

Bridging loan or deposit bond?

When selling one property and purchasing another, the funds from the sale may not be available in time to put towards the purchase deposit. There are generally two options in this scenario: a bridging loan and a deposit bond.

Bridging loan

A bridging loan is a short-term home loan designed to allow you to initiate the purchase of a property before you have sold your previous one. The loan terms are often between 6 and 12 months and bridging loans generally have a higher interest rate than traditional home loans.

This can be a great option however does carry some risk. It's important to remember you will still need to make repayments even in a worst-case scenario which may occur if your old house doesn't sell as quickly as you'd hoped or where property values may change unexpectedly.

It's important to talk to a broker and ensure that you have the capacity to service the loan for the period of time required.

Deposit bond

A deposit bond is a tool that, upon agreement with a vendor, can replace the requirement of a cash deposit when purchasing a property. This can be a relatively cheap method of initiating the purchase of a property usually without the need to liquidate your other assets. The cost of a bond can vary depending on transaction complexity and the term being sought.

A deposit bond is issued by an insurer to the vendor of the property for either the full or partial deposit required. At settlement, the purchaser must pay the full purchase price including the amount of deposit. At this point, the deposit bond becomes void.

If the purchaser fails to complete the purchase of the property, the vendor is able to give the deposit bond to the insurer who will provide them the entire value of the deposit bond.

The insurer will then seek reimbursement of the deposit bond from the purchaser.

Deposit bonds are generally a bit cheaper than a short-term loan, nevertheless it's important to talk to a mortgage broker to compare the two, to account for your requirements, objectives and financial situation.

Contact me to discuss what the right option is for you.