

Saving Money on Your Insurance

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TEXAS COMMISSIONER OF INSURANCE

GAP insurance: Specialty policies help protect new car buyers

WHILE THAT NEW CAR SMELL may last a few weeks, the second you drive your new automobile off the dealer's lot, it begins to depreciate. It immediately becomes a used vehicle. Depending on the amount financed, your once new car may be worth considerably less than what you owe the lender who is financing it.

If your car is stolen or "totaled" in an accident, you may end up owing much more than the "actual cash value" for which the vehicle is insured. Actual cash value may be very different from the actual cost to replace the vehicle, especially if you are early in a long-term loan. In other words, you may owe the lender more than you receive from your insurance company.

That's where a product called "GAP insurance" may help. GAP stands for: "Guaranteed Auto Protection." And as the name implies, the typical GAP policy covers the gap between the actual cash value settlement from your insurance company and the outstanding balance on your vehicle loan. Many GAP policies will also cover the deductibles on your standard auto insurance policy.

The two most common types of GAP insurance are commercial and personal. But a third variety of GAP coverage, offered as an auto insurance policy add-on, has just recently become available. You can check with your auto insurance agent or a sales representative to see if the coverage is offered. Policy language and rates for GAP policies available from authorized insurers must be approved by the Texas Department of Insurance.

Commercial GAP insurance protects state and national banks and credit unions from losses on financed vehicles due to thefts or accidents. When you finance a new car, the bank or credit union may offer you a debt cancellation agreement, which may be

insured by a commercial GAP policy. It covers the outstanding balance of your loan if the car is lost or totaled.

GAP insurance is a relatively new concept. The commercial version for lenders was first authorized by a Finance Code change. It wasn't until 1997 however, that commercial GAP policies were approved to be marketed by banks and credit unions. Only over the past couple of years, after auto dealers began selling the product, have personal GAP policies become widely available to new car buyers.

We'll focus on personal GAP insurance because that's the product that most consumers will likely encounter, especially if they finance their car at a dealership. Many auto dealers are now licensed to offer GAP insurance. The policies have become one of the options consumers must consider as they negotiate for a new car.

If your car is stolen or totaled, GAP insurance will be much more important than the pin-stripes or rust protectant coating the dealer may be pushing. If GAP insurance is something you're interested in, it's important to stay focused during the negotiation process and ask if the dealer offers GAP insurance and if so, what it covers.

GAP insurance is typically purchased for a one-time premium at the time of your vehicle purchase, or it may be rolled into the amount of your loan. Like any other insurance product, prices can vary greatly. Dealerships and other lenders offer premium rates based on the value of the vehicle and the length of the loan. GAP insurance will cost you anywhere from \$100 to 4-or-5 percent of the vehicle's sticker-price. That can be a big difference when trying to reach a bottom-line price on a new car and stay within a budget.

Still GAP insurance should at least be a consideration for new car buyers, especially given what you could lose in a worst case scenario. ★

Editors:

- If you need further information, call:
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We welcome your questions and suggestions about this column.