

**Department of Legislative Services**  
Maryland General Assembly  
2004 Session

**FISCAL AND POLICY NOTE**

House Bill 35 (Delegate Miller)  
Environmental Matters

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**Vehicle Laws - Mechanical Repair Contracts - Used Vehicles**

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This bill requires that a mechanical repair contract for a used vehicle clearly and conspicuously state: (1) the monetary limits for each repair covered by the contract; (2) a list of service providers authorized to perform a repair under the contract; and (3) whether the contract requires new or used parts to be used for the repair.

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**Fiscal Summary**

**State Effect:** Assuming that the Consumer Protection Division receives fewer than 50 complaints per year stemming from this bill, any additional workload could be handled with existing resources.

**Local Effect:** None.

**Small Business Effect:** Minimal. Dealers and other providers of repair contracts may incur minimal costs and operational impacts to revise contracts.

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**Analysis**

**Current Law:** A mechanical repair contract means any agreement or contract sold by a licensed vehicle dealer under which a specified provider agrees to perform vehicle maintenance or repair for specified price and over a fixed period of time; they include, but are not limited to, extended warranties and extended service contracts. Such contracts are subject to the following State requirements:

- a contract must clearly state the date when the warranty begins, the date or the odometer reading at which the warranty expires, and the name and address of the insurer;
- repairs of a malfunction or defect covered under a repair contract must include the cost of the teardown and diagnosis; and
- a provider of services under a mechanical repair contract must maintain adequate insurance reserves with an authorized insurer. An individual who buys a contract is entitled to make a direct claim against the insurer for failure to pay claims or refunds within 60 days.

However, these requirements do not apply to contracts issued by the vehicle manufacturer or distributor or a wholly-owned subsidiary thereof. Service warranties issued by a manufacturer are subject to Maryland's Lemon Law.

Mechanical repair contracts are subject to certain provisions of the Commercial Law Article that govern guarantees and service contracts. If the guarantor violates these provisions, the Attorney General may obtain a court order prohibiting the guarantor from further violations. The guarantor is liable for any wrongful breach of a guaranty and must compensate all reasonable incidental expenses incurred as a result. The guarantor must fulfill the warranty according to its terms within a reasonable time and for the stated period or, if no period is stated, for a reasonable period of time.

The following information is required to be given in writing to the guarantee: (1) the duration of the guaranty period; (2) any reasonable and necessary maintenance required as a condition for the performance of the guaranty; (3) the guarantor's obligations to the person guaranteed during the guaranty period; (4) the procedure which the person guaranteed should follow to obtain the repair or replacement of the malfunctioning or defective consumer product; and (5) any means established by the guarantor for quick informal settlement of any guaranty dispute.

The Federal Trade Commission (FTC) requires a Buyer's Guide sticker be put on all used cars sold by dealers to indicate whether a service contract is available and whether the vehicle is sold "as is," or with a warranty or implied warranty.

**Background:** A service contract or extended warranty is separate from a manufacturer's warranty, which typically offers repair coverage for up to three years or 36,000 miles, whichever comes first. Unlike the manufacturer's warranty, they must be purchased at an extra cost. Many contracts sold by dealers are handled by independent companies called administrators, who authorize the payment of claims to any dealers under the contract. The price of the contract varies by car make, model, condition, and coverage and can range from several hundred dollars to more than \$1,000. Parts used for repair may be

new, rebuilt, or salvage. Rebuilt parts have been restored to a sound working condition; salvage parts are used parts from another vehicle without alteration.

**Small Business Effect:** A large number of used car dealers are small businesses or their establishments qualify as small businesses. According to the U.S. Census Bureau, there were 828 self-employed used car establishments in Maryland in 2001. The bill may have an operational impact to the extent that dealers will need to disclose more information.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Department of Transportation, Office of the Attorney General (Consumer Protection Division), Federal Trade Commission, Department of Legislative Services

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