TRICOR INC.
INSURANCE

What is GAP Coverage: Guaranteed Auto Protection = G A P

Auto loans today are often made for the full value or purchase price of the auto, the buyer makes no or a very small down payment, and the length or term is for 60 or 72 months – five or six years.
When purchased like this, the loan quickly exceeds the vehicles actual value due to depreciation which is especially high the first one or two years. The car loan is upside down as compared to the vehicle value. If the vehicle is in an accident and totaled then there may be a remaining balance after the insurance company writes the check for the vehicles market or current value as it would have been before the accident. Sure, it is enough insurance to buy back a vehicle as good, but it is not enough to both by back the vehicle and pay off the loan balance. Again, the primary risk of this occurrence is during the first two to 3 years. This difference is covered and paid if the vehicle is totaled in a car accident when GAP coverage is added.

Add GAP coverage to your auto insurance policy NOT to your auto loan

The average savings may be more than $500 when included in an auto insurance policy instead of adding it to the car loan. Plus, it is easier! Just say "add it," and your loan doesn't go up by hundreds of dollars. It costs as little as $3.00 per month or $36 per year in your car policy compared to hundreds when added to a car loan.

COST of GAP insurance from a dealership or Bank - Example: $30,000-$35,000 new car

Our review of GAP coverage offered through car dealerships and banks ranges between $400 to $900 as a one-time charge which is then added to the car loan. This is paid monthly over the course of the loan and bears the loan interest rate. Loan terms are often 60 months to 72 months. In some situations the charge might be as low as $300 or 2% of the car loan, which ever is greater. If the car loan were $35,000, the fee would in this example would be $700. The only way to know for sure is to ask the dealership or lender what their charge is.

LOW TO HIGH COST
The lower costs are $400 / 72 months = $ 5.55 per month
The Higher costs are $900 / 60 months = $15.00 per month
Example above: Cost of $750 for 66 months = $11.36 per month

COST of GAP insurance added to an auto insurance policy.

Our review of GAP coverage added to an auto insurance policy ranges from $15.00 per year to $42.00 per year. The insurance company charges usually between 5% and 7% of the comprehensive and collision premium on the auto for gap insurance. Some cars for comprehensive and collision are less expensive to insure, $300 for these two coverages while others are more expensive, $600. On the low side the cost is $300 * 5% or $15 per year and on the higher side the charge is $600 * 7% or $42 annually. Wisconsin and Iowa are low cost insurance states. A youthful driver or a driver with a bad driving record would be higher. A quick call can determine this and is recommended anyway before making a major purchase, such as a new vehicle.

Example: A $35 per year charge for GAP insurance added to an auto policy for 5 years and 6 months is $192.50.
SAVINGS will vary - just ask before you buy Examples: $750 - $192.50 = **$557.50**

12 Reasons to add GAP Insurance to your CAR Policy – NOT your auto loan.

1. **You will save hundreds, likely thousands, of dollars** over your lifetime by not adding GAP insurance to each car loan. The single example shows over $500 saved.
2. **NO Interest CHARGE. Why would anyone want to pay interest** on their GAP insurance?
3. **Your insurance premium won't go up if you total your car because you have GAP insurance**. If it is going up, it is only because you totaled your car. The $2,000 - $5,000 GAP payment has no added affect.
4. **You save even more if you pay off the loan early**. Just remove the small charge for GAP coverage.
5. **If you change companies, no worry, it can continue with the new company – similar cost.** GAP costs usually 5% to 7% of Comprehensive and Collision regardless of the company. Example $2.91 per month.
6. **New cost can include Purchase price + tax + license + aftermarket vehicle options.** The loan amount shouldn't exceed the total new cost of the vehicle to have GAP coverage added to your auto policy **.
7. **NO GAP Maximum Payment, with exception.** TRICOR represents more than 10 companies that have GAP coverage available on their auto policies. All we have reviewed have no GAP payment limit, except Wisconsin Mutual which is $5,000. The maximum no down payment loan should be $22,000 if the company is Wisconsin Mutual. Other companies have no GAP maximum.
8. **Total Loss Assurance.** Costs to repair a vehicle that reach 50% of the vehicles value begin to be looked at as a possible total loss. Insurance companies must repair the vehicle back to a condition as good as it was prior to the loss and must also pay any added, latent or hidden problem that comes up during repair or afterwards. Vehicles that reach a repair cost of 60% of the vehicle value are often totaled as a matter of policy and safety. Some states have laws which also protect all consumers. Any added cost because of an upside down loan is not a consideration to determining when a vehicle is totaled.
9. **CANCEL at Any TIME.** If you have paid the $35, for one year's GAP coverage on your auto policy ($35 simply an estimated value for one year's insurance), you can cancel at any time and be paid the pro rata amount remaining for the unused balance. With GAP coverage through a dealership or lender, our understanding is that you have 30 days to cancel flat and have a full credit refund. Otherwise the cancellation credit by the bank or dealerships policy is prorated but does not reduce your monthly payment. Instead it reduces your last payments – maybe by one or two, depending on how much of the $750 original charge is still there. ($750 in the example above.) Potentially worth it.

   You can still save the pro rata amount remaining on your GAP insurance through a bank or dealership. Verify the initial amount and if the loan is 6 years and it is year 2, more than 67% of the savings is still there for you by changing.

10. **YEAR 1 TOTAL LOSS $35 and you likely are $700 or more better off.** Your auto insurance charge is annual and even that is prorated based on the date of the total loss. The Cost of the GAP insurance on a loan, ($750 in the example above), has been added to your loan. Sure, your loan is paid off, but it cost you the difference. (see example above: $750 - $35 = $715)
11. **Use the savings,** (example $557.50), **and reduce your credit card balance** forever by $557.50. If your credit card interest rate is 10% and you are 25 years old. How much money does this save you by the time you are age 65 by having a lower balance? You will have saved in principal and interest for 40 years by the time you are age 65. This adds up to over $25,000. Making wise decisions like these can someday allow

you to buy a car with no monthly loan. This is just ONE TIME. Remember, 6 years from now, you would have another $557.50 saved, when you are age 31. Carrying that forward the same way for 34 years is over $14,000 saved on top of the $25,000. Lower interest rates would lower the return.

12. **ZERO DEDUCTIBLE.** An auto policy on comprehensive and collision has a deductible and it will apply to the total loss claim. It applies anyway, regardless of whether there is GAP insurance or not. NO DEDUCTIBLE applied to the GAP payment. It is already applied on the vehicle loss and it always does. Some GAP policies through a dealership or bank may have a provision to pay the deductible. The probability of having a total loss is small, and if it happens, you already should have the savings.

**Caution upside down before you get out the door…… who would do this?

UPSIDE DOWN TRADE IN… Sometimes a car dealership wants to sell a new or newer car and the outstanding loan balance is higher than the value of the trade in. Then, the dealer requires no down payment and adds the existing loan balance to the new loan with no offsetting down payment. The loan exceeds the new vehicle price. This carried forward balance would not be covered on a total loss when using an auto policy to cover the GAP.

**Should I write new vehicle replacement if it is available and skip GAP coverage?

New vehicle replacement for a brand new auto costs very little. Often the cost is only 4% to 8% of the comprehensive and collision premium that would otherwise be charged on a new vehicle. In most instances new vehicle replacement will pay more than GAP coverage as the owner gets all the money needed to buy a brand-new auto + taxes + license when the vehicle is totaled. GAP insurance only pays off any loan balance if the vehicle value before the loss was less than the loan. Comprehensive and Collision is there to pay the market value of the totaled vehicle to the car owner regardless.

Some companies write new vehicle replacement, but don't include it for fire, theft or vandalism. Other insurance companies have no such exclusion and cover it with the same causes of loss as are covered under comprehensive and collision.

Some companies limit the term that new vehicle replacement is offered to less than 5 years. If the company only offers new vehicle replacement for 2 years, then it needs to be replaced with GAP coverage after that period. If the loan is for 6 years and the company offers new vehicle replacement for 5 years. By the end of the 5th year, the loan balance in most instances is already less than the market value of the vehicle, so it likely isn't needed to write GAP coverage for the 6th in a 6-year loan.

Lastly new vehicle usually starts out at $30 to $40 per year, but as the vehicle gets older and the value drops to 80%, 70% 60% 50% of what a new vehicle costs, the premium over 5 years generally increases. As a percentage of comprehensive and collision, depending on the company, we see Year One costs at 4% to 8%; Year 2 at 8% to 16%; Year 3 at 16% to 24%; Year 4 and 5 at 20% to 30% of the otherwise charge for comprehensive and collision. For a typical auto, by the 5th year the added cost might be $125 to $150 - but it is providing a new vehicle on a total loss. When compared to GAP coverage, it often starts at $35 and may reduce in cost or stay about the same over the 5 or 6-year loan period.