AMERICAN FINANCIAL SERVICES ASSOCIATION

FACT SHEET

WALK AWAY LOANS AKA “STOVEPIPING

- Stovepiping is a colloquial term used to describe a legally questionable practice in vehicle finance in which an unscrupulous dealer convinces a borrower *not* to trade in a motor vehicle with a current loan balance, but instead take out an entirely new loan for a different vehicle, leaving the consumer with two separate vehicle loans at the same time.

- The consumer voluntarily surrenders the first vehicle (or allows it to be repossessed), leaving the consumer with a loan on the second vehicle that they likely would not have qualified for if they had surrendered the first vehicle (or had it repossessed) *before* the second vehicle’s financing was secured.

- In some cases, the dealer will note the original vehicle as a trade-in on the new retail installment contract (usually with the trade-in allowance equal to the trade-in value). This is outright fraud and dishonestly allows the dealer to more easily obtain financing for the new contract, even though the original vehicle does not, in fact, get traded in.

- The new finance company participates in this practice, usually unwittingly, believing that the trade in actually happens. The old financial institution is left to suffer the consequences of the default.