EPISODE 1278

[INTRODUCTION]

[00:00:31]

FT: Welcome to So Money, everybody. Friday, November 12th, 2021. I'm Farnoosh Torabi, and you're listening to our Friday Ask Farnoosh, where I answer listeners' questions, and we do a little catching up. I've been writing my book and I just ended a chapter. I don't know what to title it yet. Maybe you can help me with this. But the story is about – The essay is about the first time I ever appeared on the NBC Today Show. I was all of 28. It was April 14th, 2008. I was there to promote my very first book, *You're So Money*. I was so excited to learn that Meredith Vieira was going to conduct the interview. I had my outfit picked out. I've been practicing for weeks. I even suggested to the producer a creative way to open up the conversation. I went around the country prior to the interview and interviewed on the street several young adults in all sorts of cities about why they were so money. The book is called *You're So Money*, and it was a way to kind of kick off a conversation about millennial money and financial advice for young adults. So it was all in the can. I was so excited. I knew this was going to like change my life, being on the Today Show. Oh, my god.

The summary of that interview, the TLDR, is that I somehow blurted out on live television in front of five million people that Meredith Vieira was old. You can probably go back and look at the clip on YouTube, but that was definitely something that happened in that interview. I more or less said that she was old. I didn't mean to obviously call her old, but it was just – I don't know but I think I had like a stroke on TV. I must have said something. It was kind of funny, but I was mortified. When it happened, I had an out-of-body experience and I thought to myself, "You just ruined everything. I mean, this was your chance, Farnoosh. Way to go. Way to go. Way to fall on your face in front of the world." Then the interview ended. I'm writing about all this, so you can get all the details in the forthcoming book, *A Healthy State of Panic*.

The interview ended. Meredith graciously said, "Good job," gave me a hug. I thought she was totally lying and I'm getting de-mic'd. I see my producer walking over to me, Patricia, who had taken such a chance to book this unknown woman on the today's show, right? She's coming over to me. I'm like, "Oh, my god. She's going to tear me to pieces." Once we were alone, I was no longer mic'd, she grabbed my arm and she said, "The executive producer wants me to let you know that you can come back anytime." I go, "Come back where?" So all this to say this is the opener of this essay. I think the moral of the story, the lesson is, we can be our harshest critics. We can obsess over the wrong things. We don't focus on what actually matters sometimes. We focus on getting embarrassed or misspeaking.

But let's like take a big step back and look at the big picture, the totality of what you just did. I think we need to give ourselves more credit. The truth was I did get booked again on the Today Show, as well as all these other networks. My life went on, and it went on just as I had hoped. Maybe the fact that I screwed up was charming too. It made me look like I was a human, so there is charm and decency, even when you screw up because this is what humans do. So this is what I've been writing, whenever I get a chance before work, after work to put together this this book that I hope you will buy. Start saving your money for my book. It's coming out in 2023

In the meantime, you can get my So Money Page-A-Day Calendar. Go to workman.com, code SOMONEY for 20% off your Page-A-Day Calendar. I'm looking at mine right now. It's sitting on my desk, a year of managing your money, your life, and your dreams. Everyday a little Farnoosh-ism. So when you're not listening to the podcast, we can still have a cool experience. Great stocking stuffer too. Workman.com, code SOMONEY for the So Money Page-A-Day Calendar.

All right, before we get to the mailbag, let's hit our iTunes review section and pick our reviewer of the week. We have a new review this week from Consuelo1310 who says, "Love learning with the podcast, while driving my little ones to preschool." This is so heartwarming because in our car on the way to preschool, we listen to KIDZ BOP Kids. Well, we did when I was getting SiriusXM for free, and now they want me to start paying subscription. I don't know. I don't know if I want to fork that over. Consuelo says, "I started listening to the show about six months ago when I realized that even if money has never really been a limiting factor in my life, I needed some education on the subject. I have learned much more than just financial concepts, but also business and real life stuff. One of my favorite episodes was the recommendation of the book Bringing Up the Boss by Rachel Pacheco."

Consuelo, thank you so much for your kind review, and it's so lovely and amazing to know that you're all experiencing the show, you and your littles on the way to preschool. Way to start young. You can email me, farnoosh@somoneypodcast.com, or go on Instagram and direct message me there. Let me know that you left this review, and I will follow up with a link where you can pick a time for us to connect. Looking forward to speaking with you.

Today marks the final day of our two-week-long climate series, Cost of Climate Change series on CNET. It's a big project that I helped spearhead with my team, where we looked at the cost of climate on everything from food prices to retirement to housing. Is now the time to get those solar panels? Is now the time to become a vegetarian? All of these questions at the intersection of climate and money. If you haven't checked it out, please do. Please check out our work. I think it's important. I think it's important for all of us to start thinking about money in this context, our financial decisions in this context. You can go to cnet.com. I'll put the link on the So Money podcast website, but it's cnet.com for the Cost of Climate Change series.

If you missed any of this week's shows on So Money, please go back and check them out. On Monday, we had Terri Trespicio coming on to talk about her new book, *Unfollow Your Passion*, where she shares insights and tools for living a meaningful life on your terms. If you are not someone who is following your passion, guess what? You're not alone, even though everyone tells us that's what we're supposed to do. It's really not that easy. It's not that simple. Sometimes, it's not even that smart because your passion is not necessarily what's going to make you the money that you need to afford the lifestyle that you want. *Unfollow Your Passion: How to Create a Life that Matters to You*. It's a book now. Terri famously did a TED talk on this topic, and now it's a book. It's coming out December 21st. But if you go to unfollowyour passion.com, you can preorder the book and get some freebies from Terri, some early bird exclusives.

Then on Wednesday, dedicated an entire episode to helping out the creatives in the audience. If you are a creative person, in other words, you're a coach, you're a teacher, you're some kind of artist, you're self-employed, and you've created your own business. My guest was Ilise Benun, and she offered financial strategies and advice for creatives on how to determine how much to charge for your goods and services, how to establish a business for long-term financial success, how to bake in your retirement expenses in your cost of goods and services today. Did you even know you could do that? Ilise Benun, that was Wednesday's episode.

Today, we have questions about real estate. One listener, Nadia, is trying to help out her mom with her retirement and wants some elder financial advice. Let's hit the mailbag. First up is Sarah who asks, “Do you think homeownership, Farnoosh, will eventually be a bad idea because of geographical unpredictability?” So this is a question related to, of course, climate change. I've written about this on CNET. We had a guest on the show last Monday, Aditi Shekar, talking about how she's leaving San Francisco. She's an entrepreneur, and she and her husband are leaving San Francisco to move to Montana in the near future. The catalyst of that decision was really the climate in San Francisco in Northern California, between the fires and the droughts and the overheating. She's like, “I am out of here. This is not a sustainable place to live.”

So to answer your question, Sarah, I do think, and we were already seeing it happening anecdotally, although it's not really showing up in monthly sale prices and monthly real estate trends, but I have now spoken to real estate agents and economists who track the real estate market and individual buyers who are all saying this. That it's only a matter of time when certain homes and certain properties in this country will become undesirable because of climate change, because people are seeing the handwriting on the wall. If you're trying to sell your home right now, and it has a history of getting flooded, it has a history of having its roof be blown away in a hurricane, and maybe you've done the nice repairs, but that next buyer is going to be skeptical.

If you live in Miami, where sea levels are rising and you're trying to sell a home in that market, that may be difficult. A friend of mine actually offered to buy a house in Miami. It was miles from the beach, walking distance to the beach. When she went to go get insurance, the insurance company said, “No, we're not insuring this home, until you make all of these repairs, all of these upgrades.” At that point, my friend backed out. She said, “This is a money pit.” So even if buyers want to buy these nice homes, what may be stopping them in their tracks is the fact that insurance companies are going to want to charge an arm and a leg for backing the home, for insuring the home. If you can't get insurance, you can't get the mortgage.

So I think there's going to be part of this is going to be a trickledown effect, where the insurance companies, the mortgage companies, lenders won't want to participate in that sale and in that home. As buyers, you have to look elsewhere. I think it's very important if you're a buyer right now to think about this new variable, which is climate. This is not a new problem. Of course, climate change is not a 2021 issue. It's been happening, but changing weather patterns are increasing, and they're becoming more severe. So we really need to start thinking about the impact of climate change on a home that we're thinking about buying. Are we going to be ready for the what-ifs? The best way to figure that out is to look back in time. What has happened in that area in the last 5, 10 years? What are the climate predictions? Talk to neighbors. Talk to the real estate agent. Look at flood maps. Talk to insurance companies. Before you make an offer, call up some insurance companies where you think you're going to want to go and get insurance for a home. Talk to your existing insurance. Say, “Hey, I'm looking at this home in this zip code on this street. What do you think? What's it going to cost? Is it insurable right now?”

There's no real slowdown in purchases. We're still seeing people buy homes on cliff tops in Malibu. We're still seeing people buy homes on the coast in Florida. But those are a particular kind of buyer, right? They're wealthy. They may not be as financially risk averse. But eventually, they won't be buying those houses. Everyone's got a price. Very smart question, Sarah. I think you're onto something I do think homeownership will eventually be impacted, more so by geographical unpredictability. I don't think it's going to kill the market because real estate, what drives the market, there are so many factors, right? You've got interest rates that drive the market. You have supply demand that drives the market. But I think also this added layer of climate change is not going to make things easier. I think it's going to make it a much more complex decision for buyers and sellers.

Okay, Tara has a question here, “Wondering about how to buy home as an entrepreneur. Are there things that I should know or that are difference since I don't have the how long I've been at my job proof to show lenders? My husband would like to take a break from his job next year, so I'm wondering if it would be better to try find a home while he has a job.” All right, Tara. This is – You’re living my life here. I have bought and sold homes when I was self-employed, and the reality is, is that when you work for yourself, there is going to be more scrutiny from banks and lenders. They want to see more financial documents and some cases different kinds of financial documents, right? You're not going to be able to get a letter from your employer, for example, let's say that your job is in good standing, or that you've been working there for three years, or that you've –

So what you're going to need that's going to be helpful to start gathering now because, as we know, when you make an offer, like things have to start falling into place quickly, especially in this market, in this competitive market. You don't want a slowdown in gathering paperwork to be the reason that you don't get the home. So I'm going to tell you right now what the list is. Firstly, you're going to want at least two years of tax returns for your business. That shows ideally that you are profitable and that your business is growing. If you had a bad year in 2020 because of a pandemic, it's important to have an explanation ready to say, “Look, there was the pandemic, but we were able to reduce our debt, We were able to increase savings, so we were able to offset that drop in income. But looking ahead, I've already closed these many deals.”

I'll tell you that working with a mortgage broker that understands and sympathizes with your business and the seasonality of your business is a great advocate to have in the process. So we worked with an incredible loan officer at the bank. He came through word of mouth and through my real estate agent, and he really helped drive the underwriting process, given that I was self-employed. It was 2020, and so I was buying in April, when a lot of my client work disappeared overnight. I was so freaking out a little bit, but we had savings. We didn't have any debt. My husband, thankfully, was still employed. So we still had things going for us, but it was a sort of thing where he was constantly, and he and I were constantly talking about. Be prepared. They might come back with a question like, “What does the second half of your year look like? How come you didn't make as much money in the first quarter of 2020, as you did in the first quarter of 2019? Is your business, okay?”

Part of it is like, “Well, I'm still waiting for checks to come in. Here's what's coming. And then when they would come in, I would show.” So really important to work with an advocate within the bank who understands what you're going through, and the best way to find that person, I think, is to talk to your real estate agent because they want this deal to happen, right? So talking to them and saying, “Do you know any loan officers, case managers at banks, at lenders that really understand what goes on behind the scenes when you run your own business?” That things aren't going to be very straightforward because the underwriters, who are the people who are looking at all the paperwork, they may not understand. So having that person in the middle to communicate with you and the underwriter at the bank is so important.

But two to three years of IRS tax returns, you want to show also your profit and loss and balance sheets for your business. So it's important that you do keep good bookkeeping for your business. Whether you use QuickBooks or some other kind of software, important to show those statements. If you have an accountant or a CPA or a financial planner, a letter from this person saying that Tara's business is in good standing, that's pretty much it. Signed, dated, put that into your folder. It's really important that your husband has his job when you apply for this mortgage. If you're going to be applying together cosigning this loan, they're going to want to see that he has income too or that your income can cover all of the expenses of the home. But it's much easier and much more compelling if your partner is also employed and has income. It's just more financial security.

The bank essentially is looking to make a bet on you, right? They want to make sure that you're not going to forfeit the home. You're not going to fall behind on payments. Maybe have the account letter drafted, and then send it to him or her and to sign it, so it's more current. You don't want anything that's dated from a year ago, as far as letters and things like that. But these statements, these tax returns, these balance sheets, the profit and loss, all great to just know and have it at the ready. Obviously, like everybody else, you're going to have to show bank statements, checking account, savings accounts, investments, things like that. They want to see the totality of your assets. They want to see what your debt to income ratio is.

We talked about this. I believe it was last week, where a listener wrote in and said, “What is a good debt to income ratio?” Debt to income ratio, that's the percentage of your gross monthly income that goes to paying your monthly debt payments, and lenders use this to figure out whether they're going to give you the mortgage and what kind of interest rate they're going to attach to that. It's really assessing the risk here for them. The DTI, you want to keep that to no more than 43%. That's the highest ratio that a borrower can typically have and still get approved for a mortgage. But ideally, you want to keep that to 30%, 35%.

I think if you're going to apply for a home, if you're going to apply for a mortgage, do it when you're both making money. You want to put your best foot forward and just have them be as confident as possible. Another way you can make banks feel a little bit more secure in their decision to give you a loan is to put down a higher down payment. So this is the stuff that we would talk about with our broker, where I'd say, “Look, we got to get this house. If the bank is a little on edge because of the pandemic and the fact that I am self-employed, look, I'll put down a little bit more so that I have more skin in the game.” He said, “Okay. Well, we'll play that card if it comes to that.” But always good to sort of think about what are all the options that you can play. What are all the different moves you can make to make the home feasible for you, but ultimately you get the home? Again, working with someone who understands you and is on your side and wants to bring this deal to the finish line is really important. I cannot stress that enough.

Last but not least, Nadia is trying to help out her mom with her retirement. She says she's going to be getting money monthly from both social security and a work pension retirement fund. She's determined that she will not need all of the money, and I recommended that she still invest what she won't be needing. “My father is able to manage the running costs of other things, and so my mother won't have to do that. What should someone going into retirement in invest in if they have the ability like my mother? I have not found much content on elder investing and would love to get your thoughts on this.”

All right, Nadia, great question. You're right. There isn't a ton on elder investing, and I'm not the expert on it either. But I will say that, and something that I've always advised, is that even though you are at retirement age, you're in your 60s, you're in your 70s, it's important to keep some of your money still invested if you want it to grow and you know that you won't be needing it for the time being. The rule of thumb really is you take 110, you subtract your age, and that number is the percentage that you can comfortably still be investing in the market. So if your mom is, let's say, 70 years old, so we subtract that from 110. What's that? 40%. So 40%, sometimes people to subtract it from 100. I just want to say that. That's the older rule of thumb. It's been updated but anywhere from 30 to 40 percent in equities. 30 to 40 percent in equities or stocks, still okay, still diversified. Maybe do a broader market index fund.

If she's got an online portfolio, you can essentially just go in there and reallocate. Say, “Okay, I'm going to go to 70% bonds and fixed income, 30% in the stock market.” It may be helpful to speak with a certified financial planner, even if just for an hour or a couple of hours to ask them for their investing recommendations. I can't give you specific investment tips. I can't name mutual funds and things like that. But what I will say is that the rule of thumb, which is I think a good rule of thumb because you have still time when you're in your 60s, right? If you're healthy, and you don't need the money all right away, continue to invest some of that. Maybe that's 30% or 40%, depending on, of course, your age and your retirement needs. But you can still do it. You just have to be mindful of your financial plan and your goals. You could start with that rule of thumb and work from there. So 30 to 40 percent, the rest in bonds and fixed income and cash.

Before I go, you may even be able to call like wherever she's got her money parked. There are experts there that can quickly run some numbers and give you some professional advice. But, Nadia, thanks so much for your question. Also thank you to Tara and Sarah for your questions. Consuelo, please email me or DM me on Instagram. Let me know you left the review. I would love to talk and give you some time.

Coming up next week, I have for you a recording of an event that I did at SaksWorks in New York. I went there for a luncheon to celebrate the So Money Page-A-Day Calendar and gave a talk in conversation with Rachel Sklar, who is running programming and events at SaksWorks. So you get to learn a little about SaksWorks. You'll get to learn a little bit about the calendar, my latest financial advice, and just a really fun conversation with Rachel, in front of a live audience. There were about 2030 people there. Hoping to do more of these in the New Year, getting together with people in real life. So stay tuned for Monday's episode.

Then also, we'll be talking to Cindy Zuniga-Sanchez, the founder of Zero-Based Budget. She's helping millennial women achieve financial freedom. Learn how she paid off over $200,000 worth of debt in 48 months. That's all next week. Thanks for tuning in, everybody. I hope your weekend is So Money.

[END]

