

How To Trade In a Car That You Still Owe Money On - or That Has a Payoff!

Many people get thrown for a loop when it comes time to trade in a vehicle with an outstanding loan payoff on it. Car dealers are very familiar with how to take trades with money owed on them, but often, when they try to explain the process the customer gets more confused than when they started!

Here's How It Works:

You take the selling price of the vehicle you're buying, add tax and title fees, subtract your trade-in allowance, then add your payoff to the total. This gives you your total amount due. Subtract from that any cash down and/or rebates and you have the amount to be financed on the new loan.

The payoff has to be paid off in order for the dealer to get a clear title to your trade. In essence, when you trade a car to a dealer you are really selling it to them. You can't sell a car without providing a clear title. By a clear title I mean a title that is lien free. By refinancing the payoff you are giving the dealer the money to pay off your outstanding loan.

The Calculations Should Look Like This:

Selling Price of the New Vehicle You are Purchasing
+ Sales Tax and Title Fees
- Trade-in Allowance
+ Payoff
- Rebates and/or Cash Down (if any)

= Amount Due or Amount to be Financed

One Word of Caution However:

Make the car dealer put in writing that they are going to use the payoff amount to immediately pay off your car loan on your trade. This is very common, and most dealers take care of it right away.

However, we've seen cases where a dealer was having cash flow problems and they sat on the money and waited a month or more before they got around to paying off a loan. Until the loan is paid off you are responsible for making the payments on it. So be careful.

I hope this helps. It is very easy to get confused when there is a payoff involved. If you just take it a step at a time it is very easy to follow. By adding it to the new loan after the trade-in allowance has been subtracted you are in essence killing two birds with one stone:

- you are paying off the outstanding loan
- you are trading your car to the car dealer with a clear title so he can then resell the vehicle

The bottom line to remember is that the payoff owed is your loan and therefore it is your responsibility to pay in full.