

Lombard Insurance introduces easier way to get deposit for property finance

SECURING a deposit when financing a property has become easier with the introduction of the deposit advantage guarantee from Lombard Insurance, a member of the Hollard Group.

The product provides a recognised guarantee to the seller for the full amount of the deposit required, says Antony Solomon, manager of the deposit advantage product.

"Cash is in short supply and banks require more substantial deposits before they will finance property transactions. This puts considerable pressure on buyers as most people with access to funds for deposits don't necessarily want to liquidate these assets to secure the purchase.

"Deposit advantage allows you to pay the full price on transfer, instead of raising the cash deposit upfront. This means you can secure your property without touching your savings, which could be

invested, and earning a good return elsewhere," says Solomon.

"For buyers who have cash tied up in their current homes or investments, a deposit advantage guarantee is quicker and significantly cheaper than getting money from your bond or through bridging finance."

Solomon says the deposit advantage concept was first introduced in Australia in 1989, and is now available in New Zealand, the United States and United Kingdom.

He says the major difference between the guarantee and traditional source of funds is the cost.

"Deposits are typically funded out of savings, the proceeds of the sale of your house which often requires very expensive bridging finance or by using money from your bond. Some of these come at a significant cost. Our guarantee – for which you pay a once-off fee – is typically a third of the

cost of capital available in South Africa, preserving value for the buyer."

He compares funding options based on a R150 000 deposit over six months:

Deposit advantage guarantee (rates including VAT) will cost R5 130; an access bond will cost R10 156.17 (assuming an interest rate of 14% a year); and bridging finance (assuming rate of R1.18 per R1 000 a day and a once-off administration fee of R1 000) will cost R32 860.

In this example, a deposit advantage guarantee is significantly less expensive than other deposit options and is usually issued within 24 hours of a completed application, says Solomon.

"Lombard Insurance Company Limited recommends that you seek independent advice in respect of rates and calculations. Deposit advantage is available for residential, commercial and land purchases,

and is suitable for buying in the re-sale market, buying off-plan or at an auction. The product is finding favour with mortgage originators, estate agents, property sellers and the banks."

Solomon says the product is available directly from Deposit Advantage (www.depositadvantage.co.za) but is also being marketed by mortgage originators including Betterbond, Bondchoice and Ooba, as well as by property developers, conveyancers and estate agents while negotiations are underway with some of the major banks to deliver the product to the consumer at branch level.

A deposit advantage guarantee is a financial guarantee that can be used in property transactions, as a substitute for a cash deposit, says Solomon. It allows you to pay the full price on transfer, instead of raising the cash deposit upfront.

Deposit advantage guarantees are available for three-, six-, 12- and 24-month terms.