EPISODE 926

[ASK FARNOOSH]

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FT: Welcome back to So Money, everybody. Friday, August 16th, 2019. I'm your host, Farnoosh Torabi. This is ask Farnoosh, where I tackle your money questions and I've been coming in through the channels, mainly Instagram these days. Follow me there @FarnooshTorabi. Send me your money question and very likely, I will answer it on this show and sometimes in Instagram. You might get a video from me. You're a quick message back.

Want to kick things off by heading over to iTunes, to the review section, okay? On Monday, I mentioned that I am going back to the beginnings of this show, which if you recall, if you've been with the show since 2015, you remember that I encouraged people to leave reviews, because it is the best way to get your show out there. Word of mouth really pays off, and of course, iTunes in their algorithm. We understand that reviews matter. The more reviews you have, the more iTunes gives you some ranking love and puts you on their hot list, or just better real estate in the iTunes store, which frankly is where a lot of people identify podcast for the first time.

In the hopes of getting more reviews, good, bad, medium, didn't say which review you had to leave, but just leave your honest review. I was going to pick someone every Friday for a while from the reviews to receive a free 15-minute money session with me. I see already we've gotten a number of new reviews. I'm going to just pick out of alignment, that's the name of the reviewer, who wrote that the show is accessible, educational and fabulous. Five stars. This person I believe is a mom. She says, "I'm a teacher and a mom of three, who loves commuting to school with Farnoosh."

That's so cool to know that I'm with you on your commute to school, or wherever you're going, that we're sharing in that experience. I may not know what's going on, but I'm with you. Her podcast, she says, "Is informative and empowering. Her guests are top-notch. My husband loves to check in after dinner by asking, did Farnoosh have any good advice today?" Oh, my God. That's so amazing. She says, "You're changing lives. Keep up the great work." I love it. I love that I'm a third wheel in your marriage at dinner time. This is a true compliment. I'm happy to know that this is a family show, that you can chat about this with your husband. You can leave it on in the car with the kids on. Sometimes I swear. I apologize. Generally a clean show.

For you, I would love to offer the opportunity for you and I to chat for 15 minutes about how I might be able to weigh-in, give you some strategies, some feedback on any financial questions that you may have. I wish I knew your first name, but I'm going to just call you out of alignment, because that's the name that you left. Reach me either on Instagram, direct message me there @FarnooshTorabi, or you can e-mail me farnoosh@farnoosh.tv and I will get in touch with the next steps to get in touch for our 15-minute money jam.

Yeah, I'm doing this guys. If you want to leave a review, please do. 917 reviews so far. We'd love to get to a thousand, as we're also heading into the 1000th episode of the show, it would be nice to line up the reviews with the episodes. Would love to hear from you. Please, great feedback is always welcome, what you like, what you want more of, what you like less of. This show was founded on the principle of creating a program that tailored to the audience, right? We've evolved over the years. We've gone from seven episodes a week to five to three, because you told me it was too much content. You couldn't keep up, so we reduced the cadence.

We've had on co-hosts that are listeners. You have the opportunity now to co-host with me. Right now, I'm solo hosting the show today, but I encourage you to reach out and let me know if you'd like to co-host. I know some of you have reached out and I am going to get back to you, so stay tuned for my replies. Yeah, this show is really in service of the audience, so please let me know what you think and perhaps then we'll also connects for a 15-minute money session. Once a Friday, I'll be picking a name out of the reviews hat for a while.

All right, this is going to be fun. I got a lot of questions that came in just recently on the gram. I'm going to start with Ira Tootsie. Ira who says, “Hey, there. Do you think it's a good time to refinance in this market? We have a 1030 ARM, adjustable rate mortgage and we are four years into the loan. We paid a little more than 20% of the value of the house and we want to move to a traditional 30-year loan, which we can shorten by choice by paying more towards the principal.”

All right? Ira, I think it's a good time. I do think it's a good time to refinance as we know interest rates are heading south. The Federal Reserve has committed to this. I just did a quick news search to see what kinds of articles would come up if I typed in interest rates and refis. It turns out that weekly mortgage refis are up 37% in the most recent week. This is in the midst of dropping interest rates. It's definitely a good time as it is being proven in the market. People are going to reduce their interest rates by refinancing their mortgages.

I think it's a really good move, if you aren't too far into your mortgage. You're only four years in. If you were 24 years in, I'd say just stick with the last six years and call it a day. The short math for deciding whether or not to refinance your mortgage is to figure out one, what will this save you monthly? Once you refinance, will this dramatically reduce your monthly payment? Dramatic can be a $100 a month times 12, that's $1,200 a year. You also have to take into account what the closing costs may be. Just closing on a house, there will be some closing costs associated with a refi. You want to find that out ahead of time, because that's obviously going to offset your gains to an extent.

It may mean that you're not going to break-even, “break-even” from the cost of refinancing this until a year or two or three in. Just be sure that you're okay with that timeline, whatever it is and that it's worth it to you. Yeah, I think that if you've got an interest rate that is above, I'd say 5%, this is a really smart time to consider refinancing. The only thing I would say is that because there's this rush to refinance, you might experience a back-up. You might experience a delay in getting your application through and finally getting closed.

You can lock in your rates, which is good, but just keep that in mind as well, so the earlier you get this going, if you want to do this year, this calendar year, I would do this – I would look into this ASAP. Yeah, I think it's a good time and good luck to you.

All right, Queens girl in the world. This is an Instagram pal. She says, “I lost my job a year ago, Farnoosh. I'm now consulting while job hunting, which has resulted in a 30% drop in my income. I have since depleted my savings and maxed out the credit cards at $27,000 just to live. I also have a timeshare that I owe $20,000 on. All of these carry over 29% interest rates. I currently have a 30-year fixed mortgage at 4.395% interest rate and my credit score is hovering at 630, because of the debt. Should I refinance my house to pay off my cards and the timeshare? I love your show. Thank you so much for the platform for helping women learn about money."

Well, thank you so much. I'm sorry to hear that it's been slow going with getting back on the full-time job front, but it sounds like you're making progress. You're consulting. Hey, I think that's always going to be a transition, right? Going from a layoff, to getting back into the market. Sometimes when you get those consulting gigs, look for the opportunities in them, because you might be meeting people who might become your next job opportunity, or you know you'll find that you're getting really good traction with the consulting gigs and you won't have to go get a full time job. I think there's going to be a lot of opportunities coming your way and you're in a good place, working even if it's reduced ours is better than not working. It's easier to find a job that way.

Okay, so the concern here is the debt, right? Because you've got $27,000 in credit card debt and you have a timeshare that's $20,000 on it. The credit cards have a very high interest rate, 29%. I would suspect that because your credit score isn't 700 or higher, it's a little bit difficult to qualify for some of these transfer balance cards that have a zero percent interest rate in the beginning, so that if you wanted to do – I was going to say if you wanted to transfer your debt onto one of them, that could be great because you'd have that breathing room, that year of – or 18 months of no interest, or 15 months of no interest. You usually need a 700, or higher credit score to qualify.

In this case, I don't know if refinancing your mortgage is going to really make a difference, only because your interest rate is already so low, 4.375%. I'm not sure you're going to get something lower than that. Maybe you've done some research and discovered you can, but I would be surprised if it would be a lot lower. Lower there, where again, it's going to save you a ton of money after you pay the closing costs, etc.

Maybe instead, because you also tell me that you have about $75,000 in equity in the home, you may want to, I don't know, take out a little bit of a home equity line of credit. Just a small portion of that. Maybe just the amount of the debt and pay down the credit cards with the home equity line of credit and then start paying back the HELOC with your cash. HELOCs have much smaller interest rates, right, than credit cards typically. I mean, you're not going to get a HELOC with a 30% interest rate. You might get one with a 4%, 5% somewhere in their interest rate. Maybe that is something to look into.

I would call your bank – your lender, your mortgage lender and say, “Hey, I've got some equity. I would like to learn about how to apply for a home equity line of credit.” With HELOCs, you typically cannot borrow the whole equity amount. You can only borrow a fraction of it. There are other qualifying requirements. I'm not sure if you will qualify, but it might be something worth exploring, just because this would be a type of loan product that would be a much smaller interest rate than your current credit cards, that you could use to pay off the credit cards and then go back to paying them off, but with a smaller interest rate that makes sense.

That's one way to move the debt around. I think also, you might want to just call your credit card companies. If you haven't been late with any of these payments and you've been with them for a while as a customer, 5 years, 7 years, 10 years, calling them and just saying, “Hey, do you have a payment plan that I can get on, that is a little bit more amenable for me? My goal is to pay down these balances. Can I perhaps get a reduced interest rate? Do you have another card that I could transfer this debt over to, that would give me some interest breathing room?”

Sometimes, you may be surprised. Calling your credit card lender, your credit card company may yield some options that you don't know about. Do that and then also, call your mortgage company and ask about possibly taking out a HELOC. Now you don't have to go with your mortgage provider to get this HELOC, you can go with any bank theoretically, but maybe starting there, they'll want to keep your business and give you the best deal. Plus, they've got all your information, so it might be a faster transaction. Those would be my initial thoughts for you.

I think that it's really overwhelming when you're not working full-time and then having this debt load. To the extent that you can save, right, and to use as much of your income to prioritize, to pay down this debt and knock it out of the picture, that's – I mean, I'm sure you know this, but if you feel there's still a little bit more you can do to cut expenses, to eliminate some expenses in your budget, to then shore up the cash to pay this down on your own without having to take out another loan. I think that would be option one. You should deplete that option to the extent that you can, before looking into opening up another loan product to ease this debt burden. Good luck to you. I really appreciate you listening to the show. Keep me posted. Let me know if you explore any of these options, what you find out and we can talk about through next steps.

All right, next is my friend Meytal on Instagram. She says, “Hey, Farnoosh. Long time listener to your show. I've noticed an increase of speakers about FIRE. FIRE meaning financial independence retire early. They speak to the individual benefits. What I'm really curious about however, are the unintended consequences in communities. For example, what will it mean for people to stop contributing to social security so early to those who don't have that privilege with people giving up on the idea of buying homes in order to avoid property taxes, what will that mean for our school communities? My mind immediately jumped to the assumption that the FIRE movement will grow the divide between the haves and have-nots, but I'd love to hear from an actual expert in this.”

Well, this is a really profound question. I really appreciate it. Thank you, Meytal. I've never really thought of it in this way of the impact that retiring early may have on your community. As you point out, maybe that means not paying property taxes because you're renting, you're not owning your property, perhaps it means not paying into social security and what will that mean for others who continue to pay for social security and their benefits?

I will say this though, I think that as much as we give attention to the FIRE community, it's a small population. It is not a big population. I think that what often is misunderstood and partly, because it's not communicated right and we gloss over this, so sometimes is that well, the word retire is in the FIRE acronym, early retirement. It's not to suggest that these people aren't working and contributing to the economy or paying into social security. The idea is that you are no longer tied to a day job, a day job that you feel forced into going, because it pays the bills.

I know a lot of people in the FIRE movement. They've been on the show ,who still make income, right? They still have to file their taxes. They're self-employed. They probably have businesses, right? Effectively, they do pay into things like social security, if they're doing their taxes correctly and paying themselves a “salary” if depending on how the business is set up.

I'm not so alarmed by this, but I think you raise a really good point. The next time I have a guest on who identify as part of this movement, this is definitely a question that I'm going to start bringing up more, because maybe I'm not seeing the big picture, or maybe I'm underestimating the potential for this to have a domino effect on the community. Ultimately, I think it's inspiring. I think that it can motivate people to think a little bit more independently about their capabilities, right? That you don't have to be beholden to a corporate job for 40 years and then hope that you're going to be able to “retire” then. That you can be more in the driver seat of your financial destiny.

I think that that ultimately is what's going to be the final message here. The message that really does drive people forward, I think sure, along the way there could be some setbacks. Who knows? I mean, there's with any movement, there are going to be impacts; good, bad. This is a really interesting point. It's making me think for sure. I think the least I can do is the next time I have a guest on, which will probably be very soon who identifies with this movement, I will bring this up. Thank you for keeping me on my toes, Meytal. I really appreciate it.

Okay, a question here from an anonymous Instagram fan. She asks, “What are your thoughts about life insurance, Farnoosh? My husband recently got a job selling life insurance and he's convinced us to both get whole life insurance. It seems too good to be true. With $120 a month, we will get $100,000 if one of us passes away. We'll also get an additional accidental plan and a child protection plan, which is good for us, because the accident plan will pay me for emergency trips. I have a chronic illness and that leaves me at the ER a few times a year, and we have a son. I've heard mixed thoughts from money experts I follow. What's your take? Are we wasting our money, or is this a decent investment?”

All right, you pay a $120 a month, you get $100,000 in benefit if one of you passes away. That doesn't seem like a lot of money to me. Am I missing something? Is that $100,000 a year in perpetuity? I mean, because the only reason I'm asking is typically, when you're looking at getting life insurance, the rule of thumb is, are you ready? You take your annual income, you multiply that by eight to 10 and that's about as much as you want to get in life insurance. If you make a $100,000 a year, you want to get a policy that's around a million dollars, $800,000, $900,000, a million dollars.

The most affordable life insurance policy is term life insurance policy, which sounds just like it's described, term. It's for a period of time you own this insurance policy, so you could buy it for 20 years, 15 years. It does expire, so the good news, bad news is that if you get to 18 years, 20 years of this policy and you haven't had to execute it, because you're still alive, that's the good news. Bad news is you paid into it with no benefit.

A lot of us just need term life insurance. We just need a plain term life insurance policy, because our lives are pretty straightforward. We have dependence, children, aging relatives, we have bills that we need to cover after we die, our mortgage, funeral costs, college cost, things like that. We want to make sure that we have enough of a nest egg set aside in the event of a tragedy. We've set the side of this money to take care of our family, our dependents when we're not there. For most people, term life insurance policy is sufficient.

Policy genius is one website you can go shop for life insurance policy. Whole life insurance, meanwhile what your husband is recommending and I would not consider him biased, because he is selling this and knows hopefully what he's talking about. He's researched this. He's selling it to his own family too, so I assume he wants the best for his family. I would say that whole life insurance makes more sense for families that do have more complex situations. Now in your case, you talked about how you have a chronic illness, which has you going to the ER several times a year. If this whole life insurance policy does have an accidental plan, child protection plan, if that's aligned with the your life and your life's needs, I think that's fantastic.

$120 a month to get a $100,000 if one of you dies seems like I'm missing something there. There has to be more to this policy. Is it in perpetuity? You get a $100,000 a year for the rest of your life? Just be careful that you are aware of all the costs involved. Because what I have read about whole life insurance policies is that many people who take them out, who sign up for them, they don't end up following through, because it becomes quite expensive. A whole life insurance policy can be $700, $800, $900 a month in some cases.

It's expensive, because it is the policy that covers you for all of your life, for whether you die five years from now, 50 years from now. Then there's usually a cash value attached to it as well. It's it's very attractive, but it can be very expensive and unnecessarily so, because it's not something that everybody really needs. Just be thoroughly sure that this is necessary. If it sounds too good to be true, you know how that finishes, right? Look into it my friend. You have already raised some concerns about whether this sounds right.

You want to do the math. If you're somebody who's making X dollars a year, times up by 10, what would a policy for that amount of money cost you guys per year? Do you really need whole? Because you just get a term policy that's a $100 a month and call it a day for the next 20 years. Just some Farnoosh thoughts on that.

Okay, last question here. Again, anonymous. No problem with that. Our listener here is 28 and trying to get her finances and future on track. She works for the federal government. She says, “I don't make a ton of money.” She lives in DC, which is very expensive. “I'm working on my savings,” she said. “I just paid off my credit card debt and I've been maxing out on my retirement, but I have a cloud over my head, which is that a close family member owes me about $40,000. I had to take out a loan several years ago due to a choice she made and it has ballooned with interest. She has only paid off about $2,000 over the past seven years. I'm making payments. It's holding me back and I'm curious about what you think I should do. I don't want to ruin our relationship by taking legal avenues, but she’s seemingly refuses to get her you-know-what together. Thanks for your time.”

This is hard. I don't know what your relationship is with this family member. Obviously now it's drained, even if it was good at one point. I would have a really hard conversation with this person at first. There are legal ramifications to this potentially. Before you get there, I think you want to have a real straightforward talk with her and just say, “How you're feeling?” What is the reality of this going forward?

We harbor a lot of resentment naturally when the borrower doesn't pay us back. We start to create all these thought bubbles and we start to assume a lot to like, “Oh, they're probably doing this on purpose, or they're such jerks, or whatever,” and we start to create a caricature out of this relative, or family member.

When really, it might be much better to have a heart-to-heart with this person. Now I'm not saying it's going to go well. I'm not saying this person is going to be rational, or that you're going to end the conversation with a resolve. You want to at least just give her the heads up of the path that you're looking to take. Before you have this conversation, think through it, right? Think about all the ways that the conversation could end.

Talk to her about what you want to happen and what needs to happen. The reality is you've been paying off this debt, but this is actually her responsibility. Now your name is probably on this debt from what I can gather. Maybe you co-signed with her, or with a guarantor, so that was a risk that you took and hopefully, lesson learned. If you need for her to start picking up the slack, then you need to tell her that. If she can't do it, then you ask her, “Well, when can you start doing it?” Because this is not something that you are prepared to see to the finish line, solely, independently by yourself, that you want to have a plan in place to essentially offload this debt to her and also by the way, make some of your money back.

I think that you go to her with questions and also some potential ideas about what should happen. I don't know what legal ramifications you do have. If you're a co-signer, you’re a co-signer and you're both legally bound to this debt. If you were the guarantor, you are primarily bound to this debt if this person could not pay off the debt, because she doesn't have means to. I think that you want to be honest with her too about the progress that you've made in your financial life, that this is really holding you back and see what this person says.

That's really hard. I'm really sorry for you. I really feel this is going to be hard. I'm not going to sugarcoat it, but I do think that over-communicating is never a bad thing when it comes to this stuff. Not texting in-person. Maybe you can prepare her by letting her know, or him that you want to have a conversation about this the next time you see her or make an appointment to see each other. Don't just surprise her with it, but let her know, “Next time we meet, let's talk about this loan.”

All right, that's a wrap for Ask Farnoosh Friday. If you are not subscribing to my newsletter, please do. We had a really long e-mail go out yesterday with a lot of updates on what's happening on the Farnoosh front and what's been going on with my plans for you heard it here first, a YouTube channel. I'm a little afraid. A lot afraid of this, okay? Why am I afraid of YouTube? I think just because it's a vast abyss of content. I really want to do well with whatever content I put out there. With any first tried anything, I know it's going to be a long road.

I'm okay with that. I'm okay with the work. I'm okay with being patient, but I just want to make sure that it's good. Even if it takes two years for people to discover it, that they discover it and they're like, “Wow, that's some good stuff. I like these vids. I'm going to subscribe.” In an effort to build something like that, I need your support.

I talked about this in my newsletter, where if you have ideas for me, I'm open. I want to crowdsource this just like I did in the podcast. I want to learn what you guys want to learn about on YouTube. Much different than a podcast of course, but I'm ready for the challenge. Let me know. You can do that on Instagram. You can do that on e-mail, farnoosh@farnoosh.tv. Thanks for tuning in everybody. I hope your weekend is so money.

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