Driving A Loaner Vehicle While A Car Is In Service: What Happens If There Is An Automobile Accident?

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It's a common scenario to bring a car in for service and take a loaner vehicle from the dealer until the car is repaired. The Courts in New Jersey recently analyzed the facts of an accident that occurred between a loaner vehicle and another automobile, as it raised important questions about liability and insurance policies.

In the case of *Tyrone A. Huggins v. Mary E. Aquilar*, Mary Aquilar was provided with a loaner vehicle by a car dealership, Trend Motors, ltd. (Trend) for her to use while her vehicle was being serviced. Ms. Aquilar signed Trend's loaner-vehicle form agreement, which included a provision stating that she was not covered by any insurance policy held by Trend. Ms. Aquilar possessed a personal automobile insurance policy through GEICO which provided liability coverage of $15,000 per person and $30,000 per accident, which are New Jersey's statutory minimums. Trend was insured under a garage policy issued by Federal Insurance Company (Federal) which included liability coverage in the amount of $1,000,000.

Several days into her use of the loaner vehicle, Ms. Aquilar struck Tyrone Huggins who sustained serious injuries. Mr. Huggins held an automobile insurance policy with New Jersey Manufacturers Insurance Company (NJM) which included $100,000 in underinsured motorist benefits.

Mr. Huggins filed a personal injury lawsuit against Ms. Aquilar and named both Ms. Aquilar and Trend as Defendants. Mr. Huggins later amended his lawsuit to include his insurer NJM as a Defendant in order to obtain underinsured motorist benefits (UIM).

Three Policies, But Which One Provides Benefits: Federal, GEICO or NJM?

NJM filed an answer to the plaintiff's amended complaint and asserted that it did not owe UIM coverage because Mr. Huggins was entitled to $1,000,000 in liability coverage under the policy issued to Trend by Federal. Federal then sought to deny that coverage.

The Dealer's Insurer Pointed to a Provision in Loaner Contract to Deny Coverage

Trend and its insurer Federal argued that it was not liable for the accident. They pointed to a provision in the loaner-vehicle form agreement which was signed by Ms. Aquilar. The provision essentially stated that Trend's insurance policy would only come into play if the customer failed to possess the minimum insurance coverage required by law in New Jersey. Thus, because she possessed liability coverage from GEICO in the amount of $15,000 per person and $30,000 per accident, which are New Jersey statutory minimums, Trend's insurance policy would not afford coverage.

The Injured Driver's Insurer NJM Claimed that the Provision was an Illegal "Escape Clause"

Mr. Huggins' insurer NJM argued that the provision at issue constituted an illegal "escape clause" since it eliminated coverage for an entire class of permissive drivers of the dealership's vehicles, namely those who possessed personal insurance coverage that satisfied New Jersey statutory minimums.

The Dealer's Insurer Claimed the Provision was a Permissible "Step-Down Clause"

Federal countered that the provision constituted a permissible "step-down clause" which allows an insurer to reduce the amount of coverage to the minimum levels if underinsured or uninsured claims are asserted.

The Court's Decision: The dealer's provision constitutes an illegal escape clause

The New Jersey Supreme Court determined that the provision at issue violated New Jersey law which requires that an owner of a vehicle, rather than a driver, provide liability insurance for accidents in

which their vehicle is involved. The Court agreed with NJM and concluded that the provision constituted an invalid escape clause since it excludes from coverage permissive users who possess personal automobile policies that contain the minimum amount of coverage mandated by New Jersey - $15,000 per person and $30,000 per accident.

In so concluding, the Court however recognized that the minimum liability coverage required by the Chief Administrator of the Motor Vehicle Commission (MVC) for dealerships was limited to $100,000 per person and $250,000 per accident. Because Federal and Trend did not have sufficient notice that the provision in the loaner-form agreement constituted an illegal escape clause, the Court reformed the policy to the New Jersey liability policy set forth by the MVC and therefore only afforded $100,000 in coverage.

The Court made clear that the decision "puts issuers of garage policies on notice that similar escape clauses are unlawful." Therefore, dealerships are now on notice that their own insurance policies will come into play when a loaner vehicle is utilized.

Summary

Loaner vehicle contracts can be complex, and the allocation of liability for an accident may not be crystal clear. In order to know your rights and understand the potential compensation for automobile accidents and injuries, contact the personal injury attorneys at Einhorn Barbarito for a consultation.