



Medallion Financial Q1 – Key Questions Remain Unanswered

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Summary

- Medallion Financial posts solid headline EPS, raises dividend but again withholds critical information in its core business.
- Uses Chicago transfers known to be unrelated to current market values to revalue medallions.
- Only cites combined 90-day delinquencies and says nothing about restructured delinquencies or changes in 30-90 day delinquencies.
- No mention of medallion LTV ratios.
- No explanation of sequential decline in Medallion Bank earnings or size of dividend it paid during quarter.

Medallion Financial (NASDAQ:[TAXI](#)) reported \$0.29 per fully-diluted share for its first quarter and raised its dividend a penny to \$0.25/share. The market again responded enthusiastically. Key questions were left unaddressed, once again. We will provide a more fulsome analysis once the 10Q and Medallion Bank's FDIC filing are released. Herein we will briefly touch on the mark-to-market of Chicago medallions and some of the unanswered questions.

TAXI Relies on \$290K Transfers Negotiated in November Pre-Market-Swoon and Lent at 123% LTV

One astonishing fact worth touching upon is TAXI's independent auditor, WeiserMazars LLP, signing off on the company sticking with its historical practice of using average transfer prices in the last month of each quarter for marking-to-market 159 Chicago medallions on its balance sheet. TAXI took its book value on those medallions to \$277,000 (almost precisely the average



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of five March transfer values), down from \$299,000. The nature and details of those transfers and their remoteness from actual market prices the company could only hope to realize in the event of liquidation are certainly known to TAXI, as the lender for two of them. It must also be aware 42 Chicago medallions were in foreclosure proceedings as of March 1, and two more have been added since. In short, these transfers involved some combination of stale prices negotiated between August and November, 2014 – prior to the market swoon, foreclosed medallions (3 of 5) and finally, brokers, lenders (including TAXI) and fleet-owning buyers with a vested interest in pumping up valuations broadly. Medallions continue to be available at the \$150,000 transfer price observed in January. Investors can expect more of the same when April transfers are published, with Montauk Credit Union poised to arrange a series of similar transfers with Blue Ribbon Taxi, among others, in the role of buyer. We will soon publish a detailed analysis of the March transfers.

If TAXI's bet Chicago medallion prices will recover comes to pass, few will care that it departed from its self-described conservative lending standards, and continued to carry medallions at 185% of the market price based on stale transfer prices and transacting parties, including TAXI itself, all with a vested interest in higher medallion values. But if deteriorating cash flows in Chicago continue, investors and likely the SEC may have some objections to the lack of transparency on the actual market values. We will be publishing a complete accounting of the Chicago March transfers in report to follow.

Waiting on Medallion Bank

We will be very curious to see the size of the Medallion Bank dividend paid during the quarter relative to recent history. The Bank is on pace to exceed the Regulated Investment Company limit, per the 2014 10K (page 12):

"no more than 25% of the value of our assets is invested in the securities, other than US Government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in the



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securities of one or more qualified publicly traded partnerships, or the Diversification Tests"

Other than ceasing to be a RIC with all the downside to that (paying federal taxes, increasing cost of capital etc.), Medallion Bank tapping the breaks on growth appears to be the only other solution. A larger than usual dividend would indicate that process has begun. The second benefit to higher dividends from the Bank in the short term is their inclusion in investment income, which increased \$2.8 million from Q4 to Q1 (see Exhibit 1 below).

Also, Medallion Bank's earnings declined sequentially by about \$600,000 and it would be of interest to investors to know if the bank increased medallion loan loss reserves during the quarter.

Investment in Medallion Bank and other Controlled Subsidiaries (Investment balance) declined in the quarter from \$136.8 million to \$128.9 mm, when the bank earned \$6.8 million in the quarter. Medallion Bank earnings would take the Investment balance to \$143.6 million. The decline of \$14.8 million surely relates, in part, to the sale of Dune Deck Beach Resort in March, (most of the \$7.9 million realized gain booked as well), but without knowing its book value we cannot estimate the dividend paid by Medallion Bank, which likely represents most or all of the remaining decrease.

Finally, the company obliquely shared "On a combined basis with Medallion Bank, loans 90 days or more past due remain at exceptionally low levels, only 0.5% ..." It appears that figure is for the entire loan portfolio, there is no mention of delinquency levels and trends in the 30-90 day category that spiked to levels not seen since 2010 at the consolidated level in Q4, there was no mention of troubled debt restructuring activity at the parent or Medallion Bank level, or loan losses at the Bank. All of these questions are critical to gauging the ongoing impact of increased competition in the taxi industry, to which the company has greater than 50% of its assets exposed.



Exhibit 1 Medallion Financial Corp. Selected Consolidated Statement of Operations

(Unaudited)	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
	Three Months Ended March 31	Three Months Ended December 31	Three Months Ended September 30	Three Months Ended June 30	Three Months Ended March 31
<i>(Dollars in thousands, except per share data)</i>					
Total investment income	\$11,831	\$10,779	\$11,379	\$9,875	\$9,035
Total interest expense⁽²⁾	2,212	2,261	2,222	2,085	1,975
Net interest income	\$ 9,619	\$ 8,518	\$ 9,157	\$ 7,790	\$ 7,060
Total noninterest income	56	74	136	108	191
Salaries and benefits	3,343	4,372	2,906	2,965	2,560
Professional fees	412	571	70	294	258
Occupancy expense	230	210	207	189	192
Other operating expenses	786	774	882	647	791
Total operating expenses	4,771	5,927	4,065	4,095	3,801
Net investment income before income taxes⁽¹⁾⁽⁴⁾	4,904	2,665	5,228	3,803	3,450
Income tax (provision) benefit	-	-	-	-	-
Net investment income after income taxes	4,904	2,665	5,228	3,803	3,450
Net realized gains (losses) on investments	7,899	(4,556)	(193)	(685)	(172)
Net change in unrealized appreciation (depreciation) on investments	(3,309)	3,491	(1,723)	681	1,062
Net change in unrealized appreciation in other controlled subsidiaries ex-Medallion Bank ¹	-	3,988	702	(223)	(481)
Net change in unrealized appreciation on Medallion Bank (FDIC Call Reports) ¹	(2,426)	2,540	2,680	3,529	2,907
Net unrealized appreciation on investments	(5,735)	10,019	1,659	3,987	3,488
Net realized/unrealized gains on investments	2,164	5,463	1,466	3,302	3,316
Net increase in net assets resulting from operations	\$ 7,068	\$ 8,128	\$ 6,694	\$ 7,105	\$ 6,766
Net increase in net assets resulting from operations per common share					
Diluted	\$ 0.29	\$ 0.33	\$ 0.27	\$ 0.28	\$ 0.27
Distributions declared per share	\$ 0.25	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Weighted average common shares outstanding diluted	24,542,727	24,630,303	25,118,420	25,110,838	25,092,826

¹ Medallion Bank FDIC filing for Q1 2015 not yet available so total displayed in MB line.