

Is a home warranty worth it?



Home warranty: budgeting lifesaver, home selling tool, or silly gimmick?

When it comes time to buy real estate, we all worry about prices and financing. But what about a home warranty? That's a piece of the puzzle which is often overlooked – much to the buyer's lament.

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Home as product

If we think about a home in the sense of it being a “product,” then we would like to know that our product works. In practice, once a home sale is over and the property settles, it's ours. The seller rides off into the sunset and no longer has a responsibility for repairs unless we want to get into a time-consuming legal wrangle.

3 ways to protect yourself when you buy

We can offset some of the risk of condition in several ways.

First, as a condition of buying the home, we can require a professional home inspection “satisfactory” to us. If we don't like the inspection results, the deal is off.

Second, if we buy a new home it likely comes with a “10-year” warranty. Actually, some of the warranty is for 10 years but not all of it. There might be 10-year coverage for major structural items, two years for the electrical and mechanical systems, and one-year for workmanship.

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In addition, new components like the heating and air conditioning system, refrigerator, or garage-door opener may have their own warranties.

However, with existing homes, there may be little or no forward protection. Indeed, homes can be sold in “AS IS” condition. *Caveat emptor* (buyer beware) is the practical standard for existing homes.

Third, we can get a home warranty.

The value of home warranties

What we're looking for with our home purchase is an assurance that what we buy will work as it should. While a seller may promise to make good on any defects such promises are often unenforceable.

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- The seller may refuse to make the repair
- The quality of the repair may be questionable
- The seller in good faith may be unable to make the repair (the seller had a stroke after closing...)
- The seller in bad faith simply won't honor the promised repair
- We may have to sue the seller to get promised repairs
- The cost of the suit may be greater than the repair bills
- It may take a long time to wind through the court process
- The seller's promise is effectively unenforceable

With a home warranty, these problems disappear.



Home warranty defined

A warranty, says [Successful Real Estate Negotiation](#), represents “guarantees, promises, and protections provided by one party to another. In real estate contracts, there are usually warranties regarding the condition of the appliances and certain fixtures. It states:

New homes often have extensive warranties covering not only fixtures and appliances, but the overall structure of the house as well. There can be "express" (written) warranties, "implied" warranties (guarantees that the parties intended even though they may not have stated them specifically in the contract), and "imposed" warranties (guarantees created, for example, by state law).

The importance of a home warranty is that if a seller or builder is no longer in the picture – or unresponsive – a strong third-party is there to make promised repairs.

While you can buy them yourself, homeowner warranties are typically available from owners when a home is for sale. They provide reassurance for buyers and that feeling can have value to property owners.

According to a 2014 study by American Home Shield Study, a major provider of such policies, “Homes sold with one of the company’s home protection plans spend an average of almost 11 fewer days on the market and sell at a sales price that is an average of more than \$2,300 higher than homes sold without a home warranty.”

Home warranty questions

Essentially, then, a homeowner warranty is a protection for buyers and a sales tool for sellers and brokers. The catch is that not all policies are the same. Policies vary. Here are the basic questions to ask:

How long does a policy last?

A one-year policy is standard.

What's the difference between a homeowner warranty and a homeowners' insurance?

"Homeowners insurance covers the homeowner against sudden and accidental damage from perils such as fire, wind, flood, etc.," explains Timothy J. Meenan, General Counsel and Executive Director of the Service Contract Industry Council, speaking to [The Mortgage Reports](#).

"A home warranty covers a specified package of home systems and appliances (usually HVAC, pool equipment, washer, dryer, kitchen appliances and exposed plumbing such as garbage disposals, exposed electrical such as ceiling fans, etc...) from defects in materials and workmanship."

Can the coverage be extended?

As a buyer you might want this option, but be sure to ask about pricing. Better – negotiate for two years of coverage if you can....

What is covered?

Different policies from different companies may cover different things. For details ask what the policy includes – and what is specifically excluded.

Can I choose the company making the repairs?

You can certainly suggest a repair company to the service contract provider but ultimately this is their decision.

Home warranty co-payments and deductibles

Is there a deductible?

Whether you call it a deductible or co-payment, there is usually some charge per service call. The purpose of the deductible is to shield the warranty company from little tiny ticky-tacky repair requests. That's understandable, however the deductible applies not to the overall policy but to each claim.

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This is a mixed bag. If you have five claims there might be \$500 in deductibles. On the other hand, if you have five claims \$500 may be a bargain.

Is a home warranty worth it?

It's a debatable question if buying for yourself, but if a seller or broker is paying the tab then there's every reason to get one. Indeed, insist on it. If you worry about budgeting for unexpected and costly home repairs, a warranty that helps you sleep at night may be well worth its cost.

What are today's mortgage rates?

If you're buying a home today, current mortgage rates are still very attractive. You can find the best deals by comparing several quotes -- whether you're shopping for mortgages *or* home warranties.