



How to explain home warranties to your clients

Lorna Mello, chairman of the Texas Home Service Contract Association and vice president of Old Republic Home Protection, answers common questions about home warranties.

Texas REALTOR®: Let's start with the basics: What's a home warranty?

Mello: Residential service contracts, commonly referred to as home warranties, cover the repair or replacement of certain systems or appliances that fail due to normal use during the term of the contract.

How is a residential service contract different from homeowners insurance?

An insurance policy compensates the owner against damage or liability that arises from some unknown event. Residential service contracts don't insure against losses; they repair or replace specified items in the home that fail due to normal use.

For example, if your dishwasher leaks and water damages the floor, your homeowners insurance policy may cover the damage to the floor but not the repair or replacement of the dishwasher. However, your residential service contract will likely repair or replace the dishwasher.

What does a residential service contract in Texas usually cost?

In Texas, annual contract fees generally run \$365-\$395 for standard coverage. Most companies offer upgrades or optional coverage for additional fees. Residential service contract providers usually charge a flat fee, about \$65-\$100, for each request for service. Some companies offer a lower service fee for a more expensive plan.

What's covered and not covered by a residential service contract?

The contracts cover the home's major systems and appliances. Standard coverage in Texas typically includes the plumbing, electrical system, heating and air-conditioning systems, kitchen appliances, water heater, and garage door opener. Items such as swimming pools, spas, washers and dryers, and refrigerators are usually optional coverage.

What's the best piece of advice you can offer for someone considering a residential service contract?

Read the terms and conditions of the residential service contract you're considering before purchase to ensure a complete understanding of coverage as well as limitations to coverage. Many people are surprised when they find out everything is not covered. In addition to specific items named in the contract, pre-existing conditions, modifications, and code upgrades often aren't covered.

What are some benefits of residential service contracts for buyers and sellers?

Buyers gain peace of mind knowing once they take possession of their home they have a remedy to protect their budget should a covered system or appliance fail.

Sellers can purchase one when

they decide to sell to protect their budget during the listing and closing period. They can also offer a residential service contract as an incentive to potential buyers, which may lessen their chances for disputes with the buyers due to a system or appliance failure after the closing.

Where can someone find a reputable residential service company?

The Texas Real Estate Commission regulates residential service contract companies; the commission lists on its website those companies licensed in Texas. The National Home Service Contract Association (HomeServiceContract.org), the trade organization for residential service contract companies, is also a great source for identifying reputable companies.

Counting contracts in Texas

1.3 million

Residential service contracts sold in 2012

1.1 million

Service calls placed in 2012

\$155.7 million

Value of repairs made under residential service contracts in 2012

Source: National Home Service Contract Association