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January 1, 2011

## **THE LATEST IN SERVICE CONTRACT TERMINOLOGY**

*NHSCA Answers Top Consumer Questions to Help Them Make Wise Buying Choice*

The National Home Service Contract Association (NHSCA) represents the **home service contract industry**. The industry is focused on major, built-in household appliances and home systems. Contracts generally cover things like dishwashers, ovens, disposers, wiring and plumbing systems and most importantly, heating, ventilation and air conditioning systems (HVAC). Many home service contract providers also offer a menu of optional items such as pool pumps, spas and free standing appliances such as refrigerators and clothing washers and dryers for an additional fee. Contracts are annual and renewable.

“The purchase of a home is maybe the biggest investment an individual or family will make,” said Mark Celichowski, Home Security of America, Inc. and president of the NHSCA. “Our members represent the premier and most respected providers of home service contracts in the nation. Their goal, as well as ours as an association, is to help the public better understand home service contracts.”

To help consumers choose the right contract for them, the NHSCA would like to answer some of the most commonly asked questions regarding home service contracts.

***What is a home service contract?*** The industry is focused on major, built-in household appliances and home systems. Contracts generally cover things like dishwashers, ovens, disposers, wiring and plumbing systems and most importantly, heating, ventilation and air conditioning systems (HVAC). Many home service contract providers also offer a menu of optional items such as pool pumps, spas and free standing appliances such as refrigerators and clothing washers and dryers for an additional fee. Contracts are annual and renewable.

***What do home service contracts provide?*** Service to cover the repair or replacement of the covered items as necessary.

***Do contracts cover everything?*** No. Contracts cover normal wear and tear on scheduled, existing appliances and home systems.

***Are there limitations?*** Yes. One example is that contracts do not cover a product that is already broken – this is considered a pre-existing condition. For more questions and answers on home service contracts visit the NHSCA website page [www.homeservicecontract.org/faq.htm](http://www.homeservicecontract.org/faq.htm)

***I've heard home service contracts referred to as warranties, like the ones I have purchased for my electronics – how are they different?*** There are other service contract industries. *Retail* service contracts on new consumer products or *automobile* services contracts are separate industries from the *home* service contract industry. The business of warranty for new consumer products is generally regulated under a federal law known as the Magnuson-Moss Warranty Act.

Manufacturers, homebuilders or retail product sellers only provide “warranty” in a strict legal sense. Manufacturers of *new retail products* commonly provide a *new product warranty* on the goods they make and sell directly to the public or through retailers. Homebuilders may provide a warranty on the entire housing structure as well as all fixtures they install in new home construction. More commonly these are deemed a *builder warranty*.

*Automobile service contracts* or *automobile extended warranty* programs are often offered direct from the major carmakers, but may also be offered by third parties.

*Home warranty* is a descriptive term and was coined because the home service contract industry evolved by providing home service contracts purchased by homeowners for homebuyers as a form of “warranty” that the appliances in their house would still be working after the sale. The term *home warranty* seemed to fit and has persisted. It's a good label, but is largely a marketing term. Because of this, many home service contract companies still widely use the term “home warranty” in their name or on their contracts. In more recent years the industry has moved towards using the term home service contract.

***So what is an extended warranty?*** It's another term for a retail product contract that may extend the warranty beyond the manufacturers warranty period. Usually this is done for an additional fee and may be offered direct by the manufacturer or by the retailer or a third party. This is the item most consumers hear about every day when they buy a television, computer or a simple toaster from major retailers. These contracts may provide immediate benefits such as accidental damage coverage. They commonly activate after the manufacturers warranty period has expired, hence the term, *extended warranty*.

***Isn't a home service contract like insurance?*** Actually, there is no similarity between service contracts and insurance. *Insurance* pays you indemnity in the form of money for risk of partial or total loss due to sudden and fortuitous events such as fire, wind, hail, theft, collision or other accidents. *Insurance* does not cover breakdowns due to normal wear and tear. Service contracts cover breakdowns due to normal wear and tear. The two products complement each other - they do not overlap.

***Is the industry regulated?*** Home service contract providers are regulated in all fifty states under applicable consumer protection laws and are specifically licensed or registered in nearly half the states.

***Is a home service contract really a good choice?*** At an average cost of \$350 - \$500 for a 12-month period, home service contracts are highly recommended by real estate brokers for both the seller and buyer of a home.

For the seller, they offer increased marketability. By including a home service contract as a condition of the sale, sellers instill an added sense of confidence to prospective home buyers because the buyer feels comfortable, knowing that covered systems and appliances will be repaired in the event of failure after closing. In addition, most home service contract companies offer seller's coverage, which protects the seller in the event of a system or appliance failure during the listing and escrow period. Not only is the seller protected from additional cash outflow, if the home is under contract when a system or appliance fails, the service contract can help to keep the transaction flowing along smoothly.

For the buyer, a home service contract offers peace of mind. They offer budget protection from unexpected repair or replacement of home systems or appliances. This is especially important for properties that have sat on the market for long periods of time because, although a covered item may work at the close of escrow, one never knows when that system may fail.

To learn more about home service contracts and our members, visit us at [www.homeservicecontract.org](http://www.homeservicecontract.org)

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