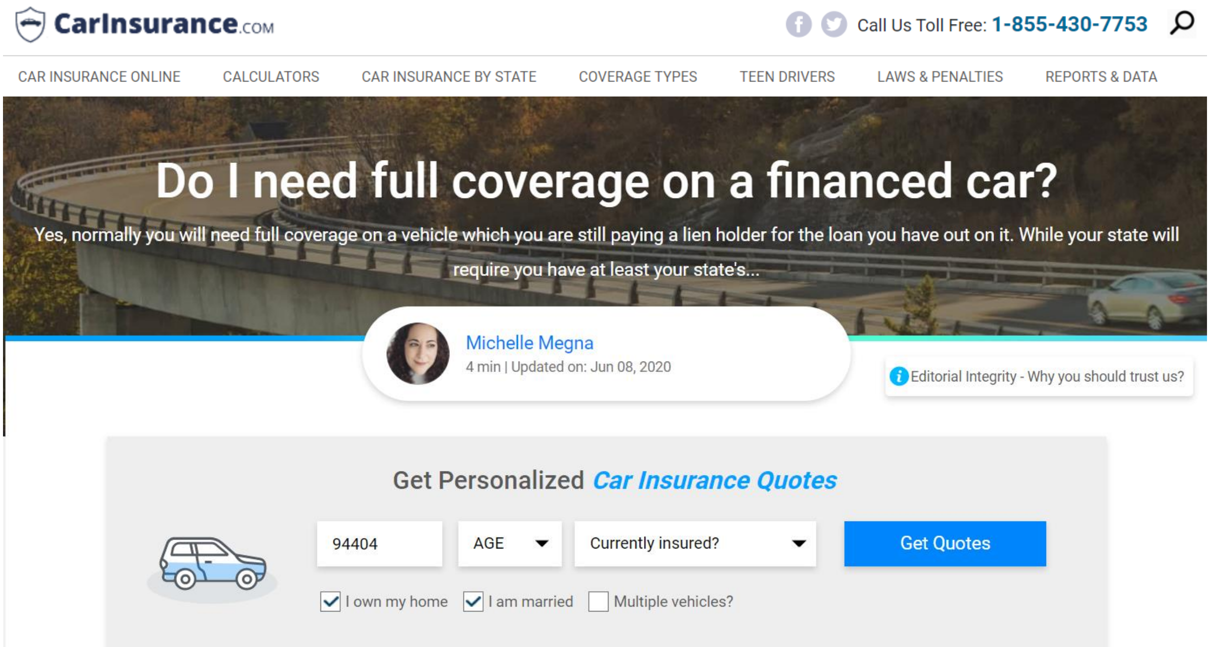

Yes, you will need full coverage on a vehicle if you have a car loan.

To drive legally, you have to have your state's required minimum liability insurance coverage. But if you drive a financed car, your lender will require you to carry liability insurance, collision insurance, and comprehensive insurance, often called "full coverage."

Here we'll explain insurance requirements for financed cars, so you'll know what type of insurance coverage you need, and how it works.

Financed car insurance requirements

Most people don't buy a car outright – they take out a car loan to pay for it. That means the car is still owned by the lender until the loan is payed off. The lender will want you to have full coverage car insurance on the financed car to protect their investment. Otherwise, if the car is damaged or totaled, the lender would have to get the money from you for repairs or to replace it, which is much harder than having the insurance company pay for it.

Full coverage car insurance consists of the following:

- Liability insurance – pays for property damage and injuries to others in accidents you cause
- Collision insurance – pays for damage to your car regardless of who caused the accident
- Comprehensive insurance – pays for damage to your car from flooding, hail, fire, vandalism, falling objects or animal collisions, and also covers theft

How much is full coverage car insurance?

The average car insurance rate for full coverage is $1,758 a year for the following, based on CarInsurance.com's rate analysis:

- $100,000 in liability injury coverage, the maximum payout per person for medical bills of those you injure in an accident you cause
- $300,000 in liability injury coverage per accident, the maximum paid out for all people injured in an accident you cause
- $100,000 in liability property damage, pays to repair damage you cause to other cars and property
- Comprehensive and collision insurance, pays out up to actual cash value of your car to repair or replace your car, with a $500 deductible

This is commonly written like this: 100/300/100. Liability insurance is available in lower limits, such as 50/100/50, but generally, lenders require the above limits.

However, what you pay will depend on your own driver profile – your age, driving record, type of car you drive, where you live – and each insurer will calculate your price differently based on those factors. So doing a car insurance comparison is the best way to save money, as rates vary significantly among carriers.

Do I need gap Insurance on a financed Car?

Gap insurance helps bridge the gap between what you owe on a car that's totaled and what your insurance coverage pays out. For example, let's say you get a loan to buy a car for $22,000 and total it in an accident. Your comprehensive or collision insurance will pay out up to the actual cash value, which is typically lower than the loan amount. In this case, let's say it's $16,000. But if you still owe more than that on the loan, in this scenario say $19,000, you would have to pay the difference. That's $3,000 for a car you can't drive any longer. Gap insurance would pay that $3,000 instead of you.

It is typically cheaper to buy gap insurance from your insurance company, instead of through the dealer. The average gap insurance policy costs about $41 a year, according to CarInsurance.com's analysis, compared to about $500 to $700 that dealerships generally charge.

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What happens if you don't have full coverage on a financed car?

If you drop the required auto insurance coverages from a financed vehicle, it is a violation of your finance contract and may put your loan in jeopardy. Also, the lender could place single interest coverage (force placed insurance) on the vehicle and add the premium to the loan. This type of coverage is expensive and does not provide any coverage for you, just the lender.

Check our car insurance offers near you

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Editorial Director

Michelle is a writer, editor and expert on car insurance and personal finance. Prior to joining CarInsurance.com, she reported and edited articles on technology, lifestyle, education and government for magazines, websites and major newspapers, including the New York Daily News.