

Department of Legislative Services  
Maryland General Assembly  
2015 Session

FISCAL AND POLICY NOTE

House Bill 630 (Delegate Jameson)  
Economic Matters

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Transportation - Mechanical Repair Contracts

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This bill alters the definition of a “mechanical repair contract”; specifies that a mechanical repair contract is not required to be filed for approval with the Insurance Commissioner; and prohibits a person who is not a vehicle manufacturer, distributor, factory branch, or dealer and who sells a mechanical repair contract from making specified false, deceptive, or misleading statements.

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Fiscal Summary

**State Effect:** Special fund revenues decrease minimally beginning in FY 2016 as the Maryland Insurance Administration (MIA) collects fewer filing fees (\$125) associated with the filing of mechanical repair contracts. General fund revenues may increase minimally from the application of existing penalties under the Maryland Vehicle Law to the bill’s new prohibitions. Expenditures are not affected.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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Analysis

**Bill Summary:** The bill alters the definition of a “mechanical repair contract” to include an agreement or contract sold by *any person obligated under the agreement or contract* under which a provider agrees to perform any of several services enumerated in the bill, which generally pertain to the repair, *replacement*, or maintenance of a vehicle (current law applies to “services relating to the maintenance or repair of a motor vehicle”), including, among other things, towing, rental and emergency road service, and road hazard

protection. The bill excludes from this definition warranties under the federal Magnuson-Moss Warranty Act or contracts or agreements for regular maintenance. The bill also alters the definition by removing the requirement that the provider of the contract be “specified” and that the contract “be optional to the purchaser.” Finally, the bill alters the definition by removing the phrase “but is not limited to” from the statement that a mechanical repair contract includes but is not limited to extended warranties and extended service contracts; thus, it appears that a mechanical repair contract, by definition, cannot include anything else.

The bill also prohibits a person who is not a vehicle manufacturer, distributor, factory branch, or dealer and who sells a mechanical repair contract from making a false, deceptive, or misleading statement with respect to (1) the person’s affiliation or possession of specified information; (2) the expiration of a manufacturer’s original equipment warranty; or (3) a requirement that the vehicle owner register for a new mechanical repair contract in order to maintain coverage under the owner’s current mechanical repair contract or the manufacturer’s original equipment warranty.

**Current Law/Background:** A mechanical repair contract is defined as any agreement or contract sold by *a licensed vehicle dealer* under which a provider agrees to perform, over a fixed period, for a specific duration, and for an identifiable price, (any) services relating to the maintenance or repair (but not replacement) of a motor vehicle, provided that the purchase of the contract is optional to the purchaser.

The Maryland Vehicle Law establishes several requirements governing mechanical repair contracts. Among other things, a mechanical repair contract must only be offered in addition to any express warranty originally included as part of the contract for sale of a new motor vehicle. A provider of services under a mechanical repair contract must maintain adequate insurance reserves, as defined by the Insurance Commissioner, for each contract for the protection of the purchasing consumer. The provisions of the Maryland Consumer Products Guaranty Act also apply to a mechanical repair contract sold by a licensed vehicle dealer.

The federal Magnuson-Moss Warranty Act requires manufacturers and sellers of consumer products to provide consumers with detailed information about warranty coverage. The Act only governs written warranties on consumer products sold at retail. Under the Act, a warrantor or seller must:

- designate or title the written warranty as “full” or “limited”;
- state certain specified information about the warranty coverage in a single, concise document; and

- ensure that the warranties are available where warranted consumer products are sold.

**State Revenues:** Special fund revenues decrease minimally beginning in fiscal 2016 as MIA collects fewer \$125 filing fees from mechanical repair contract providers. MIA advises that 29 mechanical repair contracts were filed in 2014. Thus, special fund revenues may decrease by several thousand dollars annually under the bill.

General fund revenues may increase minimally from the application of existing penalties under the Maryland Vehicle Law to the bill's prohibitions. Generally, a violation of the Maryland Vehicle Law is a misdemeanor and carries a maximum penalty of \$500. Violators may also prepay a civil fine instead of contesting the violation in court; currently, the prepaid fine for licensed dealers that violate provisions related to mechanical repair contracts is \$290.

Additional administrative fines apply to a dealer licensed by the Motor Vehicle Administration (MVA) that violates any provision relating to mechanical repair contracts, but other businesses that would be authorized to sell mechanical repair contracts under the bill are not licensed by MVA and not subject to these additional license-related penalties.

District Court data indicates that, in fiscal 2014, there were no such violations of the provisions relating to mechanical repair contracts (by licensed vehicle dealers), although, as noted above, administrative fines may be levied by MVA instead of pursuing civil penalties.

**Small Business Effect:** Small businesses engaged in providing (or brokering the sale of) mechanical repair contracts may realize a meaningful increase in revenues or profits to the extent that the bill allows additional business opportunities related to the sale of such contracts and the expanded scope of services that may be sold under a contract. However, the bill also establishes several prohibitions relating to false, deceptive, or misleading statements, which may subject providers to additional penalties under the Maryland Vehicle Law.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Insurance Administration, Maryland Department of Transportation, Judiciary (Administrative Office of the Courts), Department of Legislative Services

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Analysis by: Evan M. Isaacson

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510