



Motor Vehicle Service Contract Offers

From the Office of Minnesota Attorney General Keith Ellison

Many people report receiving postcards and mailings that claim that their car's manufacturer warranty is expired or is about to expire. The mailings may list the make, model, and year of the person's car, leading people to believe that the mailing is from their manufacturer or dealer. What these mailings are actually trying to sell you is a "motor vehicle service contract" provided by a third party, *not* a warranty extension by the car's manufacturer. Some of these contracts are issued by companies that may become insolvent or frequently deny repair coverage for needed repairs.

What is a Motor Vehicle Service Contract?

There is a difference between manufacturer warranties and motor vehicle service contracts. While sometimes referred to as "extended warranties," motor vehicle service contracts are not warranties and are rarely an actual extension of a previous manufacturer warranty.

Manufacturer warranties:

- are managed and backed by the manufacturer of the vehicle;
- come with the purchase of a new vehicle and are included in the price of the car; and
- cover replacement and repair for a wide variety of problems for a lengthy period of time.

Motor vehicle service contracts, by contrast:

- are an agreement between a provider—who is usually not the manufacturer of the vehicle—and a vehicle owner;
- often require out-of-pocket payments for the contract by the vehicle owner;
- cover replacement or repair only of certain parts, only for a certain period of time, and only if certain criteria are met; and

- often contain a long list of repairs that are excluded from coverage under the contract.

Beware of Aggressive Sales Tactics

Motor vehicle service contract sellers sometimes use deceptive tactics and may try to trick you into thinking you are buying a manufacturer warranty extension or that the coverage is similar to a manufacturer warranty. Watch out for scenarios like these:

"Betty" kept receiving flyers in the mail about the warranty on her car. The solicitations were alarming because they said that her warranty on her car may have expired. They also contained messages like "Extremely Urgent and Time Sensitive" and "Final Offer." When Betty called the number on the postcard, she was told that she was speaking with someone who "worked with her automobile manufacturer." Betty was told that her warranty had expired and that she had to sign up for a new contract that day or the offer for another warranty would expire. Later, when Betty checked her own paperwork, she realized she still had eight months left on her manufacturer warranty.

"Neil" had recently taken his car into a repair shop. One evening, he got a phone call from someone asking about the mileage of his car. The person on the phone knew the make, model, and other identifying information about his car. At first, Neil thought the phone call was from someone associated with the repair shop or his manufacturer. But it turned out that the telemarketer who wanted his credit card information signed him up for a motor vehicle service contract that didn't even cover the repairs Neil needed.

Companies Involved in Motor Vehicle Service Contracts

There are often many different companies involved in a single motor vehicle service contract. To be a savvy consumer, know the different companies and their roles:

- **Provider.** The provider is the company that is obligated to the consumer under the service contract. The provider is responsible for paying the costs of repairs covered by the contract.
- **Seller.** There may be one or more companies involved in selling a motor vehicle service contract, whether through mailed solicitations or telemarketing. Most of the time, the company that sells a motor vehicle service contract is not the provider.
- **Administrator.** The company that decides whether a claim under the service contract will be paid is the administrator. The administrator may or may not be the same company as the provider.
- **Payment Plan Administrator.** Consumers may be asked to send monthly payments to a separate company, known as a payment plan administrator. Those monthly payments usually go to a company that is different from the provider, seller, or administrator.
- **Insurer.** In Minnesota, motor vehicle service contracts must be backed by insurance unless certain financial requirements are met. The name and address of any insurance company should be listed in the motor vehicle service contract.

Research the reputations of all of the companies involved in your motor vehicle service contract, especially the seller of the service contract. Check with the Better Business Bureau and the Minnesota Department of Commerce for more information.

Before You Buy

If you have received an offer for a motor vehicle service contract, you should consider all of the following before providing your payment information:

1. **Check your car's paperwork, or contact your car's dealership or manufacturer, to see whether the manufacturer warranty on your vehicle has actually expired or whether you already have a service contract that you bought from the dealer.** Service contract solicitors may be trying to sell you something that you don't need.
2. **Check with the Minnesota Department of Commerce.** Service contract providers are required to register with the Minnesota Department of Commerce and inform the department whether an insurance company backs up their service contracts. In order to avoid joining other consumers that have lost thousands of dollars and their repair coverage when a provider files for bankruptcy, find out whether your service contract's provider is registered in Minnesota and whether an insurance company backs the contract by checking with the Minnesota Department of Commerce at (800) 657-3602.
3. **Beware of pushy sales tactics.** The sellers of service contracts may try to create a sense of urgency by suggesting the offer is time-sensitive. They may also try to scare you into agreeing to the contract by describing expensive car repairs. Don't be rushed into spending thousands of dollars on a service contract without doing your homework first.
4. **Insist on reading the fine print.** Don't agree to pay for a contract that you haven't read. Reputable companies will allow you to read the details of a contract before taking your money.
5. **Consider the total cost.** When deciding whether you want the service contract, consider any deductibles that may apply. When the cost of deductibles of some contracts are added up, you may be better served saving your money and paying for the repairs out of pocket.

6. **Watch for loopholes.** Some motor vehicle service contracts contain so many loopholes and exclusions that they don't make financial sense for consumers. Watch for:

- **Amount limits.** Some contracts limit coverage to the trade-in value of the car set by a third-party source. For some vehicles, that could mean that you are paying more for the contract than the expenses it will cover.
- **Repair limitations.** Mechanics report that administrators of some service contracts limit the amount of hours and hourly rates they will cover for certain repairs, and may further demand the use of old parts for repairs. Other contracts only cover a small number of repairs, leaving you stuck with the bill for most needed repairs.
- **Exclusions for common events.** Some service contracts do not pay for repairs when it is discovered that any fluid is low in the car, even if the low fluid may have been caused by the need for repair. Another exclusion that typically applies is for damage caused by "normal wear and tear."
- **Onerous maintenance requirements and record-keeping.** Some contracts require a lot of legwork to keep coverage intact. For example, if you do not have written records documenting all routine maintenance, such as oil changes and spark plug replacements, your claim for repairs may be denied.
- **Advance authorization and diagnostic expenses.** Many service contracts require that consumers provide notice of claims to the administrator and receive its prior authorization before any repairs are made. The administrator may demand additional diagnostic tests or even send out its own mechanic to inspect the issue. Some consumers report waiting weeks, or even

months, before authorization is granted and then being stuck with the repair bill for diagnostic tests that were demanded by the contract administrator.

7. **Know the cancellation and return provisions.** Before you buy a motor vehicle service contract, know the requirements for cancellation and return. If you buy a service contract, you can cancel and get a refund, but only if you follow the cancellation instructions. Under Minnesota law you are entitled to a full refund by returning the contract to the provider: (1) within 20 days of the date the contract was mailed to you, (2) within 10 days if you received the contract at the time of sale, or (3) within a longer time if allowed by the contract. Send back the entire contract by certified mail and keep a copy of all records. Also, notify your credit card company immediately if you have a dispute about a payment for a service contract that you wish to cancel.

Minnesota Law Requirements

Under Minnesota law, among other things, motor vehicle service providers must:

- Register with the Minnesota Department of Commerce.
- Meet financial requirements by doing one of the following: (1) obtaining insurance for the contracts meeting certain requirements; (2) maintaining a funded reserve account, if other criteria are met; or (3) maintaining a net worth of \$100 million, if other criteria are met.
- Identify, in the contract, the name of the contract provider, the administrator if different from the provider, the contract seller, and the insurance company, if any.
- List total purchase price and sales terms; list coverage, limitations, exclusions, and any restrictions on transferability; and state the terms, restrictions, or conditions governing cancellation in the contract.

- Pay a 10 percent penalty per month for refunds not paid or credited to the consumer within 45 days after return of the service contract to the provider.

For more information, or to report problems with a motor vehicle service contract, contact the following agencies:

Minnesota Department of Commerce

Enforcement Division
85 East Seventh Place, Suite 280
St. Paul, MN 55101
(651) 539-1600 or (800) 657-3602
mn.gov/commerce

Federal Trade Commission

Consumer Response Center
600 Pennsylvania Avenue NW
Washington, DC 20580
(877) 382-4357
TTY: (866) 653-4261
www.ftccomplaintassistant.gov

Office of Minnesota Attorney General

Keith Ellison

445 Minnesota Street, Suite 1400
St. Paul, MN 55101
(651) 296-3353 (Twin Cities Calling Area)
(800) 657-3787 (Outside the Twin Cities)
www.ag.state.mn.us

