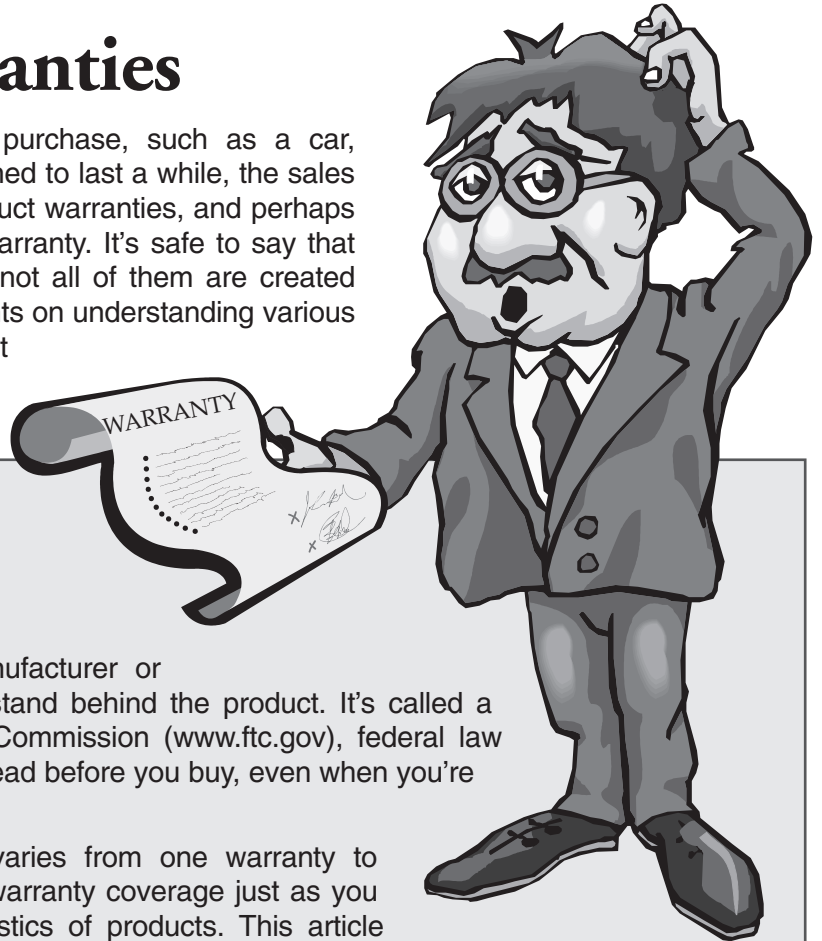




Understanding Warranties

Chances are the last time you made a major purchase, such as a car, washing machine, television or other product designed to last a while, the sales person discussed with you any accompanying product warranties, and perhaps even the opportunity to sign up for an extended warranty. It's safe to say that there are many different types of warranties, and not all of them are created equal. This issue of Dollars & Sense provides insights on understanding various types of warranties so you can make prudent purchase decisions and save money. ■



A Warranty by Any Other Name

When you make a major purchase, the manufacturer or seller in turn makes an important promise to stand behind the product. It's called a warranty. As explained by the Federal Trade Commission (www.ftc.gov), federal law requires that warranties be available for you to read before you buy, even when you're shopping by catalog or on the Internet.

What is specifically covered by a warranty varies from one warranty to another, so you should compare the extent of warranty coverage just as you compare the style, price, and other characteristics of products. This article touches on 1) written warranties, 2) spoke warranties, 3) warranty pieces, and 4) implied warranties.

1. Written Warranties

According to the FTC, written warranties (although not required by law), typically accompany most major purchases. When comparing written warranties, keep the following in mind:

- How long does the warranty last? Check the warranty to see when it begins and when it expires, as well as any conditions that may void coverage.
- Whom do you contact to get warranty service? It may be the seller or the manufacturer who provides you with service.
- What will the company do if the product fails? Read to see whether the company will repair the item, replace it, or refund your money.
- What parts and repair problems are covered? Check to see if any parts of the product or types of repair problems are excluded from coverage. For example, some warranties require you to pay for labor charges. Also, look for conditions that could prove expensive or inconvenient, such as a requirement that

Continued on page 2

ARTICLES

Continued from page 1, By Any Other Name

you ship a heavy object to a factory for service, or that you return the item in the original carton.

- Does the warranty cover "consequential damages?" Many warranties do not cover damages caused by the product, or your time and expense in getting the damage repaired. For example, if your freezer breaks and the food spoils, the company will not pay for the lost food.
- Are there any conditions or limitations on the warranty? Some warranties provide coverage only if you maintain or use the product as directed. For example, a warranty may cover only personal uses—as opposed to business uses—of the product. Make sure the warranty will meet your needs.

2. Spoken Warranties

If a salesperson makes a promise orally, such as that the company will provide free repairs, get it in writing. Otherwise, you may not be able to get the service that was promised.

3. Warranty Pieces

When you buy a car, home, or major appliance, you may be offered a service contract. Although often called "extended warranties," service contracts are not warranties. Service contracts, like warranties, provide repair and/or maintenance for a specific time. Warranties, however, are included in the price of the product; service contracts cost extra and are sold separately. To determine whether you need a service contract, consider:

Continued on page 3

When Buying a Car, Beware of the Extended Warranty Add-on

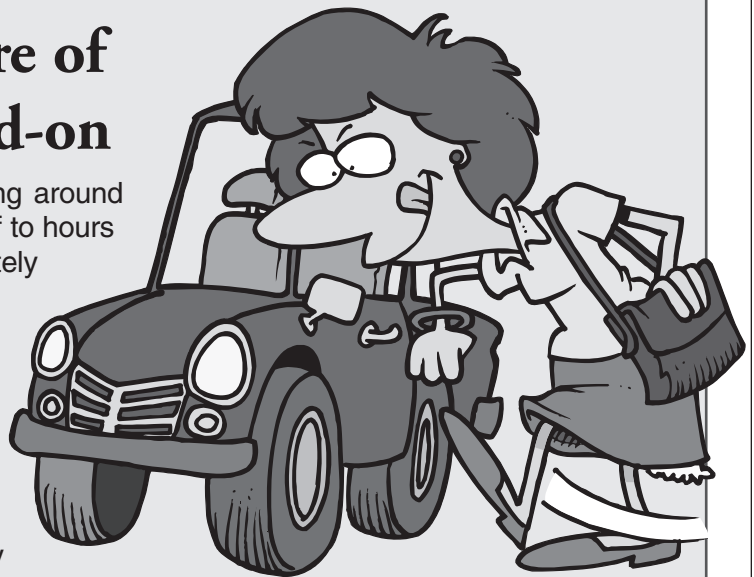
Perhaps you've experienced it yourself when shopping around for a car. You crisscross the county, subjecting yourself to hours of comparison shopping and price haggling. Ultimately you land on the right car at the right price. Then when you finally sit down with the finance manager to sign the dotted line, the hard sell truly begins—the extended service warranty.

Writing for Bankrate.com, Lucy Lazarony explains that an extended warranty is actually an extended service contract, which covers the cost of certain repairs and problems after a car's factory warranty expires. Extended warranties are huge moneymakers for auto dealers, with a markup of at least 100% or more. If you're not careful, signing up for one could cost you hundreds, even thousands of dollars.

Whatever you do, don't allow the dealer to pressure you into purchasing an extended service contract or warranty at an inflated price. First off, says Lazarony, you may not need an extended warranty. And even if you do, you'll get a much better deal later by shopping around. People who buy and trade cars frequently should pass on an extended warranty. There's no need to purchase one if you only plan to keep the car for three or four years since repairs are covered under the car's original warranty. Plus, many auto manufacturers now offer warranties above and beyond the once standard three-year or 36,000 miles protection. Before you consider an extended warranty, take a close look at your car's original warranty. It may be all you need.

To Buy or Not to Buy

If you plan on keeping a car long after its original warranty expires, answering the following questions may help you decide whether to purchase an extended service contract or not:



Continued on page 3

Continued from page 2, By Any Other Name

- whether the warranty already covers the repairs and the time period of coverage that you would get under the service contract
- whether the product is likely to need repairs and the potential costs of such repairs
- the duration of the service contract
- the reputation of the company offering the service contract

4. Implied Warranties

Implied warranties are created by state law, and all states have them. Almost every purchase you make is covered by an implied warranty.

The most common type of implied warranty—a “warranty of merchantability,” means that the seller promises that the product will do what it is supposed to do. For example, a car will run and a toaster will toast.

Another type of implied warranty is the “warranty of fitness for a particular purpose.” This applies when you buy a product on the seller's advice that it is suitable for a particular use. For example, a person who suggests that you buy a certain sleeping bag for zero-degree weather warrants that the sleeping bag will be suitable for zero degrees.

If your purchase does not come with a written warranty, it is still covered by implied warranties unless the product is marked “as is,” or the seller otherwise indicates in writing that no warranty is given. Several states, including Kansas, Maine, Maryland, Massachusetts, Mississippi, Vermont, West Virginia, and the District of Columbia, do not permit “as is” sales.

Service contracts, like warranties, provide repair and/or maintenance for a specific time. Warranties, however, are included in the price of the product; service contracts costs extra and are sold separately.

If problems arise that are not covered by the written warranty, you should investigate the protection given by your implied warranty. Implied warranty coverage can last as long as four years, although the length of the coverage varies from state to state. A lawyer or a state consumer protection office can provide more information about implied warranty coverage in your state. ■

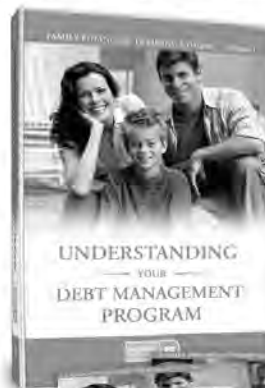
Continued from page 2, extended warranty

- 1. Do you hate surprise expenses, especially costly auto repairs?**
- 2. Will the cost of replacing an expensive electrical part or air conditioner or transmission bust your monthly budget? Or do you have a few thousand dollars tucked away in an emergency fund for just these kinds of expenses?**
- 3. How long do you plan on keeping the car after the original warranty expires?**
- 4. Would you sleep better at night knowing that certain major repairs will be covered under an extended service contract? Or would you rather risk it and pay for repairs when and if they are needed?**

If you come to the conclusion that an extended service contract is the right idea, remember to shop the price down. And also keep in mind that you don't need to buy it at the same time you buy your car. You can purchase an extended warranty a week, a month, even years after you buy a new car. ■

Introducing

The Access Education Financial Training Program



Learn more about:

- Debt management
- Budgets
- Improve your lifestyle
- Retirement planning
- Investments

You will receive one free volume every six months.

How to Prevent or Minimize Warranty Problems

Murphy's Law states that if something can go wrong, it probably will, which is all the more reason to scrutinize warranties in order to minimize problems. Consider these suggestions:

- Read the warranty before you buy. When online, look for hyperlinks to the full warranty or to an address where you can write to get a free copy. Understand exactly what protection the warranty gives you. If a copy of the warranty is available when shopping online, print it out when you make your purchase and keep it with your records.
- Consider the reputation of the company offering the warranty. Look for an address to write to or a phone number to call if you have questions or problems. If you're not familiar with the company, ask your local or state consumer protection office or Better Business Bureau if they have any complaints against the company. A warranty is only as good as the company that stands behind it.
- Save your receipt and file it with the warranty. You may need it to document the date of your purchase or prove that you're the original owner in the case of a nontransferable warranty.
- Perform required maintenance and inspections.
- Use the product according to the manufacturer's instructions. Abuse or misuse may void your warranty coverage.

How to Resolve Warranty Disputes

Let's face it. People aren't perfect, and neither are the products that imperfect people make. If you encounter problems with a product or have trouble getting the warranty service you're entitled to, consider these helpful suggestions provided by the FTC:

- Read your product instructions and warranty carefully. Don't expect features or performance that your product wasn't designed for, or assume

warranty coverage that was never promised in writing. A warranty doesn't mean that you'll automatically get a refund if the product is defective—the company may be entitled to try to fix it first. On the other hand, if you reported a defect to the company during the warranty period and the product wasn't fixed properly, the company must correct the problem, even if your warranty expires before the product is fixed.

- Try to resolve the problem with the retailer. If you can't, write to the manufacturer. Your warranty should list the company's mailing address. Send all letters by certified mail, return receipt requested, and keep copies.
- Contact your state or local consumer protection office. They can help you if you can't resolve the situation with the seller or manufacturer.
- Research dispute resolution programs that try to informally settle any disagreements between you and the company. Your local consumer protection office can suggest organizations to contact. Also, check your warranty; it may require dispute resolution procedures before going to court.
- Consider small claims court. If your dispute involves less than \$750, you can usually file a lawsuit in small claims court. The costs are relatively low, procedures are simple, and lawyers usually aren't needed. The clerk of the small claims court can tell you how to file your lawsuit and your state's dollar limits.
- If all else fails, you may want to consider a lawsuit. You can sue for damages or any other type of relief the court awards, including legal fees. A lawyer can advise you how to proceed. ■

Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS

Copyright 2006, All rights reserved.

724 Front Street, Suite 340

Evanston, WY 82930

(307) 789-2010, toll-free (888) 292-4333

www.accesseducation.org

