The Fed - Consumers and Guaranteed Asset Protection (GAP Protection) on Vehicle Financing Contracts A First Look

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Consumers and Guaranteed Asset Protection (GAP Protection) on Vehicle Financing Contracts: A First Look  
Thomas A. Durkin, Gregory Elliehausen, and Thomas A. Miller, Jr.  
Abstract: Guaranteed Asset Protection (GAP) shields purchasers from financial risks of losses exceeding insured collateral values if vehicles become total losses. Yet surprisingly little is known about the sales of this product or consumers’ attitudes toward it. In this study, we report the results of a representative national survey conducted by the Survey Research Center (SRC) of the University of Michigan. The SRC interviewed 1,206 individuals in the fall of 2020. This survey shows that consumers purchased GAP in about 39 percent of financed vehicle transactions. Consumers purchase GAP more often when there is a heightened financial risk: larger credit amounts, longer loan maturities, and lower income levels. More than 90 percent of GAP purchasers report that buying GAP is a good idea and that they would buy it again. Only about 1 percent of surveyed purchasers indicate dissatisfaction with their choice. A multivariate model of GAP purchase suggests that consumers’ financial situation and terms of the transaction are more important than risk aversion by itself.  
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