May 8, 2016 5:33 pm

Yellow cab rivals put lenders under pressure

Alistair Gray in New York

Regulators are scrutinising the finances of co-operative lenders that fund the cab trade in New York and some other US cities, as the disruption caused by Uber spreads beyond the taxi stand.

Documents filed in recent days show borrower delinquencies at the $2bn Melrose Credit Union more than doubled in the first three months of the year and more than tripled at the smaller taxi financier Lomto.

Taxi drivers and fleet owners in New York and other cities including Chicago are required to have licences, known as medallions, to pick up passengers. As authorities controlled how many of the medallions they issued, the value of this right to be a part of the lucrative yellow cab trade swelled.
Taxi operators needed to borrow to afford the licences and as medallion prices kept rising and fares kept rolling in, lenders were only too willing to supply the funds. By 2013, medallions in New York were changing hands for more than $1m apiece.

“There was a bubble, no question about it,” says Alexander Twerdahl, analyst at Sandler O’Neill.

No longer. Intensifying competition on the streets from ride-hailing upstarts such as Uber and Lyft has made taxi borrowers struggle to keep up with their medallion loan repayments.

As well as facing mounting losses from defaults, lenders are being further squeezed as the value of the collateral tumbles. Some medallions are now for sale for as little as $500,000.

The difficulties are a reminder of how quickly fortunes can turn in finance, even in supposedly low-risk assets.
The biggest impact has been on credit unions — co-operatives that take deposits and make loans.

Tim Segerson, deputy director of examination at the National Credit Union Administration, told the Financial Times the watchdog was "closely monitoring the situation". He said a "very small number" of institutions had "large portfolios of these loans".

"Historically they have focused more on loan production than on risk mitigation," he added. "Part of our expectation is they refocus their efforts on minimising any potential losses that may come out of the taxi portfolio."
A clear sign of stress emerged last year when financial regulators at New York state's Department of Financial Services took possession of Montauk Credit Union.

The co-operative was crippled by troublesome Chicago medallion lending. Montauk merged with Bethpage Federal Credit Union about a month ago. People familiar with the matter said Montauk had been especially aggressive in taxis and was the least well capitalised of credit unions with big exposures.

It is far from the only business with a sizeable cab loan portfolio, however.

The credit unions Melrose and Lomto, together with other groups including an association of medallion owners, are taking on the New York authorities in the courts.

"Companies like Uber have been able to quickly construct parallel unlicensed taxi networks," the plaintiffs complain, "without many of the significant regulatory burdens and expenses that medallion taxicabs are subject to".

Reportable delinquent loans at Melrose shot up from $155m at the end of December to $371m at the end of March. They stood at just $5.7m a year ago.

Melrose's recent financial filing did not disclose the extent to which soured medallion loans were to blame for its deteriorating credit quality. However, a lawsuit filed last November gives a sense of how much the taxi exposure is hurting the business.

The 94-year-old institution, based in Queens, New York, has total assets of about $1.93bn. As of last June, the suit said, Melrose had an interest in about 3,100 taxicab medallions as collateral for loans worth about $1.56bn. The suit said Melrose had hundreds of medallion loans maturing between last November and February. "In December alone, Melrose has 190 medallion loans maturing with almost $83m in balloon payments becoming due."

Lomto, founded in 1936 by a group of New York medallion owners, is also exposed. Delinquencies at the credit union, also based in Queens, jumped from $6.4m to $22.4m during the first quarter. A year ago they were just $2.8m.

Melrose and Lomto did not respond to requests for comment.
Several banks large and small have also engaged in taxi lending.
Provisions for credit losses at Capital One, the eighth-biggest listed US lender, have leapt $168m over the past year to $228m as of March 31. Capital One would not say how much of the increase was as a result of medallions, but Richard Fairbank, founder, singled out its taxi portfolio — along with energy — as an area in which credit quality had deteriorated. Signature Bank, which has a market capitalisation of $7.2bn, is also feeling the pinch.

In the first three months of 2016, troublesome loans on the "watch list" of New York-based Signature rose by $53m to $403m, mainly because of concerns about taxi loans.

“I would anticipate things to continue to get worse in that portfolio for the next couple of quarters,” Eric Howell, executive vice-president of corporate and business development at Signature, told investors.

“We’ll probably see an uptick in charge-offs over the next few quarters, and then we should see it start to stabilise.”

Several analysts of the listed banks said the damage was containable. A Morgan Stanley report in March said Signature’s exposure to taxis was equivalent to 3.4 per cent of its total loans.

Ken Zerbe, an analyst, estimated the bank’s earnings per share could drop as much as 10 per cent in a “worst-case” scenario for taxi credit losses, but added “the more likely earnings impact is far less”.

Investors will get more insight into troubled cab loans when the publicly quoted specialist Medallion Financial reports its quarterly results this week. Its market capitalisation has fallen from a high of $400m in 2013 to $180m.