

## EARNEST PAYMENT

The earnest money deposit is an important part of the home buying process. It tells the seller you're a committed buyer, and it helps fund your down payment.

Without earnest money, you could make offers on many homes, essentially taking them off the market until you decided which one you liked best. Sellers rarely accept offers without deposits.

Assuming that all goes well and your offer is accepted by the seller, these funds will go toward the down payment and closing costs. In many circumstances, you can get most of your deposit back if you discover something that you don't like about the home.

How much should you put down in the earnest money deposit?

The amount you'll pay will depend on a few factors, such as policies and limitations in your state, the current real estate market, and what the seller requires. On average, however, you can expect to hand over 1-2% of the total purchase price of the home.

In some real estate markets you may end up putting down more or less than the average amount. In a real estate market where homes aren't selling quickly, the seller may only require 1% or less for the earnest money deposit. In markets where demand is high, the seller may ask for a higher deposit, perhaps as much as 2-3%. You can sometimes win a bid if you give the seller a large deposit. In fact, the seller may be willing to come down in price a little if you make a bigger deposit.

However, you may wind up having to do some paperwork for your mortgage lender, and the bank may want to verify the source of the funds for larger deposits. It won't be a problem if you can show that you've had the money for at least 60 days.

When do you pay the earnest money, and who holds it?

In most cases, after your offer is accepted and you sign the purchase agreement, you give your deposit to the title company. In some states, the real estate broker holds the deposit.

Always check the credentials of the firm or broker taking the deposit and verify that the funds will be held in escrow. Never give the earnest money to the seller; it could be difficult or impossible to get it back if something goes wrong.

After turning over the deposit, the funds are held in an escrow account until the home sale is in the final stages. Once everything is ready, the funds are released from escrow and applied to your down payment.

Can you get your earnest money back?

If the deal falls through, a small cancellation fee is usually taken out of the deposit, but the remainder remains in escrow. Whoever holds the deposit determines whether you

should get the money back under the terms of the purchase agreement. Make sure that the purchase agreement covers how a refund is handled.

To be on the safe side, make sure the purchase agreement covers how a refund would be handled. Keep in mind that even if you are pre-approved for a mortgage loan, you can be declined when you apply for one. In such cases, standard contracts allow you to recover your earnest money deposit. You can also usually get your money back if you find problems with the property.

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