

# Understanding Earnest Money

## How It Works, How Much to Offer and What Can Go Wrong

**W**hen you make an offer on a home, you want the seller to know you're serious. That's where earnest money comes in. This good faith deposit signals your commitment and helps move the deal forward—but it also comes with rules and risks you should understand before writing the check.

### WHY EARNEST MONEY MATTERS

Earnest money shows sellers you're acting in good faith. It's a sign that you're not just making offers casually or wasting time. In a competitive market, a strong earnest money deposit can even make your offer stand out.

The amount varies by market but is usually 1% to 3% of the purchase price. For example, on a \$300,000 home, the deposit might be \$3,000 to \$9,000. In hot markets, some buyers offer more to appear stronger.

The funds are held in escrow by a third party until closing. If the sale goes through, the money is applied to the buyer's down payment or closing costs. If the deal falls apart for a valid reason, such as a failed inspection or

financing issue, the buyer typically gets the money back.

### WHEN YOU COULD LOSE EARNEST MONEY

Earnest money isn't always refundable. That's why contingencies in your purchase agreement are so important. These clauses outline the con-

ditions under which you can walk away and still get your deposit back — such as problems found during inspection, the appraisal coming in low or loan denial.

If you miss deadlines, change your mind without cause or otherwise breach the contract, you risk forfeiting

the deposit. The seller may be entitled to keep it as compensation for lost time and missed opportunities.

To protect yourself, always: Use a licensed escrow company or title agency

Make sure all contingencies and deadlines are clearly spelled out

Keep documentation of all communications and contract changes

Earnest money can be a valuable tool when used wisely. By knowing the rules and planning ahead, you'll put your best foot forward while keeping your investment safe.



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#### REAL ESTATE 101



#### HOMESWISE GLOSSARY

#### Always Use a Trusted Escrow Holder

Earnest money should never be paid directly to a seller. It should be held by a neutral third party — such as a title company or escrow agent — to protect both sides during the transaction.

**Earnest Money:** Earnest money is a deposit made by a homebuyer to show serious intent to purchase. It's typically 1% to 3% of the purchase price and is held in escrow until closing or contract cancellation.

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