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FTC FACTS for Consumers

Warranties for Newly Built Homes: Know Your Options

For many people, a home is the most expensive purchase they ever make. It's no wonder, then, that buyers of newly built homes are interested in warranties, which promise to repair or replace certain elements of the home, if necessary, within a certain time. According to the Federal Trade Commission, the nation's consumer protection agency, if you're considering a home warranty it's important to understand what it covers, how to make a claim, and the process for resolving disputes that may arise between you and the builder or warranty company.

Many home warranties are backed by the builder; others are purchased by the builder from an independent company that assumes responsibility for certain claims. Some home owners purchase additional coverage on their own from third-party warranty companies to supplement the coverage their builder provides. These add-on service contracts are commonly called warranties. The Federal Housing Authority (FHA) and the Department of Veterans' Affairs (VA) require builders to purchase a third-party warranty as a way to protect buyers of newly built homes with FHA or VA loans.

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Coverage

Warranties for newly built homes generally offer limited coverage on workmanship and materials relating to various components of the home, such as windows, heating, ventilation and air conditioning (HVAC), plumbing, and electrical systems for specific periods. Warranties also typically define how repairs will be made.

The duration of coverage varies depending on the component of the house. Coverage is provided for workmanship and materials on most components during the first year. For example, most warranties on new construction cover siding and stucco, doors and trim, and drywall and paint during the first year. Coverage for HVAC, plumbing, and electrical systems is generally two years. Some builders provide coverage for up to 10 years for "major structural defects," sometimes defined as problems that make a home unsafe and put the owner in danger. For example, a roof that could collapse is a "major structural defect."

Most warranties for newly built homes, however, do not cover expenses an owner may incur as a consequence of a major construction defect or warranty repair, like the cost of having to move out of one's home while repairs are being made. Nor do they typically cover:

- household appliances
- small cracks in brick, tile, cement or drywall
- components covered under a manufacturer's warranty

Making a Warranty Claim

What should you do if you have a defect in your home that may be covered by your warranty? First, read the warranty or service contract carefully to make sure that your problem is covered. Pay particular attention to the duration of specific types of coverage. Next, file your claim according to the instructions in your warranty, and put your request for repair in writing, even if the company provides a hotline for urgent requests. Request a return receipt, and keep a record of your correspondence and conversations with the company. Chances are your claim will be handled amicably and to your satisfaction, but if a dispute arises, it's good to have a record of your dealings with the builder and the warranty company.

Resolving Your Dispute

Occasionally, a dispute arises between a home owner and a builder or third-party company over whether a defect is covered or whether repair work was done properly. Many warranties on newly built homes provide for **mediation** of disputed warranty claims, followed by **mandatory binding arbitration**. In mediation, a neutral third party — a mediator — helps the home owner and the company resolve the problem by facilitating discussion between both parties. It is up to the home owner and the company to reach an agreement.

If mediation fails to resolve the dispute, it is likely that the home owner would be required to submit any claim to arbitration, instead of going to court. In this process, an "arbitrator" or panel makes a decision or award once the participants presents their cases. Some warranties allow home owners to pick an arbitrator from a list acceptable to the builder or the third-party warranty company.

Arbitration is less formal than court, although the home owner and warranty company may appear at hearings, have legal representation, obtain documents from one another, present evidence, and call and question each other's witnesses. Most warranties require that both parties abide by the arbitrator's decision, without appeal. If your loan is financed through the FHA or VA and you file a claim against the third-party warranty company, you can choose between arbitration or going to court. If you choose arbitration, be aware that you are bound by the decision. More details are available from the FHA or VA.

Costs

Although arbitration is generally less expensive than going to court, home owners can expect to pay up to several thousand dollars to take their claim through the process, depending on the complexity of the arbitration. Read your warranties carefully to determine what arbitration costs or expenses the homeowner is responsible for and what costs or expenses the builder must pay.

A few companies offer home owners the choice of arbitration or going to court. Sometimes builders pay all costs associated with arbitration to encourage a homeowner to agree not to take the matter to court.

For More Information

To learn more about warranties on newly built homes, contact your state or local builders' board. If you have a loan insured by FHA, contact the closest U.S. Department of Housing and Urban Development field office for more information, or visit www.hud.gov. If you have a VA loan, you can contact the nearest VA office, or visit www.homeloans.va.gov. You can find the phone number for either agency in the blue pages of your telephone directory.

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

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