EPISODE 569

[ASK FARNOOSH]

[0:00:32.9]

FT: Welcome to So Money everyone. I'm your host, Farnoosh Torabi. What a week we've had. It's millennial's and money week. I mean, not that I really planned it this way but Monday, we had Erin Lowry, episode 567, she's a personal finance blogger of the BrokeMillennial.com. Her book is called *Broke Millennial* and it's out this week and it's all about how to not be a broke millennial, funny enough.

Now we are turning the tables and answering your money questions, thank you to everybody who has been writing in, we are trying to steadily keep up and catch up to all the questions and Sophia is here, as always.

Welcome to the show, Sophia.

[0:01:12.1]

SY: Welcome and happy Cinco de Mayo.

[0:01:14.0]

FT: Oh my god, that's right, I forgot my margarita.

[0:01:18.5]

SY: We'll have to grab one after.

[0:01:21.1]

FT: All right, and I can drink now, which is — the thing is, after you have a baby, you can be more relaxed about your adult beverages. But my problem is one, I don't have time to unwind with a cocktail and two, even if I did, my tolerance is so shot right now that I basically just smell wine and I'm down for the count, I'm drunk.

[0:01:43.7]

SY: You're a cheap date.

[0:01:45.4]

FT: I'm a really cheap date. Oh my gosh. So anyway, this is Friday, May 5th, Cinco de Mayo. Sunday, I will be at Penn State, if any of you state college listeners, University Park listeners, I'm going to be on campus, at my alma mater on Sunday, bright and early, at the Bryce Jordan Center addressing the Smeal Business students, Smeal College of Business, class of 2017. I am so excited and also a little nervous, a lot nervous, Sophia.

Because you are nice, you laugh at all my jokes because I pay you. But these people, these millennials, I mean, I'm really scared. I have some jokes, I feel like my speech is like pretty light but also from the heart and also a little self-deprecating. I try to have a little humor in there, but I'm just worried, I've got nine minutes and it's like eight minutes too long, you know what I mean? Because really, a minute is all I can really expect for this people to pay attention.

[0:02:47.3]

SY: No, no, they'll be very lucky to have you. I've seen you give talks with other groups and I'm not the only one laughing there, I promise.

[0:02:54.5]

FT: Oh man, thanks for saying that. Again, I know I pay you, but I'm hoping that that is actually how you feel. I don't know. You know, I have my husband who is a tough critic and he's been giving me some feedback and my brother too, Todd, you know, he's 26 so he's definitely the target and so he's been editing it a little bit. But I just got to go with it and cross my fingers and hope that in 10 years, when they look back on their graduation, they might remember my name?

[0:03:22.7]

SY: Oh, they'll remember it.

[0:03:24.0]

FT: I have a joke, do you want to hear it? Here's the joke and I'm going to be…

[0:03:27.0]

SY: Give us a preview.

[0:03:28.3]

FT: Yes, I start by obviously congratulating everybody, when I get up at the podium and I say that I'm so honored and humbled to be there and really, I'm going to be having goosebumps I know when I get up there. So I tell them that I hope that in the next nine minutes I will inspire them enough so that in a decade, they'll reflect back on this day and remember that a woman named Farnoosh spoke at their graduation and that she was kind of cool, I'll take it. Then I said, "Or at the very least, you will remember that my name sounded like a Middle Eastern appetizer."

[0:04:04.6]

SY: That's cute, I like that.

[0:04:06.1]

FT: Is it cute? I'm waiting for a pun. Okay, that's my corny joke in the beginning and if I get silence after that, I might just have to run out crying but I just really don't want to let down the dean and I don't want to let down my professors because, you know, I owe a lot to them and I'm really humbled for getting this opportunity. It's huge. I mean, who thought that I would be back at Pen state for this reason? I will be filming it so stay tuned. I'm going to put it on my website and you all can see me either bomb or do okay.

[0:04:42.1]

SY: You'll do great.

[0:04:43.5]

FT: Thanks, I appreciate the encouragement. Okay, let's get to these questions. I see the first one has something to do with real estate, which you know, it's music to my ears.

[0:04:51.8]

SY: Your favorite topic.

[0:04:52.6]

FT: My favorite topic. So tell us what George is curious about?

[0:04:56.6]

SY: Yeah, he and his wife are in their mid-20's and they're currently renting in Queens and they want to buy a first home but the bad news is their credit scores are both so-so. The good news is their parents have offered to help with the down payment but even so, he's worried about qualifying for a mortgage and all of the maintenance cost plus he's nervous about getting rejected by co-op boards.

[0:05:18.9]

FT: All right, so he's got some challenges and so he's at a cross roads. So he's like, what is really the bottom line for George?

[0:05:27.8]

SY: He wants to be a homeowner but obviously he's facing this challenges. Really, he wants to know, should they attempt to buy or should they use his parent's down payment contribution towards investing in a rental property and then use that rental income to afford a better rental for themselves?

[0:05:45.2]

FT: Well, as we've talked about on this show, buying a home, the math is not the only thing that needs to add up. You need to really be in the right mindset to become a home owner. This can be a very daunting experience for some. Even for the most experienced home buyers, you know, they probably will also say that buying a home is no small feat and it comes with a lot of responsibilities and it's not for the faint of heart.

If he's nervous about co-op boards and he's nervous about all of the auxiliary costs like the maintenance and the taxes, I think that maybe he needs to relax a little bit about this idea of buying today. I'm not saying he will never be able to buy and I think he's probably on a good track to become a homeowner someday, and he's got the support of his parents, that's huge. Not many people can bank on that.

But I think that he may just need to wait, he and his wife, so that they can build up their own savings so that they can have some real skin in the game. They'll get their parents hopefully to contribute and then in a few years, after saving diligently, they can build up their own savings to contribute to either the down payment or all of these cost, the mortgage, the taxes, the maintenance.

He should go into this with pure peace of mind, I mean, not everything's going to be peachy-keen and there's going to be some stuff that will pop up surprisingly and, you know, when you go through a closing, there's a lot of stuff that could drive you nuts, just all the paperwork and all the demands from the underwriters. But it's really important that you feel at least that you've done your best to be financially ready and through that process, I think George and his wife will then get mentally ready.

You know, they're looking at these price tags and I know they're in Queens and Queens is more affordable than Manhattan but it's New York City nonetheless, and prices here are much higher than they are than the rest of the country. So he's probably experiencing some sticker shock. Just maybe take a step back George form all this, it sounds like you're very overwhelmed and, you know, you're not alone here. I think that most prospective home buyers initially get overwhelmed.

So think about how you and your wife can, over the next year or two, pair down your expenses, build up your savings, improve your credit scores too, because that's the other thing. No matter whether you go the investment property route or the residential property route, your credit scores will matter and if they're low, whether your parents give you that down payment or not, you may or may not qualify.

If you do qualify and your scores are low, you might get a high interest rate and that's going to also increase your monthly payment. I think it's best if they just slow things down a little bit and focus on getting their financial ducks in a row and I think that will inherently make them more confident about becoming homeowners. Wow, that's nice to have parents giving you down payment money.

That's kind of the only way to do it these days in New York, seriously. People in their 20's, buying in New York City, when you hear that, you think, "Okay, how did your parents help you out or was there an inheritance?" If anyone read *You're So Money*, my book, my first book, *Live rich even when you're not*, you know that I was able to buy in my mid-20's in New York City but it was thanks to my parents who were able to take equity out of their home, give me cash to buy this studio and then I went and got basically a home equity line of credit off of the value of that studio. Paid back my parents with that money and started to pay off this key lock which I ten refinanced into a fixed mortgage. Did you get all that?

Basically, my parents and I, we strategized to be able to buy a home in New York for me. At the time, and still I think your competition is stiff, you've got people coming in with all cash offers, they don't need to use a bank and so there's that too. Not to make you more scared, George, but there is also that to expect. Down payments, in New York City, usually you want to have at least 20% at the ready.

[0:10:05.3]

SY: Definitely. I was going to say the co-op that my parents have their apartment in, they require 40%. So there are even some places in New York that require more than 20%.

[0:10:15.8]

FT: Yeah, because co-op boards, you're right Sophia, I was thinking more condo where the minimum is a 10% but then of course people to be competitive, they put 20, 30 cash, all cash. But co-ops set the standard and the rules for that building. It don't matter whether, what you want to do. It's all about what they want to happen.

I remember seeing a home that I loved in Manhattan when I was trying to look for my first place and the price was really below market, I thought, and I was already kind of ready to take it to the next step and I talked to the seller and I said, "So, what kind of financing are you prepared to accept? I could probably do 10 or 20%," and she goes, "Financing? This building only accepts all cash offers," and I was like, "Oh, well okay, bye."

I think that was a rarity because all cash — requiring all cash is sort of nuts but co-op boards can make any rules they want and they can reject anyone they want and not have to tell them why.

[0:11:25.6]

SY: I know. It's crazy. I've been told too by people who, some of the people in our building, they say once an apartment goes on the market, it's tough to sell because even if their priced competitively, as you were mentioning before, the down payment alone scares off a lot of buyers. So you really have to do your research and be careful and also be prepared.

[0:11:47.6]

FT: Yup, it's very tough out there but George, I think if you just take the time, you really map it out a little bit more, you do what you can to save to boost your credit score, you'll just be in a better place and you'll have more options at the end of the day.

All right, Danielle, let's move on. She's got some credit card debt that she wants to get rid of and she wants to strategize. Let's help her out.

[0:12:12.5]

SY: So Danielle has $5,000 on one credit card that she'll be paying off this year and she recently got a tempting offer to transfer the debt to a 0% APR credit card and there's a zero dollar transfer fee and a 0% lasts for 15 months so she's wondering if she should make the move and if you ask, should she then close her other card during the process of all of this?

[0:12:34.8]

FT: Well, I assume the interest on the current credit card is more than zero. Listen, as some of you may know, I am a financial ambassador for Chase Slate. We've worked on a lot of great credit health initiatives and Chase Slate, similar to the card that she's describing here, offers a 0% APR for the first 15 months and I think it can be helpful if she can take advantage of those 15 months and erase the debt within that timeframe.

Because as we know, after 15 months, that 0% turns into a pumpkin and then you're looking at closer to maybe 18 to 20%, depending on your credit score. That's my advice Danielle, if you can pay off this debt in 15 months, within that 0% APR timeframe, it could be a smart move and no, don't close the other card in the process.

Be very sure of that. When you transfer the balance, make sure that your old bank or your old credit card issuer keeps that card open because your credit score might take a little bit of a hit if that account gets shut off. That account, I assume, has a nice credit limit, maybe some good credit history, so that all does factor in positively in your credit score. Keep it open, don't use it, just keep it open and take advantage of the 0% APR credit card and get that $5,000 off the books once and for all.

All right. Rosalie has a question about Ellevest, one of our ad partners.

[0:14:07.5]

SY: Yeah, so she signed up for Ellevest, the automated investment platform for the listeners that don't know about Ellevest. And she immediately canceled the account because her boyfriend told her that traditional IRA's, which I guess Ellevest offers, are horrible.

He said it would be smarter to fully fund her Roth IRA because she'll pay less in taxes when she withdraws. She says she doesn't like investing in a Roth IRA because she doesn't know what to invest in and can't afford a financial adviser. She wants to know, is Ellevest really as bad as her boyfriend is making it seem?

[0:14:41.9]

FT: Yikes. I think your boyfriend might be over reacting Rosalie and I'm not just saying this because I'm a fan of Sallie Krawcheck and she is the founder of Ellevest and Ellevest is a sponsor. So full disclosure, you know, we're big fans of Ellevest around here. It's not just because they help to sponsor the podcast. I really believe in the mission.

I really believe in Sallie Krawcheck and traditional IRA's are different from Roth IRA's, absolutely. It is not a wrong opinion to say that Roth IRA's can be more advantageous, it is true. Your boyfriend is correct in saying that when you contribute to a Roth IRA, the contributions are withdrawn tax free in retirement. But the benefit of a traditional IRA is that your contributions will reduce your taxable income today.

Ellevest is an automated platform, they have you answer a series of questions, a lot of good important questions in order to figure out the architecture of your portfolio in terms of how much risk to take on and so on and so forth. So it is a lot more affordable than hiring a financial adviser. But listen, whatever route you decide to take, and I'm not saying that you shouldn't open up a Roth IRA, don't feel that you can't pursue a particular path because you can't afford a financial adviser.

A Roth IRA is a very simple investment vehicle, just like a traditional IRA. The investment offerings within this plans can feel vast and you may feel like you need someone to hold your hand through it, but we talk about it on the show all the time and it's not just me, it's people like financial advisers and other financial experts and investors, we love index funds. Just pick a really good broad market index fund, they typically have very low expense ratios, low fees, or no fees and pick that.

That could be your one investment in the Roth IRA and that covers a lot of territory and if you've got a lot of time until retirement, which just sounds like you may, you're probably better off doing that than hiring someone to pick stocks for you. There's actually an article the other day that said that indexing outperforms active management in funds. So don't feel like you can't do the Roth IRA because you don't have this professional help. It's really easy to just go to a bank, open up a Roth IRA and pick a broad market index fund. That's it.

Let it ride for 30 years and I think you'll be happy in the end. I don't think Ellevest is as bad as your boyfriend makes it out to be. I think Ellevest has a lot of advantages, one, it helps you save up for various goals. Women are very goal oriented, you know? It's not just like I want to save money for one day in retirement. That's one goal but I also might want to buy a house. I also might want to have a fund at the ready for when I have my family, have my kids and don't want to work for a year.

Because we got a lot of things on our plates. You know, we have a lot of things on our minds, we want to afford a lot of different things that men don't necessarily think about and Ellevest really kind of captures that and respects that. So I would give Ellevest another shot, Rosalie. Maybe you decide against traditional IRA's, but I think that whatever you do, do something. A Roth IRA is also great, but I also would say take another look at Ellevest and maybe introduce it to your boyfriend like actually walk him through it with you because maybe he's not really seeing the totality of what they offer.

Okay, Shannon wants to know about credit cards, she's a freelancer, so how can we help her?

[0:18:20.9]

SY: Shannon wants to know what the best credit card for a freelancer might be. She wants to be able to track her expenses with one card but also get the maximum benefits from her purchases. She's especially interested in travel miles because she flies a lot, so she's wondering how you suggest that she go about finding the best card for her?

[0:18:40.4]

FT: It may sound here that she wants two cards. I don't normally say that but you've got two things going on. You've got your business and then you've got all this travel that you do, which maybe of course tied to the business but it's not often that you are going to find a card that offers you all these different benefits for all your different purposes.

So one card that's exclusively for your business expenses, including maybe your rent for your office, your supplies, your subscriptions, whatever materials and merchandise you buy, gas, that is for the business and I would maybe put the travel on a different card. On a card that is exclusive to travel rewards, and if there's a particular airline that you take more often than others or maybe you take all different sorts of airlines, there's a card for you and nerdwallet.com, bankrate.com, these are some good sites to check out, which can compare these different cards for you. You type in what you are looking for, your preferences and it usually gives some really good options.

So that's what I would say, have a business credit card for most of your business expenses and then whatever airline expenses you have or travel expenses that you have, put it on a separate card where you might be able to get more of a return for those purchases because it's exclusive to travel rewards. And then there's all sorts of different kinds of business credit cards too and on those sites you can compare as well, Nerd Wallet, Bankrate.com. All right.

[0:20:07.8]

SY: Another spot to look too, for Shannon just for the travel credit card, might be actually with travel bloggers I think. If I remember correctly Nomadic Matt who we've had on the show, I believe he also has a post as well on some of those cards that might offer some benefits, whether it's miles, as you mentioned, or hotel perks, things like that.

[0:20:27.1]

FT: Yeah and also there's the Points Guy and he talks about how to maximize your travel using different kinds of travel cards and travel rewards points and things like that. So check out those resources, good addition there. All right, last but not the least Armand. Love the name Armand, Armand is a character in *The Birdcage*, great movie. What's on his mind?

[0:20:49.7]

SY: All right, Armand is writing in because he wants to find other ways he can make money long term. He wants to know what he could be doing to increase his income? A little bit more about him; he currently has a nine to five job and he's earning around 65,000 a year. He's a home owner in the Bay Area and he's also contributing pretty aggressively to his retirement plan.

[0:21:11.1]

FT: All right, do we know what Armand's skill set is or what he likes to do? Because that's really what it comes down to when you're looking for side income, of course. Nothing on that?

[0:21:22.2]

SY: Nothing about that and nothing about what he's currently doing where he might be able to leverage some of those skills as well.

[0:21:27.9]

FT: All right, well I'm going to throw back some questions at you Armand. That's really where you've got to start if you want to narrow down some side gig options. One is what am I good at?

What can I do? What are my technical skills? What are my soft skills? What are my resources too? Because if you're not really insistent on doing something that leverages your skill set per se, maybe you can leverage your vehicle, your house. You can rent your car out, you can use the car to help people move through sites like Task Rabbit and Moonlighting.com. Is that what it's called, moonlighting.com we had the CEO on?

[0:22:06.5]

SY: Yes.

[0:22:07.2]

FT: If you have a home and an extra room or you're going to be away sometimes and you want to rent out your house entirely, Airbnb.com could be an option to make some extra money. So it's really making two lists, right? What are my skills and what are my resources and how can I leverage one or some of these skills and resources to make extra money? And most importantly, you want to be comfortable with the side gig.

So you might have the house and the extra room, but you don't like renting it out to strangers. That's fine, that's important to know about yourself. You don't want to get involved in a side gig that is going to make you uncomfortable. Make two lists, one with your skills and one with your resources and between those two lists maybe you'll be able to find a way to leverage that and make a little bit of extra money.

You can always also ask for a raise; never hesitate to ask for more money from your employer if you really believe you are adding exceptional value, and we've talked a lot about how to do that. So go back to the archives Armand and you know, pick probably at least one or two podcast a month, we talk exclusively about income and earnings and raises and negotiating. So hopefully the podcast can continue to be a resource for you.

That's a wrap, thanks Sophia.

[0:23:20.5]

SY: Of course, happy Cinco De Mayo, go enjoy your nice margarita.

[0:23:25.4]

FT: Happy Cinco de Mayo! Yes, margarita is imminent. Thank you Armand, Shannon, Rosalie, Danielle, and George. George, hope you get that house one day and you will be happy but I'm really confident that the more money you have in the bank, and the higher your credit scores, you'll be all that much more ready, prepared and able to take on this big purchase.

Thanks everyone! You know how to reach me, go to somoneypodcast.com, click on Ask Farnoosh, send us your question, you can leave an audio question or write in. Happy Cinco de Mayo and I hope your weekend is So Money.

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