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Taxi Medallion Lenders Feeling Pressure as Ride-Sharing Apps Surge

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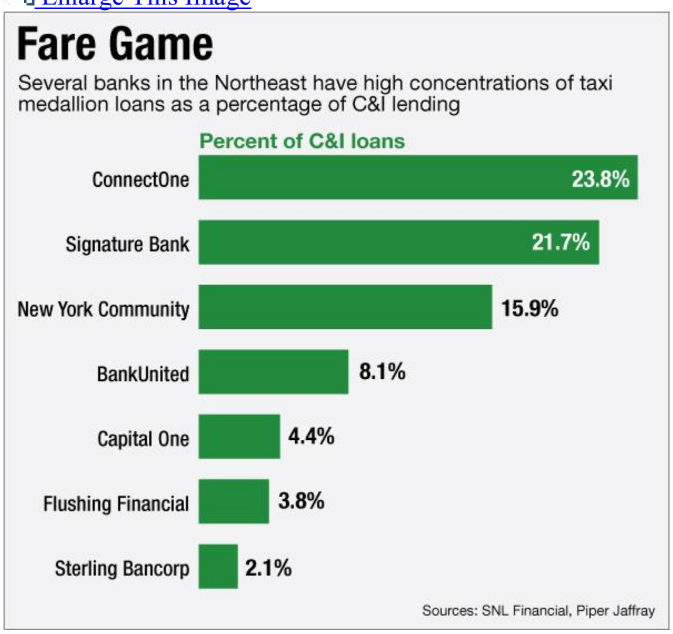

Banks that specialize in taxi medallion lending could face a bumpy road.

Yellow cabs have emerged as a symbol of tech-industry disruption in the last two years. Medallion owners, long protected by local policymakers, have taken a hit as Uber and other ride-sharing apps have surged in popularity.

In New York City, the value of a taxi medallion — the shield required to pick up a street hail — has plunged by more than 40% in the past year, to roughly $700,000. Competition has also put pressure on cash flow. And there are new signs of trouble, as Montauk Credit Union, a New York institution with ties to the taxi industry, was seized by regulators earlier this month.

Delinquencies at other medallion lenders are rising. Some banks with medallion loans, including Signature Bank and ConnectOne Bancorp, have taken steps to minimize their exposure, but the long-term outlook for the business is murky at best, industry experts said.

"There will be writedowns for banks — and certainly for credit unions," said Matthew Kelley, an analyst at Piper Jaffray. "There's a longer-term issue here that will result in pressure on values, and pressures on cash flows—and ultimately I don't see credit trends improving on medallion loans."

Lenders have come under scrutiny in recent months as medallion owners face increasing political turmoil.

Regulators seized the $178 million-asset Montauk Credit Union due to "unsafe and unsound conditions." Delinquencies on Montauk's member business loans surged to 10% in the second quarter, compared to 5% a year earlier, according to the research team at Piper Jaffray.

It wasn't an isolated case. Past-due loans at four taxi-focused credit unions in New York, including Montauk, have surged to 8% at June 30, compared to less than 1% a year earlier.

"I think most people in the market thought that … taxi medallions would continue to go up" and "maintain these artificially high values," said Keith Leggett, a consultant who runs a blog about credit unions. He added that Montauk's seizure was "a canary in the coal mine" for medallion lenders.

A Queens County judge earlier this month ruled against a group of credit unions that sued the city of New York for failing to protect the local yellow cab industry. Also, New York Mayor Bill de Blasio — elected with backing from the taxi industry — in July abandoned a plan to limit the number of Uber drivers in the city, a move that could have protected roughly 13,000 medallions.

Those developments could lay the groundwork for more rapid growth from ride-sharing businesses. But yellow cabs aren't going away anytime soon, and concerns about their financing could be overblown, some industry experts said.

"I know some of the nonbanks have taken some hits," said Collyn Gilbert, an analyst at Keefe, Bruette and Woods. Still, most banks with medallion loans "feel comfortable with the business and with their borrowers."

Medallion taxi loans make up more than 15% of the commercial-and-industrial loans at New York Community Bancorp, Signature and ConnectOne. Still, such loans comprise less than 5% of total loans at each of those companies, including just 0.5% at New York Community, based on a report from Piper Jaffray.

Banks' medallion borrowers also tend to be corporate owners, which have a better "financial capacity" to pay back loans than individuals, Kelley said.

Still, banks have begun to feel some pressure.

"Clearly the ride-share business has taken its toll," Eric Howell, an executive vice president at Signature, said at a recent conference hosted by Barclays. "We could see further downdraft, but we don't anticipate any significant downdraft from where we are today."

Most medallion loans are "bullet loans that have to be refinanced" on a regular basis, Joseph DePaolo, Signature's chief executive, added.

The $30 billion-asset Signature, meanwhile, is in the process of refinancing a large portion of its medallion portfolio in Chicago. The company had previously transferred the bulk of the $170 million portfolio to its watch list of problem loans.

Signature typically structures its medallion loans as three-year, interest only loans at a rate of about 3%. In recent months, the company has reduced rates for many borrowers in return for "some amortization," Howell said.

ConnectOne Bancorp in Englewood Cliffs, N.J., has stopped making new taxi loans, executives said during an industry conference earlier this month. The $3.7 billion-asset company said in a recent regulatory filing that it had an increase in "special mention" loans during the second quarter, partially due to "the weakening financial condition" of one of its medallion clients.

New York Community is also looking to pull out of the market. The company said during a quarterly conference call in July that it had stopped making new medallion loans. The $49 billion-asset company last year announced plans to sell its taxi medallion book, though it has not yet announced a buyer, industry observers said.

A notable industry outlier is Medallion Financial, a specialty lender in New York that owns the $1 billion-asset Medallion Bank. The firm has an 80% concentration in taxi loans, according to Piper Jaffray.

Delinquencies at Medallion are also increasing, according to HVM Capital, a Boston investment firm that has taken a short position in the company.

Though most banks have expressed confidence in their medallion portfolios, some executives indicated that they don't see a long-term future in the business.

Signature would be comfortable letting all its medallion customers refinance with other lenders, DePaulo said during the Barclays conference, as long as the company gets paid in full when those borrowers leave.