

Contracts and Warranties

Federal Trade Commission Consumer Information

<https://www.consumer.ftc.gov/articles/0240-extended-warranties-and-service-contracts>

If you're buying a car, an electronic device, or a major appliance, you may be offered the chance to buy an "extended warranty" or service contract. Both service contracts and warranties offer repair or maintenance for a specific time period. But there's an important difference: a warranty is included in the price of an item; a service contract costs extra. It's an add-on that might not be worth the price.

Some service contracts duplicate the warranty coverage that the manufacturer already provides. You are paying for a service contract when the manufacturer warranty already covers repair or maintenance on the purchase. Some service contracts cover only part of the product; and some make it nearly impossible to get repairs when you need them.

Here are a few factors to consider before deciding to buy a service contract.

Do I need a service contract?

If the product is unlikely to need repairs, you may not gain from a service contract or if the cost of repairs is low. How do you know if a product may need repairs? Do your research before purchase. Check websites that offer information about products that are most likely to need expensive — or extensive — repairs.

When you're shopping, [compare specific manufacturers and products](#). If you buy a reliable product from a company with a good reputation, a service contract

might not be necessary.

Does the Service Contract Really Provide Extra Coverage?

Before considering a service contract, make sure you know what your warranty coverage is. Compare the warranty coverage to the service contract to see if there's any gain to extra coverage.

Read the costs and terms of the service contract. If you're shopping online, look for a hyperlink to the terms, and save a copy so you can refer to them later.

Depending on the terms, a service contract could last less than a year or extend for several years. Accidental damage may not be covered. And there may be clauses that allow the company to deny coverage if, for example, you don't follow their instructions for routine maintenance or claims submission.

A service contract might cover specific parts of the product or specific repairs. If the terms don't list a part or a role as specifically covered, assume that it's not.

Keep in mind that you may have other expenses, like a deductible or a fee each time the item is serviced. You may be required to mail the product to a repair center — so consider shipping costs. Some service contracts set reimbursement amounts. For example, auto service contracts may not completely cover towing or rental car expenses. In addition, you may have to pay a transfer fee if you sell the product.

How are claims handled?

Find out if the retailer or someone else takes care of the repairs. What's the process for a claim? For example, would you return the item to the store where you bought it? Would you have to ship the product to a service center in another city/state/country? If the store has many locations, can you stop in to another store location for service? If a local retailer or dealer offers the service contract, you may

be able to get local service only. Consider the possibility that problems may develop while you are traveling or after you move away.

Who handles the contract?

The FTC often gets letters from consumers who ask what they can do if they have a service contract with a company that goes out of business and cannot repay claims. Unfortunately, there is little you can do if that happens. Before you sign a contract, think about the company's financial situation and consider whether the business is reputable:

- Look for an address and a phone number for questions or problems.
- Do an online search with the name of the company and words like “review” or “complaint” to see if there are negative reviews of the company.
- Call your state consumer protection office or local Better Business Bureau and ask if they have any complaints against the company.

Is there a better option?

Some consumer advocates suggest that people are better off skipping extended warranties and putting the money they would've spent in a savings account. If you need repairs, you'll have your savings to fall back on. And if you don't need repairs, you'll have a little extra money in the bank.

What are “Cold Calls”?

Many extended warranties are offered at the point of sale, but sometimes marketers call or send mail long after you've made a purchase. More than likely, these pitches are from unrelated businesses. If you respond to them, you're likely to hear high-pressure sales tactics, demands for personal financial information and a down payment before you get any details about the service contract. And if you buy a service contract from a telemarketer, you may find that the company behind it won't be in business long enough to fulfill its commitments.

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