

WALK AWAY LOANS AKA “STOVEPIPING” OR "KICKING THE TRADE"

- “Stovepiping” and “kicking the trade” are colloquial terms used to describe an extremely rare and legally questionable practice in vehicle finance whereby 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 even 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.
- These types of scams are extremely rare and do not seem to be increasing in prevalence. This is principally because dealers rely on banks and financing companies to purchase auto financing contracts and could not sustain carefully cultivated relationships with these lending sources if they were to engage in the type of behavior alleged.
- Auto-dealers have also pointed out that there is little or nothing for a dealer to gain by the alleged practice as banks and finance companies that routinely purchase auto financing contracts from dealers employ sophisticated underwriting which accounts for both the debt-to-equity ratio of the vehicle being purchased, and for the consumer’s debt-to-income ratio. This means that neither a customer nor anyone else can make a negative loan balance on an existing car loan disappear from a credit profile by retaining a currently owned vehicle instead of trading it in.