

VIRGINIA ACTS OF ASSEMBLY — CHAPTER

*An Act to amend and reenact § 46.2-1571 of the Code of Virginia, relating to challenging the imposition of financial penalties on motor vehicle dealers.*

[S 1051]

Approved

**Be it enacted by the General Assembly of Virginia:**

**1. That § 46.2-1571 of the Code of Virginia is amended and reenacted as follows:**

**§ 46.2-1571. Warranty and sales incentive obligations.**

A. Each motor vehicle manufacturer, factory branch, distributor, or distributor branch shall (i) specify in writing to each of its motor vehicle dealers licensed in the Commonwealth the dealer's obligations for preparation, delivery, and warranty service on its products and (ii) compensate the dealer for warranty parts, service and diagnostic work required of the dealer by the manufacturer or distributor as follows:

1. Compensation of a dealer for warranty parts, service and diagnostic work shall not be less than the amounts charged by the dealer for the manufacturer's or distributor's original parts, service and diagnostic work to retail customers for nonwarranty service, parts and diagnostic work installed or performed in the dealer's service department unless the amounts are not reasonable. Warranty parts compensation shall be stated as a percentage of markup, which shall be an agreed reasonable approximation of retail markup and which shall be uniformly applied to all of the manufacturer's or distributor's parts unless otherwise provided for in this section. If the dealer and manufacturer or distributor cannot agree on the warranty parts compensation markup to be paid to the dealer, the markup shall be determined by an average of the dealer's retail markup on all of the manufacturer's or distributor's parts as described in subdivisions 2 and 3 of this subsection.

2. For purposes of determining warranty parts and service compensation paid to a dealer by the manufacturer or distributor, menu-priced parts or services, group discounts, special event discounts, and special event promotions shall not be considered in determining amounts charged by the dealer to retail customers. For purposes of determining labor compensation for warranty body shop repairs paid to a dealer by the manufacturer or distributor, internal and insurance-paid repairs shall not be considered in determining amounts charged by the dealer to retail customers.

3. Increases in dealer warranty parts and service compensation and diagnostic work compensation, pursuant to this section, shall be requested by the dealer in writing, shall be based on 100 consecutive repair orders or all repair orders over a ~~ninety-day~~ 90-day period, whichever occurs first and, in the case of parts, shall be stated as a percentage of markup which shall be uniformly applied to all the manufacturer's or distributor's parts.

4. In the case of warranty parts compensation, the provisions of this subsection shall be effective only for model year 1992 and succeeding model years.

5. If a manufacturer or distributor furnishes a part to a dealer at no cost for use by the dealer in performing work for which the manufacturer or distributor is required to compensate the dealer under this section, the manufacturer or distributor shall compensate the dealer for the part in the same manner as warranty parts compensation, less the wholesale costs, for such part as listed in the manufacturer's current price schedules. A manufacturer or distributor may pay the dealer a reasonable handling fee instead of the compensation otherwise required by this subsection for special high-performance complete engine assemblies in limited production motor vehicles which constitute less than five percent of model production furnished to the dealer at no cost, if the manufacturer or distributor excludes such special high-performance complete engine assemblies in determining whether the amounts requested by the dealer for warranty compensation are consistent with the amounts that the dealer charges its other retail service customers for parts used by the dealer to perform similar work.

6. In the case of service work, manufacturer original parts or parts otherwise specified by the manufacturer or distributor, and parts provided by a dealer either pursuant to an adjustment program as defined in § 59.1-207.34 or as otherwise requested by the manufacturer or distributor, the dealer shall be compensated in the same manner as for warranty service or parts.

This section does not apply to compensation for parts such as components, systems, fixtures, appliances, furnishings, accessories, and features that are designed, used, and maintained primarily for nonvehicular, residential purposes. Warranty and sales incentive audits of dealer records may be conducted by the manufacturer, factory branch, distributor, or distributor branch on a reasonable basis, and dealer claims for warranty or sales incentive compensation shall not be denied except for good cause, such as performance of nonwarranty repairs, lack of material documentation, fraud, or

57 misrepresentation. A dealer's failure to comply with the specific requirements of the manufacturer or  
58 distributor for processing the claim shall not constitute grounds for the denial of the claim or reduction  
59 of the amount of compensation to the dealer as long as reasonable documentation or other evidence has  
60 been presented to substantiate the claim. The manufacturer, factory branch, distributor, or distributor  
61 branch shall not deny a claim or reduce the amount of compensation to the dealer for warranty repairs  
62 to resolve a condition discovered by the dealer during the course of a separate repair requested by the  
63 customer. Claims for dealer compensation shall be paid within ~~thirty~~ 30 days of dealer submission or  
64 within ~~thirty~~ 30 days of the end of an incentive program or rejected in writing for stated reasons. The  
65 manufacturer, factory branch, distributor, or distributor branch shall reserve the right to reasonable  
66 periodic audits to determine the validity of all such paid claims for dealer compensation. Any  
67 chargebacks for warranty parts or service compensation and service incentives shall only be for the  
68 six-month period immediately following the date of the claim and, in the case of chargebacks for sales  
69 compensation only, for the six-month period immediately following the date of claim. However, such  
70 limitations shall not be effective if a manufacturer, factory branch, distributor, or distributor branch has  
71 reasonable cause to believe that a claim submitted by a dealer is intentionally false or fraudulent. For  
72 purposes of this section, "reasonable cause" means a bona fide belief based upon evidence that the  
73 material issues of fact are such that a person of ordinary caution, prudence, and judgment could believe  
74 that a claim was intentionally false or fraudulent. A dealer shall not be charged back or otherwise liable  
75 for sales incentives or charges related to a motor vehicle sold by the dealer to a purchaser other than a  
76 licensed, franchised motor vehicle dealer and subsequently exported or resold, unless the manufacturer,  
77 factory branch, distributor, or distributor branch can demonstrate by a preponderance of the evidence  
78 that the dealer should have known of and did not exercise due diligence in discovering the purchaser's  
79 intention to export or resell the motor vehicle.

80 B. It shall be unlawful for any motor vehicle manufacturer, factory branch, distributor, or distributor  
81 branch to:

- 82 1. Fail to perform any of its warranty obligations, including tires, with respect to a motor vehicle;
- 83 2. Fail to assume all responsibility for any liability resulting from structural or production defects;
- 84 3. Fail to include in written notices of factory recalls to vehicle owners and dealers the expected date  
85 by which necessary parts and equipment will be available to dealers for the correction of defects;
- 86 4. Fail to compensate any of the motor vehicle dealers licensed in the Commonwealth for repairs  
87 effected by the dealer of merchandise damaged in manufacture or transit to the dealer where the carrier  
88 is designated by the manufacturer, factory branch, distributor, or distributor branch;
- 89 5. Fail to fully compensate its motor vehicle dealers licensed in the Commonwealth for warranty  
90 parts, work, and service pursuant to subsection A either by reduction in the amount due to the dealer or  
91 by separate charge, surcharge, or other imposition by which the motor vehicle manufacturer, factory  
92 branch, distributor, or distributor branch seeks to recover its costs of complying with subsection A, or  
93 for legal costs and expenses incurred by such dealers in connection with warranty obligations for which  
94 the manufacturer, factory branch, distributor, or distributor branch is legally responsible or which the  
95 manufacturer, factory branch, distributor, or distributor branch imposes upon the dealer;
- 96 6. Misrepresent in any way to purchasers of motor vehicles that warranties with respect to the  
97 manufacture, performance, or design of the vehicle are made by the dealer, either as warrantor or  
98 co-warrantor;
- 99 7. Require the dealer to make warranties to customers in any manner related to the manufacture,  
100 performance, or design of the vehicle;
- 101 8. Shift or attempt to shift to the motor vehicle dealer, directly or indirectly, any liabilities of the  
102 manufacturer, factory branch, distributor or distributor branch under the Virginia Motor Vehicle  
103 Warranty Enforcement Act (§ 59.1-207.9 et seq.), unless such liability results from the act or omission  
104 by the dealer; or
- 105 9. Deny any dealer the right to return any part or accessory that the dealer has not sold within 12  
106 months where the part or accessory was not obtained through a specific order initiated by the dealer but  
107 instead was specified for, sold to and shipped to the dealer pursuant to an automated ordering system,  
108 provided that such part or accessory is in the condition required for return to the manufacturer, factory  
109 branch, distributor, or distributor branch, and the dealer returns the part within 30 days of it becoming  
110 eligible under this subdivision. For purposes of this subdivision, an "automated ordering system" shall be  
111 a computerized system that automatically specifies parts and accessories for sale and shipment to the  
112 dealer without specific order thereof initiated by the dealer. The manufacturer, factory branch,  
113 distributor, or distributor branch shall not charge a restocking or handling fee for any part or accessory  
114 being returned under this subdivision. This subdivision shall not apply if the manufacturer, factory  
115 branch, distributor, or distributor branch has available to the dealer an alternate system for ordering parts  
116 and accessories that provides for shipment of ordered parts and accessories to the dealer within the same  
117 time frame as the dealer would receive them when ordered through the automated ordering system.

118 C. Notwithstanding the terms of any franchise, it shall be unlawful for any motor vehicle  
 119 manufacturer, factory branch, distributor, or distributor branch to fail to indemnify and hold harmless its  
 120 motor vehicle dealers against any losses or damages arising out of complaints, claims, or suits relating  
 121 to the manufacture, assembly, or design of motor vehicles, parts, or accessories, or other functions by  
 122 the manufacturer, factory branch, distributor, or distributor branch beyond the control of the dealer,  
 123 including, without limitation, the selection by the manufacturer, factory branch, distributor, or distributor  
 124 branch of parts or components for the vehicle or any damages to merchandise occurring in transit to the  
 125 dealer where the carrier is designated by the manufacturer, factory branch, distributor, or distributor  
 126 branch. The dealer shall notify the manufacturer of pending suits in which allegations are made which  
 127 come within this subsection whenever reasonably practicable to do so. Every motor vehicle dealer  
 128 franchise issued to, amended, or renewed for motor vehicle dealers in Virginia shall be construed to  
 129 incorporate provisions consistent with the requirements of this subsection.

130 D. On any new motor vehicle, any uncorrected damage or any corrected damage exceeding three  
 131 percent of the manufacturer's or distributor's suggested retail price as defined in 15 U.S.C. §§ 1231-1233,  
 132 as measured by retail repair costs, must be disclosed to the dealer in writing prior to delivery. Factory  
 133 mechanical repair and damage to glass, tires, and bumpers are excluded from the three percent rule  
 134 when properly replaced by identical manufacturer's or distributor's original equipment or parts. Whenever  
 135 a new motor vehicle is damaged in transit, when the carrier or means of transportation is determined by  
 136 the manufacturer or distributor, or whenever a motor vehicle is otherwise damaged prior to delivery to  
 137 the new motor vehicle dealer, the new motor vehicle dealer shall:

138 1. Notify the manufacturer or distributor of the damage within three business days from the date of  
 139 delivery of the new motor vehicle to the new motor vehicle dealership or within the additional time  
 140 specified in the franchise; and

141 2. Request from the manufacturer or distributor authorization to replace the components, parts, and  
 142 accessories damaged or otherwise correct the damage, unless the damage to the vehicle exceeds the three  
 143 percent rule, in which case the dealer may reject the vehicle within three business days.

144 E. If the manufacturer or distributor refuses or fails to authorize correction of such damage within  
 145 ten days after receipt of notification, or if the dealer rejects the vehicle because damage exceeds the  
 146 three percent rule, ownership of the new motor vehicle shall revert to the manufacturer or distributor,  
 147 and the new motor vehicle dealer shall have no obligation, financial or otherwise, with respect to such  
 148 motor vehicle. Should either the manufacturer, distributor, or the dealer elect to correct the damage or  
 149 any other damage exceeding the three percent rule, full disclosure shall be made by the dealer in writing  
 150 to the buyer and an acknowledgement by the buyer is required. If there is less than three percent  
 151 damage, no disclosure is required, provided the damage has been corrected. Predelivery mechanical work  
 152 shall not require a disclosure. Failure to disclose any corrected damage within the knowledge of the  
 153 selling dealer to a new motor vehicle in excess of the three percent rule shall constitute grounds for  
 154 revocation of the buyer order, provided that, within ~~thirty~~ 30 days of purchase, the motor vehicle is  
 155 returned to the dealer with an accompanying written notice of the grounds for revocation. In case of  
 156 revocation pursuant to this section, the dealer shall accept the vehicle and refund any payments made to  
 157 the dealer in connection with the transaction, less a reasonable allowance for the consumer's use of the  
 158 vehicle as defined in § 59.1-207.11. Nothing in this section shall be construed to exempt from the  
 159 provisions of this section damage to a new motor vehicle that occurs following delivery of the vehicle  
 160 to the dealer.

161 F. If there is a dispute between the manufacturer, factory branch, distributor, or distributor branch  
 162 and the dealer with respect to any matter referred to in subsection A, B, or C of this section, either  
 163 party may petition the Commissioner in writing, within ~~thirty~~ 30 days after either party has given  
 164 written notice of the dispute to the other, for a hearing. The decision of the Commissioner shall be  
 165 binding on the parties, subject to rights of judicial review and appeal as provided in Chapter 40  
 166 (§ 2.2-4000 et seq.) of Title 2.2. However, nothing contained in this section shall give the Commissioner  
 167 any authority as to the content or interpretation of any manufacturer's or distributor's warranty. A  
 168 manufacturer, factory branch, distributor, or distributor branch may not collect chargebacks, fully or in  
 169 part, either through direct payment or by charge to the dealer's account, for warranty parts or service  
 170 compensation (~~including service incentives~~) or ~~for~~, *including service incentives*, sales incentives ~~or~~, other  
 171 sales compensation, *surcharges, fees, penalties, or any financial imposition of any type arising from an*  
 172 *alleged failure of the dealer to comply with a policy of, directive from, or agreement with the*  
 173 *manufacturer, factory branch, distributor, or distributor branch* until 40 days following final notice of  
 174 the amount charged to the dealer following all internal processes of the manufacturer, factory, factory  
 175 branch, distributor, or distributor branch. Within 30 days following receipt of such final notice, the  
 176 dealer may petition the Commissioner, in writing, for a hearing. If a dealer requests such a hearing, the  
 177 manufacturer, factory branch, distributor, or distributor branch may not collect the chargeback, fully or  
 178 in part, either through direct payment or by charge to the dealer's account, until the completion of the

**179** hearing and a final decision of the Commissioner concerning the validity of the chargeback.