

Insuring to Avoid Expensive Defects

In bypassing inspections, warranties to improve their chances of getting a house, many buyers are taking a gamble and might get stuck with a home in need of repairs.

By Ryan Basen
Sun Staff July 24, 2005

Monir Hossain really wanted a three-story townhouse he saw in [Ellicott City](#). He was competing against several other potential buyers, so, to make himself stand out, Hossain bid over the listing price and waived a home inspection.

His strategy worked. He landed the house in May for \$395,000.

But when he and his family moved in, Hossain discovered that the heat pump did not work. The replacement cost: \$1,800.

Fortunately for Hossain, his Realtor had purchased a home warranty for him, which covered the cost of a new pump.

Hossain was lucky. Many other buyers are not.

In today's red-hot housing market, inspections and warranties for existing homes (also called "service contracts"), once usually the responsibility of the seller, are now purchased by buyers - if they are ordered at all.

Many buyers are taking a big chance if they don't buy the protection, experts warn.

Neglecting home warranties and home inspections is "a mistake," said Allen J. Fishbein, housing director for the Consumer Federation of America, the advocacy group in Washington. "Buying a home is probably the single greatest financial investment people will make in their lifetime. As desirable as it is to get that home of your dreams, it's equally desirable to make sure that house doesn't turn into a nightmare."

Professionals usually conduct home inspections after the buyer and seller have agreed on a contract. Costs range from about \$250 to \$800, depending on the house size, with an average in the \$300s; inspectors check everything from the electrical wiring to the water supply, roofing and structure of the house.

Usually the sales contract calls for the seller to make repairs - unless a problem is too big and voids the sale. In some sales contracts, the buyers agree to absorb costs up to a certain amount.

Home warranties are one-year renewable contracts costing \$300 to \$450. They mostly cover major appliances, plumbing and the house's foundation. Sellers purchase them to entice buyers, while buyers purchase them after the house is sold.

Both services are used as "bargaining chips," said Lew Sichelman, a syndicated real estate columnist based in Chesapeake Beach. In a buyer's market, sellers purchase warranties and accept home inspection stipulations to entice buyers. In a seller's market, buyers often pay for these services.

"When there are multiple offers at or above the asking price, [sellers] don't have to offer any incentives whatsoever," Sichelman said. "If a buyer doesn't want an inspection or doesn't care about service contracts, which contract are you [the seller] going to take?"

Paul Jones is glad he and his wife had an inspection clause for the \$360,000 home in Laurel they bought in May.

The inspector "found things that I would have never thought of," Jones said. "It was worth it. ... You felt like you were not going to be blindsided."

Since the Joneses stipulated that the sale was subject to a home inspection, they didn't have to pay for the repairs.

Buyers who drop inspection clauses from their contracts are essentially taking on any repairs - major and minor - themselves. Some buyers can be in for a shock.

Sometimes, "we get called in after [a sale] and we tell them what we find," said Tom Morgan of Morgan Builders Home Inspection Services of Baltimore. "If they would have known prior to going through the whole transaction, they might have backed out."

Morgan, for instance, found major structural damage in a Baltimore house after its new owner hired him. Fixing it would cost more than \$100,000, he said.

"The house should have been demolished - not sold," he said.

An inspection can pay off by spotlighting flaws that are cheaper to correct sooner than later, even after settlement. In some cases, it's a safety issue.

"We inspect a little over 500 houses per year and find problems with virtually all of them," said Terry Heller, head of Residential Property Inspections Inc. in Forest Hill.

Heller recently discovered faulty aluminum wiring in a Bel Air townhouse - a

major fire hazard - and a carbon monoxide leak at a Towson house.

But buyers sometimes don't ask for an inspection for houses priced under \$500,000, where competition is hottest.

Joe Deaner, a buyer's agent for Pat Hiban Real Estate Group, recently instructed a buyer to do so to enhance his bid for a Windsor Mill townhouse. The strategy worked. He got the house despite being outbid by more than \$15,000.

Instead of an inspection, Deaner advised the Windsor Mill buyer to get a home warranty.

"With the way the marketplace is," Deaner said, "many times we have to waive the inspection."

Buyers are increasingly buying home warranties now that sellers are not offering them as often, real estate brokers and warranty companies say. About half of homebuyers order warranties nationwide, said Art Ansoorian, a spokesman for the Home Warranty Association of California.

The Mid-Atlantic franchise for HMS Warranty sold about 73,000 home warranties last year, including 25,000 in Maryland - more than double its business a decade ago, said owner Mickey Nocera.

American Home Shield sold more than twice as many warranties in Maryland last year as it did in 1999, said spokeswoman Suzanna Weston. Its sales in the state have increased at least 15 percent every year since 1999.

Warranty companies say coverage is a good buy.

"Prices have gone up 25-30 percent for houses and warranties cost the same as they did [in the last few years]," Nocera said. It's a "very small percentage for the warranty on that to cover all the mechanical items. Why wouldn't you buy it?"

Real estate agents receive a small commission on home warranty sales - usually about \$60, Nocera said.

Warranties are generally recommended for houses more than 15 years old because appliances, such as refrigerators, air-conditioning units and furnaces, often begin breaking down then.

"It's like any warranty that you buy," Hiban said. "It's a gamble."

It paid off for Debra Warner. Before Warner, her husband and their son moved into a 15-year-old Columbia townhouse they purchased in May for \$379,900, an inspector found the central air conditioning did not work.

The seller was supposed to fix it but did not. A \$425 warranty is covering the installation of a new system.

"It's an old system and the seller didn't intend to replace it, so we got stuck with it," Warner said, noting that she learned a homebuying lesson:

"If you're going to take over something that was used before, chances are there might be something wrong."

Hossain considered that possibility, too, but he shunned an inspection before moving into a 16-year-old [Ellicott City](#) townhouse. Knowing the risk he was taking, Samina Chowdhury, his agent with Pat Hiban, bought him a warranty out of her commission.

"It's amazing," Chowdhury said, "how they worry about \$355 and here they are buying a house for [\$395,000]."

While Hossain waited nearly three weeks for the heat pump to be fixed, he and his wife and his two young children spent several nights at his parents' home in Catonsville. Sleeping in their new house without air conditioning was difficult.

That's a minor inconvenience, he said, knowing that his situation could have been a lot worse.

"I didn't expect to have a problem with the house because when I went in, it looked like it was in fairly decent shape," he said.

But when he discovered the faulty pump, "I was thinking I may have to pay for it myself," he said. "I'm glad [Chowdhury] had put in for" a warranty.

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