Aussie Bonds Australia

... we help to make property dreams happen!

Thanks for downloading. After reading, I trust I've provided greater awareness of how broadly Deposit Bonds can be used.

I often find that mortgage brokers, finance brokers, conveyancers, solicitors, accountants, real estate agents etc., mainly relate Deposit Bonds to the end consumer. What about the developers and builders buying their project sites? Why should they tie up their working capital?

Then there's the added benefit for 'off the plan' where 'pre-sales levels' need to be met before project funding is committed. Developers can negotiate a 'lower pre-sales level' or a more competitive interest rate by demonstrating to funders they have used Deposit Bonds for 'pre-sales', which means these buyers have been 'qualified' as having the financial means to settle on their Contract of Sale. The last thing developers or funders want are buyers not settling in a timely manner as this heavily impacts on cash flow and borrowing commitments.

With the financial strength of QBE (rated A+), Aussie Bonds can respond to almost all Deposit Bonds requests.

- ✓ Residential & Commercial real estate, including vacant land;
- ✓ Private Treaty, Bids or Auction;
- ✓ Existing property owners (including where looking to buy another but the current property isn't already under contract), first home buyers, super funds, trusts, partnerships, business entities, etc.;
- ✓ For periods up to 60 months (66 months in Qld for residential);
- ✓ From $10,000 to unlimited deposit amounts;
- ✓ ….. Plus our competitive pricing and commission, which means buyersr clients pay less, whilst buyers make more!!

I welcome buyersr direct contact if I can further assist.

Sincerely,
Kerry Henry, CEO
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(About Aussie Bonds Australia. One of our directors was part of the team that developed the Deposit Bond product, way back in 1989. For me, I've been involved with various sorts of Insurance Bonds for 35+ years and also have a banking background with Citibank. That's why we're seen as the 'go to guys' for all things, Deposit Bonds. We're one of two Authorised Representatives of QBE Insurance (Australia) limited (rated A+), which is very important, especially for 'longer term settlements'. Plus, we're 100% Australia owned & not part of Aussie Home Loans.)

Deposit Bonds, the smarter option

Buying real estate can be a stressful experience, however, there's one aspect of the process that makes the buying process much easier, and helps save buyers time and money.

That's the use of Deposit Bonds, versus cash or bank guarantees, as the deposit required to secure a Contract of Sale.

With short-term real estate settlements (typically 4 to 26 weeks), in some States and Territories, the deposit amount can be a minimum amount of several thousand dollars, which means many buyers can simply pay cash.

Elsewhere, the deposit amount can be upwards of 10% of the purchase price.

In the majority of cases Australia wide, 10% is required for longer-term settlements, predominately for 'off the plan' purchases, where settlement may not take place for a number of years.

Different % amounts and settlement periods apply to commercial real estate purchases.

Deposit Bonds explained

It's best to explain how Deposit Bonds work, before we venture further.

Two insurance companies currently issue deposit Deposit Bonds. In our case, we're one of two Authorised Representatives of QBE Insurance (Australia) Limited, rated A+.

Let's take a $500,000 real estate purchase, albeit a short-term or long-term settlement, as the process is the same and a 10% deposit is required.

If using 'cash', buyers pay $50,000 upfront and the remaining $450,000 at settlement. If buyers fail to settle on the Contract of Sale, the vendor has the right to withhold buyersr $50,000 'cash'.

If using a 'bank guarantee' or a 'Deposit Bond', buyers pay 'zero cash' upfront and pay $500,000 at settlement. At settlement, the 'bank guarantee' and the 'Deposit Bond' are no longer required and become 'null & void'.

If buyers fail to settle, with a 'bank guarantee', the vendor presents the 'bank guarantee' to the bank that issued the 'bank guarantee' and is paid the amount of the 'bank guarantee', in this case $50,000.

With a 'Deposit Bond', the vendor presents the 'Deposit Bond' to the insurance company that issued the 'Deposit Bond'; they are paid the $50,000 amount of the 'Deposit Bond'; and then the insurance company comes after the buyer to recover the $50,000.

As buyers can see from the above, irrespective of using cash, bank guarantee or Deposit Bond, if the buyer fails to settle on a Contract of Sale, they'll be out of pocket by $50,000.

We'll further comment below on the upsides and downsides of each, however, the options are to use 'cash', 'bank guarantee' or a 'Deposit Bond'.

Who can use Deposit Bonds?

Individuals, including First Home Buyers*, Super Funds, Trusts, Partnerships, Companies, Builders and Developers buying established or 'off the plan' Residential or Commercial Real Estate, including or Vacant Land. *(*First Home Buyers will need a family member to act as Personal Guarantor for the amount of the deposit.)*

The term of the Contract of Sale can be as long as 60 months on all bond types (66 months in QLD for Residential).

To assist intermediaries further identify new business opportunities, we have added a '**Scenarios**' tab to this website. Take a look and if there's a scenario we haven't covered, bring it to our attention and we'll remedy, as it's bound to be a similar situation faced by another intermediaries.

Pricing?

The cost depends on the $ amount of the Deposit Bond and the number of months required.

Using $70,000 as the deposit amount, for a short-term Deposit Bond, $587; and for longer periods (say) 18 months, $3,006; 30 months, $5,546; and 60 months, $10,385.

The above amounts are paid in full upfront, with no further payments required.

Payment can be made by credit card or EFT. As Deposit Bonds can't be released without 'cleared funds', so if using a credit card, it can be same day release. If paying by EFT, it can take one or two business days for funds to clear into our bank account.

What's the application process & how long can it take?

For short-term settlements, where the funder is providing 'unconditional finance' (can be a pre-approval subject to valuation), there's a 2 page online or offline application with 3 support documents.

For longer-term settlements, there's a 7 page online or offline application with additional support documents similar to applying for a home loan.

So long as we receive the fully completed and correct documents, Deposit Bonds can be issued within an hour or so for short-term bonds and several hours for long-term bonds. If lodged late in the day, next business morning and if super urgent, overnight or on weekends for an additional issue fee.

What are the upsides and downsides for each of the deposit options?

Once buyers've considered the following, we're sure buyers'll see why Deposit Bonds are a very popular option, a strong favourite in terms of ease to obtain, turnaround time and the risk management of longer term settlements.

◆ Cash

If the buyer has idle cash available, the upside is it can be a quick process to access and secure the Contract of Sale.

The downside is that the buyer may need to break a fixed-term investment to generate the required cash, which is more painful during periods where interest rates are higher. In addition, the buyers are using 'working capital' that may give a better return if utilised elsewhere, especially during periods of low interest rates.

For the majority of buyers, they simply don't have idle cash available and perceive they will miss out on opportunities to upgrade their existing property or buy a longer-term investment opportunity.

A number of considerations and cautions if using 'cash'.

1. Make sure the vendor doesn't use the cash deposit as their cash deposit on a new purchase. This typically relates to sell/buy situations. If the contract becomes null & void for some reason (something discovered after contracts have been exchanged), buyers want the cash deposit sitting in a trust account so they can quickly recover.
2. Some real estate agents will deliberately steer buyers towards a 'cash deposit', although this may not suit, because they want to get their commission paid early.

3. If buying 'off the plan', buyers need to consider what might happen to their 'cash deposit' if the developer goes into administration during construction. The receivers will freeze all funds whilst they unravel the operations and the cash will be locked away for an indefinite period. Buyers also want to be extremely confident that their 'cash deposit' has been held safely in a third party trust account and not used by the developer. We recently saw promotion (April 2015) about a property seminar being held in Melbourne, where the presenter was going to show how developers can use 'cash deposit' to fund project legal fees. Over the years, we've also seen solicitors holding cash in their 'trust account' use the cash illegally to fund their lifestyle or vanish overseas. Experienced investors prefer to use bank guarantees or Deposit Bonds to remove this risk.
4. In addition, with 'off the plan' purchases, buyers need to ensure they have sufficient cash in reserve to pay for Property Stamp Duty. The timing varies in each State/Territory, however, it is payable well before the actual settlement date.
5. First home buyers need to demonstrate to funders an extended savings pattern, so retaining cash and building up the required equity may be a more prudent priority.

◆ Bank guarantees

Bank guarantees are issued on a 'secured' basis.

This isn't a favoured option these days by banks and buyers for short-term settlements due to the extra paperwork to extend a client's existing home loan or take out a personal loan if they don't have the ready cash; takes extra time; and incurs costs. For long-term settlements, there are ongoing costs & fees.

In addition, this can be a stressful period as there are normally tight 'cooling off' periods with Contracts of Sale, so the lender may struggle to sort the paperwork and provide the finance in time.

Deposit Bonds are the most favoured option for short-term settlements.

For longer-term settlements, even if buyers have the necessary cash, but want to avoid the pitfalls listed above, the bank will require that they place the cash in a 'term deposit' and secure this 'term deposit' to issue the bank guarantee. Buyers will earn interest on the 'term deposit', which is subject to tax. Buyers will incur set-up and ongoing fees, typically charged upfront on a quarterly or half yearly basis. Sadly, the banks won't offset the interest earned on the 'term deposit' and the costs of the bank guarantee.

Otherwise, the bank will require buyers to offer existing occupied property to secure the amount of the bank guarantee.

One upside, versus Deposit Bonds, is that the bank guarantee can be rolled over to align with the settlement date of the property, which is most often in advance of the Sunset, Registration or Scheme Date, defined in the Contract of Sale. *(This date is set some 6+ months after the anticipated project completion date to allow a buffer in the event of bad weather, site access, damage occurring during construction, a shortage of materials, etc. To protect buyers, Deposit Bonds are always issued to this date.)*

However, as an offset, it's recognised that most projects go beyond the anticipated completion date, but mostly complete before the Sunset, Registration or Scheme Date by approximately 6 months. Aussie Bonds pricing has been adjusted to allow for this average early completion.

The downsides include:

1. Increases buyer's debt leverage, which limits the buyer's ability to further refinance should buyers need, i.e., getting extra funds to renovate existing property to ready for sale.
2. Ties up buyer's leveraging, possibly for long periods, especially if buying 'off the plan'.

◆ Deposit Bonds

As you have probably picked up from above, Deposit Bonds are like an insurance policy where buyers pay a once-only upfront fee that buys a Deposit Bond; which is held by the vendor as buyer's substitute deposit (let's say using our example above of $50,000); and they will claim if the buyers fail to settle.

There are several significant upsides to using Deposit Bonds:

1. Buyers don't need cash; or if buyers have cash, buyers don't need to disturb if it's on term deposit; or look to sell other assets, such as shares, to secure a new property purchase.
2. By preserving cash and retaining the level of net equity in buyer's existing property, it's likely buyers can have more than one 'off the plan' purchases happening at the same time. Those buyers with idle cash typically only have sufficient cash for one 'off the plan' purchase.
3. If the purchase is for investment purposes, we've observed that the cost of the Deposit Bond can be claimed in the first year of ownership (i.e., year 1 of rental income) or added to the capital base of the purchase for future Capital Gains Tax calculations.
4. Easy, flexible and fast approval – approval & issue within a matter of a few hours.
5. Issued on an 'unsecured' basis, in difference to 'bank guarantees' that are secured by a 'term deposit' or increasing the buyer's registered mortgage.
6. As Deposit Bonds can be issued in advance, buyers have increased confidence in attending one or more auctions or negotiating a treaty sale, as buyers already have the deposit ready.

There are some downsides, mainly driven by others:

1. Despite Deposit Bonds being around since 1989 and issued as white label products by Australia's leading banks, some vendors or their advising solicitors are steeped in tradition and insist on cash or bank guarantees. We find it amazing that a small suburban developer or solicitor will adopt this stance when the large developers and legal firms, repeatedly use Deposit Bonds. Our advice is to find another vendor or solicitor who is up with the times.
2. Vendors who want an early release of the deposit so as to be able to pay a cash deposit on another purchase may be reluctant to accept a Deposit Bond. Unless the Contract has gone 'unconditional', this is rather dangerous, so seek careful legal advice. Indeed, not allowing early release, is the smarter option.
3. Estate agents are paid their commission from the deposit. Some have been known to refuse to receive an offer using a Deposit Bond as that means their commission payment will be delayed.
4. A purchaser using a Deposit Bond can be trapped if the Contract of Sale does not specifically state that the deposit can be paid by way of a Deposit Bond, so best to check first.
5. With large developments, the project funders may limit the % of deposit types, i.e., 25% bank guarantees; 25% deposit bonds; and 50% cash. Our advice is to get in early, if planning to use a Deposit Bond, before the 25% cap is reached.

Sunset, Registration, Scheme or Latest Dates in 'off the plan' Contracts of Sale explained

Depending on the type of purchase (building or land) and in which State/Territory, buyers will find one of these or similar dates, typically in the 'Definitions' section, however, a few comments.

1. The 'specified date' is essentially the date at which either party can walk away from the Contract, unless there's mutual agreement to extend to a revised date.
2. The 'specified date' is a date beyond the 'anticipated completion date', which

provides the vendor a buffer in the event of bad weather, difficulties in sourcing supplies, damage happening to the project during construction, etc.

3. This 'buffer' has been increased from the norm of 6 to 9 months a few years ago to 12 to 24 months now. This 'buffer' is influenced by supply & demand factors. At present, demand is high, so vendors are dictating, however, as supply increases, purchasers can dictate and we'll again see these higher 'buffer' periods reduced.
4. In recognition that most projects complete sometime between the 'anticipated completion date' and the 'specified date', this has been taken into account in our Aussie Bond pricing.
5. The Contract may have an additional clause hidden in the Contract stating that, if using a bank Guarantee or Deposit Bond as the deposit, the Sunset Date needs to be extended by a further 3 months or so.
6. Sometimes the vendor will indicate a preparedness to accept a Deposit Bond for less than the 'specified date', however, to protect the purchaser, we can only issue to the 'specified date'. If the vendor agrees to accept a Deposit Bond for a lesser period either the 'specified date' must be amended in the Contract or the vendor or their legal representative sends a letter or email that refers to the 'specified date' in the Contract and amends to 'revised specified date'.
7. If buying late into an 'off the plan' project, the Contract may stipulate a 'specified date' that is well beyond the 'anticipated completion date', given that the project is already well advanced in construction. Again, the vendor will have to agree to amend as in 4. above.

A final comment about Deposit Bonds from experienced investors

Because of the various factors outlined above, many repeat buyers want to limit their risk exposure and maximise the return on their assets and investments.

Even if they have the ready cash, they prefer to be in a position where, if the developer goes into receivership during construction, all they have placed at risk is the Deposit Bond fee, versus their cash being locked away for prolonged periods whilst the project is sorted.

Given the large deposit amounts required these days, using 'cash' has to be cautiously considered.

These same repeat investors will also walk away from a particular new 'off the plan' development, if the vendors won't accept a Deposit Bond. It's not as if there are limited investment opportunities.

For more information, contact us.

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