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.