Loan Gap Insurance

When do I need to add loan gap insurance on my policy?

Only if your car loan on your auto has a balance due which is higher than the market value or cash retail value of your auto.

How much does it cost?

It costs 5% of the comprehensive and collision premium of the vehicle with the loan. Often this is about $30 to $50 per year.

When does it pay?

In a covered total loss, your insurance company pays, "with comprehensive or collision on your auto", the cost to replace your auto with another one of similar age, mileage and condition. If the auto loan still has a balance due then **loan gap** insurance should be added so it can pay the extra amount.

Is my auto loan upside down? How do I know?

If you have no down payment or trade in credit with a longer term loan, "such as five years or more", and you are purchasing a new or nearly new auto then the car value during the first couple years drops quickly and the loan principal balance does not. New car depreciation the first year can be from 20% to 35% of the purchase price depending on the miles driven that year, use and type of auto you purchased. The principal balance on your loan may have gone down only 15%. You can look up your principal balance and look online at the selling price to buy other vehicles with similar mileage and condition like yours. If you are unsure, the cost of loan gap insurance is not much.

Is there something to watch out for if I add this to my policy?

If you finance more than the new cost of your auto, this extra amount is not covered in loan gap insurance.

The finance person at the car dealership says it only adds $7-$8 per month and he/she can sell this to me?

Don't buy it through a car dealership or finance company. This further increasing your loan by as much as $400 to $800. It cost so much less on your auto policy and in three or four years your loan balance may be lower than the market value of your auto and you can remove it from your auto policy and save even more.