



Deposit

What is it?

It is money given by the buyer to the vendor via the vendor's real estate agent with the intention to make a contract legally binding.

How much is the deposit?

Answer: The deposit is 10% and it is split into 2 stages. The amount is can be varied, depending on negotiation. The standard is 10% of the sales price.

Normally, with any purchase there is 1 payment of deposit and why with land purchase, there are 2 staggered deposits.

(This 2 stage deposit is unique and therefore it is confusing for first time buyers)

Answer: When something is so different, it is hard to understand. (All other purchases in any product would only have 1 time deposit).

With the contract to buy land, the deposit stages are: the first stage is 0.25% of the purchase price; which is equal to $\frac{1}{4}\%$ of the sales price.

After that initial deposit, the second stage of the deposit is 9.75%, this makes it a total of 10%.

Why do they have an initial deposit of 0.25%, and why not just have the 10% in the one go?

Answer: The people of Australia are very clever and creative. The idea was, if you are serious, you would put down a deposit of 0.25% this makes it easier as it is only a small amount. Most people can have easy access to a small amount of money. You then have until before end of the cooling period, which is normally a 5 business days from exchange to put in the balance of the 10% which is another 9.75%.

Now, if you do not proceed because you have changed your mind not to buy, you just have to lose that 0.25% of the sales price. This is small compares to a 10%.

You do not have to give a reason as for why you do not want to continue with the purchase.

If I decide to buy it unconditionally, do I have to put another 9.75% within the cooling off period?

Answer: Absolutely, you must get the total 10% to the agent before the end of the cooling off period. Since you already put in the first stage deposit of 0.25%, so the second stage is another 9.75%.

Can I put the second deposit AFTER the cooling off period?

Answer: NO. If you go over the cooling off without putting in the 9.75% you are in breach of the contract agreement. You are then are the mercy of the vendor.

The vendor can choose to terminate the contract as you are in breach and sue you for the 10% of the sales price. This is deadly serious and I suggest nobody should do that.

Timing is very critical here. So pay attention to time very closely. It is very pressurising and intense.

What do I do if I do not want to buy it after I have exchanged (signed the contract to purchase)?

Answer: You must, in writing rescind the contract. You only lose the 0.25% and will not be sued.

Houses are so expensive now and I only have a 5% deposit, I am intending on getting a loan from the bank of 95% of the sales price, can I negotiate for a 5% deposit?

Answer: Most people will negotiate for a 5% deposit and the majority of vendor will say, "ok, 5% deposit is acceptable but if you default, I have the right to sue you for the 10%".

What if I have no money at all, I am going to get a 100% loan from the bank, how can I have a deposit?

Answer: Instead of cash, you can purchase a Deposit Bond Certificate from an insurance company. Your mortgage broker can arrange one for you.

What is a Deposit Bond?

It is a short term guarantee to the vendor that if you, the buyer will not settle the purchase in accordance with the contract of sale of land, the insurance company will pay 10% of the sales price to the vendor.

The insurance company will then sue you for the 10% later.

Will all vendors accept a Deposit Bond?

Answer: No. Some vendor will not accept a deposit as it is their right. So it is important that you ask for permission first. If they agree to accept the Deposit Bond, then you arrange to have one.

Summary

The deposits can be confusing as there are 2 stages instead of 1. It is also confusing as to how much each stage of the deposit is.

It is very pressurising as there is a strict time limit as for when the deposit must be given to the real estate agent.

It is also very pressuring as there are many negotiations that need to be done such as asking for a reduced deposit or asking the vendor to accept a deposit bond.

Arranging for a deposit bond in a short time frame is also very nerve wracking.

On top of all the above, there is too many advice from unqualified people, some are right and some are wrong. The pressure is simply overwhelming.

Warning:

Pay careful attention to the deadline. Time is critical. If you supposed to do something and you missed the deadline, you could lose your 10% or be sued for it.

Smart Tip:

This unique deposit method was intended to be robust and clever. But it is too complicated for many and it is outright dangerous. There are too many stages and too many bits and pieces that you have to do. Any mistakes would be fatal.

Some would argue getting the deposit right is more dangerous than swimming among Killer Whales in the Indian Ocean as Killer Whales do not eat human.

In order to manage your pressure to an acceptable level, you need to first understand the deposit procedures. You need to have a plan. If you do not have a good plan you will find this experience worse than giving births to 12 babies by caesarean.

Smart Tip Summary

1. Know the two stages of deposit.
2. Three types of deposits: 10%, the 5% negotiated deposit and the Deposit Bond Certificate.
3. Note your deadline.
4. Know the procedures.
5. Not knowing the law is not an excuse.
6. You are responsible for taking actions before the deadline and no one will remind you.
7. Above all, have a plan.

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