

WHAT IS A BANK GUARANTEE?

One of the most important elements in a Deed of Sale is the purchase price for the property. The purchase price clause contains the amount and how and when it should be paid. In many cases there is a deposit and a mortgage bond for the balance purchase price. However, in some cases there is a further cash balance.

All Deeds of Sale require this cash balance to be secured by a formal bank guarantee. Many buyers are confused by this term and will present us with a copy of a bank statement or a letter from the bank confirming that they have the amount. This is not a bank guarantee. A bank guarantee is a formal bank document promising to pay us a certain sum upon the registration of the property. Guarantees used to be like cheques. You presented them to the bank, and they paid out. These days they are paid electronically on transfer, or on the following business day.

To obtain a bank guarantee you apply to your bank, and they will move your funds to a designated current account and then issue the guarantee, this takes approximately two weeks. Banks charge a fee for this service, usually around 1% of the total amount, or a minimum fee. While the funds lie in the account from which the guarantee is issued, you will get the nominal interest for a current account only.

We often find that when faced with all this paperwork, and a lower interest rate than the buyer previously enjoyed, it is far easier for the buyer to pay the money into the law firm's trust account. There it can be invested in the attorney's interest-bearing trust account.

When paying these large amounts by EFT, we always advise our clients to be aware of possible internet fraud and to follow our firms' protocols for safe payment to us.