

America's Pandemic Car Bubble Is Now Trapping Buyers in Debt

The average amount a borrower with negative equity carries on a vehicle has jumped more than 40% since 2021

By

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About a third of Americans trading in an older car have negative equity. Jae C. Hong/AP

Doug Horner has seen plenty of customers walk into his northeast Ohio Mercedes-Benz dealership who owe more on their trade-ins than those cars are worth. But being \$40,000 underwater on a pickup truck is a scary sign of a growing trend.

A prospective buyer recently sought to trade in a Ford F-150 Lightning for a Mercedes GLE Coupe, but that potential customer owed about \$87,000 on the pickup truck. Horner estimates the Ford pickup truck was worth about \$47,000—leaving the buyer well underwater.

“This is a battle that we’re fighting every day,” Horner said in an interview.

More Americans turning in their cars to buy new ones are encountering a difficult reality: Their vehicles aren't worth what they owe.

Average amount of negative equity for borrowers who are underwater

About 30% of borrowers in the first quarter who traded in a car to buy a new one had negative equity, whereby they owe more on their loan than their car is worth, according to car-shopping website Edmunds. Those borrowers owed about \$7,200 on average before getting a new loan, a 42% jump compared with the same period five years prior.

“The higher it goes, the chances are that people are never going to get themselves out of the situation,” said Jessica Caldwell, head of insights at Edmunds.

About a third of Americans trading in an older car have negative equity, which has been typical in the industry for years. But the average amount Americans are underwater has skyrocketed, Edmunds said, as buyers try to unload cars bought during the pandemic at high prices.

The increased level of negative equity represents another strain on an auto market already under pressure from pricey vehicles and elevated interest rates.

Share of underwater car buyers who opted for an 84-month loan

To offset those costs, more car buyers are taking on longer loan terms to keep monthly payments digestible. In the first quarter, the average loan was 70 months on new cars, according to Edmunds data. Car payments in excess of [\\$1,000 are no longer uncommon](#) and can stretch out more than eight years.

But consumers who are underwater on their loan end up paying more on average after rolling over the negative equity into their next car, compounding their debt even more.

The current situation dates to the pandemic's semiconductor supply crunch, which led to a severe shortage of new cars available on dealer lots. [Vehicle prices soared](#) in response, and buyers—who either had the disposable income to spend or lacked other transit options during lockdowns—were willing to pay up.

“You had a lot of dealerships in the Covid era that were overcharging, to say the least,” said Eric Frehsée, president of the Tamaroff Group in the Detroit area. “You're seeing a lot of those cars coming back and there's a lot of negative equity because of that.” Frehsée said that his dealerships opted not to charge over sticker prices during the pandemic.

In 2026, buyers with negative equity financed an average of nearly \$56,000 for a new car in the first quarter, about \$12,000 more than the typical new-vehicle buyer, Edmunds said.

That translates to a monthly payment averaging \$932 for negative-equity borrowers, the highest level ever recorded. In April 2021, the average new car cost about \$41,000.

At the same time, the situation reflects another sign of the current [K-shaped economy](#), where affluent individuals are thriving while others struggle. Even with the increased level of negative equity, the average trade-in equity for a car in March exceeded \$6,800, according to JD Power.

“The average consumer is in a good position when buying a vehicle,” said Tyson Jominy, JD Power’s senior vice president of data and analytics. Borrowers with negative equity, however, can have a difficult time securing a loan for a new car, and it could put them at greater risk of falling behind on their payments, studies show.

Consumers who rolled over negative equity from a prior vehicle loan were more than twice as likely to wind up having their car repossessed within two years, compared with those who netted money on a trade-in, a 2024 study from the Consumer Financial Protection Bureau found.

More borrowers have been defaulting on their loan payments, which typically results in a repossession. Default rates on car loans in March rose to the highest levels seen since 2010, according to Cox Automotive, an industry-research firm.

The auto industry has already been grappling with the potential woes of [higher gas prices](#) because of the war in Iran. Auto executives have said they don’t expect sales to be significantly affected by the conflict unless it continues for months.

Caldwell said that higher negative equity amounts are likely to persist in coming months. Amid the pandemic and the semiconductor crisis, interest rates rose, she said, meaning borrowers have continued to pay higher costs to take on new car loans.

“We know that people paid an increased price either way,” she said. “I don’t think it’s going to go back down.”

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