Extended Service Contracts and GAP Insurance

by Terry Davis

How important is the extended service contract (ESC) and GAP insurance (GAP) to a special finance deal? Should it be ignored? Included? Soft pitched?

There are a couple schools of thought about service contracts and GAP insurance in special finance deals. One is that since ESC and GAP are cancelable (may or may not be applicable in your state), it is better to max out the deal with front-end profit. In the short term this may seem to be the best choice. Long term, it may not be.

Customers who have limited disposable income and have credit challenges face real hardships when experiencing a mechanical breakdown of their vehicle. They have to not only find the resources to pay for repairs, but also arrange for alternate transportation while repairs are completed. Inability to pay for repairs is a leading cause of late payments and repossession, possibly costing you an opportunity to enjoy repeat and referral business from your sale.

In the case of a total loss, a special finance customer will find it nearly impossible to cover the portion of the loan not covered by auto insurance, not to mention the associated costs (towing, storage and replacement transportation) not covered by auto insurance. The result is an unpaid balance that is then reported as a bad auto loan, making it that much harder to acquire another vehicle. That could result in another lost sale opportunity.

So, are those the only reasons to include extended service contracts and GAP insurance?

What impact does including ESC and GAP have on your relationship with your lenders? Have you discussed it with them? Many, if not all special finance lenders would prefer to see both ESC and GAP on every deal.

Reality is that a high percent of late payments and repossessions in your portfolio with your lenders can lead to a tightening of the callbacks and approvals. You may suddenly find it harder to get a deal bought. Lenders track the performance of the loans you submit. It is in your long-term interest to include ESC and GAP whenever possible to avoid a borderline portfolio with your lenders. If your portfolio slips too far, you may suddenly find yourself looking for new lenders.

What about the profit? Remember that a correctly worked special finance deal sells credit first, vehicle second. By structuring your deal to include ESC and GAP, you can still maximize the vehicle profit by landing your customer on the right vehicle the first time out. Special finance lenders usually advance for ESC and GAP in addition to any advance for the vehicle itself. By considering the cost of ESC and GAP when selecting a vehicle, you can ensure maximum overall profit.

Most importantly, including ESC and GAP in your deal structure increases your customer satisfaction. Explaining the benefits of not having to worry about future repair bills or total loss will result in customers who feel you have their interest foremost. Emphasizing the desire to ensure your customers are protected from unexpected expenses while they rebuild their credit will earn you a loyal customer who feels confident in referring their family and friends to a dealership that cares about more than just selling a vehicle.

Including ESC and GAP coverage should be automatic. That is not to say your customer cannot refuse coverage, only that the deal should be structured in such a way that GAP insurance is a foregone conclusion. Selling the value to your customers should be simple with the use of examples. Clearly explaining how ESC and GAP protects them from such a situation as described nearly sells the products for you.

The results? Happy lenders. Happy customers. Happy you. What could be better?

What's that you say? More customers to buy those products? No problem. I can help you with that. Just ask.

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