



Advice from the Office of Consumer Protection on Home Service Contracts/ Home Warranties



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'Home warranties', the name of the product itself, is prone to being confused; this is because what is purchased is not a 'warranty', in the traditional understanding of the word, and it is also not insurance. What consumers buy when they purchase this product is *actually* a home service contract. What home warranty companies provide is access to a limited number of home service professionals in the local area, which have an ongoing agreement with the home warranty company. These technicians are routed to the customer's home when a service call is requested, at a reduced rate (usually for a \$40 to \$100 deductible for each separate call) and provide some evaluation of the issue. These companies then either possibly repair or replace the issue or alternatively, the technicians acting on behalf of the home warranty company could choose to do nothing at all. Consumers purchase access to this reduced rate through the premium paid in advance for this service (usually through an annual or semi-annual payment).

As mentioned above, these "home warranty" companies do not provide a traditional warranty or insurance product on appliances. If anything in the home breaks or has an issue, it is not the case that it's replaced free of cost nor would it be immediately repaired, as that type of coverage would be more in line with the traditional definition of insurance in which there is a guarantee of compensation for a specific loss or damage in return for a paid premium. Rather, what often occurs is that a cost/benefit analysis is used to determine the best course of action, which is generally evaluated from either the home warranty company's or the local technician's positions. It also may be the case that the local vendor may recommend purchasing services or equipment as they will want to make a sale, possibly taking advantage of a consumer in a desperate situation. If it is determined by a home service company that a repair is not possible, they may, under certain circumstances provide a cash payment. In that instance, the contract will determine the allowance for a cash payout if a home appliance or other item cannot be



fixed. The consumer should be aware that the fine print within the agreement will often include exclusions and limitations to this payout, the method by which it is analyzed, and will likely not be the full cost of a new product, especially when compared with the retail market price. One item that these companies often use is a lack of 'routine maintenance' or provable routine maintenance. This somewhat subjective clause, which appears in many of these contracts, is used by the home warranty company to determine what will be paid or what service will be performed on the consumer's behalf. Consumers should read the contract and the fine print fully and make sure to understand the services they are purchasing.

In Maryland, unlike in some other states, there is no requirement for these companies to register as home warranty companies. The main law governing this industry is the '[Maryland Service Contracts and Consumer Products Guaranty Act](#)' (Md. Code Ann., Com. Law § 14-401 et. seq. (2010)). That Act has certain requirements, such as a 20-day period to allow for cancellation at the beginning of a term, encourages an informal dispute process to exist within the companies, and gives the Maryland Attorney General the right to seek an injunction to prohibit a provider from committing further violations.

Unfortunately, the Montgomery County Office of Consumer Protection (OCP) has found that sometimes the local technicians who are routed to a consumer's home on behalf of home repair and service companies, may lack the experience, training or credentials needed to perform the repairs safely and accurately. Consumers should ask if the service tech being sent to their home to perform inspections or repair their HVAC or appliances has the needed licenses and credentials. If one is told that the technician is licensed, ask for the license number and verify that it matches the person who knocks on the door. This can be checked through various agencies for electrical, gas and plumbing work, appliance repair or HVAC work. Consumers with questions on how to find this information, should contact the Montgomery County Office of Consumer Protection. Or alternatively, one could go to [WSSC's licensee search](#) or [MD DLLR's HVACR search](#).

In the recent past, the Montgomery County Office of Consumer Protection, has utilized its law enforcement powers when a home warranty company has routed unlicensed or unregistered technicians to residents' homes. OCP has issued civil citations and requested abatement orders, which if granted, an abatement order bars companies from performing work in the county through a court's issued order. On these occasions, the District Court has agreed with the Office's issuance of these citations and abatements orders when they have been brought on behalf of the county and prosecuted by the County Attorney's Office. The court ruled in this manner over the objections and arguments made by some home warranties who challenged these citations. The court found that the home warranty companies are liable for the vendors they utilize, and these entities' not being properly licensed or registered under the laws of Maryland or Montgomery County.

Consumers should perform thorough research into prospective companies and the details of the contracts they offer before choosing a warranty company. Also, the terms of individual home warranty plans should be clearly understood before entering into an agreement with these companies. Alternatively, instead of paying for a home warranty contract, one could create an emergency savings account for unforeseen expenses or have a home equity line of credit at the ready when issues arise. For more on this topic, see "[Should You Buy a Home Warranty?](#)" and "[Water & Sewer Line Warranties](#)" by Consumers' Checkbook Magazine.

Please remember that when any Montgomery County resident has an issue, or even a question concerning a matter, in this or any other area pertaining to unfair or deceptive trade practices, they should always feel free to [contact the OCP](#). The OCP is a law enforcement agency empowered to protect consumers against bad business practices and to ensure that the marketplace is a level playing field for both consumers and businesses operating in Montgomery County Maryland.



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