

THE 3 MINUTE MORTGAGE HERO™ WISDOM SERIES

What is a Deposit Bond?



BROUGHT TO YOU BY THE 3 MINUTE MORTGAGE HERO™

What is a deposit bond?

A deposit bond, sometimes referred to as a deposit guarantee, is a cash substitute that acts as a guarantee to the vendor that the purchaser will pay the deposit at settlement.

A deposit bond can be used when exchanging contracts and at auctions. It's particularly useful when you don't want to, or can't immediately produce the cash required for the upfront deposit, which is usually 10% of the property price.

Why might I want to use a deposit bond?

There are various reasons for using a deposit bond rather than putting down a cash deposit to secure your new home. Some of the common ones are listed below.

1. A cheaper alternative to Bridging Finance

If you're waiting on funds to come through from the sale of another property, a deposit bond can be a cheaper alternative to bridging finance and it gives you, as the buyer, reassurance that the new property will be held until you settle your own property sale.

1. Maximise interests earned on savings

Since no cash is required upfront when a deposit bond is used, your savings can remain intact and continue to earn interest while you wait for settlement to occur, which could range from a few weeks to a few years (if you're buying off the plan).

1. Ability to use at multiple auctions

What is best, Fixed or variable rate?

While the deposit bond amount is fixed, the vendor and property details can be left blank for you to complete, should you become the successful bidder at an auction. This is particularly handy if you are attending multiple auctions. Bear in mind that you need to get prior consent from the auctioneer to use a deposit bond.

1. Buy property off the plan

Long term deposit bonds could last up to 4 years, which can be very useful in buying properties off the plan. You need to firstly check that the developer accepts deposit bonds, and if they do, you'll have some extra time to save up for your property plus earn as much interest as possible on your savings until settlement takes place.

What do I need to check before I use a Deposit Bond?

Will the vendor accept it?

Some vendors may refuse to accept a deposit bond, especially when they need early access to the deposit in order to secure a new home for themselves. A deposit bond, being no more than a guarantee, can't be used by the vendor for this purpose.

Will the Real Estate Agent support it?

Real estate agents are typically paid their commission from the deposit, so it's possible that they will refuse to accept deposit bonds because they want to get their payment as early as possible in the sale process.

Is it written into the contract?

What is best, Fixed or variable rate?

If prior consent has not been granted by the vendor and stipulated in writing, using a deposit bond may be in breach of the contract terms and the buyer could be liable for extra costs that they have not been prepared for.

Rule of thumb when using a deposit bond

Always check with the vendor, real estate agent or developer about the use of a deposit bond before getting one. It does cost a fee, and not being upfront about it can cause significant financial woes for you when it comes to formalising your property purchase.

Where do I get a Deposit Bond?

Your Mortgage Broker can organise a Deposit Bond for you.

How much is a Deposit Bond?

Your Mortgage Broker will confirm the actual cost, but it will be in the region of 1.3% of the deposit amount, e.g. if your 10% deposit is \$60,000, then cost is 1.2% of \$60,000 which is \$780.

How quickly can I get a Deposit Bond?

Your Mortgage Broker can organise one within 24 hours of application.

**ALL INFORMATION PROVIDED AS A GUIDE ONLY, IF
YOU NEED SPECIFIC HELP WITH YOUR LENDING
REQUIREMENTS PLEASE CONTACT ME BELOW.**



Sion Orritt

M: 0498 498 898

E: sion@mybf.com.au

W: mybrokerfinance.com.au