

Cab drivers and owners get caught in the headlights of a troubled taxi lender

As Melrose Credit Union looks to seize assets instead of refinancing medallion loans, individual owners fear for their future



By [Matthew Flamm](#)



Photo: Buck Ennis

THE ROAD AHEAD Drivers such as Medina are weighing whether to stay in the business.

Conrado Medina woke up April 22 to a taxi driver's nightmare. The medallion attached to his 2012 Toyota Camry yellow cab had been removed as the car sat overnight in his driveway in Jackson Heights, Queens.

The worst part was that he knew who did it: his lender, Melrose Credit Union. Already hit with [millions of dollars in losses](#) due to bad loans, Melrose had toughened its stance on the terms it was willing to offer Medina to refinance.

It didn't matter that he'd never missed a payment. If he didn't put his house up as collateral, the lender would foreclose.

ADVERTISING

"They said, 'We're going to repossess the medallion in 10 days if you don't put up the house,'" Medina said. "They didn't care that this has been my job for 30 years."

To fend off the lender, which has continued to demand payment, Medina has decided to file for Chapter 7 bankruptcy protection. But without his medallion, he can no longer drive his cab.

WILLIAM GARFIELD, GREEN-CAB OWNER/DRIVER



A livery-cab driver for 14 years, William Garfield bought one of the first green-cab permits in 2013, allowing him to pick up street-hails outside Manhattan's core business district.

EARLY DAYS He grossed "\$300 and change" in six hours.

NOW "You can make \$90 in a day."

BLAMES Livery and ride-hail drivers who make illegal street-hail pickups, Uber for flooding the streets and the city for not limiting the number of ride-hail vehicles.

Why he doesn't pick up Uber riders (The Uber app is available to green-cab drivers to pick up fares.) "If I take a fare into the city, it can take me half the day to get back. It's not Manhattan island. Call it Traffic Island."

HOW HE SURVIVES A livery app supplies local trips in Queens. He also picks up people for medical appointments.

MONTHLY GROSS About \$4,000 from street hails and prearranged livery and medical trips.

WEEKLY NET (NOT COUNTING PERSONAL TAXES) \$550, or \$11 an hour, after \$450 in expenses.

THE FUTURE "I do want to hold on to this permit, but some months I make more money outside the meter. Is it worth it? I've got to figure out something else."

These are rough times for taxi drivers but even rougher for drivers who borrowed from Melrose to buy their medallion, a piece of metal screwed onto the hood of every yellow cab that gives its owner the exclusive right to pick up street hails throughout the city. That right once made it a precious commodity. Medina paid \$135,000 for his in 1990. As demand for taxis grew and the number of medallions stayed relatively flat, its value skyrocketed to more than \$1 million by 2014.

Then San Francisco-based Uber began gaining traction in late 2014, using bonuses to lure drivers as well as cheap fares and an easy-to-use app to attract customers. The competition from more than 50,000 Uber drivers has [ravaged medallion values](#). Two [sold recently](#) for less than \$250,000 apiece. Revenue has dropped for owners, leaving many lenders with delinquent loans.

Medallion owners have complained for months about inflexible treatment at the hands of Melrose. The change began in February, when the lender was seized by the state's Department of Financial Services and placed into conservatorship under its federal regulator, the National Credit Union Administration.

At stake, industry observers say, is more than just the livelihood of owners. Melrose, based in Briarwood, Queens, has provided financing for more than 3,000 medallions—almost a quarter of the [city's 13,587](#)—to the tune of around \$1.5 billion. As of March 31, the credit union reported nearly 500 "troubled debt restructures," totaling more than \$250 million.

The long-term fear is that, by foreclosing on more medallions than it can find buyers for, Melrose—or its regulator—will further undermine the asset.

FREDY TELLO, OWNER, SEMPERIDE



A veteran of the U.S. Marines, Fredy Tello drove for Uber while building his own black-car service, which he started in 2013. His 13-car fleet includes a wheelchair-accessible vehicle. One of his aims is to serve disabled veterans.

EARLY DAYS "I found a very small ad on Craigslist when Uber was just beginning. It said, 'If you've got a car, you can drive.' You could easily make \$400 on a Friday or Saturday night."

NOW "You struggle to break \$200. They flooded the system with so many cars. But I didn't want to just be a driver. I wanted to own a company."

HOW HE COMPETES "My prices are traditional black-car prices, for nice, refined, reliable service. I also get contracts for medical transportation. And I've built up a business renting my cars to drivers for Uber. A lot of drivers cannot go out and buy a car. They work for me and for Uber. That has kept me afloat."

THE FUTURE "I'm trying to grow on multiple fronts. SempeRide has been certified as a disabled veteran-owned business. That helps me compete for government-contract jobs. You have to be creative to stay in this business."

In the worst-case scenario, the credit union will unload repossessed medallions in a fire sale. And its recent behavior has some predicting that the credit union now believes the yellow-cab industry will never get out of the red.

Up in arms

Taxi owner-drivers have protested their treatment outside City Hall and sent a letter asking Gov. Andrew Cuomo to intervene but to little avail. In the meantime, Melrose has been going after assets including bank accounts and homes.

"The other lenders are working with borrowers on an individual basis," said David Beier, president of the Committee for Taxi Safety, which represents medallion leasing managers. "Melrose is taking a cookie-cutter approach and demanding the same thing from everybody, no matter if you've got a great payment record. They're saying, 'We need your house as collateral. We need your spouse to co-sign as a guarantor.' And they are forcing borrowers into bankruptcy."

In recent weeks Beier has been hearing about fewer medallion seizures—a sign, he said, that the lender recognizes there are not enough buyers to resell them to and that it makes more sense to go after whatever else the borrower owns.

Medina, like many owner-drivers, had borrowed against his medallion over the years and currently owes \$587,000. At the same time, his taxi-driving grosses fell by 40% from their \$10,000-a-month peak, and he struggled to meet his \$3,586 monthly payment despite working 14-hour days. Often he used the rent money he receives from a tenant in his two-family house to cover the payments. Taxi-industry loans typically have 20-year amortizations but are renewed under new terms every three to five years. When his three-year agreement expired in January, he was hoping to work out a modification that would have let him continue payments at a lower rate. Melrose had other plans.

BASIL MESSADOS, CEO, QUEENS MEDALLION LEASING



Shortly after starting out as a cab driver in 1985, Basil Messados began leasing cabs and medallions to other drivers. He gradually built a lease-management company whose holdings now include 150 medallions.

EARLY DAYS In 2014 drivers paid Queens Medallion \$1,450 a week to lease one of its 560 cabs.

NOW Cab drivers are harder to attract. A lease now averages \$950 per week. The company charges both driver-owners and medallion owners a percentage for managing their operations, but “the spread gets smaller as the business gets diluted.”

FINANCES Profits are down 20% to 30% since 2014.

BLAMES Lenders—specifically Melrose Credit Union—that are taking a tougher line on loan modifications as well as the city for not limiting the number of Uber vehicles. “One side is regulated down to the floor, and the other side has no regulations,” he said.

HOW HE SURVIVES "The only way to deal with dilution is to put more cars on the road, even if you make less per car."

THE FUTURE "It's always in your head. We have children that we bought medallions for as an investment. Today they're facing bankruptcy. You hope regulators will at least cap the number of vehicles on the road."

"These guys at Melrose said if I put up the house, they're going to give me a very good deal," Medina said. "And I said, 'I don't have a house. The house belongs to my wife. And my wife is not going to do it.'" The house has belonged to his wife since its purchase 19 years ago.

According to Beier, many lenders working with clients are sometimes splitting loans in two and deferring payment on one of them. Or they might extend a loan's amortization to 40 years and lower the interest rate to 2.5% from 4%. They are also doing deals such as transferring medallions to borrowers who can afford the payments.

Melrose, by contrast, has been threatening to raise interest rates to as much as 8% and asking for large lump-sum payments, in addition to its other demands.

Some insiders believe that the National Credit Union Administration's hard line reflects an assumption that medallion loans are not worth restructuring. Instead, the goal is to isolate the damage and move on. That stands in contrast to the more moderate approach the regulator had when it took over Montauk Credit Union in late 2015 and merged it with Bethpage Federal Credit Union last year. (The agency recently put a third taxi lender, LOMTO Federal Credit Union of Woodside, Queens, into conservatorship.)

"I'm seeing a very different approach from a year ago," said a finance-industry expert familiar with the situation at Melrose. "They're saying things aren't the same as they used to be."

That has led regulators to make it "very hard to modify these loans," the expert added. "They're forcing these people to more or less give up."

Yellow lights

A spokesman for the National Credit Union Administration said the agency could not comment on any individual's finances but stressed that it was working with Melrose to improve operations.

ELVIN MARTE, PRESIDENT, RIVERSIDE CAR & LIMO



The son of a co-founder of Washington Heights–based Riverside Car & Limo, Elvin Marte started driving a livery cab in 1992. He has been president since 2003.

EARLY DAYS In 2014 Riverside had a 365-vehicle fleet. Each driver paid weekly dues up to \$80 for radio assignments.

NOW The fleet is down to 306 cars. “Uber offers incentives,” he said. “You get a lot of drivers switching.”

HOW HE COMPETES Drivers get fares via its app, plus face-to-face support. “We have a network of 150 car services. If you call one and they don’t have a car, one of mine can pick you up.”

FINANCES “Revenue is down 15% to 20% over the past three years.” Profits are down even more. “Before, we had a two-way radio, which was inexpensive. Now we have all this technology.”

BLAMES Regulations that give ride-hail competitors an edge. “They get cheaper insurance [thanks to Uber drivers receiving workers’ compensation through the Black Car Fund]. They have surge pricing—drivers like that. They don’t have to put emergency lights on the back of the vehicle or a camera inside the car.”

THE FUTURE “I’m trying to get Medicaid and health care work [for drivers]. We don’t know what’s going to happen five years from now.”

"The credit union's current management has both the responsibility to serve its members and conduct the credit union's business in a safe and sound manner," he said. "NCUA has the additional responsibility of protecting 108 million credit union accounts insured by the Share Insurance Fund. All these responsibilities play a role in the decision-making over Melrose's operations."

There is some debate in the industry over whether the regulator is simply engaging in negotiation tactics.

"I think Melrose is just playing hardball to see what they can get," said Andrew Murstein, president of taxi lender Medallion Financial.

As evidence, he cites his own role advising private-equity firms that see opportunity in the taxi industry's troubles. Once prices fell low enough, they would buy up medallions and run them as a business.

Murstein thinks that Melrose sees enough of a future in the business that its executives are not yet willing to let go of their holdings.

"I have approached the new CEO of Melrose [Richard DiChiara] and told him we stand ready to buy both medallion loans and actual medallions from them and that the private-equity firms we are working with have several billion dollars available for such purposes," Murstein said, adding that the CEO sent "a letter back [saying] they aren't interested in selling."

Even without a fire sale, however, medallion prices could continue to decline. The average daily fare-box total for the first three months of this year was down 29%, to \$4.5 million, from the same period in 2013, according to the Taxi and Limousine Commission. Taxi-medallion prices, which peaked at \$1.3 million in 2014, hit a new low, \$200,000, in May, albeit for an all-cash deal, which insiders don't consider representative.

TASH UBER BLACK/SUV DRIVER

Tash, who preferred to use his nickname, was a field technician for Time Warner Cable when his wife, a health care aide, was put on bed rest during a pregnancy. To make up for her lost income, he began driving part time for Uber in 2013 and became a full-time driver in 2015.

EARLY DAYS He grossed \$8,000 to \$11,000 monthly, working 36 to 40 hours a week. "Uber gave me flexibility," he said. "I was working all the time, but I wasn't complaining."

NOW "You've got to work harder for the same amount."

MONTHLY GROSS About \$7,200 working 40 to 45 hours a week.

Weekly net: \$592, or \$13 to \$15 an hour, after a 20% commission, sales tax and contributing to the Black Car Fund for workers' comp, plus \$650 in expenses, including gas. "Six hundred is a good week."

BLAMES "Uber cut the fares and overflowed the market with so many drivers."

THE FUTURE "I am going to get back to what I know: being a cable tech. I stuck around this business thinking it was going to change in a positive way. But I'm not optimistic."

Sutirtha Bagchi, an economics professor at Villanova University who recently conducted a study on medallion prices, estimates the asset's value at \$400,000. His calculations combine data on fare-box totals, medallion-loan interest rates, labor costs and Google Trends search results, which he used to track Uber's growth.

Thomas O'Shea, CEO of Aspire Federal Credit Union, puts a medallion's value at \$450,000 to \$550,000. But the estimates are almost academic because there is essentially no market for the asset.

"This is the 2008 of the taxi-medallion industry," said Richard Feinsilver, a bankruptcy lawyer with offices in Queens and Nassau County, referring to the housing mortgage crisis. During the past six months, he has met with more than 200 medallion owners and worked out personal bankruptcy filings for around 100 of them. In the past month, almost 50% of the owners he's met with have been Melrose clients.

"Everybody got caught with their pants down when Uber came in," he said. "No one anticipated the behemoth it would become."

He added that Chapter 7 bankruptcy protection does not work for everyone, but that it has given his clients a fresh start. Many of them still drive a cab but lease rather than own.

"They realized they've got to change their business model," Feinsilver said. "Those loans weren't worth it anymore."

But the loss is hard to swallow nonetheless. Medina has painted his yellow Camry gray and turned it into a personal car. He has also begun driving a friend's cab, paying \$110 for each 12-hour daytime shift.

"I would like to change to something else," he said, "but this is the only thing I know."

Correction: Andrew Murstein approached the CEO of Melrose, Richard DiChiara, about buying medallion loans. The CEO's name was misstated in an earlier version of this article.

A version of this article appears in the [July 10, 2017, print issue](#) of Crain's New York Business as "Cash-strapped cabs".