

# The Truth About Gap Insurance

One of the many products the dealership Finance Manager may try to sell you is Gap Insurance. Gap insurance covers the difference between the value of your car and what you owe on it in case the car is declared a **"total loss"** by your insurance company due to a wreck, it being stolen or some other catastrophe such as fire, flood or storm damage.

Most people who finance or lease a vehicle owe more on their car than the vehicle's actual book value. This is especially true if you traded a vehicle in that you still owed money on. Some people will go through this cycle several times until they owe so much on their current vehicle that their payoff is hopelessly higher than the actual value of their current vehicle. In the car business this is known as being **"Upside-Down!"**

**A JD Power study finds 38% of trade-ins are Upside-Down. This is up from 25% in 2001. This percentage will continue to increase.**

**Edmonds.com reports that the amount owed on Upside-Down loans averages \$3,763. That's the amount over and above the vehicle's actual value.**

So, if your car is totaled from an accident, from being stolen or some other covered catastrophe your insurance company will only pay the book value to cover your claim. If you owe more money on the vehicle than they give you there's a **"GAP"** that you must payoff.

In other words, you may end up owing several thousand dollars or more on a vehicle that has been declared a total loss by your insurance company. Once your vehicle is declared a total loss it becomes the property of the insurance company.

Gap insurance covers this **"GAP"** or difference so you don't get stuck owing money on a car that you don't have anymore. It's a good thing to have, but **you don't want to buy it from the car dealer!** They will mark the price of it up \$500 to \$1,000 over the actual cost of the coverage!

**Automotive News reports that car dealers make substantial profit when selling Gap Insurance!**

A much less expensive alternative is to purchase Gap Insurance from Kemba Delta FCU where you don't have to worry about being ripped-off by your car dealer.

## **A Note For People Who Lease a Vehicle:**

"Even though gap insurance is important for people who buy cars, it is essential for those who lease," says Mary S. Butler, senior editor of cars.com. "Gap Insurance basically originated with leasing."

The upside-down nature of a typical car lease is even more common than a purchase situation, because the lessee usually has no trade-in and usually puts little or nothing down. Similar to a purchase, if the car is a total loss, you owe the difference between what you have paid and what you owe on the balance of the lease.

Protect yourself and save money at the same time by purchasing Gap Insurance from Kemba Delta FCU.