



The ultimate resource for home builders and homeowners on why an insurance-backed structural warranty is important.

THE DEFINITIVE GUIDE TO STRUCTURAL WARRANTIES



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\$1.1 billion paid out by the insurance-backed warranty industry repairing homes

What is a Structural Warranty?

A structural warranty provides a written agreement between the home builder and the homeowner and clearly defines the builder's work-product obligations related to construction quality and continuing obligations. Under the agreement, the builder is the insured and the homeowner is the beneficiary. Warranty insurance is different from liability insurance. In a typical structural warranty agreement, the home builder warrants that a new home will be free from qualified structural defects for 10 years. Additional coverage is available for workmanship and systems.

For homes that require a HUD-approved warranty, the builder may purchase a structural warranty from a HUD-approved Plan issuer. A Plan issuer may be a state, warranty company, risk-retention group, HUD-approved builder, an insurance company, or any other HUD-approved entity with the required insurance backing¹.

5% of homeowners will file a complaint with their warranty company.



STRUCTURAL WARRANTY HISTORY

Ten-year structural warranties are the result of Congressional hearings in 1973. The hearings investigated poor residential construction practices along with the absence of builder warranties to stand behind the quality of the work. Ten years later, the Department of Housing and Urban Development (HUD) enacted standards for insurance-backed warranties that were mandatory for new homes purchased using mortgage insurance from the Federal Housing Administration (FHA)².

Why an Insurance-Backed Structural Warranty?

A structural warranty, from an established warranty provider, gives builders and homeowner's confidence that if qualified major structural damages develop in a home, those repairs will be the obligation of the warranty insurer rather than the responsibility of the builder and homeowners. Structural damages occur more often than many builders and homeowners realize. In parts of the U.S. that have expansive soils, 25% of all homes may experience some form of structural distress over their lifetime; up to 5% may sustain major structural damages. A builder may purchase the warranty from a third-party company; however, coverage and insurance backing varies greatly among the providers. A structural defect should be defined in accordance with HUD regulations that are designed to cover homes for failure of designated load-bearing elements that meet certain criteria. Structural warranties protect both builders and homeowners from all-too-common structural defects that arise after construction. These structural issues may not become apparent until many years after the sale of the home. Even builders with an excellent history of no structural-defect claims can find themselves dealing with a structural warranty issue years after closing. The majority of structural claims are reported four to seven years after completion of the home³.



4 OUT OF 5

**home buyers surveyed think
a structural warranty
is valuable when purchasing
a new home. This means home
buyers are more likely to purchase
from a builder who offers an
insurance-backed structural warranty.**

What Damages Does a Structural Warranty Cover?

According to HUD standards, a structural warranty covers specific types of structural defects: actual physical damage to load-bearing elements of a home that result in failure of its load-bearing function to the extent that a home becomes unsafe, unsanitary, or otherwise unlivable. The specificity of the warranty's language ensures that frivolous claims are not paid.

The better warranty companies offer insurance coverage on the day the home closes—and those builders and homeowners will not be responsible for fixing or paying for damages. Some companies do not provide coverage until the third year after closing. If the symptoms of the structural defects occurred in years one or two, the builder is responsible for fixing damages throughout the term of the warranty. It's important to note that each warranty company is unique. The builder should review warranty plans for coverage exclusions and limitations.

If non-load bearing partitions or systems of the home are also damaged, the more comprehensive warranty programs will cover these repairs. This includes complete cosmetic fixes of all surface and materials original to the home.

It's important to note that structural damages that occur as a result of natural disasters such as a tornado or hurricane are not covered under a structural warranty. Damages as a result of natural disasters may be covered under a homeowner's insurance policy.

Further, structural damages to detached garages are covered under some of the warranty plans, so long as the structure was part of the home's original construction. If a builder adds a detached structure—a new garage for example—after the original construction is completed, that new garage would not be grandfathered into the original 10-year warranty. In that specific instance, this would be considered a remodel and the builder may purchase a 10-year structural home improvement warranty.

How Much Does a Structural Warranty Cost?

The cost of a structural warranty varies widely from one state to the next because of local risks such as unstable soil conditions. The average cost of a 10-year warranty is less than a half percent of the total purchase price of the home (including the land). Assuming a median-priced home in a lower-risk state, the average one-time cost is \$350; in a higher-risk state, the average one-time cost of the structural warranty is \$1,250. Since the average cost of a structural repair is \$42,500 in low-risk states and \$113,000 in high-risk states, the price of a structural warranty is quite small compared to the home's overall value. Further, a new home structural warranty can be purchased for less than 1% of the estimated cost of repairs.

The average cost of a 10-year warranty is less than a half percent of the total purchase price of the home (including the land).

The following load-bearing elements of a structure are typically covered under a structural warranty.

- Footings and foundation systems
- Beams
- Girders
- Lintels
- Masonry arches
- Columns
- Load-bearing walls and partitions
- Roof framing systems
- Floor systems

What Causes Structural Damage in a Home?

It's no secret that builders have one chance to properly build a home. However, even the most experienced and conscientious builders can run into foundation issues. Soil movement surrounding a home's foundation causes more than 80% of structural defects, and framing-related issues cause the remaining 20%⁴. Since a surprising number of all homes in the U.S. will experience structural damage throughout their lifetime, it's worth understanding why and how that damage occurs.



Soil movement causes 80%
of all structural defects in the U.S.

The Main Causes of Structural Damage

Soil movement beneath a home's foundation is the leading cause of structural damages. There are two types of soil movement that damages homes: heave from expansive soils and settlement from consideration of fill or native soils. Active soils blanket more than 50% of the country⁵ and are responsible for more property damage to homes than floods, earthquakes, hurricanes, and tornadoes combined⁶. The clay in active soils expands when exposed to moisture and shrinks when conditions are dry. With these changes occurring regularly as seasons and drought conditions change, it's easy to understand why active soils are highly problematic. Industry construction standards suggest that homes should be designed to move no more than half to one inch as they settle. However, swollen soil underneath a home can move an entire house six inches or more, and basements have moved as much as 12 inches. As movement under the home's foundation is generally not uniform, this can cause serious damage to the structure.

56% of claims come from home builders who have been claim-free for years.

Conversely, consolidation of settlement or native fill soils is the second main cause of structural claims. Fill material needs to be compacted properly to support a home's foundation in the same way that natural soils typically do. Fill material is generally made up of a composite of soils specified by the geotechnical engineer. If not properly compacted, the weight of the home will compact the material and cause settlement. Failure to follow geotechnical recommendations or improper supervision during fill-soil placement can result in settlement damage. Native soils can be problematic, as well, if footings are underlain by a layer of soft materials at a depth not visible at excavation. Hydro-collapsible soils may also result in settlement, and hydrostatic pressure may cause lateral foundation wall damage.

A thorough understanding of the soils on the site is the best way to avoid encountering foundation problems from active soils and fill materials. A geotechnical investigation is one quantitative way for builders to know precisely the types of soil they are dealing with. However, even a thorough geotechnical investigation can miss critical data about a particular plot of land, as one builder in New Mexico experienced.

BENEFITS OF A STRUCTURAL WARRANTY: NEW MEXICO CASE STUDY

Builders can encounter soil problems anywhere in the country. One particular builder in New Mexico had been judiciously enrolling all of his homes in 2-10 Home Buyers Warranty® (2-10 HBW®) 10-year structural warranty program for more than 20 years. The builder constructed thousands of homes with a good claims history—until one subdivision became a major problem.

The homes remained claim-free for four years after completion. Then, more than 20 claims came in throughout the course of a year, and each claim was from the same subdivision. Even though the builder relied on the developer's geotechnical investigation prior to construction. The homes' foundations rested on hydro-collapsible soil that consolidated when it came into contact with water, causing extensive damage to the foundations of the affected homes. Instead, 2-10 HBW's warranty insurer covered the multi-million dollar repair costs.



Why Do Home Builders Need Structural Warranties?

Make Handling Complaints Simpler

For many people, the purchase of a new home is the single-largest transaction in their lives, and if the home does not satisfy the new homeowner's expectations, the relationship between the builder and homeowner will deteriorate. If problems occur, there will be complaints, and possibly even lawsuits.

It's difficult to tell a new homeowner that their complaint is unreasonable, but if a builder can point to a detailed warranty that all parties agreed to, everyone will be on the same page. Plus, responsibilities are clearly outlined for the builder and the homeowner. This includes construction performance guidelines that the builder must adhere to, and maintenance standards for the homeowner.

Save Time

Warranty companies handle homeowner phone calls and complaints for the 10-year duration of the warranty, leaving builders more time to run their business. The warranty company will help the builder and homeowner conciliate their claims.

Provides Confidence to Home Buyers

Home buyers recognize the benefits of a comprehensive insurance-backed structural warranty. Eighty percent of home buyers surveyed think a structural warranty is valuable when purchasing a new home⁷. This means home buyers are more likely to purchase from a builder who offers an insurance-backed structural warranty.

A Helpful Sales and Marketing Tool

A structural warranty is also a helpful component that can be highlighted when builders are actively selling and marketing their new homes. Buyers find it easier to trust a builder who can confidently say, "In the event a structural failure does occur, you can sigh with relief knowing that I've got you covered for up to 10 years."

It Makes Good Business Sense

In short, an insurance-backed structural warranty ensures that the warranty insurer will cover the cost to repair qualified structural defects in the home. These warranties insulate the builder from the financial risk of making repairs and guarantee that a collapsed column won't buckle the business's finances.

Why Do Home Builders Need Structural Warranties? (cont.)

Structural Issues Are More Common Than Builders Think

Most homes are designed to move no more than half to one inch, a magnitude of movement that is completely normal and expected. However, there will be a certain number of homes that will heave or settle more than expected, experiencing major structural distress and requiring costly repairs. On average, these repairs cost \$42,500—no small sum for a builder or homeowner to pay.

The average cost of a
STRUCTURAL CLAIM **\$42,500**

The insurance backing of a structural warranty is similar to other types of insurance – **it's something you hope that you'll never need to use.** But when you need it, you'll be glad you have it.

DAMAGE CAN OCCUR WHEN LEAST EXPECTED: **MARYLAND CASE STUDY**

Structural damage from soil movement may not be noticed for years. One Maryland custom home builder enrolled 300 homes in the 2-10 HBW Structural Warranty program through the course of 16 years.

One particular home was four years old when large cracks in the brick veneer, interior drywall, and garage doorway were discovered. The builder had compacted the soil adequately, but a geotechnical investigation later found that the home was built over a natural drainage ravine. The ravine was buried, and the clays eventually consolidated from groundwater buildup.

With 2-10 HBW, a repair plan for the home's foundation was developed and implemented. The entire foundation was stabilized by installing piers at a cost of approximately \$100,000 to the warranty insurer.

How Home Builders Benefit from Structural Warranties



Warranty company handles all homeowner phone calls and complaints



Business is protected from liability, as insurers cover repairs



Helpful sales and marketing tool

Other Features and Benefits for Builders

Educates Homebuyers

The warranty company should provide the homeowners a maintenance manual booklet to alert them to the importance of home maintenance. The warranty and manual should explicitly state that the homeowner is responsible for proper maintenance of the home. Proper maintenance includes planting trees and shrubs an appropriate distance away from the home and conforming to generally accepted landscape practices for the region. It's well known that maintaining proper surface grading and maintaining gutters and downspouts, when provided by the builder, will improve structural performance.

It's Easy

Once a homeowner files a claim, the builder will be notified. At the warranty insurer's expense, the engineering professionals will perform a claims investigation, prepare a report, recommend repair procedures if warranted, and independent contractors will make the repairs. Getting a claim resolved couldn't be easier for the builder.

The homeowner, builder, and insurance company all have clearly defined responsibilities and should know what to expect if an issue arises.

Avoid Costly Litigation

Most structural warranty documents should include binding arbitration to resolve issues quickly and fairly. A common misconception is that the structural warranty company will always side with the homeowner during a dispute. In reality, the warranty company takes a neutral standpoint.

The warranty is an express limited warranty. Legally, the warranty covers the bulk of a builder's implied warranty obligations, but it doesn't cover all possible claims a homeowner may have against a builder. Each state is different, and a builder could have additional contractual or statutory requirements beyond the warranty. The state's statute of repose may ultimately limit the builder liability to the homeowner. Learn more about your state's statute of repose by visiting 2-10.com/StatuteofRepose.

NOT HAVING A STRUCTURAL WARRANTY IS RISKY NEVADA CASE STUDY

Even if a builder does everything right, problems can still occur. One Nevada custom home builder regularly built million-dollar homes, and always ordered an independent geotechnical investigation before building on lots purchased from land developers. Four years passed without any claims, and the builder had 70 homes enrolled in the 2-10 HBW Structural Warranty program.

This builder thought he was truly doing everything right. The soil that the homes were built on was properly compacted, but that didn't mean that damages wouldn't materialize. Eighteen months after two particular homes were built, the homeowners each filed a claim. One of the homes had severe damages, despite the geotechnical investigation confirming that the fill material had 97% compaction. However, underneath the three feet of fill material, there was 40 feet of soft compressible material with large swaths of weak clay. The engineer reviewing the claim determined that the house could potentially settle an additional 1.5 feet, leading to even more extensive damages.

Prevention isn't always foolproof. The builder had conducted the geotechnical investigation and followed the recommendations of the engineer, but had he neglected to cover the home with a structural warranty, they would have paid a repair bill that exceeded \$200,000.

Homeowners enjoy the confidence of knowing their home is protected for 10 years.



Features and Benefits for Homeowners

Worry-free

Not every builder qualifies for a structural warranty. Builders must meet strict financial and experience criteria. Builders will have their construction practices reviewed. Membership in a highly respected warranty company is a mark of quality.

Homeowners are protected if their builder has a financial setback. This can leave distraught homeowners in a tough spot if damages materialize.

Protection When It's Needed

The insurance-backed structural warranty is a unique product, but like other forms of insurance, the hope is that it'll never be necessary. If something does go wrong, it is important protection to have. As previously stated, there will be homes that will experience structural distress. The likelihood of needing the protection that a structural warranty provides is higher than many homeowners realize.



Repairs to Surrounding Components Are Covered

If a structural defect damages other portions of the home, those repairs will also be covered. This is not an industry-wide standard, and homeowners are encouraged to confirm that their structural warranty covers cosmetic damages that result from a structural defect.

Warranty Administration

To help with homeowner questions, warranty companies employ a warranty administration team. The team helps homeowners determine whether their issue is structural or the result of something else. Having a helpful team available can make owning a home, and the associated maintenance, far less daunting.

A Structural Warranty

ADDS VALUE

The 10-year structural warranty is fully transferrable to the next owner if a home is sold within the warranty period—adding value to the home. It is a selling feature should the homeowner sell in the future.



How a Claim is Resolved

Filing a claim is easy. The homeowner or builder completes a claim form. A small claim investigation fee payable to the warranty insurer must be included with the completed claim form. While this small fee doesn't cover the cost of the structural engineer's inspection, which can run upward of \$2,000, it does help reduce the volume of unqualified claims. Homeowners are not responsible for the cost of the engineer's inspection—they only pay the small claim investigation fee.

Once a claim has been filed, both the homeowner and builder will be given updates to the claim. Since on the day of closing the builder transferred to the warranty insurer the risk of a structural defect, the warranty insurer handles the investigation and repair of the structural claim. Warranty Administration will help the homeowner determine whether or not the visible distress is a valid structural claim.

Once the warranty company receives all of the necessary items, they will forward the homeowner's

file and claims investigation fee to the warranty insurer, who will adjust the claim. When the structural engineer comes to inspect the dwelling, they will look at load-bearing members. Although there may be cosmetic cracks in stucco, masonry, or drywall, these are not load-bearing elements. Although there may be cosmetic cracks in stucco, masonry, or drywall, these are not load-bearing elements. They may be symptoms of foundation or other movement, however, and the engineer will record this distress as well as doors and windows with operational problems. An elevation survey may also be required to assess the relative levelness of the home. The engineer will then forward to the warranty insurer a comprehensive report, including photos, elevation readings, and measurements.

If there is qualifying structural damage to the home, the claim will be accepted and the engineer will then create and propose a plan of repair to restore the house to its previous condition—and some warranty plans will include cosmetic fixes. The builder is not involved, unless he or she has specialized knowledge that would be helpful when creating the repair plan.

How Long Does It Take to Resolve a Claim?

Every claim is unique, and there is no definitive timeline for how long structural repairs typically take from the time a claim is submitted to completion of repairs. Framing repairs, which comprise 20% of all structural defects, can often be completed fairly quickly. But, for the remaining 80% of claims caused by soil movement, the repair timeline is dependent on the amount of investigation required.

These more complicated repairs often require soil testing before a repair plan can be implemented. Soil testing is important when damages are the result of heaving or settlement in the soil, and scheduling a geotechnical engineer's visit to a site regularly takes two to three weeks. For the soil to be tested, a drilling rig will arrive at the home and will bore two to four holes to determine what soil materials are underneath the home. In some cases, deep piers may be required to stabilize the home.

If there is a qualifying claim, the design phase begins. Once the repair design is agreed upon, local contractors will bid for the work. Repairing structural damages is very specialized and intricate work, so the warranty insurer works with carefully selected, local contractors.

The warranty limits (aggregate liability of the warranty insurer equal to the purchase price of the home) is decreased by the cost of the repairs. The remaining warranty term is not increased or decreased because of the repairs. Hence, if an additional structural defect is discovered during the remaining term, the warranty insurer will adjust that claim provided that the warranty limits for the home have not been depleted.

If a home is in imminent danger of collapse, the home will be stabilized until repairs can be completed.

What Happens If a Home Is a Total Loss?

Occasionally, structural damages to a home are so severe that the home is considered a "total loss," meaning the cost of repairs exceed the value of the home. In one subdivision in Texas, five homes, built by two different builders, were total losses. In this instance, each homeowner was paid the original purchase price for the home.

Typical Structural Warranty Claim Process

Homeowner or builder completes a claim



Homeowner pays claim investigation fee



Structural engineer inspection



Claim Determination



Soil tests



Repair design created and scheduled with contractor



Repairs completed



How 2-10 Home Buyers Warranty Stands Out From the Competition

When selecting a structural warranty company, builders undoubtedly have a number of options from which to choose. However, 2-10 HBW stands out because of its size, financial stability, most comprehensive coverage, and risk management practices. The structural warranty industry has settled more than \$1.1 billion in total claims since 1977, and 2-10 HBW has covered the largest portion of any current competitor by paying \$286.7 million. One out of every eight new homes is protected with an insurance-backed structural warranty from 2-10 HBW, and more than 2.5 million homes have been enrolled to date. More than 5,500 unique builders are builder members of the 2-10 HBW structural warranty program⁸.

When selecting a structural warranty company, it's important that the insurance and reinsurance companies that will be paying claims are financially secure and trustworthy. The 2-10 HBW warranty uses an insurance company dedicated to the payment of warranty claims. For the last 28 years, 2-10 HBW has been affiliated with one of the best reinsurance companies in the business, Swiss Reinsurance Company. Commonly known as Swiss Re, it is the second-largest reinsurance company in the world. They operate in more than 20 countries, have \$228 billion in total assets⁹, and have been in business for more than 150 years.

Finally, 2-10 HBW places great emphasis on risk management. The company works with its builder members to protect their reputation through various quality assurance programs. For homes in the \$2–5 million range, independent inspections and photographs of the structure and surrounding terrain is required. If a home's value will be \$5 million or more, geotechnical and soil reports are required to obtain warranty coverage. 2-10 HBW risk management will review architectural and construction plans, and an engineer must perform a final inspection on behalf of the builder to confirm workmanship. In addition, 2-10 HBW employs full-time engineers, which is not an industry standard.

These strict risk management controls are designed to protect the warranty insurer and the builder's reputation. By maintaining a high level of quality, poor construction isn't subsidized at the expense of excellent construction, and costs are kept reasonable. Even homeowners are briefed on proper home maintenance to further reduce risk.



2-10 HBW offers the most comprehensive coverage of any warranty company

- The warranty insurer for 2-10 HBW pays more for structural damage claims than any other competitor
- The builder transfers their structural defect liability for the full 10 years to the warranty insurer
- Damages from soil movement—including heave, settlement, and lateral movement—are covered
- Cosmetic damages are repaired
- We don't exclude damages from drought and failure lintels supporting brick masonry veneer
- Damage to detached garages is covered
- We have the most responsive warranty administration department that helps resolve claims and other homeowner problems

How Can Builders Provide a 2-10 HBW Insurance-Backed Structural Warranty

To enroll a home, or homes, in the 2-10 HBW Structural Warranty program, a builder must join the warranty program by completing the application process and paying an application fee.

The builder application requires:

- Builder's new construction volume
- Average sales price
- Number of homes the builder expects to enroll
- Owner and geographical information

The builder's credit will be screened using proprietary software that is only utilized by 2-10 HBW. At least three years of experience building homes is required for enrollment in the program.

The most common trait that disqualifies a builder is an unacceptable loss history or prior evidence of poor craftsmanship.

If a participating builder member has a claim that occurred from an error on their part, 2-10 HBW will assist the builder, at no cost, to improve their construction practices and help avoid a repeat of the problems that led to the claim. This protects the builder's hard-earned reputation.

“The biggest advantage to placing a 2-10 HBW warranty for both the builder and homeowner is protection against unexpected loss.”

Why Should a Home Buyer Purchase From a 2-10 HBW Builder?

The biggest advantage to buying a home from a 2-10 HBW builder member is in the quality of their craftsmanship and their ability to provide the best new home structural warranty. A home buyer can breathe a sigh of relief knowing that the construction standards are defined and there is a warranty insurer to stand behind the builder's promise.

Conclusion

A structural warranty is an important tool that can protect the builder and the homeowner from damaging financial losses resulting from expensive structural repairs. The components covered under the 2-10 HBW warranty are explicitly stated in the program document, and each party is easily able to understand their role in the claims and maintenance process.

Structural defects are, unfortunately, all too common in the residential construction industry. Even builders with impeccable construction records can find themselves

unexpectedly facing serious structural repairs. For a minimal, one-time cost and 10 years of coverage, a structural warranty is a smart financial investment that can save a substantial amount of money and headache in the event of a claim. 2-10 HBW's strict standards of quality, the strong financial stability of its warranty insurer, the program's emphasis on risk management, and responsive warranty administration team make the 2-10 HBW insurance-backed structural warranty an attractive and smart investment for builders and homeowners.

**Learn more about how a structural warranty from
2-10 HBW can protect your home building business**

2-10.com | Builders: 800.488.8844



LONG LIVE HAPPY HOMES®

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