

The bond cancellation notice clause

Despite regular warnings from a wide cross section of property sector spokespeople time and again, home sellers fail to give the banks the obligatory 90 day notice - and then end up paying a penalty for not doing so.



This unfortunate situation, says Mike van Alphen, national manager of the bond originators, Rawson Finance, can prove expensive because the usual penalty charge is 1% of the outstanding amount on the bond for the full 90 day period.

In most cases, he adds, the failure to give the 90 day notice comes about because the seller is simply unaware that it is required. In a few instances, however, it can be caused by the seller believing that, if he gives notice, he is then obliged to sell within 90 days.

"This is definitely," says van Alphen, "not the case. Giving notice of an intention to sell and cancel the bond does not mean that the sale has to take place within any specified period."

All Rawson Sales Partners (agents) are trained to advise the seller of a property to inform the bondholder, in writing, of his or her intention to cancel any bond on the property being listed for sale.

Van Alphen warned home sellers that once the property is sold and the bank's attorneys have been instructed to cancel the bond, all access to money in it is then frozen. This, he says, can cause real hardship when the seller needs cash, for example for the deposit on his next home.

"Well before the attorney actually requests the bond to be cancelled," says van Alphen, "the bond holder should draw out any large sums that he might need in the next few months. If he does not do this he may have to arrange a loan - probably at a higher interest rate - to tide him over for the ten weeks, which on average is the time it takes to pay out the client on a cancelled bond."