# THE PURPOSE OF EARNEST MONEY

**A Definition of Earnest Money**: A deposit of funds by the purchaser of a piece of real estate as evidence of "good faith."

VA buyers are often told that, because they can finance 100% of their purchase with a VA loan, that they will not need any money to make their purchase. This is not true.

Sellers expect an earnest money check to accompany an offer, even if it is only $500.00. And, VA buyers funding 100% of their purchase should be prepared to write an earnest money check to accompany their written offer.

Earnest money is important because it is seen by the Seller as the Buyer's "skin in the game." It is a signal from the Buyer that they are making a serious offer, and that they intend to commit to the process of buying the property.

By accepting the Buyer's offer, a Seller also accepts the risk that the Buyer may not be able to complete the purchase. As a result, the Seller loses market time and momentum and another potential Buyer who might be better qualified. These risk factors are the Seller's "skin in the game." Therefore, the Seller expects the Buyer to risk a little something – hence the earnest money check.

A Buyer's earnest money is set aside during the purchase process (usually held in trust with the Buyer's Brokerage or at the Title Company) and is protected contractually by all of the contingencies of an offer. The usual contingencies include but are not limited to:

- Inspection contingency
- Finance contingency
- Appraisal of not less than the purchase price

If any one of these contingencies cannot be removed during the transaction, the buyer can have the earnest money returned at their option.

*In the event of default by the Buyer* after the removal of all of these contingencies and any others agreed to by the buyer and seller, the earnest money will more than likely be forfeit.