

# **Auto service contracts/extended warranties. Be a knowledgeable purchaser.**

Are you thinking about purchasing a new car? Before you sign the sales contract, or afterwards, you may be asked if you want to purchase an extended warranty to protect you from costly repairs. While the dealership may make an extended warranty sound like a good deal, you should not purchase an extended warranty until you fully understand exactly what you are purchasing and who is responsible for providing coverage under the terms of the extended warranty.

Although commonly referred to as an “extended warranty,” an auto service contract is not a warranty as defined by federal law. Like a manufacturer’s warranty, an extended warranty is a promise to repair or pay for repairs to your motor vehicle. However, unlike a manufacturer’s warranty that comes with a new car and is included in the vehicle’s purchase price, an extended warranty can be arranged at any time and always costs extra. This separate and additional cost is what distinguishes an extended warranty from a manufacturer’s warranty.

Problems with extended warranties have been the source of a great deal of legal assistance questions. Here is some information that will help explain what an extended warranty is and some important questions to ask before purchasing one.

## **1. Does the extended warranty duplicate any manufacturer’s warranty coverage?**

Do not buy an extended warranty until you compare it with the manufacturer’s warranty. If you do not do this, you could be purchasing coverage that you may already have. Most all new cars come with a manufacturer’s warranty, and you will find some used cars with the manufacturer’s warranty still in effect. It is very important for you to know how much coverage you have under your manufacturer’s warranty before purchasing a service contract.

## **2. Who is backing the extended warranty?**

Before you purchase an extended warranty, it is important that you know who is liable to either perform or pay under the terms of the contract. Depending on the contract, it could be the manufacturer, the dealership or an independent company.

Many extended warranties sold by dealers are actually handled by independent companies. These companies act as claims adjusters, authorizing payment of claims to dealers under the contract. Therefore, if you have a dispute over whether or not a claim should be paid, you will be required to deal with an independent company rather than the dealership.

Problems arise when these independent companies go out of business. Take time to determine whether or not the dealership is required to perform under the terms of the service contract, should the independent company go out of business. If the dealership is not obligated to perform under these circumstances, you should take special care to learn more about the reputation and financial stability of the independent company.

You can find out about a company's reputation and financial stability by checking with the South Carolina Department of Consumer Protection, the local Better Business Bureau or your local automobile dealer association. These organizations may have public information concerning these companies.

Be sure to find out how long the company has been in business, and try to determine if they have adequate insurance or resources to meet their contractual obligations. Some independent companies are insured against sudden rushes of claims. If the company is backed by insurance, the State Insurance Commission should be able to provide you with adequate information concerning the company's solvency and whether complaints have been filed against it.

### **3. How much does the auto service contract cost?**

This will vary depending on the car make, model, condition, what is covered and the length of the contract. Upfront costs can range anywhere from a few hundred to a few thousand dollars. This amount can be paid in a lump sum at the time of purchase or can be applied to your financing. Dealerships will typically push for a service contract to be purchased and financed with the vehicle. Beware of this because it can be just another gimmick to add to the salesperson's commission.

In addition to determining the initial charge, find out what fees or deductibles you will be required to pay. Some contracts provide for a deductible for each and every visit to the repair shop. Others provide for only one deductible for each related repair. The latter is more beneficial to you.

You may also be assessed a transfer fee if you sell your vehicle or a cancellation charge if you terminate the contract early. Also, service contracts typically limit towing and rental car expenses. You should find out if such charges are limited or not covered at all before purchasing an extended warranty.

### **4. What is covered, and what is not covered?**

No contract will cover all repairs. If the contract does not specifically state that a particular item is covered, it is safe to assume that it won't be. Determine for yourself by reviewing the contract and talking with the dealership about what items are covered and what items are not covered. You may be surprised just how limited your coverage will be.

Be very careful to watch for absolute exclusions that deny coverage for any reason. For example, if a covered part is damaged by a non-covered component, the claim may be denied. Also, if the contract specifies that only "mechanical breakdowns" will be covered, problems caused by "normal wear and tear" may be excluded. In addition, if the contract covers the "drive train" only, it will not cover the alternator or other parts of the electrical system.

Determine whether the contract will cover you if the engine is taken apart and it is discovered that non-covered parts need to be repaired or replaced. Will you still be covered for labor required to tear down and reassemble the engine?

Also, determine whether the company uses "depreciation factor" in calculating your coverage. If it does, it is unlikely you will be fully protected even for repairs covered by your extended warranty.

### **5. How is my claim going to be handled?**

This is an important consideration that most people do not think of at the time they enter into an extended warranty contract. When your car needs to be repaired or serviced in accordance with the contract, you need to determine if you can choose from among several authorized dealers and repair centers or if you are required to return it to the dealer from whom you purchased the vehicle for service. The latter could be very inconvenient to military members who PCS out of the vicinity where the vehicle was purchased.

Other considerations include: (1) how long will it take to get authorization for service from the company for towing and repairs; (2) whether authorization can be obtained 24 hours a day; and, (3) if there is a toll-free telephone number to call to get authorization.

#### **6. What are my responsibilities under the extended warranty?**

Determine what regular maintenance is required from you under the terms of the extended warranty contract. Typically, if this maintenance is not performed in accordance with the extended warranty the company may deny liability. You should keep a record of all maintenance for verification purposes.

In addition, you need to know who is authorized to perform regular maintenance. Some contracts prohibit the use of independent stations or doing the work yourself for routine maintenance. The contract may even specify that only the dealership which sold you the car is authorized to do routine maintenance.

#### **Conclusion**

Basically, you need to read your extended warranty to know what you are purchasing. You need to ask the right questions to determine if you are really getting anything for your money. Remember, the companies that sell these extended warranties draft them in such a way to limit their exposure to claims. They are motivated by profit for the sales of these extended warranties, not by providing service to the customer. Don't be taken for a ride.