



SERVICE CONTRACTS



The information provided in this document is meant for the sole use of Active Duty service members, retirees, their families, and those individuals eligible for legal assistance. The information is general in nature and meant only to provide a brief overview of various legal matters. Rights and responsibilities vary widely according to the particular set of circumstances in each case. Laws can vary across states, services, and civilian jurisdictions and laws are changed from time to time. Do not rely upon the general restatements of background information presented here without discussing your specific situation with a legal professional.

If you are buying a car, major appliance, or audio/video entertainment component, you may be offered a service contract. To many consumers, buying a service contract is like buying "peace of mind" from repair hassles. An estimated 50 percent of all new car buyers, and many used-car and major appliance buyers, purchase service contracts. The cost can range from \$50 to \$500 depending on the length and amount of coverage provided. Some consumers may, however, be paying for more protection than they need.

Before you buy a service contract, consider the following:

What does the service contract offer?

A service contract, like a warranty, provides repair and/or maintenance for a specific time period. Warranties, however, are included in the price of the product, while service contracts cost extra and are sold separately.

What will the service contract give you that the warranty will not?

Before purchasing a service contract, make sure you know the extent of your warranty coverage. Carefully compare the warranty coverage with the coverage offered by the service contract to decide if the service contract is worth the additional expense.

For what costs may you remain liable even if you purchase a service contract?

You may have other expenses after you buy a service contract. Service contracts, like insurance policies, often have deductible amounts. Or, you may be charged each time the item is serviced. Some expenses are limited or excluded. For example, auto service contracts may not completely cover towing or rental car expenses. In addition, you also may have to pay cancellation or transfer fees if you sell the covered product or wish to end the contract.

What is covered by the service contract?

A service contract may cover only certain parts of the product or specific repairs. Read the contract carefully and, if it does not list something as specifically covered, assume that it is not. Generally, service contracts do not cover repairs resulting from misuse or failure to maintain the product properly. Also, you may be obligated to take certain actions, such as notifying the company of problems, to insure that the service contract is not voided.

Where can you get service?

If the service contract is offered by a local retailer or dealer, you may be able to get only local service. Consider the possibility that problems may develop while you are traveling or after you



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move away from the area. This is especially critical for military personnel and their families. Generally, few service contracts provide for assistance when products are moved to overseas locations. Service contracts on domestic cars, for instance, may be useless if owners take them overseas.

Who is responsible for the contract?

The Federal Trade Commission often receives questions from consumers who ask what they can do about a service contract company that has gone out of business and cannot repay claims. Unfortunately, there is little recourse available to these consumers. The best way to avoid this situation is to make sure, before you sign a contract, that the company is reputable and has insurance.

Can you purchase a service contract after you buy the product?

You may be better able to decide if you need a service contract after you have owned the product for some time. Consider waiting until your warranty period expires to buy a service contract.