BUSINESS

Underwater trade-ins setting records

If your car loan got you into a financial hole, you're not alone

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Nearly 3 in 10 trade-ins toward new vehicles were in an underwater position in the second quarter of 2026.
SETH HERALD/REUTERS FILE

DETROIT – Drivers always risk being backed into a financial tight spot if they want to buy a new car just a year or two after taking out a car loan.

Odds are pretty good — especially if they had a small down payment — that the car buyer will owe more money on that old car loan than they'd get when they trade in a 1- or 2-year-old car or truck.

It's called negative equity — and it's breaking records once again. Yet, it's not because everyone's trading up to a new car way too soon.

The average age of underwater trade-ins hit four years, another second quarter record. That's up from 3.8 years in the second quarter last year. But it's down slightly from 4.3 years for the first quarter of 2026.

The average amount of these upside down loans reached $6,884 in the second quarter in 2026, a record for any second quarter period, according to the latest research from Edmunds. That's up from $6,754 in the second quarter last year. But it is down from $7,183 in the first quarter of 2026.

Nearly 3 in 10 — or 29.6% — of trade-ins toward new vehicles were in an underwater position in the second quarter, the highest second quarter figure since 2020. This is a slight decrease from the 30.9% share recorded in the first quarter, but represents an increase from 26.6% in the second quarter of 2025. It's significantly lower than the 37.2% level hit in the second quarter of 2020.

Ivan Drury, Edmunds' director of insights, shared some theories with the Detroit Free Press, part of the USA TODAY Network, about why so many borrowers are encountering these financial landmines.

Some of the scene was set back in 2022 when cars and trucks were in short supply following a shortage in semiconductor chips and disruptions in the supply chain after the COVID-19 pandemic hit in early 2020.

Those who bought then paid peak prices — maybe even more than the sticker price — to get what they could find on dealer lots in 2022 when inventories were tight. Maybe they even added extended warranties or other add-ons to the mix. So, many ended up with bigger car loans to do the deal.

Now, Drury said, many people are dealing with the aftermath of punishing loan structures.

On top of that, some people at that time rolled some or all of what they owed on an old car loan into the new car loan, he said. They might have had to borrow again to pay off what they still owed on an older car.

"They should be ahead but they're not," Drury said.

Bigger and bigger car loans can become a negative financial cycle.

Average monthly payments for those new car loans soared to $944 a month on new-vehicle loans with negative equity on the trade-in, according to Edmunds.

Sometimes it's the right vehicle but the wrong financing

Among drivers who faced negative equity in the second quarter, those trading in a Honda Civic with an average model year of 2022.6 owed $4,778 more than the trade-in price paid.

Those trading in a Toyota Tundra with an average model year of 2023.4 ended up with a negative equity on average of $8,929 in the second quarter.

Those who traded in a Chevrolet Silverado 1500 with an average model year of 2021.9 ended up with an average negative equity of $8,516. The GMC Sierra 1500 with an average model year 2022.2 at trade in had an average negative equity of $8,568.

Those who traded in a Ford F-150 with an average model year 2021.1 had an average negative equity of $8,417 in the second quarter. These were the gas-powered trucks, not the Lightning EV models. EVs in general, including the Ford Lightning, have hit a very tough resale market.

Drivers who traded in a Toyota Camry with an average model year of 2023.1 had an average negative equity of $7,030.

Drury said in some cases, drivers who had negative equity have the right vehicle but the wrong financing.

Take a Toyota Tacoma. Typically, he said, the midsize workhorse has exceptional resale value. But data from Edmunds indicates that drivers who traded in a Toyota Tacoma with an average model year of 2023.2 had an average negative equity of $7,793 in the second quarter.

Many of these drivers, he said, likely faced the financial fallout of some painfully structured loans in the past. It wasn't always that the car or truck they bought didn't retain decent value. Sometimes, they had a loan that dug them deeper in debt.

A great vehicle choice can be undermined by a punishing loan structure, he said.

How to avoid some traps that could trigger negative equity

What are some ways to protect yourself from falling into a negative equity situation? Or getting into a financial jam when your car's trade in value is far less than you'd imagine?

- **Make sure you're not needlessly borrowing:** Many times, your financing costs only go up when you're paying extra fees for things like extended warranties, special paint, upholstery protection and other dealer-installed options that were not added at the manufacturer but added onto the sales contract at the dealership.

Watch out for hidden costs, too. Inflated, deceptive fees and other tactics can push up borrowing costs.

About 100 auto dealership groups came under the fire of the Federal Trade Commission earlier in 2026 for misleading consumers with low advertised prices but added mandatory fees at the end of the purchasing process. In some cases, the dealership required consumers to buy additional items not reflected in the advertised price.

The FTC did not identify the auto groups; one group could own several dealerships.

- **Shop around for a car loan:** Interest rates can be all over the map, based on your credit score, deals that lenders might be offering to build up an auto loan portfolio, and the numbers being juggled at the dealership finance office.

Shop lenders on your own before shopping for a car to get preapproval for an auto loan from a credit union, bank or online lender. Some online lenders focus on borrowers with bad credit.

A dealer offering a fantastic interest rate, for example, might try to compensate for that rate by lowballing you on the trade in price for the car or truck that you're unloading, warned Teresa Murray, who directs the Consumer Watchdog office for U.S. PIRG, a nonprofit advocacy group.

The FTC charged that some dealerships falsely claimed that the buyer would be required to obtain financing at the dealership. The FTC said illegal pricing practices include conditioning the advertised price on consumers using dealer financing.

Remember, paying a much higher interest rate means you're going to take even longer to build equity in that car or truck.

- **Consider leasing:** Drury said some people who want to have a new car every two years or so would likely be better off leasing as a way to avoid facing a negative equity situation.

- **Make sure you're getting a good deal on your trade in:** Typically, experts recommend negotiating the car price separately from the financing and the trade-in. Kelley Blue Book Instant Cash Offer provides no-obligation offers online. See KBB.com. The Edmunds Instant Cash Offer is at Emunds.com. Or you can see what you'd get by selling the car on your own.

- **Don't jump at long-term car loans:** Many buyers stretch out their car loans as far as possible to reduce their monthly payments.

A record 23.9% of borrowers in the second quarter signed on for loans of 84 months or longer, according to research by Edmunds. Yes, that's a seven-year car loan.

A record 36.5% of all buyers who financed a new vehicle purchase in the second quarter took on a loan of 73 months or longer, up from 27.3% a decade prior, according to Edmunds.

Consider what happens when you sign the paperwork for a $40,000 new car loan for seven years at 7%. Even after making all your payments on time, you'd still owe roughly $25,200 on that car loan after three years.

If you took on a $50,000 loan, you'd owe roughly $31,500 after three years, based on the Auto Loan Calculator at Calculator.net.

How much could your trade in cover of what's left to pay on that loan? It might not be as much as you would hope.

Drury warns that too many consumers think that if they've been making payments on time, they're never going to run into a negative equity situation. But that's not true.

Many consumers might not realize interest being paid on car loans is typically front loaded, meaning your monthly payments in the first few years of a car loan have the highest amount of interest – and during that time, you're building less equity than you'd imagine.

- **Don't bet on getting top dollar for your trade:** Whether you owe more on a car loan than the car is worth will depend a great deal on how many miles you have on the car, its condition, how willing you are to shop around on a trade in, the popularity of your vehicle's make and model, whether there's been a serious recall on the vehicle, and if there is a major redesign ahead for that model – or even if a manufacturer decides to pull the plug entirely on making that vehicle in the future.

We're talking about a lot of moving parts when it comes to car loans, car prices and trade-in values. Unfortunately, the risk is growing when it comes to possibly owing more money than you'd imagine on an old car loan when you want a new car.