



Educator Guide

The Sales Contract: Sales Contract

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Objectives for this Lesson:

- Explain How to Determine a Reasonable Purchase Price
- Identify Components of the Sales Contract
- Discuss Items to Consider Before Signing a Sales Contract

Resources for this Lesson:

- Educator Guide: *Home Buying Process: Sales Contracts*
- PowerPoint Presentation: *Home Buying Process: Sales Contracts*
- Content Guide: *Home Buying Process PDF*
- Work Sheets:
 - *Purchase Contract Sample*

Client Packets Should Include:

- PowerPoint Presentation Handout (3 slides per page): *Home Buying Process: Sales Contracts*
- *Purchase Contract Sample*

Key Points**For Educator: What to Say****For Learner:**

<p>Slide #1: Home Buying Process: Sales Contracts</p>	<p>Introduce yourself.</p>	<p>Participant Introductions.</p>
<p>Slide #2: Objectives:</p> <ul style="list-style-type: none"> • Explain How to Determine a Reasonable Purchase Price • Identify Components of the Sales Contract • Discuss Items to Consider Before Signing a Contract 	<p>Explain: By the end of this session, you will be able to explain how to determine a reasonable purchase price for property, identify components of the sales contract and understand the items you should consider before signing a sales contract.</p> <p>The first and most important document you will sign in the home buying process is the sales contract.</p>	
<p>Slide #3: The Sales Contract Also called “Offer to Purchase” or “Purchase Agreement”</p> <ul style="list-style-type: none"> • Contract CAN be amended before signing. • DO NOT hesitate to negotiate terms. • Terms of the contract MUST be accepted by the seller in writing. • DO NOT rely on verbal assurances. 	<p>Explain: When you decide which house you would like to buy, a real estate professional will offer you a standard form of a sales contract. This form also may be titled “Offer to Purchase” or “Purchase Agreement.”</p> <p>You have full power to amend the contract as you deem necessary before signing it. You should not hesitate to negotiate terms you feel are needed.</p> <p>However, the seller must accept the terms of the contract in writing. Verbal assurances are not enforceable and nearly impossible to prove.</p> <p>Question: <i>What might you assume would be included in the sales contract?</i></p> <p>Instructor Note: Create a list of ideas on the board.</p>	<p>Discussion point: Participants will share their ideas as instructor writes them on the board.</p>

Key Points

For Educator: What to Say

For Learner:

<p>Slide #4: The Sales Contract Components</p> <ul style="list-style-type: none">▪ Purchase Price▪ Contingency Clauses▪ Typical Components	<p>Transition Statement: This is a great list to start with. Everything mentioned probably falls into one of these three categories on the Sales Contract.</p> <p>Explain: Sales contract components are, most importantly, the purchase price; second, the contingency clauses; and, finally, typical components on many legal documents.</p> <p>Transition Statement: Let's start by discussing the purchase price component of a sales contract.</p>	
<p>Slide #5: The Sales Contract Purchase Price</p> <ul style="list-style-type: none">▪ What is the assessed value of the property? (County Assessor's Office)▪ What length of time has the house been on the market?▪ What length of time have other houses in the area been on the market? <p><i>(Slide #5 Continued on Next Page)</i></p>	<p>Explain: It is important to ask questions and do your research before you decide on the amount you are willing to offer for a house.</p> <p>First, contact the County Assessor's Office and find out at what value the house has been assessed for property tax purposes.</p> <p>You also should consider how long the house has been on the market. If the seller has been trying to sell it for a long time, he might accept a lower offer. There may be a reason the house has not sold (structural problems, over-priced, etc.).</p> <p>Consider the length of time other houses in the neighborhood have been on the market. Ask the realtor for comparable houses in the area that recently have sold or are on the market. Compare the houses and their sales or asking prices.</p>	

Key Points

For Educator: What to Say

For Learner:

<p><i>(Slide #5 Continued)</i></p> <ul style="list-style-type: none">▪ Is negotiation possible? ▪ Is it a Buyer's Market or Seller's Market? ▪ Why is the house being sold?	<p>Also consider that the asking price is often not the final price. There is often room for negotiation.</p> <p>Depending on the market, you may be able to negotiate your offer. If it is a buyer's market, there are many houses on the market that are not selling, often allowing you to offer less than the asking price. If there are very few houses on the market and numerous buyers, then it is a seller's market, and there may be less room for negotiation.</p> <p>Finally, when considering your purchase price offer, find out what reasons the seller has for moving or selling the house. He may be moving because he does not like the neighborhood or has had problems with the house.</p>	
<p>Slide #6: The Sales Contract Contingency Clauses</p> <ul style="list-style-type: none">• 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.• Both must accept in writing these clauses.	<p>Transition Statement: Another important component of the sales contract is the contingency clause.</p> <p>Explain: A contingency clause in the purchase contract describes 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 must accept in writing these clauses.</p> <p>Question: <i>What might be an example of a contingency clause in a sales contract?</i></p>	<p>Discussion: Participants offer examples of contingency clauses in sales contracts.</p>

Key Points

For Educator: What to Say

For Learner:

Slide #7:

The Sales Contract

Contingency Clause Examples

Subject-to-Financing Clause

- Allows the potential homebuyer to make an offer on the property contingent on securing appropriate financing.

Subject-to-Inspection Clause

- Allows the potential homebuyer to modify or withdraw the offer contingent upon the results of professional home inspections.

House Sale Clause

- Allows a potential homebuyer to sell his/her present house to finance a new one.

Explain: One example is a subject-to-financing clause that allows the potential homebuyer to make an offer on the property contingent on securing appropriate financing. If the buyer cannot obtain financing, the offer is disregarded.

Another is subject-to-inspection clause that allows the potential homebuyer to modify or withdraw the offer contingent upon the results of professional home inspections.

A house sale contingency clause allows a potential homebuyer to sell his present house to finance a new one. Again, the offer is disregarded if the buyer's existing house is not sold.

Activity: Distribute the purchase contract samples.

Question: *Let's see if we can find the contingency clause section in this purchase contract.*

Instructor Note: Provide plenty of time for participants to look through the contract. This sample is long and the contingency clauses are at the end of the contract.

Activity: Participants will view the *Purchase Contract* and look for the contingency clause section.

Key Points

For Educator: What to Say

For Learner:

Slide #7: The Sales Contract

24. COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which is deemed to be an original, and all of which will together constitute one and the same instrument.

25. GOVERNING LAW. This Agreement will be interpreted in accordance with the laws of the State of New Mexico.

26. ENTIRE AGREEMENT. The parties understand that this offer, if accepted in writing by Seller and delivered to Buyer, constitutes a legally binding contract. This Agreement together with the following addenda and any exhibits referred to in this Agreement contains the entire agreement of the parties and supersedes all prior agreements or representations with respect to the Property which are not expressly set forth herein. This Agreement may be modified or canceled only by a writing signed and dated by both parties.

<input type="checkbox"/> Buyer's Sale Contingency	<input type="checkbox"/> Lead Based Paint Addendum to Purchase Agreement
<input type="checkbox"/> (Right of First Refusal) Addendum	
<input type="checkbox"/> Miscellaneous Addendum	<input type="checkbox"/> Occupancy Agreement - Buyer/Seller
<input type="checkbox"/> Real Estate Contract Addendum	<input type="checkbox"/> Residential Resale-Condominiums Addendum
<input type="checkbox"/> Other _____	

27. EXPIRATION OF OFFER. This offer will expire unless acceptance is delivered in writing to Buyer or Buyer's Broker on or before _____ at _____ am/pm Mountain Time. If not accepted, this offer can be withdrawn at any time before the expiration date.

RANM Form 2104 Page 8 of 9 ©2014 REALTORS® Association of New Mexico Initials: Buyer _____ Seller _____

Explain: The contingency clauses are located on page 8 of the contract, listed under #26. You will notice there are other clauses that we did not discuss, and there is a place for additional clauses, if needed.

As you were looking through this contract, you may have realized this sample is very long and detailed. As you learn more about the sales contract, you will find this sample easier to understand.

It is important to point out that this is a sample used by the Realtors Association and is not a standard form for all purchase agreements. The forms will vary, but all will include the same information.

As we review this contract, you may find that there are unfamiliar fees and costs listed. In the next three lessons, we will be discussing the fees and costs associated with purchasing a house. For this lesson, we want to familiarize you with the major items listed in a sales contract.

Question: *In addition to the contingency clauses, we have already discussed one other item listed in this contract. Can anyone find the sales price?*

Participant response.
Allow a volunteer to explain where the sales price can be found.
Page 1, #2

Key Points

For Educator: What to Say

For Learner:

Slide #7:

The Sales Contract

The Sales Contract

REALTORS® ASSOCIATION OF NEW MEXICO
PURCHASE AGREEMENT - RESIDENTIAL RESALE

1. PARTIES. _____ ("Buyer")
agrees to buy from Seller and _____
("Seller") agrees to sell and convey to Buyer the Property described in Paragraph 4.

2. PURCHASE PRICE. \$ _____

A. APPROXIMATE CASH DOWN PAYMENT AT CLOSING \$ _____
(including the Earnest Money referred to in paragraph 3)

B. AMOUNT OF THE LOAN(S) described in Paragraph 6 below. \$ _____

3. EARNEST MONEY. Buyer will deliver \$ _____ Earnest Money in the form of
check , cash , note , dated _____, to be escrowed upon mutual acceptance
of this Agreement by Buyer and Seller with _____, in accordance
with New Mexico law. Earnest Money will be applied to Purchase Price and/or closing costs upon Closing.

Transition Statement: These two components (purchase price and contingency clauses) are most important in the sales contract; however, there are several other things included on this form.

Question: *What other components do you notice on this Purchase Contract in addition to the purchase price and contingency clauses?*

Instructor Note: Use the notes provided on the following slides to discuss the contract components.

Discussion: Students share different components of the contract. Allow the students to explain these items, if they are knowledgeable about them.

Key Points

For Educator: What to Say

For Learner:

Slide #8:

The Sales Contract

Also includes:

- Buyer and Seller Names (#1)
- Purchase Price (#2)
- Earnest Money (#3)
- Description of Property (#4)
 - May require a survey
- Closing Information (#5)
 - Separate List of Personal Property Included in Contract – kitchen appliances, furniture, curtains, rugs, chandeliers, etc.
- Date of Possession (#5)

Explain: The sales contract includes a large amount of information. We will not discuss everything in the contract, but there are some important things to point out.

Beginning on page 1 you will find:

- The names of the buyer and seller (#1)
- The purchase price with approximate down payment and loan amounts (#2)
- The amount of earnest money agreed upon (#3)
- The legal description of the property (#4)
 - The street address alone may be not sufficient. A survey of the property may be necessary.
- The closing information, including the date and location (#5).
 - A separate list of the personal property to be included in the purchase contract also may be attached. (Not included in sample)
 - If you expect the kitchen appliances, furniture, chandeliers, etc. (if not built-in), to be included in the deal, state each appliance specifically in an additional attachment that is a part of the contract statement. Otherwise, you could be held to only those items constituting the house itself—walls, floor, roof and permanent fixtures. The same is true of any curtains, draperies, rugs, etc. Such removable items may be negotiable with the seller.
- The day the buyer will take possession of the house. (Also included in #5).

Slide #9:

Key Points

For Educator: What to Say

For Learner:

The Sales Contract

Also includes:

- Financing Conditions (#6)
- Costs to be Paid (#7)
 - Inspections, Survey, Closing Fees, Recording Fees, Etc.
- Examination of Title, Liens and Deeds (#10)
- Documents the Seller will Provide (#11A)
- Inspections Reports (#11B)
- Survey Report (#11C)
- Buyer's Objections (#11D)

Instructor Note: Additional information about the fees and costs listed in the contract can be found in the Home-Buying Process Content Guide.

Explain: The sales contract also includes:

- The buyer's obligation to financing the house and the number of days allowed to arrange financing after the seller accepts the offer. (#6)
- A list of items the buyer and seller agree to pay. The table in #7 lists several fees and charges that are included in buying or selling a house. Examples include inspection costs, survey costs, closing fees and recording fees for both parties. (#7)
- 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. (#10)
- Provision that the seller provides the title free and clear of all liens except those that you specifically approve. A lien is a legal claim on the property as security for a debt. (#10)
- A list of documents the seller will provide to the buyer and deadlines for providing them. (#11A)
- A list of inspections that will be done on the property, and who agrees to pay for the inspections. There is usually an agreed upon deadline by which the inspections must be completed. (#11B)
- A survey report indicating a deadline and who will pay the cost. (#11C)
- The contract also provides a deadline by which the buyer must submit reasonable objections to the seller if the report conditions are unsatisfactory.

Key Points**For Educator: What to Say****For Learner:****Slide #10:****The Sales Contract**

Also includes:

- Seller's Responsibility to Pay for Repairs (#11F)
- Refund of Earnest Money (#11H)
- Home Warranty (#12)
- Disclaimers (#13)
- Maintenance (#14)
- Pre-Closing Inspection (#15)
- Expiration of Offer (#27)
- Signatures (Page 9)

Explain:

- On page 6 you also will find sections that address the seller's responsibility to pay for house repairs needed up to a certain dollar amount (#11F), as well as the refund of earnest money (#11H).
- There is a section in the contract in which the buyer may list the provider of the home warranty. (#12)
- Disclaimers to the contract are listed on page 7. (#13)
- The maintenance section explains that the property must be maintained in the same condition as when the purchase agreement was signed. (#14)
- The buyer has the right to inspect the house within two days of closing as stated in the contract. (#15)
- There is also a time limit agreed upon by which the seller must accept or reject the offer to purchase. This section is referred to as the expiration of offer. (#27)
- Signatures of all parties to the transaction will go on page 9.

Key Points

For Educator: What to Say

For Learner:

Slide #10:

The Sales Contract

Also includes:

- An agreement as to how expenses are to be divided between the buyer and seller on the date of the settlement.
- List of all title restrictions, limitations, homeowner association regulations or warranties to which the property is subject.
- Other items essential to you in the purchase of the house.

Explain: We did not cover all the sections in the contract, but this does provide an explanation of what you can expect to see on your contract as a home buyer. Three other things you might find in a contract that were not included in this sample are:

- 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.
- List of all title restrictions, limitations, homeowner association regulations or 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.
- Any other items that are essential to you in the purchase of the house.

Explain: There is certainly a lot of important information in the sales contract, making it one of the most important documents you will sign in the home buying process.

Question: *Before we talk about signing the contract, are there any questions about the components of this form?*

Participant questions.

Key Points**For Educator: What to Say****For Learner:****Slide #11:****Signing the Sales Contract**

- DO NOT sign if any items are unacceptable to you.
- Consider all items of the contract negotiable.
- Once you sign a contract, you are legally required to purchase the property.

Explain: Before you sign a contract, consider each of these points:

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

Slide #12:**Deposit of Earnest Money**

- Indicates sincerity in your offer and your wish to purchase the property.
- Buyer can offer any amount, but seller may request a larger deposit.
- Amount is applied toward the purchase price if the sale is completed.

Explain: 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 may ask for a larger deposit.

Earnest money is applied toward the purchase price if your offer is accepted and the sale is completed.

Key Points**For Educator: What to Say****For Learner:****Slide #13:****After Signing the Sales Contract**

IF buyer decides not to purchase the property:

- Buyer loses the earnest money and possibly has to pay additional fees for damages.

IF buyer can not arrange financing within the period stated:

- The deposit is returned to the buyer.

IF seller decides not to sell the property:

- The deposit is returned to the buyer.

Conditions under which the deposit will be returned must be stated specifically in the contract.

Explain: 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 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 will be returned to you.

Also, if the seller breaks off the deal the deposit will be returned to you.

However, as the buyer you should make sure the conditions under which the deposit will be returned are specifically stated in the sales contract.

Transition Statement:

The last step in the sales contract process is the signature from the seller.

Key Points**For Educator: What to Say****For Learner:****Slide #14:****The Seller's Signature**

- Seller is not obligated to accept the offer.
- Seller can make additional changes.
- Buyer can accept, reject or make another counter offer if changes are made.
- Once the seller signs, it becomes a binding contract.
- Contact the seller immediately if you decide to withdraw your offer. Do not expect your earnest money to be returned.

Explain: Just because the seller receives your offer, he/she is not obligated to accept it. The seller will accept what he/she considers to be the best offer.

If any part of your offer is unacceptable to the seller, he/she can make changes that constitute a counter offer. You may accept, reject or make another counter offer.

However, once the seller accepts and signs the offer to purchase, it becomes a binding contract between you and the seller.

If you decide to withdraw your offer, contact the seller or broker immediately and put the revocation (withdraw) in writing. Even if the seller has not yet signed the contract, you may not get back your earnest money.

Slide #31:**Summary**

- Explained How to Determine a Reasonable Purchase Price
- Identified Components of the Sales Contract
- Discussed Items to Consider Before Signing a Sales Contract

Lesson Summary:

Congratulations! You have completed "Sales Contracts" in this Home Buying Process series of classes.

Today we have explained how to determine a reasonable purchase price, identified components of the sales contract and discussed items to consider before signing a sales contract.

Question: *Are there any questions?*

Participant questions.

Key Points

For Educator: What to Say

For Learner: