

Deposit Bonds

A guide to Deposit Bonds

What are Deposit Bonds?

Deposit Bonds are guarantees that, while the deposit is not paid at the exchange of contracts, it will be paid on completion and if the buyer is in default the party issuing the bond guarantees payment. In effect, this means you pay the full purchase price at completion and the party issuing the bond guarantees the deposit portion of the payment. This has the advantage of not having to come up with a 10% cash deposit. It does not change, however, the total amount you have to pay.

What are the advantages of using Deposit Bonds?

- A deposit is an alternative to having a cash deposit.
- It is a guarantee to the Vendor to pay the sum specified in the event of the Purchaser defaulting on payment at settlement.
- Bonds can be organised through most banks and building societies
- The Vendor must agree to accept the bond in lieu of a cash deposit but there is no legal reason for it not being acceptable in NSW. It is covered in the standard 2000 edition contract (see Clause 2), though Special Conditions are generally added.
- A fee is payable to purchase the bond (including Stamp Duty). It is cost effective, being cheaper and easier to obtain than bridging finance.
- They are usually available within 24 hours.
- The amount of the bond cannot exceed 10% of the purchase price. However, the purchased property details are not filled in until the bond is used. It can therefore be obtained in advance and taken to auctions.