

# Do I Need Gap Protection for my Car Loan?

---

*Article by: Greg Lucas*

Do you realize how much you are at risk financially if you wreck your car or it gets stolen? Your auto insurance policy might not provide all the financial protection you need, if the value of your car is less than the balance of your auto loan. Gap coverage is designed to cover the difference between the value of your car when it was lost and the balance of your car loan.

This is also called Negative Equity. Having to continue to pay off your car loan every month, when you don't even have your car anymore is probably not what you had in mind when you bought it.

Let's say you lost your car in a hurricane or other disaster, one year after you purchased your car: Now let's say you still owe \$20,000 on your auto loan and your deductible is \$500. Let's also say your car was worth \$15,000 at the time you lost it. The insurance company pays you \$14,500. Then your Negative Equity or Gap is \$5,500.

Gap Protection isn't really insurance, it's a Debt Cancellation Agreement. You could call it a waiver of the part of your auto loan contract that requires you to pay the difference between the value of your car and the amount still owed on your car loan. There are a few states that do consider Gap Protection a form of insurance, but most states do not.

Is Gap Protection for you? Talk to the person considering your auto loan. Car buyers who are putting little or no money down on a car may need Gap Protection. If you are transferring the balance of previous car loans into the current car loan or taking out an extended car loan like a 60 month loan you may need the extra protection. Any car buyer who will owe more than their car is worth needs Gap Protection.

You have to take figure out the expected depreciation on the car you are buying and the rate of equity accumulation through your auto loan. This will help you figure how big a gap you'll have and for how long.

Some lenders or leasing companies include the coverage in the agreement for the their own protection. This is common in lease contracts. The decision to buy gap coverage is easy. Deciding who to buy it from is much more difficult.

You can get Gap Coverage for your car loan from your Credit Union or another lender, online sellers of gap protection, or your auto insurance company. Each option is different, so read on before you decide on an option.

On the Internet, it's easy to explore these options. You can go to <http://allaboutcarloans.com> and search for the information there or go to your favorite search engine like google or yahoo and use the keywords "gap protection" or "auto loan gap coverage". Make sure that you check out any company you find on the web before you give them your credit card information. You don't want to end up with a provider that won't be there to help you cover the gap in your car loan if something happens.

Your Auto Insurance Carrier: Not all insurance companies carry gap protection for your car loan. Check with your agent. Check to see if they already included gap protection in your car loan and how much coverage they gave you. You may need more than they offer. The cost of gap protection is relative to the value of your car. The more expensive the car, the more it will cost, and the more coverage you need.

Also, very important to keep in mind. Your insurance company or other provider will continue to bill you for gap protection every month. It's up to you to calculate and decide when you no longer need it. In other words you need to know when you will be out of the hole. You need to know when there is no longer a gap between the value of your car and the amount you owe on your car loan.

The Automobile Dealer or whoever gave you your car loan is another source for buying gap protection. This is done at the time you get your car loan so bring it up right away if you choose this option. Some lenders may let you purchase it later, but it's best if you buy it when getting your loan. As soon as you drive the car off the lot, it becomes a used car.

The cost is normally a one-time charge, typically the same set price for all customers buying the same coverage. Buyers may roll the fee into the total loan amount and include it in the monthly loan payments. Dealerships usually do not have the best rate for gap protection. You may want to choose another option. The average price for gap protection through auto dealers is about \$500. You may be able to get the same protection for your car loan through your credit union or bank for as low as \$250.

Make sure your gap protection also covers the deductible. Look for other features such as automobile replacement or money towards a new car in the event something happens. So don't let just price be your guide when choosing who to buy gap protection from.

**About The Author**  
Greg Lucas' website, <http://allaboutcarloans.com> was created to help consumers learn more about auto loans before they apply for them. Information is power and the Internet is the place to get all the information you need to decide on where to apply for auto loans. Chris McElroy also contributed to this article. His website at <http://www.newsandmediablog.com> has articles about consumer rip-offs.