community first bank

People helping people achieve their financial goals

Bridging Loans
Simultaneous Settlement
Substitution of Security

Commercial – in - Confidence

Selling and Buying – what are the options?

A member is planning on selling and then planning to buy a new property.

Ordinarily the mortgage secured by the old property would be paid out and discharged, and a new mortgage established.
There are other options to save the member both time and money!

Let's explore these:

I want to

BUY then SELL

BRIDGING LOAN

I want to

BUY and SELL at the same time

SIMULTANEOUS SETTLEMENT

I want to

SELL then BUY

SUBSTITUTION OF SECURITY

Bridging Loans - Agenda

1. What is a Bridging Loan
2. Bridging Loan Structure
3. Assessment – (End Debt vs No End Debt)
4. Funds To Complete
5. Repayments
6. Security Properties
7. Bridging Loan Considerations
8. Why are Bridging Loans structured this way?
9. Questions?

1. Bridging Loans – What is a Bridging Loan?

What is a Bridging Loan?

A Bridging loan is used / provided when a borrower wishes to purchase a new property prior to the sale of their existing property ("bridging" the time / funding gap between purchase and sale). The premise of a Bridging loan is that borrowers will repay their Bridging Loan upon the sale of their existing dwelling.

The Bridging Loan allows borrowers to complete the purchase of their new dwelling, cover all purchase and moving costs and allow the borrowers time to prepare their existing home for sale and sell their existing home without the stress and pressure of making repayments on a huge debt, forcing them to sell at a ridiculously low price (to buy their new home) or missing out on their dream home.

To ensure that members have maximum flexibility and to accommodate for the vagaries of the residential property market, Community First offers members the option to have their Bridging Loans for a *maximum term of 12 months* from the date of settlement (purchase) of their new property.

It is important to note that only Community First Bank has a Bridging Loan product. Easy Street members cannot access the product whilst their mortgage is within an Easy Street home loan. A full refinance to CFB would be required for an Easy Street member to obtain a Bridging Loan.

Potential users of a Bridging Loan generally fall into two categories - "Upgraders" and "Downsizers". Let's explore each in more detail:

1. Bridging Loans – What is a Bridging Loan?

What is a Bridging Loan ***(cont.)*****?**

Upgraders

Typical “upgraders” are borrowers seeking to purchase a bigger property, generally due to an increasing family members or children, looking for more space to accommodate their growing family.

Once they sell their existing property, they will generally have a leftover debt as the value of their new property will be more than their existing property.

Downsizers

Typical “downsizers” are borrowers seeking to purchase a smaller property, generally due to younger family members or children, moving out on their own and they are looking for a smaller property with less maintenance requirements (cleaning, gardening etc).

Once they sell their existing property, they will generally have no leftover debt as the value of their new property will be less than their existing property.

This can also include more aged members who have been or are relocating to an aged care facility and may need funds to purchase an accommodation bond for their new residence.

2. Bridging Loans – Bridging Loan Structure

Bridging Loan Structure

A Bridging loan has three fundamental components, being:

a)	Peak Debt	the total maximum debt that members will owe Community First, including capitalised interest
b)	Bridging Loan	the loan that will be repaid when the member sells their existing property (included in Peak Debt)
c)	End Debt	the loan that remains once the members have sold their current property (included in Peak Debt)

So, let’s explore the what “Peak Debt”, “Bridging Loan” and “End Debt” actually are, how they're calculated and how each is structured:

a) Peak Debt

This is the highest possible loan balance that a borrower can accrue.

The Peak Debt is calculated using the following:

i. Any balance outstanding on an existing mortgage
ii. The purchase price of the new dwelling
iii. Legals and stamp duty costs on the new property purchase
iv. Relocation costs
v. Renovation / Improvements to existing dwelling to prepare for sale
vi. Any funds the purchase are contributing to the new purchase
vii. 12 months interest on total funds borrowed

So, lets see what this looks like?

2. Bridging Loans – Bridging Loan Structure

Bridging Loan Structure *(cont.)*

BRIDGING CALCULATION WORKSHEET

	3/07/2024
BRIDGING LOAN INTEREST RATE	8.89%

FUNDS REQUIRED	
New property PP	$1,200,000
Existing mortgage payout	$200,000
Unsecured consolidation	
(Other)	
(Other)	
Stamp Duty	$85,000
Fees	$0
Required Total =	$1,485,000

MEMBER CONTRIBUTION	
Savings	$25,000
Gift	
Total SAVINGS =	$25,000

SECURITIES	
Security Value - New Property	$1,000,000
Security Value- Existing Property	$1,250,000
Security Value- Extra Equity	$0
Total Security Value	$2,250,000

BORROWINGS	
Total Required funds	$1,460,000
12 months interest	$102,053
PEAK DEBT	**$1,562,053**
Less Net Sale Proceeds	$1,250,000
END DEBT	$312,053

LOAN STRUCTURE	
Bridging loan final amount (L84)	**$1,147,947.47**
End Debt	**$312,052.53**

PEAK DEBT LVR	69.42%
Peak Debt LVR is acceptable - submit to Credit Services for assessment	

END DEBT LVR	31.21%
End Debt LVR is acceptable - submit to Credit Services for assessment	

So, for this application, the proposed "Peak Debt" will be $1,562,053.

The next step is to calculate the "End Debt". This is the amount the members will owe Community First once they have successfully sold their existing dwelling.

2. Bridging Loans – Bridging Loan Structure

b) End Debt

This is the remaining / residual debt leftover once the borrowers existing property has been sold. This amount is calculated using the following:

Peak Debt	$1,562,053
Net Sale Proceeds[1] of existing property	$1,250,000
End Debt (and loan balance used to assess affordability)	**$312,053**

[1]Net Sale Proceeds are the actual funds available to the borrower, once they have paid their sale costs, including legal costs, agent commissions, apportioned outstanding rates, removalists etc. Now all that needs to be calculated is the “Bridging Loan”.

c) Bridging Loan

This is the loan that will be repaid in full on settlement of the sale of the borrowers existing property. The Bridging loan is simply:

Peak Debt – End Debt = Bridging Loan

2. Bridging Loans – Bridging Loan Structure

Below is an example of the Sales Submission notes for a Bridging Loan and End Debt loan application, that includes the figures from the previous slides. Note – there is also a Bridging Loan calculator located withing the Credit Services Intranet page, that needs to be completed and submitted as part of the application.

Member Name(s) / Number(s)/DI : xxxx

Loan Amount (Inclusive of Fees) / Rate / Product / Term :
1) $1,147,947 - 8.89% - L84/12 months and 2) $312,053 - 5.94% - L15/20 years

L Type and Product in word 1) L84 Bridging Loan and 2) L15 Basic Variable Home Loan (End Debt)

Interest Class (i.e. IO or P&I) : 1) I/O & 2) P & I
Total Exposure : $1,562,053

ARA (i.e. Actual Amt with Buffer Rate) : $xxx (based on end debt of $312,053)

LVR: 1) 63.42% (based on peak debt of $1,562,053 with securities totaling $2.25M) and 2) 31.21% (based on end debt of $312,053 with final security totaling $1.0M).

Veda Score : xxx/xxx
Store / Originator : xxxx
Referrer/Commission Payable to: N/A

Conditions / Purpose :

1) Bridging Loan amount of $1,147,947.47 plus capitalised interest of $102,053 ($1,250,000 in total), pre-approval is sought for property purchase.

2) End debt is expected to be $312,053 (refer calculations below). New members, xxx and xxx, would like to apply for a bridging loan as they currently run their business from home at xxx, NSW and need time to transfer the business into the new property prior to selling the existing one.

Calculations:
Current Mortgage $200,000
Maximum Purchase Price $1,000,000
Stamp Duty and Purchase Costs $85,000
Less members contribution of $25,000
Net Peak debt $1,460,000

Plus 12 months interest @ 8.89% $102,053
Peak Debt $1,562,053

Less projected net sale proceeds of $1,250,000 (Bridging Loan)
End debt $312,053 (End Debt L15 loan)

2. Bridging Loans – Bridging Loan Structure

d) Loan Products - End Debt

Borrowers may choose any current loan product for their End Debt. This can be a fixed or variable rate, current special or standard pricing, so long as the product is “not unsuitable” (under NCCP obligations) and the members meet the Target Market Definition for the product (under Design and Distribution Obligations – DDO which came into effect from 5th October 2021).

The loan can have a maximum term of 30 years from the day of settlement (subject to credit policy and approval) and the borrowers will make principal and interest (P&I) repayments on this loan from settlement (first payment due one month after settlement).

e) Loan Products - Bridging Loan

Members have one choice for their Bridging Loan – it is the Bridging Loan product (L84). The L84 loan has a maximum term of 12 months and an interest rate of 8.89% (as of June 2024). There are no repayments required on the loan as the interest payable will capitalise onto the loan (be added to the balance) each month until the loan is repaid. This is a great feature for Community First Bridging Loans, as some FI’s require interest only repayments to be made during the duration of the Bridging Loan.

f) No End Debt

By now, some of you may have realised that some borrowers who use want to access a Bridging Loan, may not have a residual debt once they sell their existing home (“downsizers”).

That’s perfectly fine and we are more than happy to assist downsizers. Whilst there is no ongoing debt to Community First (ie End Debt) many downsizers will have significant surplus funds available once they sell and they may be looking for a sound secure place to invest those funds. As the provider of their Bridging loan that allowed them to purchase their forever home, Community First is ideally placed to support those members with their investment options.

3. Bridging Loans – Assessing Affordability

Affordability Assessments

Calculating the affordability of a Bridging loan is never assessed using the Peak Debt. Assessment is always completed using the borrowers End Debt, their ongoing residual loan that they will pay off over the next 30 years (or approved term, if less than 30 years).

a) *<u>End Debt</u>*

Approval of a Bridging Loan will be determined by the borrower's capacity to afford their ongoing (End) debt over the approved term. If a borrower cannot afford the proposed end debt, the Bridging Loan (ie Peak Debt) will not be approved because there is no point approving a short-term Bridging Loan when Community First cannot approve the proposed “end debt”.

Assessment of the proposed end debt is completed in the same manner as every other mortgage loan, using the current Mortgage Servicing Calculator. The only difference is that in assessing existing debts, the Bridging Loan is *<u>excluded</u>* from the assessment.

b) *<u>No End Debt</u>*

Where no “end debt” will remain once the borrows have sold their existing property (downsizers), the question is how do we complete an Affordability Assessment? The short answer is – we don’t.

Where the borrower’s debt to Community First will be completely cleared following the sale of the borrowers existing property, no Affordability Assessment is completed as their will be no ongoing loan to assess.

The assessment will be based on the accurate calculation of peak debt, expected sale price and time to sell. Where it is evident that the borrowers will have no residual debt, the application will be assessed as a “No End Debt” Bridging Loan.

4. Bridging Loans – Funds to Complete

Funds to Complete Calculations

Whilst the accurate calculation of an applicant's Funds to Complete is always a vitally important aspect of lending (particularly relating to mortgage loans), it is even more so in the case of Bridging Loans. Inaccurate calculation of Funds to Complete could potentially lead to devastating financial consequences for the members, not to mention the potential financial, legal and reputational impacts for Community First

When calculating the Funds to Complete, it is important that borrowers (and Community First Lenders) capture all costs associated with the new property purchase and sale of existing property, including (but not limited to):

Purchase	Sale
• Purchase Price • Stamp Duty on new property • Removalists • Solicitors Fees • Community First Loan Fees • Renovations / personalisation of new home	• Sale Price (realistic, not optimistic expectation) • Real Estate Agent Fees • Solicitors Fees • Renovation / cleaning and rubbish removal / gardening • Marketing and advertising costs • Bridging Debt

Any miscalculation could result in borrowers being left with a higher than expected (ie unaffordable) End Debt or an End Debt when none was expected. It is not worth rushing the calculation or assessment of Funds to Complete, nor is it worth manipulating figures to achieve an End Debt result that is affordable.

Remember, the property market can change quite quickly and certainly over a period of months, so expectations need to be managed (especially in relation to sale prices of existing dwellings) – this is another reason why the **Peak Debt LVR is capped at 70%.**

5. Bridging Loans – Repayments

Loan Repayments

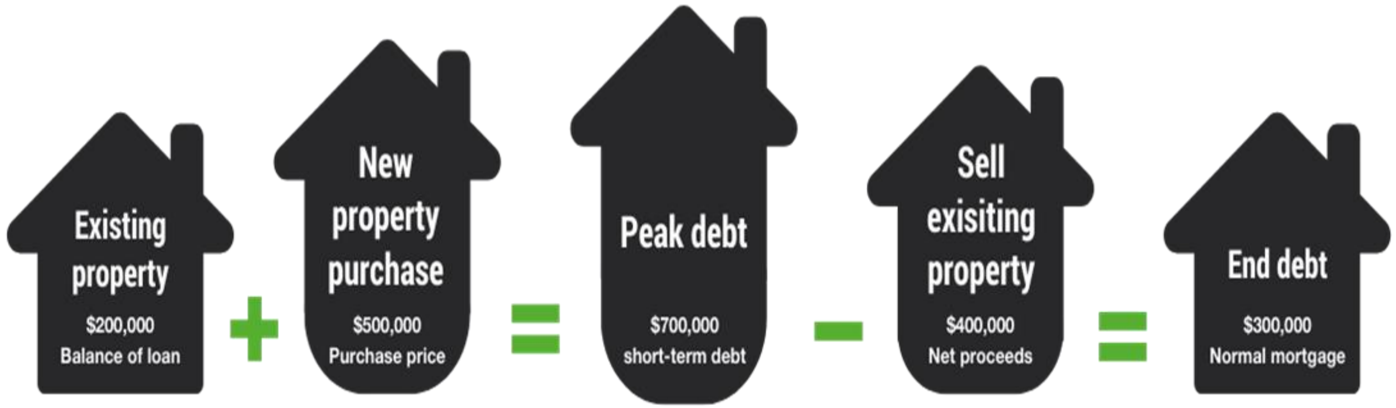
As we read previously Bridging loans are structured as two individual loans from settlement, being:

a) End Debt
b) Bridging Loan

The End debt can be any loan product the borrower chooses that is available at the time of settlement. For Owner Occupied loans, the repayments on the loan must be Principal and Interest from settlement, just like you would for any normal mortgage loan.

The Bridging Loan (L84) is used to cover the time / funding gap between purchase and sale. As this loan will be repaid in full on settlement of the sale of the existing property, this loan does not require repayments.

Interest will accrue and charge to the loan, thereby increasing the balance each month until the loan is repaid.



6. Bridging Loans – Security Properties

What properties does Community First take as security?

As with any loan, Community First will not take more security than is necessary to adequately secure the proposed loan, within acceptable LVR limits. Taking excess security properties only increases unnecessary costs for members when it comes time to discharge the Bridging Loan.

However, the properties that Community First will take as security will depend on whether the loan has an End Debt or No End Debt.

End Debt	No End Debt
• Existing property • New property	• Existing property

The reason for taking both properties for an “End Debt” loan is that we need to control the sale proceeds of the existing property to ensure that the Bridging Loan is repaid and we need security over the new property to secured the “End Debt”

For “No End Debt” loans, we need to control the sale proceeds of the existing property to ensure that the Bridging Loan is repaid

7. Bridging Loans – Considerations

Bridging Loans aren’t cheap

The interest rate on a Bridging Loan is 8.89% (as at June 2024), so the longer it takes a member to sell their existing property, the greater their capitalised interest will be. It is important to remind members that the longer it takes to sell their existing property and repay their Bridging Loan, the more interest they will pay and the less potential equity they may have at settlement. Members will need to consider this when considering offers made to purchase their existing property.

LVR is an important factor

Because the interest on a Bridging Loan is capitalised (added to the loan without repayments), LVR is a key factor to ensure Community First doesn’t breach our standard LVR policies when interest is added to the loan. The maximum total LVR on a Bridging Loan is 70% *and LMI is not an option*

The 70% LVR is set to allow for the “ups and downs” of the property market, as well as any unforeseen delays in completing the sale of the members existing property. All security properties are valued but we still need to allow for the fact that sale prices may not meet expectations (or even the valuation amount) and thus calculations need to change. By having a lower LVR, there will be some buffer for the borrowers to cope with lower than expected sale results

Excess Funds

Whilst we calculate 12 months interest on a Bridging Loan, to allow members time to sell their existing property, the reality is that Bridging Loans rarely run more than 2-5 months. So, what happens to the additional interest that has been factored into calculations for the 12 months of the Bridging Loan?

Effectively the Bridging Loan will be less than we originally calculated, meaning that the borrowers won't need to pay back quite so much and will now have additional funds at their disposal. These can be used as Redraw, placed in an Offset or used as a permanent reduction on their loan (allowing reduction of repayments)

7. Bridging Loans – Considerations

Do all security properties need to be with Community First?

Yes - Bridging Loans only work when Community First has the capacity to control the entire process if required. As such, all Bridging Loans must be with Community First and we must hold a first mortgage over all security properties. If members existing loan is with another lender, it must be refinanced to Community First before the Bridging loans can settle.

What if a member cannot sell their property within 12 months?

The member will need to have a discussion with Community First as early as possible to discuss their situation and options. You should contact Credit Services to discuss options for extending the Bridging Loan term

Can members keep their existing home and rent it out?

No - Bridging Loans are not a “short cut” to getting an investment loan that cannot be approved at the time of origination. Remember the L84 loan only has a 12 month term and if the existing property has not sold and an extension or conversion to an Investment loan is not a viable option, Community First is within its legal rights to call up the Bridging Loan and demand repayment.

Members considering this Bridging-to-Investment Loan option should think again!!!!

Can members build a new home instead of buying an existing dwelling?

Yes – The process is exactly the same (except for some additional cost considerations for the new property such as landscaping and fencing etc). Instead of drawing funds for the purchase on settlement, the first drawdown of the Construction loan is completed.

Borrowers must complete the new dwelling, move in and sell their existing home within the 12 month term from the first drawdown of their construction loan.

8. Bridging Loans – Why do we do it this way

Can’t we just package the entire loan as an Interest Only Bridging Loan (L84), and establish the End Debt final mortgage on sale of existing property?

Well yes, we could. However, there are some very clear reasons why we don’t:

a) **Overcharging members**

Under the old “whole loans as an L84 interest only loan” structure, borrowers are charged 8.89% on the “Peak Debt”. Let’s say a borrower has a “Bridging Loan” of $1,000,000 and will have an end debt of $400,000. Under the old structure, the members would pay 8.89% on $1,000,000 on an increasing debt. Under the newer structure, the member would pay 8.89% on a $600,000 capitalising debt and as low as 5.94% on the $400,000 end debt. If the loan ran its full 12 months, the members saves $11,800 in interest (i.e. 2.95% interest differential on $400,000) before factoring in the cost of interest capitalisation.

Additionally, under the “old” structure, the members would have to pay a $250 Loan Variation Fee to Switch their Bridging Loan (L84) to whatever product they choose. Under the new structure, this is not applicable.

b) **Depriving members of current products**

Under the old Bridging Loan structure, members would only get the current interest rates applicable at the time they sell their existing property. If that takes say 6 months, then any current home loan special or low interest rate (if available) will no longer be on offer, potentially costing the members thousands of dollars over the term of their remaining loan. Furthermore, the old structure denied members the opportunity to lock in a fixed rate from day of settlement on their end debt, potentially with the same result.

8. Bridging Loans – Why do we do it this way

c) Impacting members overall term to repay End Debt

Under the old loan structure, the maximum loan term of 30 years is calculated from the settlement of their purchase. If the members experience delays in selling their existing home (say it takes 9 months) then the members will only have 29 years and 3 months to repay their loan, resulting in an increased P&I repayment compared to a 30 year loan with 30 years of P&I repayments from day one under the new structure. This benefit will reduce members P&I loan repayments by hundreds of dollars per month by establishing the End Debt from day one.

d) Instantly Accessible Redraw

Because the End debt is calculated and settled as a standalone facility from Day 1, they know what their obligations are, without surprise. When a member sells their home and they have sold their property inside 12 months or for more than expected, then on settlement they repay the L84 Bridging Loan and any funds left over are the borrowers to do with as they wish. It can sit in their Offset Account, go into Redraw or make a permanent reduction to the loan (and reduce their minimum monthly repayments).

9. Bridging Loans – Questions?

Simultaneous Settlement - Agenda

1. What is Simultaneous Settlement?
2. Assisting members with Simultaneous Settlement
3. Process
4. Questions

1. What is Simultaneous Settlement?

Simultaneous Settlement occurs when members sell their current property and purchase a new property within a very short span of time, and additionally manage to line up their settlement on both properties to be completed on the same day – simultaneously!

This is a great option for members to save money by:

- Not requiring a Bridging Loan
- Not requiring to pay rent for somewhere to live whilst waiting for the new property to settle

However, this can be very stressful for members as in many instances they need to co-ordinate moving out of their current property on the morning of the day of settlement, and possibly waiting at the office of the purchase real estate sometimes with removalists in tow to collect the key to their new property in the afternoon!

2. Assisting member with Simultaneous Settlement

How can we help?

In many instances when selling and buying, members will payout and discharge their current mortgage and establish a new mortgage with either us, or a new lender. They will not be aware there could be time saving and fee saving options we may be able to provide.

This is why it is important during member loan check-ups and conversations, if you hear any comment in relation to potentially selling property, that you ask more questions and provide possible solutions to educate members on their options.

A member selling and buying property, will have 3 outcomes:

A) They have no mortgage and after settlement their new mortgage will be MORE than their current loan amount
B) They have a current mortgage, and after settlement their new mortgage will be LESS than their current loan amount
C) They have a current mortgage and after settlement they will have no mortgage

Members who fall under option C, and will have no mortgage after the associated costs of selling and buying have been finalised, will payout and discharge their loan. They will pay the current discharge fee of $696 (as at June 2024) and you may be able to discuss savings account options for any excess sale proceeds.

Let’s discuss how we can assist members who fall under options A and B:

2. Assisting member with Simultaneous Settlement

Option A) They have no or current mortgage, and after settlement their new mortgage will be MORE than their current loan amount

These members will have two choices:

1 - They can keep their current mortgage and establish a second loan for the additional funds required. The property security on the existing home loan will be substituted with the new property security.

Members may wish to take this option if they have a current low-rate home loan special or fixed rate for their existing mortgage and wish to retain this mortgage to save money. The new loan for the additional funds would be established at current interest rate.
The member saves paying a discharge fee but will have fees related to the substitution of security (such as valuation and Registration fees) added to the transaction.
If the member has an existing Community First Accelerator Package, the member pay reduced application fees for the new loan split.
Community First or Easy Street will retain their business and membership relationship, and obtains additional lending – win for us

2 - They can payout and close their current mortgage and establish a brand new loan for the total amount required.

Whilst this option won't save money on fees, they may take advantage of a new money special offer or lower interest rates if available at the time.
This transaction is the most at risk of leaving CFB or ES and establishing a new loan at a different bank, therefore staff should always attempt to prompt and hold further discussions with members who may give any indication they are thinking of selling or buying new property.

2. Assisting member with Simultaneous Settlement

Option B) They have a current mortgage, and after settlement their new mortgage will be LESS than their current loan amount

Most members will assume they need to close and discharge their current mortgage, then establish a brand new loan that could either be with CFB or ES, or with a different financial institution.

We are at risk of losing these mortgages, but we can save the members both time and money by offering substitution of security keeping their existing mortgage.

The members saves money by not paying a discharge fee or establishment fees for a new mortgage.
The members will need to pay some fees associated with swapping their property security – valuation fee and possible loan variation fee depending on the current loan product (Accelerator home loan members may have a fee waiver available).
All CFB and ES home loan products, including our fixed rate loans, do not charge a fee for any amount of additional funds deposited into a loan account – only if the members payout and close the loan an Early Repayment Fee (EFR) may apply.

The members will also save time by not needing to complete a new loan application and gather all supporting documents required. As long as the conduct on the current mortgage is acceptable, they will not be reassessed. This may be advantageous for members in differing financial circumstances where a new loan assessment may not result in approval for the smaller loan amount.

Community First or Easy Street will retain their business and membership relationship – win for us

3. Process – Simultaneous Settlement

Depending on the scenario, you will need to submit different types of information and supporting documents to Credit Services.

Valuation, mortgage registration and loan variation fees may apply. You need to advise Credit Services which CFB or ES member account these fees can be deducted from.

Option A – Increase in lending	Option B – Decrease in lending
• Full lending submission via loan application portal, including Contract of Sale for new property • Discharge form for sold property – note if loan will or will not be paid out depending on members choice of options	• Discharge form for sold property – note loan will not be paid out • Contract of Sale for new property and details of contact for valuation to be completed • Calculation showing sale price, purchase price, associated costs and any contribution from members – to confirm end loan will be smaller than current loan

4. Simultaneous Settlement – Questions?

Substitution of Security - Agenda

1. What is Substitution of Security and available options?
2. Delayed Substitution of Security
3. Process
4. Questions

1. What is Substitution of Security and available options?

Substitution of security is exactly what is described – it is the substitution of the security held by a mortgage. In simpler terms, the mortgage remains in place, and we are simply swapping the security property for another.

We already explored simultaneous settlement, the mortgage remains in place, and the properties are simply substituted on the same day at settlement.

However, what happens if a members sells their property first, but cannot align the date of settlement for their new property to the same day OR they haven’t yet found their new home?

If the loan amount for the new property will be the same balance or a lesser amount than the existing mortgage, rather than discharging the loan there is another option!

Read on….

2. Delayed Substitution of Security

Did you know?.....

There is another option than property as security for a mortgage?!

COLD HARD CASH!

(Note – this option is currently only available for CFB mortgage members, the ability to do so for ES loans is under investigation)

A member who sells their property but cannot yet provide another property for security for the mortgage, can use their net sale cash proceeds to secure the existing mortgage loan for up to 6 months.

Credit Services will establish a term deposit for an amount not less than the outstanding loan balance (adding back any available redraw). In Ultracs rather than a property listed in the security section, the 'I' Term Deposit account will be linked to the loan. Additionally, the 'I' account will have a special note within the account information, stating it is held as security for a loan.

Members will then have access to any available remaining sale proceeds, which they can place in a high interest savings account, add to the term deposit securing their loan or even use the funds to payout consumer debts. They can also use their accessible funds to pay the deposit on their purchase property if the timing works – or use a deposit bond if needed (more on that later).

Whilst the funds are held in the term deposit the member will earn interest from the investment, however they will still need to make repayments to the loan and will continue to be charged interest.

3. Process – Substitution of Security

Once again, there are numerous benefits for both the members and Community First.

- Members may wish to take this option if they have a current low-rate home loan special or fixed rate for their existing mortgage and wish to retain this mortgage to save money.

- The member saves paying a discharge fee and new loan application fee, but will have fees related to the substitution of security (such as valuation fee and registration fees) added to the transaction.

- Community First or Easy Street will retain their business and membership relationship, and obtains additional lending – win for us

- The member earns interest on their sale funds

- The members save time by not needing to complete a new loan application and gather all supporting documents required. As long as the conduct on the current mortgage is acceptable, they will not be reassessed. This may be advantageous for members in differing financial circumstances where a new loan assessment may not result in approval for a new loan.

Remember – if an increased loan amount is required, members will need to apply with a full application submission. The cash as security option is only available if the loan amount is remaining or is decreasing.

Internally, the process to apply for this option to Credit Services on behalf on members is the same as Simultaneous Settlement. The timeline of when paperwork will be available to submit just looks a little different.

4. Substitution of Security – Questions?

Deposit Bonds

In some circumstances, namely Bridging Loans and Simultaneous Settlement scenarios, a member's deposit for their new property will be tied up in the equity of their existing home. So how do they pay the 10% deposit required to secure the purchase of their new home at the time of exchange?

What is a Deposit Bond?	A deposit bond is a guarantee for the amount required to pay as a deposit for the purchase of a new property. After settlement of the bond is repaid from the proceeds of the sale of the existing property.
Who provides the Deposit Bond?	Community First and Easy Street hold a relationship with third party provider **Deposit Assure.** Staff can either refer members from either brand, or with members permission complete an application for a Deposit Bond via Deposit Assure on the members behalf. Deposit Assure charge a fee to the members for the bond, which the members are required to pay from their own funds.
Where can I find out more?	A full page of web links, training materials and product videos for Deposit Bonds is available via the Product Page and Deposit Assure link on our internal Intranet.