QUARTERLY QUESTION

Can you pay a property deposit with no cash outlay?

We recently heard about the case of a couple who were keen to take advantage of a property investment but their available cash was tied up elsewhere. So what happened? Without immediate access to their cash to pay the deposit it seems they (sadly) missed out on the opportunity.

That was no doubt a real blow for them, however their case got us thinking about possible solutions to this dilemma. It's an excellent topic for this month's quarterly question…

Q. How can I pay a deposit if my cash is tied up elsewhere?

There could be several reasons why a potential buyer may not have immediate access to their cash. These include:

- cash held in a **term deposit** and the term has not yet expired
- money tied up in the **share market** – awaiting dividend payment or not the optimum time to sell
- money **tied up in equity** in an investment property that has not yet sold

Or you may simply prefer a more cost effective or convenient alternative to using your own cash at that time.

One alternative is a **deposit bond**. It's actually surprising how many people still aren't aware of deposit bonds - despite their existence since 1989. Those who ARE aware often overlook their advantages.

So what is a deposit bond?

A deposit bond is a guarantee to a vendor (by an insurance company) that the vendor will receive their 10% deposit even if the purchaser defaults on the contract of sale.

The insurance company is guaranteeing that you DO have and WILL have the 10% deposit at settlement. The deposit bond can be issued for all or part of the deposit up to 10% of the purchase price.

How do deposit bonds work?

Let's take as an example a $500,000 real estate purchase. Regardless of whether the settlement is short term or long term the process is the same and a 10% deposit is usually required.

Instead of you (the buyer) paying $50,000 deposit upfront in cash and the remaining $450,000 at settlement:

1. You pay an upfront fee to secure a deposit bond* from an insurance company to the value of $50,000. Deposit bonds can usually be issued in a matter of hours once the required documentation is received.

2. The vendor holds this deposit bond** as your property deposit.

3. At settlement date, **you pay the full purchase price of $500,000** as there has been no upfront cash deposit.

4. If you fail to settle, the vendor hands the deposit bond to the insurer, the insurer pays the vendor the $50,000 and the insurer then pursues you for the $50,000.

Be assured this is NOT a way out of paying a deposit. Irrespective of whether you use cash, a bank guarantee or a deposit bond, if you fail to settle on a Contract of Sale you will forfeit the cash deposit or be required to still pay the deposit amount in any instance. In this particular example that is $50,000.

Who can use deposit bonds?

Deposit bonds may be suitable for individuals and others including:

- first home buyers
- super funds
- trusts
- partnerships
- companies, and
- builders and developers

buying established or 'off the plan' residential or commercial real estate. They can also be used to purchase vacant land.

The term of the Contract of Sale can be as long as 60 months on all property purchases (66 months for residential in Queensland).

"Deposit bonds are very popular for 'off the plan' investment properties."

Next steps?

Whether you are a first property buyer or a single or multiple property owner, we encourage you to chat with our office to find out if deposit bonds may be suitable for you.

** The $ fee varies depending on the deposit amount and the number of months to settlement*

*** Issued on special secure paper*

Would you like to explore your deposit options? We can help.

Call our office TODAY – we would be pleased to be of assistance.

Don't let an opportunity pass you by!

Y.i. Finance
YOU'RE IMPORTANT

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