You may have a car or other property that serves as collateral for a loan from one of your creditors. It is a bad idea to give away or sell a creditor’s collateral without the creditor’s permission. This is called “conversion” of collateral.

You may of course sell collateral if the sale price you receive is enough to pay off the existing loan. If the collateral is a car, typically you will need to pay off your loan and have the lender release the lien in order to give good title to the buyer. If you are selling the car to an individual, you may need to work with the lender to determine the amount of the payoff and the release of the lien in order to transfer title.

If you have already lost, given away, or sold collateral, you may be prosecuted for a criminal offense. A defense to a criminal prosecution is that your conduct was not intentional, that you did not understand that the property was collateral or that you did not know the consequences to the creditor of disposing of the property. In addition, most such prosecutions and lawsuits can be ended by payment of the value of the collateral either in installments or in a lump sum if you have it. Jail time is rarely or never imposed. Still, this is not a risk worth taking.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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