THE SALES CONTRACT
STUDY SHEET

Top Takeaways
You can expect to see 18 questions related to real estate practice on your licensing exam, according to the exam provider.

Here’s a summary of some of the content that was covered in this section.

Real Estate Sales Contract Provisions
- Parties to the agreement
- Property (generally includes street address and legal description)
- Fixtures and personal property
- Purchase price and earnest money
- Closing and possession
- Specific closing and settlement instructions
- Disclosures, including agency and seller disclosures
- Inspections
- Signatures and dates
- Transfer of existing warranties
- Home warranty information

Sales Contract Contingencies
- Contingencies are conditions that must be met before the agreement of sale is complete and enforceable.
- Contingencies must be removed prior to closing; usually, they must be removed in writing by certain dates.
- Common contingencies include the mortgage contingency, appraisal contingency, inspection contingency, sales contingency, and insurance contingency.

Earnest Money and Liquidated Damages
- The amount of the earnest money deposit is ultimately the buyer’s decision.
- The amount of earnest money depends on how much the buyer can afford, the market, the price range of the property, the type of financing involved, if any, and the seller’s preference.
- The earnest money, as liquidated damages, goes to the sellers if the buyers fail to hold up their end of the transaction.

Escrow
- Escrow accounts are most widely used in real estate transactions to hold the earnest money deposit.
- An escrow agent (usually a title company) holds the money until the buyer, seller, and their mortgage companies have all of their documents in order.
- When all terms of the agreement are satisfied, the escrow agent disburses the money held in escrow.
- When there’s a dispute about who gets the money in an escrow account, the escrow holder typically holds onto the money until the parties agree on a solution, or until the matter is resolved in a court of law.
- After closing, escrow refers to the money lenders collect to cover the cost of property taxes and mortgage insurance, and pay the bills for those items.
Offers and Counteroffers

- A purchase offer on a property is made by the would-be buyer. When a counteroffer is made, it negates the previous offer/counteroffer.

Performance, Assignment, and Novation

- Performance of a sales contract means that the two parties have met their terms under the contract—the buyer has paid the seller, and the seller has conveyed the title.

- An assignment of a contract means to transfer one of the original party’s rights under the contract to a new party.

- Novation substitutes the original party with a new party. This fully releases the original party from all liability for performance of the contract.

- Breach of contract occurs when one party fails to meet the obligations of the contract.

- When a breach occurs, the innocent party may accept the current situation, terminate, sue for specific performance, accept liquidated damages (earnest money), accept partial performance, or pursue damages. The contract may also be mutually rescinded.

- When a breach occurs, only the innocent party may unilaterally terminate the contract.