

Understanding Home Warranties

Important Information for Homebuyers



The *Homeowner Protection Act* Regulations on residential builder licensing and mandatory, third-party warranties were implemented on July 1, 1999. As a result, all homes constructed with building permits applied for on or after July 1, 1999 must be built by licensed builders and be enrolled in a mandatory, third-party home warranty insurance plan.

Buyers must be aware that the real estate market is currently in a transition period. Some new homes on the market will have the mandatory, third-party warranty insurance required by the *Homeowner Protection Act*, while other new homes constructed or yet to be constructed with building permits applied for before July 1, 1999 may have a variety of other types of warranties or even no home warranty protection at all.

WARRANTIES AVAILABLE DURING THE TRANSITION PERIOD

Home warranty insurance for building permits applied for on or after July 1, 1999:

Mandatory home warranty insurance: All homes constructed with building permits applied for on or after July 1, 1999 are required to be enrolled in a mandatory, third-party home warranty insurance plan that meets the requirements of the *Homeowner Protection Act*. This home warranty insurance can only be provided by insurance companies that have been approved by the Financial Institutions Commission (FICOM) and meet the requirements of the *Homeowner Protection Act*. This mandatory warranty coverage includes a minimum of 2 years on labour and materials, 5 years on the building envelope including water penetration and 10 years on structure. Where building permits are not required, mandatory home warranty insurance is required for construction begun on or after July 1, 1999.

Owner-built homes: There are certain exemptions for owner-built homes. The HPO information bulletin called *Important Information for Owner-Builders* has more details on this topic.

Homes constructed with building permits applied for before July 1, 1999 may have:

Warranties from home warranty providers: Prior to the implementation of the *Homeowner Protection Act*, warranty providers typically offered coverages of one year on labour and materials, and 5 years on structure. Water ingress is only covered for the first year. Only if major structural defects occur is water ingress usually covered beyond the first year.

No warranty: Some newly constructed homes may not have any warranty coverage at all. Warranty was only provided at the builders' discretion prior to the legislation.

Replacement warranties: After the financial collapse of New Home Warranty on March 30, 1999, some builders offered replacement warranties on homes that were not yet occupied and had been covered by New Home's warranty. Replacement warranties can include builder "good faith" warranties or warranties offered by home warranty insurance companies. Coverages, limitations, exclusions and expiry periods can vary. Some replacement warranties may not include any coverage for defects causing water ingress. Other homes did not receive replacement coverage and may not have a warranty of any kind.

Builder warranties: Builders have offered a variety of good faith warranties ranging from verbal agreements to repair future construction defects to detailed, written agreements. The coverages, limitations, exclusions and expiry periods can range considerably. Builders' warranties are not backed by a third-party insurance company meeting the requirements of the *Homeowner Protection Act*. A builder's warranty is only as strong as the builder who offers it. Any dispute with a builder regarding coverage may have to be resolved through mediation or the court system.

Warranties meeting the *Homeowner Protection Act* requirements: Prior to July 1, 1999 when the *Homeowner Protection Act* regulations were implemented, home warranty insurance offered by insurance companies meeting the requirements of the *Homeowner Protection Act* was available to builders on a voluntary basis.

ADVICE TO HOMEBUYERS

A strong, insured warranty is your only guarantee that if there is a defect in your new home, it will be repaired. Make sure you understand the type of warranty offered on a new home during this transition period. Ask questions of the builder, your realtor or lawyer and get it in writing.

FOR MORE INFORMATION CONTACT

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