WHAT IS: EARNEST MONEY

WHAT IS AN EARNEST MONEY DEPOSIT?

An Earnest Money Deposit (EMD) is a check that accompanies a buyer's offer. The purpose of an EMD is to prove that the buyer's offer is serious and in good faith. Typically, it's anywhere from $500 to 10% of the purchase price depending on the seller. Earnest money deposits are also used to protect the sellers in case the buyer backs out of the deal at the last minute and breaks the real estate contract. The EMD is applied to a buyer's down payment and closing cost requirements at the close of escrow.

WILL I GET MY EARNEST MONEY BACK?

If everything goes the way it's supposed to, the earnest money will be applied as a credit against your funds due at closing. However, take caution and read your contract entirely because there are several ways you could lose your earnest money deposit. Below are typical reasons to receive your earnest money back if you do not close on your house.

The home doesn't pass inspection. The home could have damage or deferred maintenance items and you may not be able to come to an agreement with the seller to make the repairs.

The home does not get appraised at the offer amount and you + the seller are unable to come to a new agreement on price.

You are unable to get financing. If your loan is denied - this could be grounds to receive your earnest money back.

WHAT ARE ACCEPTABLE EARNEST MONEY DEPOSITS?

- **Gifts from Relatives:** Most loan products will accept gifts from legal or blood relatives, including parents, children, aunts, uncles and siblings.
- **Loans from Retirement Funds:** Funds can come from 401k loans or similar retirement plans.
- **Cash Proceeds from the Sale of an Asset:** Buyers can sell a car, a boat, jewelry, etc. and use the funds towards the purchase of a home. Buyers will, however, have to show a bill of sale to provide the paper trail for the sale. Please avoid cash deposits.
- **"Cash Out" Real Estate Loans:** HELOC funds and cash from a first mortgage refi are both considered legal sources of funds.
- **"Seasoned" savings - stocks, bonds, cash, gold, etc.:** Liquid savings of almost any type are valid funds. BUT, those savings need to be "seasoned" in your bank account for at least 61 days. Meaning there should be no large deposits showing up on the most recent two statements. If there are large deposits, they will need to be "paper-trailed" and explained.
- **Crypto Currencies:** This is fast-changing, but lenders will still not accept crypto currencies even if they have been converted to cash. If buyers are determined to use crypto currencies for down payment funds, they would need to convert the crypto funds to cash more than two months prior to purchase so the funds are "seasoned."

Non-allowed sources of funds include "mattress money" or cash that is sitting outside of an institutional account, any type of cash advance or unsecured loan, and salary advances.

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