EPISODE 1323

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[INTRO]

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FT: Welcome to So Money, everybody. I'm Farnoosh Torabi. It is Friday, February 25th, 2022. Thanks for joining me here as we finish out the month of February. A funny story to share, a couple weeks ago, I went to an open house in our neighborhood because I'm that nosy neighbor. This home was a nice home. It had five small bedrooms, a small backyard. But I can imagine someone coming from the city would love this home because there's definitely more space. There is some grass. It's walking distance to downtown, so there is that for those former city dwellers that are missing that walking, biking-friendly lifestyle.

This home was priced about $450,000, above what the current sellers paid for it in 2017, which equaled a 60% increase. 60% increase in the home's value. I looked around. It was cute. I left. The next day, the sign on the little lawn said sale pending, which even for this market in New Jersey, where homes do sell quickly, that was the fastest I've ever seen. Usually, realtors will host a bidding day a couple days after the open house. They want to get a feel for how much interest there. There must have just been so much fervor and urgent interest in this. They just literally held the auction the next day or that night. Crazy.

But all this to say that as we enter the spring buying market, for those of you who've been on the fence for the last two years, waiting for a cool down, I'm sorry to say it doesn't appear there's going to be one this spring. Zillow, in fact, revised upward its projection for 2022 home sale prices. They estimate that home values are going to grow about 22%. This spring, they're going to hit 22%. It's going to peak, and then it's going to start to come down after the spring starting in the summer. As a result, buyers are getting really creative, and they're pairing up with friends and relatives and, in some cases, colleagues to buy primary residences. This is not an investment venture. People are looking to like roommate with someone. Rent's expensive too, so let's just buy a house together. Pool our finances. Increase our chances of qualifying for something decent.

I recently wrote about this for CNET Money. This is all a plug. I want you to go to CNET Money and check out my article. It's called Co-Buying a Home With a Friend? Answer These Five Questions First. So it can be tempting, but there are some risks because unlike buying a home with your spouse, there are governing laws protecting spouses. In the event of, say, a divorce, a home sale, they get to split the proceeds. In most states, and unless there's a prenup too saying otherwise, but there are usually more protections for spouses when they buy a home, financially speaking. But if you're just buying it with a friend, you usually have to go about this on your own, hiring a lawyer, drafting up an agreement.

My article goes into some of those things to prepare for like what will happen if one of you wants to move out sooner than expected. What happens if you have a falling out in your friendship? What happens if one of you gets married and wants to move out on good terms? So having these scenarios figured out ahead of time really, really important. But I talked to two guy friends who are band mates in New York City, and they just bought a three-bedroom home on Long Island together.

This is so interesting, and it's all part of a trend. There's a survey out by realtor.com of over 1,000 adults in the country and found that nearly one in three have bought a primary home with someone who is not their spouse, and more than half of Americans say they would consider buying with a loved one, a friend, or a family member. What do you think? You'll be hearing more about the housing market from me. As you know, I'm pretty interested in the real estate market.

On Monday, in fact, Alix Langone, who's my colleague at CNET Money, she writes about mortgages and real estate, will be on to talk about the state of real estate in 2022. So if you've got some questions, be sure to tune in on Monday. Speaking of what's on the show, earlier this week, we had on the podcast Dr. Ellen Vora, who covered for us an important topic, money and mental health. You know I've been increasingly fascinated by this area of exploration, looking at especially over the last two years. Where this has left so many people mentally, and how that is impacting our ability to get a handle on our finances and feel really good about our financial scenario.

So Ellen Vora has a book out called *The Anatomy of Anxiety*, and her approach is very holistic. It's a little revolutionary, because we've been talking about anxiety as sort of this mental condition, this brain condition, and the lens through which she looks at anxiety is really holistic. It's about a body condition, and she's got a lot of advice on how to engage with your anxiety, have a relationship with your anxiety. How do you even know if you are anxious? There are a lot of different signs, and they manifest differently in all of us, and how to pair that with your financial life.

On Wednesday, Elaine Pofeldt came back to the show. She's a friend, small business expert. She has a new book out called *Tiny Business, Big Money*, where she interviews over 60 seven-figure businesses that have small teams, all consisting of no more than 20 employees, many of them virtual, some of them just freelancers. But this is a trend, she says. Kind of like the tiny house friend. Now, it's the tiny business trend, where people are looking to be their own bosses but not go crazy, right? You don't want to go start a conglomerate. You want to keep it small so that you can feel like you still have a life. You're much more nimble. You can pivot in times of uncertainty and in the pandemic, for example. So check out my conversation with Elaine from Wednesday on how to run a seven-figure tiny business if you so choose.

Let's head over to the iTunes review section and pick our reviewer of the week, who will get a free 15-minute money session with me. This week, our winner is abbykailee, who left a review back a couple weeks ago calling the show a game changer in finance education for all people. Abby says, “I had never gotten into financial improvement or education because, honestly, I couldn't stand rich white guys telling me what I should do with my money, without considering all the intersectionality and nuances of my and others’ lives. Farnoosh changed that for me. She brings inclusive and nonjudgmental perspectives. She is super knowledgeable. I filed my taxes this year and knew so much more of the terminology they asked about, and I went from saving nothing each month to $1,000 consistently. Thank you, Farnoosh, for holding me accountable and educating me without shame, judgment, or ignorance. Love this podcast.”

Abby, thank you so much. That's super sweet, and I'm so glad that this show has been helpful to you. Bravo for getting your taxes done early. You beat me. Let's talk. Email me, farnoosh@somoneypodcast.com. Or direct message me on Instagram @farnooshtorabi. Let me know you left this review, and I will immediately right back with a link that you can go through to select a time for us to connect. Whatever is convenient for you. Thanks so much.

Okay, let's go to the mailbag. First up is our friend, Laura, who writes in on Instagram, and the general question she has is should I pay off my student loans before adding more equity to my home. Here's the specific question. She says, “Hey, Farnoosh. We’re building a house. That's going to be done later this summer. We've already put down 5% towards the down payment. We plan to do a loan recast after closing with the proceeds from the sale of our current home to get to that 20% down payment, which will then allow us to avoid private mortgage insurance. Our lender estimates that our PMI, private mortgage insurance, would be $80 a month without that additional 15% down payment.

Now, I have $28,000 in student loans left, and they’re at about 4.5% interest rate. I'm paying $100 a month in interest. Would it be wise to use some of the proceeds from our home sale to pay off my school loans, instead of getting to that 20% down payment on the new build? We could get to 10% down, pay off the student loans, and still have a nice savings cushion. That way, the mortgage would be the only debt.” She says, “Oh, by the way, I'm now making almost triple what I was making when I first started listening to your podcast two years ago, and I'm at a company that I love. Thank you for empowering women to make that money.”

Laura, thank you so much, and thanks for being with the show all these years, and so happy to hear that you're in a career that you love and that you're making the money. What's better than that? So you've got a situation here. It's a good question. What I'm understanding is that you're going to be selling your home. You want to use the proceeds to then put down a down payment for the home that you're building. You also have some outstanding student loan debt. So the question is we put the proceeds from the sale of the home. Well, I don't know how much that's going be, but should we like use that to basically entirely put down this 20% down payment on the home and avoid PMI.

Just FYI for listeners, private mortgage insurance is an additional cost for homeowners that don't put down at least 20%. It's basically insurance for the mortgage company. In case you default, that insurance will kick in for them, and then that helps them out. So option A, use your proceeds from the sale of your home to put down that 20%, which would eradicate PMI, save you 80 bucks a month, but would still mean you'd have your student loan balance left, which is a 4.5% interest rate, which I'm guessing is higher than the interest rate that you're getting on your new mortgage because average rates, while they just crossed 4% recently, which did you know this? This is the highest rates have been since pre-pandemic. It's still low. It's still probably lower than what your interest rate is on that student loan, 4.5%.

Or option B, do you take your proceeds from the sale of your home and you kind of spread it out? So you put maybe 10% fully down on the home. You'll still have PMI, but you'll be done with those student loans, and you'll still have a savings cushion. The biggest issue with not putting down the full 20%, in addition to triggering the PMI, is that if you want to go and sell this home in the next couple of years, and then the home value drops, where does that leave you in terms of your equity? Are you going to be underwater, meaning you'll owe more on the mortgage than what the home is worth?

A 20% down payment is a lot, and that's a significant chunk of money for any buyer. But the reason that's recommended, not only because it's going to get you better financing terms, but it just protects you as the buyer or the owner in case home prices fall. We haven't seen home prices fall in recent years. If anything, they may have been going up. But there is probably a correction at some point. Is it going to be a 20% slide? I don't think so. But just you have to measure your own risk tolerance for something like that happening. It's going to be dependent on your particular market. If you're in a market where there's a lot of job opportunity, there's a lot of inflow of residents, there's a shortage of supply, I don't really see prices going down probably in your area anytime soon, if all those factors are there. So putting down 10%, 15% versus 20%, I don't think is going to be a make or break situation for you.

As I’m talking out loud, I think I've come up with this answer for you, which is that, no, you don't have to do this. But I think that based on everything you've told me, and I've been speaking out loud, I think that doing a little bit of everything with your proceeds from your sale of your home might be a good strategy. So rather than putting all of that towards the next home down payment, you put maybe 10 to 15 percent down on the build. You pay off those student loans. Or as best you can, even if you have a little bit leftover, still good. Then, of course, pad your savings.

I've always said that when you sell your home, the good news now with that equity in your hand is you have optionality. If you're looking for options in your financial life, you want to get out of debt. You want to build savings. You want to buy another home. Looking at that equity as multipronged, as something that can help channel through various financial desires. If you can check off a bunch of things on your list, maybe not entirely, but you can feel like you're making a lot of headway with these three things that we've just talked about, your home down payment, your student loans, and your savings, I think that's a really awesome way to leverage the power of home equity and sale proceeds from a real estate sale.

I have no doubt that you'll eventually pay off those student loans, that you'll eventually have the robust savings that you want. You might even later over the years add a little bit more to the equity of your home, just so that you can sleep better at night, knowing that, gosh, if the market does go tanking, that you're not going to lose too much equity. But if you've listened to the show for as long as you have, you probably heard me say before that I do love when our savings, when our finances can address multiple things at the same time, this hybrid strategy, right? Should I save or pay down debt? Well, could you do both? Maybe you won't do each thing entirely at the same time. But getting to make a dent in various aspects of your financial life simultaneously is still progress. Then next year, maybe when you make more money, you reassess, and you look at where things are, and maybe it is that you take some extra savings, that next tax refund, and entirely pay off that student loan. Thanks for your question and thanks for listening.

All right, next up is Kelly who texts. You can text, 415-942-5002. She says, “My boyfriend and I have been together for a few years. We're starting to talk about next steps like marriage. I'm nervous though about how to approach the finances. He makes significantly more than I do. I want to maintain my financial independence, as we combine our lives. I love my job. But working in the public sector, I'm probably never going to make as much as he does in finance. Any recommendations for how to navigate a significant pay gap in a relationship?”

Hey, Kelly, did you know that I am the premier expert on when there's a spouse who makes significantly more? Whether it's a woman or a man, I did write a book about women breadwinners, but I think it's applicable to any marriage, any relationship where one person is making more, where there is income disparity. It's called *When She Makes More*. Get the paperback because they're not printing the hardcover anymore. But it is widely available in paperback. But I'll share some of the advice from that book. Again, it's written for female breadwinners, but I think that the advice transcends female breadwinners. I think it's for anybody who wants to learn how to, in some ways, level the playing field, the financial playing field in their relationship when there is income gaps, income disparity.

Firstly, Kelly, I love that you said you want to maintain your financial independence. I love where your head's at. To that end, my recommendation for you, anybody who's in a relationship who wants to maintain financial independence, and hopefully your spouse or partner does too, is that you don't put everything in one savings account. You don't pull your combined incomes together into one bucket. You might have a shared account for shared expenses, for shared savings goals, but also maintain independent individual savings accounts. They can be at the same bank where you've got your pooled joint account, but also have your own stash.

If you haven't talked about money yet, you definitely should. If you're thinking of getting more serious, and you said you've been together already for a few years and talking about marriage. So it's a good time to talk about the future and how you're going to manage your money together and to throw out the idea of having a pooled bank account where you each take, say, a percentage of your incomes, equal percentage. Even though it'll be equal percentages, the person making more will contribute more dollars. But the idea is that it's equal percentages. That money goes to pay for your shared costs, whatever you decide to share in. Then the remainder stays in your bank accounts.

That, I think, I have seen time and time again helps so many couples, to your point, remain financially independent. It reduces fighting. It reduces this feeling of having to ask for permission to buy things. It’s just better for everybody. These days, I think with people getting married later in life, having had their own financial lives before getting married to somebody, and having to kind of remap their financial life with this person really helps to maintain autonomy and have your own bank account. It's not a license to go out there and spend frivolously or without being mindful or thoughtful of your partner and of your goals and your relationship.

But listen, if you want to go get a haircut, you go get the haircut, and you don't have to have a conversation about it. Do you know how painful that is? I've seen it happen so many times in relationships, couples fighting over which they shouldn't be wasting time on. You should be talking about your retirement and your goals to buy a house and saving for big ticket items. Not like you bought a pair of sneakers. Why did you spend $90? Life's too short. So that's the first thing is having those three bank accounts; mine, yours, and ours. Transparency is also really important, and it starts with open communication. So going back to what I said about having these conversations now, it will set you both up for success down the road when money questions and crossroads become a little bit more complex. You've flexed the money muscle, and you have talked about money and talking about maybe even the dollars and cents of your lives together.

But what are your goals? How were you raised around money? Very important for couples to know the background before they get married, of each person's financial experiences. How did you learn about money? What was money like for you growing up? What was your first job like? How did you pay your way through college? You may already know some of these things because that's what naturally comes up in intimate relationships. But if not, important to have these conversations and also, yeah, get into the weeds of things like what is your credit score, how much do you have in savings, how much do you make.

There's a lot more that I can say on this. Again, I've got a whole book on it. But I want end, Kelly, with this tip, which is not really a financial tip. But it's more about how you see yourself in this relationship as somebody who makes less. I don't think you're in this mindset, but I just want to say this. For anyone who ever will feel this way because it is kind of natural, that just because you make less does not mean that you are less than. It doesn't mean that your career is less important. Very important message, especially for women who make less in a relationship. Why? Because more often than not, when we make less in a relationship, in a hetero relationship, where the male partner makes more, and she makes less, when there is maybe a child in the picture or two, it often ends up that she quits her career to compensate for childcare because why? I make less, so my career is not as important. Or I make less, and childcare is about the same as what I make. There we go.

As opposed to looking at your financial lives and the incomes that you bring to the table as something that you share in, not my salary versus your salary, we make this combined income. This is our purchasing power, our savings power, our investing power as a couple. So I never want anyone to feel that just because they make less, that they feel like they have less power in the relationship, less voice, less anything. I'm writing about money right now in my book, my new book, and it's about the fear of money. But really, you're not really afraid of money because money is not anything. It’s just this tool, this object. It is only when we start to interact with money and engage with money and think about money that it becomes this thing that starts to haunt us. For all of us, how we get to these scary thoughts and feelings about money is different. Everyone's journey is different. But money sometimes is a mirror. It like reflects to you what you see in yourself, what you see in the world, what you perceive money to represent.

It’s really important that you focus and analyze on that stuff, if you aren't happy with the way that you feel about money and how you relate to money. It's really important to get to the core of this stuff, and do some of that self-work because it's going to show up in your relationship. If you're going to give the person who makes more in your relationship more power because he or she makes more, it's not healthy, and it's a recipe for arguments and break downs. The good news is it is avoidable. If you stay proactive, you communicate, and you leverage your strengths, and you keep listening to this show, and you send me these great questions. Kelly, thank you so much, and good luck to you and your boyfriend.

All right, next is Karen, and she says, “Hey, Farnoosh. I've been listening to you for about a year. I've learned a ton and I’ve become more bold in my financial choices because of your show. Thank you.” I love hearing that, Karen. Okay, here's Karen's question. It's a good one. “I am considering being an investor for an up and coming chef in our area who wants to open a restaurant. He now creates dinners for small or large groups in people's homes and puts on a lovely evening. He's well-known in the foodie population here. I can see him becoming a really well known chef and would like to help him out. He needs $120,000 for his restaurant, and he's asking for a portion of that for my husband and I. I told him we were interested in investing. The ROI, return on investment, would take about five years. Whatever we put in would allow him to get a better bank loan, and we have the money to invest, and we are interested into getting into angel investing anyway. What's your advice for us, as far as the amount of money to put into this venture and what to look out for if we go forward?"

All right, Karen, great question. Love that you and your partner are interested in some angel investing. I think this is a great step in your financial life, when you feel like you have checked off a lot of boxes. You're squared away as far as saving for retirement automatically. You've paid off debt. Maybe you have a mortgage but nothing high interest, obviously no credit card debt. Your incomes are secure. In general, things like angel investing, I would also throw into this category things like crypto investing or real estate investing. These are alternative investments. In the financial advice world, we tend to say that no more than 5% of your investing portfolio, your investment portfolio, should be focused on these types of alternative investing. We know they're so volatile, right? I mean, restaurants, hello. That's huge risk. You probably know this. This is the number one most failed business in the country. Around 60% of new restaurants will fail within the first year. Nearly 80% will close before their fifth anniversary.

Now, I don't know what the business model is for this chef, and that's the first thing you want to get. I know that you're in love with the chef, and the fact that he puts on a lovely evening, and he's well-known. All great ingredients. However, he still needs to produce a business plan, right? He's starting a business. He needs to show you a business plan. He needs to be buttoned up. I would also want to know how much of that $120,000 is he going to cough up. The more he's willing to put a stake in his investment, one, the more likely he'll get a bank loan, and that is reassuring for all the other investors, you and all the other angel investors, knowing that he is also putting some skin in the game. That he's not pulling this entirely from the crowd.

Look at that business plan. Have maybe someone who's more experienced in restaurant startups or chef-run businesses to look at it for you. You say you live in a foodie population. There's probably someone around through word of mouth that you can find to also take a look at this business plan and just see if his plan makes sense, if there are questions that you should follow up with. You want to know that, ultimately, this person is really invested. Like I said before on the show, you're investing in a business, but you're also investing in the person. It sounds like you're really behind this person. You believe in this person, which is important. I think that's a great sign. But don't let that overshadow the importance of having a lock solid business plan.

Understand that this could all just go up in flames. I mean, this really could, and find something else in this experience that you can hold on to that will make you feel good, that it was a worthwhile experiment. Maybe it's that you do get to enjoy a few free dinners and be a part of this community that you find to be so rich and interesting. I think when you're choosing these alternative investments, and I've said this before, whether it is crypto or investing in a startup or real estate, is that recognizing that this investment could go south is important and preparing yourself for that mentally and financially.

But if along the way, you can also find some pleasure in this process, like for me art, right? We talked about art all last week. If you haven't checked out that episode, please do. It was with Liz Lidgett, gallery owner and art advisor. We talked about how to turn art into an investment. I would really love for everyone to just find some enjoyment in the process because if it doesn't work out financially, at least it still could work out in another way. The experiences that you might get from investing in this restaurant, the people you might meet, the food you'll taste, and the behind the scenes of running a restaurant that you might be exposed to could inspire you to do this yourself. Or the next time someone asks you for money for a restaurant business, you can have a wiser, more strategic approach that way.

So don't bet the farm, no more than 5% of your overall invested assets. If you have an investment portfolio, that includes your 401(k)s and other things, and it's like a million dollars, that I would say $50,000 is the max you would want to give. He was looking for 120,000. Hopefully, he's pulling this from a wide number of investors. I've been approached to invest in restaurants, and typically the ask – I don't know how much they were looking to fundraise entirely. This was New York, so I'm sure more than 120k. But their ask of us was about 5 or 10k. I ultimately did not give them the money because I didn't trust the business owners. They had a drug problem. So I just couldn't give my money to people who were addicted to cocaine. Was that too much information? But you know what? The restaurant went on to be a wild success. So, I guess, I don't know what the lesson is there. You have to trust your instincts, and you have to also be okay with losing money. But no more than 5%, I would say, of your total assets that are currently being invested. Thanks for your question.

That’s our show. That's a full 30 minutes, and I went a little bit longer, answering some of these questions. We didn't get as many questions, but nice that we got to spend some extra time thinking through these great, great questions. Thank you so much, audience. I have to say that the richness of this show is so you. You give me these incredible questions from your lives. Please don't stop. This is what makes my job so much fun and interesting and I think for everyone listening makes the whole difference of why they subscribe to So Money. So if you like what you're listening, subscribe, share, tell a friend. Leave a review because who knows? Maybe we'll get together.

Hope you have a great weekend, everybody. If you're on the East Coast, especially New York, New Jersey, I know we're supposed to get a blizzard. How is this happening? It was in the 50s this week, but that's where we are in the world now. Stay safe. I'll see you back here on Monday, and I hope your weekend is So Money.

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