Ways to solve the bond deposit problem

Although banks in South Africa do grant bonds that cover the full purchase price of a property (a so-called 100% bond), this is unusual. Most banks will insist that the buyer puts down some amount as a deposit, and also pays for the transfer costs. So what are your options if your bank requires you to put down, for example, a 10% deposit and you don't have that amount of cash available?

Save for a later date
An obvious solution is to save your excess income until it accumulates to an amount substantial enough to be the deposit. This option is always available and will stand you in good stead when the time to buy comes, because the bank will see evidence of your ability to save consistently and will therefore be more likely to grant you a bond. The drawback is that saving up enough could take a long time and cause you to miss out on your dream home.

Buy with a partner
A co-owner of a property would usually be expected to contribute their fair share of the deposit and the bond repayments. When assessing affordability, the bank will take both partners' incomes into account and this will increase the chances of being granted a bond. Spouses are natural partners for property ownership but more thought is required for friends or distant relatives. You need to consider what will happen to the property ownership if the partners fall out or one of them wants to sell due to changed circumstances.

Finance the deposit
Although this is not a recommended option, in some cases it may be feasible to obtain a short-term loan for the purposes of putting down a deposit. The bank offering the bond won't offer this, but another institution might. This would attract a high interest rate and you would have to look at your finances carefully to be sure that you could afford both monthly repayments.

Buy a bargain property
A bank likes to see a deposit for 2 reasons:

1. It shows that the buyer is in the habit of saving, which means that he or she is likely to be able to repay the bond, and
2. It means that if the buyer defaults and can't afford to repay the bond then the bank can sell the property and recover the outstanding loan amount outstanding even after selling costs are incurred.

In practice this means that if you buy a property that is priced way below its market value then the bank is more likely to grant a 100% bond because it knows that it will get its money back if it is ever is forced to sell the property to recover the amount owing on it.

Of all these options, saving up the amount required for a deposit is the recommended solution. It may take a while, but it will teach you financial discipline and make it much more likely that you will be granted a bond by a bank when the time comes to buy a property.

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