EPISODE 692

[ASK FARNOOSH]

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FT: Welcome back to So Money everyone, Friday February 16th. I hope you had a good Valentine's Day week, days last week, I don't know. We're not really big Valentine's Day people in our household mainly because my birthday is on the 15th so that take precedence and it was a nice special birthday as well. And also, this week I headed to DC to visit my girlfriend, my BFF Kate, I hadn't seen her in a while. So I cleared my schedule for two days and went down there and visited her and her beautiful family. It's just been a really good personal week attending to some personal matters. But now time to shift gears and talk about what's on your money mind and for this episode I'm really excited.

I'm bringing back a So Money friend and a personal friend, Erin Lowry, author of the bestseller, *Broke Millennial,* and also spokesperson and partner with Turbo which is a great new app. We want to talk about that a little bit on this episode. But first Erin, welcome to the show.

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EL: Thanks for having me and happy birthday. I have to say your birthday being on the 15th is perfect because Peach, my fiancé and I, do not celebrate Valentine's Day on the 14th. Through a random series of events when we started dating in college, ended up celebrating on the 15th so that became tradition and it's such great fire sale on all the Valentine's Day – but it's so cheap and we can get all the candy for like 90% off.

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FT: Oh my god that's right, that's right, whatever is left of course. Slim pickings but discounted roses, discounted my favorite candy falls this time of year, you know, it's those on those spicy cinnamon with hearts, those candy hearts. I don't really care for like the Necco candy hearts so much like the Chucky candy hearts but I love reading those messages they're getting really with the times.

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EL: It's true.

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FT: They used to say, they used to say like "I'll fax ya."

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EL: Yeah, "Be mine."

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FT: **"**Be mine." Now they're like "See you on Snapchat."

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EL: Well and if you get, you know, assuming they're not super tied to pop culture. If you buy those Valentine Day cards that you get in those be like 30 in a box things for next season. Just get the ones that puppies or kittens or whatever because they're evergreen, never get like the Jonas Brothers that might not be relevant in the following year or Justin Bieber –

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FT: Nothing against the Jonas Brothers, nothing against the Jonas Brothers but, yeah, good tips. I knew having you on, you know it's like you can't even help yourself Erin, like you're telling us how to save money on Valentine's Day.

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EL: That's one of my favorite though, shopping fire sales. I think I got that from my mom as a little kid because always on Boxing Day. She would want to go to the store to get all of the wrapping paper for next Christmas. So that is just a habit that I have adapted from a very young age.

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FT: Real quick, you're getting married this year and we're months ahead of the wedding date and you're like all done with planning which is really impressive. But is there something that you did that was So Money with your wedding planning?

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EL: Yes, I hate to phrase it this way but I shopped in the graveyards of all of my friend's weddings and what I mean by that is I went to vendors that my friends had used and asked for, well, firstly I usually got referral deals when I did that, so you save some money that way. And then, also it takes off the stress and the burden for you having to do all the research. For example, one of my best friends is a bit of an amateur photographer herself, so she had already done so much research finding a photographer for her wedding.

I was in her wedding so I worked directly with this photographer and his wife and so I didn't even do any research when it came to my own. I just immediately went to him saw if he was free, booked him and got a referral bonus.

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FT: I remember you were invited to like over half a dozen weddings one summer.

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EL: Yeah, it was brutal.

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FT: In one year, so at least that paid off in some way.

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EL: Yup, that and with the DJ did the same thing. One of my cousins hired a DJ that my fiancé and I just love, we danced the night away and what better resume than that. So, we just immediately went to that guy and asked if he travelled and it cost a little bit more to get him than we might have spent**,** you know, getting someone directly in the area where we were getting married but honestly it was maybe $300 more after the referral. And gosh it saved me so much time and not having to research and that people, that is totally worth it to me.

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FT: Well, we wish you both a fabulous wedding if there's any advice I can give is just take moments during the ceremony, the wedding, the party everything. Just to take like mental snapshots of everything because it goes really fast, you have pictures but it's also special to be able to reflect and have in your head, you know, those moments.

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EL: Yeah, we definitely will, that's great advice.

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FT: Alright, let's help out our listeners and as we do this maybe we can also chat about Turbo which we're both partners with in fact, you know, as listeners know I've been working with Mint, it's one of our favorite budgeting tools and apps, for a couple of years now. Mint is a subsidiary of Intuit. They have QuickBooks and TurboTax, and Mint, and now Turbo. A new free app that offers things like your credit score, your debt to income ratio. Erin tell us why you love Turbo?

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EL: Well, one it is simple. So, you're getting all this information at the literal touch of a button which I always love, it's right there on your phone. Like you mentioned it falls in three of the big factors that lenders are going to pay attention to in deciding whether or not to give you a loan. So that is your IRS verified income, that's your credit score, and then your debt to income ratio which honestly ss, kind of, the redheaded step child of this numbers I feel like we fanatically talk about credit scores and don't often talk about that income ratio. But I think we're going to get in to that a little bit.

So, I'm going to hold a lot of the goodies about that. Then what's other thing that's great about Turbo is it gives you personalized insights so, you know, if you need to know how to improve your credit score and lower your debt to income ratio and you can also benchmark yourself against what other people are doing and it's not any people, it's people who are in similar stage of life. So perhaps you're feeling really down on yourself, you don't think you've got it all together, but you log in and you say like, "You know what? For a 28 year old living in New York City I'm actually doing okay."

So, I really like that it benchmarks you against people in similar lifestyle and not just anyone anywhere in the country because there are different matrix depending on where we are.

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FT: Yeah, I like that too, it kind of, allows you to see where you fall in your I guess demographic and as far as, you know, what are you're making and where you're living because, yeah, it's all relative. It's really easy to size yourself up or down based on how others are earning and spending and saving. So, you brought up debt to income and that's a ratio that's really important and we have a question here from Chris whose wondering "How high is it – how high of a debt income ratio is too high to be considered for a mortgage?"

Now, a little bit more about Chris he makes about $80,000 a year. He has some student loans and about $15,000 in credit card debt. He figures that his debt income ratio is about 35%, so from a lenders perspective is he in the safe zone or he is just a little too risky?

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EL: He's right there flirting with the line to be honest. So a good rule of thumb is to keep your DTI, debt to income ratio, under 36%. So in that regard Chris is doing okay, he's at 35 so he is under 36 but like I said it is a bit on the high end and because your DTI is a key factor in determining your interest rate and the size of the loan that you're going to get from a lender you're going to want it to be as low as possible in order to get the best deal.

Think of it as the inverse of your credit score, the higher the better with your credit score, the higher your credit score, the better financial products that you're going to unlock. DTI is similar but inverse so the lower your DTI the better, kind of, loans you're going to get. Because a lender is looking at your debt to income ratio to see and decide on your ability to actually to be able to pay them back. I mentioned earlier I feel like it's an often neglected number and a credit score is great.

Credit scores are important but a lot of times there can be this disconnect where we look at credit score and we're like, "How do I have a 760 but feel like I'm living paycheck-to-paycheck and barely keeping it a float?" And you could have a great credit score because you're paying all your bills on time and it doesn't feel like you have much. That income gives you this very holistic approach and view and snapshot of your ability to actually payback lenders in a kind of well an earth why and if you are in that paycheck-to-paycheck cycle. So I'd say try to lower if you can, again as we mentioned earlier, Turbo can be great for this. You can use tools like mint.com as you mentioned and Turbo. Because Turbo will tell you what your DTI is exactly and give you those tips and tricks to get it down.

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FT: It's so important because if you are applying for a home loan or any other kind of sizeable loan your credit score as we know is vital in that decision process. But what we don't talk about often is the DTI the debt income ratio and better to know that before applying because you'll save yourself a lot of time, and maybe some embarrassment, if you don't know you apply you realize, "Oh, my debt to income ratio is like 50% and I'm getting now rejected for this loan" or "I have to go back to the drawing board," right?

So, you're going to save yourself time and hassle because you have that knowledge ahead of time thanks to Turbo. Just to let everyone know how DTI is calculated, we're talking about your total recurring monthly debt – that includes credit cards, your student loans – divided by your gross monthly income. It's expressed as a percentage so it's not net income it's gross income, so I just wanted to mention that.

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EL: And that it's monthly is important and I think a lot of people freak out because they think, you know, "I have a hundred thousand dollars in student loan debt and only make $60,000 a year so it's totally off I'm over my debt to income ratio." So like you mentioned monthly is an important factor in that as well.

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FT: Okay, Linda has a question about retirement and you're actually writing a book about investing, your next book is about investing. So why don't you tell us what's on Linda's money mind and we'll tackle this one together.

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EL: So, Linda says she has a new job offer that is a 3% match for her 401(k) so she's wondering what her best options are for her current 401(k) which has 150 thousand plus, good job Linda. So she's asking "Do I roll this over in to a new plan?" So I'm assuming she means rolling her old 401(k) into her new 401(k), or does she moved that over in to an IRA?

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FT: Well, I love that her new 401(k) offers this 3% match, that's definitely something that she should take advantage of once she becomes eligible at this new company, at least do enough to earn that 3% match. The decision about whether to roll over that 401(k) from the previous employer in to the new 401(k) or an IRA is going to come down to a few things I mean one thing that you want to look at Linda, is what are the potential fees and what are your options within the new 401(k)? Do you like your options are fees not too high? That could benefit you if it works out because it's all under one roof and that's an important thing for some people that want to streamline their investments.

Rolling it over into an IRA is also a valid choice, it's also a valid option, you know, with IRA's typically you have a vast number of options. Many more options of investment categories and asset class than like a 401(k). The fees might be less because then you can also be more exact about where you're putting your money so if you just want to do index funds probably you can do that with an IRA. With a Roth IRA, as we know the tax benefits are different than a traditional 401(k), so if you also are concerned about your tax exposure and retirement and you want to maybe diversify that tax exposure. Some people like having a 401(k) and a Roth IRA if they qualify. What do you think?

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EL: I've done that myself actually. I do have a Roth IRA and had kind of a traditional 401(k) when I was traditionally employed and all great points. I think the biggest thing is that investment options that you mentioned, looking to see what your new employer offers and if perhaps you can get a better deal by rolling that over into your own IRA. But the other thing to consider to and I've seen this argument by a couple different people and that's how simple do you want to keep your financial life?

It is just easier if you dump it all into your new 401(k) and have everything at one spot. This of course I'm making an assumption that you don't already have a separate IRA. I personally have rolled into IRA's as opposed to rolling in to the new 401(k) but I don't mind the slight extra layer of complication – even though it's not really even that complicated. But some people like to have it as simple as possible, so just another thing to keep in mind.

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FT: Right, I mean if having everything under one account will mean that you will more likely invest then do that because then if you have two different accounts and that's two decisions you have to make every month or two automations. If it's more likely that, you know, you'll make the commitment with one account because it's just easier. You know, if it's a little bit more expensive in the long run it might be the best move.

Alright, next question comes from Laella. Laella, she's 36 with $22,000 in debt, $107,000 saved in a retirement account, $5,000 saved in an emergency fund, and she has two homes, one of which is a rental. Should she use a self-directed IRA to buy another rental property? Oh, she loves that real estate. I mean I love real estate as an asset class if you're up for the ups and downs and you're okay with being a landlord and all the responsibilities that come with that, if you want to maybe have a rental property.

I think really this just comes down to a liquidity question, right? Like, how much money does she have at her disposal to be able to afford this comfortably? The other question is, she hasn't really asked for an answer to this question, but other question that I would have Erin is, what's the ROI of this rental property, right? Like, is she going to make money?

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EL: I agree. I think it's also just a great look at risk tolerance. Personally I saw this and had a gut reaction like "Nooo!" But I'm not into the real estate game and that is something that just makes me feel stressed because one, you know, we both live in New York City and the idea of investing here feels very overwhelming. But it's more about, like you mentioned, the landlord issue, the headache of dealing with that. Now she's already doing it or maybe she has a great team in place to handle it for her. But my other thought to just looking at this was $5,000 in an emergency fund to me feels very low for her situation just because she owns a home and already has one rental property.

Now, unless she does have separate emergency funds for each of those rental properties, I guess that's a bit different but 5K when everything goes wrong all at once. You lose your job, you know, water heater tank bust in your personal house and the ceiling caves in in a rental property – everything goes upside down all at once. Murphy's Law, it happens. So, to me it's beef up that emergency fund first and also what is the debt that $22,000 of debt is that? Student loans, is that credit cards, does she barely have mortgages left in her first two properties? That was my other big question in this scenario too.

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FT: Yeah, and you know she does ask about maybe purchasing this through money in a self-directed IRA. A self-directed IRA is the kind – there are many kinds of IRA's – we normally talk about traditional and Roth and the difference there mainly is there are tax benefits. With the traditional you get the tax benefit today and with Roth you get the tax advantage in retirement.

A self-directed IRA is essentially, I think I would describe it is it's an IRA where you can use – you can invest in a number of things even outside of traditional investments like stocks, bonds, mutual funds. You can invest in real estate, you can invest in, my gosh, like horses, art, films, it's anything goes really and I would say at that level of investing you should have all of your other basis covered. You probably shouldn't have debt.

So to your point Erin, I think maybe Laella to really do this with the money in this self-directed IRA to purchase real estate, you want to make sure that you've got a good clean bill of financial health, that you've addressed the debt before taking on this relatively riskier investment. Do you agree?

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EL: I do. I don't think that there's anything wrong with building a real estate portfolio, you know, especially if she's got a great team in place and that's something that she wants to do to build wealth. But it is about having yourself covered at your base level. I understand the lure of "Oh this great property came on the market and this is a great time just in terms of that mortgage. I can gain an interest rate," or whatever it is but, you know, that goes back to that old cliche of put your own oxygen mask on first before helping others. Same in that situation, make sure you are safe before you're investing in real estate.

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FT: And last but not the least Eric wants to know about some good ways to pay off his mortgage faster. He says he bought a program in the past that uses the second mortgage to pay off the first, making extra principal only payments, etc. But they're confusing a little bit as to how they work and so he said, "It would be nice to use my home as a bank if I ever needed that equity." So, it sounds like he wants to help pay off that mortgage faster so that he can build equity and tap it if he has to. For, you know, the many things that life brings us.

Look, anyone who comes to me and says that they purchased a program, they bought in to a program to help them pay down their mortgage faster. I'm like, "What? You know, all that service is providing is an automation, you know, which you can do." I get letters in the mail too from banks, "Pay us hundreds of dollars and we'll setup a way for you to pay off your mortgage faster" and basically what they're telling me they're going to do is automate one additional payment or however many additional payments a year to my principal only. But guess what? I can do that on my own.

I can schedule that I can every month pay an additional amount towards the principal which we do and so there's a way to DIY this and not have to pay a service. So Eric, I mean really if you want to payoff that mortgage faster you're kind of already doing it to some extent with this program is making those extra principal only payments so that you're knocking down that balance sooner rather than later. The interest is not involved because that would mean you're paying less principal and the balance wouldn't go down as quickly. *The Automatic Millionaire,* which David Bach wrote, is largely based on this; that you make one extra principal payment a year or you just want extra mortgage payment and if that includes interest so be it. But it does payoff – it can shave a decade off of your mortgage. If you have a 30-year mortgage, maybe more if you do more payments a year. Also let's address using your home as a bank.

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EL: Yeah, I was going to say I don't love that ide. I understand the principle and that it's kind of your backup, backup, backup plan. But I would have that emergency fund in place and all sorts of other options that are in place before you have to tap in to your home. The other thing about this question is the statement of "This program is confusing as to how it works." I agree with you Farnoosh that you can do this yourself. But the other thing I would say to Eric is then if it's confusing you need to take the time to either physically go in to the bank branch or call someone and have them walk you through exactly what it is and have them break it down until you understand it. Because you should never be enrolled in a program that you can't understand and you can't explain to someone else.

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FT: Thank you for bringing that up. I also think that if you learn throughout the process that this is something that you could just do on your own and save money, then think about doing that because I don't think it's necessary to pay for a service that it doesn't require another party helping you out. Anyone can pay more towards their mortgage usually. I mean most mortgages don't have a penalty for paying more than the monthly minimum but make sure you check that out.

Erin thank you so much. Tell us how we can tap into Turbo, we didn't mention the website yet.

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EL: Sure, you can go to myturbo.com to learn all about it or you can just go to the Apple app store and download it right there under Turbo. It will be coming soon to Android and be available in Google Play but right now it's available in the App Store. You just go to myturbo.com and you do not have to be an Inuit customer, so you don't have to have used Turbo test before, or use Mint before in order to get access and like Farnoosh mentioned at the beginning it is free.

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FT: And, because we're wrapping up a Valentine's week this could be fun for couples. Fun. I mean I'm a nerd, you're a nerd, we would totally do this. But you know I have found surprisingly that many couples don't know the basics about their financial perspective on their financial lives. They don't know how much each person makes. They don't know their credit scores. They don't know each other's debt to income ratio like people I know their own debt income ratio how would they necessarily know their fiancé's or their husband's? So, do this, download the app as a couple, have a date night around your money and use this app as a way to spark conversation and knowledge. I think that could be a great way to, you know, if you set some resolutions in January and you've been falling off the bandwagon, it's a great way to get you back on.

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EL: Yes, I love that and I do a monthly money meeting with my fiancé. I nerdely love it. I don't think his quite as big of a fan as I am but he indulges me and I agree. We both use Turbo and kind of compare it in. It's fun, competitive, but in a friendly spirit competition to see who is doing well and who could be doing better.

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FT: Wonderful, alright thank you so much Erin and we'll be looking for your next book. The first one is called *Broke Millennial,* your next one is all about investing. We will be sure to have you back on to share more about that when you're ready. Thank you, have a great weekend.

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EL: Thanks you too.

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