

# SENATE BILL REPORT

## SB 6624

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As of January 25, 2010

**Title:** An act relating to defining normal wear and tear for a motor vehicle for the purpose of a service contract.

**Brief Description:** Defining normal wear and tear for a motor vehicle for the purpose of a service contract.

**Sponsors:** Senators Berkey and Parlette.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Insurance: 1/26/10.

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

**Staff:** Diane Smith (786-7410)

**Background:** Service contracts are regulated by the Office of Insurance Commissioner (OIC). Service contracts are agreements whereby the customer buys what functionally is insurance for repairs, replacement, or maintenance of property, for operational or structural failure due to a defect in materials or workmanship, or normal wear and tear.

The company that is obligated to the customer under the service contract, called the service contract provider, must register with the OIC. It is also required to demonstrate its financial responsibility or assure its faithful performance under the contract.

There are three options for the service contract provider to comply with this requirement. It may insure its service contracts with a reimbursement insurance policy; maintain a reserve account that includes at least 40 percent of the gross consideration received for all service contracts and give the Insurance Commissioner a financial security deposit of at least 5 percent of the gross consideration received; or maintain or have its parent company maintain, a net worth of stockholders' equity of at least \$100 million.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** The definition of service contract is amended to include contracts to repair or replace tires, wheels, or both, due to road hazards. Tire or

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wheel manufacturers and motor vehicle manufacturers are exempt from regulation of service contracts by the OIC.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.