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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB587 – Motor Vehicle Financial Protection Product Agreements Act – as amended

SPONSOR TESTIMONY

Cross-file: SB 573

House Economic Matters Committee, February 17, 2022

Chairman Wilson, Vice Chair Crosby and Members of the Committee,

House Bill 587 would regulate and provide consumer protections in the sale of motor vehicle financial protection products in the state. Motor vehicle financial protection products are optional agreements that protect a consumer’s financial interest in his or her car.

The most common example of a motor vehicle financial product is a debt cancellation agreement, which is also referred to as a “gap waiver”. This is an optional product for consumers who finance the purchase of a car. As we all know, as soon as we drive off the dealer’s lot in a new car, the car’s value drops. If the car is financed, for some period of time the amount the borrower owes will often exceed the amount the vehicle is worth and if the car is totaled or stolen in that time, the owner will probably owe more than he or she gets from his insurance company for the car. Under a debt cancellation agreement (or gap waiver), the amount the owner owes in excess of the insurance proceeds is waived. Without a gap waiver, the consumer is left owing the lender for a car that the consumer no longer has, and this is on top of whatever financial outlay the consumer incurs to get a replacement car. Again, this is an optional product and some car buyers choose to assume the risk, but for those that want to protect themselves against financial risk of being “under water” on the car following a total loss, a gap waiver is an option.

For many years Maryland law has allowed debt cancellation agreements to be offered and financed along with the car under the Retail Installment Sales Act and the Closed End Consumer Credit Act in the Commercial Law Article. However, those laws contain no regulation over debt cancellation agreements themselves or consumer protection as to how they are offered to ensure that consumers know what they are purchasing. **HB 587** fills this void in current Maryland law.

HB 587 would also cover similar products that protect a consumer’s financial interest in the car. This includes a similar product to a gap waiver when leasing a vehicle. An “excess wear and use waiver” can be purchased by the lessee so that all or part of any amounts that become due under the lease for excessive mileage or wear and use of the leased vehicle are canceled or waived. “Vehicle value protection agreements” such as trade in credit agreements and similar agreements are also covered.

For all of these products, the bill ensures consumers maintain the right to change their mind. It requires that consumers are given a 30-day free look period where a consumer can change his or her mind after the purchase – without any costs, fees or penalties.

In addition, the consumer protections it provides for are as follows:

- A requirement of a variety of disclosures beforehand to ensure that consumers know what they are purchasing.
- Financial responsibility requirements to make sure that the companies backing these agreements have the financial capacity to perform them.
- Enforcement provisions and potential fines for violations under the regulation of the Maryland Insurance Administration.

We have been meeting with the Maryland Insurance Administration and the Consumer Protection Division and are aware of the issues they have raised with the bill, and we look forward to continuing to work with them on this so that the General Assembly can move forward to adding this regulatory and consumer protection framework to Maryland law.

For this reason, I respectfully request a favorable report with the amendment to HB 587 as amended.