



Home-Buying Process

Components

Home-Buying Process: Components

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The Sales Contract

When you have decided on a house, the next step is to make an offer to purchase. This is the first and most important document you will sign in the buying process. The offer will state the terms under which you will buy the house and, if the seller accepts it, will commit you to the purchase.

Components

Real estate professionals often use a standard form as the sales contract offer to purchase. This form may be titled “Purchase Agreement” or another related phrase. You have the ability to amend the sales contract to include or exclude necessary provisions before signing it. However, the seller must accept the terms of the contract for it to be binding. The only binding terms are those written in the contract. Verbal assurances are not enforceable and nearly impossible to prove. Never hesitate to negotiate terms of the contract you feel are necessary for your protection. Your real estate professional can help negotiate the contract.

Items to consider in the offer to purchase contract:

Purchase Price – The offer can be affected by:

- The assessed value of the house. The appraisal value can be obtained at the county assessor’s office.
- Length of time house has been on the market.
- Length of time other houses in the neighborhood have been on the market. Ask

about a comparable house in the area that is on the market or has recently sold.

- The asking price may not be the final price – there may be room for negotiation.
- Is it a buyer’s market or a seller’s market? Buyer’s Market – Many houses on the market that are not selling. Seller’s Market – Very few houses on the market and numerous buyers.
- Reasons the sellers have for moving or selling the house.

Contingency Clauses - Contingency clauses are clauses in the purchase contract that describe certain conditions that must be met before the contract is binding. The buyer and/or seller may include contingencies in the contract for legal purposes, but both parties must accept the contingencies. Contingency clauses to consider are:

- **Subject-to-financing clause** – allows the potential homebuyer to make an offer on the property contingent upon securing appropriate financing.
- **Subject-to-inspection clause** – allows the potential homebuyer to modify the offer contingent upon the results of the professional home inspections.
- **House sale contingency clause** – allows the potential homebuyer to sell their present house to finance a new one.
- **Insurance contingency clause** – allows the potential homebuyer to buy a home contingent

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upon the availability of reasonable home insurance for the home.

Other Considerations

- Date of contract.
- The total price at which you agree to purchase the property and the means of payment.
- An adequate legal description of the real property. The street address alone may not be sufficient. A survey of the property may be necessary.
- A separate list of the personal property to be included in the purchase contract. If you expect the kitchen appliances, furniture, chandeliers, etc. (if not built-in), to be included in the deal, state each appliance specifically in the contract. Otherwise, only items that are a part of the house such as walls, floors and permanent fixtures will be included. Removable items such as curtains, draperies or rugs may be negotiable.
- Amount of earnest money (deposit) you will make. The contract also should include a provision for the return or forfeiture of the deposit, should the seller or buyer cancel the deal at any time.
- Number of days you will have to arrange financing after the seller accepts your offer.
- Date you are to take possession (or occupancy) of the property.
- Provision for title searches and inspections and who is to pay the fee for inspections.
- Guarantee that you will receive a marketable title to the property, an abstract of title and certificate of title or a policy of title insurance.
- Provision that the seller provides the title free and clear of all liens and encumbrances except those that you specifically approve.
- List of all easements.
- List of all title restrictions, limitations, homeowners association regulations or other

warranties to which the property is subject.

Otherwise, you may find (after you purchase the house) that you are restricted in the use of the property or that others have an enforceable claim for some use of the property.

- An agreement as to how taxes, water and sewer charges, premiums on transferable insurance policies, utility bills, interest on mortgages and rent (if there are tenants) are to be divided (prorated) between buyer and seller on the date of the settlement.
- Time limit for the seller to accept or reject the offer to purchase.
- Any other items essential to you in the purchase of the house.
- Signatures of all parties to the transaction.

You are free to negotiate all items of the contract and unless you do so, you may forego many beneficial options. If any of the terms are unacceptable to you, do not sign. Once you sign and accept a contract in writing, the seller can legally require you to purchase on the terms stated in the offer.

When you sign your offer to purchase, you will put down a deposit of earnest money to indicate the sincerity of your offer and your wish to purchase the property. You can offer any amount, but the seller can ask for a larger deposit.

Earnest money is applied toward the purchase price if your offer is accepted and the sale is completed. If the seller agrees to the terms of your offer but you decide not to purchase the property, you will lose the deposit and possibly have to pay additional fees for damages.

If the seller breaks off the deal or if you cannot arrange financing within the period stated in the contract or if the deal cannot be completed because of other reasons beyond your control, the deposit is returned to you. Conditions under which the deposit will be returned must be stated specifically.

This resource is one in a series on the Home-Buying Process which include:

Financial Readiness

What Creditors Look For
Finding Mortgage Money
Types of Financial Institutions
Mortgage Options
Down Payment and Closing Costs
Pre-Qualification or Pre-Approval

Factors to Consider in Housing Selection

Personal Needs and Wants
Location
Type and Style of House
Type of Construction
Interior and Exterior Space
Special Needs
Building as an Option

Locating a House

Finding the House
Using Real Estate Professionals
Buying Direct From Owner

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Acceptance

Home Inspections

Reasons for Home Inspections
Locating an Inspector
What Inspections Include
Limits of Liability

The Mortgage Process

Loan Application Process
Approval or Rejection
The Mortgage Payment

Purchasing Homeowners Insurance

Before You Start Looking for a Home
Stability of the Insurance Company
Costs and Coverage
Customer Service

Warranties

The Closing

Preparation for Closing
Final Walk Through
Closing Day Procedures

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