

BILL ANALYSIS

Senate Research Center

H.B. 2275
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Enrolled

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Service contracts provide protection for consumer products when the product suffers a failure due to a defect in materials or workmanship or normal wear and tear. These contracts, which are optional to purchase, are offered to consumers for a specific period of time and for an additional cost in addition to the price of a product. Service contracts are offered on products such as appliances, consumer electronics, and motor vehicles. In addition to the "core" coverage being provided, a service contract may also provide for other benefits incidental to that core coverage, which includes towing, rental, emergency road service, and repair or replacement of cracked windshields, tire or wheel damage, and worn fabric or carpet.

The Texas Department of Licensing and Regulation has regulated service contracts since 1999. H.B. 2275 will make two pro-consumer amendments to the Service Contract Regulatory Act (Act) found in Chapter 1304, Occupations Code.

As some motor vehicle keys and key fobs have become more costly to replace—often in excess of hundreds of dollars—this legislation allows the cost of a replacement key or key fob to be covered by a service contract if the key was lost, stolen, or damaged. Twenty states have allowed this benefit to be provided in recent years, and seven states currently have legislation or regulation pending that would permit this benefit to be provided within a service contract. The benefit has, as you can imagine with the increase in the cost to replace a lost or broken key fob, become popular with consumers and is in high demand. There is regulatory uncertainty as to whether the product can be offered in Texas and this amendment would clarify the ability to provide it under the current regulatory framework applicable to service contracts in Texas which provides significant protection to Texas consumers electing to purchase the product.

Texas service contract law was amended in 2011 to state that a service contract provider shall refund to the contract holder either the full amount of the amount paid for the service contract if cancelled during the free look period or a pro rata amount if cancelled subsequent to that time frame "decreased by the amount of any claims paid under the contract." The amendments in 2011 specified that a provider "may allow [cancellation] on other terms included in the contract, provided the terms do not conflict with this section."

A 2015 Texas attorney general's opinion, taking a strict interpretation of the Act, concluded that a refund must deduct funds for claims paid and thus the refund could not be more generous than that which was codified by the 2011 legislation. This legislation will clarify the 2011 legislation and allow a service contract provider to elect not to deduct claims paid from any refunds and, therefore, provide a more generous refund to consumers when a service contract is canceled. While the deduction of claims paid should be permitted to be deducted from a cancellation refund, it should not be required. H.B. 2275 recognizes that.

H.B. 2275 amends current law relating to the regulation of a service contract.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 1304.003(b), Occupations Code, as follows:

(b) Authorizes a service contract described by Subsection (a)(2)(A) (relating to the definition of "service contract") to also provide for certain services, including the replacement of a motor vehicle key or key fob in the event the key or key fob is inoperable, lost, or stolen. Makes nonsubstantive changes.

SECTION 2. Amends Section 1304.1581, Occupations Code, by adding Subsection (g), as follows:

(g) Provides that, notwithstanding Subsection (b)(1) (relating to a service provider refunding to the service contract holder the full purchase price of the contract, decreased by a certain amount, if a service contract holder cancels a service contract before the 31st day after the date of purchase) or (c)(1) (relating to the service provider refunding to the service contract holder the prorated purchase price of the contract if a service contract holder cancels a service contract on or after the 31st day after the date of purchase), a provider is not required to deduct the amount of any claims paid under a service contract from the amount of a refund required under this section.

SECTION 3. Amends Section 1304.159, Occupations Code, by adding Subsection (d), to provide that, notwithstanding Subsection (c) (relating to a certain service contract holder being entitled to a prorated refund of a certain purchase price), a provider is not required to deduct the amount of any claims paid under a service contract from the amount of a refund a service contract holder is entitled to under this section.

SECTION 4. Makes application of this Act prospective.

SECTION 5. Effective date: September 1, 2017.