

# My vehicle is totaled...

## “What now?”

There is a lot of misconception regarding the vehicle valuation at the time of total loss. First of all the process is dictated by your policy. Your policy is a contract with specific terms. Please allow me to say it is not what you would like it to be but the terms of this contract that will prevail in the process.

**Please read this document as it could save you \$,000 (thousands) if your vehicle is totaled.**

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### For example a policy could say:

*Loss Payment - Physical Damage Coverages –*

At our option we may:

- a. Pay for, repair or replace damaged or stolen property;
- b. Return the stolen property, at our expense. We will pay for any damage that results to the "auto" from the theft; or
- c. Take all or any part of the damaged or stolen property at an agreed or appraised value.

*If we pay for the "loss", our payment will include the applicable sales tax for the damaged or stolen property.*

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### As you can see it is not the insured's (you) decision to say repair or not to repair.

Most policies value your vehicle using **Actual Cash Value**. "Actual Cash Value" means replacement value less depreciation. This essentially means you have to be left in approximately the same financial position (with respect to the item insured - not in respect to any liens or leases that hold title to your vehicle) you were in before the accident.

If you have physical damage coverage (comprehensive and collision) the insurance company will typically write you a check for the actual cash value of the vehicle, minus any deductible on your policy. If you are "upside down" on your loan or the cash value is less than your current loan amount ("Upside down" means owing more on a vehicle than it's worth.) then you should consider GAP insurance. In this situation, if you don't have GAP insurance then you would be responsible toward your loan for the remaining balance. The terms of that payment are set through you loan contract.

So you've been in an accident, and your insurance company has declared your vehicle a total loss. Does that mean your vehicle is gone for good? Not necessarily. Even if your vehicle has been declared totaled, you still have options. But it's important to understand the process from the beginning; otherwise you may miss your chance to get the outcome you want.

### Why Was My Vehicle Declared Totaled?

Your auto insurance company will send a claims adjuster to inspect your vehicle and determine whether it can be repaired or is "totaled." A vehicle is considered totaled if the cost to repair the damages exceeds its current worth.

If your vehicle is declared a total loss, the adjuster will calculate its actual cash value, based upon accepted industry research guides, the mileage of the vehicle, the local automotive market and similar factors.

Once the value is determined, the insurance company will write you a check, minus the amount of your policy deductible.

Now, say that you have a loan on the vehicle and the insurance settlement is less than the loan payoff balance. You're what's known as "upside down" – you owe more on the vehicle than it's worth. And, yes, you do owe the difference.

What if you're leasing the vehicle? Most lease contracts include gap insurance, which covers the difference between the value of the vehicle and what's owed. **If you don't have gap insurance, consider getting it for your protection.**

It is not always apparent when a vehicle might be declared totaled. Insurance companies choose this option when the cost of repairs exceeds the cash value of a vehicle, as in the case of many older vehicles. A newer vehicle, though more extensively damaged, might not be declared totaled, because it still has significant monetary value.

A common misconception is that major damage is the prime driver behind a vehicle getting totaled. In fact, that's not a deciding factor; it's only about the costs.

As an example, a fender bender on a 15-year-old Ford truck might end up in a totaling while major damage on a brand-new International truck might not. If the costs of the repair are more than the vehicle's value, she's totaled. If not, repairs are usually made.

Insurance companies figure out the costs and vehicle values based on their own formulas for repair jobs. Some vehicles are totaled if the repairs are found to be at 51% of the vehicle's value, while other companies in some instances use 80% or other if the repair is equal or exceed the ACV.

In general the price evaluation could be explained such a way. Each insurance company could have a different approach. To determine what the insurance will pay you for a total loss, they do what many consumers do to find how much their vehicle is worth. To some extent, this is governed by state regulations, but in general, this is the process:

First, they determine your vehicle's market value. They may look at guidebooks, get quotes from dealers and look at ads online and in the newspaper to gather information about the value of models similar to yours in your market. Adjustments may be made to account for differences in mileage and accessories. This gives them a starting point.

Then, they assess the condition your vehicle was in prior to the accident. Cracked windows, dented, scraped or rusted parts, and other excessive wear and tear or damage, such as a badly stained interior, will decrease your vehicle's value.

They subtract the value of prior damage and excessive wear and tear from your vehicle model's market value to calculate actual cash value of your vehicle. Then, they subtract the amount of your collision or comprehensive deductible

Another important item to understand: any add-on to your vehicles (shelving for example), and if it is **permanently** secured to the vehicle needs to be indicated at time of coverage as it increases potentially the ACV value. Always keep records of your truck purchase with all permanently secured items. Take pictures of the vehicle as well and keep this information in a safe place. Any other items not permanently secured on the vehicle require another type of coverage (BPP in transit).

### **What Happens to My vehicle?**

Typically, when a vehicle is declared totaled, the insurance company issues you a check for the cash value of the vehicle, minus your deductible. The vehicle is then sent to a salvage yard, where it may be auctioned off for parts. The insurance company receives the money from the auction.

However, you could choose to keep the vehicle. In this case, the insurance company still issues you a check for the value of the vehicle, minus what the vehicle would have received at auction, and the vehicle is returned to you.

You are responsible for the cost of repairs. However, in some cases this is not practical; for example, some states require owners to buy a salvage title or have the vehicle inspected after it's been repaired. And in some cases, if your vehicle is a newer model and could bring in a significant amount of money at auction, the insurance company may refuse to let you keep it.

### **What If I Want to Keep My Totaled Vehicle?**

Decide early on if you want to keep your vehicle. If you let the insurance company take it, and then decide you want it, it will be tough to retrieve it. If you change your mind too late in the process, you'll have to buy it back at auction, and even then could be too late. In many states, you have to have a special license for auto salvagers or dealers just to be admitted into the auction.

If you decide to keep the vehicle, make sure you have the money to make all the repairs. Some insurers won't cover a totaled vehicle unless it passes a department of motor vehicles inspection. If it does pass inspection, you should have no problem obtaining liability insurance; you may not be granted more coverage than that on an already totaled vehicle, however.

You may keep the totaled vehicle. Just inform your insurance company as soon as possible if they let you do this. If you wait too long and it goes to auction, it's difficult to get the vehicle back. And in most states, you'll need an auto salvager's license to attend the auction and bid on your vehicle.

Now that your vehicle has escaped the auction block, you're responsible for having it repaired to safe driving condition, including any work required to pass inspections.

Once your formerly totaled vehicle is fixed, getting new liability insurance coverage shouldn't be a problem – as long as the vehicle passes inspection. Getting other types of coverage, however, may not be available, so you'll need to talk to your insurance professional. Finally, you may also need to buy a salvage title for your vehicle.

After your auto insurance company gives you the check for the totaled vehicle value, it owns the vehicle. In order to get the check you will have to send them the title.

### **What if I'm Not Happy with the Settlement?**

If you decide not to keep the vehicle, your insurer will give you a cash settlement. However, the amount may not be enough to buy a similar vehicle. Several factors determine the value of your vehicle, including the miles driven, special features, and local market value. If you feel the settlement is unfair, you can hire an independent appraiser, at your own expense, to assess the vehicle's value (make sure you get the appraisal in writing). The insurance company may increase the settlement, and if it doesn't, you could take the company to court, or hire an arbitrator to determine the case. However, hiring an independent appraiser and taking the case to court are both expensive, and you may end up losing money.

Please you need to understand as well the wording of your contract. An example could be this one:

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**Loss Conditions**

**Appraisal For Physical Damage Loss**

*If you and we disagree on the amount of "loss", either may demand an appraisal of the "loss". In this event, each party will select a competent appraiser. The two appraisers will select a competent and impartial umpire. The appraisers will state separately the actual cash value and amount of "loss". If they fail to agree, they will Submit their differences to the umpire. A decision agreed to by any two will be binding.*

**Each party will:**

- a. Pay its chosen appraiser; and
- b. Bear the other expenses of the appraisal and umpire equally.

*If we submit to an appraisal, we will still retain our right to deny the claim*

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**As you can see it is a time consuming process which will involve your attention. It is crucial to respond to the adjuster as soon as possible. Keep track of your conversation (date & time). The same way the adjuster should respond to you quickly.**

Chance as well that it will take more than 30 days to settle.

What will happen if your rental coverage (*if you have this coverage*) is only for 30 days?

What will happen if you disagree with the value and you go through the appraiser route and you have only 30 days rental or no rental coverage at all? It could drag up to 90 days...

**I hope I was able to help you understanding this process better and as usual I would love to hear your comments.**

**If you have any questions don't hesitate to contact me. Gérald Gaucher [ggaucher@aaod.com](mailto:ggaucher@aaod.com). Or call me at 888-511-2234 or visit our website at [www.aaod.com](http://www.aaod.com).**

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