Understanding Contingencies that Protect Your Investment as a Buyer

Buying a home in California is a significant investment, and contingencies play a vital role in protecting buyers. This document provides an overview of common contingencies buyers should understand before making a purchase, ensuring a smoother and more secure transaction.

Home Inspection Contingency

A home inspection contingency gives buyers time to conduct thorough inspections and assess the condition of the property. This typically includes a general home inspection, a termite inspection, and potentially other specialized assessments based on the property's age, condition, or location.

If significant issues are discovered, buyers have leverage to negotiate repairs with the seller, request credits for repairs, or even cancel the contract if an agreement can't be reached. This contingency ensures buyers are well-informed and protected before committing to the purchase.

Appraisal Contingency

When a buyer is obtaining financing, the lender will require an appraisal to determine the fair market value of the property. This appraisal is crucial for ensuring the loan amount is appropriate and aligns with the home's actual value.

If the appraisal comes in lower than the agreed-upon purchase price, the buyer has the right to renegotiate with the seller to reach a mutually acceptable price. If no agreement is reached, the buyer can withdraw from the deal without penalty, protecting them from overpaying for the property.

Financing Contingency

A financing contingency is vital for buyers who need a mortgage to purchase the home. It provides a safeguard if the buyer is unable to secure financing within the agreed timeframe, which is typically 17-21 days in California.

If the buyer is unable to obtain financing within the specified period, they can cancel the contract and recover their earnest money deposit. This protects buyers from being financially obligated to purchase the home if they cannot obtain the necessary financing.

Home Sale Contingency

This contingency is for buyers who need to sell their current home before purchasing a new one. It allows them to back out of the new purchase if their existing home doesn't sell within a specified period.

While this contingency is less common in highly competitive markets where buyers may face limited inventory, it can still be negotiated to provide a safety net for buyers who need to sell their current home before moving forward with a new purchase. This helps ensure a smooth transition and minimizes financial risks.

HOA/Condo Document Review Period

When purchasing a home within a homeowners' association (HOA) or a condominium, buyers have the right to review important governing documents, financial statements, and rules before making a decision.

California law typically provides a 3-5 day period for buyers to review these documents after receiving them. This allows buyers to understand the rules, responsibilities, and potential costs associated with living within an HOA or condominium community before committing to the purchase.

Conclusion

Contingency periods in California real estate contracts typically range from 7 to 21 days and are subject to negotiation between the buyer and seller. Once a contingency is satisfied, it is removed from the contract.

If the seller is unwilling to agree to requested changes or address concerns raised during the contingency period, the buyer has the option to proceed with the purchase, negotiate further, or withdraw from the deal without penalties. This ensures buyers have control and flexibility throughout the process.

Understanding these contingencies is crucial for buyers to make informed decisions, protect their investments, and navigate the California real estate market with confidence. Working with a knowledgeable real estate agent can provide invaluable guidance, support, and expertise throughout the entire homebuying journey.

Contact me to discuss how I can help you navigate the homebuying process.

Jania Robinson
Real Estate Professional
DRE 02208533

📞 +310-775-3008
✉️ jania.robinson@exprealty.com
📷 @therealtyrobinson

eXp REALTY   *Jania Robinson*

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