

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1046 (Delegate Bagnall)
Economic Matters

Insurance Protections for Vehicle Service Contracts

This bill (1) prohibits a licensed vehicle dealer, an obligor, or an agent from making a deceptive or misleading statement regarding a mechanical repair contract and (2) requires a licensed vehicle dealer, an obligor, or an agent to ensure that testimonials of any of their endorsers are truthful, accurate, and not deceptive.

Fiscal Summary

State Effect: The bill does not materially affect State operations or finances.

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

Small Business Effect: Potential minimal.

Analysis

Current Law:

Mechanical Repair Contracts

“Mechanical repair contract” means any agreement or contract sold by a licensed vehicle dealer, an obligor, or an agent under which the dealer or obligor agrees to perform specified services pertaining to the repair, replacement, or maintenance of a motor vehicle for a specific identifiable price. “Obligor” means the person specified in a mechanical repair contract that is contractually obligated to perform the services set forth in the contract. An obligor must register with the Insurance Commissioner each year, provide specified information, and pay an annual registration fee.

Only a licensed vehicle dealer, an agent, or a registered obligor or their employees may offer, sell, or negotiate a mechanical repair contract. Violators are subject to imprisonment for up to one year and/or a fine of up to \$5,000 and may be required to pay restitution.

Also, licensed dealers and obligors who sell mechanical repair contracts have the same obligations as a seller of goods under § 2-314 of the Commercial Law Article. In addition, the provisions of the Maryland Service Contracts and Consumer Products Guaranty Act (Title 14, Subtitle 4 of the Commercial Law Article) apply to a mechanical repair contract sold in the State.

A mechanical repair contract, among other things:

- includes extended warranties and extended service contracts;
- does not include warranties under the federal Magnuson-Moss Warranty Act (consumer products warranties); contracts or agreements for regular maintenance only; or an agreement between a motor club, as defined in § 26-101 of the Insurance Article, and a member or subscriber of the motor club;
- must be offered in addition to any express warranty originally included as part of the contract for sale of a new motor vehicle; and
- must clearly and conspicuously set forth the date when the warranty begins, and the date or the odometer reading at which the warranty expires, and the name and address of the insurer issuing the policy of insurance required of an obligor for the protection of the purchasing consumer, as specified.

The repair of a malfunction or defect covered under a mechanical repair contract must include the cost of the teardown and diagnosing the malfunction and defect.

Other Prohibitions on Sellers of Mechanical Repair Contracts

A person that sells a mechanical repair contract may not, directly or indirectly, make a false, deceptive, or misleading statement with respect to (1) the person's affiliation with a motor vehicle manufacturer, manufacturer's subsidiary, distributor, factory branch, or dealer; (2) the person's possession of information regarding the manufacturer's original equipment warranty for a motor vehicle; (3) the expiration of a manufacturer's original equipment warranty; or (4) a requirement that the vehicle owner register for a new mechanical repair contract in order to maintain coverage under the owner's current mechanical repair contract or the manufacturer's original equipment warranty.

Maryland Service Contracts and Consumer Products Guaranty Act

Under the Maryland Service Contracts and Consumer Products Guaranty Act, a service contract is, among other things, a contract or agreement for a separately stated

consideration to perform the repair, replacement, or maintenance of a product, and includes a mechanical repair contract. Statute requires a service contract to include specified information in writing, including the duration of the contract, the purchase price, the services to be provided, requirements for cancellation, and procedures for contract dispute resolution. Additionally, under the statute, a service contract is automatically extended when the provider fails to perform the services under the contract; the contract does not terminate until the services are provided. “Provider” means a person or persons acting in concert who are contractually obligated under the service contract to provide services to the owner of a product covered by the service contract. If a provider is unable to fulfill the terms of the contract within 10 days after the date specified in the contract, the provider must, on request of the person guaranteed under the service contract, provide a written explanation for the delay. If a provider violates the statute, the Office of the Attorney General may obtain a court order to prohibit the provider from further violations. A court may also issue an order to restore money or property to a person damaged by a violation.

Maryland Consumer Protection Act – Unfair, Abusive, or Deceptive Trade Practices

Under the Maryland Consumer Protection Act (MCPA), unfair, abusive, or deceptive trade practices with respect to consumer goods and services, includes, among other acts, any (1) false, falsely disparaging, or misleading oral or written statement, visual description, or other representation of any kind which has the capacity, tendency, or effect of deceiving or misleading consumers; (2) failure to state a material fact if the failure deceives or tends to deceive; (3) advertisement or offer of consumer goods, consumer realty, or consumer services without the intent to sell, lease, or rent them as advertised or offered; and (4) deception, fraud, false pretense, false premise, misrepresentation, or knowing concealment, suppression, or omission of any material fact with the intent that a consumer rely on the same in connection with the promotion or sale of any consumer goods, consumer realty, or consumer service.

The Consumer Protection Division of the Office of the Attorney General is responsible for enforcing MCPA and investigating the complaints of aggrieved consumers. The division may attempt to conciliate the matter, issue a cease and desist order, or file a civil action in court. A merchant who violates MCPA is subject to a fine of up to \$10,000 for each violation and up to \$25,000 for each repetition of the same violation. In addition to any civil penalties that may be imposed, any person who violates MCPA is guilty of a misdemeanor and, on conviction, is subject to a fine of up to \$1,000 and/or imprisonment for up to one year.

Additional Comments: On July 31, 2024, the U.S. District Court for the Eastern District of Missouri ordered CarShield and American Auto Shield to pay \$10 million to the Federal Trade Commission (FTC) in a settlement for deceptive and misleading

advertisements and telemarketing of vehicle service contracts. FTC also alleged that CarShield's celebrity and consumer endorsers made false statements in its advertising.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland Department of Transportation; Department of Legislative Services

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