

# The Earnest Money Deposit

**By Thomas Ervin**

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Certain misunderstandings exist regarding the purpose and proper handling of an earnest money deposit given by the buyer in a real estate transaction. In fact, disputes over forfeiture of a deposit are quite common. So, to avoid problems in a future real estate purchase, let's look at the role that the deposit plays in buying real estate.

**DEFINITION:** The earnest money deposit is a sum of money paid by the buyer at the time of submitting an offer to purchase real estate.

**PURPOSE:** The purpose of the deposit is to show "good faith" by the buyer that he or she intends to follow through with the terms of the sales agreement. If the buyer does not live up to the agreement, the deposit shall be forfeited to the seller as payment for any damages suffered by the seller as a result of the sale not being completed as planned.

**AMOUNT:** The amount of the deposit varies in different areas depending upon local custom or the specific needs of a particular transaction. The size of the deposit will have an effect on the desirability of the offer. Many buyers have won properties away from competing offers only because they gave a larger deposit than others being considered by the seller. If you really want a piece of property, make your deposit large enough to help your offer win acceptance.

**ADVICE:** Always buy through a Realtor so you may have the assistance of a professional when making an offer on your next home.

