

What is “earnest money?”

<p>What is “earnest money?”</p>	<p>It is money you give to the seller (or the seller’s agent) to show your good faith when making an offer to purchase the seller’s property.</p>
<p>Do I have to pay an earnest money deposit to have a valid contract?</p>	<p>Although no law requires it, sellers typically do require it. If you agree to pay earnest money but do not make the required payment or your earnest money check “bounces,” you will probably be considered in breach of the contract.</p>
<p>How much earnest money should I pay?</p>	<p>The amount is negotiated between you and the seller. It is typically a small percentage of the purchase price and can vary depending upon local market conditions, the price of the property, the type of property (e.g. vacant land, existing housing, or new construction), whether cash advances to a builder or seller are involved, and other factors.</p>
<p>What happens to the earnest money before closing?</p>	<p>The purchase contract governs where earnest money will go. It should also specify the amount(s) to be paid, when the payments are to be made, whether the money will be held in a trust (escrow) account, who will hold it, whether it will be credited against the purchase price at closing, and what may happen to it if the transaction does not close.</p>
<p>Will my earnest money earn interest between contract and closing?</p>	<p>Probably not. Most earnest money is held by real estate brokers in non-interest-bearing trust or escrow accounts. In order for the money to earn interest, the buyer and seller must agree, and they also must determine who will earn the interest. Such an agreement should be included in the purchase contract and may require the assistance of an attorney to prepare.</p>
<p>Under the standard Offer to Purchase and Contract, do I get my earnest money back if the transaction does not close?</p>	<p>It depends on why the contract isn’t consummated. For example, the standard contract typically includes various conditions and/or contingencies which must be met for the contract to proceed. These may include the requirement that you make a good faith effort to obtain necessary financing or to sell your own property; or that the seller make certain repairs and provide good title. If the seller does not meet his requirements, you may be entitled to a refund. On the other hand, if you breach the contract, you may forfeit the earnest money deposit. The party injured by the breach may also seek additional damages or try to enforce the contract by asking for “specific performance” where a court is asked to compel the breaching party to perform their promise—either to purchase or to sell. If your purchase contract does not close, you should consult your attorney over the remedies that may be available.</p>