

Decoding the Real Estate Market

Home Warranties

By Sandy Hayes

There are two types of programs that are called Home Warranties. The first is an *insurance program* offered by a subsidiary of the National Association of Home Builders that covers the Buyer of a newly constructed home a 10 year warranty against physical defects such as faulty heating, electrical, plumbing and roofing. There is a one-time insurance premium that can be paid by the builder, Buyer, real estate agents or any combination of these parties. The cost is about \$3 per thousand of the selling price. The second type is a *service contract* a home owner or home Buyer can purchase to cover the repair and replacement of home appliances and the electrical and plumbing systems. This article will address the second type of Home Warranty.

Home Warranty service contracts usually cover the major appliances such as ovens and ranges, garbage disposals, [refrigerators](#) and dishwashers. Coverage can also include limited aspects of the electrical and plumbing systems. Generally, heating, air conditioning, clothes washers and dryers require additional coverage. When deciding on a home warranty package, the consumer is cautioned to read the coverage and terms of service very carefully. There are great variations from company to company.

For basic coverage, the cost for a one year contract is usually \$300 - \$400. Most contracts are renewable and most providers offer discounts for multi-year commitments. Home Buyers can negotiate to have the seller or real estate agents or any combination thereof pay for the plan as part of their Offer To Purchase Real Estate.

There can be limits on the number of calls for each appliance and/or each address within the contract period. At each service call, the home owner will incur a deductible of \$50 - \$100 for each separate appliance or system serviced.

Service contract purchasers should also understand when their contract goes into affect. Generally the Buyer of a home will be covered immediately upon the effective date of the contract and an existing home owner who purchases this coverage will have a 30 waiting period from the date of purchase. Each company's policies regarding differs, therefore, it is very important for the consumer to carefully read all the information before purchasing.

There have been some cases of fraud wherein the company takes money form the consumer and then vanishes and resurfaces under a different name. There have been consumer complaints against companies that routinely reject nearly all claims for various reasons. That said, there are many established companies that deal honestly and fulfill their service contracts gladly. Realtors can give their Buyers information on established companies from which to choose. Referrals from friends and family are helpful. And state-by-state links to home warranty providers can found on the internet. Consumers are urged to do their research and be especially cautious of companies offering cut-rate plans.

Before purchasing a Home Warranty, home owners and home Buyers should assess the risk and need for such a plan. They should measure the cost (especially of multi-year contracts) against the cost of simply repairing or replacing these systems as needed. Consider the age and condition of the appliances, electrical and plumbing systems and the heating and air conditioning.

The next installment of **Decoding the Real Estate Market** will discuss Reverse Mortgages.