

# Homebuyers: Don't Rely on Warranties

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## **They're no replacement for a bona fide home inspection**

Home buyers remain in a tough bind, chasing after homes amid steeply rising prices. The [average price per square foot in Chicago](#) is up more than 25% in the past year. In [Salt Lake City, the average price per square foot](#) has increased more than 20%. In [Dallas, the price per square foot](#) has increased more than 25% in the past year. And let's not even discuss what is going on in coastal cities.

That's led to buyers doing whatever it takes to stand out in what they perceive to be a bidding war. The National Association of Realtors reported earlier this year that one in four homebuyers didn't insist on a home inspection before closing a deal.

## **A home warranty is a lousy replacement for an inspection**

To state the obvious, taking on a debt of a couple of hundred thousand dollars (or much more) without fully understanding the condition of what you're buying is sort of nuts.

If you're considering waiving the home inspection contingency on a bid, that's your risk to bear. But don't be fooled that the home warranty the seller advertised with the listing is any sort of meaningful protection.

## **Home warranties: marketing for sellers**

A solid home inspection will look for structural defects and give you a detailed report on the remaining life expectancy of big-ticket items such as the roof and the HVAC.

A warranty typically won't cover those big-ticket items.

The trade association for [home service contracts](#) (that's what a home warranty is) points out that, "Home service contracts are specific and do not include everything in your house and most do not cover home foundations, walls, structure or finish."

Even seemingly small problems can be denied. A common warranty clause is that the fridge is covered, but not the ice maker. Why? Because we all know how fritzky ice makers can be.

And the fine print is typically a dive into how limited your protection is. Some policies place a strict dollar limit on what they will cover to replace something, while ticking off all the things the warranty won't cover.

For example, one standard [home warranty contract](#) mentions in the fine print of its terms and conditions that it has a \$1,000 max to cover expensive appliances such as Viking fridge or Wolf stove. The max liability for a broken heating system is \$2,500. The same limit applies for air conditioning. The max coverage for a leaky roof is \$500.

Or some plans require paying up for extra coverage of high-end appliances. The laundry list of "commercial grade/professional" appliances not covered by one standard home warranty company "includes but is not limited to": Gaggenau, La Cornue, Lacanche, THG Paris, Bertazzoni, Officine Gullo, Molteni, True, Dacor, Aga, KitchenAid, Electrolux, Asko, Fisher & Paykel, Five Star, GE Monogram, GE Café, Marvel, Scotsman, U-line, Alfresco, Miele, American Range, Best, Blomberg, BlueStar, Sub-Zero, Viking, Capital, Faber, Fulgor Milano, Jenn-Air, Heartland, Hestan, Liebherr, Wolf, Lynx, Smeg, Zephyr, Thermador, Ilve, Thor Kitchen, Bosch, Verona, ZLine, Chambers, Abbaka, and Franke.

Also be prepared to show maintenance records for any appliance you want fixed. You can be denied coverage if you can't prove it's been properly maintained.

Even if the seller you buy from paid for the first-year premium for a warranty (the annual cost can be \$500 or more per year), if you run into a problem and the home warranty provider agrees to send someone out to fix it, you're on the hook for the call fee. That can run \$75 to \$125 or so. Warranty companies get to choose who shows up at your house. You don't need an MBA to appreciate that they have a business incentive to farm out work to the lowest bidder.

And all that presumes your seller bought a policy from a reputable warranty company. Be careful relying on online reviews and ratings. The Arizona Attorney General recently sued a home warranty company for, among other things, posting [bogus five-star reviews](#).

## **Get the home inspection**

Even if you decide to go the risky route of waiving the home inspection contingency on a bid, your first purchase after landing the home should be a home inspection.

At a minimum, you want to know if there's anything dangerous to be aware of that needs to be addressed before you start spending money on new furniture and other "nice to haves." Tip: Follow the inspector around and ask about life

span and maintenance tips for everything. Good inspectors will be glad to help you get a handle on how to care for your home.

Hopefully there are no surprises. But a detailed inspection also gives you a timeline for when big-ticket items might need replacing. That gives you plenty of time to prepare. Open a new savings account online at your bank, label it “Home” if you can customize, and set up automatic deposits into the account. Giving an account a specific name can be a helpful nudge to not touch the money for anything else.

And don’t scrimp on maintenance. The longer you can extend the life of an appliance or system, the more time you have to save up for its eventual replacement.