



GAP INSURANCE: CFPB ORDERS AND PRIVATE SETTLEMENTS

For years, consumers have been offered costly add-on products to their loans such as service contracts. One type of service contract is guaranteed auto protection, also known as “GAP insurance.” GAP insurance is oftentimes bundled into car loans from auto lenders who have misled customers into believing it is required as part of their auto loan. This is a common tactic used by auto lenders in their attempt to squeeze even more money out of consumers.

What is GAP Insurance?

GAP insurance covers the difference or “gap” between what a consumer owes on their car loan or lease and the depreciated value of the car if it is totaled but the consumer’s existing auto insurance policy does not cover the remainder on the loan. GAP insurance is generally an optional add-on to the purchase of a car loan, and it does not always need to be purchased from the auto lender that is financing the purchasing of the consumer’s vehicle. GAP coverage will not be of use to all consumers. Borrowers must also pay interest on the add-on products for the [full duration of the loan](#).

According to the federal Consumer Financial Protection Bureau, also known as the CFPB, it is highly unusual for a dealer to actually require the purchase of GAP insurance. If a dealer tells a customer that GAP insurance is required, the customer should ask to see where in the sales contract it explicitly says it is required. Oftentimes, consumers are led to believe that GAP insurance is a required purchase when it is optional to purchase. Most often, GAP insurance has limited, if any, utility to consumers because they will not be in an accident

that requires the insurance. Consumers may also be led to believe that the GAP insurance will cover the entire difference between the loan balance and what the consumer’s auto insurance policy would cover in the event of an accident, when it will only cover a portion of that amount. Consumers lack information about what they are paying for, while auto lenders blur the line between optional and required purchases. The National Consumer Law Center’s analysis of data revealed that vehicle add-on products, including GAP insurance, pay out very little to consumers yet [generate significant profits for dealers and lenders](#).

Importantly, there are ways to cancel GAP insurance and get a refund from the company that issued the GAP policy company for any unused portion of the coverage. For instance, if there are six months of coverage left on a 12-month GAP insurance policy and it is cancelled, there can be a reimbursement for the unused six months minus any fees. If the GAP insurance has not expired, the deadline to make a claim has not expired, and the GAP policy premium has not been paid, a [GAP insurance refund](#) should be issued.

CFPB Enforcement Activity Against Auto Lenders

The CFPB has held auto lenders accountable for misleading consumers about the cost or value of GAP coverage or failing to refund consumers for unused premiums for GAP insurance. The CFPB has repeatedly advised consumers to shop around before agreeing to purchase GAP insurance, to be sure to negotiate a fair and reasonable price, and to be





prepared to say no if consumers are offered a [product they do not want or need](#).

In early 2023, the CFPB reached a settlement with Wells Fargo Bank for allegedly violating federal consumer protection laws that apply to financial products, including auto loans. [Wells Fargo](#) was required to pay more than \$2 billion to customers who were harmed as a result of certain of Wells Fargo's practices between 2011 and 2022. Specifically, the CFPB alleged: "Some auto loan borrowers prepaid for GAP coverage, which insures the amount owed on a car loan if you have an accident or your car is stolen. Wells Fargo acted unfairly by not refunding money when the loan terminated early—for example, if it was paid off ahead of schedule."

In November 2023, [Toyota Motor Credit](#), a major consumer auto lender, agreed to pay \$60 million for allegedly deceiving customers into purchasing unnecessary products bundled into their car loans that it then made unreasonably hard to cancel. Toyota Motor Credit provides financing for individuals buying cars through Toyota dealerships. The CFPB claimed that Toyota Motor Credit was acting to frustrate and deceive consumers. While Toyota Motor Credit admitted no wrongdoing, it agreed to pay "\$32 million to consumers who did not receive refunds they were owed; \$9.9 million to consumers who tried to cancel their policies but were unable to do so; \$6 million to consumers who were harmed by false information sent to a consumer reporting company; and \$52,000 for those who were given inaccurate refunds. Toyota's finance arm will also pay a \$12 million penalty to the agency's victim relief fund."

Prior to the CFPB Order, in July of 2022, Toyota Motor Credit agreed to pay \$59 million to settle claims with consumers who took out GAP insurance who didn't receive a refund they were eligible for. While Toyota Motor Credit denied any wrongdoing,

customers who paid off their GAP insurance 30 days or more before the maturity of the agreement date and did not suffer a total loss during the term of their agreement were eligible to receive payments as [part of the settlement](#).

Labaton Keller Sucharow's lawyers are available to address any questions you may have regarding these developments. Please contact the Labaton Keller Sucharow lawyer with whom you usually work or the contacts below.

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