

What are

DEPOSIT BONDS AND WHEN ARE THEY USEFUL?

What are they?

FACT:

After your offer is accepted on a property you need to provide the real estate agent with a deposit of up to 10%.

PROBLEM:

What if you do not have ready access to this 10% cash deposit? Nowadays this is quite common.

YOU COULD BE:



FIRST
HOME
BUYER



BUYING
AND SELLING
SIMULTANEOUSLY



EQUITY TIED
UP IN EXISTING
PROPERTY



CASH TIED
UP ELSEWHERE

SOLUTION:

WHATEVER THE REASON, DEPOSIT BONDS ARE THE ONLY OPTION FOR A SIGNIFICANT NUMBER OF BUYERS WHO DO NOT HAVE ACCESS TO THE 10% CASH DEPOSIT.

How do they work?

A deposit bond is a substitute for the cash deposit that is required between signing the contract of sale and settlement of a property.



SIGNING THE CONTRACT OF SALE

SETTLEMENT



LIKE A CASH DEPOSIT, THE DEPOSIT BOND:

- Guarantees the commitment of a purchaser to an unconditional contract of sale.
- At settlement you, as the purchaser simply pay the full purchase price including the deposit bond amount.
- Provides a level of comfort to the vendor that the sale of their property will go ahead.
- After settlement the deposit bond expires.

SO A DEPOSIT BOND IS LIKE AN IOU FOR THE DEPOSIT AMOUNT YOU NEED TO SECURE YOUR PROPERTY!

Which deposit bond is right for you?

THERE ARE MANY TYPES OF DEPOSIT BONDS AVAILABLE FOR EVERY TYPE OF PURCHASE SITUATION

YOUR PROPERTY PURCHASE COULD BE:



EXISTING HOME/UNIT



VACANT LAND



COMMERCIAL PROPERTY



OFF-THE-PLAN

DEPOSIT BONDS CAN BE ARRANGED FOR PURCHASE BY:



PRIVATE SALE

- Deposit bonds can be used when there is an agreement for the sale of a property at a price negotiated directly between the vendor and purchaser or their agents.



AUCTION

- Auction deposit bond can be purchased for up to 6 months.
- Auction deposit bonds can be re-used for multiple auctions until you are successful.
- Auction deposit bonds can be refunded within 30 days (less an admin fee) if not successful at auction.
- Auction deposit bonds can have the property details and vendor details left blank to be filled out on the day when successful at auction.

DEPOSIT BONDS CAN BE USED WHEN:



SETTLEMENT IS LESS THAN 6 MONTHS

- Deposit bonds can be issued for settlements that occur under 6 months.



SETTLEMENT IS GREATER THAN 6 MONTHS

- Deposit bonds can be arranged from 6 through to 60 months.
- Commonly used for off-the-plan purchases.

DEPOSIT BONDS CAN BE ARRANGED FOR SITUATIONS WHERE:



FINANCE HAS BEEN UNCONDITIONALLY APPROVED

- Deposit bonds can be arranged when you have obtained finance and the contract of sale is unconditional.
- Simplest of applications and normally the cheapest deposit bonds to get as the Insurer is relying on your ability to get finance so an analysis of your asset position is not required.



PURCHASE WITHOUT FINANCIAL APPROVAL

- Deposit bonds can be arranged when you wish to purchase a property without finance approval.
- Very common for auctions, settlement over 6 months and off-the-plan purchases.
- Assessment on purchaser's income, asset and liability position.
- Longer approval time and additional supporting documents required i.e. proof of income, savings, liabilities due to greater risk of default involved.
- Bonds approved within 24 hours



FINANCE NOT NEEDED TO COMPLETE PURCHASE

- Deposit bonds can also be arranged when finance is not needed to complete your purchase and plan to purchase the property outright using your own funds. Very common in situation where you are buying and selling simultaneously.
- The insurer will normally require you to be able to show your proof of funds to complete your purchase.

Will the vendor accept my deposit bond?

NOT ALL SELLERS WILL ACCEPT A DEPOSIT BOND AS A SUBSTITUTE FOR A CASH DEPOSIT.

WHY?

- ⦿ Perception that they are risky, which is really not a valid argument as most deposit bond providers are backed by an independent insurer that will honour the payment of the deposit to the vendor in the event of a claim.
- ⦿ Perhaps the real estate agent or vendor prefer to have the deposit released early. Using a deposit bond, means the funds are only available at settlement.
- ⦿ Lack of understanding about deposit bonds - Many vendors and stakeholders do not understand how deposit bonds work.
- ⦿ Many developers or banks will not accept long term deposit bonds for off-the-plan purchases, unless they insured by a A+ rated insurer like QBE Insurance.

IT IS VERY IMPORTANT TO SEEK APPROVAL FROM THE VENDOR FIRST BEFORE YOU LODGE AN APPLICATION FOR A DEPOSIT BOND.

IF YOU COME ACROSS RESISTANCE OR REFUSAL TO USE A DEPOSIT BOND SPEAK TO DEPOSIT ASSURE FOR ASSISTANCE.

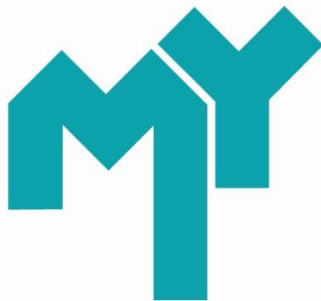
THE DEPOSIT BOND PROTECTS THE DEPOSIT FOR THE VENDOR, PROVIDING THEM SECURITY AND A GUARANTEE THAT THE DEPOSIT WILL BE MADE IN THE EVENT THAT THE PURCHASER DOES NOT COMPLETE THE PURCHASE.

What happens if the purchase does not go ahead?

- ⦿ If the contract does not proceed, due to default by the purchaser, the vendor can claim payment for the amount of the deposit bond, from the deposit bond provider and their insurer.
- ⦿ The deposit bond provider and their insurer will pay the deposit amount to the vendor, and will then proceed to recover the funds from the purchaser.

WHAT HAPPENS IF THERE IS A CLAIM?

AS A PURCHASER IT IS VERY IMPORTANT YOU UNDERSTAND THIS BEFORE PROCEEDING. USING A DEPOSIT BOND DOES NOT INDEMNIFY YOU FROM PAYING THE DEPOSIT BOND IN LIGHT OF A CLAIM.



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