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## A GUIDE TO DEPOSIT BONDS

**A Deposit Bond is a substitute for the 10% cash deposit that is required when purchasing a property. A Deposit Bond is a guarantee from an insurance underwriter, to a vendor for the amount of the deposit required under a Contract of Sale.**

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### **What are they?**

A deposit bond (guarantee) takes the place of a cash deposit required between the time of exchange and settlement of the residential property you are buying. This guarantee is a convenience for you the purchaser, as it alleviates the burden of trying to access cash to raise deposit monies. It also means you must pay the full amount of the purchase price including the amount of the deposit at settlement. The deposit bond can secure your right to purchase for up to four years, whilst your investments can continue to yield a higher return than standard bank interest. The Vendor accepts the guarantee from the Underwriter. This guarantee can only be cashed in should you as purchaser not settle thereby entitling the vendor to take your deposit. In this event, the deposit bond is claimed and the Underwriter must pay to the Vendor any outstanding deposit monies limited to the face value of the deposit bond.

### **When would I use a deposit bond?**

Buying a house, unit, or land with freehold, strata or leasehold title whether by private treaty, at auction or off-plan.

### **Why would I use it?**

By using the deposit bond you can continue to save your savings. There is no need to sell shares or mortgage any assets to raise the deposit monies which could lead to the potential loss of benefits through needlessly breaking investments. Your costs are less, because there is a once payable fee and also the deposit bond does not need to be secured as does a bank guarantee. It is cheaper than paying interest or the costs of re-financing prematurely.

### **How long are the deposit bonds?**

Deposit bonds can be issued with terms ranging from 3 months to 48 months. The sunset date stated in the Contract for Sale usually determines the term needed.

### **Who can qualify?**

You must be able to prove that you can settle the property. It is a similar process to that of a standard loan application, including assessment of adequate income and sufficient equity to meet current and proposed financial commitments. For standard rules of assessment to apply, you also need to be an Australian resident or corporate entity. Purchasers using deposit guarantees have been 1st home buyers, retirees, investors, and lifestyle seekers.

### **How much does it cost?**

The amount of the fee is calculated with respect to the term and value of the deposit guarantee required. The cost ranges between 0.3 and 1.255% of purchase price. The fee is payable on application and is only refundable if the applicant does not qualify or elects not to proceed prior to issuing the deposit bond.



**What are my obligations?**

If you fail to settle the property thereby breaching your obligations under the Contract for Sale, the Vendor may become entitled to the forfeiture of your deposit. The underwriter will then receive a claim from and subsequently pay to the Vendor the deposit monies in accordance with the commitment as guarantor. Pursuant to the terms of the Indemnity agreement contained in your application form you are liable for this debt and therefore must reimburse the underwriter. Failure to do so will result in the Underwriter instigating recovery proceedings with full recourse against you.

**Who is the guarantor?**

The underwriting entity making the promise to pay the Vendor also makes payment to the Vendor as required.

**Who benefits?**

- The Purchaser: through securing the opportunity to purchase a property.
- The Vendor: through selling to a qualified purchaser. Also, in the event of the Vendor becoming entitled to forfeiture of the deposit, the Underwriter of the guarantee pays the monies owing to the Vendor or its nominated representative.
- The Vendor's solicitor: a streamlined and expedited exchange process.
- The Property Marketeer: through selling to a purchaser who may not have or elect not to use a cash deposit, however has had their financial capacity to settle qualified.

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