

Property purchasing 101: A bank guarantee and its benefits

With many South Africans taking advantage of the low interest rate to get into the property market and purchase their first home, there are a few new terms they've had decipher while navigating the home buying process. One of these is a "bank guarantee"...



Jackie Smith, head of buyers trust, a division of the Ooba Group

“Unfortunately, the process of buying a home doesn’t come with an instruction manual,” says Jackie Smith, head of buyers trust, a division of the Ooba Group. “And since the topic isn’t covered in school or university, many first-time buyers are left trying to figure out the process on their own.”

Smith explains that one of the most important matters that buyers are in the dark about is how to protect themselves when putting down a deposit on a house – or more specifically the benefits of a bank guarantee.

“A bank guarantee is a ‘financial backstop’ offered by a lending institution. In the case of a property deposit, the bank issues a guarantee to the seller that the buyer has sufficient funds to meet the deposit amount.”

This means that the seller will be protected by the bank if the buyer is not able to meet their contractual commitment in terms of a deposit.

How to secure a bank guarantee

A deposit is generally paid by a buyer to a seller within an agreed period - after the Offer to Purchase on the property has been accepted. Smith explains that there are several ways in which the payment of the deposit can be achieved:

1. Buyers can choose to pay the deposit into their estate agent’s trust account, or the transferring attorney’s trust account.
2. They can also arrange with their bank for the issue of a guarantee to the transferring attorney, but this option generally comes with lots of paperwork and a hefty fee from the bank.
3. Choosing the likes of a third-party financial services provider like Buyers Trust that facilitates the investment of the deposit into a bank account in the buyer’s name and simultaneously issues a guarantee to the transferring attorney.

Benefits unpacked

Some of the additional benefits of using a third-party platform include:

- **A high level of security.** “Buyers are able to rely on the security measures in place to keep their deposit safe instead of exposing it to the risk of dangerous scams and phishing emails that target law firms and real estate deposits.”
- **Full transparency throughout the process.** “Buyers who select this third-party option are able to view their account at any time and receive statements, providing 100% transparency on their investment and the interest earnings on the investment.”
- **Terms of purchase agreement are met.** “A free guarantee is issued to the transferring attorney so that the buyer has fulfilled their contractual obligations to the property seller.”
- **Return on investment.** “Once the property has been transferred, and the guarantee has been fulfilled (the deposit physically paid to the seller’s attorneys), the bank account will be closed, and the accumulated interest earnings calculated and paid back to the buyer.
- **The deposit remains in the buyer’s name.** Where a deposit is paid to a transferring attorney’s trust account, it is held in that attorneys account. The transferring attorney is usually appointed by the seller. Under this option, the deposit monies remain in the buyers name until the property transaction is finalised.

To conclude, Smith says that a bank guarantee offers both parties peace-of-mind. “This is likely the most significant financial commitment that a buyer makes in their lifetime - it’s important that the safety of their deposit not be yet another thing they have to worry about.”

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