

A photograph of a man and a young girl. The man is on the left, wearing a grey and brown long-sleeved shirt, smiling warmly. He is hugging the girl from behind. The girl is on the right, wearing a blue and white striped shirt and tan pants, laughing joyfully with her mouth wide open. The background is a bright, slightly blurred indoor setting.

The steps to homeownership

A guide for first-time homebuyers



Getting started.

When you choose BMO Harris Bank® for your mortgage, you'll get the resources of an experienced financial lender. You'll also get the assistance of a friendly BMO Harris Mortgage Banker who will walk you through each step and help you understand the mortgage process.

At BMO Harris, we think you'll find that obtaining a mortgage is not nearly as intimidating as you might have thought.

Over the past century, BMO Harris has helped thousands of families and individuals finance their very first home. If this is your dream, we can help make it possible for you, too!

So get comfortable — and let us show you “the steps to homeownership.”

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Homeownership advantages and responsibilities

A home may be the most significant purchase you will make in your lifetime. Homeownership has many advantages but also brings with it many new responsibilities.

What are the advantages of homeownership?

- **Tax savings:** potential to deduct mortgage interest and real estate property taxes when filing federal income taxes*
- **Financial investment:** you may build equity over time through loan repayment and property appreciation, making funds available at a later date for home improvements, college tuition, etc.

What are the responsibilities of homeownership?

- **Utility costs:** heating, electricity, sewer, water, garbage removal and cable
- **Maintenance:** painting, decorating, landscaping, snow removal and possible homeowner association dues
- **Appliance repair/replacement:** furnace, air conditioner, stove, refrigerator, dishwasher, water heater and microwave
- **Possible structural repairs:** roof, plumbing, electrical wiring and foundation
- **Home improvements:** kitchen or bathroom upgrades, deck or patio, finished basement and garage
- **Record keeping for income taxes:** when filing your taxes, you may be able to deduct money paid for real estate taxes and for mortgage interest*

* You should consult a tax advisor for further information regarding deductibility of interest and taxes.

To help you with your decision about buying a home or continuing to rent, consider which statements feel more like you.

I may want to rent if...

- I'm new to the community and haven't decided where I want to live
- I move frequently for my job
- I feel burdened by a seasonal home-maintenance schedule
- I have little desire to own

I may want to own if...

- I want a feeling of security that comes with owning a home
- I've had a steady source of income for two to three years
- I have a good record of paying my bills on time
- I would like potential tax savings*
- I would like to improve my financial independence
- I pay as much in monthly rent as I would in a monthly mortgage



Buying a home is an important decision. Consider the benefits and the differences between homeownership and renting to determine if owning a home is right for you.

Notes:

* You should consult a tax advisor for further information regarding deductibility of interest and taxes.

Nine easy steps to your home loan

Gain a better understanding of how the homebuying process works and how BMO Harris Bank can help you navigate it.

1 Prequalification

At BMO Harris, we may prequalify you for a specific loan amount over the phone, or in person, in minutes—so you'll know how much home you can afford. It is necessary to order a credit report for the prequalification process. You will also need to supply information about your income, assets and debts.

2 Choose your loan

BMO Harris has a wide range of mortgage solutions for first-time homebuyers, with options to fit most budgets and lifestyles.

3 The application

We'll meet with you to take your application at a time and place convenient for you. Plus, before we meet, we'll give you a checklist of everything you'll need to bring along to ensure a smooth process.

4 Income and employment verification

The information on your application is checked for accuracy and compared to your pay stubs, W-2 forms and tax returns to determine if you can afford your monthly payment.

5 Credit check

Your credit history is reviewed to help us determine how much debt you have and how you have paid your bills over time.

6 Asset review

Your bank statements and investments help us determine whether you have sufficient funds for your down payment, closing costs and reserves.

7 Appraisal

We will obtain a professional estimate of the market value of your property.

8 Hazard or other homeowner's insurance

This type of insurance is required for the life of your mortgage and protects the value of your property.

9 Loan approval and closing

After your loan is approved, we will meet with you so that you may sign the necessary papers. The deal is "closed."
You own your home!



Prequalification and preapproval

Prequalification

If you are considering homeownership in the near future, you should contact your BMO Harris Mortgage Banker and request a **free prequalification**.

In this informal process, your Mortgage Banker estimates how much money you can borrow to purchase a home and what your monthly mortgage payment will be.

You will need to supply information about your income, assets and debts. A credit report will be ordered for the prequalification process.

At BMO Harris Bank, prequalification is **free**.

Preapproval

A preapproval is a formal application for a home loan prior to you selecting a property. In most cases, a prequalification is sufficient, but in some cases, real estate professionals and builders may prefer to work with buyers who have been preapproved for a mortgage before they begin shopping for homes.

Some loan programs also require a preapproval rather than a prequalification.

A credit report is ordered and documentation is required to verify your employment, income and assets.

A written loan commitment letter is issued identifying the maximum amount of money you can borrow and what your monthly payment will be.

Notes:

Prequalification example

This is an example of how we can estimate what your monthly mortgage payment would be based on a 30-year fixed rate mortgage with a 5.000% Interest Rate/5.480 Annual Percentage Rate. In this example, your monthly payment would be \$1,744.46. This is for illustrative purposes only.

How much do I earn?	
Monthly income	
Combined gross wages of all borrowers (before tax deductions)	\$ 6,500.00
Alimony/child support	-0-
How much do I owe?	
Monthly payments	
Auto loans	\$ 350.00
Student loans	-0-
Credit card payments	\$ 200.00
Alimony/child support	-0-
How much money do I have available for the down payment, closing costs and reserves?	
Bank accounts	\$ 9,000.00
Gift from relative	\$ 7,500.00
Grant	-0-
Second mortgage	-0-
How much can I borrow to purchase a home?	
Loan terms	
Loan type	Fixed Rate
Interest rate	5.000%/5.480% APR
Term	30 years
Down payment	5%
Maximum purchase price	\$ 195,000.00
Down payment/closing costs/reserves	\$ 16,000.00
Maximum loan amount	\$ 185,250.00
Monthly mortgage payment	
Principal and interest	\$ 994.46
Real estate taxes*	\$ 567.00
Private mortgage insurance*	\$ 83.00
Hazard insurance*	\$ 100.00
TOTAL PAYMENT	\$ 1,744.46

* These amounts are paid monthly by borrowers (together with their principal and interest payment) and may be held in an escrow account by the lender for the payment of real estate taxes, hazard/homeowner's insurance, private mortgage insurance and/or flood insurance premiums when they become due. **This example is for illustrative purposes only.**



BMO Harris Bank affordable mortgage products and programs

There are numerous types of down payment and closing cost assistance programs that are readily available and easy to access. BMO Harris works with various non-profit housing agencies and local governments to offer valuable assistance. In fact, to help make homeownership even more affordable, various types of down payment and closing cost assistance programs can actually be combined.

By taking advantage of such assistance programs, eligible borrowers may realize the following benefits:

- Reduced required down payment
- Lower closing costs
- Reduced monthly mortgage payments

TIPS

Your Mortgage Banker can help you choose the product or program that may be right for you.

The application

Your Mortgage Banker will meet with you to take your application at a time and place convenient for you. Information about your income, employment history, debts, credit history, savings, investments and the property you intend to purchase will be gathered and evaluated. This information will be used to determine if you qualify for the amount of money you want to borrow.

My income



How much money do I earn?
 Use this worksheet to calculate your income — gross monthly income before taxes and/or income from any non-employment source.

	Borrower	Co-Borrower
Wages	\$	\$
Overtime		
Bonus		
Commission		
Social Security		
Pension		
Disability		
Alimony*		
Child support*		
Dividends/interest		
Other		
TOTAL	\$	\$

Housing expense ratio

This is a comparison of monthly housing expenses (principal, interest, taxes and insurance) to your monthly gross income. A good rule of thumb is that your housing expense payment should not exceed 28% of your monthly gross income. However, this percentage amount can change depending upon your personal financial situation and the type of mortgage you choose.

* Alimony, child support or separate maintenance need not be revealed if the Borrower or Co-Borrower does not choose to have it considered for repaying the loan.

My debts and obligations



How much money do I owe?

Use this worksheet to calculate your monthly recurring payments for debts and obligations.

	Borrower	Co-Borrower
Revolving credit card	\$	\$
Revolving credit card		
Revolving credit card		
Revolving credit card		
Car loan		
Student loan		
Line of credit		
Alimony		
Child support		
Rent		
Another mortgage		
Other		
Other		
TOTAL	\$	\$

Debt-to-income ratio

This is a comparison of the monthly housing expense payment— principal, interest, taxes and insurance plus all other monthly ongoing payments—to monthly gross income. When estimating the amount of mortgage that you can afford, a good rule of thumb is that your total monthly payments should not exceed 41% of your monthly gross income. However, this percentage amount can change depending upon your personal financial situation and the type of mortgage you choose.

Notes:



Credit check

How have I paid my bills over time?

Your credit report is a summary of transactions where credit was used to purchase goods and services. This summary is compiled by three national credit repositories and provided to lenders upon request when you apply for a mortgage.

These credit repositories are:

- **Equifax:** (1-800-685-1111) equifax.com
- **Experian:** (1-888-397-3742) experian.com
- **TransUnion:** (1-800-888-4213) transunion.com

How do I get my free credit report?

Consumers are allowed one free comprehensive disclosure of all the information in their credit file from each of the three national repositories once every 12 months. You can obtain your free copy by calling 877-FACT-ACT (1-877-322-8228) or via the Internet at annualcreditreport.com.

What does my credit report include?

Inside your credit report, you'll find a list of debts and a history of repayment, as well as any unpaid bills referred to a collection agency. Also included is public record information such as judgments, bankruptcies and tax liens, and recent inquiries made by other lenders and creditors about your creditworthiness and your credit score.

How is my credit score calculated?

Your credit score evaluates such factors as payment history, the amount of outstanding debt that you have, the length of time you have used credit to purchase goods and services, how often you apply for credit and borrow money, and the types of credit accounts that you have.

How can I improve my credit score?

You can improve your score by paying your bills on time and making at least the minimum payment on each bill. You can also improve your score by avoiding using the maximum amount available to you in credit, such as your limit on your credit cards, and by only applying for credit when you need it.

If you have experienced credit difficulties in the past, you may need to seek assistance from a credit counseling agency before considering homeownership. Your Mortgage Banker can provide you with information about credit counseling agencies in your area.

Credit information that is reported on a credit report is referred to as "traditional" credit. If you have not established traditional credit, you may be able to provide alternative information to document your credit history. Examples of "non-traditional" credit include current and previous rent history; verification of utility payments (telephone, electric, gas, cable, etc.); insurance premium payments (medical, life, auto, renter's); payments to local department, furniture, appliance or specialty stores; payments to child care providers; or documented loans to individuals.

Asset review

How much money do I have available for the down payment, closing costs and reserves?

The down payment is the amount of money paid from your own funds, gifts or grants toward the purchase of a home.

Closing costs are the expenses incurred to obtain your mortgage loan (over and above the price of the property) such as an appraisal fee, credit report fee, title insurance premium, discount points, recording fees, etc. Closing costs also include items that must be prepaid or escrowed, such as mortgage interest, real estate taxes and private mortgage insurance.

Some affordable products and programs may provide down payment and/or closing cost assistance in the form of grants or affordable second mortgages from approved government or local housing agencies.

Reserves are the funds you have available after paying the down payment and all closing costs. Some affordable products and programs require that you have funds in the amount of one or two mortgage payments in reserves after closing.



Assets

Use this worksheet to determine how much money you have available for the down payment, closing costs and reserves.

	Borrower	Co-Borrower
Checking	\$	\$
Savings		
Money market		
Certificates of deposit		
Stocks/bonds		
Gift funds		
Grant funds		
IRAs		
401(k)		
TOTAL	\$	\$

Notes:

Loan estimate

A written loan estimate* of closing costs is provided to you by the lender within three (3) business days of application. These costs are over and above the price you pay for your property.

A loan estimate* of closing costs would include:

Appraisal	\$ 495.00
Credit report	\$ 13.50
Discount points	-0-
Flood determination	\$ 6.50
Tax service fee	\$ 52.00
Origination fee	\$ 800.00
Homeowner's insurance premium	\$ 1,200.00
Settlement/closing fee	\$ 1,216.00
Title charges	\$ 725.00
Recording fee	\$ 168.00
TOTAL	\$ 4,676.00

At BMO Harris Bank, an estimate of all costs is disclosed within three (3) business days of application. There are no hidden fees and there are no surprises. We'll explain the entire process to you in simple, easy-to-understand language. We'll tell you up front what your costs are going to be, and we'll put a competitive interest rate in writing for you.

* Other items that must be prepaid or escrowed include interest, real estate taxes, hazard/homeowner's insurance, private mortgage insurance and flood insurance. Closing costs, prepaid and escrows may vary depending upon the specific characteristics of your transaction. **This example is for illustrative purposes only.**



Appraisal and insurance

What is the value and condition of the property that I want to purchase?

An appraisal is a written report that describes the property and estimates its value and marketability.

The appraisal evaluation takes into consideration the neighborhood, the site, and the physical characteristics and condition of the property. Appraisals are performed by state-licensed and/or certified appraisers. The appraisal is used to determine if the property is sufficient collateral (or security) for the loan.

Before your closing, you will be required to purchase hazard insurance in an amount equal to or more than the amount of the mortgage or the maximum insurable value of the property

(whichever is less). This insurance is intended to pay for physical damage to the property from fire, wind, vandalism or other hazards. The policy and a paid receipt for the first year's premium are also required prior to closing.

Most homebuyers purchase homeowner's insurance instead. This is a combination of coverage (hazard insurance and personal liability) for the property and its contents (i.e., furniture, appliances, clothing, etc.).

If the property is located in a Special Flood Hazard Area, you also will be required to purchase flood insurance. The policy and a paid receipt for the first year's premium also are required prior to closing.

Closing disclosure

BMO Harris will send you a closing disclosure detailing the terms and costs of your loan at least three (3) business days prior to closing. This can be compared to your most recent Loan Estimate. If there are significant changes, ask your lender to explain why.

Loan approval and closing

After your mortgage loan has been approved, the final step to homeownership is the loan closing.

The closing is also sometimes referred to as “settlement.” The closing typically takes place at a title company office that is convenient for all parties. The title company is responsible for recording all of the legal documents associated with the closing. All mortgage and legal documents are signed, all financial sums are paid and ownership of the property is formally transferred.

What to bring to a closing

As the buyer, you should bring your policy for homeowner’s insurance and your paid receipt for the first year’s premium. The policy proves that you have adequate homeowner’s insurance for the home you’re buying. Be aware that your lender will not issue the mortgage loan without it. You also need to bring to the closing a certified or cashier’s check for your down payment and closing costs.

What to expect

At settlement, there will be many important documents that you will need to sign. Make sure you carefully read and understand all the documents before you sign them. Do not be afraid to ask the lender or settlement agent any questions you have about your loan documents.

Next steps

Once the closing begins and the closing officer has verified that you have your homeowner’s insurance policy and paid receipt, he or she will explain each closing document to you and then have you sign them. Don’t hesitate to ask the officer questions throughout the process.

After you have signed all the required documents and provided the required funds for closing, the closing is complete. Your possession date, which is the day that you can move into your new home, is listed in your purchase agreement. If that date is the same day as your closing, you’ll receive the keys to your new home before you leave the closing.

Notes:

Consumer tips

Predatory lending

Predatory lending is a practice that usually involves loan terms that you can't meet and transactions that take away the equity in your home. To help avoid predatory lending, you should be aware of the following:

Predatory loans typically include the following features:

- High interest rates and closing costs
- Unreasonably high broker fees
- Unnecessary closing costs such as pre-paid life insurance
- Unaffordable repayment terms

Predatory lending typically targets:

- Low-income homebuyers, the elderly, minorities and women
- People who have less-than-perfect credit
- People with limited knowledge about the homebuying process

Consider the following tips:

- Comparison shop
- Choose a reputable lender
- Don't borrow more money than necessary
- Choose a mortgage that meets your needs
- Don't buy services that you don't need
- Get the best terms that you qualify for
- If you don't understand something, ask questions until you are satisfied
- Get financial counseling if you need it



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