. If you only have your 410(k) as a liquid resource to pay down credit card debt right now, this problem is not going to go away.

My prediction is that you're still going to have a problem when you go to apply for this commercial loan, because the bank won't just care about your credit score. They want to look at your entire financial profile? Does this person have enough in savings? So that they can't pay off their loan in time with the revenue from this business, that they have savings in the bank. It is in your best interest before you apply for this commercial loan that you get all your financial ducks in a row, that you increase your credit score, and that you beef up your savings, at least so that you have six months to a year's worth of living expenses shored up. I would not cash out your 410(k) to pay off this credit card, because as I said, you're still going to be left with the dilemma, multiple dilemmas.

The dilemma one of depleting your retirement account and by the way that $11,000 in your 410(k) after the early withdrawal penalty and the taxes, you may not even have enough left to fully pay off the credit cards. I don't like the idea of cash out your 410(k) for this reason. In the pandemic, we got a provision to tap our 410(k) penalty free to help keep our head above water, because so many of us lost our jobs, we couldn't put food on the table, we couldn't make our mortgage and in that case, I said yeah, if your house is on fire, use the water, don't worry about the cost of the water, just use the water.

If you have to use your 410(k) because it's literally all you have that is liquid to pay for rent, to pay for your mortgage, to keep your head above water in this crazy so terrible time. Fine, do it. Don't let me get in the way. But in this case, you want to use your 410(k) to pay off your credit card debt, to then get a loan get further into debt for a business. Don't rush into this, I know you're really excited probably you want to do this with interest rates also really low right now, you want to bank on this now. Take your time. You need a far stronger financial foundation, before doing this work on the savings. The bank's going to care.

You might have a nice credit score, and then you won't have a retirement account, but you also may not have any savings. They're going to say sorry, right? I want you to really be in a great position to do this, it may take another year. I don't see interest rates doubling in the next year, I really don't. I applaud this move. I think it's really cool that you want to start the short term rental business, but I really would love to see that you're doing this that use a different strategy here, that your strategy be fortifying your personal finances first, which will help your credit score but it'll also mean that you'll have savings and being in a much better position to manage the risk of all of this.

All right, next up, our listener, speaking of real estate wants to buy a second home and rent out the current home, but the question is, if we don't sell our current home, where do we get the down payment for the second house? We have enough money in the contributions to our Roth IRA, which we could take out penalty free, but everyone says to not withdraw that. We're 43 years old, we have one child 13 years old. We have $230,000 in our Roth, $350,000 in traditional IRAs, plus, we have 55,000 saved for college. The house down payment is about $96,000. This home will eventually be investment property, not a forever home, but it's where we want to live at this stage in our lives. Our lender actually suggested we ask a family member, that's definitely not happening. Are people supposed to have 96,000 in liquid funds? We invest all of our savings. Was that a bad idea over the years? Please help. Thanks, love, love your podcast.

All right, this is going to take some financial maneuvering for sure. You don't have to sell your first home to get the second home, but you're going to have to take a little bit of risk here. If you're comfortable with that, I'm going to lay out some ideas. This is a reminder, everybody that financial planning is really important. Now, I'm guessing that maybe over the last few years, you had this goal, right? That this wasn't just an overnight thought. You didn't just yesterday think you wanted to buy an investment property. Had you saved some of your money over the years for this goal?

You wouldn't be in this pickle of considering cashing out some of your Roth IRA to do this, you would have just had the money, maybe in addition to the money in the Roth IRA. You would have shifted things around in your spending, in your budget to be able to allocate money specifically towards the new home down payment over the years, but whatever that's in the past, but just reminder to everybody like why a little bit of planning can go a long way, so that you don't feel so stuck in these financial moves.

Now, taking money out of your Roth IRA, specifically those contributions which will be tax free penalty free, it's not the worst idea, but you have to realize the implications of this right? One is that it could set you back as far as your retirement is concerned. It's really important that before you do this, you think about what will this mean for your retirement goals? Will it mean that you're still going to be okay? Will it mean that you may have to work a little bit longer, save a little bit or a lot more over the next five, 10, 15 years to get back to where you need to be to retire, quote, unquote, on time? What trade off will this mean, in your retirement plan? I don't like the idea of borrowing from family. Of course the lender is going to suggest that, they just want to make the deal.

They're not thinking how this might screw you up and strain a relationship with a family member. Gosh, that's terrible advice. I would much prefer that you take money out of the Roth to do this, if again, it means that you won't sacrifice your future. Now, you might be confused, because a question earlier I said to the person, please do not take out money of your 410(k) to pay down credit card debt. So you're thinking, well, Farnoosh, why in this case, are you saying to someone, it's okay to take money out of a retirement account, to buy a house. The reason is, is because there is going to be no penalty, and no tax for taking money out of the Roth IRA, the contributions, not the growth, the contributions, right?

There's a lot more money to go around here. I assume here that you have other savings, maybe not $96,000, ready to give to a house down payment, but you have a cushion for your own emergencies. That's important. I want to preface, this this advice is assuming that you do also have some savings, that you have a good credit score, all of that is set, but you need to come out with this huge lump sum. It's sitting there in the Roth IRA, you've got hundreds of 1000s of dollars elsewhere in various other accounts and you're still working. I think that in this case, there is an exception here. By the way, taking money out of your 410(k), you're taking out really just half of it, because a lot of that's going to go to taxes and penalty. The other thing is you might look for a home that isn't requiring a $96,000 down payment, maybe you find something that is smaller, more affordable. You said this isn't going to be your forever home. Does it have to be so great? Does it have to be the dream home? You could still take money out of the Roth but a smaller amount and wouldn't have as big of an implication, a big of an impact on your retirement plans.

The traditional way of buying a property is to save. I was having this conversation with my husband the other night, where I was talking to him. I'll tell you a little bit about this, this maneuver that my friends pulling in town. He's like, isn't it just the rule of thumb that you save your money before you buy a house, like your money somewhere liquid, and then you'd then you pull the trigger? You don't try to do this whole scheme. I'll tell you about the scheme in a minute that my friends doing. But another option you might consider, it's a risk your option, is taking out a HELOC a Home Equity Line of Credit, against your current home that you don't want to sell, you want to keep your current home, you want to rent it out, but taking out on HELOC which is essentially a loan against the equity in that current home.

If you do have enough equity, you might be able to find a bank to lend you up to 80% of that equity and use that as a down payment on the next home. Again, it's a scheme. It's not a scam, it's a scheme. Some people do this, a lot of people do this, but it requires knowing with confidence that your jobs are secure, right that you have savings in the bank in case if you lose your job that you will still be able to make this HELOC payment, somehow. It is risky. I'm going to just say that and some banks have actually gone out of this business, because it's not particularly lucrative for them.

There are many banks that still offer this type of loan product, you could look into that. You want to make sure though, that the home is going to be rent audible, that it's going to be consistently attractive to renters at a price that you need to pay down not just the first mortgage, but now the second mortgage on this home. You're going to have three mortgages by the end of the day with the HELOC and the primary mortgage and the secondary mortgage. Do you even want that life? It's a big consideration, and I'm going to give you a story that might relate and you might find some inspiration from this story.

So I just actually had coffee with a friend in town who lives here with her two children and her husband, they bought a starter home and now they've outgrown it and they want a bigger house, but they have to sell to get the equity to the new set equity for the down payment on the next home. They're and they're worried about the timing of all of that, because it's really hard to time a sale and a purchase.

What do they do? Now this couple has always wanted to at some point own an investment property or rental property like you, and they found a small apartment in town, that's a two bedroom, two bath. Now remember, they're a four person family, but they thought, let's buy this, we actually do have cash in the bank to be able to afford this, the down payment would be a lot smaller than the next house that we want to buy, let's buy this, because it has a future as an investment property for us. It is a place where we can live in the interim, while we find our dream home, we will wait for the market to cool down a little bit too.

So the plan is this, buy the investment property in town, it's a much smaller place, it's a short term place for them to live until they find their dream home. They're going to buy, that they can buy it with the money they have in the bank right now, a down payment and it won't be a lot as a mortgage, because it's a much smaller home. They're going to sell, except to sell their primary home, which in this market will take a weekend, and then put that equity in the bank, then move into their second home that they bought, that rental property that's event that eventual rental property.

It's small, and it's crammed, but they're going to make do in the meantime, look around town for their next big home and they're thinking, great to be living here in the offseason, maybe something will pop up, they'll snag it. Then they will move into this new home on their time and then this apartment, essentially that they've been living in that they bought will now become a place for someone to rent, and they'll make rental income. I think it's a great plan. I think that what makes it work for them is that they have steady, work steady income, they have savings. It's not going to be a stretch for them to take some of their savings to buy this investment property.

They are willing to make the sacrifice of living in this cramped smaller apartment with just two bedrooms and they have two kids to look at it as just a middle ground. This is just a short term situation, but it's going to buy us time, more importantly, it's going to give us our equity in our bank accounts so that we can go out into the market and make an offer on the spot. This might be inspiration for you and having optionality right? I talk about this on the podcast sometimes. It’s how, you might be living in a house that's like super appraised and has all this equity, but what good is it for, if you're great that's in theory your networks got up, but what are you doing with it? Or you have to either sell or leverage it. Take it out and use it toward something else.

That's a wrap for us today. Thank you so much for your questions. I cannot wait for next week where we're going to focus all on, how to quit? How to leave? How to say bye-bye? But not go down in flames and actually land with your two feet on the ground and maybe even make more money in your next endeavor. Stick around. Have a great weekend. I hope your weekend is so money.

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