

Building a household budget

Building a household budget will help you save money for your down payment and help you with your mortgage payments after you purchase your home.

Track your income and spending

The first step toward building a household budget is tracking your income and spending. Divide your spending into categories, assigning each expense to a specific category such as utilities, mortgage payment, groceries, or entertainment. Create categories that work best for your needs.

Exclude bonus income

When planning your monthly budget, leave out income that is not guaranteed, such as end-of-the-year bonuses or anticipated tax returns. Instead, base your budget on your regular monthly income. If you do get additional irregular income, put it directly into your savings account.

Divide your expenses

To build a manageable budget, think of your expenses in two broad categories:

Non-discretionary expenses - These are the expenses that you must pay each month, like mortgage or rent, utilities, and car insurance.

Discretionary expenses - These are expenses that you can control, like entertainment, eating out, new clothes, and vacations. Some items, like groceries, are both. While you need to eat, you can limit your spending by clipping coupons, shopping for sales, or cutting back.

Set aside money for savings

Include monthly savings in your budget. Plan to move a certain amount of money into your savings account as soon as you receive your paycheck or have it moved automatically. By putting money into savings right away, you won't be tempted to use it for other things.

Budget for outstanding debt

Make a plan to pay off credit cards and other high-interest loans. Paying more than the minimum payments will help you eliminate high-interest debt faster and eventually have more money for the future. Be careful that you aren't adding to your credit card balance faster than you are paying it off.

Decide on spending limits

Once you categorize all of your expenses, you can decide on spending limits for your budget. You don't have much control over your non-discretionary expenses, but you can find ways to cut your spending for discretionary categories. Simple steps like cooking at home more often or getting rid of the movie channels on your cable package can make a big difference over time.

Keep tracking your budget

Continue tracking your spending from month to month. Compare your income and expenses to your budget. If you are having trouble staying within your budget, you may need to make some modifications.

When creating and tracking your household budget, remember that you have control over your spending. You can modify your plan as needed until you find the perfect budget for your financial needs.

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