

CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

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SHOULD YOU BUY A SERVICE CONTRACT?

When a Columbia couple purchased a washing machine from a retail store, they also bought a 2-year service contract for \$140. When the appliance malfunctioned, they called the store, only to learn that their service contract was not with the store, but with an out-of-state company that had since filed for bankruptcy.

A Lanham woman paid for a service contract on her used car. When the power steering pump failed, she was relieved because the service contract listed the pump as a "covered part." To her dismay, the service contract company refused to pay for the \$900 repair. They said that even though the pump was a covered part, the damage to it was caused by a failed gasket, which was a non-covered part, and therefore none of the repair would be covered. The woman says the contract is very confusing and does not provide the coverage she thought she purchased.

When you buy an appliance, computer, or car, you may be asked if you want to buy a service contract, which is like an extended warranty. The salesperson may urge you to buy one for the peace of mind of knowing that future repairs will be covered.

However, whether or not they are a good deal for the consumer, salespeople may push service contracts because they can be very profitable for retailers. That's because only a small percentage of the consumers who buy service contracts use them, and retailers can charge consumers much more for service contracts than it costs them to provide the contracts.

Some service contracts may be worthwhile, but as some consumers have discovered, others can be a waste of money, either because you won't need to use it or because you can't get the service contract to pay for repairs you thought were covered.



The following are some things you should consider before buying a service contract:

How does your regular warranty coverage compare with the service contract? Make sure any extended warranty coverage begins when your regular warranty ends, so you're not wasting money on duplicate coverage.

Exactly what is included—and not included—in the service contract? What parts, labor, and maintenance are covered? If specific items are not mentioned, assume they're not covered. Find out whether repairs resulting from misuse, wear and tear, or unsatisfactory maintenance are covered, and what these terms mean. Don't rely on what the salesperson says. Ask to see the actual service contract and read it.

Is the item likely to need repairs? In many cases the cost of a service contract may be more than the cost of the repairs that are needed. Buying mer-



chandise with a good performance record is your best insurance against getting a lemon. Check product repair histories in publications such as Consumer Reports.

What other expenses must you pay when the item needs service? Does the service contract require you to pay a charge, such as a deductible, each time service is needed? Who pays shipping costs?

How and where can you get service? Does the service contract include in-home service? Are you required to bring the item to a specific dealer for repair? If you relocate to another area, will service be readily available?

Who backs the service contract? Is it the business where you are buying the item itself, or another company? When some consumers have tried to use their service contracts, they've found that the third-party company that issued the contract has gone out of business and cannot repay claims. Ask if there is any insurance underwriting the policy, or whether the store or dealer you are buying from would honor the policy if the other company went out of business.

Can you opt to buy the service contract in a year or two? You may want to wait until you've owned the item for a while, and until your manufacturer's warranty expires, before considering a service contract. Your salesperson may tell you a policy can be bought only when you purchase the appliance. Maybe that store won't sell you a policy later, but other repair shops and service companies might.

Is an extended warranty available through your credit card company? Some credit card companies offer extended warranties if you buy a product with their card. Check with your card issuer for the terms and conditions.

In summary, don't buy a service contract on the spur of the moment. Only buy one if you have found out exactly what is and isn't covered under the contract, and how reliable the company is that backs the contract.

ADVICE FOR USED CAR BUYERS

Service contracts for used cars are expensive—several hundred to over a thousand dollars. Unfortunately, some consumers have found that their contracts wouldn't pay for repairs they thought would be covered. Common problems include:

- Not understanding that many service contracts cover only mechanical breakdown

(defect) of parts, not corrosion or wear and tear. Many, if not most, repairs on older cars are due to corrosion or wear and tear, rather than a manufacturing defect.

- The contract boasts a long list of "covered repairs," but in small print elsewhere it excludes coverage of these "covered repairs" if the damage is due to the failure of a "non-covered part" such as a gasket or seal. Many parts of an automobile have a gasket or seal.
- The warranty company decides that the damage is due to owner misuse or negligence, saying the owner must have driven the car without lubrication or continued to drive after the car overheated. Always ask to see the actual service contract and read it all—including the exclusions—before agreeing to purchase it. If possible, take it home to study.



HOW TO CONTACT US

Consumer Protection Division

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- **General Consumer Complaints:** 410-528-8662
Toll-free: 1-888-743-0023 TDD: 410-576-6372
En español: 410-230-1712
9 a.m. to 3 p.m. Monday-Friday
www.marylandattorneygeneral.gov/Pages/CPD/
- **Health Consumer Complaints:** 410-528-1840
Toll-free: 1-877-261-8807 TDD: 410-576-6372
En español: 410-230-1712
9 a.m. to 4:30 p.m. Monday-Friday
www.marylandcares.org
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: www.marylandattorneygeneral.gov/Pages/contactus.aspx

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