National Credit Union Administration

Office of the Chairman

September 3, 2019

The Honorable Alexandria Ocasio-Cortez
Member of Congress
United States House of Representatives
229 Cannon House Office Building
Washington, DC 20515

Dear Congresswoman Ocasio-Cortez:

Thank you for your letter dated July 25, 2019, regarding the New York City taxi medallion market, an asset that thousands of taxi drivers have relied upon to secure their livelihoods and for which credit unions have provided lending services for generations.

I share your concern for the taxi drivers and their families who have felt the brunt of the changes in this market, who are underwater on their loans, and who saw their incomes cut by competition from ridesharing services. The NCUA, as liquidating agent for the failed taxi medallion credit unions, is working with these borrowers to modify credit union loans, where possible, including through payment reductions, lower interest rates, and term adjustments. Our goal is to help taxi drivers preserve their livelihoods while ensuring they can afford to make payments on performing and sustainable loans. We understand that behind many taxi loans are individuals and families affected by the harsh reality of the current taxi medallion market. While these efforts are complicated by the fluctuating value of the collateral used to secure the loans and, in some cases, the high level of cash out refinancing activity that took place on individual loans, we remain committed to balancing the needs of these borrowers with meeting the congressionally mandated requirement for the NCUA to ensure the safety and soundness of credit unions and the National Credit Union Share Insurance Fund.

An unprecedented confluence of factors upended this longstanding market in a relatively short period of time, most notably the sudden entry of ridesharing services, a technological disruption whose impact was as severe as it was uncontrolled. These changes in the market significantly reduced the revenue streams of taxi drivers who were simultaneously witnessing a sharp decline in the value of their medallions. The legally imposed limits on the number of medallions[1], municipal budgetary shortfalls[2], and increased demand for medallions played a role in the price of New York City taxi medallions to increase from $250,000 in 2004 to more than $1 million in 2013.[3]

[1] New York City Taxi and Limousine Commission Rules and Local Laws, Chapter 65 Sale of Taxicab Medallions, available at https://www1.nyc.gov/assets/tlc/downloads/pdf/rule_book_current_chapter_65.pdf.
[2] New York City Comptroller, Report 16-2012, Review of Financial Plan of the City of New York, page 1, available at https://www.osc.state.ny.us/osdc/rpt16-2012.pdf#search=taxi%20medallion%20.
[3] New York City Taxi and Limousine Commission, Tentative Winning Bidder List, November 2013, available at https://www1.nyc.gov/assets/tlc/downloads/pdf/tentative_winning_bidder_list_11_15_13.pdf.

In and around 2014, the taxi medallion market has experienced the bursting of an asset bubble with about a 90 percent drop from the peak value, a correction much more severe than could reasonably be anticipated, given the underlying economics. This convergence of events had drastic consequences for the individual taxi drivers who took out loans on their medallions. Most of the credit unions that made these loans no longer exist. Even the exceptionally high levels of capital these credit unions maintained, which ordinarily could have been enough to survive a significant market correction, would not save them from such a precipitous decline in values and disruption of the taxi market.

Please see below for answers to your specific questions:

1. *To what extent entities you regulate were involved, directly or indirectly, in providing taxi medallion loans, including whether any of these entities coordinated with fleet owners and brokers to provide these loans?*

Response:
At the end of 2014, eight federally insured credit unions, out of more than 6,200 credit unions then nationwide, predominantly originated loans secured by New York City taxi medallions. At that time, those eight credit unions held total aggregate assets of approximately $3.9 billion. Today, six of those eight credit unions have been liquidated or merged and are no longer in business. As noted earlier, their concentration in this market, coupled with the dramatic drop in medallion values and the emergence of competition from ridesharing services, upended their operations. These credit unions primarily originated taxi medallion loans directly to member taxi owners and operators. In the agency's supervision of these credit unions, and in its ongoing role as their conservator and/or liquidating agent, only one of the six credit unions was found to have engaged in indirect lending on a small portion of its portfolio.

The NCUA's data show that, in 2015, the average outstanding loan balance per taxi medallion per medallion was less than $350,000 at a time when taxi medallions were being sold for almost $1 million. Nevertheless, as noted above, many of the credit unions that made these loans no longer exist. In their efforts to continue serving their members as they had done prudently for decades, they were exposed to the risks of an asset bubble and adverse changes in the market from new sources of competition. They had some deficiencies in their underwriting standards and ignored repeated warnings from this agency, including a warning issued in 2010 on the dangers of concentration risk.[4]

2. *Whether, and to what extent, your agency is enhancing supervisory and enforcement procedures to ensure entities you regulate that are engaged in taxi medallion lending are sufficiently analyzing the ability of borrowers to repay loans, and that loan terms are properly disclosed?*

[4] NCUA Letter to Credit Unions, *Concentration Risk*, 10-CU-03, March 2010, available at https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/concentration-risk and the enclosed Supervisory Letter, *Concentration Risk*, available at https://www.ncua.gov/files/letters-credit-unions/LCU2010-03Encl.pdf

Response:
As you note in your correspondence, the NCUA's Office of Inspector General (OIG) conducted a material loss review of the credit unions that failed.[5] I strongly agree with the recommendations the OIG made as a result of this review, and the agency is working diligently to implement them. Specifically with regard to the ability to repay analysis, the OIG recommended that the NCUA update its examination scope requirements to ensure credit unions analyze a borrower's ability to repay the loans and to ensure the agency addresses, through informal and formal enforcement actions, any cases where the credit union is not properly undertaking this analysis. The NCUA has responded to this recommendation by updating our examination scoping procedures. Those updated procedures will become effective with the release of the 2020 examination program. Furthermore, these enhanced examination and quality control procedures will apply to *all* federally insured credit unions, even those with an exemption from the Federal Credit Union Act's statutory cap on member business lending that Congress provided in 1998.

The NCUA has long recognized the importance of conducting proper credit analysis and structuring loans based on the purpose of the funding and within the borrower's repayment ability, as reflected in the agency's 2014 supervisory guidance on taxi medallion lending.[6] In 2017, the agency updated its regulations on commercial lending, including strengthening the requirement for credit union boards to establish comprehensive written policies and procedures for commercial lending.[7] The 2020 examination program enhances and clarifies the examination protocols for these existing standards.

The agency will also emphasize guidance to staff regarding the escalation of actions to resolve repeat findings. The agency's *National Supervision Policy Manual* details the process staff must follow in applying administrative remedies for identified issues.[8]

3. *Whether, and to what extent, your agency has coordinated with each other and with law-enforcement agencies, such as the New York State Office of the Attorney General, to better protect taxi drivers and similarly situated individuals who are treated as corporations instead of consumers?*

Response:
The NCUA is aggressively pursuing institution-affiliated parties (IAPs) who have violated the law, breached their fiduciary duties, and engaged in unsafe and unsound practices. Credit unions are not-for-profit organizations with volunteer boards that exist to serve their members' financial needs by providing a safe place to save and borrow at reasonable rates. We will not allow a few

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[5] NCUA Office of the Inspector General, OIG-19-06, *Material Loss Review of Melrose Credit Union, LOMTO Federal Credit Union, and Bay Ridge Federal Credit Union*, March 29, 2019, available at https://www.ncua.gov/files/audit-reports/oig-material-loss-review-march-2019.pdf
[6] NCUA Supervisory Letter, SL No. 14-04, April 1, 2014, available at https://www.ncua.gov/files/letters-credit-unions/SupervisoryLetter_TaxiMedallion.pdf.
[7] 12 CFR 723.4.
[8] NCUA *National Supervision Policy Manual*, Version 8.0, available at https://www.ncua.gov/files/publications/guides-manuals/national-supervision-policy-manual.pdf.

individuals who, for their own personal gain, took advantage of the credit union system and its millions of hardworking members.

To the extent that there were bad actors in the market, they should be held accountable. The NCUA has taken actions against individuals in certain circumstances. As such, when we have suspected wrongdoing, we have initiated administrative investigations against IAPs, pursued administrative remedies, and, when warranted, brought administrative charges. Where we have found apparent criminal activity, we have brought such activity to the attention of appropriate law enforcement authorities and have cooperated fully with their investigations.

In our supervision of these credit unions, we found no evidence of any engagement in market manipulation, or we would have made those allegations. Certain credit unions did, as previously mentioned, have some deficiencies in their underwriting standards and ignored repeated warnings from this agency, including guidance on the dangers of concentration risk that were issued in 2010. As a result, they paid the ultimate price; they have either been liquidated or merged. Even the exceptionally high levels of capital they maintained, which could have been enough to survive a significant market correction, could not save them from such an extreme decline in values and disruption of the taxi market.

The NCUA and the federal banking regulators have met several times over the years to discuss taxi medallion loan underwriting and supervision practices. For example, the NCUA's 2014 supervisory guidance on taxi medallion lending was reviewed with the federal banking regulators.

With regard to taxi medallion loans being categorized as a form of commercial rather than consumer lending, the Federal Credit Union Act defines commercial loans, otherwise known as member business loans in the credit union context, as "any loan, line of credit, or letter of credit, the proceeds of which will be used for a commercial, corporate or other business investment property or venture, or agricultural purpose."[9] Taxi medallions are a form of business collateral, and, indeed, Congress contemplated them as such when it expressly noted in a Senate report accompanying the Credit Union Membership Access Act that medallion loans to taxi cab drivers are exempt from the lending cap that otherwise applies to member business loans.[10] Such loans, while being a form of commercial lending, are still subject to safe and sound underwriting requirements.[11]

4. *Whether, and to what extent, your agency has provided loan modifications, repayment plans, forbearances, or loan forgiveness options to affected taxi drivers, and/or encouraged your regulated entities to provide the same for affected taxi drivers?*

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[9] 12 USC 1757a(c)(1)(A).

[10] Senate Committee on Banking, Housing, and Urban Affairs Report on the Credit Union Membership Access Act, page 5 (providing "exceptions for insured credit unions that are chartered for, or that have a history of primarily making member business loans to their members, such as members who are of a specialized vocation, for example: fishermen, farmers, truck drivers, and taxi cab drivers"), available at https://www.congress.gov/105/crpt/srpt193/CRPT-105srpt193.pdf.

[11] 12 CFR 723.

Response:

The NCUA's Asset Management and Assistance Center (AMAC) is currently managing the taxi medallion business loan portfolios of Melrose and LOMTO, two credit unions that failed in 2018. The NCUA, as liquidating agent for Melrose and LOMTO, is actively identifying distressed borrowers in an effort to rework their loans into terms that are affordable to them. Our goal is to help taxi drivers preserve their livelihoods while also ensuring they can afford to make payments on performing and sustainable loans. These efforts are complicated by the fluctuating value of the collateral used to secure the loans and, in some cases, the high level of cash-out refinancing activity that took place on individual loans. However, we remain committed to balancing the needs of these borrowers with meeting the congressionally mandated requirements for the NCUA to ensure the safety and soundness of credit unions and the National Credit Union Share Insurance Fund.

There is no one-size-fits-all approach to resolving these challenges, just as there is no single borrower type in the taxi medallion market. The taxi medallion ownership structure in New York City consists of four major categories:

(1) Individual owner-drivers who own a cab and a medallion as a single individual or business entity and who drive their cab full time. A subset of individual medallion owners drive wheelchair accessible vehicles (WAV), which are minivans or SUVs that have been outfitted for handicap/wheelchair accessibility. WAV medallions are typically considered less profitable, and, therefore, generally command a lower market value due to slower turnover of customers and more regulatory restrictions;

(2) Lessors who, in addition to driving full time themselves, lease their cab and medallion to other individuals, sometimes to several individuals, to perform additional shifts. The lessor can then drive another medallion or rideshare vehicle to generate additional income. This category includes retired owner-drivers who may lease their medallion to a management company to generate ongoing income, an arrangement which, prior to the competition from ridesharing services, usually covered the debt service on the medallion loan;

(3) Corporate mini-fleet owners that generally own two or more medallions. Often, the mini fleet consists of one unrestricted medallion and one WAV medallion. Mini-fleet owners can lease the medallion to individuals or to medallion management companies who can, in turn, lease the medallions to other drivers with no input from the owner; and

(4) Large relationship fleet owners who have ownership interests in several of the larger medallion management companies that own and manage medallions for themselves and third-party owners.

Taxi medallion loans are commercial loans made to different business structures, including sole proprietorships, limited liability companies, and corporations. Individual owner-drivers and lessors are typically the least sophisticated business borrowers in the credit union portfolios. They also generally have the fewest available resources to guide their business decisions. As liquidating agent, the NCUA is modifying loans in a variety of ways. These steps are most helpful for the smaller, less complex loans taken out by individual owner-operators.

5. *Whether you believe that there are gaps in regulatory oversight or fundamental protections lacking that should be addressed to better protect taxi drivers and similarly situated individuals?*

Response:
The not-for-profit credit unions that served this industry provided stable and secure business loans to member taxi drivers and owners in New York City for more than 80 years. They were not speculative entrants looking to make risky bets or quick profits at their members' expense. They were founded in the 1920s and 1930s to provide low-interest loans on a type of collateral that gave many taxi drivers the opportunity to enter the middle class. Those who were able to purchase their own medallions at affordable prices secured better lives for themselves and their families as the price of their medallions increased over the years. Many used the equity generated by rising medallion values to become homeowners, finance college educations, and save for retirement.

The concentration of credit union lending to this market created a specialization that worked well for decades until the sudden emergence of ridesharing services decimated the incomes of many taxi drivers at the very moment when their medallions had risen beyond a sustainable value.

While the risks of overconcentration were within our authority to communicate to credit unions, and we did, a host of other factors transpired to have detrimental consequences for many taxi drivers. Factors that bear on this lending include the structure of the medallion market, medallion pricing and the auction system, the rules under which taxi drivers and medallion owners operate, the existence of third-party brokers, unregulated lenders, and potentially a host of other factors that were beyond the scope of our statutory authority.

Thank you for writing me about this important issue. Should you require further information, please do not hesitate to contact me.

Sincerely,

Rodney E. Hood

Rodney E. Hood
Chairman

cc: Congressman Adriano Espaillat
Congresswoman Nydia M. Velázquez
Congresswoman Yvette D. Clarke
Congressman Jerrold Nadler
Congresswoman Carolyn B. Maloney
Congressman Thomas R. Suozzi

Congressman Gregory W. Meeks
Congressman José E. Serrano
Congresswoman Grace Meng
Congressman Hakeem Jeffries