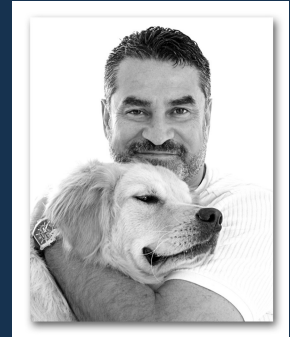


REAL ESTATE CONTINGENCIES

A simple guide to your safety protections,
deadlines, and the money that may be at risk.



REAL ESTATE DRE#01984162

LENDING NMLS#340656

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Think of a contingency as a safety shield.

It means: "I agree to buy this home, but only if certain important things happen first." When the buyer releases a contingency, that shield may be gone. This guide explains the decision in plain, elementary-school language.

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Important
California-focused general education. The
signed contract and the facts of the transaction
control.

1. What is a contingency?

Imagine agreeing to buy a bicycle only if your parents approve it, an expert says it is safe, and you have enough money. Buying a home works the same way. Contingencies give the buyer time to investigate important matters before becoming fully committed.

HOME INSPECTION "Is the home's condition acceptable to me?"	LOAN "Has my lender approved the financing required by the contract?"
APPRAISAL "Did the home receive an acceptable appraised value?"	DISCLOSURES "Have I reviewed the seller's and other required documents?"
TITLE / INSURANCE "Can ownership transfer properly, and can I obtain required insurance?"	SALE OF HOME "Did my current home sell, if my contract gives me that protection?"

Each contingency has a deadline. Before that date, the buyer should complete the investigation, ask questions, obtain professional advice when needed, and then decide what the contract allows.

The buyer may be able to:

1 Proceed	2 Negotiate	3 Cancel if permitted
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Missing a deadline is serious. Depending on the contract, the seller may deliver a notice requiring the buyer to perform and may later gain a right to cancel. A deadline passing does not always mean a contingency disappears automatically; the contract's exact wording controls.

2. Releasing a contingency

Releasing - also called removing - a contingency means the buyer is telling the seller:

“I finished checking this subject. I accept the result and am ready to move forward without this particular protection.”

Why timely removal matters

It shows that the buyer is completing the promised steps and keeps the transaction moving toward closing. But a buyer should never release simply because a date arrived or because someone is applying pressure.

Inspection	Have I reviewed the reports, costs, and property condition?
Loan	Has my lender confirmed my financing status and remaining conditions?
Appraisal	Do I accept the value and any cash difference I may have to cover?
Disclosures / title	Have I read the documents and resolved important questions?
Insurance	Can I obtain acceptable coverage at an acceptable cost?

What can happen after a protection is removed?

EVENT	POSSIBLE RESULT
Loan later fails	The buyer may no longer have a loan-contingency cancellation right.
New defect concern	A released inspection contingency may no longer protect cancellation over that issue.
Buyer does not close	The seller may claim buyer default and seek contractual remedies.
Deposit dispute	Escrow generally does not simply hand the money to one side; release may require joint written instructions or a legal determination.

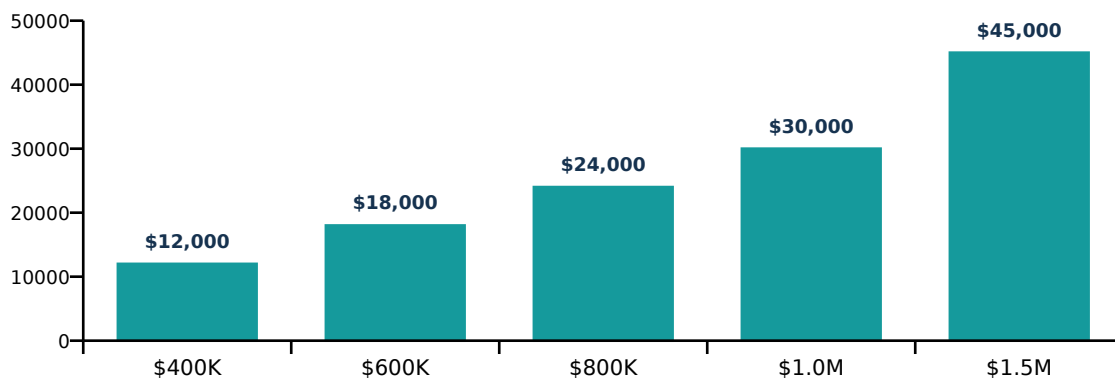
3. How much money could the buyer lose?

Short answer: potentially the earnest-money deposit actually paid, subject to the contract, California law, the type of property and occupancy, the reason for cancellation, and the parties' rights and remedies.

THE COMMON CALIFORNIA 3% RULE

For a property of one to four residential units that the buyer intends to occupy, an appropriately initialed liquidated-damages provision is generally valid for an amount actually paid that does not exceed 3% of the purchase price, unless the buyer proves the amount is unreasonable. This is not an automatic charge and not a universal rule for every sale.

Illustration: 3% of selected purchase prices



\$400,000	\$12,000	Up to \$12,000 may be at issue
\$600,000	\$18,000	Up to \$18,000 may be at issue
\$800,000	\$24,000	Up to \$24,000 may be at issue
\$1,000,000	\$30,000	Up to \$30,000 may be at issue
\$1,500,000	\$45,000	Up to \$45,000 may be at issue

Example: On a \$600,000 owner-occupied qualifying home, 3% is \$18,000. If the buyer actually deposited \$15,000, the amount “actually paid” is \$15,000 - not automatically \$18,000. Whether the seller is entitled to retain any amount depends on default, the initialed clause, the contract, and the facts.

4. “Maximum” does not always mean 3%

It is safest to say: the buyer could potentially lose all of the deposit actually paid, and in some transactions or disputes could face claims beyond that amount.

QUALIFYING OWNER-OCCUPIED 1-4 UNIT HOME	An amount actually paid up to 3% receives favorable treatment under Civil Code section 1675 when the liquidated-damages provision meets the legal requirements.
MORE THAN 3% PAID	The provision is not automatically enforceable above 3%. The party trying to enforce it must establish that the amount actually paid is reasonable. So 3% is not phrased in the statute as an absolute ceiling.
INVESTMENT / COMMERCIAL / OTHER PROPERTY	The special residential definition and 3% framework may not apply. The contract and other law must be reviewed.
NO VALID LIQUIDATED-DAMAGES CLAUSE	The seller may pursue other remedies allowed by the contract and law; the buyer’s exposure is not necessarily measured only by the deposit.
NO BUYER DEFAULT	A seller does not automatically earn the deposit merely because a transaction cancels. A valid contingency cancellation, seller breach, mutual cancellation, or other facts may lead to a different result.
ESCROW HOLDS THE MONEY	A dispute can delay the return. Escrow generally needs mutual written instructions or a binding legal resolution before disbursing disputed funds.

Other costs a failed transaction may create

DIRECT COSTS	DISPUTE / LIFE COSTS
Inspection and specialist fees	Attorney, mediation, or arbitration expenses
Appraisal and lender fees	Moving, storage, temporary housing, or rate-lock costs
Insurance, HOA, title, or document-review costs	Lost time and the loss of another purchase opportunity

NEVER RELEASE A CONTINGENCY JUST BECAUSE THE DEADLINE ARRIVED.

5. Buyer's before-release checklist

1	I understand exactly which contingency I am releasing.
2	I completed the related investigation and read the important documents.
3	I asked questions about anything I do not understand.
4	I understand what could happen if the loan, appraisal, property condition, insurance, or another issue changes later.
5	I know the amount of my earnest-money deposit and have calculated 3% of the purchase price for comparison.
6	I understand that my deposit could become disputed and may not be returned immediately.
7	I have not been promised that releasing a contingency is "just paperwork."
8	I received appropriate broker, lender, inspector, insurance, tax, or legal guidance for my situation.

The elementary-school version

Contingencies are your safety shields. Releasing one says, "I checked this and I will move ahead without this shield." If you later refuse or cannot complete the purchase, you may lose your deposit and may face other costs or claims. Check first. Understand the risk. Then sign.

Sources and legal note

California Civil Code §1675: Defines qualifying residential property and addresses liquidated damages, including amounts actually paid up to or above 3% of the purchase price. California Civil Code §1677: Requires the liquidated-damages provision to be separately signed or initialed and presented in the legally required format. California Department of Real Estate disciplinary decisions provide real-world examples of deposit losses and disputes.

Official sources: https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=CIV§ionNum=1675. | https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=CIV§ionNum=1677. | https://www2.dre.ca.gov/hearingfiles/H42575LA_230531_P.pdf

Educational disclaimer: This handout provides general California information and is not legal advice or a substitute for reviewing the signed contract. Rights, deadlines, remedies, and deposit exposure vary. Parties should consult their real estate broker and qualified California attorney when legal rights or a deposit dispute is involved.