



## Medallion Financial & Credit Unions Behind Above-Market Chicago Taxi Medallion Sales

James F. Hickman | [HVM Capital, LLC](http://www.hvmcapital.com) | June 1, 2015

### Summary

- March Chicago taxi medallion sale (transfer) prices nearly double \$150K readily available.
- Lending refused on lower price transfers but provided on higher prices.
- Medallion Financial lent on highest prices - used same prices to mark-to-market owned medallions and calculate LTV ratios.
- Stale, higher prices relied on by ALL lenders and, unwittingly, by investors and regulators.
- Medallion Financial books reflect above-market Chicago medallion values in net asset value and LTV.

The Chicago taxicab industry is battered and reeling from the entrance of Transportation Network Companies (TNCs) like Uber. Medallion owners are earning little to nothing with lease rates down and idle taxi shifts up. Chicago reported 53 medallions in foreclosure since we first started tracking on March 1 (see Appendix). On its first quarter conference call, Signature Bank (NASDAQ: SBNY) reported debt service coverage for its Chicago medallion loan borrowers dropped from [1.66X](#) to [1.2X](#) during the quarter. Medallion prices have dropped from a peak of \$375,000 in April 2014 to asking prices of [\\$150,000 by December](#). Closings occurred in January and May at \$150,000 and medallions remain readily available for sale at that level.

It was odd, therefore, to see seven official 2015 Chicago transfers since January at prices ranging from \$250,000 to \$290,000. After some digging, a bigger shock emerged: Medallion Financial Corp. (NASDAQ: TAXI) was the lender on a pair of March transfers at \$290,000 – an effective



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loan-to-value ratio of 123% on actual fair market value of \$150,000 – after reportedly being completely out of Chicago medallion lending for months.

Two critical issues: First, TAXI returned from its Chicago medallion lending absence to finance against significantly above-market prices. Second, TAXI used those same higher priced transfers it financed as the basis for revaluing 159 medallions it owns, and to calculate the collateral and LTV ratio on loans of almost \$100 million. The buyer/borrower of these \$290,000 transfers also happens to manage 11 medallions owned by TAXI and owns dozens personally.

TAXI is not alone. Three other above-market Chicago medallion transfers occurred in March, all involving foreclosed medallions and the transfer of existing debt. These sales did not involve new loan capital being put at risk by the creditor, Montauk Credit Union. The fleet-owner buyer had negotiated the price back in August (closings usually occur within 1 or 2 months), before prices collapsed. Montauk has a similarly conflicted incentive to support higher transfer prices, but for this transaction one cannot question the prudence of seeking to salvage a non-performing loan. The same cannot be said for Montauk's \$160,000 loan to Sunise Pompilus in January at a transfer price of \$254,000 (medallion #3822, transfer price negotiated in September).

LOMTO Federal Credit Union provided \$180,000 of financing on a \$250,000 May transfer, for which the price was negotiated in early November (another stale price). LOMTO put new capital at risk in Chicago despite reporting 14% of its entire medallion loan portfolio (reported as "Other Loans" in NCUA filings, and mostly representing medallion loans) as troubled debt restructured in the first quarter, and even with restructuring all that troubled debt, delinquencies still increased to 4.6% of outstanding debt from 1.9% in the fourth quarter.

The fact that lenders have large loan portfolios collateralized by taxi medallions and in some cases actually own medallions introduces a perverse incentive. Creditors and fleet-owners have an interest to lend and buy at above-market prices on a small number of medallions because those prices are used to value the larger portfolios of owned medallions and medallion loans. Investors and regulators use these official sales prices to help gauge the investment merit, "Asset Quality" and "Capital Adequacy" of these lenders, raising worrisome questions about the continued use of official transfer prices for mark-to-market purposes.



## Recent Transfers Appear to Fail Basic Definition of Fair Market Value

Taxi medallion transfer prices reported by the Taxi & Limousine Commission (TLC) in New York City, the City of Chicago and the Hackney Carriage Unit in Boston are used as proxies for fair-market value. Requirements for doing so are prescribed by FAS ASC 820 (*Fair Value Measurements and Disclosures*). Using information obtained through Freedom of Information Act requests of the City of Chicago’s [Business Affairs & Consumer Protection](#) department as well as its website, the Illinois Secretary of State website, UCC filings and interviews with local medallion brokers and owners, we have determined seven Chicago medallion transfers in 2015 so far do not represent fair market value for purposes of mark-to-market. The false signal of a major snapback recovery implied by recent transfers at prices between \$250,000 and \$290,000, despite market conditions being bad and worsening, was [actually cited](#) as a sign of recovery by Signature Bank, again during its first quarter conference call. Signature suggested it had been conservative for using \$250,000 per medallion in calculating its 92% loan-to-value (LTV) on the \$174 million of Chicago medallion loans on its books. Using fair market value of \$150,000 suggests SBNY’s Chicago LTV is actually 155%.

The incumbent Chicago taxi ecosystem – large fleet owners, lenders and brokers – is circling the proverbial wagons to support asset values. Foreclosures, troubled debt restructurings and loan loss reserves are skyrocketing, but somehow transfers are being executed at nearly twice the price medallions can be purchased for cash. It appears conventional lending standards are being compromised in the expectation of asset price recovery. The effect is to mitigate rising delinquencies, delay defaults, write-downs and official increases in LTV ratios, and create the hopeful impression market conditions and asset values are improving.

Exhibit 1 shows *national* medallion loan delinquencies as well as the sum of Troubled Debt Restructurings (TDRs) and “Provision for Loan/Lease Losses” for credit unions (Montauk, Melrose, Progressive and LOMTO) doubled in the third quarter of 2014. In the fourth quarter, delinquencies declined, entirely owing to a massive spike in TDRs and increases in loan losses (actually taking the losses). First quarter 2015 data shows delinquencies rose from \$39 million to \$148 million, while TDRs exploded from \$16 million to \$139 million. For its overall portfolio, TAXI reported



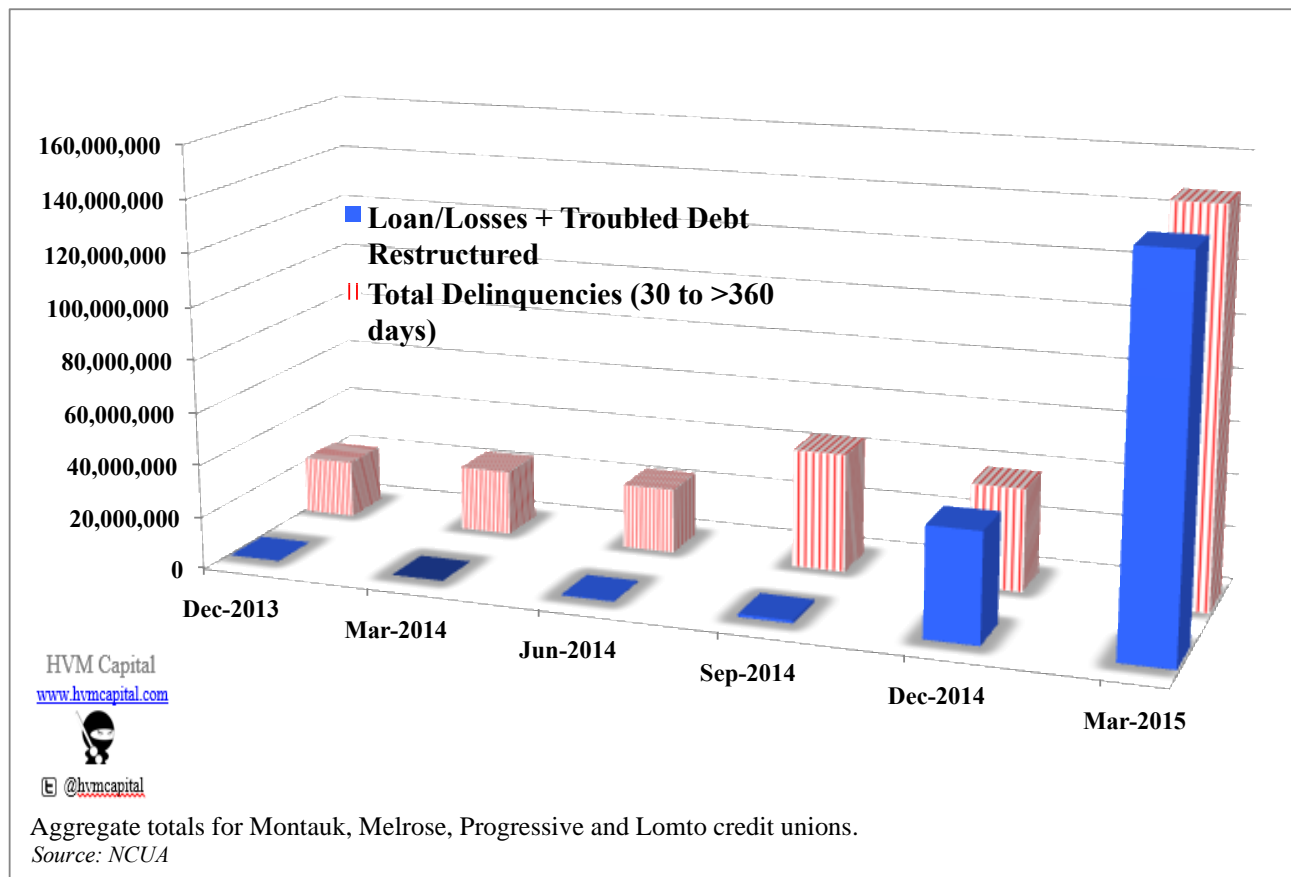
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medallion loan delinquencies went from \$6.7 million to \$12.6 million during the first quarter (see Exhibit 2), the highest level as a percentage of outstanding loans since the metric first became available quarterly in 2010. At the same time, TDR for medallion loans went from zero to \$7.5 million during the quarter, and its loan-to-value ratio increased from 60% to 70%.

Montauk had a big jump in 30-60 day delinquencies in the first quarter (from \$9 million to \$40 million), but stands alone among the group as still not having any discernible uptick in loan loss provisions or TDRs. This seems peculiar given the high number of foreclosed medallions connected to Montauk (discussed below).

## Exhibit 1 Credit Union Delinquencies, Loan/Lease Loss Provisions and Troubled Debt Restructured

*Member Business Loans NOT Secured By RE (mostly taxi medallions)*

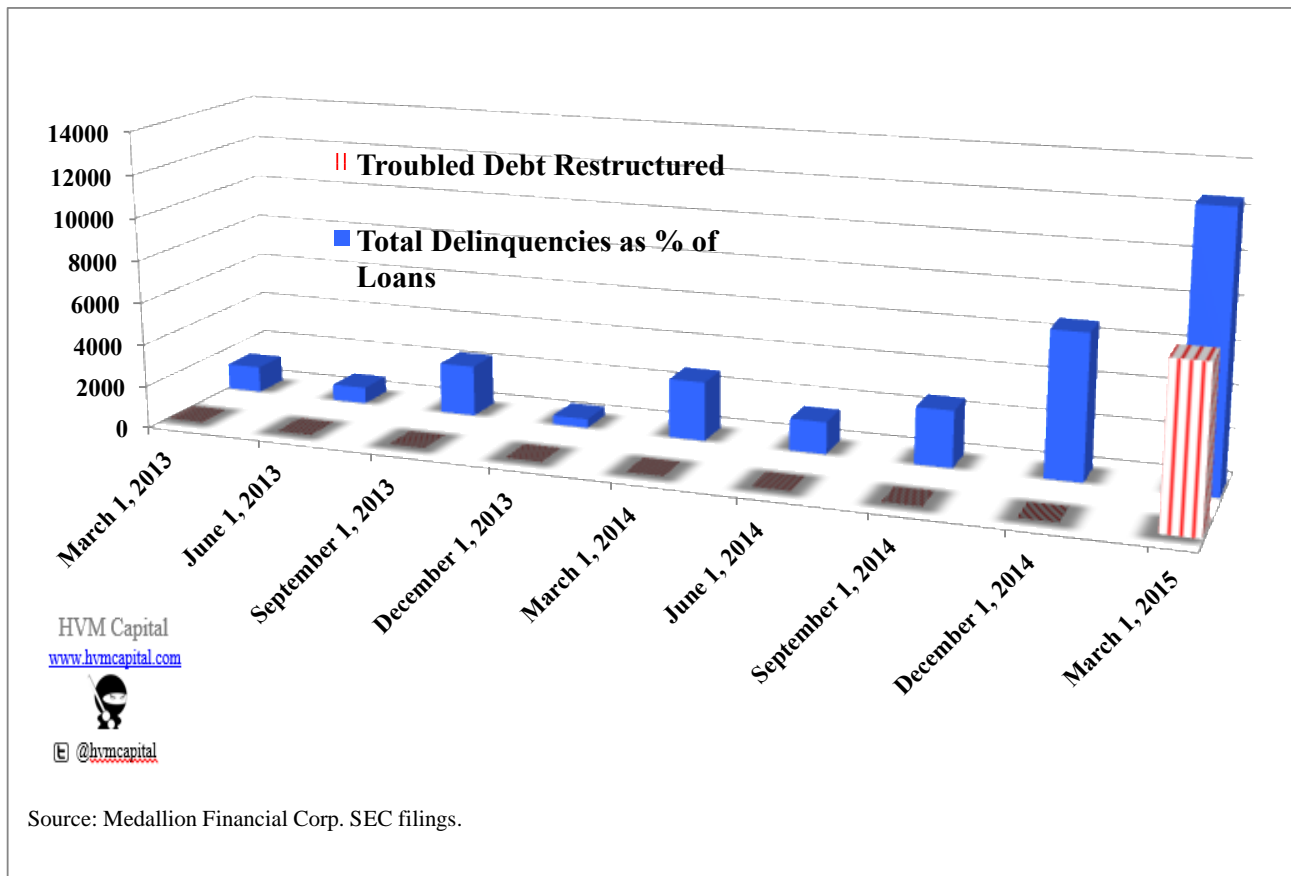




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Restructuring nonperforming loans and financing transfers at prices significantly in excess of the current market certainly sends a headline signal, false as it may be, that conditions are improving while banks and fleet-owner-buyers hope a market recovery *actually* materializes. As the saying goes, hope is not a strategy. This risky tactic may have worked during prior crises when only a bridge was needed by borrowers to weather *temporary* demand shocks. But the secular supply surge presented by Uber et al is a different animal altogether – there is nothing temporary about it. If medallion markets continue to deteriorate, rather than rebound as some lenders (and fleet buyers) are betting, the opportunity to recover *any* capital at risk may have been lost. [Citi](#) (NYSE: C), [New York Community Bank](#) (NYSE: NYCB) and [Capital One](#) (NYSE: COF) are each actively seeking to exit medallion credit markets. Attempting to recover capital if and when defaults are pervasive and the medallion market flooded with foreclosed medallions would be challenging.

**Exhibit 2 Medallion Financial Corp. Medallion Loan Delinquency Trends (consolidated)**





## Primary Source Details

Mohammad Kamran is owner of City Service Taxi, with 475 affiliated cabs. In a telephone interview, Kamran said “I had \$150,000 agreements and no lender would touch them.” But Medallion Financial funded \$290,000 transfers in March. Kamran said since the \$150,000 January sale, seven transfers between \$254,000 and \$290,000 “... don’t look real and certainly don’t reflect the current market price.” Since the first \$150,000 sale, that makes a perfect 7 of 7 transfers negotiated before Thanksgiving – stale, above-market and categorically useless as proxies for fair market value in March 2015, the month from which prices were used by TAXI to mark-to-market. Shoib Hasan, licensed taxi broker, manager and owner of Globe Taxi Association Inc., with roughly 500 members confirmed in a phone interview, “I could find you ten medallions to buy for \$150,000 if you have the cash in escrow ... but there is *no* lending.” Echoed prolific Chicago taxi medallion attorney and owner [Charlie Goodbar](#), “I haven’t written a new taxi loan in well over nine months? Ten months? The access to capital’s disappeared.”

In response to news the TLC in New York was omitting lower-priced transfers it deemed unrepresentative of medallion values, TAXI President Andrew Murstein told [Crain’s New York Business](#), “To tell you the truth, we don’t rely on TLC valuations. We know firsthand what every medallion is selling for, as we have access to the purchase contracts from our borrowers.” It stands to reason the company has similar intelligence on the ample supply of Chicago medallions for [sale at \\$150,000](#), as first reported by the New York Times in January 2015. Availability of Chicago medallions at this price did not escape the radar of Henry Debbas, a long-time taxi medallion industry veteran. Debbas purchased Chicago medallion #3401 on May 6 for \$150,000. Like TAXI, he is also a notable industry player in NY, where he filed an expert affidavit with the court in the [Citi fight to seize](#) Gene Freidman’s 89 medallions.

Taxi operating conditions in Chicago also point to continued medallion price weakness. Hasan says, “on Mondays, Tuesdays and Wednesdays, parking lots are full [of idle taxis], but the weekends are still good.” Kamran also reports owners are “barely making any money.” Larry Ionescu, owner of 98 medallions and manager of 160 in total said in a phone conversation “I’m breaking even ... no one can compete with free,” in reference to Uber’s drivers operating free of the cost burdens



imposed on medallion-bearing taxis. These costs are passed to drivers through leasing fees, but the city reduced the caps in February.

## Two Lenders Behind Majority of Foreclosed Medallions

According to our sources, Montauk was the senior lender for a large number of medallions sold by Michael Levine ([CEO of Yellow Cab Affiliation, Inc.](#)) in the last couple of years, with Levine taking subordinate paper on many through Transit Funding Associates (TFA). Montauk is purportedly in negotiations to move another 10 to 15 medallions currently in foreclosure.

There is another reason to expect continued downward pressure on Chicago medallion markets. In 2009, TFA entered into a joint venture with Capital One to provide greater lending capability in the Chicago medallion market. TFA and other Levine companies filed a lawsuit against Capital One on May 19, alleging a number of misdeeds. Ironically, the central complaint appears to be that Capital One ceased lending on Chicago medallions. According to the case file, “[TFA] has been forced into a position where it has had no alternative but to wind down its loan portfolio in what has become a highly illiquid market because of Capital One's conduct.”

At some point in the last several years, Montauk and TFA were secured parties to debtors accounting for an inordinate number of the 53 foreclosures reported since March 1, 2015. By our count, Montauk had its fingerprints on 23 of the 53 and TFA on 28. It should be noted, Montauk and TFA were/are not necessarily the final lenders on some of these medallions upon foreclosure and we have not determined their respective capital at risk, other than Montauk’s \$645,000 exposure on the three transferred in March. But suffice it to say, they are actively grappling with multiple foreclosed medallions. In addition, Yellow Cab is the affiliation for 28 of the 53 medallions in foreclosure (see Appendix).

## Who’s Who in March Transfers

Information gathering via [FOIA](#) requests and mining the Illinois Secretary of State and UCC websites revealed the details around the above-market first quarter transfer prices.





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Medallions #4039 and #4051 were transferred at \$290,000 to Spero “Dimitri” Drake via Myrtos Cab Corp. According to documents obtained, this price was negotiated in November. Drake owns Top Cab Association and most of the 62 cabs it operates, 11 of which are owned by Medallion Financial. Medallion Financial refinanced \$370,000 of existing debt on these two medallions, through its wholly-owned subsidiary, Freshstart Ventures.

These two medallions were previously purchased on [August 15, 2012 for \\$700,000](#) by Michelle Corp., with [\\$645,000 of financing provided by Medallion Financial Corp.](#), a 90% LTV at the time. The owner of Michelle Corp. is a long-time customer of Medallion Financial, and as of year-end, had at least \$7.9 million of medallion loans outstanding on the TAXI books in New York City alone, under various entities based on a limited spot check.

The three transfers at \$270,000 all involved a single party, Demetrios Manolitsis via Panagia Taxi Corp. In a conversation with Manolitsis, we learned he is a fleet owner with around 35 medallions and manager of an additional 21. Manolitsis had negotiated to purchase these three medallions last summer, when \$270,000 was the going rate. He believed at the time that Illinois House [Bill 4075](#), with which he was involved, was going to become law and boost medallion values. The Bill passed but was vetoed by Governor Quinn, and the downward trajectory of medallion prices continued. Manolitsis told us he felt compelled to honor the contract he signed, and cited his longstanding relationship with Montauk as another reason for following through with the purchase.

Both Myrtos Cab Corp. and Panagia Taxi Corp. list “Collateral Asset Management” (CAM) as “agent” with the Illinois Secretary of State. CAM’s agent and President is [Bernie Block](#), a long-time Medallion Financial attorney first hired when TAXI was the only medallion lender in Chicago back in the late 1980s. Block is a very active Chicago taxi industry attorney.

Fleet owners are invested in the belief medallion prices will eventually recover. Being able to purchase medallions with only \$55,000 down and \$215,000 of debt is more attractive to some than a cash purchase at \$150,000. If medallion prices do not recover, the added debt does not matter to some fleet owners who already have enormous debt attached to large fleets, and will be bankrupt without the added leverage. Hence, overpaying or over-lending on a few medallions for the sake of supporting the putative value of *hundreds* in the larger portfolios might explain the recent transfers.



## Conclusion

It appears conventional lending standards have recently been compromised by TAXI, Montauk and LOMTO, resulting in significantly inflated transfer prices relative to the current fair market value in Chicago. We are not questioning the credit worthiness of the buyers, simply that lending against prices roughly twice the fair market value of the underlying collateral is not conservative. The use of those inflated prices as the basis for marking-to-market all medallion assets held on balance sheets and calculating LTV ratios resulted in the overstatement of asset values in financial statements relative to values that could be realized in the current market. To investors and regulators, the only thing that matters is the actual market value in Chicago – \$150,000 according to brokers and industry insiders. Medallion Financial declined to comment on this report, and calls to LOMTO and Montauk were not returned.



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## Appendix Chicago Medallions in Foreclosure Status

Date	Public Vehicle Number	Status	Company Name	Taxi Affiliation	Exited Foreclosure Status
As of March 1, 2015	1326	FORECLOSURE	1326, INCORP.	Yellow Cab Affiliation Inc	x
	2880	FORECLOSURE	1326, INCORP.	Yellow Cab Affiliation Inc	x
	3313	FORECLOSURE	1326, INCORP.	Yellow Cab Affiliation Inc	x
As of April 5, 2015	4805	FORECLOSURE	LAMEDATION, INC.	City Service	x
	222	FORECLOSURE	SHITAYE LIFE EXPRESS LT	Yellow Cab Affiliation Inc	
	441	FORECLOSURE	LIBERTY EXPRESS IV INC	Yellow Cab Affiliation Inc	
	583	FORECLOSURE	SIN JIN CAB CORP	Sun Taxi Association Inc	
	617	FORECLOSURE	LIBERTY EXPRESS III INC.	Yellow Cab Affiliation Inc	
	829	FORECLOSURE	SAFARIAN INC	Flash Cab Co	
	862	FORECLOSURE	LIBERTY EXPRESS IV INC	Yellow Cab Affiliation Inc	
	1112	FORECLOSURE	LIBERTY EXPRESS IV INC	Yellow Cab Affiliation Inc	
	1437	FORECLOSURE	DPSI CAB CO.	Yellow Cab Affiliation Inc	
	2305	FORECLOSURE	ARAZ INC	Flash Cab Co	
	2508	FORECLOSURE	LIBERTY EXPRESS X INC.	American-United Cab Assn	
	2553	FORECLOSURE	JJ TRANSIT LLC	Dispatch Taxi Affil	
	2812	FORECLOSURE	ABS AUTO TRANS INC	Globe Taxi Association Inc	
	2931	FORECLOSURE	LIBERTY EXPRESS III INC.	Yellow Cab Affiliation Inc	
	3078	FORECLOSURE	GENERAL TAXI CORP	Yellow Cab Affiliation Inc	
	3088	FORECLOSURE	WILLIE HENDRIX JR	Checker Taxi Affiliation	
	3091	FORECLOSURE	GENERAL TAXI CORP	Yellow Cab Affiliation Inc	
	3428	FORECLOSURE	ABS AUTO TRANS INC	Globe Taxi Association Inc	
	3915	FORECLOSURE	JJ TRANSIT LLC	Dispatch Taxi Affil	
	4065	FORECLOSURE	JASMINE TAXI 1 INC	Yellow Cab Affiliation Inc	
	4096	FORECLOSURE	JASMINE TAXI 1 INC	Yellow Cab Affiliation Inc	
	4119	FORECLOSURE	JASMINE TAXI 1 INC	Yellow Cab Affiliation Inc	
	4233	FORECLOSURE	JASMINE TAXI 2 INC	Yellow Cab Affiliation Inc	
	4236	FORECLOSURE	JASMINE TAXI 2 INC	Yellow Cab Affiliation Inc	
	4251	FORECLOSURE	JASMINE TAXI 2 INC	Yellow Cab Affiliation Inc	
	4381	FORECLOSURE	LIBERTY EXPRESS IV INC	Yellow Cab Affiliation Inc	
	4392	FORECLOSURE	JASMINE TAXI 1 INC	Yellow Cab Affiliation Inc	
	4400	FORECLOSURE	GENERAL TAXI CORP	Yellow Cab Affiliation Inc	
	4586	FORECLOSURE	GHORI NO.1 CAB CORPOR	Yellow Cab Affiliation Inc	
	5311	FORECLOSURE	PAK CHICAGO CAB CO	Blue Diamond Taxi Affil Inc	
	5377	FORECLOSURE	NEIMUS ALEXUS CAB CO	Globe Taxi Association Inc	
	5462	FORECLOSURE	LIBERTY EXPRESS IV INC	Yellow Cab Affiliation Inc	
	5612	FORECLOSURE	MAZHAR INC	Yellow Cab Affiliation Inc	
	5678	FORECLOSURE	ZNF CAB CO	Flash Cab Co	
	6023	FORECLOSURE	G & W TAXI CORP	Flash Cab Co	
	6222	FORECLOSURE	CITI CAB SERVICES INC	American-United Cab Assn	
	6418	FORECLOSURE	LIBERTY EXPRESS III INC.	Yellow Cab Affiliation Inc	
6501	FORECLOSURE	LIBERTY EXPRESS III INC.	Yellow Cab Affiliation Inc		
6893	FORECLOSURE	LIBERTY EXPRESS III INC.	Yellow Cab Affiliation Inc		
Added as of April 29, 2015	1999	FORECLOSURE	MICHAEL O. GEORGE SR.	Yellow Cab Affiliation Inc	
	5475	FORECLOSURE	MAS CAB CORP	Checker Taxi Affiliation	
Added as of May 11, 2015	3439	FORECLOSURE	CHICAGO GREEN TAXI INC	Flash Cab Co	
	6451	FORECLOSURE	CHICAGO GREEN TAXI INC	Flash Cab Co	
Added as of May 21, 2015	1124	FORECLOSURE	OMNIA CAB CO	American-United Cab Assn	
	3775	FORECLOSURE	OMNIA CAB CO	American-United Cab Assn	
Added as of May 29, 2015	1889	FORECLOSURE	BOLTSAM TAXI CORP	Flash Cab Co	
	3380	FORECLOSURE	BOLTSAM TAXI CORP	Flash Cab Co	
	4788	FORECLOSURE	LAVESIAC, INC.	City Service Taxi Association	
	5358	FORECLOSURE	BOLTSAM TAXI CORP	Flash Cab Co	
	6680	FORECLOSURE	BOLTSAM TAXI CORP	Flash Cab Co	

Source: City of Chicago.