

Guaranteed Auto Protection (GAP)

As a general rule, GAP for Financial Institutions is not an Insurance product but a Debt Waiver product. Although the GAP product has been around for several years, recent changes in the State of Texas Regulations now allow for the financing of GAP in consumer loans similar to Credit Insurance financing. GAP is sold by Auto Dealers, Credit Unions and is now available for Texas Banks. It has a real benefit and value to your customers whose vehicle loan has a potential for a deficiency balance due to constructive total losses or unrecovered theft. The following is a summary of GAP.

What is GAP?

Coverage

- The GAP coverage shall serve as excess coverage over the primary carrier's policy, and shall be limited to total losses only, defined as the unrecovered theft of the vehicle and/or the vehicle being deemed a complete loss by the borrower/lessee's primary insurance company from any insured peril.
- GAP covers the difference between the market value of a new or used vehicle, at the time of loss, and the unpaid net loan
- Maximum limit of liability is typically around \$25,000.00

Eligibility

- Coverage is available for new and used vehicles, private passenger vehicles, vans, and light duty trucks not to exceed certain gross vehicle weight
- Coverage is available on motor vehicle retail installment loans, balloon notes
- For retail installment loans, the maximum coverage term is 84 months.
- For Balloon loans the maximum coverage term is 84 months.

Exclusions

- Commercial vehicles used for carrying goods or passenger for compensation
- Vehicles financed on deferred payment plans
- Loan Agreements longer than maximum loan terms allowed
- Loss of any personal property

The GAP Coverage generally does not include:

1. any refundable additions to the loan
2. late charges and fees added after the loan
3. any portion of primary insurance deductible that exceeds the deductible limit
4. any portion of a deficiency balance that results from an original loan amount that exceeds certain limits of the MSRP on new cars or certain limits on the NADA average retail book value on used cars
5. delinquent payments.

Wholesale / Retail pricing of GAP

Since GAP coverage is a Debt Waiver contract and not insurance, insurance premiums are not charged. The bank is charged a wholesale rate per contract. The bank then marks up the product to receive their non-interest fee income from the sale of GAP.

Each carrier will have certain documents that will need to be accessed and printed for customer's signature.

Cancellations and Refunds

Cancellations and refunds are a critical and important part of GAP coverage. Your customers are sensitive to prompt and fair refunds. Refunds must be properly handled to maintain good customer relations.

GAP Refunds will generally be done on the Pro Rata Method. (May vary by State and Carrier)

As there are certain Bank Regulatory issues related to Banks offering a Debt Waiver Agreement, it is critical that the carrier recognizes these regulations and the Financial Institution is diligent to make certain that their product meets these regulations prior to offering the product to their customers.