

DEPOSIT BONDS

IT'S CHEAPER THAN BORROWING A DEPOSIT

Squirrel

Squirrel is now working with Deposit Power (a division of CBL Insurance) to provide deposit guarantee bonds into the NZ real estate market for first home buyers and buyers with long settlement dates. In some situations we can issue deposit bonds for up to two years.

The mortgage and property experts
Squirrel.co.nz 0800 212 230

WHAT IS A DEPOSIT BOND?

A deposit bond is a bond or guarantee issued by Deposit Power (and underwritten by CBL Insurance) that can be used instead of a cash deposit when buying a property. It will be particularly useful if your money is tied up elsewhere and for anyone buying off-plan.

If you don't have cash readily available, a deposit guarantee bond is cheaper than borrowing the deposit. Many banks will charge an overdraft rate of interest (up to 15%) or at the very best a floating mortgage rate (up to 6.75%.) The cost of a deposit bond is a **one-off upfront fee:**

TERM	BOND PRICE	EQUIVALENT FINANCING RATE*
<6 months	2.50%	5.00%
6 - 12 months	3.00%	3.00%
12 - 24 months	5.00%	2.50%
25 - 30 months	6.00%	2.50%
30 - 36 months	7.00%	2.33%

EXAMPLE

Property purchase:	\$600,000
Deposit Power Guarantee term:	4 months
Deposit Power Guarantee amount:	\$60,000
Total fee collected:	\$1,500 (2.50% of \$60,000)

The fee is charged up front as single one-off fee. It can be charged to your credit card or paid in cash.

WHAT ABOUT USING KIWISAVER?

From 1 April 2015, KiwiSaver can now be withdrawn before settlement provided the deposit is held in trust until settlement.

However, what this misses is:

1. it takes about ten days to process KiwiSaver so this wont work for auctions
2. if the settlement is some time off, it precludes you from increasing your KiwiSaver withdrawal
3. it assumes you have all of your deposit available and don't need to still save some of it.

HOW MUCH CAN YOU SAVE BY NOT USING KIWISAVER?

If you are buying off-plan then chances are you won't be settling for at least 12 months. If you are eligible for the First Home Subsidy then staying in KiwiSaver will give you another \$2,000 per person subsidy.

In 2014 the average return on a growth fund was 8.50% so if you had \$30,000 invested that's another \$2,400 in earnings and assuming a household income of \$120,000 then another \$3,600 of employer contributions.

All in all, that means you could get

up to an extra

\$10,000

out of your KiwiSaver by utilizing a deposit guarantee bond.



DISCLOSURE: John Bolton, owner of Squirrel is a former General Manager at ANZ National Bank and has a BCA in Finance from Victoria Uni and undertaken post-grad studies at University of London. He doesn't like to shave or wear suits which is why he left the bank. Squirrel is a NZ owned privately held company even though Squirrels cannot be found in New Zealand. We didn't think its distant cousin the Opossum would have been good for business. You can request our disclosure statement on 0800 212230 or read it on the web site. All Rights Reserved

NOTES:



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HOW TO GET A DEPOSIT BOND?

First we need to get you approved for mortgage finance. We can easily issue Deposit Power deposit guarantee bonds off the back of a finance approval with minimal additional paperwork. There are a few standard conditions for Deposit Power deposit guarantee bonds:

- **Maximum bond of \$150,000**
- **Residential property only**
- **Buyer must be a NZ resident**
- **Minimum apartment size 50 sqm**

We can look at bonds that fall outside of these criteria but that will be done on a case-by-case basis.

Squirrel will also make sure the Real Estate Agent understands the deposit guarantee bond. Agents that work on new developments will be aware of deposit bonds. However, as these are new to market there will naturally be a low level of industry awareness for a while.

CAN I GET A DEPOSIT BOND THROUGH SQUIRREL IF I'M ALREADY APPROVED DIRECTLY WITH A LENDER?

Yes if you are doing a deposit bond less than 12 months.

We don't have to arrange your mortgage but do need to see evidence that you have a mortgage approval already in place.

For deposit bonds over 12 months you must have your mortgage approval with Squirrel. If you are already approved, that's fine but we'll need to still do a full mortgage application and have your approval moved over to us. Mortgage approvals last for a maximum of 12 months so it's incumbent on us to get your approval extended when it first expires.

WHAT HAPPENS IF THE BUYER DEFAULTS?

If the buyer defaults on settlement the vendor can call in the bond and the insurer will pay out the deposit to the vendor.

WHAT DOES IT MEAN FOR REAL ESTATE AGENTS?

It will increase the market of potential buyers and make it easier to get buyers unconditional where they don't have ready access to a 10% cash deposit.

For off-plan sales it's a no-brainer because the buyer deposit needs to stay in trust anyway until settlement.

For auctions, the agent needs to be aware that they won't get paid until settlement. Normally a deposit can be distributed 10 working days after unconditional. With deposit bonds the agent and vendor won't receive funds until settlement.

IN SUMMARY...

- **Deposit guarantee bonds are cheaper than borrowing the money to put down a deposit**
- **They allow you to keep saving with KiwiSaver**
- **The money is available quicker than using KiwiSaver**
- **They are an ideal solution for buying off plan**

CONFUSED?

If you're thinking that deposit guarantee bonds could be the way to go but you need more info, just get in touch with one of our mortgage advisers and we can discuss your options in full.



**Call us on 0800 212 230,
7 days a week through to 9pm**



**or come and see us at
38 College Hill in Auckland City.**

A Deposit Power Guarantee allows you to secure your home or investment property when you need to, without having to use your own money until you're ready to settle....giving you the Power To Purchase.

Deposit Power is the largest issuer of deposit bonds in Australia. CBL Insurance Ltd is the largest and oldest issuer of Credit Surety in New Zealand, established for over 40 years, and writing insurance in over 25 countries.

