

BILL ANALYSIS

C.S.H.B. 2261
By: Callegari
Licensing & Administrative Procedures
Committee Report (Substituted)

BACKGROUND AND PURPOSE

A service contract (also known as an extended warranty) is an agreement under which a provider agrees to repair, replace, or maintain a product or provide indemnification for the product, for operational or structural failure caused by a defect or by normal wear. Service contracts are regulated under the Service Contract Regulatory Act (the "Act") by the Texas Department of Licensing and Regulation ("TDLR"). Service contract providers are required to maintain financial security, provide financial and corporate information to TDLR, and include certain information in the contract themselves.

Both consumers and businesses in the state are interested in the sale of service contracts that would provide for the repair of a motor vehicle's components that are damaged by "normal wear." This "normal wear" could include small dents and dings in vehicles, small windshield chips and cracks, worn tire tread, worn interior fabric, and tire and wheel damage from ordinary road hazards.

CSHB 2261 defines the term normal wear found in the Act and redefines the term "service contract".

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

CSHB 2261 amends §1304.003, Occupations Code, to redefine "service contract" to include damage, in addition to operational or structural failure, caused by a defect in materials or workmanship or by normal wear. The bill also defines normal wear for a motor vehicle covered by a service contract as the minor and reasonable wear and tear that a vehicle sustains during ordinary operation including: small dents, dings, and creases repairable by the process of paintless dent removal; small windshield chips and cracks repairable without replacement of the entire windshield; worn tire tread; worn interior fabric or carpet items; and tire and wheel damage resulting from ordinary road hazards such as potholes, rocks, wood debris, metal parts, glass, plastic, or composite scraps.

Provides that the change in law applies to a service contract entered into on or after the effective date.

EFFECTIVE DATE

September 1, 2007.

COMPARISON OF ORIGINAL TO SUBSTITUTE

The original version of the bill amended §1304.002, Occupations Code by adding a definition of "normal wear". The committee substitute amends §1304.003, Occupations Code, instead of §1304.002, by defining normal wear and redefining "service contract" to include damage, in addition to operational or structural failure, caused by a defect in materials or workmanship or by normal wear.

