

Home Warranties: More Protection For Home Buyers

What happens when you move into your new home and discover that your dishwasher is a lemon? If you're among the growing number of home buyers taking advantage of a recent trend – the home warranty – chances are that you'll pay only about \$35 to \$50 to fix the broken appliance.

In 1993 alone, more than half a million homeowners took advantage of home warranty contracts. Home warranties are optional service agreements that cover the costs of repairing or replacing major appliances and/or structural systems in your new home if they become faulty after you move in.

Much as a pre-sale inspection helps identify flaws before the sale, a home warranty provides an extra measure of security after the loan closes. For many buyers, the comfort of knowing that future repair bills are covered does wonders to ease some of the anxiety in the home buying process. Because this extra security can be an incentive for prospective buyers, some sellers offer to cover the cost of a warranty for the first year following the sale of their home.

How Warranties Work

Home warranties can be purchased for \$250 to \$500 per year. Most plans require you to call the warranty company directly when an appliance covered by the contract breaks down. The company then sends a technician to make the service call (many warranty companies won't cover the cost of repairs unless their own contractors are used). Although you can expect to pay from \$35 to \$50 for each service call, all other repair costs – such as those for parts and labor – should be covered by the warranty.

What Do Warranties Cover?

Before you buy or accept a warranty, make sure

you know how much coverage the plan actually provides.

Knowing this helps avoid surprises later when something breaks that may not be covered. For example, a warranty company may cover the plumbing system, but won't assume the repair costs if a pipe freezes and breaks. Some protection plans may cover roof repairs only up to a certain dollar amount, while others may charge extra for repairing basic items such as washers, dryers, or refrigerators.

Unlike home insurance, home warranties won't cover major structural damage or pre-existing conditions. Warranties usually cover items that home insurance excludes, such as broken plumbing, electrical systems, appliances, garbage disposals, well pumps, and other items listed in the sales agreement. Furthermore, warranties are typically based on the concept of "working order:" items that are operable on the day you close the sale are covered; those that don't work will most likely be excluded from coverage.

Be Cautious

On paper, home warranties seem like a good deal for buyers and sellers. However, because no national regulations exist for this business, keep the following points in mind before buying or signing a warranty contract.

- Your warranty may offer limited coverage.
- The quality and cost of the coverage may vary according to the company and where you live.
- Some warranties may involve higher service call charges than others.
- Homeowner warranties are unregulated in many states.

If you are interested in finding out more about home warranties, your local Realtor[®] can help direct you to companies that provide coverage in your state.