

Deposit Bonds

Deposit Bond Scenarios & Clarifications, from an intermediary's perspective

As an opening statement, we work extremely hard to find a solution, versus 'computer says no'.

We've earned the reputation that 'It's when we say no, then there's no other options!' ... and here's the reasons why!

With the financial strength of QBE (rated A+), We 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 means your clients pay less, whilst you make more!!

It really is that simple.

Have a read of the scenarios below. If I've overlooked a scenario, I welcome your contact.

Sincerely,

Kerry Henry, CEO

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New Deposit Bond Opportunities

How might intermediaries create or identify new Deposit Bond opportunities?

I guess the first comment is that with QBE's A+ credit rating and greater underwriting flexibility, intermediaries are already off to the best start. With QBE's support we simply can offer a much broader range of Deposit Bonds; Deposit Bonds that are accepted by the broader vendor market due to QBE being a licensed Australian insurer & strong Balance Sheet; and at more competitive terms.

The second comment is that many intermediaries tend to focus on the 'tail-end' of the property process, i.e., the purchaser of the existing or planned property or vacant land.

There are a heap of opportunities to assist on the 'front-end' when builders or developers are acquiring real estate stock to convert into registered vacant land for the public; or the builder acquiring a vacant site to build a 'speckie' home; or the developer buying a site to construct a high rise apartment block. They too can use a Deposit Bond versus using working capital.

In addition and seeking to minimise the upfront costs to property buyers, especially 'first home buyers', an increasing number of developers are including the cost of a Deposit Bond as part of the purchase price. That way, the buyers may need to put down a \$1,000 cash deposit; apply for the

Deposit Bond; and once approved, the developer pays the costs.

Being proactive upfront means that the intermediary gets to assist the builder/developer with a Deposit Bond; is well positioned to assist 'pre-sales' using Deposit Bonds, as it adds confidence to the project funders that these 'pre-sales' have been 'qualified' via the Deposit Bond application process; and then 'post launch' Deposit Bond opportunities and of course, loan opportunities further down the track.

Remember that the same applies with those involved in commercial real estate.

Sell / Buy

Will you consider an application for a Deposit Bond where our client owns an existing occupied property; is keen to either upsize, downsize or relocate via a private treaty or auction process; but wants to secure the 'buy' side first, before placing their property on the market?

Yes, as that is a position many property owners find themselves in. We can look at applications supported by 'unconditional' or 'conditional' finance approved. We treat 'pre-approvals, subject to valuation' the same as 'unconditional'.

The only undertaking we seek is that if the 'sell side' settles before the 'buy side', that the conveyancer or solicitor withholds the value of the Deposit Bond issued from the proceeds of the sale and then uses these funds to settle the 'buy side' and have the vendor release the Deposit Bond.

If the conveyancer or solicitor doesn't have a trust account, then we can place the funds in our trust account.

Couple own an existing property and looking to buy another property, but in just one of the couple's names

Can a Deposit Bond be used where a couple currently jointly own real estate; looking to buy another; but for various reasons, the new property will be in just one name?

Yes, however, both parties need to be applicants as they are both guaranteeing rights of recovery should the new property not settle and the insurer has to recover the Deposit Bond amount.

Mature Applicants looking to downsize & not requiring finance

Will you consider an application for a Deposit Bond where a more mature client owns an existing occupied property; is keen to downsize or relocate via a private treaty or auction process; and will be using the proceeds from their existing property to settle the 'buy' side?

Yes. The only undertaking we seek is that if the 'sell side' settles before the 'buy side', that the conveyancer or solicitor withholds the value of the Deposit Bond issued from the proceeds of the sale and then uses these funds to settle the 'buy side' and have the vendor release the Deposit Bond. If the conveyancer or solicitor doesn't have a trust account, then we can place the funds in our trust account.

First Home Buyers (FHBs)

As Deposit Bonds are issued on an 'unsecured' basis, applicants are required to own existing Australian based real estate. This obviously doesn't work for FHBs either buying

established or off the plan property. How can we help them?

Easy. If the FHB is buying established property and has 'unconditional' finance approved (can also be 'pre-approval subject to valuation' only), we can issue a Deposit Bond to the FHB.

For all other scenarios, a family or extended family member who owns Australian based real estate would need to go as Personal Guarantor.

We can also look at scenarios where the FHB has the cash deposit but wants to preserve their 'cash savings' to establish a savings pattern to obtain future finance. Talk to us as to how we can assist.

A couple divorcing/separating

Can a Deposit Bond be issued where a couple are divorcing/separating; they are joint owners of an existing property that is already under Contract of Sale or shortly to go on the market; and one or both are seeking a Deposit Bond to secure their own real estate purchase?

Yes. Again, on the basis that the applicants must own Australian based real estate, they must mutually agree to provide the existing joint owned property as fall back for the Deposit Bonds.

If there are Family Court orders that stipulate the distribution of finances, we can take this into account, versus mutual agreement to provide the existing property as fall back.

Buyers are short on required 'net equity'

Because Deposit Bonds are issued on an 'unsecured' basis, we understand that applicants are required to provide an amount of 'net equity' in existing Australian based real estate. What happens if they can't meet this requirement?

In Aussie Bonds' case, we require a tiered multiple of the deposit amount starting at 2 times for 'short-term' settlements up to 6 times for 'long-term' settlements. If short of the required 'net equity' we can look at a number of options such as 'part cash & part bond' to meet the required 'net equity' ratio; placing a caveat over an existing real estate asset (this mainly applies to off the plan purchases); or a family member going as Personal Guarantor.

Australians working overseas wanting to buy property in Australia

Can an Australian working overseas use a Deposit Bond to acquire Australian based real estate?

Yes, however, a few qualifications. As Deposit Bonds are issued on an 'unsecured basis', applicants are required to have existing Australian based real estate. We can't take foreign-based real estate into consideration.

If they don't own Australian based real estate, do they have a family member that does own Australian based real estate to go as guarantor.

We can take foreign paid salaries into consideration with respect to determining serviceability.

What about a foreign person now residing in Australia or simply a foreign person seeking to buy Australian based real estate?

Our client is a single person or couple who are settling & working in Australia with statutory approval; they may or may not own property in a foreign country; and seek to buy Australian based real estate. Can they obtain a Deposit Bond?

Because Deposit Bonds are issued on an 'unsecured' basis, the applicants are required to own Australian based real estate. Obviously in this case, they don't. Sadly we can't take their foreign owned real estate into consideration. The only way we could assist is if they have a family member with Australian based real estate to act as guarantor.

What about Trusts, Superfunds, Partnerships or Businesses using Deposit Bonds?

Can a Trust, Superfund, Partnership or Business use Deposit Bonds?

Yes. The applicant would be the party/entity purchasing the real estate, albeit established or off the plan residential or commercial real estate, including vacant land. The trustees/partners/directors of the purchaser would be required to go as guarantors and they must own existing Australia based real estate in their individual names (i.e., property owned outside of the trust, superfund, partnership or business).

Deposit Bond called by the vendor, fairly or unfairly

What happens if an applicant fails to settle on a Contract of Sale?

If after giving notice to settle the buyer(s) fail to settle on the Contract of Sale; the vendor will present the original Deposit Bond to the insurer to settle with (normally) 72 business hours.

1. If the calling of the Deposit Bond is legitimate, the insurer will pay away the funds and then turn to the applicants to recover the Deposit Bond amount; plus handling cost if not repaid within X number of days.

The applicants may have all or part of the funds to settle or come to an arrangement with the insurer to settle. The insurer has the right to charge interest on the outstanding monies until repaid, plus legal costs if they need to go down that path.

If there is a personal guarantor involved, the insurer may seek settlement from them for the outstanding amount.

2. If the calling of the Deposit Bond isn't legitimate, because of a contractual dispute, the applicants can apply for an injunction against the insurer paying away a vendor call on the Deposit Bond. This will force the vendor back to the negotiating table to resolve the dispute.