

AN ACT

relating to service contracts for leased or purchased motor vehicles.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Sections 1304.003(a)(2) and (3), Occupations Code, are amended to read as follows:

(2) "Service contract" means an agreement that is entered into for a separately stated consideration and for a specified term under which a provider agrees to:

(A) repair, replace, or maintain a product, or provide indemnification for the repair, replacement, or maintenance of a product, for operational or structural failure or damage caused by a defect in materials or workmanship or by normal wear;

(B) provide identity recovery, if the service contract is financed under Chapter 348 or 353, Finance Code; or

(C) provide compensation to the lessee or buyer of a vehicle on the total constructive loss under a depreciation benefit optional member program.

(3) "Depreciation benefit optional member program" means a service contract for a vehicle, regardless of whether the vehicle is purchased for cash, financed, or leased [~~financed under Chapter 348 or 353, Finance Code~~], that pays to the lessee or buyer a specified amount, as a credit that may be used toward the lease or

1 purchase of a replacement vehicle at a participating dealer after
2 [~~, an amount less than or equal to the difference between the~~
3 ~~purchase price and actual cash value for~~] a total constructive loss
4 of the vehicle.

5 SECTION 2. Section 1304.003(e), Occupations Code, is
6 amended to read as follows:

7 (e) A service contract described by Subsection (a)(2)(C):

8 (1) may not be required as a condition of approval of a
9 lease of a vehicle or a loan for the purchase of a vehicle;

10 (2) may not be offered by a dealer who requires a loan
11 for the purchase of a vehicle to be financed exclusively with the
12 dealer;

13 (3) may be canceled by the buyer of the service
14 contract not later than the 30th day after the [~~a~~] buyer enters into
15 the contract, without a penalty;

16 (4) may be canceled by the buyer of the service
17 contract later than the 30th day after the [~~a~~] buyer enters into the
18 contract, with a pro rata refund to be provided to the buyer; and

19 (5) may only charge a fee that is reasonable in
20 relation to the benefit provided by the service contract.

21 SECTION 3. The changes in law made by this Act apply only to
22 a service contract entered into or renewed on or after the effective
23 date of this Act. A service contract entered into or renewed before
24 the effective date of this Act is governed by the law in effect
25 immediately before the effective date of this Act, and that law is
26 continued in effect for that purpose.

27 SECTION 4. This Act takes effect September 1, 2021.

President of the Senate

Speaker of the House

I certify that H.B. No. 735 was passed by the House on April 9, 2021, by the following vote: Yeas 143, Nays 1, 2 present, not voting.

Chief Clerk of the House

I certify that H.B. No. 735 was passed by the Senate on April 29, 2021, by the following vote: Yeas 31, Nays 0.

Secretary of the Senate

APPROVED: _____

Date

Governor