Offer to Purchase Important Terms

Contingency – A clause in the purchase contract that describes certain conditions that must be met and agreed upon by both buyer and seller before the contract is binding.

Common contingencies are:

- Financing/Mortgage: This gives the buyer time to apply for and obtain financing for the purchase of the property. This provides important protection for the buyer, who can back out of the contract and reclaim his or her earnest money in the event he or she is unable to secure financing from a bank, mortgage broker or another type of private lending. A financial contingency will state a specified number of days that the buyer has to obtain financing. The buyer has until this date to terminate the contract (or request an extension that must be agreed to in writing by the seller); otherwise, the buyer automatically waives the contingency and becomes obligated to purchase the property – even if a loan is not secured.

- Home Inspection: This gives the buyer the right to have the home inspected within a specified time period, such as 5-7 days. It protects the buyer, who can cancel the contract or negotiate repairs based on the findings of a professional home inspector. An inspector examines the property's interior and exterior, including the condition of electrical, finish, plumbing, structural and ventilation elements. The inspector furnishes a report to the buyer detailing any issues discovered during the inspection. Depending on the exact terms of the inspection contingency, the buyer can:

    - Approve the report, and the deal moves forward

    - Disapprove the report and back out of the deal (and have earnest money returned)

    - Request time for further inspections if something needs a second look

    - Request repairs or concession (if the seller agrees, the deal moves forward; if the seller refuses, the buyer can back out of the deal and have his or her earnest money returned)

- House Sale Contingency: This gives buyers a specified amount of time to sell and settle their existing homes in order to finance the new one. This type of contingency protects buyers because, if an existing home doesn't sell for at least the asking price, the buyer can back out of the contract without legal consequences. House sale contingencies can be difficult on the seller, who may be forced to pass up another offer while waiting for the outcome of the contingency. The seller retains the right to cancel the contract if the buyer's home is not sold within the specified number of days.

Counter-offer – An offer, made in response to a previous offer, that rejects all or part of it while enabling negotiations to continue towards a mutually-acceptable sales contract.

Earnest Money – A deposit given by the buyer to bind a purchase offer and which is held in escrow. If the property sale is closed, the deposit is applied to the purchase price. If the buyer does not fulfill all contract obligations, the deposit may be forfeited.

Escrow – Funds held by a neutral third party (the escrow agent) until certain conditions of a contract are met and the funds can be paid out.

Pre-Approval Letter – A letter from a mortgage lender indicating that a buyer qualifies for a mortgage of a specific amount. It also shows a home seller that you're a serious buyer.

Purchase Offer – A detailed, written document which makes an offer to purchase a property, and which may be amended several times in the process of negotiations. When signed by all parties involved in the sale, the purchase offer becomes a legally-binding sales agreement.*