

Is Your Car Worth Less Than Your Loan?

The economy has made financing cars more difficult and lease arrangements are scarce, car loan and existing leases may last as long as four to six years. Whether your vehicle is a coupe, sedan, van, sports utility vehicle, or truck, your vehicle's value will depreciate very quickly. A rapid loss of actual value accompanied by a longer loan obligation spells trouble.

It isn't unusual for the amount of the unpaid loan and lease balance becomes much larger than the vehicle's value. This disparity exists over much of the loan or lease period. Making matters worse is that this gap is usually only discovered after a total loss. After the insurer pays its obligation, you may have to pay the bank or leasing company thousands of dollars out of your own pocket. The situation is an unfortunate side effect of the need to extend financing to accommodate extremely expensive vehicles. However; there are a couple of solutions to the dilemma.

The Auto Loan/Lease Coverage Endorsement

This optional coverage is available from a variety of insurance companies. The form provides coverage for the following:

- Leased vehicles - Reimburses you for the difference between the amount due under the terms of the lease and the actual cash value of the auto in the event of the auto's total loss.
- Owned vehicles - Pays any outstanding indebtedness incurred by you for that financed new vehicle in the event that there is total loss or damage to the vehicle and the amount due under the finance agreement is greater than the actual cash value of the automobile.

On smaller, partial losses, an insurer will normally pay to have the damages repaired or parts replaced, and the lease or loan gap coverage option is not a factor.

Exclusions

Generally this optional coverage excludes items such as overdue lease payments, penalties (for excessive use, abnormal wear and tear, or high mileage), security deposits, costs of warranties or various types of credit insurance, or carryover balances from a previous lease.

Auto Replacement Cost Coverage

For an additional premium, a new car owner may buy coverage to settle major losses based on the vehicle's replacement cost rather than its depreciated value. There are some limitations such as:

- the coverage is usually only available for new or nearly new (six months or less) cars
- there may be a maximum dollar amount that applies to a total loss
- the coverage may only be available for the first few years of the car's useful life

If you have a newer vehicle and are concerned that you could suffer a large out-of-pocket expense if your car is totaled, you should talk to a qualified insurance professional to answer your questions. You may find that the extra protection is worth the extra cost.

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