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NC Due Diligence & Escrow Guide

What the due diligence fee buys you, how earnest money is protected, and how your mortgage escrow account works after closing.

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Most North Carolina home purchases use the standard **Offer to Purchase and Contract (Form 2-T)**, jointly adopted by the NC Bar Association and NC REALTORS®. It works differently from contracts in many other states: instead of a list of contingencies, NC buyers usually pay for a **due diligence period** — a window to investigate the home and walk away for any reason. Knowing how that window works, and where your money sits, helps protect you.

01 Two Payments, Two Jobs

The due diligence fee and the earnest money deposit are separate payments with very different rules.

	Due Diligence Fee	Earnest Money Deposit
What it buys	Your right to terminate for any reason (or no reason) during the due diligence period	Shows good faith; serves as the seller's remedy if the buyer breaches
Who receives it	Paid **directly to the seller** (or to a party the seller directs in writing)	Held by the **Escrow Agent** named in the contract, often the listing firm or an attorney

When it's due	On the Effective Date; under the 2026 form it must be delivered no later than the next banking day	Initial deposit within five days of the Effective Date; any additional deposit by the date written in the contract
Refundable?	Generally **no** — only if the seller materially breaches or as the contract otherwise provides	**Yes** if you properly terminate during the due diligence period
At closing	Credited to the buyer	Credited to the buyer
Required by law?	No — the amount (if any) is negotiated	No — the amount (if any) is negotiated

The basic trade-off

Buyers generally want the lowest fee for the longest period; sellers want the highest fee for the shortest period. Both are negotiable, and a contract is valid even if the fee is zero.

02 What the Due Diligence Period Is

The due diligence period runs from the Effective Date (when the last party signs and that acceptance is communicated) to the date written in the contract. During it, you may terminate by giving the seller **written notice** — and the contract says time is of the essence, so the deadline is firm. The seller stays bound the whole time.

> **No loan or appraisal contingency**
>
> Form 2-T states there is no loan or appraisal contingency. If financing or the appraisal falls through *after* due diligence ends, you may lose your earnest money. Talk with your lender **before** you sign so the period is long enough for the loan process.

03 What Buyers Do During Due Diligence

Form 2-T lets you (at your own expense) investigate anything you consider important. The core items:

Inspections	Home condition, drainage/moisture, wood-destroying insects, radon, environmental issues. Add specialists (roof, HVAC, septic, sewer scope) if the general inspector flags something.
Appraisal	Order early through your lender. Because there's no appraisal contingency, you want the result *before* the period ends.

Survey	Confirms boundaries, easements, setbacks, and encroachments that may not show up anywhere else.
Loan approval	Get documents to your lender quickly and ask where your file stands well before the deadline.
Insurance quotes	Check the availability and cost of homeowners insurance — and whether flood insurance is required for your loan.
HOA documents	Covenants, bylaws, rules, budget, dues, and any special assessments. Ask whether the HOA charges fees for lender or closing information.
Also worth checking	Zoning and planned roads, flood zone, utilities (water, sewer, septic), whether the street is public or private, and school attendance zones.

Repairs: get it in writing

If you want the seller to make repairs, sign a written agreement for the specific repairs **before** the due diligence period ends. If you can't agree and you aren't comfortable, terminating on time is how you protect your earnest money.

04 If You Walk Away: Where the Money Goes

Situation	Due Diligence Fee	Earnest Money
You terminate in writing during the due diligence period	Seller keeps it	Refunded to you
You back out after the period ends (buyer breach)	Seller keeps it	Seller is generally entitled to it; together, the fee and the deposit serve as the seller's damages
Seller materially breaches	Returned to you	Returned to you, plus reasonable due diligence costs you actually paid
Sale closes	Credited to you	Credited to you
Buyer and seller dispute the deposit	—	Escrow agent holds it until it's resolved, or may send it to the clerk of court under NC law

Pay on time. If the fee or initial deposit is late or a check bounces, the seller can send written notice. You then have one banking day to pay with good funds; if you don't, the seller may terminate. Under the 2026 form, the seller may also limit physical access to the home until the fee is paid.

05 How Escrow Works, Part 1: Earnest Money in Trust

Before closing, "escrow" means a neutral party holds your earnest money. The contract names the **Escrow Agent** — often the listing brokerage, sometimes an attorney or title company.

When a broker holds it

NC Real Estate Commission rules require it to go into a trust or escrow account. Brokers generally must deposit it within three banking days of receiving it (or of acceptance, if received with an offer).

While you're under contract

The money is held until closing or until the contract ends. A brokerage escrow agent may use an interest-bearing trust account; under Form 2-T, any interest goes to the escrow agent.

At closing

Before closing, the deposit is transferred to the closing attorney and credited toward your purchase. If the contract ends, it's paid out as the contract and NC law direct.

06 How Escrow Works, Part 2: Your Mortgage Escrow Account

After closing, "escrow" means something different: an account your loan servicer uses to pay **property taxes and homeowners insurance** (plus flood insurance, if required). Many lenders require one; you pay a portion with each monthly payment instead of facing large bills once or twice a year.

Initial deposit at closing	Enough to cover bills coming due before your payments build up the account, plus an optional **cushion**. Federal rules (RESPA/Regulation X) cap the cushion at 1/6 of the year's estimated escrow bills — about two months' worth. Shown on your Closing Disclosure.
Monthly portion	Generally 1/12 of the taxes and insurance the servicer expects to pay that year, added to your principal and interest.
Initial escrow statement	Given at closing or within 45 days. Lists the expected bills, payment dates, and the cushion amount.
Annual escrow analysis	Once a year the servicer compares what came in with what went out, projects next year's bills, and sends a statement within 30 days of the year's end.

Surplus	If you're current on payments, a surplus of $50 or more must be refunded within 30 days. Smaller amounts may be refunded or credited to next year.
Shortage	If the balance is below target, the servicer may leave it alone, or ask you to pay it back. Smaller shortages may be due within 30 days; a shortage of one month's escrow payment or more can be spread over at least 12 months.

Why your payment can change

Property taxes and insurance premiums change from year to year, so your escrow payment — and your total monthly payment — can go up or down even with a fixed-rate loan. In North Carolina, county property taxes are due September 1 and can be paid without interest through January 5.

07 Due Diligence Checklist

- ☐ Talk with your lender about timing before you sign the offer
- ☐ Confirm the fee, deposit, and due diligence end date in the contract
- ☐ Deliver the due diligence fee to the seller on time
- ☐ Deliver the initial earnest money within five days
- ☐ Schedule the home inspection right away
- ☐ Order specialist inspections as needed
- ☐ Ask your lender to order the appraisal early
- ☐ Decide on a survey and schedule it
- ☐ Get homeowners (and flood, if needed) insurance quotes
- ☐ Request and read HOA documents and dues
- ☐ Upload loan documents quickly; check on approval status
- ☐ Put any repair agreement in writing before the deadline
- ☐ Calendar the deadline, and send written termination in time if you're walking away
- ☐ Review the escrow lines on your Closing Disclosure

08 Key Moments at a Glance

Effective Date	Contract is binding; due diligence fee is due to the seller
Within 5 days	Initial earnest money delivered to the Escrow Agent

During the period	Inspections, appraisal, survey, loan approval, insurance, HOA review, repair negotiations
Due diligence end date	Last day to terminate in writing and get your earnest money back
Closing	Fee and deposit credited to you; your mortgage escrow account is funded

09 FAQ

Is a due diligence fee required in North Carolina?

No. Neither the fee nor earnest money is required by law. Both are negotiated, and the contract is still valid with a fee of zero.

If the inspection finds problems, do I get my due diligence fee back?

Generally no. The fee pays for your right to decide. It's refundable only if the seller materially breaches or the contract says otherwise. If you terminate on time, your earnest money is refunded.

Can the due diligence period be extended?

Only if the seller agrees in writing. The seller doesn't have to agree, so plan as if the original date will hold.

Is earnest money the same as my down payment?

No, but both the earnest money and the due diligence fee are credited to you at closing, which lowers the cash you need to bring.

Do I have to have a mortgage escrow account?

Many lenders require one, and some loans require it by law. If yours doesn't, you'll need to budget for and pay taxes and insurance yourself. Missed payments can lead to penalties, liens, or lender-placed insurance.

My payment went up after the first year. Why?

Usually your taxes or insurance went up, or the annual analysis found a shortage. Check your annual escrow statement, which explains the change.

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Based on the NC REALTORS®/NC Bar Association Offer to Purchase and Contract (Form 2-T, 2026 revisions), NC Real Estate Commission guidance and rules (21 NCAC 58A .0116), N.C.G.S. § 105-360, and CFPB Regulation X (12 CFR 1024.17). Contract versions and terms vary; always read your own contract. This guide is for informational purposes only and is not legal, tax, or financial advice. Consult a licensed NC real estate attorney, agent, and lender about your situation.

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