



Extended Auto Warranty Offers

From the Office of Minnesota Attorney General Lori Swanson

Many people report receiving postcards and mailings that claim that their manufacturer's auto warranty is about to expire. The mailings may list the make, model, and year of the person's car or truck, leading people to believe that the mailing is from the manufacturer or dealer. Some of these warranties, however, are issued by companies that may become insolvent or don't provide coverage for needed repairs.

What is a Motor Vehicle Service Contract

There is a difference between manufacturer warranties and extended auto warranties.

Manufacturer warranties are:

- managed and backed by the manufacturer of the vehicle;
- come with the purchase of a new vehicle and are included in the price of the car; and
- cover replacement and repair for a wide variety of problems for a lengthy period of time.

Extended auto warranties, also known as motor vehicle service contracts, are:

- an agreement between a provider—who is usually not the manufacturer of the vehicle—and a vehicle owner;
- require out-of-pocket payments for the contract by the vehicle owner; and
- contracts that pay for replacement or repair only of certain parts, only for a certain period of time, and only if certain criteria are met.

Beware of Aggressive Sales Tactics

Motor vehicle service contract sellers sometimes use deceptive tactics and may try to trick you into thinking

you are buying a manufacturer warranty or that the coverage is similar to a manufacturer warranty. Watch out for scenarios like these:

"Neil" had recently taken his car into a repair shop. One evening, he got a phone call from someone asking about the mileage of his car. The person on the phone knew the make, model, and other identifying information about his car. At first, Neil thought the phone call was from someone associated with the repair shop or his manufacturer. But it turned out that the telemarketer who wanted his credit card information signed him up for a motor vehicle service contract that didn't even cover the repairs Neil needed.

"Betty" kept receiving flyers in the mail about the warranty on her car. The solicitations were alarming because they said that her warranty on her car may have expired. They also contained messages like "Extremely Urgent and Time Sensitive" and "Offer Expires Soon." When Betty called the number on the postcard, she was told that she was speaking with someone who "worked with her automobile manufacturer." Betty was told that her warranty had expired and that she had to sign up for a new contract that day or the offer for another warranty would expire. Later, when Betty checked her own paperwork, she realized she still had eight months left on her manufacturer's warranty.

Companies Involved in Motor Vehicle Service Contracts

There are often many different companies involved in one motor vehicle service contract. To be a savvy consumer, know the different companies and their roles:

- **Provider.** The provider is the company entering into the agreement for the motor vehicle service contract. This is the company that has responsibility to make sure the terms of the contract are met.
- **Seller.** There may be one or more companies involved in mailing solicitations or telemarketing for a motor vehicle service contract. Most of the time the company that sells motor vehicle service contracts is not the provider.
- **Payment Plan Administrator.** Consumers may be asked to send monthly payments to a separate company, known as a payment plan administrator. Those monthly payments are going to a company that is different than the provider.
- **Administrator.** The company that makes a decision whether a claim under the motor vehicle service contract will be paid is the administrator. Sometimes the administrator is the same company as the provider; sometimes they are different.
- **Insurer.** In Minnesota, motor vehicle service contracts must be backed by insurance unless certain financial requirements are met. The name of any insurance company should be listed in the motor vehicle service contract.

Research the reputations of all of the companies involved in your motor vehicle service contract. Check with the Better Business Bureau and the Minnesota Department of Commerce for more information.

Before You Buy

If you are considering an offer for a motor vehicle service contract, you should consider all of the following before turning over your payment information:

1. **Check an independent source to see whether the manufacturer's warranty on your vehicle has expired.** Motor vehicle service contract solicitors may be trying to sell you something that you don't need.
2. **Beware of pushy sales tactics.** The sellers of motor vehicle service contracts may try to create a sense of urgency by suggesting the offer is time-sensitive. They may also try to scare you into agreeing to the contract by describing expensive car repairs. Don't be rushed into spending thousands of dollars.
3. **Insist on reading the fine print.** Don't agree to pay lots of money for a contract that you haven't read. Reputable companies will allow you to read through the details of a contract before taking your money for it.
4. **Consider the total cost.** When deciding whether you want the motor vehicle service contract, consider any deductibles that may apply. When the cost of deductibles of some motor vehicle service contracts are added up, you may be better off saving up your money and paying for the repairs out of pocket.
5. **Watch for loopholes.** Some motor vehicle service contracts contain so many loopholes that they don't make financial sense for consumers. Watch for:
 - **Amount limits.** Some contracts limit coverage to the trade-in value of the car set by a third-party source. For some vehicles, that could mean that you are paying more for the contract than the expenses it will cover.

- **Repair limitations.** Mechanics report that administrators of some motor vehicle service contracts demand the use of old parts for repairs. Other contracts only cover a small number of repairs, leaving you stuck with the bill for most needed repairs.
 - **Exclusions for common events.** Some motor vehicle service contracts do not pay for repairs when it is discovered that any fluid is low in the car, even if the low fluid may have been caused by the need for repair. Another exclusion that may apply is for damage caused by “normal wear and tear.”
 - **Onerous maintenance requirements and record-keeping.** Some contracts require a lot of leg work to keep coverage intact. For example, if you do not have written records documenting all oil changes and spark plug replacements done at all the times recommended by the manufacturer, your claim for repairs may be denied.
 - **Advance authorization and diagnostic expenses.** Many motor vehicle service contracts require that consumers provide notice of claims and authorization from the administrator before any repairs are made. Some consumers report waiting weeks, or even months, before authorization is granted and then being stuck with the repair bill for diagnostic tests that were demanded by the contract administrator.
6. **Who is on the hook.** Some consumers have paid thousands of dollars for service contracts only to lose their money when the provider files bankruptcy. Find out whether an insurance company backs the provisions made by the provider and whether that insurance company is a strong one by checking with the

Minnesota Department of Commerce at (800) 657-3602.

7. **Know the cancellation and return provisions.** Before you buy a motor vehicle service contract, know the requirements for cancellation and return. If you buy a service contract, you can cancel and get a refund but only if you follow the cancellation instructions. Minnesota law provides that you can get a full refund by returning the contract to the provider: (1) within 20 days of the date the contract was mailed to you, (2) within 10 days if you received the contract at the time of sale, or (3) within a longer time if allowed by the contract. Send back the entire contract by certified mail and keep a copy of all of the records. Also, notify your credit card company immediately if you have a dispute about a payment for a motor vehicle service contract that you wish to cancel.

Minnesota Law Requirements

Under Minnesota law, among other things, motor vehicle service providers must:

- Register and file with Minnesota Department of Commerce, www.commerce.state.mn.us.
- Meet financial requirements by one of the following: (1) obtaining insurance for the contracts under a reimbursement policy and maintaining a surplus of a certain dollar amount; (2) maintaining a funded reserve account if other criteria are met; or (3) maintaining a net worth of \$100,000,000 if other criteria are met.
- Identify the name of the contract provider, the contract seller, and the identity of the insurance company in the contract.
- List total purchase price and sales terms; list coverage, limitations and exclusions; and state the terms, restrictions or conditions governing cancellation in the contract.

- Pay a ten percent penalty per month for refunds not paid or credited to the consumer within 45 days after return of the service contract to the provider.

For more information, or to report problems with a motor vehicle service contract, contact the following agencies:

Minnesota Department of Commerce

Enforcement Division

85 East Seventh Place, Suite 500

Saint Paul, MN 55101

651-539-1500

Toll free: (800) 657-3602

www.commerce.state.mn.us

Federal Trade Commission

Consumer Response Center

600 Pennsylvania Avenue NW

Washington, DC 20580

Toll-free helpline: 877-382-4357

www.ftc.gov

Office of Minnesota Attorney General

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651-296-3353 or 800-657-3787

TTY: 651-297-7206 or TTY: 800-366-4812

www.ag.state.mn.us