



Please note that this is the first two pages of a three page document. [Log in](#) to obtain access to the complete tutorial. If you don't have a username yet, [registration](#) is free. We do not spam our user community.

Step 12: Understand Purchase Contracts

By law, all real estate contracts must be negotiated in writing. Therefore, in order to ask a seller to sell a property, a buyer must submit a written offer. This offer is called a **purchase contract**. Purchase contracts vary by locale, but they usually contain similar elements. Some are much longer than others. The contract is divided up into different parts or sections each dealing with a particular aspect of the offer. Contracts typically contain the following elements:

Offer to Purchase- A section which lists the purchasers' names, the property address (number, street, city, county), an offer price, and a deposit amount. All purchase contracts should be accompanied by a check representing an **earnest money deposit**. This deposit indicates the buyer's interest in buying the property and, in contract terms, is the **consideration** which generally accompanies an offer of intent to be bound by a contract. Offers will not be considered by a seller without an accompanying deposit. It is applied towards the down payment.

A few thousand dollars is generally sufficient to indicate seriousness. Some agents don't believe the size of the deposit makes a difference and caution against being swayed by large deposits. This is reasonable since the deposit goes into an escrow account, and neither the seller nor the buyer have access to it until closing. Other agents swear by a larger deposit. They maintain that the size of the deposit indicates buyer seriousness; a buyer leaving a large deposit is less likely to abandon a deal. In a hot market, it is true that the deposit may be one of the factors that influence a seller. Keep in mind that the intent to be bound by the offer is also indicated by the signature of the buyer on the purchase contract. Therefore, how much a deposit affects you probably depends on the situation and the nature of the offer.

Time to Ratify-The buyer generally gives the seller time to review the agreement and document a response. Generally it is 1-2 days, but it varies based upon local custom and market activity. A shorter timeframe is preferred so that both buyers and sellers can plan accordingly. The deadline for response may be included in the document.

Fixtures and Personal Property-This section discusses all the items that the buyer would like included in the purchase price. Fixtures are items that are attached to the property, such as lights, bookcases, carpeting, or shrubbery. Personal property is any item that is not attached to the property, such as appliances, garbage cans, or furniture. Generally, if something is attached to the property, it is assumed to be sold with the property unless otherwise stated by the seller. It is in your best interest to clearly indicate what fixtures and personal property you intend to include in the purchase price. A seller can never say too little in this section. A seller should review it to make sure that meaning is clear. Most disputes over contract meaning arise from an inadequate identification of the fixtures and personal property included in the purchase price. Err on the side of caution and include everything that is intended to be purchased. Since the buyer originates the offer, you may have to change it via counteroffer.

Financing-A section which discusses the buyer's intended method of paying for your home. Typically it discusses the rate and terms of a conventional mortgage and/or a second mortgage and the amount of the down payment. If the buyer intends to finance the purchase with an FHA or VA loan, this is stated as well. If the buyer intends to assume the existing loan, this would be





described in the financing section. If seller financing will be provided, this will be discussed. Any other financing items germane to the purchase are also discussed.

Conventional mortgage financing generally has no impact on the seller unless s/he will be paying points. However, FHA/VA loans may require a seller to transfer the house in good condition, meaning that whatever repairs an FHA/VA inspector requires must be made by the seller before the closing can take place. FHA loans may indicate a need for some seller involvement in financing as well, such as payment of points or closing costs. However, this is not a requirement of all FHA/VA loans.

If a buyer has either prequalified for a loan or been preapproved, it might be stated in the contract. All other things being equal, a buyer who has already been approved for a loan might be a stronger candidate for purchase than one who has not. A preapproved buyer might be able to close on a house quicker than one who must obtain financing.

Probably the best offer is an all-cash offer. These are less common, but they do exist. The buyer borrows no money and pays for the home with any funds available. A pre-approved loan is ostensibly an all-cash offer as there is no question that the buyer has the money to purchase the house. If you receive an all-cash offer, you should be flattered. You are allowed to be skeptical of such an offer without adequate proof of the existence or location of the cash to be used.

As a seller, you should judge an offer not only by its purchase price, but also its financing. Typically, everything else being equal, you might prefer the offer with the financing vehicle requiring the least involvement from you. An all cash sale is probably most desirable, however, these are rare. You should review the financing terms to determine whether they are realistic and how much work they require of you. Based upon discussion with either your agent or the buyers, you should have a general idea as to whether a buyer will be able to obtain the financing listed in the offer. You might be willing to accept a slightly smaller offer that is realistic rather than a higher offer that appears more risky.

Escrow-Escrow lists the expected closing date in legal terms, how possession (keys) is to be transferred, and the condition in which the seller must leave the house for the buyer. The day the buyer takes possession is also listed. It may or may not be the same as the closing day.

Information in this document is deemed reliable but is not guaranteed.

This document copyright 1999-2002 by hometoday.com and may not be reproduced or retransmitted for commercial purposes without the express written permission of the authors.

