

New Jersey Warranty Pricing

8/23/06

At the July 26, 2006 meeting the Task Force asked specific questions regarding the pricing of warranties under the mandated program in New Jersey.

We were asked to identify what difference in pricing the inclusion of consequential damage in the coverage under the warranty made for New Jersey builder consumers. Residential Warranty Corporation representative Ken Buggy has provided the following information:

Q. *What would the rate/pricing be with the expanded policy including the consequential damage required by New Jersey statute?*

A. The only PRICING difference in New Jersey due to the inclusion of consequential damages in the warranty program is a \$5.00 (5 dollar) surcharge for every house enrolled in the program. This \$5.00 surcharge helps recoup our costs for regulatory reporting required in New Jersey. However, we also apply very thorough scrutiny of NJ builder members to assure that if there is a structural claim, the builders will be able to repair the structural damage in the first 2 years of the warranty coverage including consequential damages to the property.

At this point, RWC assumes that in the event that warranty coverage were mandated, it would handle pricing similarly in Oregon to how it handle's New Jersey. That is, a relatively nominal surcharge, but with the ability to thoroughly scrutinize potential builder members.

Q. *Does the fact that the warranty is mandated in NJ change the pricing structure because there is a broader market base/spread of risk than there may be in states without such a mandate?*

A. The warranty rates are standard throughout the country with a few exceptions. As above, the New Jersey surcharge is a slight deviation from the standard. Texas and Colorado have different pricing rates, but that is because of the construction circumstances in those states and not whether the warranty is mandatory or voluntary.

Q. *Does your experience in Oregon give you any indication as to how exposures here might be the same or different from New Jersey?*

A. Generally we believe the risks in NJ and Oregon are similar except that heavier average rainfalls in Oregon present a greater risk for water penetration claims.

Q. *How would the pricing vary if there were a certain percentage of contractors that had to written by RWC as part of an assigned risk plan? (or would it vary at all?)*

A. Pricing within the assigned risk program is where the effect of that program should be felt. Builders who do not need an assigned risk program should not have to pay for it through higher rates. The key to a workable assigned risk program is to charge the participants in that program a sufficient amount to make it profitable or at least a break even proposition for the private companies who participate in it.

Our warranty rates are higher in Texas and Colorado (voluntary states) than in New Jersey (a mandated state) and the other states. Any system for writing warranties is feasible if the pricing allows for administration of the program, payment of claims, and a fair profit.