EPISODE 536

[ASK FARNOOSH]

[0:00:31.5]

FT: Welcome back to So Money everyone. I'm your hose, Farnoosh Torabi. Happy Friday. It's Friday, Ask Farnoosh time, and really happy that you decided to join us again. I love these Friday episodes, it's really a nice chance to change the pace a little bit, get to hear what you're thinking, what is on your money mind. I always pick my guests' brain, now I'm picking your brain, you're picking my brain. It's great.

As always, we have Sophia with us to help us get through these questions which a lot of you are sending via audio as well as the traditional route, which is to type in your questions by going to somoneypodcast.com and clicking on Ask Farnoosh.

Sophia, welcome to the show.

[0:01:09.9]

SY: Thanks so much.

[0:01:11.5]

FT: It's February 17th, I'm still pregnant, which is a good thing. Every day, literally, somebody asks me, "Are you due today?" I've had multiple people ask if I'm having twins. For those of you who don't know what I look like right now, that's totally painting some illustration. I feel it. I really feel ready, but, obviously, you want to get your baby to come out when she's ready, push things in March 7th. March 7th is the day. We have a few more weeks, I guess.

In the meantime, this is my birthday week, and I'm recording this ahead of time, so I don't really know how my birthday week actually went. I hope it was good. I hope it was a lot of car bloating, and I always indulge on my birthday, of course, I eat the cake, and the cupcake, and the doughnuts. In fact, last time I was pregnant, I went in for my sugar test right after my birthday, and I failed the sugar test, which then I had to go and take the ultra-sugar test to find out if I had diabetes, which I didn't. Thank God.

TMI, let's move on. This week, also, is the week of lovebirds, Valentine's Day, February 14th. Again, we're recording this before Valentine's day. I have to ask you, Sophia, what's your tradition in your relationship? You've been with your man for a longtime.

[0:02:28.5]

SY: Yeah, we've been together, we're coming on seven years, something like that. Oh my goodness! We usually just go to dinner and a movie, very low key. I've noticed this year just in doing some research ahead of time that restaurants are starting to charge these insane amounts of money for prefixes, so we're just going to do something, I think, in our neighborhood, very low key, very — Have a nice time, of course, and enjoy ourselves, but within reason. That's usually what we tend to do.

[0:02:59.7]

FT: The Valentine's Day markup.

[0:03:02.1]

SY: Yes.

[0:03:03.1]

FT: Roses, chocolates, restaurants, they get you. It's one of those things where you're dammed if and you're dammed if you don't.

[0:03:10.3]

SY: Yeah, definitely. Definitely.

[0:03:12.6]

FT: I feel bad for the guys. I really do, because it's like, "Are you really going to come home without flowers?" I guess you could, but then part of — I don't know. It's all about what you decide in your relationship. If you're talking about it and you're open to it — Tim and I, I think, we decided early on that we were just going to be also very low key. Also, because I wanted to give him a break, my birthday is the next day, so I don't need to give him double the pressure. Sometimes it's nice to see your man sweat.

[0:03:41.2]

SY: Of course. I was going to say I'm lucky, Paul always treats me to dinner. I always offer, but he's — I would say he pays a little bit more than I do. I've told him before the same thing, I'm like, "I don't need all of the fancy stuff," I'm actually a pretty easy girl. I don't even like roses, I'm like, "You can get me a different type of flower if you want."

[0:04:04.4]

FT: You're a cheap date. Is that what you're saying?

[0:04:06.2]

SY: Yes.

[0:04:07.3]

FT: Oh! Look at you.

[0:04:09.2]

SY: Yes, I'm pretty easy, I think.

[0:04:13.5]

FT: Cool. Then, later this month is going to be the Oscars, which I know — I suspect that La La Land is going to be getting a lot of the Oscar nominations. They swept at the Golden Globes. How did they do at the SAG Awards? Did they do pretty well?

[0:04:27.6]

SY: They did, but I was happy to see — I really liked La La Land, but I was happy to see some other films gain recognition. I know Denzel won for his performance in Fences, beating out Ryan Gosling, which I think that was pretty great. I know the movie Head and Figures won for best cast in a motion picture which, again, was just really nice to see some of those other films get recognized, because at the end of the day they're all great and it's so difficult to choose just one. It's nice.

[0:04:59.2]

FT: Yeah, and you get to see how the industry, depending on who the voting crowd is, what they preferred.

[0:05:08.7]

SY: Yes. Definitely, and I think that's really interesting.

[0:05:11.7]

FT: The Golden Globes, it was sort of the Hollywood foreign press, which I think Hollywood foreign press and the Oscars love movies about themselves.

[0:05:20.5]

SY: Yes.

[0:05:22.6]:

FT: If you do wish, La La Land swept. It was a great film. I didn't really understand all the hype, honestly, shoot me for it if you think I'm crazy, but I just didn't think it was as — 14 Golden Globe nominations, that's as much as Titanic, I think. Not that Titanic was — Titanic was an amazing film. Say what you will about just how long it took to take and the theme song, but it was, at the time, like an incredible movie of our time. I don't know if La La Land was an incredible movie of our time. It was definitely — For me, that's just my opinion.

Anyway, that is not a financial topic, so let's move on. Let's talk about money. Let's talk about what's on peoples' money mind. We have a question here from Stacey who is thinking about consolidating her credit card debt.

[0:06:11.9]

SY: Yes. She reduced her debt from 55,000 to 39 in the last two years, and now she wants to consider credit card consolidation loan and she's wondering if it will affect her credit score, or her credit utilization percentage. That will be a large monthly payment of 500, and so she's wondering if she should stay the course with her debt snowball method, or try that consolidation loan.

[0:06:38.8]:

FT: I'm going to take her word for this, and she's calling this a credit card consolidation loan. Usually, what happens with card consolidation loans is that you take out this loan, you apply for it, you take it out, then you use the loan to pay off your credit cards. Those basically go to zero, and now you have this loan to pay back. Sometimes the loan is more beneficial, because it's maybe a lower interest rate, it's one payment instead of two, so it's easier to track. Those are the pros.

Things to keep in mind though if she's concerned about her credit score throughout this process, one is that when she applies for this loan, inevitably, the lender will have to check her credit. That's going to require a hard inquiry and it does typically take off a couple of points, a few points off your credit score.

The good news about all these hard inquiries that we accumulate is that they only have an impact for a year. They stay in your credit report for two years, but the impact really is mostly in that first year, and it's not so significant if we're just talking about one lender looking at your credit. We're talking about multiple lenders in that short period of time, you're shopping around for different credit cards. That could potentially have a bigger impact, negative impact on your score. Just FYI, that will be one thing that may reduce her score, not significantly, but it is what it is.

[0:07:59.7]

SY: The other thing that she wants to be mindful of is when she uses this consolidation loan to pay off the other two credit cards. On the one hand is taking her, basically, utilization on those cards to zero, which is great. It will raise her credit score, because the lower your utilization, the higher your credit score.

[0:08:19.2]:

FT: You just want to be sure that those credit cards do not get shot off, because if they get shut off, then that credit history on those cards, basically, does not factor into your credit score. It falls off your credit report eventually and it won't have the same benefit.

It's important that she understands the process. Go back to the lender who's offering part of this consolidation loan and ask them very specifically, "What is your process? How does this impact my credit score, my credit? What kind of communication do you have with my credit card companies?" Sometimes they will offer to kind of be the facilitator in paying off your debt, which is nice and convenient, but you want to understand how this is all getting worked out.

She's good to ask this question, because within the process, there might be some steps that would negatively impact your score. Mainly is that you don't want those credit cards that you currently have to get shut off, because you don't want to lose that 0% utilization rate.

It's a loan that you're taking out, which it's a loan, it's not a credit card, and so there's no "no credit limit" on that loan. It just is a loan and it does impact your credit. It won't negatively impact your credit as long as you're paying that loan back well and in good time. You're paying your monthly minimums. You're never late. That will all be good for your credit. Hopefully that answers your question.

We have a question here from [Bacari] who's talking about mutual funds versus index funds.

[0:09:51.9]

SY: Yeah. He has 21,000 that's invested in four different mutual funds right now, and he says that his goal for this money is to increase his present day wealth, but he's also curious about index funds. He wants to know do you think he should modify his strategy with index funds. If so, where does he find more info about index funds and where does he get started?

[0:10:16.3]

FT: Generally speaking, index funds do carry lower fees than mutual funds. First step is to look at what are the expense ratios on those four mutual funds that you have, [Bacari]. Are they over 1%? I would start to worry if they're over 1%, 1.5%, because you can certainly find something that's more affordable that has perhaps the same kind of investment mix, or maybe investment theme.

Looking at index funds, compare, as much as you can, apples to apples, to keeping in mind you want to pay fewer fees, is important. I know this is money that you want to maybe use in your current life. You don't want to — This isn't necessarily your retirement account, but fees are fees and they add up, whether you're going to take that money out today, in 10 years, in 30 years. Why pay more?

Where you can learn more about index funds? Lots of places; morningstar.com is a great website that actually rate funds with showing all their history. Yahoo Finance actually has great historical information on all types of stocks and funds. Then, wherever you are currently investing, wherever you're currently getting those mutual funds, they probably also have, hopefully, an offering of index funds. You can talk to somewhere there, whether it's at an online brokerage, or a traditional brick and mortar brokerage, they can help to give you some background information and some fee information on all these different investments.

I'm happy that you're looking at index funds. I think a couple of episodes ago we did talk to another listener who was interested in investing, where to get started. Clearly, this is something that despite a lot of the uncertainty in the market these days, people are looking ahead and being smart and they want to invest their money, and that's always a good thing.

Trina. Trina's money mind.

[0:12:05.5]

SY: Trina, right now, is debating on whether to refinance or take out a home equity line of credit. She owns a home that she thinks has a considerable amount of equity she estimates anywhere from 20,000 to 40,000. Right now she has a 130,000 in student loans and 65,000 of that is private loans that have a high interest rate of 7% to 10%, and then the remaining loans are federal and under income-based repayment, and those will be forgiven in eight years.

She makes 40,000 annually right now and she's saving for retirement and her emergency fund, but the loan payments, which are $900 a month, are really hard for her. She thinks it would be beneficial to pay off some of these loans by leveraging her home, but she's not sure what the best course of action is.

[0:12:57.1]

FT: All right. HELOC versus refinancing her mortgage, and she's got a lot in student loans. If I was her and I'm starting from scratch, I would first get my apartment, or my house appraised. What is actually the appraisal and what is actually the appraisal value. A lot of times when you enter a refi or a HELOC, they will issue that. If you could somehow get more accurate, 'cause 20 to 40 is a pretty big range. She's like, "Oh, it could be 20,000, it could be 40,000." First thing is just really understand what your equity really is, and then just some differences between HELOCs and getting a refinancing your mortgage.

When you refinance your mortgage, you're essentially taking out a new loan, paying off your old mortgage with that new loan and then paying the new loan. The new loan usually comes with a lower interest rate, that's why we refinance in the first place, 'cause we want to get a lower interest rate. Now is a good time to do that. If you got this mortgage several years ago, maybe you can find a loan with a lower interest rate now, and that could save you a lot of money month to month, year over year, and that's great.

There are also closing costs with refinancing, which can be hefty. You want to inform yourself on what those costs would be, shop around, maybe working with a mortgage broker if you go that route would be a smart idea, because they can kind of lay everything out for you, do the research, and give you the recommendations.

A HELOC is essentially where you take the equity that's built up in your home and convert that into a loan. Keep in mind that HELOCs, when you go to a bank for a HELOC, the bank is not going to give you 100% of your equity. That's very rare. I don't know if that ever happens. They may give you 75%, 80% of that equity. If she's estimating that at the best case scenario, she has 40,000 in equity, she may only get a loan, a HELOC, that is around $30,000, which is still significant, but would she rather have that $30,000, or would she rather have a refinanced mortgage where however many more years she's in the house, she might be able to save more money. Who knows? She'll have to do that math.

Also, we have this issue of the student loans, where I see that 65,000 are in private loans, which I would say are the more serious, more — They would take precedents, because she's got some of the remaining loans under income-based repayment that are going to be forgiven in eight years. That seems like it's taken care of.

65,000 in private loans — Maybe taking out the HELOC and killing half of that private loan would be meaningful, would be really game changing. Just keep in mind, with a HELOC, there are also closing costs, usually not as significant as refinancing a mortgage, but closing cost nonetheless. Sometimes you can bake those into the loan so that you don't have to pay them out of pocket, so that's good.

Then, the other thing you want to ask the bank when you enter a HELOC or you're about to enter a HELOC, ask about not only the closing cost, but the repayment period. Let's say they gave you $30,000, and that's tied to your house, tied to your equity, you use it to start to pay off that private loan. Can you do it all in one lump sum? Is there a maximum, a minimum that you can withdraw? There's usually a timeframe during which you must withdraw all that money sometimes.

Just know what the fine print. Then, also ask about the repayment period. Once you've withdrawn the money, at one point are they going to start sending you a bill to pay back the loan, essentially? Just know all of these things. Take out a spreadsheet, start writing things down, take notes, try to just do the math at first and also figure out, I guess — If your goal here is to really alleviate these student loans, which route would be the most effective? By effective, that means which route is going to give you the most money and give you the most flexibility and allow you to get out of that debt faster? My guess is probably the HELOC, but the you got to really know what you're getting yourself into.

This is a very good question. I think if we had more time, some more numbers, we could probably hash this out for her a little more definitively. I think that, in any case, she's going to have to do this research. She hasn't really gotten so far with it, but it's a good question. Let us know next time, send us a question, or an update, where are you in the process. What have you learned, 'cause that would be great. I think that would be helpful for all of us to follow your journey in this, because it is sometimes a very popular way to pay off your student loans to come look at your house as a source of money to pay off those loans.

In fact, sidebar, SoFI actually just came out with a loan product that might be of interest to you, Trina. They came out with a product that basically is — It's a loan that's tied to the equity of your home to help pay off your student loans. It's kind of a HELOC. I'm not explaining it in too much detail, 'cause I don't know 100% about it, but go tosofi.com and look it up. That could be another thing to explore as you're weighing your choices here.

Did she say how long she's planning to live in the house?

[0:18:12.9]

SY: She does say that she plans to live there for at least another 5 to 10 years.

[0:18:17.6]

FT: That's good, because if she chooses to refinance, she wants to give herself time to basically live in the home, and given that she will have closing costs for this refi, it's going to take to pay off the closing costs in the form of savings that she's getting every month with the reduced interest rate before she breaks even and then actually starts making money.

Usually, we say three to five years is at minimum. How long you want to see yourself still living in the home in order for a refi to make sense. That's good to know. Okay. I still think it's going to be the HELOC, but I'm curious to see what she ends up doing.

Then, we have a question from an anonymous listener.

[0:18:58.3]

SY: Yes. We know it's a female because she did share her name with us, but she asked for it to be anonymous on air. This person recently accepted a job where she can live rent-free in exchange for managing the property that she's living on. It's in San Francisco and now she's trying to decide what the best thing to do is, and she's saving on rent. Should she use the savings to build a six-month emergency fund, or use it to tackle her student loan debt? She has $100,000 in student loans at the moment.

[0:19:29.6]

FT: All right, six-figures of student loans. Congrats on scoring a rental deal. Quite the rental deal in San Francisco, where I know even if you have money, it's impossible to find inventory in the Bay Area now. It's just one of the tightest, if not the tightest rental market in the country. People are living in their cars, or sleeping on couches until they find something. I understand from friends who've moved out there, that there's no point in trying to plan your move. You just have to go there and try to find a last minute rental, because things just go so quickly. You're not going to find something two months in advance, which, for me, I could not do. Come on. Sophia, really? Could we do that?

[0:20:09.4]

SY: No. I'm such a planner. I'm such a planner. Actually, a girlfriend of mine just moved to San Francisco and had the same situation. She was really getting nervous and cutting it down to the wire, but then she ended up just kind of moving in with her boyfriend when she got there and just deciding from there whether they were going to stay that way or she was going to eventually just keep looking once she was physically there, because looking from New York and trying to plan in advance was just not happening.

[0:20:38.9]

FT: Yeah. I mean, come on. My advice is to save for savings. If you don't have any savings, you should prioritize that. Hopefully without the need to pay rent, that I don't know what she was willing to put towards rent, but maybe at least $1,000 to $2,000 a month. Imagine you're still paying rent and put that in the emergency account, a savings account, any kind of liquid bank account, online, brick and mortar, wherever she wants to put it, except not under your mattress. Just put it actually in a bank. Once you get to about six months, savings, which would include rent too. Don't assume that this is money that you're going to have to want to tap when you're still living rent-free. This is an emergency account, so what if you had to suddenly move out of your place and start paying rent on your own? Be conservative with this six-month reserve.

Then, hopefully within the year, she'll have that saved, because that's a lot of money. If you're saving, basically, 30%, 40%, 50% or your paycheck because you're not paying rent, you're going to hopefully stack up that savings soon, fast, much faster than if you are paying rent, obviously.

Be aggressive with that and hopefully in the same year, hopefully in this calendar year, you can actually start to use some of that savings from not paying rent to pay down you student loan. The key there, of course, is to make sure you're paying all the minimums all while — But when you have extra money to put towards the loan, you put it directly towards the principle, so you'll be chopping down that loan balance a lot faster, as supposed to a combination of principle and interest. We're talking here just specifically with that extra payment, extra payment going towards principles.

Lucky anonymous. Don't we all wish we had a gig like that? Then, she just have to manage the property.

[0:22:29.2]

SY: It's a pretty good gig. I would help manage a property for free living expenses.

[0:22:34.1]:

FT: You would?

[0:22:34.6]

SY: I think I would.

[0:22:36.9]

FT: It would depend on the job description, right? Like, "What am I doing?"

[0:22:39.0]

SY: Yeah, a little bit. I'm not very handy, so if I had to do something quite handy. If it's more just like watering plants, I would even offer to pet sit if the person have pets living on the property. There would be a few stipulations, but I think I would do it.

[0:22:55.2]

FT: I think it would be more than pet sitting and watering plants, Sophia. I think it's going to be like — You're basically running the house. If that person probably isn't living there that owns it, you have to deal with all the plumbing issues that might come up, or the fridge breaks, it's all that. You're basically the home owner.

[0:23:11.3]

SY: That's true. That's true.

[0:23:13.6]

FT: In any case, it's going to save for a boat load, and we hope that next time she writes in, she'll tell us how much richer she is.

[0:23:21.1]

SY: We're at the end, and we actually have a success story that's coming in from one of your listeners, Dylan. She wants to let you know that almost a year ago she reached out when her salary was $39,000 and then she wrote in again and she got a promotion, and it was all thanks to your advice. She was able to put her salary at 47,000. Recently, she was offered a new job and a 70,000 salary and she says the best part of it is that my new job is the job that I've been working towards for years now. It's directly my meeting my career goals and not just a job that you take for the money. I attribute being able to almost double my salary in under a year to the inspiration and learnings from this show. Starting my morning off with So Money helps me lean in all day long, sounds cheesy, but it's true.

[0:24:14.0]

FT: Oh, that's so sweet, and so awesome. She's doubled her salary.

[0:24:18.2]

SY: Amazing.

[0:24:19.5]

FT: I will only take 10% of that, so you can mail me a check, Sophia will be in touch to let you know where to direct deposit that. No, I'm just kidding. This is such great news. We talk a lot about New Year's resolutions and how we're so poor at them and how by this time, "Forget it." Third of week of January, it's over, but by February, you've already probably gotten back to your old habits. It sounds like she has really stick into her guns and has inspired all of us to go out there and just ask for more, people, just ask for it.

I just was helping actually a friend who is up for a job and she hasn't negotiated in like nine years. I don't even think she negotiated when she first got her first job, and stayed at the job for nine years, now she's finally ready to move on. It's like dating, like you haven't dated in nine years. What's the etiquette? How do I ask? How do I — What? Do we kiss on the first date? Do I ask for money at the first meeting? There's some parallels, I find.

I'm still waiting to hear whether she got the job or whether she got the bump in the salary that she wanted, but I will keep you guys posted. I'm hoping, crossing my fingers. My advice to her was try not to show — If they ask you what you want to make, flip it and say, "Well, I would love to learn first what the range is for this job and what your budget is for this position." There's no harm in kind of dancing around it. You don't want to always be the first person to show your numbers.

If you to have to, you feel very hard-pressed to do that, maybe it's late in the interviewing game and you just want to kind of start the conversation already, you could present your salary. I told her to make sure to also include kind of factoring her benefits, like her time off, her — Whatever other bonuses, pay raises that she gets. You can say something like, "I make roughly X," and it's maybe more than what your take home paycheck says, but it is at the end of the day, perhaps, more involved, that you've got all these other things going on.

From there, having your mind a figure that you absolutely need to make in order to unequivocally go back to your current employer and tell them, “Goodbye. No negotiating.” Whatever that number is, add like 20% to it when you’re negotiating, so that the perspective employer obviously will want to negotiate with you. You’re leaving some wiggle room there and hopefully you’ll finally get to your target figure maybe a little bit higher. We’ll see what goes on with that, waiting to hear.

In the meantime, thanks for the update and thanks, Sophia, for filling us through these questions.

[0:27:03.1]

SY: Of course it was great telling the episode on a high note.

[0:27:06.1]

FT: Totally. Keep ‘em coming. For those of you who want to give us feedback, certainly you can write into the show and we’ll totally brag about you. Also, cool, is if you wanted to leave us an iTunes review. If this show is actually helping you make more money in your life, save more, just feel more financially equipped, then let the world know in a big way by going to iTunes and leaving a review, because that keeps the show in the spotlight. iTunes likes to see shows that get reviews, keeps them in the wheel in at the front center of the podcast homepage. We like that, ‘cause that brings in new listeners and just keeps the showing going. Thanks for your help everybody, and I hope your weekend is so money.

[END]