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Auto Service Contracts and Warranties

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If you're shopping for a new or used car, the salesperson may encourage you to buy an auto service contract to help protect against unexpected or costly repairs. While a service contract may sound like a good idea, it may overlap with the vehicle's existing manufacturer's warranty. So before you spend the extra money, do some research to see if an auto service contract makes sense. Coverage varies widely.

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Auto Service Contracts 101

A service contract is a promise to perform (or pay for) certain repairs or services. Sometimes called an "extended warranty," a service contract is not a warranty as defined by federal law. A service contract may be arranged at any time and always costs extra; a warranty comes with a new car and is included in the purchase price. Used cars also may come with some type of warranty coverage.

Research Your Options

Auto service contracts are sold by vehicle manufacturers, auto dealers, and independent providers. If you're considering a service contract, shop around so you understand exactly what you're buying.

Do I have to buy a service contract?

You are generally not required to buy an auto service contract when you buy a car. You also are generally not required to buy a service contract to get financing. If the dealer tells you that you have to buy a service contract to qualify for financing, contact the lender to find out if this is true. Some people have had trouble canceling their service contract after learning that the lender didn't require one.

Also beware of unscrupulous dealers who may try to include an auto service contract in your loan without your consent. If you see a charge for a service contract that you didn't agree to, tell the dealer to take it out before you sign the loan agreement.

Does the service contract duplicate any warranty coverage?

Compare service contracts with the manufacturer's warranty. New cars come with a manufacturer's warranty, which usually offers coverage for at least three years or 36,000 miles, whichever comes first. A service

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SCAM ALERTS

contract likely will not provide benefits until the manufacturer's warranty expires. Check over the documents to make sure this is true before you agree to buy a service contract.

What is the length of the service contract?

If the service contract lasts longer than you expect to own the car, ask if it can be transferred when you sell the car and whether there is a fee, or if a shorter contract is available. If you're buying a "demonstrator" — a new car that hasn't been owned, leased, or used as a rental, but has been driven by dealer staff — ask when the warranty coverage begins and ends. It may have begun when the dealer put the car into service.

Who backs the service contract?

Find out who performs or pays for repairs under the terms of the service contract. It may be the manufacturer, the dealer, or an independent company. Many service contracts are handled by companies called administrators, that authorize the payment of claims to any dealers under the contract. If you have a dispute over whether a claim should be paid, deal with the administrator. If the administrator goes out of business, the dealership still may be obligated to perform under the contract. The reverse also may be true: If the dealer goes out of business, the administrator may be required to fulfill the terms of the contract. Whether you have any legal remedies depends on your contract's terms and/or your state's laws.

Find out if the auto service contract is underwritten by an insurance company. It's required in some states. If the contract is backed by an insurance company, contact your [state insurance commission](#) to ask about the solvency of the company and whether any complaints are on file.

Insurance regulations generally require companies to:

- maintain an adequate financial reserve to pay claims.
- base their contract fees on expected claims. Some service contract providers have been known to make huge profits because the cost of their contracts far exceeds the cost of repairs or services they provide.
- seek approval from the state insurance office of premiums or contract fees.

Check out the dealer and the administrator with your [local or state consumer protection office](#) or [local automobile dealers association](#) to see if any complaints are on file against the company. You also can search online for complaints.

If you decide to buy a service contract through a dealership — and the contract is backed by an administrator or a third party — make sure the dealer forwards your payment and you get written confirmation. Some people discovered too late that the dealer failed to forward their payment, leaving them with no coverage months after they signed a contract. Contact your [local or state consumer protection office](#) if you have reason to believe that your contract wasn't put into effect as agreed.

How much does it cost?

Usually, the price of the service contract is based on the car make, model, condition (new or used), coverage, and length of contract. The upfront cost can range from one to several thousand dollars. In addition, you may need to pay a deductible. Find out if the deductible is charged on a per visit or per repair basis. This can make a big difference. For example, assume you have a \$100 deductible and your car needs three parts repaired. With the deductible per visit, you pay \$100. If you have a deductible per repair, you pay \$300.

Service contracts often limit how much they will pay for towing or related rental car expenses — meaning you have to cover the remaining cost. There also may be transfer or cancellation fees if you sell your car or end the contract early.

What's covered?

Few service contracts cover all repairs. Common repairs for parts like brakes and clutches generally are not included in auto service contracts. The best advice: If an item isn't listed, assume it's not covered. Watch out for absolute exclusions that deny coverage for any reason. For example: If a covered part is damaged by a non-covered part, the claim may be denied. Or if the contract specifies that only "mechanical breakdowns" will be covered, problems caused by "normal wear and tear" may be excluded. If the engine has to be taken apart

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to diagnose a problem and during the process the mechanic discovers non-covered parts that need to be repaired or replaced, you may have to pay for the labor involved in the tear-down and re-assembling of the engine.

You may not have full protection even for parts that are covered in the contract. Some companies use a "depreciation factor" in calculating coverage: the company may pay only partial repair or replacement costs based on your car's mileage.

How are claims handled?

When your car needs to be repaired or serviced, you may be able to choose among several service dealers or authorized repair centers. Or, you may have to take it to the dealer you bought it from. That could be inconvenient if you bought the car from a dealership in another town. Find out if your car will be covered if it breaks down while you're using it on a trip or if you take it when you move out of town.

Some auto service contract companies and dealers offer service only in specific geographical areas. Find out if you need prior authorization from the contract provider for any repair work or towing services. Be sure to ask: how long it takes to get authorization, whether you can get authorization outside of normal business hours, and whether the company has a toll-free number for authorization. Test the toll-free number before you buy the contract to see if you can get through easily.

You may have to pay for covered repairs and then wait for the service company to reimburse you. If the auto service contract doesn't specify how long reimbursement usually takes, ask. Find out who settles claims in case you have a dispute with the service contract provider and need to use a dispute resolution program.

Are new or reconditioned parts authorized for use in covered repairs?

If this concerns you, you will want to know whether the authorized repair facility maintains an adequate stock of parts. Repair delays may occur if authorized parts are not readily available and must be ordered.

What are my responsibilities?

Under the service contract, you may have to follow all the manufacturer's recommendations for routine maintenance, like oil changes. If you don't, it could void the contract. To prove you have maintained the car properly, keep detailed records, including receipts. Find out if the contract prohibits you from taking the car to an independent station for routine maintenance or performing the work yourself. The contract may specify that the dealer that sold you the car is the only authorized facility for servicing the car.

Beware of Auto Warranty Scams

Be skeptical of mail and phone calls warning that the warranty on your car is about to expire. The companies behind the letters and calls may give the impression they represent your car dealer or manufacturer. With phrases like *Motor Vehicle Notification*, *Final Warranty Notice* or *Notice of Interruption*, they are trying to make the offer seem urgent — and to get you to call a toll-free number for more information. Investigate before you buy.

More than likely, these pitches are from unrelated businesses that want to sell you extended warranties — more accurately known as service contracts — that often sell for hundreds or thousands of dollars. If you respond to a call from a business pitching so-called extended warranties, you're likely to hear high-pressure sales tactics, as well as demands for personal financial information and a down payment, before you get any details about the service contract. And if you buy a service contract, you may find that the company behind it won't be in business long enough to fulfill its commitments.

Steer Clear of Auto Warranty Scams

If you get mail or phone calls about renewing your vehicle warranty, don't take the information at face value. Your vehicle's warranty may be far from expiring — or it may have expired already. If you have a question about your warranty, check your owner's manual, call the dealer who sold you the car, or contact the vehicle manufacturer.

Be alert to fast talkers. Telemarketers pitching auto warranties often use high-pressure tactics to hide their true motive. Take your time. Most legitimate businesses will give you time and written information about an

offer before asking you to commit to a purchase.

Never give out personal financial or other sensitive information like your bank account, credit card or Social Security numbers – even your driver's license number or Vehicle Identification Number (VIN) – unless you know who you're dealing with. Scam artists often ask for this information during an unsolicited sales pitch, and then use it to commit other frauds against you.

Be skeptical of any unsolicited sales calls and recorded messages. If your phone number is on the National Do Not Call Registry: You shouldn't get live or recorded sales pitches unless you have specifically agreed to accept such calls, bought something from the company within the last 18 months, or asked the company for information within the last three months. Read [Robocalls](#) to learn more. To report violations of the National Do Not Call Registry or to register a phone number, visit [DoNotCall.gov](#) or call 1-888-382-1222.

Used Cars: Warranty Protection

When shopping for a used car, look for the [Buyer's Guide](#) posted on the side window. The FTC requires the Guide on all used cars sold by dealers. It tells whether a service contract is available. It also indicates whether the vehicle is being sold with a warranty, with implied warranties only, or "as is."

Warranty. If the manufacturer's warranty is still in effect on the used car, you may have to pay a fee to get coverage, making it a service contract. However, if the dealer absorbs the cost of the manufacturer's fee, the coverage is considered a warranty.

Implied Warranties Only. There are two common types of implied warranties. Both are unspoken and unwritten, and based on the principle that the seller stands behind the product. Under a "warranty of merchantability," the seller promises the product will do what it is supposed to do. For example, a toaster will toast, or a car will run. If the car doesn't run, implied-warranties law says that the dealer must fix it (unless it was sold "as is") so that the buyer gets a working car. A warranty of fitness for a particular purpose" applies when you buy a vehicle on a dealer's advice that it is suitable for a certain use, like hauling a trailer. Used cars usually are covered by implied warranties under state law.

As Is - No Warranty. If you buy a car "as is," you must pay for all repairs, even if the car breaks down on the way home from the dealership. However, if you buy a dealer-service contract within 90 days of buying the used car, state law "implied warranties" may give you additional rights.

Some states prohibit "as is" sales on most or all used cars. Other states require the use of specific words to disclaim implied warranties. In addition, some states have used car "lemon laws" under which a consumer can receive a refund or replacement if the vehicle is seriously defective. To find out about your state laws, check with your local or state consumer protection office or attorney general.

For more information, read [Buying a Used Car](#).

Complaints

If you have a problem with an auto service contract, first try to resolve the dispute with the provider. If that doesn't work, contact your [state Attorney General](#), [state insurance commission](#), or [local consumer protection agency](#). You also may file a complaint with the [Federal Trade Commission](#).

If you think you've been victimized by an auto warranty scam, file a complaint with the [FTC](#). Although the FTC does not intervene in individual disputes, the information you provide may indicate a pattern of possible law violations requiring action by the Commission.

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