What is GAP Insurance, and Do I Need It?

In the insurance and auto financing industries, "GAP" is an acronym for "guaranteed asset protection." GAP insurance reimburses a vehicle owner when the payment for a total loss is less than the outstanding loan balance. GAP insurance covers the difference, or gap (see what we did there?), between the value of the car and the amount still owed on the loan if the car is totaled in an accident or stolen.

Remember the standard rule of thumb that a new vehicle begins to depreciate as soon as it's driven off the lot. Typical car insurance will only pay up to the current vehicle value at the time of the total loss, which may be much less than the remaining loan balance. And it's more common than you might realize to owe more than your car is worth. A small or no down payment and a longer loan term delay building equity in the vehicle. The current value, not the price you paid, is what your insurance will pay if the car is totaled or stolen.

Your insurance policy won't pay the cost of replacing your car with a brand-new vehicle. You'll receive only what a car comparable to yours would sell for on a used car lot. According to insurers, this is the vehicle's actual cash value. Since payouts are based on the actual cash value of the car, GAP insurance can help to minimize your financial loss.

CARFAX reports that the value of a new vehicle drops by roughly 20% in the first year of ownership. And over the next four years, you can expect your car to lose about 15% more of its value each year. This means the average vehicle will be worth only 40% of its original purchase price after five years:

- A 5-year-old vehicle that sold for $25,000 when new will be worth $10,000.
- A 5-year-old vehicle that sold for $35,000 when new will be worth $14,000.

Let's take a look at a GAP insurance example:

You purchased a new vehicle for $25,000 and after a year of ownership, it's totaled in an accident. During that year, the car lost 20% of its value, or $5,000. So now it's only worth $20,000.

If you borrowed the full purchase price of $25,000 for 72 months at 3.99%, you would still owe about $20,950 after one year.

Now your car is valued at $20,000 but your remaining loan balance is higher at $20,950. You owe more than it's worth, and you'll be left with a $950 out-of-pocket expense after your insurance company pays the claim.

Without GAP Insurance		**With GAP Insurance**	
Total Amount Owed	$20,950	Total Amount Owed	$20,950
Insurance Payout	$20,000	Insurance Payout	$20,000
Difference	$950	Difference	$950
No GAP Payout	$0	GAP Payout	$950
Out-of-Pocket Cost	**$950**	Out-of-Pocket Cost	**$0**

Do you need GAP insurance?

According to the Insurance Information Institute, you should consider purchasing GAP insurance for your new vehicle if you:

- Made less than a 20% down payment
- Financed for 60 months or longer
- Leased the vehicle (carrying gap insurance is generally required for a lease)
- Purchased a vehicle that depreciates faster than the average
- Rolled over negative equity from an old car loan into the new loan

Where can you get GAP insurance?

Most likely, the dealership will offer to sell you GAP insurance with your new vehicle. However, they typically charge much, much more than we do! You may add the cost of GAP with Auto Advantage right into your loan balance when financing your new car with us. In addition to traditional GAP coverage, the Auto Advantage Program includes Auto Deductible Reimbursement and Personal ID Restoration Consulting.