



GAP INSURANCE FACT SHEET



You are buying a car and the salesperson asks or suggests you purchase Guaranteed Auto/Asset Protection (GAP) insurance (also commonly referred to as “totaled insurance” or “return to invoice”). What should you do? GAP insurance covers the difference in value between what your car is worth and what you owe on your car. The insurance will pay the “gap” between the value as determined by your insurance company and what you still owe on the principal of your car loan.

For example, you purchase a new car for \$30,000. The car is purchased January 1st and the car is totaled in an accident one year later. You made a down payment and made monthly payments throughout the first year. Your monthly payments are part interest and part principal. Your automobile insurance company determines that the one-year old car is worth only \$20,000 at the time the vehicle was destroyed in the accident. The down payment and monthly payments throughout the first year have reduced the principal or what you owe to \$26,000. GAP insurance will pay the difference between the present value of your car and what you owe on your car. In this example, your GAP insurance will cover the difference of \$6,000. The GAP insurance will not pay for any deductible that you may owe.

Your standard automobile insurance coverage on your vehicle does not cover what you owe on the vehicle, it only pays you the actual cash value of your vehicle at the time of the loss. You should consider purchasing GAP insurance when you have a high interest rate on the car, a long-term car loan, a low down payment, or when leasing your vehicle.

On the other hand, other factual circumstances reduce the need for GAP insurance. These can include a large down payment, short-term car loans or getting a great deal on the purchase. The less money that is owed on a car loan reduces the need for GAP insurance. If you don't owe any money on your car, then you do not need GAP insurance. When you finish paying off the loan on your vehicle, contact the insurance company to stop the GAP insurance.

If you have any questions regarding GAP insurance issues, then you should call the Fort Benning Legal Assistance Office at 706-545-3281/3282 to meet with an attorney.



Office of the Staff Judge Advocate
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