

GAP INSURANCE – When It Is Needed

Why Adding it to a Personal Auto Policy Often is the Better Choice

PAGE 1 - Loans can quickly exceed value - “How GAP insurance is an inexpensive solution”

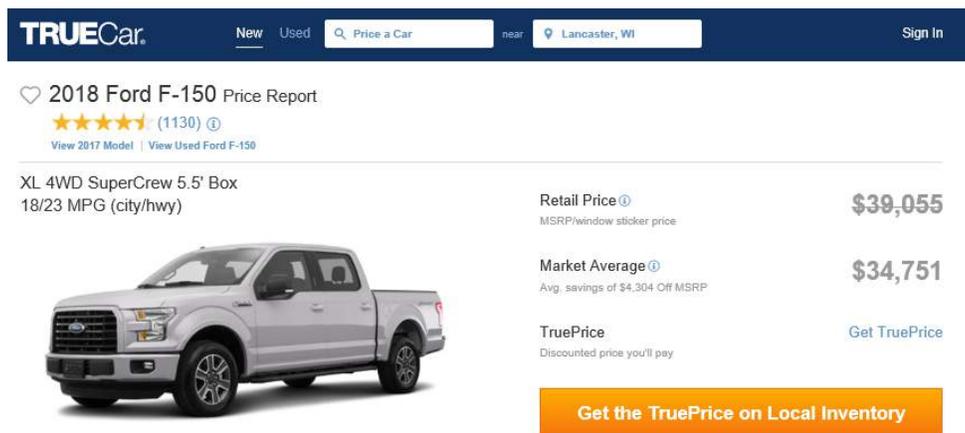
PAGE 2 - What to do if the client bought it at the dealership.

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Example of New Vehicle Pricing - from TRUECar.com



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♥ 2018 Ford F-150 Price Report
 ★★★★★ (1130) ⓘ
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XL 4WD SuperCrew 5.5' Box
 18/23 MPG (city/hwy)

Retail Price ⓘ **\$39,055**
MSRP/window sticker price

Market Average ⓘ **\$34,751**
Avg. savings of \$4,304 Off MSRP

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HOW A CAR LOAN can QUICKLY EXCEED the VEHICLE VALUE

Add in estimated State Tax - 5% Local Tax - ½% = 5.5% + Licensing and fees of \$150

<i>Vehicle</i>	<i>Taxes</i>	<i>Fees</i>	<i>Total</i>	<i>GAP Ins</i>	<i>Total Loan</i>
\$34,751	+ \$1,911	+ \$150	= \$36,812	+ \$750	= \$ 37,562

SAVINGS adding GAP Insurance to an Auto Policy - NOT Buying Separate Policy

Dealership, banks and credit unions that charge for GAP insurance were researched in WI, and the review showed range with a \$30K to \$35K loan at \$400 to highest of \$900. The charge is added to the loan and then paid monthly, often \$ 10, \$11, or \$12 per month. In some instances charges by lenders could be ranging from as little as \$300 or 2% of the amount of the loan, whichever is higher. The only way to know for certain is to see what each lender will be charging as it varies from one to another. Buying GAP insurance in the auto insurance policy, “comparing many companies,” costs between 5% and 7% of the comprehensive and collision charge for that vehicle. Example: If the physical damage premium is \$600 for the year, 6% would be \$36 for the GAP insurance when added to the car insurance policy. **\$36 per year or \$10 per month, which would you rather pay?**

What the Client MUST DO if Purchased at the Dealership/Lender

1. First, if they have made a 25% down payment, they don't need GAP Insurance. Their loan balance should remain less than the value of the vehicle on the total loss. So then they save everything. The issue today is that too often, there is no large down payment and GAP insurance is important.
2. Since the banks and dealerships add it quickly and you are contacted after the fact, either you or your client can call the bank or dealership and ask the charge. You will know your physical damage rate and it should be in that 5% to 7% range of the physical damage premium. You can quickly see if there is a savings by asking the question.
3. **Too often it is simply added** to our client's loan, A DONE DEAL. The dealership says it is a \$10, \$11, \$12 per month ... So WHAT CAN YOU DO? **YOU CAN DO A LOT!!!!**
4. **During the first 30 days, our understanding is that the charge will be removed** and money returned. **Often it will reduce one to two payment of the car loan, a very good thing.**

*If it is beyond 30 days, say one year into a five-year term. It will only be the \$10, \$11, or \$12 Used up times the number of months. So, it will still often reduce the number of payments by one or more payments. A very big deal! Our clients won't get their monthly payment reduced, but... an extra \$11 per month is going to principal and this will likely remove his last payment or more anyway. **A VERY GOOD THING TO DO!***

SAMPLE LOAN AMORTIZATION SCHEDULE 60 months 4%

Loan Amortization Schedule



Principal: \$37,562.00
 Interest Rate: 4.00%
 Payment Interval: Monthly
 # of Payments: 72
 Payment: \$587.66

Schedule of Payments

Please allow for slight rounding differences.

Pmt #	Payment	Principal	Interest	Balance
1	587.66	462.45	125.21	37,099.55
2	587.66	463.99	123.67	36,635.56
3	587.66	465.54	122.12	36,170.02
4	587.66	467.09	120.57	35,702.93
5	587.66	468.65	119.01	35,234.28
6	587.66	470.21	117.45	34,764.07
7	587.66	471.78	115.88	34,292.29
8	587.66	473.35	114.31	33,818.94
9	587.66	474.93	112.73	33,344.01
10	587.66	476.51	111.15	32,867.50
11	587.66	478.10	109.56	32,389.40
12	587.66	479.70	107.96	31,909.70
Year 1		5,652.30	1,399.62	
13	587.66	481.29	106.37	31,428.41
14	587.66	482.90	104.76	30,945.51
15	587.66	484.51	103.15	30,461.00
16	587.66	486.12	101.54	29,974.88
17	587.66	487.74	99.92	29,487.14
18	587.66	489.37	98.29	28,997.77
19	587.66	491.00	96.66	28,506.77
20	587.66	492.64	95.02	28,014.13
21	587.66	494.28	93.38	27,519.85
22	587.66	495.93	91.73	27,023.92
23	587.66	497.58	90.08	26,526.34
24	587.66	499.24	88.42	26,027.10

25	587.66	500.90	86.76	25,526.20
26	587.66	502.57	85.09	25,023.63
27	587.66	504.25	83.41	24,519.38
28	587.66	505.93	81.73	24,013.45
29	587.66	507.62	80.04	23,505.83
30	587.66	509.31	78.35	22,996.52
31	587.66	511.00	76.66	22,485.52
32	587.66	512.71	74.95	21,972.81
33	587.66	514.42	73.24	21,458.39
34	587.66	516.13	71.53	20,942.26
35	587.66	517.85	69.81	20,424.41
36	587.66	519.58	68.08	19,904.83
Year 3		6,122.27	929.65	
37	587.66	521.31	66.35	19,383.52
38	587.66	523.05	64.61	18,860.47
39	587.66	524.79	62.87	18,335.68
40	587.66	526.54	61.12	17,809.14
41	587.66	528.30	59.36	17,280.84
42	587.66	530.06	57.60	16,750.78
43	587.66	531.82	55.84	16,218.96
44	587.66	533.60	54.06	15,685.36
45	587.66	535.38	52.28	15,149.98
46	587.66	537.16	50.50	14,612.82
47	587.66	538.95	48.71	14,073.87
48	587.66	540.75	46.91	13,533.12
Year 4		6,371.71	680.21	
49	587.66	542.55	45.11	12,990.57
50	587.66	544.36	43.30	12,446.21
51	587.66	546.17	41.49	11,900.04
52	587.66	547.99	39.67	11,352.05
53	587.66	549.82	37.84	10,802.23
54	587.66	551.65	36.01	10,250.58
55	587.66	553.49	34.17	9,697.09
56	587.66	555.34	32.32	9,141.75
57	587.66	557.19	30.47	8,584.56
58	587.66	559.04	28.62	8,025.52
59	587.66	560.91	26.75	7,464.61
60	587.66	562.78	24.88	6,901.83
Year 5		6,631.29	420.63	
61	587.66	564.65	23.01	6,337.18
62	587.66	566.54	21.12	5,770.64
63	587.66	568.42	19.24	5,202.22
64	587.66	570.32	17.34	4,631.90
65	587.66	572.22	15.44	4,059.68
66	587.66	574.13	13.53	3,485.55
67	587.66	576.04	11.62	2,909.51

UPSIDE DOWN “Loan is higher than vehicle value it happens fast”

Higher depreciation often occurs - year 1 +/- 25%
 Lower depreciation rates follow - year 2 - 3 -4 +/- 17%

END Year 1 example with 25% depreciation

New Vehicle Cost 25% depreciation Equals **Total Loss Payment**
 \$34,751 * 25% = \$8,687.75 = \$26,063 + Tax .055

Total Loss Payment from Insurance Policy = **\$27,496**

Outstanding Loan Balance end of year 1 = **\$31,909**

“Refer to amortization schedule above”

Payment that Gap Insurance Covers = **\$4,413**

END Year 2 example with 17% depreciation

Year 1 value Year 2 depreciation Total Loss Payment
 \$34,751 - ((25%+17%) = 42%) = \$14,595 + Tax.055

Total Loss Payment from Insurance Policy = **\$21,264**

Outstanding Loan Balance end of year 2 above = **\$26,027**

Payment that Gap Insurance Covers = **\$4,763**

Other END Year 1 Example:

“Depreciation can be more than 25%.” Note below, 25% depreciation is not always true. If the new vehicle were driven 36,000 miles the difference could be \$31,909 - \$21,966 or **\$9,943.**




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SIX THINGS to REMEMBER when selling GAP INSURANCE

1. If they have a down payment of 25%, they likely don't need it. Sure, it doesn't cost much and if mileage will be 30,000 plus the first year – might be worth including it.
2. If the client already bought it – be sure they call the dealership and find out the price. Within 30 days they can get the money back and apply it to one or two payments, a big deal.
3. If the client is already upside down and the dealership / lender is adding a loan balance on top of the cost of the vehicle. Example: Client is buying a different vehicle and there is a \$1,000 outstanding loan balance after the trade in and the new vehicle is \$30,000 so the loan balance is \$31,000 not \$30,000. The GAP insurance in an auto policy doesn't cover the \$1,000. This is highly unlikely, but you should be aware.
4. We have one company which will cap the GAP payment to a maximum of \$5,000. This is Wisconsin Mutual. Our other companies have no GAP maximum.
5. I've been told that in some leases, the customer has no choice but to buy the GAP coverage in the lease. If so, there should be no added charge for it. Otherwise, in a lease, GAP coverage works similarly. Also on leases, double check for OEM PARTS.
6. If you are selling new vehicle replacement, then there is no need to also write GAP coverage providing it lasts at least 4-5 years before coming off.

COMMON Language in a Loan-lease GAP Policy – an example.

The following provisions apply only to those vehicles for which this endorsement is indicated in the Declarations or Renewal Certificate:

1. The following is added to Additional Definitions Used in This Part Only under Part V - Car Damage:
"Total loss" means the theft of an entire car or a **loss** in which the cost of repairs plus the salvage value exceeds the actual cash value.
2. Paragraph 1 of Limits of Liability under Part V - Car Damage does not apply to the **total loss** of a car. The following applies instead.
Our limit of liability because of **total loss** to a car shall not exceed the greater of:
 - a. The actual cash value of the stolen or damaged property less any applicable deductible; or
 - b. The amount due on the lease or loan for the car at the time of the **total loss** less:
 - (1) Any applicable deductible;
 - (2) Any overdue lease or loan payments and any financial penalties associated with those payments;
 - (3) Any balance carried over from previous leases or loans;
 - (4) Any financial penalties imposed due to excessive use, abnormal wear and tear or high mileage;
 - (5) The cost of unrepaired damage which occurred prior to the **total loss**;
 - (6) The amount of any refunds resulting from the termination of the lease or loan and any warranty or extended service agreements, and credit life insurance, health, accident or disability insurance purchased with the loan or lease; and
 - (7) Any security deposit not refunded by the lessor because of any items described in (1) through (6) above.

The above is a sample common wording in an auto policy. Please note that 2. B. 4. This is generally referring to a lease where when you exceed mileage. The financial penalty would be written in the lease.

