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Differences between U.S. and Canadian mortgages

While there are many similarities between mortgage loans in the U.S. and Canada, there are also significant differences. If you're planning to purchase a property in the United States, you'll want to get familiar with these differences to avoid surprises.

One thing to remember: If you plan to use a mortgage to pay for part of a U.S. property, you'll likely need to get that mortgage through a U.S. financial institution.

Getting a mortgage in the U.S.

Compared to obtaining a mortgage in Canada, a U.S. mortgage:

- **Generally takes longer to secure.** It typically takes 45 to 60 days from the start of application to closing, as the U.S. mortgage industry is more regulated.

Even so, the basic underwriting criteria are the same as in Canada, including good credit history, income ratio and current debts.

- **May have higher fees and up-front costs.** These costs can include appraisals, survey fees, property inspections, title searches and other fees.
- **Will likely require more documentation.** U.S. regulations require documentation of your current debt and income sources, savings and chequing accounts and investments. Learn more about this documentation for U.S. mortgages.

One key difference between Canadian and U.S. mortgages is the term length: In the U.S. your mortgage term spans the length of the amortization period. So, the mortgage will be paid in full at the end of the term.

Canadian mortgages also have an amortization period, which determines the total length of your mortgage. However, the mortgage will likely have several shorter terms within that period. Mortgage terms establish the interest rate and conditions for a set period and are renegotiated throughout the amortization period in Canada.

Let's connect

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Comparing mortgages on both sides of the border

Use the table below to better understand the differences between U.S. and Canadian mortgages.

	Mortgages in Canada	Mortgages in the U.S.
Mortgage length	• Amortization periods are typically up to 25 years	• The mortgage term typically ranges from 15 to 30 years.

Mortgage terms	• Shorter mortgage terms are negotiated throughout the amortization period and range from 6 months to 10 years.
	• At the end of each term, a new term length and interest rate are negotiated.
	• Generally, the longer the term, the higher the interest rate.
	• Mortgage terms can either be fixed (interest rate doesn't change over the term) or variable (rate changes with prime rate).
		• The mortgage does not need to be renegotiated during the term.
		• At the end of the term, if all payments have been made when scheduled, the mortgage is fully paid off.
		• Mortgage interest rates can be either fixed or adjustable:
		  • With a fixed rate, payments will remain the same for the entire mortgage term.
		  • With an adjustable rate, the rate stays the same for the first 3 to 10 years, after which the rate may adjust annually for the remainder of the amortization period based on the market interest rate changes.

End of mortgage term	• At the end of a term, you can: a) Pay off the balance of the mortgage, b) Renew the mortgage with your current lender, or c) Renegotiate with a new lender.	• The mortgage provisions stay the same throughout the term and don't require renegotiation.
Pre-payment options	• Pre-payment opportunities are set out in the mortgage agreement and vary depending on whether your mortgage has an open or closed rate. • An open rate mortgage lets you pay off your mortgage at any time without penalty, but interest rates are generally higher. • With a closed rate mortgage, there are penalties for pre-payment outside of the established pre-payment opportunities.	• Most U.S. mortgages can be paid off in full or additional payments can be made at any time without penalty.
Changing mortgages	• You may be able to switch to a different type of mortgage without reapplying, but you could pay a penalty.	• If you want to switch to a different type of mortgage with the same lender, most U.S. lenders will require you to apply for a new mortgage, go through the application process again, and pay the associated fees.
Tax deductible?	Interest on your mortgage payments is not tax deductible.	• Interest paid on a mortgage on residential property may be deductible on a U.S. federal tax return.[1]

Your next steps

The good news is that with BMO Harris Bank N.A., you can apply for a mortgage using your Canadian credit history and Social Insurance Number (SIN) if you don't have a U.S. credit history or Social Security Number (SSN).[2]

The best place to start your application for a U.S. mortgage is in Canada with your BMO Private Wealth professional. They can help you understand and navigate the U.S. mortgage process.

Learn more about U.S. mortgages **from BMO and talk to your BMO Private Wealth professional today!**

[1] BMO Harris does not provide tax or legal advice. You should consult with a tax advisor for information regarding any tax impacts associated with your mortgage loan.
[2] Applicant must meet one of the following eligibility requirements: New or existing Private Bank (U.S.) or Private Banking (Canada) client; new or existing Premier Services client; new or existing depository client (including trust accounts titled in the name of the Applicant) at BMO Harris Bank N.A. or deposit account(s) at Bank of Montreal.
In the U.S. banking products and services are subject to bank and credit approval and are provided by BMO Harris Bank N.A. Member FDIC.

5 Common Challenges for a Family Enterprise

Statistics show that family enterprise is the most common form of business ownership worldwide. In Europe and Asia, some businesses have been family owned for over 10 generations. In Canada, it is estimated that 60% of the GDP is driven by family enterprises employing more than six million people.

Families in business together often feel isolated by the challenges of working in such a personal environment. In reality, many families face the same complications regardless of the industry they operate in or the size of their business.

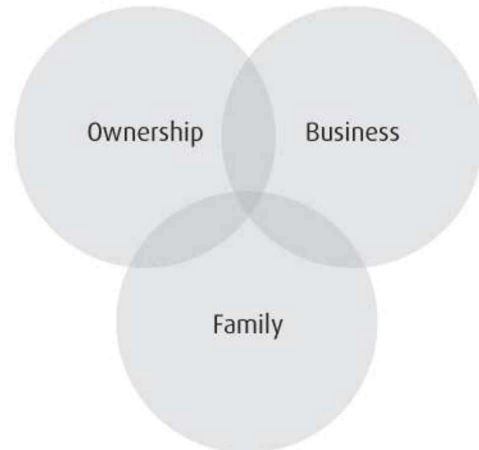
Here are five common family enterprise challenges:

1. Limited Capital. Like non-family companies, family businesses must satisfy shareholders' expectations. Occasionally, a family member may want to leave the business and be bought out of their ownership position. In order to avoid conflict, family members may be more willing to pay out capital that would otherwise be used for company growth. Additionally, as the family business grows, it may be called upon to support multiple owners' expanding families.
2. Lack of Preparation for the Next Generation. In many cases, no family heir or successor is interested or qualified to lead the family business. Sometimes this is because they have not been effectively prepared for the challenge.
3. Inflexibility and Resistance to Change. By nature, successful business leaders tend to be remarkably driven and committed to their ideas, which may make them inflexible and stifle growth. Leaders need to be open to new ideas, as the requirements for success can change and newcomers typically have different working styles than their predecessors.
4. Sibling Successor Conflict. Children of family business founders usually grow up observing their parent's leadership style and may try to emulate that particular style. Things can get even more complicated when sibling behaviour patterns come to the boardroom. Moving to a sibling leadership model requires a more consensus-building leadership style.
5. Disparate Family Goals. As families evolve, their goals and values often become more diverse. While some family members may want to build the business for future generations, others may wish to harvest existing equity.

While there is no secret formula to successfully navigate a family enterprise through the issues that will arise, there are best practices that can help families deal with issues as they come up.

The **Three-Circle Model of the Family Business System,** pictured to the right, can help to understand the interrelationships in a family enterprise. Each circle is a separate system; however, they will overlap. In order to succeed, each system must have its own governance, goals and objectives, and each must be aware of the adjacent system.

Three-Circle Model of the Family Business System



Source: Tagiuri and Davis, 1996

Ownership Circle – Board of Directors/Advisors

Within a business, the CEO reports to the board and the board reports to the shareholders. The company will benefit from having a diverse and complementary board with a thoughtful strategy, depth of experience and a reporting methodology.

Business Circle – Strategic Plan

Creating a strategic plan best prepares management to see issues as they arise and respond as needed. This process allows the management team to focus on the business' strengths, weaknesses, opportunities and threats.

Family Circle – Family Councils

A family council allows the family to meet regularly to discuss their needs. To ensure open communication, the family should establish its constitution, councils and regular meetings.

Seek Advice

When complications are managed, family businesses can have tremendous advantages over non-family businesses. Your BMO financial professional can refer you to our team of Business Advisory and Succession Planning consultants to assist you in ensuring you remain on course to meet your family's goals and objectives.

For more information, please contact your BMO financial professional.

Agreeing to a Shared Purpose – 'The purpose of Purpose' Virtual Event Series

On June 9, BMO Family Office held the first of a three-part virtual series with Stonehage Fleming entitled, 'The purpose of Purpose.' Focusing on the issues facing families stewarding substantial wealth on a multi-generational level, the session started with a few words from **Neil Hershcovitch,** Chief Operating Officer and Investment Platforms at BMO Family Office Canada.

Hershcovitch set the stage for an insightful conversation led by **Matthew Fleming,** Partner, Head of Family Governance & Succession at Stonehage Fleming, **Priyanka Hindocha,** Director, Family Governance at Stonehage Fleming and **Shelley Forsythe,** Director, Family Enterprise Planning at BMO Family Office.

Four Pillars of Capital

Though Fleming spent the past 20 years at Stonehage Fleming, he had two earlier careers – in the British army and as a cricket player.

Fleming and his family researched what families were most worried about and what helped them succeed intergenerationally. This research led to a foundational framework for establishing intergenerational success.

Referred to as the Four Pillars of Capital, they include:

1. **Financial Capital** – Everything with quantifiable financial value (e.g. investments, money, property).
2. **Intellectual Capital** – Leadership and skillsets within the family.
3. **Social Capital** – The external brand of a family and how the business behaves within the community.
4. **Cultural Capital** – The values that hold a family together and its governance framework.

Each of those Four Pillars sit on top of purpose, explained Fleming, though purpose alone isn't enough.

Shared Purpose

Shared purpose is the starting point for everything, says Hindocha, including governance and decision making. It's the backbone of a family's sustainable intergenerational strategy.

Fleming explained how in his research into purpose he found that families weren't worried about risks to their financial capital. Rather, the risks they were worried about included family disputes, poor leadership, failure to train the next generation and lack of planning.

Finding Your Purpose

Every family has a different approach to finding their purpose, explained Fleming. Connecting with family advisors, lawyers, accountants, etc., can help attain non-biased insight and create a safe space for people to ask and answer difficult questions. Once conversations are facilitated and key themes highlighted, an articulation of purpose can begin. This purpose should come from within the family or it won't be sustainable.

How & Why to Articulate Purpose

Starting is often the hardest part, stated Fleming. "It takes one person thinking about those pillars, who is worried about the legacy," he says. The bottom line, said Fleming, is that he's never met a family who hasn't benefited from thinking through their purpose.

Defining success is key to a positive outcome. After some reflection, one family member may decide their skills are best utilized outside the family business, for instance.

Final Thoughts on Purpose

People often get nervous about the conversation around purpose because it could lead to significant changes, said Fleming. But if part of your entrepreneurial ambition is to contribute to society, you have nothing to fear from going through the process.

If you have any questions or are interested in learning more, please contact your BMO Relationship Manager.

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