



## Deposit Power Q & A for the Real Estate Agent

### Q. *What is a Deposit Power Guarantee?*

**A.** Deposit Power Guarantee is a guarantee (also known as a bond) that substitutes for a cash deposit between signing contracts and settlement. The Guarantee can be used for all or part of the deposit required up to a maximum of 10% of the purchase price. It is a guarantee to the vendor, by Vero Insurance Limited ABN 48 005 297 807. At settlement the buyer is required to pay the full purchase price including the deposit.

### Q. *How can a Guarantee make a sale?*

**A.** The convenience of using a Deposit Power Guarantee will attract some purchasers who have difficulty committing to the full cash deposit. Bridging finance can be costly and time consuming whereas the Guarantee is usually less expensive and can be organised easily and quickly. The average size of a Guarantee is \$20 000 and costs the purchaser \$240; saving expensive outlays in application fees and interest for bridging finance.

In situations where a full 10% deposit is not available (95% finance), if the application is approved, a full 10% deposit commitment can be obtained to protect the vendor.

Market experience shows that prospective purchasers who have qualified and been issued with a Deposit Power Guarantee are serious about purchasing a property.

### Q. *Can the Guarantee be used at auctions?*

**A.** Yes. The Guarantee can be very useful for purchasers wanting to bid at an auction as it can be difficult for them to organise a cash deposit beforehand, particularly when they are not sure if their bid will be successful. A Deposit Power Guarantee is issued prior to

auction so that the purchaser can gain the vendor's agreement to accept the Guarantee beforehand.

The vendor and property details on the Guarantee certificate will be left blank and the purchaser is authorised to complete these details if they are the successful bidders.

The Suggested Special Condition on the reverse of the Guarantee certificate should be inserted into the contract when signed on the day of the auction.

### Q. *Who is likely to use the Guarantee?*

**A.** Guarantee users include existing property owners who wish to purchase property, investors who wish to expand their property portfolio and first home buyers. Often these people have their available funds tied up in investments or in their home and need an easy solution for a deposit.

### Q. *Is the guarantee legal?*

**A.** Yes. Deposit Power Guarantee's are legal & available throughout Australia.

### Q. *What is the background of Power Guarantee?*

**A.** The Deposit Power Guarantee was first introduced in 1989, since then it has grown in popularity throughout Australia.

Traditionally Deposit Power Guarantees have performed best in New South Wales, with approximately one in four residential property transactions involving the Guarantee.

The rapid growth in NSW was aided by the Law Society of NSW and the Real Estate Institute of NSW acknowledging the use of guarantees or bonds.

Since 1996, the NSW Standard Contract for Sale of Land carries a clause recognising the Deposit Power Guarantee as a legitimate deposit transaction.



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**Q.** Does the Contract of Sale need amending for the Deposit Power Guarantee?

**A.** The Suggested Special Condition (found on the back of the Guarantee certificate) amends the Contract for Sale and enables the Guarantee to be used instead of a cash deposit. It also states that the buyer must pay the full purchase price including the Guarantee amount at settlement.

**Q.** When are commission and fees payable?

**A.** Because the Guarantee is a substitute for a cash deposit, no money changes hands. In this case, the agent's commission is paid at settlement or shortly afterwards. All that is required is that you contact the solicitor for the vendor with a request that your commission be deducted from the sale proceeds and paid to you. If you are concerned, there are draft authorities available to directly instruct the solicitor to pay.

**Q.** What happens if the purchaser defaults under the Contract of Sale?

**A.** If the purchaser defaults under the Contract of Sale and the vendor is entitled to retain the deposit, the vendor can claim the Guarantee amount from Vero. This amount will be paid to the stakeholder nominated in the contract within two clear days of Vero being provided with the necessary documents. The Counter Indemnity, which the purchaser completes in the application, gives Vero the right to recover this amount from the purchaser.

The Guarantee cannot be cancelled where it has been relied upon to sign a contract.

**Q.** When does the Guarantee terminate?

**A.** The Guarantee ceases when the Contract of Sale is completed, terminated, rescinded, or when the expiry date occurs, whichever happens first. If the purchaser forfeits the contract, the Guarantee terminates when Vero pay the claim.

**Q.** How do I arrange a Guarantee for a purchaser?

**A.** The simplicity of using a Deposit Power Guarantee is one of its main attractions. Applications, which include an indemnity, can be completed and faxed directly to Deposit Power and the Guarantee will normally be issued within 24 hours. Alternatively, the Guarantee can be arranged through selected lending and property institutions.

**Q.** What do I do if the vendor, a purchaser or I need more information?

**A.** Should you, or any of your clients have any questions about the Guarantee or the application process, our helpline is available to you on 1800 242 347.

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