

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 239
Economic Matters

(Delegate King, *et al.*)

Commercial Law - Contracts with Automatic Renewal Clauses - Required Notice

This bill requires a business that sells goods or services to another business under the terms of a contract for one year or more to notify the purchasing business if the contract contains an automatic renewal clause. The purchasing business must be notified of the automatic renewal clause in writing at least 90 days and no more than 120 days before the cancellation deadline. The notice must include a statement that, unless a response is provided, the contract will renew automatically. If a business fails to provide written notice of an automatic renewal clause to the purchasing business within a specified timeframe, the clause is void and unenforceable.

Fiscal Summary

State Effect: If the Consumer Protection Division of the Office of the Attorney General receives fewer than 50 complaints per year stemming from the bill, the additional workload can be handled with existing resources.

Local Effect: The bill does not directly affect local finances or operations.

Small Business Effect: Potential minimal.

Analysis

Current Law: For contracts for the sale of goods, the seller is generally obligated to transfer the goods and deliver them to the buyer; the buyer agrees to accept the goods and pay according to the terms of the contract. If a court finds a contract, or any part of a contract, to be unconscionable at the time of execution, the court may refuse to enforce the contract or it may enforce the contract without the unconscionable clause. However,

the courts have generally held that when merchants observe reasonable commercial standards of good faith and fair dealing, they are held in strict compliance to the terms of their contract. As the Court of Appeals noted in *County Commissioners of Caroline County v. J. Roland Dashiell & Sons, Inc.* 358 Md. 83 (2000), “To hold otherwise would turn the basic foundation of contract law on its ear. This rule holds the contract parties to their agreement and prevents a party who made a bad business decision from asking the court to restore his expectations.”

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division), Judiciary (Administration Office of the Courts), Department of Legislative Services

Fiscal Note History: First Reader - February 2, 2010
ncs/kdm

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