

AUTO SERVICE CONTRACTS



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INTRODUCTION

When you buy a car, new or used, the dealer will ask you if you want to purchase an auto service contract, sometimes referred to as an extended warranty contract. This handout discusses auto service contracts so you can decide whether to buy such a contract when you buy a car. Idaho has adopted the “Idaho Motor Vehicle Service Contract Act” which regulates these contracts.

THE CONTRACT IS NOT A WARRANTY

An auto service contract is not a warranty as defined by federal law. A warranty comes with a new car and is included in the original price. An auto service contract is purchased separately and usually may be arranged for at any time. An auto service contract is an agreement between you and the service contract provider to perform or pay for certain repairs and services.

QUESTIONS TO ASK

Does the auto service contract cover or duplicate the manufacturer’s warranty? If so, you are paying for something twice.

Who backs the service contract? Your service contract could be with the manufacturer, with the dealer, or with an independent company who will pay for the repairs. It is important to know who is

responsible under the contract. Don’t assume that the contract is with the dealer or manufacturer. A service contract is only as good as the company backing it up so you should always use care in selecting a contract provider. In Idaho, a provider must be insured under a service contract liability policy which guarantees performance of the contract, and this must be stated in the contract.

Who performs the repairs under the contract? The contract may only cover repairs performed by certain “authorized” shops or dealers. This can be highly problematic if your car breaks down when you are traveling far from a service center where “contract” repairs can be done. A related question is whether mechanics where you live or travel will perform repairs and bill the warranty provider or must you pay for all repairs out of your own pocket and submit a claim to the warranty company?

PROVISIONS OF THE CONTRACT

Idaho auto service contracts must state the following:

- The identity of the provider.
- The total purchase price.
- If prior approval of repair work is required, it must state the procedure for obtaining approval and a toll-free number for claims service. It must also state the procedure for obtaining reimbursement of emergency repairs.

- The deductible amount.
- The services to be provided and any limitations, exclusions, or expectations. It must also clearly state which preexisting conditions are excluded from coverage.
- The terms, restrictions, and conditions for transferring the contract.
- The terms, restrictions and conditions for canceling the contract.
- That the contract is not guaranteed by the Idaho Insurance Guarantee Association.

CANCELLATION

Auto service contracts must contain provisions allowing for cancellation on the following basis:

- Within 30 days, if no claim has been made, full refund of the purchase price less any cancellation fee not to exceed \$50.00.
- At any other time, receive a pro-rata refund of the purchase price based on the number of lapsed months, miles or such other measure disclosed in the contract less cancellation fee not to exceed \$50.00.

CONTRACT IS NOT A CONDITION TO PURCHASING A VEHICLE

If the dealer tries to sell you an auto service contract, it must clearly disclose to you that the contract is not required either to purchase the vehicle or obtain financing for the vehicle.

PROHIBITED ACTS

A motor vehicle service contract provider may not:

- Use any words that indicate it is in the insurance, casualty, or surety business or use any names that would imply that it is an insurance or surety company.
- Make or permit to be made any false or misleading statements concerning the auto service contract or deliberately omit any material information.

WHAT ARE YOUR RESPONSIBILITIES?

Under the contract, you may be required to follow all of the manufacturer's recommendations for routine maintenance, such as oil changes and tune-ups, and failure to do so could void the contract. You may have to keep detailed records, including receipts. Find out if the contract prevents you from doing your own routine maintenance or taking the car to an independent station to have such work performed.

*This handout is general in nature. It is not a substitute for legal advice from an attorney regarding individual situations.
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For additional information on this and other legal topics, see the Air Force Legal Assistance Website:
<https://aflegalassistance.law.af.mil>