Earnest Money, Due Diligence, Down Payment

What is a Earnest Money Deposit?

Earnest Money Deposit "EMD" is the money that a buyer will put down in order to show good faith to the seller that they are serious about buying their property. The amount of earnest money is typically 1% of the sales price but is negotiated at the time of offer. It is not required by NC Law to put down earnest money. Earnest money is held until closing or termination of contract in an escrow account typically by the buyer's closing attorney. When closing takes place, the earnest money is credited toward the buyers closing expenses. If the contract is terminated due to breach in contract by the buyer, the earnest money may be forfeited to the seller. If the contract is terminated and the buyer did not breach the contract, then the earnest money will be returned back to the buyer.

What is a Due Diligence Fee?

Due Diligence Fee "DD" is another negotiated fee a buyer may pay for a negotiated period of time called the "Due Diligence Period." Just like EMD, it is also not required by NC Law, however, most sellers will require to be compensated for the time their property is taken off of the market. During this period of time, the buyer may complete inspections, get a survey, complete the appraisal, obtain loan approval, etc… Overall this time frame will help the buyer determine if they are going to proceed toward closing. This fee is negotiated at the time of offer & is paid directly to the seller. Unless the seller decides not to move forward with the sale, the DD Fee is NONREFUNDABLE. When closing takes place, the DD is credited toward the buyers closing expenses. The buyer has the right to terminate the offer with in the Due Diligence period, for any reason or no reason. If the buyer wants the seller to make repairs based on their inspections, the buyer should negotiate any issues and prepare a written agreement before the expiration of the due diligence period.

What is a Down Payment?

Down payment is a payment that the buyer will put down towards the purchase of their home. The down payment is sometimes a requirement from the buyer's lender or the buyer may choose to put a down payment down in order to save money on interest or the amount of money they are wanting to borrow. Some loans have minimum requirements such as a FHA Loan requires 3.5% down, where as a VA Loan is 0% down. The buyer may of course choose to put more than the required amount down at the time of closing. If you put 20% down of the home's appraisal value, then the buyer is not required to pay Private Mortgage Insurance "PMI." PMI is fee that is automatically included in the monthly payment along with escrow, principal, and interest. Also, don't confuse the down payment with closing costs.

For more information regarding EMD & DD visit:
http://www.ncrec.gov/Brochures/EarnestMoney.pdf

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