

EPISODE 210

[ASK FARNOOSH]

[00:00:31]

FT: Hey everyone. Welcome back to So Money. I'm your host Farnoosh Torabi, reporting to you from vacation. Well not really, I actually recorded this on Wednesday, before Sunday. But if you're listening to this now, I am on vacation. I am with the family out on Long Island, hopefully not looking at my phone [Laughs] that's hard. I've promised my husband that I wouldn't bring work to the beach. I dunno, we'll see how it goes. I have my fingers crossed. Although, I have to still record for an Ask Farnoosh for the following weekend, which is not gonna happen on it's own.

So the good news is I will no longer be doing a weekend episodes soon. I made this announcement yesterday on the podcast, that starting later in September, after I've crossed that one millionth download threshold, I'm gonna take this podcast from seven days a week to five days a week, Monday through Friday. So Monday through Thursday we'll do the guest interviews, and then Friday I will dedicate the day to answering your questions. So don't worry, I'll still be answering your questions, still be collecting your questions on Ask Farnoosh, but just will not be doing anything on the weekends.

So I hope that doesn't disappoint many of you. I did hear from a lot of you saying you totally encourage this, that you're happy for me to do it because you know that it will make me a happier, saner person and truth be told, I'm a workaholic in case you didn't notice! A seven days a week podcast is not easy and on top of that I've got all this other stuff going on, which I'm really excited about. I think it'll shore up some time and energy and focus for me to really be doing bigger and better in fact.

And on that note, let's head over to our So Money questions for this week. We're gonna start with our friend Tom. Tom says:

T: "I've had a credit card through my bank for years that offers cash back. I pay the full balance each month. I'm considering getting a rewards card but am not sure how to balance an airline card versus one from a bank that offers miles on any airline. How can I evaluate the best deal for me? So much conflicting information online."

[00:02:38]

FT: Tom, have you gone to Nerdwallet.com? Shameless plug, I am a correspondent for Nerdwallet. It is two things, that site: One is, a go-to site for all things personal finance. Really educates readers about all things money from student loans to health care to saving, investing, shopping tips. But the other aspect of Nerdwallet is that it is a credit card comparison tool. I think it is the best on the market, I really do. And not just because I work for them, but because as a consumer, I think it really does a fantastic job.

As far as weighing the benefits of a solely airline card versus one from a bank that offers miles on any airline, it's really about your behaviour. Are you flying mainly on one carrier? Or are you spreading the love and going on Virgin, and Jet Blue, and Delta, and American, and so on and so forth. So if you're a diverse flyer and you like to go on several airlines, perhaps a card from a bank that give you rewards across all airlines is better than just one that's gonna maximize your rewards on one airline. Just my two cents, but check out Nerdwallet. com too.

[00:03:55]

Eduardo says:

E: "Hey, love ya! I live in St. George UT. I have a \$10,000 dollar car loan to pay off, would I be better off living in my car to save money? Family and friends are out of the question. That way instead of spending a certain amount on the car payment that payment could go into sort of a savings. I don't cook so I don't need a kitchen there is a locker and shower at the gym I can use and I can go to a laundry mat to wash my clothes. What do you think? Or do you think there is a better option?"

[00:04:25]

FT: What? Okay, really? You're gonna live in your car? Hey, that's not for me, but if you can do it, who am I to say, "Don't do it." [Laughs] I would just be concerned about your security, someone breaking into your car and stealing all of your possessions, and then what do you have? You've nothing! At least if you have a house or an apartment there's a little bit more security. Then the other thing is that it's summertime now, but how long are you gonna plan on living in this car? Through the winter? I'm worried about your safety and security, and your warmth. Forget money, I wanna make sure that you're in a good place. I would first try to see if you could crash with a friend, or relative.

\$10,000 car loan? Man, can you maybe try to sell some things to shore up some cash to pay down that loan, and then you maybe have a \$6,000 car loan or a \$7,000 car loan? Maybe instead of living in your car, you can use your car to make some extra money on the side on the weekends. Running errands for people, helping people move, you can find tasks on sites like Taskrabbit.com, Craig's List, places like that. So I would live in the car as a last resort, but that's me. I like to be comfortable, I like to be safe, I like to be warm. And so I would rather crash on a friend's couch or work more hours during the week to bring in more cash to pay down that load more aggressively.

If you do end up doing this, I wanna know. I wanna know how it goes. Maybe we should live blog it or live periscope it. That would be So Money.

[00:06:00]

Fifi says:

F: "Hey Farnoosh! Love this podcast. It 's really helping me. I've been stressing about money a lot lately. I have an engineering job that pays well, but I also have \$75,000 in student loans. It's expensive in LA to live. How do I cut costs and hopefully knock the loan out in 5 years? And still you know – live?"

[00:06:21]

FT: Well, again Fifi, what I told Eduardo, maybe it's about bringing in more money. Somehow, somehow. And doing what you like to do, monetizing a scale that you're maybe not using at your 9 to 5. Perhaps you know a second language, you're really good at math, you're really organized, you're really good at copywriting, you're really good at editing, you're good at graphic design - whatever you're good at, go online, try to find someone who will pay you for that scale, or for that service, or for your time.

And I mentioned TaskRabbit, but there are so many other sites that can connect you to jobs; care.com, tutor.com, Odesk.com, Craig's List. You know, you can sell stuff on eBay. Just had some guests on the show that are selling their stuff, whether it's on Craig's List. Hannah Ouimet, that episode, she's selling her clothing and jewelry and accessories on Poshmark, making six figures - my goodness! So as I did in my 20's when I had student loan debt and credit card debt, I made more money.

Because I lived in New York, you live in L.A, we know things are expensive. And that's not gonna change! No matter how much we save, we will almost always feel we're just right behind the financial 8 ball. So get ahead of that 8 ball and make more money. Do something on the side that brings in an extra 50 bucks, 75 bucks a week, and pay that down. And when you're paying down those student loans more aggressively and you have an extra payment or extra payment or two, put it towards the principle, not principle plus interest. Just put it towards the principle, it'll knock down that balance a lot faster and you'll pay less interest over the life of that loan.

[00:08:05]

Kris says:

K: "Hey Farnoosh, thanks for answering my question about emergency funds a few weeks ago."

[00:08:10]

FT: Yeah sure, no problem!

[00:08:11]

K: "Just want to put a request for someone you may want to interview, Kimberly Palmer the senior money editor at US News & World Report. She's written several books including one I just finished reading called, 'Generation Earn'. I think she would be someone that would be awesome for you to interview on your podcast."

[00:08:26]

FT: Kris, oh my gosh, I love Kimberly. She's a friend, why the heck did I not think of this on my own? I feel like a loser! Kimberly, if you're listening, I am sorry! I should've reached out to you before the show even launched and had you as one of my inaugural guests because Kimberly Palmer is a must follow. Everyone, if you're not following Kimberly Palmer on Twitter, at U.S News & World Report, if you're not reading her books, do it. I love her to death, so I'm gonna email her this week and get her on the show as soon as possible. Thanks Kris!

[00:08:57]

We have a question here from Ivy. She says:

I: Hey Farnoosh, I made a lot of unwise decision in my 20's. Now that I'm 32 - just started saving for retirement - I put 20% in tradition 401(k) and 5% in Roth 401(k). I also have a \$30,000 personal loan for buying an income-restricted coop in New York City, which don't accept mortgage. I've six months of an emergency fund saved, and after paying taxes, and bills and debt, I don't have anything left. Should I lower retirement contribution to repay my debt sooner?"

[00:09:33]

FT: Well I'd say it's definitely important that you're paying catchup now in your 30's if you did make mistakes in your 20's and you didn't save as much, then now is the time to really step it up. 20% in your 401(k) and then 5% in your Roth 401(k), you're spending a quarter of your income towards retirement, which is really, really great. I think if you're got a \$30,000 personal

loan, which probably carries - if it comes to personal loan, I'm guessing it's probably not a low interest rate. Maybe it's 6, 7, 8%? Then okay, maybe you can scale back the retirement to 20% of your take home pay.

So maybe you do 15% in the traditional 401(k) instead of 20. Take that 5% and put it towards the loan, and knock down that debt. Get rid of that ugly interest sooner than later, and then once that \$30,000 loan is gone or diminishing, kick it up a notch again with your retirement. But I think you have a little bit of cushion here, where you could reduce that 401(k) contribution, put more towards the personal loan. Then once the loan's gone, go back to putting more towards the 401(k).

[00:10:38]

Alright, good job though Ivy. I think you're doing a really great job and she says:

I: "Love your podcast."

[00:10:44]

FT: Well, I really appreciate that. Thank you so much!

[00:10:47]

Olivia writes in, she says:

O: "Hey Farnoosh! I'm a 25 year old copywriter and New Yorker who's 27 year old boyfriend is a musician. We've been together for a handful of years and our relationship is great. However, he lives a very different life than me financially. His parents are the sole supporters of his life financially, and it's very frustrating to me, a hardworking full time employee making a low hourly rate with taxes, the same monthly bills and a high monthly student loan that he does not have. So do you have any advice on how to better deal with my obvious disagreement of his ways?"

[00:11:25]

FT: Yikes, Olivia. I mean, your boyfriend is basically living off the bank of mom and dad. That's not sexy! I would just tell him, "This is really unattractive." I mean it's kind of harsh, but at some point, he needs a wakeup call and if you guys are really serious about each other and he loves you and you love him, then there should be that allowance to be honest with each other. You don't wanna hurt his feelings, but you might wanna say, "Look, you know, it's really important to me that if we're gonna really be committed and build a financial life together, that we do it together independent of our parents. And I worry that being dependent on your parents right now at 27, it's too comfortable, it's too easy, and it's important to know what it's like to struggle. It's important to know what it's like to be accountable to yourself and to make your own money. It's not just good character building, but it's a good life lesson. Your parents aren't gonna always be able to support you." And just tell him, "You know I really want us to get cut off from the parents, and by us I mean you. I think it's time, I think you're an adult, and I want this for us. I think that it might be difficult and it's gonna be hard to do that, but it's gonna be really rewarding in the long run. And I wanna help us."

I just think you gotta be honest with him. Be like, "This not working out for me, this aspect of your life. And I don't think it's healthy, I don't think it's in the long run a good idea, and I want us to be a team and I feel like you taking money from your parents makes it really hard to connect with you from a financial standpoint. And I think money's really important in every relationship, and I really wanna get this right with you." So that's what I would say Olivia and I really commend you for asking this question because it's a really smart question. It shows that you're really forward thinking, that you know what's right. And I agree, this is a problem. Money, as they say, is often a huge source of contention in a relationship. But the important thing is that you identify with the source of the problem is, you wanna talk about it as painful as it may be, you gotta get the words out. You owe it to yourself and you owe it to the relationship.

[00:13:44]

Last but not least, we have a question from Maggie and she says:

M: "Hey Farnoosh. Credit card question; I have a \$10,000 limit on my Visa. If I spend \$9,000 on the card and pay it off at the end of the month, will it negatively impact my credit score? I heard

a rule of thumb is to only use 20% of your credit limit. Love your podcast, it's made me more financially savvy. Thank you."

[00:14:09]

FT: Well thank you Maggie. This is a really, really good question. And in fact, I was just interviewing an expert over at FICO the other day for an article - FICO being the largest issuer of credit scores and he and I were having this exact conversation because the reality is the people in this country with the highest credit scores are only using anywhere from like 6-8% of their credit limit at any given time. It's important to pay your balance off in full every month. That's going a very long way in helping your credit score. That said, your credit score is really just a snapshot of your credit activity at any given point during the month. So depending on when your score is captured, it may not be a good thing to be spending \$9,000 off of a \$10,000 limit because in that point in time it'll look like you were 90% utilized, which is a potential ding on your score because you wanna have that low utilization, right?

So I would say that if you're gonna spend \$9,000 on the card, you wanna do one of two things if you're worried about your credit score. One, pay it off ASAP. Don't wait till the end of the month, try to pay it off in increments. Maybe you pay \$2,000 every couple of weeks or every week until the balance is due and then pay it off so you're not just waiting to pay it off. You sort of do it slowly but surely over the course of the month. Or, if you know you're gonna be spending \$9,000, call Visa and say, "Hey, would you mind raising my credit limit to say \$15,000? \$18,000? And not because I want to go and rack up some debt, but I anticipate spending a lot on furniture or whatever I'm moving, and I know that your utilization is an important variable in calculating your score. I don't wanna hurt my score, so I appreciate it if you would raise my limit."

And they may do a credit check at that point, just to make sure you're good for it, and that of course is an inquiry - it's a hard inquiry. But I think in a long run it's gonna do less damage to your score than say, racking up a 90% utilization rate, but this all for nothing if you don't care to like take out a loan in the next three to six months. I think that if you're carrying a \$9,000 balance month after month, after month, then we've got a problem. But if it's just a one time thing and you're gonna pay it off in full and the next month you're gonna go back to say, utilizing

10%-15%, you're fine. And your credit score's gonna bounce back and unless you're in the market for a loan tomorrow or in three weeks, or in three months, this isn't really gonna matter for you. So I would just say, if you're concerned about your score because you wanna go out in the marketplace and maybe get credit, and you know you have to spend a lot of money on this credit card in the near future, either try to pay it off incrementally throughout the month, so don't wait till the end of the month. Or ask your credit card company to raise your limit. Make sense?

Alright Maggie, thanks so much for your question. Thank you also to Olivia, and Ivy, and Kris, and Fifi, and Eduardo, and Tom. Eduardo, do not live in your car actually. I've thought about it some more since I answered your question. Try to do a million other things before having to live in your car, okay? But if you do, still I wanna hear about it. Sounds like it could be quite the episode on So Money.

Thanks everyone for tuning in. Tomorrow we've got a fresh episode. This week kicks off our millionaire next door week. Very excited to unleash all of our interviews with our American Millionaires Next Door. You don't wanna miss this week. It's gonna be epic. Thank so much. Hope your Sunday is So Money!

[END]