EPISODE 126

[ASK FARNOOSH]

[00:00:33]

FT: Welcome back to So Money everyone. I'm your host Farnoosh Torabi. I hope you're having a fantastic weekend. It is beautiful here in Brooklyn, I'm preparing for my mother actually, to come into Brooklyn this week. She's coming in on the red-eye from California actually. So it's the calm before the storm? But it's a good storm, mom's in town. And I'm looking forward to introducing her to my little podcast studio, she's yet to see it, and see where all the magic happens. And I dunno, maybe she'll make a cameo. Maybe I'll convince her to come and do a little interview with me. Would you guys like that? Let me know.

Anyway, lots of really cool questions this Sunday. We have questions about investing, my brother actually sent in a question - Todd - thank you. We also have a question from a non-citizen who's wondering about real estate. So let's get to our questions. And I wanna start with Joni.

Joni asks:

J: "I'm quickly becoming a fan of your daily podcasts and I don't feel like I am a typical listener because I'm 51 years old, I'm married, I'm a female, I've never been great with money when it comes to saving and investing. There is a lot of focus on your show on starting at a young age, which of course is wise. What would be the very first thing you would advise someone my age to do with the years I have left to secure some type of nest egg?"

[00:01:57]

FT: Well Joni, you're not old okay? And if my mother where here she would say, "51 is not old!" Because my mother is around that age as well, and believe me, you have hopefully many healthy happy years ahead. Of course, you're not 25 so it's a little difference saving at 50 versus 25, but the same principles hold. Save well, save often, and of course now that you're 50 something and haven't perhaps been aggressive yet, it's time to get aggressive. Typically we say save 10% of your annual income every year in a rainy day account, up until you have about 6 to 9 months of a reserve. And that reserve would be able to cover your necessary expenses in the event of a job loss or in the event of a disability, or whatever, just to have that as an emergency. If your car breaks down, you need to find money for that. So it's 10% of your income until you have about 6 to 9 months short. And then for retirement, another 10% for that. And that includes any kind of company match you might be getting in your work 401K.

Now, you're 51, you've never really saved for retirements, so I would say 20% -25% of your income in various accounts from your work 401K to an IRA. Diversify, and invest, I would say no more than 50 or 60% of your money in equities, in stocks. Because at this age you don't wanna be taking a majority risk in your portfolio. You don't wanna be going full stocks. You wanna kinda keep it a little more balanced between stocks and bonds. The rest I would say bonds, more conservative investments, money markets. Also I would say this is a good time because you are still young, you are! 51 is not old. You can think about what it is that you wanna do in retirement and start laying that foundation today. So think about, "Where do I wanna live? What do I wanna do?" And so if it's that you wanna move and downsize, if it's that you want to relocate, if it's that you wanna perhaps start a little side business or go back to school - whatever it is, this is the time to plan it and this is the time to kinda get those wheels turning as opposed to arriving in retirement thinking, "Oh my gosh, I really wanna do X, Y, or Z but I wish I'd had the foresight so I would have saved more for it, I would've rearranged my life a little bit."

And speaking of rearranging your life, this is a really good time, and I'm encouraging my parents to do this as much as possible although they're being resistant. But I'll keep at it. Really downsize. Whatever you don't anticipate needing in retirement, whether it's that second car or it's even the house that you're living in, or just that stuff that's accumulated around you. Start going through it now and get rid of it. Have a yard sale, start to simplify, start to get to a place where you have just enough for what you need and get rid of the excess. And maybe you can liquidate some of that stuff, make money off of the extras. That would be a way to jump start and get ahead with your retirement. So that would be my advice to you. It's really about saving 20, 25%, maybe more of your income. You can still be in the stock market, but I would just say, stick to 60, 50% or less. And start laying the groundwork, the foundation for perhaps what you wanna do in retirement. If you want to start a business, or consult, or teach, work in a store - that you start thinking about this now. How am I gonna generate income? Cause the truth is, if you're in your 50's and you don't have any savings, unless you inherit lots of money or you save every single penny for the next 20 years or 15 years, you're gonna probably have to work a little bit longer than most people, well I guess the average age of retirement which is 65.

So think about maybe working a little bit longer to make up for these lost years of not saving. But I appreciate your listenership, I appreciate Joni you joining the show. You may not be the "average" listener - most of my listeners are millennials and sort of moving up the corporate ladder or they're pursuing entrepreneurial pursuits, but I love hearing from you and I appreciate your question. And I hope you'll stick with the show.

[00:06:35]

Michael asks:

M: "Farnoosh, what is the best way to consolidate multiple student loans with multiple lending agencies with rates ranging from 2.2% - 7.5%."

FT: Well this is a great question Michael. Lots of us carrying student loans these days, and I would say not knowing what types of loans that you have - and what I mean by that is, are they private? Are they public? Both? I'm gonna guess a mix. The first thing I would say to you is if you have a mixture of types of loans - you have a loan from the government and a loan from the bank - that when you consolidate you can't consolidate a private loan and a public loan together. It can't mix. But you can consolidate whatever you have that are private loans and one bunch, and public loans as another group. So if that's your case, I would say start there. Identify, what's my private loans, and then public loans, and then conquer them separately. With the private loans it's a matter of - ideally you wanna go with a different loan product. Perhaps it's a credit card, or a private loan that carries a lower interest rate. So if you're, let's say hypothetically, if you've got 2 private loans and each has got $5,000 on it, and one is a 2% rate and one is 7% rate, you can try to apply for a private loan from the bank. That might be something around 6%. I dunno if that exists, but I'm just saying. That would be where consolidating would make sense - getting that loan and using that loan to pay off your other student loans and then paying down that new loan.

There's also peer to peer lending. I know a lot of people are turning to peer to peer lending for finding alternative ways to soften the interest rate blow on their student loans. And honestly, 7% is not that high. I'm not sure if you're gonna find anything that is lower than that. There are som 0% APR credit cards, and that may be one way to navigate this - I'm talking specifically private loans because it's 0%. I guarantee it's lower than whatever you've got on these other loans. However, that 0% is not forever. It does expire after usually 12 or 15 months, or sometimes 18 months. So if you can pay off that loan within that timeframe, that it absolutely makes sense to take on that credit card to pay off that student loan and use now the credit card as your "new student loan". But you have to pay it off in full in that year to really take advantage of that 0% APR. Otherwise it's gonna go to 18% or something and then you're worse off than you once were. So private loans, a whole separate plan of attack. Public loans, a different plan of attack.

With public loans, with federal loans, you might wanna look at income-based repayment. So federal loans, to modify those you wanna call the loan officer, depending on your income, you may qualify for income-based repayment plan. Check out IBRinfor.org and you'll learn there if you qualify and they can hook you up. And basically, an income-based repayment puts a cap at your monthly payments to something like 10%. No more than 10% or no more than 15% in some cases. And then if you're still paying off these loans after 20 years, your loans are forgiven. But you can't ever miss a payment otherwise the clock starts again I think, or you're disqualified from that benefit.

But I hope that wasn't too long-winded of an answer, but the short answer is: attack your private loans separately, and your public loans separately. Consolidate them as their own categories. With private loans it's a matter of shopping around, calling the individual lenders and saying, "Hey I wanna consolidate, do you have anything that can beat the interest rate, the average interest rates that I have currently with these private loans. And then with federal it's about checking out IBRinfo.org. Call your lender as well and talk about ways you might be able to modify that loan. Alright Michael, good luck.

[00:10:52]

Alright Todd, my bother, he sends - do you remember Todd? He used to be on this podcast in the early days. I will bring him back. It's just that our schedules have gotten so nuts. I record this podcast at the craziest of hours sometimes just to get it in time for Saturday and Sunday, getting it done in time. And then Todd is off doing a million things. But we always say that we wanna have a reunion, so if any of you are wishing for that, your wish is gonna come true soon. I just don't know when. But in the mean time we have a question from Todd. He says:

T: "Hey Farnoosh! It's your brother."

FT: Yeah I know. He says:

T: "Many of my friends have saved some money after college but don't know what to do with it."

FT: Well that's nice. That's not something I often hear. It's usually the opposite, "I have no money."

T: "A lot of them are torn on whether to invest it in a portfolio/brokerage account, to pay off their college debt, maybe add to their IRA/401K, or start their own side business. Which strategy is most valuable in the long run at their age, which is 25?"

[00:11:56]

FT: Well I would say that if I was not so risk averse, I would say plow it into a side business. Cause I'm all for entrepreneurship, I'm all for making mistakes in your 20's cause that's how you're gonna learn and make the best decisions in your 30's and beyond. And so if it's really about, if you have this goal, this passion to pursue your own business and you have a great idea, a lot of entrepreneurs in the beginning days they take these risks. And I think if you're a risk taker - and that might be something that is suitable for you. Now, it's a risk right? If the business fails and let's say it's 5 years later and you're 30 and you haven't saved a penny for retirement, I would say you're gonna have to really kick it up a notch or 12 to get back to where you need to be. So if you have extra money and you have this passion project in your head and you have actually some wherewithal to put it together, you got a business plan, you've got a plan of action and you want to implement it, go for it. But I would say, don't quit the day job. And as you're making money from your day job, try to save as well at the same time. But if you've got a little stash of cash and you wanna really be experimental with it and a little bit of risk-taking with it, then I would say start that business. But only if this is something that's important to you. I wouldn't say this to anybody.

More generally, I would say, if you're not interested in having a business I would say get ahead with retirement. If you talk to anybody right now in their 40's and 50's and beyond, one of their biggest financial regrets hands down is always, "I never started saving enough and soon enough for retirement. I'm 45 now and I'm really worried. I've got kids, I've got a house, I've got a mortgage, I've got all these financial obligations and had I just started to save for retirement a little sooner, I'd feel a lot more confident in that department. I wouldn't feel so insecure about retiring. And so I would say, to the best of your ability, if you have a 401K at work, contribute! If they're offering a match, even better, do that. Absolutely do that. If you've maxed that out and you've got money left over, open up a ROTH IRA and if your work doesn't have a 401K, definitely open up a ROTH IRA. Definitely get some kind of retirement vehicle going.

As far as brokerage account, portfolio, that's for later. That's for when you're cruising with retirement as far as retirement vehicles go. 401K, ROTH IRA, you've got those figured out, you're maxing those, you're taking good advantage of those, you've got more money left over. So now maybe it's about opening up a portfolio with the help of a financial advisor or if you have time and interest and the ability, maybe it's something that you manage on your own. But you're not day-trading here. You're picking index funds, or other ETF's and stuff like that to create another basket for the future. Another basket of investments for the future, and it's something that you visit from time to time, but it's not like you're "playing the stock market" so to speak. And so it's just another way to diversify your ability to have enough money in the future. And that's what I would say.

I don't think you would expect me to say, "use the money to start your own business," because I think I'm a little more risk averse than my brother. Which is why he's the mega entrepreneur. I'm an entrepreneur, but I was a little later to the game. He's like out of the gates from college, he's like, "I'm gonna be my own boss." And I was like, "Okay. Take it away Todd." And I think that's something he would've or is doing. Whatever money he's saved he's putting it into his little business right now. So more power to you if you can do that and you can make it work. But generally for everybody, I'm a big fan of starting young with retirement. You will thank yourself. You will absolutely thank yourself in years to come. And you'll thank me hopefully. [Chuckles}

[00:16:02]

FT: Reem. Last question. Reem asks:

R: "I am a non citizen and non-resident of the U.S. If I own property here, am I eligible for a second home mortgage, generally speaking?"

FT: Well Reem, I didn't really do a whole lot of research on this, although I know a lot about real estate. I bought and sold multiple times in my life thus far. But I am a citizen, and I am a resident of the U.S., so it was obviously easier for me, than perhaps for somebody who is a non-citizen, a non-resident. But if you already own property here, and you were able to secure property as a non-citizen, as a non-resident of the U.S, then I wouldn't know why you wouldn't be allowed to have a second home here. There are a lot of overseas investors that have property here. I mean I live in New York. Most of the property here is owned by Russians, and Israelis, and the Chinese. It's a fact. I don't think that is gonna be a hindrance to you, but I will say that in general, buying a second property, a third property, and wanting to finance it, it comes with more hurdles.

It's not as easy because as far as the bank is concerned, when you're a multiple property owner and you enter a period of financial distress, the first shoe that's gonna drop is not your primary home. It's gonna be your secondary, your third home, your investment home, your summer home. So as a result, the underwriting for that is gonna be a lot more difficult. They're gonna want you to probably put down more in terms of a down payment, they're gonna want to make sure you have excellent credit, they're gonna definitely look at your bill payment history, your income, and your debt-to-income ratio. And they're gonna be a lot more scrutinizing than they were the first time. So if anything, securing a second home financing is challenging, simply because that market is a tougher market to break into just because lenders are a little more resistant and they just want precaution. It's not impossible clearly, but you just have to be really buttoned up as a borrower and be able to have more skin in the game - be able to put more down.

So I don't think being a non-citizen will work against you given that you've already secured a mortgage under the circumstances, so I don't see why you couldn't again. But do call around and ask banks and find out for sure that way. And if I'm wrong, which I hope I'm not, but if I am wrong let me know. Thank you Reem.

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And thanks to everyone for your questions. Thank you to Todd, thank you to Michael, thank you to Joni. And as a reminder, if you'd like to have me answer your question, just hop onto Somoneypodcast.com, click on "Ask Farnoosh", and ask away. If you'd like a free 15-minute money session with me, and many of you did leave reviews this week, it was hard to pick my favorite - or I don't say it's my favorite, but it's just the random one that I pick. I promise, I'm not picking favorites. I just sort of throw a dart and I pick a new review from that week, and we announced that winner yesterday so make sure to tune into the Saturday episode as well. But if you'd like to win a free 15-minute Money Session with me, go to iTunes, leave a review, and every Saturday I pick one new reviewer to get a free 15-minute Money Session with me.

So hopefully we will connect, and in the meantime, I hope you have a wonderful end to your weekend. Go out there and enjoy this beautiful spring that we're having. Hopefully it's nice wherever you are. Hope your day is So Money guys. That's a wrap!

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