



Guide to

AUTOMOBILE SERVICE CONTRACTS

and Other Repair Agreements

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Many people try to protect themselves from costly car repairs by purchasing some kind of mechanical breakdown repair agreement, such as a service contract. This brochure provides information on buying a good autorepair agreement at a fair price.

Types of Repair Agreements

When you buy a repair agreement, a company becomes legally required to pay for the repairs. The company that has this obligation is called the “obligor.” “Obligor” is an important word because there are different kinds of obligors, and some obligors are better in certain ways than others. It is essential to know what kind of obligor you are dealing with.

Repair agreements go by many names: auto service contracts, vehicle service contracts, extended service contracts, extended warranties, vehicles service agreements, mechanical breakdown insurance, and others. What a specific company chooses to call the agreement is not as important as what kind of obligor the company is, and what the agreement actually says.

There are four main types of repair agreements, each with a different kind of obligor. The four types are:

- “Vehicle Service Contract Provider” obligor service contracts
- Dealer Obligor Service Contracts
- Product Warranties
- Mechanical Breakdown Insurance (MBI)

Vehicle Service Contract Provider (VSCP) Service Contracts

Most service contracts are issued by what are legally known as “vehicle service contract providers,” or “VSCP’s.” The obligor of a VSCP service contract is a company that holds a special license from the California Department of Insurance (CDI) to sell service contracts in California. A VSCP must meet many requirements in order to obtain a VSCP license. A VSCP may be under the same ownership as the manufacturer of the car you buy, or it may be a completely independent company.

Only car dealers may legally sell you a VSCP service contract. Some companies have been selling VSCP service contracts over the Internet directly to consumers, rather than having car dealers sell the contracts for them. Companies that sell VSCP service contracts over the Internet are breaking the law, and can be charged with a felony.

Dealer Obligor Service Contracts

A dealer obligor service contract is similar to a VSCP service contract. The main difference is that when you buy a dealer obligor service contract, the obligor is the car dealer. Dealer obligor service contracts used to be very common. Now, most car dealers sell VSCP service contracts, not dealer service contracts.

Product Warranties

With a product warranty, the obligor is a company that manufactures products such as lubricants, treatments, fluids or additives that you (or someone else) pour into your car's gas tank, engine, radiator, transmission, et cetera. The maker of the product promises that if you use its product(s), either once or repeatedly, it will repair or replace specified parts that break. Product warranties, which are discussed further in the "Product Warranties" section of this guide, may not provide as much protection as a service contract.

Mechanical Breakdown Insurance

When you buy a service contract, you may think you are buying an insurance policy because insurance policies are very similar to service contracts, but you are not. What is the difference? With an insurance policy the obligor is an insurance company. With a service contract, the obligor is either a dealer or a VSCP. A few insurance companies sell what is called "mechanical breakdown insurance," or "MBI." MBI is discussed later in the "Where to Buy, How to Buy, and How Much to Pay" section of this guide.

Important Terms

All contracts have many provisions or terms. The most important terms are:

- The Obligor
- The Price
- The Duration
- What Is Covered
- What Is Not Covered
- What You Need to Do If There Is a Claim
- The “Backup” Insurance Company

The Obligor

When you pay several thousand dollars for a car you usually get to drive away in the car. But when you pay between \$1,000 and \$3,000 for a repair agreement to protect against the cost of car repairs, all you get is a piece of paper – a contract. That piece of paper is only worth something if the obligor is able and willing to fix your car when it breaks. Some obligors are generally better at honoring their contracts than others. Therefore, the most important aspect of any contract is who the obligor is.

As discussed under “Types of Repair” agreements, there are four types of obligors: VSCPs, dealers, product warranty companies, and insurance companies. Between 1970 and 2004 dozens of service contract companies, car dealers and product warranty companies went out of business. In many cases, car owners were stuck with unpaid repair claims. Licensed insurance companies that sell mechanical breakdown insurance policies are closely watched by the CDI, to reduce the chance that the companies will go bankrupt.

It is important to buy a contract from an obligor that will stay in business as long as you own the contract, so it will be able to pay

your claims. It is also important that the obligor be willing to pay your claims, and pay them promptly. The CDI has received many complaints from people who bought product warranties and service contracts from companies that broke the law. Licensed VSCPs and insurance companies that sell mechanical breakdown insurance policies have to follow dozens of rules that require them to treat people fairly and pay claims promptly. These same regulations do not apply to product warranty companies. Unlicensed service contract companies are violating the regulations, and can be charged with a felony.

The Price

The price of a contract covering car repairs depends mainly on what kind of car you buy, how many miles are on the car's odometer when you buy it, the kind of repairs that the contract covers or does not cover, and the amount of years or miles the contract covers before it expires.

When car dealers sell service contracts on behalf of a VSCP, the dealers have to send a certain amount of money to the VSCP for each contract sold. However, car dealers are allowed by law to charge you as much as you are willing to pay. Some dealers may charge customers up to twice as much for service contracts as they have to send to the service contract company.

MBI policies sold by California licensed insurance companies are not allowed to make overly inflated profits. This is because the CDI limits the amount of profit to what is considered fair and reasonable. MBI is sold directly by insurance companies, and through licensed insurance agents that work independently or for banks or credit unions. Car dealers do not sell MBI. Agents who sell MBI receive a commission. MBI legally may be bought and sold on the Internet.

You can negotiate the price of a service contract with a dealer,

just as you can negotiate the price of a car. One way to effectively negotiate is to shop for MBI before you go to the dealer to buy your car. However, if you compare MBI with a service contract, be careful to not just compare prices, but also to compare coverages and exclusions.

The Duration

All repair agreements expire after a certain length of time or number of miles. The duration typically ranges from one year/twelvethousandmiletotenyears/one-hundredthousandmiles.

What Is Covered

Repair agreements come with different levels of coverage. For example, a low-level contract might only cover the engine and transmission. A medium level contract might cover the engine, transmission, and other major parts such as the suspension, brakes, air conditioner and steering. The highest level coverage includes every mechanical part of the car except the parts listed as excluded. Some people only want to have coverage for the most expensive repairs, like repairs to the engine or transmission. Other people are willing to pay more to have coverage on parts that are less expensive to repair, like water pumps. It is common for service contracts and MBI also to pay for towing and rental car costs that you incur while your vehicle is being repaired. (Product warranties may not legally offer towing or rental car reimbursement.)

When considering the purchase of a repair agreement, you need to read the whole contract or policy to learn which parts are covered under the contract language. Some of the parts excluded from coverage may be the parts that most commonly break, such as belts and hoses. Any part not listed in the contract is not covered, even if the dealer tells you otherwise. You should consider calling the obligor if there is any question about what is covered.

What Is Not Covered

All repair agreements have a section called “what is not covered” or “exclusions.” Before you buy a repair agreement, READ THIS SECTION SLOWLY AND CAREFULLY! You may find that parts listed as covered may not be covered when the breakdown occurs in certain ways. For example, repair agreements often won’t pay for a breakdown caused by:

- Failure to service the car as recommended by the manufacturer
- Overheating
- Insufficient or improper coolants
- Insufficient or improper lubricants
- Insufficient or improper servicing
- Alterations to the vehicle
- Towing excessive weight
- Towing without a manufacturer installed or a manufacturer authorized and dealer installed tow package
- Contamination to any fluid
- Damage of a non-covered part caused by the failure of a covered part
- Damage to a covered part caused by a non-covered part
- Damage that existed prior to the effective date of the contract
- Negligence or abuse

Some service contract, product warranty, and MBI companies have used these exclusions to deny claims without any evidence that the excluded event actually happened. For example, the service contract company might improperly deny a claim by saying that an engine broke because the owner failed to maintain proper lubrication. Without tearing down the engine, the obligor company has no proof that the engine was not properly maintained and lubricated.

Sometimes an auto part covered under a repair agreement is damaged due to the breakdown of a non-covered part. For example, many service contracts exclude coverage for hoses. If an engine is damaged due to a sudden loss of coolant through

a punctured hose, many repair agreements will not cover the engine damage because the primary cause of the problem (a punctured hose in this case) is not covered.

Never continue to drive a car once a dashboard warning light comes on. Continuing to drive a car with the warning light on is an example of what is called “continued operations.” Continued operations will almost always result in a repair claim being denied because driving your car without proper fluid, negligence or abuse, and/or overheating are usually excluded.

Also, repair agreements may not cover the following:

- Seals and gaskets (though coverage may be available as an option at a higher price).
- Adjustments, alignments (except when required in connection with the repair or replacement of a covered part), the machining of brake rotors and drums, shop supplies, and unauthorized diagnostic time.
- Any repair for correcting the engine compression or correcting oil consumption. Valve grinding, burnt valves, and/or worn rings are not covered.
- Mechanical breakdowns covered by a manufacturer’s warranty, manufacturer’s recall, or factory bulletins.
- Vehicles used to transport people or haul goods for profit, unless commercial use coverage has been selected and paid for.

“Wear and Tear” vs. “Mechanical Breakdown”

Some service contracts exclude repairs needed due to “wear and tear.” However, a large number of car repairs are needed because a part wears out from a long period of use or improper maintenance, not because it was poorly built.

Some people believe that if a part was poorly manufactured, it will break within the first few years. Most automaker's regular new car warranties, the type of warranties that are given to you for free when you buy a new car, last at least three years or 36,000 miles, and sometimes longer. Any breakdown covered by an automaker's regular new car warranty will not be covered by a service contract.

The more miles on a car when a repair becomes necessary, the more likely it is that the repair will be needed because a part wore out, rather than because the part broke due to poor manufacturing. Again, some service contracts do not cover parts that wear out.

Most service contracts and policies define "mechanical breakdown" as a defect in parts and workmanship as supplied by the manufacturer, or a defect that makes the part unable to perform the function for which it was designed. Service contracts that exclude wear and tear will not cover repairs needed because a part's performance has gradually deteriorated because of normal wear and tear, unless a mechanical breakdown has occurred.

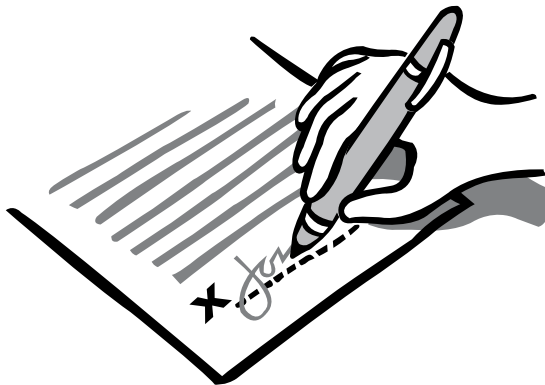
Before buying a service contract, you should carefully review what is covered and not covered to see whether wear and tear claims are excluded from coverage. If they are, you might want to consider buying a service contract that does not exclude wear and tear claims. That way, if it is not clear whether a repair is needed due to a manufacturing defect or simple wear and tear, it is more likely that the service contract company will pay for the repair. It is a mistake to assume that a repair agreement will cover every repair your car may need.

Routine Maintenance Required

When a covered part breaks down and you cannot prove that the car has been properly maintained, a repair agreement will not pay for the repair. Service contract companies may even deny your claim if the lack of maintenance has nothing to do with

the part that broke. Therefore, you must perform all routine maintenance that is specified in the repair agreement and owner's manual and must keep proof that the work was completed. Before you perform your own maintenance, check your repair agreement to see if it is allowed. If you perform the maintenance yourself, keep the receipts for the auto products you purchased and a record of the maintenance that you performed. A list of auto maintenance products could include such items as oil, filters, spark plugs, brake pads, belts, tires, and hardware. When you record your own maintenance, create a log that indicates the date, current mileage, and the type of service performed.

Part of owning a car is making sure that the maintenance service is done on a regular basis. Major damage to the engine can result from overheating due to lack of coolant or oil. Since repair agreements will not cover engine damage due to lack of routine maintenance or overheating, you should regularly check your engine for proper oil and coolant levels in order to protect yourself and ensure the long use of your auto. Also, any possible source of leakage from worn radiators, hoses, and seals should be repaired or replaced on a regular basis.



What You Need to Do If There Is a Claim

Repair contracts always provide instructions on what to do if repairs are needed. Read these instructions carefully as soon as you buy the contract, and read them again when you determine that your car needs a repair. An obligor may deny a claim for repair or repair reimbursement if you do not follow the contract's instructions exactly.

One important instruction is to report the damage immediately to the claim administrator named on the contract. A toll-free phone number is provided for this purpose. The claim administrator often will be the obligor. However, some obligors hire separate claim administrators to adjust claims on their behalf.

The claim administrator will almost always send an inspector to look at the car if the problem will be costly to repair. For these costly repairs, you will need to approve a "tear down." A tear down is a partial disassembly of the area of the car with the problem, so the inspector can look more closely to determine what the exact problem is, and what might have caused the problem. If, after the inspection, the obligor refuses to pay for the repair because the obligor thinks the repair is not covered by the repair agreement, then you will have to pay for the tear down and the repair yourself. However, you can try to get the obligor to reconsider its decision not to pay you. This is discussed later under the section entitled "What Should I Do If My Claim Is Denied?"

If the claim administrator says the breakdown is covered by the repair agreement, it will provide the repair facility with an authorization number. This authorization is an oral promise that the obligor will pay for the particular repair. You and the repair facility should both write down and keep this number, along with the name of the person giving the approval, what repairs were approved, and the date and time of the approval.

The “Backup” Insurance Company

As discussed earlier, VSCP service contracts are not insurance policies. However, because so many service contract companies went out of business without paying claims between 1970 and 1995, California law requires that a California licensed insurance company guarantee both VSCP and dealer obligor service contracts. This guarantee means that if a VSCP or dealer fails to pay any claim, either because the obligor is out of business or simply does not think the claim is covered by the contract, then you can seek to have the insurance company pay the claim. The law requires that the name and address of the insurance company be printed on the contract. Look for the name and address on the contract, and do not buy any service contract that does not have the insurance company’s name and address printed on it. A service contract without the name of a backup insurance company is illegal.

Special organizations, called rating organizations, grade insurance companies on their financial strength. Some people prefer to deal only with the strongest insurance companies, for example those with an “A” grade or rating. These people might not buy a service contract if the “backup” insurer does not have an “A” rating. A list of rating organizations can be found at <http://www.insurance.ca.gov>. You can check the Web sites of rating organizations to see what the rating is of an insurance company that guarantees a service contract you are thinking of buying.

If a service contract includes the name of a backup insurance company, that usually means that the insurance company will evaluate your claim if the VSCP doesn’t because the service company is out of business for some other reason. The backup insurance company will pay your claim if it is covered and not excluded. However, some VSCP companies have been known to print an insurance company name on service contracts without the approval of that insurance company. When that happens,

the insurance company may not have to evaluate your claim. VSCPs generally must be insured by an insurance company that is licensed by the CDI. However, there is one exception to this rule:

a VSCP may be insured by a special kind of insurance company called a “risk retention group.” This type of insurance company should always have the words “risk retention group” in its name. Because many laws that apply to licensed insurance companies

and protect consumers do not apply to risk retention groups, some people recommend that you buy a service contract only from a VSCP that is insured by an insurance company licensed by the CDI. To find out whether an insurance company is licensed by the CDI, call our toll-free phone number listed in the “Talk to Us” section of this brochure or check on the Internet at <http://www.insurance.ca.gov>.



Where to Buy, How to Buy, and How Much to Pay

Where you buy a repair agreement and how much you pay for it depends on whether the obligor is a VSCP, a dealer, or an insurance company.

Service Contracts

Service contracts, whether the obligor is a VSCP or a dealer, may only be legally sold by a car dealer. Do not buy a service contract on the Internet. A company selling service contracts over the Internet is violating California law, and some may not be in business long enough to pay a claim if you need a repair.

Some car dealers occasionally charge much more than they need to for service contracts in order to make a large profit. For that reason, some people prefer not to buy a service contract, but instead to buy a mechanical breakdown insurance policy. The CDI limits the profit on MBI to what is fair and reasonable.

Obtain and Read a Copy of the Actual Service Contract Before You Buy!

Sometimes, high-pressure sales techniques may be employed to convince you to buy a service contract. Do not allow the dealer to rush you into buying a service contract. There are a few steps you should take to ensure you are buying a service contract that complies with the law and gives you the type of coverage you want.

1. Get a copy of the actual contract and take as much time as you need to read it before you buy. You will pay hundreds or thousands of dollars for a service contract. All you get in exchange is a piece of paper. You need to know what the paper says, and you can not necessarily rely on what the dealer tells you it says or what a service contract company brochure indicates.

2. If you decide to buy the contract, do so only if you can take the actual contract (including your name, car information, duration, type of coverage, optional coverages, and especially the name and address of the backup insurer on the contract) with you when you leave the dealership.
3. After you get home with your new service contract, read it again, paying special attention to the exclusions. If you decide you don't want the service contract after all, you can cancel within 30 or 60 days and get a full or partial refund. (See the "Can I Cancel an Automobile Service Contract?" section of this guide.)

Mechanical Breakdown Insurance (MBI)

Consumers may get the most for their money with a mechanical breakdown insurance policy, especially one purchased directly from the insurance company. The price of MBI policies is regulated by the CDI to make sure it is not excessive.

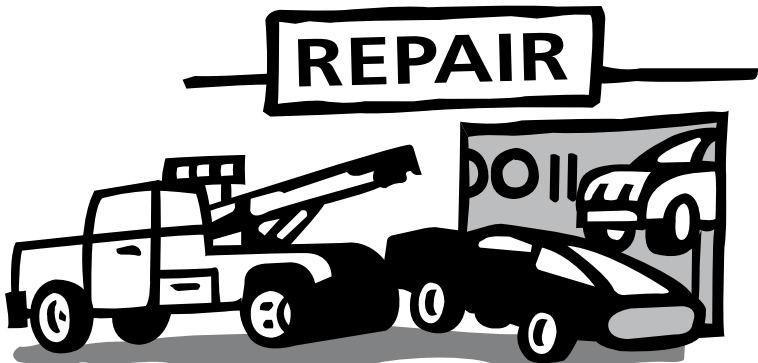
MBI policies are sold by some banks and credit unions, insurance agents, and directly by insurance companies. One way to buy MBI is over the Internet. Unlike with service contracts, it is legal to sell MBI over the Internet. If you choose to obtain mechanical breakdown insurance over the Internet, make sure to do the following:

- Check to see if the insurance company is licensed by the CDI. To do this, visit our Web site at <http://www.insurance.ca.gov> or contact us by phone at (800) 927-4357.
- If you buy an MBI policy from the Web site of someone other than the insurance company itself, i.e. an agent, make sure the agent is also licensed by the CDI. To do this, go to the following Web site: <http://www.insurance.ca.gov> or contact us by phone at (800) 927-4357.

What About New Car Warranties?

Many new car repairs are covered by the warranty that comes automatically when you purchase a new car. These warranties are included in the price of your new car. New car warranties vary in the length of coverage and also in the parts that they cover. Most regular new car warranties cover the major parts of your car for at least one year. If one of the covered parts breaks down during the term of the regular warranty, the warranty (not a repair agreement you paid extra for) will pay for the repair. The regular warranty is primary (pays first) over a repair agreement.

Seriously defective new cars that in the first 18 months or 18,000 miles undergo four or more repairs to correct the same problem, or are in the shop for more than 30 days for any number of repair problems, may be covered under California Civil Code Section 1793.22. Often referred to as the "Lemon Law," this code section explains the rights of consumers who have purchased a new car that they believe to be a lemon. The Lemon Law does not apply to used cars. Contact the California Department of Consumer Affairs and/or the New Motor Vehicle Board for more information on the Lemon Law by using the information found in the "Resources" section of this guide.



What Should I Do If My Claim Is Denied?

If you have a claim, the claim administrator may tell you, or may tell the repair facility where your car is waiting to be fixed, that the breakdown is not covered by your repair agreement. If that happens, there are several steps you can take to try and get the repair paid.

1. Get as much information as you can from the claim administrator about why he/she is denying your claim. Ask which specific provisions of the repair agreement the claim administrator is using to deny the claim. Ask what the claim administrator's evidence is that those provisions apply to your repair. For example, if the claim administrator says she/he will not pay to repair your engine, and the engine is covered by the repair agreement, ask which exclusions are being used to deny the claim. If the claim administrator says the agreement does not cover overheating, and the car overheated, ask what evidence the administrator has that the car overheated. Make detailed notes of what the claim administrator tells you, and try to get the reasons for a claim denial in writing from the claim administrator. If the vehicle has been inspected, obtain a copy of the report.
2. Get as much information as you can from the mechanic or service writer at the repair facility. Does the mechanic/service writer agree with the claim administrator? If not, why not? For example, does the mechanic think there is evidence that the car overheated, or evidence that the car did not overheat? What is that evidence? Make detailed notes, or better yet, try to get the mechanic/service writer to put his/her evaluation in writing.
3. If the mechanic/service writer disagrees with the claim denial, talk to the claim administrator and explain what the mechanic/service writer told you, or, if possible, have the mechanic/service writer

arrange a conference call and explain the problem to the claim administrator. Again, make notes.

4. If the claim administrator still refuses to pay for the repair or to pay as much as you believe should be paid, you may have to pay for the repair yourself and try to get reimbursed from the obligor later. Before having the repair started, make sure the claim administrator has either inspected your car, or told you that they do not need to inspect.
5. After the car is repaired (or while it is being repaired if there is unreasonable delay), write an appeal letter. The letter will be based on your notes of the conversations you or the mechanic/service writer had with the claim handler, and your notes of what the mechanic/service writer told you. If you have a service contract, your letter should be addressed to the insurance company that guarantees your service contract. If you have a mechanical breakdown insurance policy, address the letter to the insurance company.

In your letter explain why you believe the repair should be covered, and why the exclusions given by the claim administrator do not apply. Attach to your letter copies of all relevant documents. These may include the written estimate or final invoice of the needed repair work from the repair facility, a letter from the mechanic/service writer explaining why the claim should be covered (if one can be obtained), and proof that you have properly maintained your car (if the claim administrator denied the claim because the car supposedly was not properly maintained).

6. If an insurance company denies your appeal, you may seek assistance from the CDI. Please see the "Talk to Us" section for CDI contact information you can use to file a complaint. Also, if you have a service contract insured by a risk retention group type of insurance company as discussed earlier, contact the CDI for advice and assistance.
7. You may also wish to seek assistance from an attorney, and/or may choose to file a lawsuit in small claims court against the obligor (if your claim is \$5,000 or less).

Why Isn't My Car Ready?

It is always frustrating to be without your car while waiting for auto repairs to be authorized or completed. Sometimes obligors or claim administrators take several days to inspect a car to see if a repair is covered by a repair agreement. When there is no reasonable explanation for the delay, you may be tempted to go ahead and have your vehicle repaired without gaining prior authorization. If you do this, the obligor or claim administrator may try to deny your claim. Consumers experiencing unreasonable delays from a service contract company should contact the insurance company listed on the service contract. If the issue is still not resolved, contact the CDI for further assistance. Do the same if you experience delay with a claim filed under a mechanical breakdown insurance policy. Refer to the "Talk to Us" section in this guide.

Once you have received authorization for your claim, you may still experience delays at the repair shop. If your car is being repaired and it is taking weeks or months to complete the repairs and you think it is the fault of the repair facility, or you believe the repairs have been done improperly, you can contact the Bureau of Automobile Repair. Please see contact information available in the "Resources" section of this guide. The Bureau of Automobile Repair is the state agency that licenses and regulates automobile repairshops, including those repairshops operated by auto dealers.

Remember to read your repair agreement to see what rental car benefit, if any, is available to you.

Used Car Service Contracts

Some used vehicles you buy may not have been properly maintained by the prior owner(s). Maintenance is very important in preventing major repairs. A used car you buy may run fine when you buy it, but the risk of expensive future repairs may be high.

Many used cars need repairs not because they were poorly built, but simply because parts wear out from long use or lack of proper maintenance. The more miles on a car when a repair becomes necessary, the more likely it is that the repair will be needed because the part wore out, rather than because the part broke due to bad manufacturing. As discussed earlier, some service contracts, especially used car service contracts, do not cover repairs caused by a part simply wearing out; they may only promise to cover parts that break because they were not manufactured properly. However, while some service contracts exclude wear and tear repairs, others do not. If you are going to buy a used car service contract, be sure to buy one that does not exclude repairs that are needed because of wear and tear. That way, the claim administrator may approve payment for the repair if it is unclear whether the repair is needed due to wear and tear or a manufacturing defect.

Generally, the higher the mileage on a used car, the fewer the number of parts that will be covered, and/or the broader the exclusions will be. In addition to buying a used car service contract that doesn't exclude wear and tear coverage, look for one that covers seals and gaskets, computers and sensors.

A final reminder, if you are thinking about buying a used car, have it inspected by a reliable repair facility that is separate from the car dealer selling the car (unless the dealer is a franchisee of a manufacturer, and is selling the car "certified" with at least a one

year service contract free of charge). Buying a service contract is no substitute for a good, independent inspection before buying. Also, have the inspection mechanic review the coverages and exclusions of any used car service contract you are considering buying, and have the mechanic explain what is covered (wear and tear is a must) and what is not covered that might break.

Product Warranties

Some dealers, usually small used car dealers, sell product warranties. These dealers may tell customers that the product warranties are service contracts. However, product warranties, though they may be less expensive, may not protect you as well as service contracts or MBIs.

Product warranties generally cover many fewer parts than a service contract or MBI policy. This is because a product warranty (unlike service contracts) is only allowed by law to cover parts that are in direct contact with the product or parts that are mechanically connected to those parts. For example, a maker of oil may warrant that if you use its oil the engine will not break, and if the engine does break, the maker of the oil will pay for the repair. However, the maker of the oil is not allowed to warrant that the car stereo won't break, since a car stereo is not in direct contact with oil, and is not mechanically connected to a part in contact with oil. If you are thinking of buying a lubricant, additive, fluid or treatment because of the warranty that comes with it, it is important for you to understand the parts that will or will not be covered by the warranty.

A product warranty may not be sold for a separate price. Instead, the product maker must provide the warranty free of charge.

Product warranties usually limit how much you can recover for parts that need repairs. For example, a product warranty may only pay

a maximum of \$3,000 for repair claims during the entire term of a product warranty. Service contracts and mechanical breakdown insurance policies also have limits, but those limits are typically higher.

Finally, but most importantly, VSCP's are licensed and regulated by the CDI. The CDI reviews and approves all VSCP service contract forms. Claim payments under service contracts must be guaranteed by an insurance company. On the other hand, product warranty companies are not licensed by the CDI, are not closely regulated by the CDI, and do not have to be guaranteed by an insurance company. Even if a product warranty purports to be backed by an insurance company, the insurance company may not be licensed, financially strong, or actually back the warranty.

Can I Cancel an Automobile Service Contract?

All service contracts are cancelable under California Civil Code Section 1794.41. The obligor must give you a full refund of the service contract purchase price if you have met all of the following requirements:

- Cancel the service agreement within 60 days after receiving the contract, or 30 days if your car is used and came without a manufacturer warranty.
- Send your cancellation notice in writing to the person specified in the contract (i.e., the dealer, VSCP, or administrator).
- Have not filed a claim with the dealer, VSCP, or administrator.

You are entitled to a partial refund if you cancel within 60 or 30 days (whichever is applicable) when you have already filed a claim. The obligor can calculate the refund based on the elapsed time or mileage, as specified in the service contract.

You are also entitled to a partial refund if you cancel after either 60 or 30 days (whichever is applicable) regardless of whether you have filed a claim. The refund is based on the elapsed time or mileage as specified in the service contract. The obligor may assess a fee up to \$25.00 or 10% of the premium, whichever is less.

If you find yourself in a situation where a VSCP or dealer is not honoring the cancellation and refund sections of the contract, then contact the insurance company listed on the service contract. If the insurance company does not resolve the dispute, then contact the CDI.

Some Final Reminders About Automobile Repair Agreements

- Obtain a sample of the agreement and read it carefully before deciding to purchase. Make sure the VSCP and backup insurer are licensed by the CDI. If the backup insurer is a risk retention group, and therefore not licensed by the CDI, understand that the CDI does not regulate the finances and claim handling of risk retention groups as closely as it does insurance companies that are licensed in California.
- Understand what the contract covers and does not cover. Read the “what is not covered” or “exclusions” section very carefully.
- Compare service contracts with mechanical breakdown insurance for cost and coverage.
- Perform all routine maintenance required by the service contract and owner’s manual. Keep a maintenance log and save receipts on all work performed.
- Contact the insurance company listed in the service contract if you have problems with the VSCP or dealer denying a claim.
- File a complaint with the CDI if the insurance company does not resolve your complaint.

Resources

Bureau of Automotive Repair

400 R Street, Suite 5200

Sacramento, CA 95814

Phone: (916) 322-3400

Phone: (800) 952-5210

Web site: www.autorepair.ca.gov

Contact regarding complaints concerning poor quality auto repairs

Department of Consumer Affairs

400 R Street, Suite 2000

Sacramento, CA 95814-6200

Phone: (916) 445-1254

Phone: (800) 952-5210

Web site: www.dca.ca.gov

Contact regarding Lemon Law information

New Motor Vehicle Board

1507 21st Street, Suite 330

Sacramento, CA 95814

Phone: (916) 445-1888

Web site: www.nmvb.ca.gov

Contact regarding manufacturer new car warranties and Lemon Law information

Personal Notes

Talk to Us

Do you have a question, comment or concern?
There are several ways to talk to us:



- Call our Consumer Hotline at **(800) 927-HELP**
- Telecommunication Device for the Deaf dial **(800) 482-4TDD**
- Telephone lines are open from **8:00 AM to 5:00 PM Pacific Time, Monday through Friday, excluding holidays**



- Write: **California Department of Insurance
300 South Spring St., South Tower
Los Angeles, CA 90013**



- E-mail us through our Web site at:
www.insurance.ca.gov



- Visit us in person on the 9th Floor at the address above. **Office Hours: Monday through Friday 8:00 AM to 5:00 PM Pacific Time, excluding holidays**