



The Smart Guide to...

deposit bonds

A deposit bond is a guarantee that the deposit will be paid at a future date (by the purchaser) which enables the purchaser to defer their deposit until settlement. Deposit bonds are issued by an insurance company.

They can be used for the purchase of a residential property and are quick and efficient. It is a convenient way of purchasing a property without the need to arrange a cash deposit at the time contracts are exchanged.

Short term guarantees are available for purchases where the settlement terms are generally up to 6 months. Purchasers need to provide evidence that they will have sufficient funds available at settlement to purchase the property (i.e. the loan approval amount, savings, First Home Owner's Grant etc in total will need cover the purchase price plus costs).

Deposit bonds can be issued for the purposes of attending auctions – and because the guarantee amount is fixed, but the property details aren't, you can attend a number of auctions with the one bond. They can also be used when you are accessing equity from a current property, where you need the deposit amount before the new loan will settle.

The cost of a Deposit Bond is 1.2% of the 10% deposit amount with a minimum charge of \$150. For example if the property purchase price is \$400,000 the 10% deposit is \$40,000 and the cost of the bond is \$480. Paying part cash deposit will reduce your bond cost, eg with \$10,000 cash deposit and \$30,000 bond the bond cost is \$360.

Long term guarantees are available extended settlements (more than 6 months) and can be useful in situations such as delayed land registration. Different costs apply.

It is at the discretion of the vendor whether to accept a deposit bond in lieu of a cash deposit. However, the vendor is often keen to secure a deposit commitment from the purchaser and exchange on the sale.

Deposit bond guarantees usually cease when the Contract of Sale is completed, terminated or rescinded or when they expire, whichever happens first.

Please use this information as a guide only – it is not advice. You should seek professional advice when buying a property or taking out a loan and always refer to your loan contract for full terms and conditions.