

If you're in the middle your home search, you have probably already considered the important financial commitment you're about to make. In addition to a downpayment, there are other costs associated with the homebuying process, such as applying for and securing a loan, hiring an inspector and getting title insurance. One more important check you'll have to write covers earnest money.

## What is earnest money?

Essentially a deposit, earnest money refers to "good faith" funds submitted with an offer to purchase real estate.

When you've decided you want to purchase a home and are ready to come up with the offer, one thing you'll have to decide is how much earnest money to offer the seller. Choosing an appropriate amount demonstrates that you're a serious buyer who is interested in the property and ready and willing to purchase the home.

## How much should a buyer put down?

Your financial situation, what's happening in your local housing market and how likely it is that your offer will be competing with others all factor into your decision.

If you really want the house, a large earnest-money deposit may be one way to get your offer to stand out over otherwise comparable offers. And if your dream house is located in a hot neighborhood during a strong seller's market, a big earnest-money deposit might be necessary to keep you in the running.

Keep in mind that you increase your risk as you increase the amount of earnest money you offer. If the deal goes south after the expiration of the option period (a period during which you can get out of the contract for any reason) and the transaction unravels because you didn't meet the obligations set out in the contract, you may lose the earnest money. You should consider such a scenario when deciding the amount.

The most important thing to do is to communicate with your REALTOR®, who will discuss specific details to help you make an informed decision about the amount of earnest money to include with your offer.

## Who holds the earnest money?

Once you've written a check for the earnest money it usually goes to an escrow agent who holds it until the transaction closes. The escrow agent is an impartial third party, such as a title company. If the deal goes through, the earnest money is typically applied to your closing costs.

If the transaction doesn't close and the parties can't agree on who is entitled to the earnest money, things can get messy, sometimes even ending up in court. That's one important reason to work with a REALTOR® and other professionals who understand the process and can help you make good decisions.

In the end, your earnest-money deposit is essential to the homebuying process. It shows the seller you're serious, and it's one of the first steps that will take you down the path to homeownership.