

Ripping Off the Band-Aid on Taxi Loans

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"The asset-quality indicators ... remain very favorable," says BankUnited CEO John Kanas. "We're not seeing any signs of systemic deterioration or asset-quality issues other than taxi." IMAGE: Bloomberg News

Uber and Lyft's ongoing assault on the traditional taxicab business is turning into a real bummer for banks that finance the medallions that big-city cab companies need to run their fleets.

Two otherwise high-performing banks — BankUnited in Miami Lakes, Fla., and Signature Bank in New York — reported underwhelming third-quarter results on Thursday that reflected sharp increases in their loan-loss provisions for taxi medallion loans.

BankUnited set aside \$24.4 million in the quarter after its nonperforming medallion loans in New York ballooned to \$54.4 million, up from just \$2.6 million at the end of 2015.

Signature took even more drastic measures. It charged off \$95 million of medallion loans in the Chicago market, leaving it with just \$58 million of Chicago taxi loans on its books. It set aside \$80.5 million for loan losses in the quarter, up more than 600% from just a year ago.

Signature decided to "rip the Band-Aid off," is how Eric Howell, executive vice president of corporate and business development, described the decision to charge off a large chunk of the Chicago portfolio.

The value of taxi medallions in many cities has plunged in recent years as ridesharing services siphon business away from traditional taxi firms. That's left many drivers and fleet owners underwater on their medallion loans, while making it difficult for them to refinance their debt.

BankUnited and Signature had warned of weakness in their medallion portfolios for several quarters, but had largely resisted taking drastic measures in hopes that they could restructure the loans. That changed in

recent weeks, when large borrowers at both banks failed to make payments and balked at renegotiating the terms.

The good news is that medallion loans make up just a fraction of overall loans at those banks. The \$27.3 billion-asset BankUnited has just \$192 million of medallion loans on its books, or roughly 1% of total loans, while Signature's \$593 million portfolio is equal to about 2% of total loans.

Both banks also took pains to note that overall credit quality is very strong.

"The asset-quality indicators ... remain very favorable," BankUnited Chairman, President and Chief Executive John Kanas said on an earnings call with analysts Thursday. "We're not seeing any signs of systemic deterioration or asset-quality issues other than taxi."

Still, both banks' profits suffered. BankUnited's net income fell 6% year from a year earlier, to \$50.8 million, while earnings at the \$37.8 billion-asset Signature plunged more than 20%, to \$76.1 million.

Though Signature has a sizable medallion portfolio in New York, its problems were largely confined to Chicago. President and Chief Executive Joseph DePaolo said New York, which is more of a ride-hail city than Chicago, has been strict in enforcing laws that bar Uber and Lyft drivers from picking up passengers on street corners who have not ordered their services.

While New York taxi drivers have certainly been hurt by competition, DePaolo said the city's policymakers and Taxi and Limousine Commission have also been more proactive than Chicago's in trying to help traditional taxi drivers better compete against Uber and Lyft. For example, the commission has done away with strict shift changes, giving taxi drivers more flexibility in choosing their hours.

"When it comes down to it, the [Taxi and Limousine Commission] wants to help its constituents, the medallion owners," DePaolo said in an interview.

Jared Shaw, an analyst at Wells Fargo Securities, applauded Signature for being proactive in charging off the Chicago loans, but he said the bank is likely to have trouble unloading what's left.

"The problem is that nobody wants to buy them," Shaw said. "As these taxi loans are coming due, they have to be restructured because no one is out there refinancing those away."

Shaw noted that "taxi is really inconsequential" to Signature, considering that the company has almost \$28 billion in total loans. "It's driving the losses now, but at the end of the day it's a \$593 million book."