



## OVERVIEW OF GAP INSURANCE

I have been asked my opinion of GAP Insurance so often that I decided to write an article about it. As you know, I do everything in my power to make the industry and my customers stronger. One way I can help is by providing you with leasing and financing knowledge. The following is my feedback about GAP INSURANCE.

My first advice is that you talk with your other professional support people, such as your insurance agent, CPA and banker. When I asked my (business) Hartford Insurance agent of 13 years about GAP INSURANCE, he said NOT ONCE in his career, has he sold GAP INSURANCE for any truck or other piece of equipment.

### GAP INSURANCE OVERVIEW:

GAP INSURANCE appears to be an “F & I” ploy instituted by car dealers, car leasing companies and leasing companies of “last resort” to increase their profits (not yours). If you want that type of insurance, the company who insures your truck will provide it probably at a much lower rate. Instead of GAP INSURANCE, you might want to get a full replacement value type of insurance.

A common misconception is that GAP INSURANCE “replaces” the truck. In reality, GAP INSURANCE only pays off the loan or lease on the truck, to the extent your normal insurance proceeds do not meet that obligation. That sounds good, but in practice, **it can be the worst** thing that can happen to you. It is always great for the lease company, but often bad for you.

### THE DAY AFTER:

Let’s look at where you would be the DAY AFTER GAP INSURANCE has finished paying off your destroyed vehicle. You have no truck. Your down payment money is gone and you have lost all the equity from all the payments you have made. You are worse off than before you got your truck. You have to start over to lease another truck, but you have no down payment. For some startups and early stage companies, you may not be able to lease the replacement truck without the down payment. Exercising GAP INSURANCE could conceivably put such a start-up out of business. In any case, your payments are going to be larger on your next truck.

The following example illustrates this issue. A shredding company was required to put \$30,000 down, meaning his balance to finance was about \$175,000. If his truck was destroyed in the first month, his truck would be paid off by

- \$170,000 (my estimate of the actual cash value from his normal insurance company) plus
- \$5,000 (from the GAP INSURANCE policy)

The customer is spending \$1,300 to \$2,100 to (GAP) insure a loss of \$5,000 for about three months. In this example, after about three more payments, the customer’s payoff balance would be less than the insurance actual cash value of the truck.

### IF YOUR TRUCK IS DESTROYED, HERE IS A BETTER SOLUTION:

Wouldn’t you be better off if the leasing company allowed you to use the insurance proceeds to acquire another truck? If the leasing company tells you that is what they would do, be sure to get it in writing. If the leasing company tells you they will allow you to use the insurance proceeds to replace the truck, then why would they sell you GAP INSURANCE?

From the leasing company’s point of view, they would be substituting one used truck for another of equal “value”. Leasing companies I work with call this “collateral substitution”. (See BEEN THERE, DONE THAT paragraph below). They would want the right to refuse to do the substitution if the substituted truck is of much lower value than the original truck. How is a lease company hurt if you substitute one truck “worth” \$170,000 for another that is worth the same? There is a 2004 Shred-tech advertised today for sale for \$179,000. I financed a 2005 ShredFast this month for \$170,000.

**GAP INSURANCE IS GOOD IF:**

GAP INSURANCE only makes sense if ALL THREE of the following conditions apply.

1. If your payoff of the lease is much higher than the insured value (actual cash value or replacement value) of your truck, AND
2. if you are NOT ALLOWED to use the insurance proceeds to purchase a replacement truck and you are FORCED to use the insurance proceeds to payoff the truck lease AND
3. if you have no other financing or leasing options.

Interestingly, the company who requires their customers to get GAP INSURANCE displays on their web site that they have no penalty for paying the lease off early. Therefore, condition number one above is not met. If you are being forced to do the lease with GAP INSURANCE, then you should look around for more suitable financing. Just because a company says one thing on their web site, doesn't mean they have to honor it for you. The only terms and conditions they have to honor are the ones written in the documents that you sign. Verbal representations are irrelevant in business to business transactions.

**HOLES IN GAP INSURANCE:**

Some GAP INSURANCE only covers the vehicle in case of a collision. Some GAP INSURANCE does not apply in cases of:

- Fire (most common reason for a destroyed shredding truck as told to me by all three major truck vendors)
- Acts of nature (hurricane, flood, tornado, earthquake)

If you have been one of the companies who were forced to get GAP INSURANCE, you might want to read your policy, at least looking for this issue. If you know of a fast professional mobile shredding truck that was "totaled" because of a "collision", please let me know. I do not know of one. Also ask the vendors if they know of one.

**BEEN THERE, DONE THAT:**

In 2003, a customer of mine (Docu-Shred, Portland, OR) lost one of his shredding trucks due to fire. We used the insurance proceeds to buy a replacement truck. This happened when the lease was about 15 months old. We never changed any of the terms and conditions of the lease. In 45 remaining months, he had paid for the "substituted" truck.

As you know, I am a broker and work with a number of equipment leasing and financing companies. I have been in the business equipment leasing and financing industry over 25 years. NOT ONCE has a lender I have worked with required (or even mentioned) GAP INSURANCE. When I am faced with leasing companies who offer terms and conditions that are outside the norm, I "fire" those companies and find better companies to place my valued transactions with.

Call me if you have any questions.  
800-239-3814  
David Murray  
Evergreen Financial, Inc.  
16200 SW Pacific Hwy, Suite H171  
Portland, OR 97224