

**Illustration of Used Car Donor Tax Credit**  
**Supporting Efforts to Help Low-income WV Residents Acquire Reliable and Affordable**  
**Vehicles to**  
**to Access to Work**

**The typical participant.** Ned Thomas,<sup>1</sup> a 30-year-old ex-coalminer, lives in the basement of his parents' home in rural Putnam County with his wife and their disabled young son. He was making over \$40,000 a year driving a truck for a coal mine, but he was laid off from that job in 2017. Since then he has only been able to find work at a fast-food restaurant for 30 hours a week at \$9 an hour. Ned's car, purchased seven years ago when he was making good money, broke last month. He has maxed out on and is behind on paying his credit cards. He has been borrowing his parents' car and hitching rides with neighbors to get to his job, but he is in danger of losing even this job because of lack of reliable transportation. He has a job offer in Charleston—if he has reliable transportation—that would start him at \$15 an hour.

**How the tax credit and car financing program can help.** When Ned applies for the job his potential new employer tells him about the program offered by a local car ownership program to assist working West Virginians to purchase reliable used cars on affordable terms.

Participation in the program involves several steps:

1. The program works with Ned to ensure that he will benefit from the program. After talking to Ned about his recent difficulties, the staff and the cooperating credit union believe that with the support of the program and a paying job, Ned is likely to repay a loan to purchase a reliable used car—despite his low credit score (under 600 because of his past due credit card debt).
2. The program contacts cooperating used car dealers to assist Ned in identifying an appropriate vehicle to fit Ned's needs (which include driving over 70 miles a day back and forth to work, including on some unpaved roads near his home) and identify a used Toyota RAV4 at a Putnam County car dealer with 65,000 miles on it with an asking price of \$10,000.
3. Mechanics that work with the program evaluate the vehicle, find that it appears to be in good condition and has not been in a wreck, and agree that \$10,000 is a fair retail price, allowing the dealer to receive a West Virginia tax credit for \$2,000, *so long as* the dealer reduces the purchase price of the Toyota to \$6,000 (the tax credit is equal to 50% of the reduced price of an eligible vehicle up to a maximum of \$2,000).
4. In the meantime, Ned applies for a loan from the program's participating credit union to cover the purchase price of \$6,000. After reviewing Ned's credit history, hearing his story, and certifying that he has a solid job offer at \$15 an hour (or \$2,500 a month), the credit union provides Ned with a loan for 2 years at 5.5% interest to cover the cost of purchasing the car, subject to the following:

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<sup>1</sup> This is a fictitious name applied to a composite person likely to be typical of the people this type of program will assist.

- a. Ned completes personal financial literacy training with the credit union.
- b. Ned completes special car ownership and financial management training.
- c. Ned has and maintains liability and property insurance to cover the car.
- d. Ned has sufficient funds to cover the taxes, license fees and initial insurance payment due on the car.
- e. The ownership program provides a guarantee to the credit union against any losses it may incur by providing this low-interest rate loan to Ned to purchase the car.

5. The details of car purchase and the GNMG-guaranteed loan are as follows:

Retail price of car –	\$10,000
WV tax credit --	2,000
<u>Retailer’s reduction in price –</u>	<u>2,000</u>
Car purchase price –	\$ 6,000

Loan amount –	\$6,000	24 month term at 5.5% interest rate <sup>2</sup>
Monthly payments of –	\$265	payments are 11% of Ned’s income

**Program guarantees and defaults.** The ownership program provides guarantees to the participating credit unions against losses resulting from these loans, allowing the financial institutions to provide prime credit interest rates (here 5.5% rather than 18%, or as much as 25% from another lender). If participants default on their loans, the credit union will pursue its normal collection remedies and repossess the cars. As the original loan amounts will be so much lower than the retail value of the car because of the reduction in price and the detailed inspection, the sale of the car after repossession is likely to make the credit union whole. The ownership program’s guarantee will be a back-up in the rare case when a repossession sale produces less than the amount owed on the car.

One of the most important features of the program will be how it works with participants to assist them in making wise financial decisions and making their loan payments on time. Participants should see significant increases in their credit scores after their car loans are paid off, allowing them to purchase their next car by themselves.

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<sup>2</sup> All loans will be for 24 months or less, to ensure that the purchased cars outlast the loan term.