

Lenders Face Credit Deterioration as Uber Hits the Taxi Medallion Industry, Says S&P Capital IQ

New Research Expands Understanding of Impacts Of Falling Medallion Prices on Lenders

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NEW YORK, Dec. 9, 2015 /PRNewswire/ -- Applying a proprietary model to examine five financial institutions heavily invested in the taxi industry, S&P Capital IQ and SNL today released a new report detailing the impacts of new ride sharing services like Uber Technologies and Lyft Inc. on the credit risk of lenders to traditional taxi services. Going beyond recent coverage of lenders exposed to the plummeting prices of the taxi medallions, the financial data, analytics and research company says that understanding the full extent of the credit implications on these banks and credit unions is the first step to helping develop appropriate responses to guarantee their long term stability.

As outlined in the December 2015 S&P Capital IQ report [*"Uber's Impact on the Taxi Lending Industry: How Lenders are Facing Credit Quality Deterioration as a Result of Their Exposure"*](#), the drop in medallion prices has affected lenders in significant ways. Financial institutions that are heavily invested in taxi medallion loans are not only experiencing delinquency on those loans, but also watching the collateral behind those loans diminishing – a situation that is, thereby, increasing their credit risk. This situation has clearly been seen in Montauk Credit Union's (a big lender to taxi medallion owners) seizure by New York State regulators after the severe credit deterioration of their portfolio as a result of its over-exposure to taxi medallion loans.

"Over the past few years financial institutions invested in the taxi medallion industry have begun to learn several lessons," said Bob Durante, Senior Director, S&P Capital IQ. "First is that not only does Industry Risk matter but also that it is not static. What seemed like one of the best, low risk investments a few years ago clearly is not one today. Buyer beware. Second, diversification drives credit quality. Extending a majority of loans to the same industry is a bad practice even if, at the time, it seems like a rock-solid investment. Simply put: diversify, diversify, diversify."

According to S&P Capital IQ report, in the pre-Uber peak, financial institutions, most notably banks and credit unions, would lend up to 90% of the value of a taxi medallion. At the time, such loans were considered low risk, particularly because the taxi medallion industry had the equivalent of a regulated monopoly, with limited supply and minimal threat of competition. Today, lenders face new challenges due to the plunging value of the collateral securing the taxi medallion loans. For example, over the past couple of years, New York City medallion values have decreased from a high of \$1.3 million to \$750,000 (similarly, in Chicago, they are now worth roughly \$240,000, down from \$360,000 in 2013).

S&P Capital IQ confirmed this trend by choosing three midsized-banks and two credit unions that have been heavily invested in the taxi medallion industry and analyzing them using its proprietary Bank Credit Assessment Scorecard in order to evaluate the strength of the financial institutions' credit quality pre-Uber compared to today.

The Bank Scorecard, like the other 90 S&P Capital IQ Scorecards, is designed and calibrated to align with the Standard & Poor's Rating Services criteria and ratings. Each scorecard is dynamically split between qualitative and quantitative risk factors to fully capture counterparty credit risk. With the exception of one bank (which S&P Capital IQ believes, due to its larger size and smaller proportional exposure to taxi medallions, has been shielded, thus far, from a drop in credit quality), all institutions faced a deterioration in overall credit, based purely on financial performance. The report uses Montauk Credit Union as a definitive example, highlighting its 2014 3-notch decline in risk score, mapping to an 8.17% default rate that is almost seven times greater than its 2011 pre-Uber probability of default rate.

Prior to Uber's entrance into the market, these banks had very stable portfolios. However, S&P Capital IQ's analysis shows that, post-Uber, lenders are increasing their allowance for loan losses in anticipation of a deterioration in credit quality that could continue to mount over time, especially as Uber's impact grows.

The report's authors will further explore this topic during a live broadcast webinar on December 10 at 11am ET, "The 'Uber' Problem for the Taxi Medallion Industry." To participate, please register [here](#).

About S&P Capital IQ + SNL Financial

S&P Capital IQ and SNL Financial, a business unit of McGraw Hill Financial (NYSE:MHFI), is a leading provider of multi-asset class and real time data, research and analytics to institutional investors, investment and commercial banks, investment advisors and wealth managers, governments, corporations and universities around the world. The newly combined firm, previously S&P Capital IQ and SNL Financial, integrates breaking news, comprehensive data and analysis into a variety of tools to help track performance, generate alpha, identify new trading and investment ideas, and perform investment risk analysis. The firm offers the S&P Capital IQ, SNL, Global Credit Portal and Market Scope Advisor desktops as well as enterprise solutions, such as S&P Capital IQ Valuations; and research offerings from Leveraged Commentary & Data, Global Markets Intelligence, SNL Kagan, SNL Energy, SNL Real Estate and SNL Metals & Mining. Together, S&P Capital IQ and SNL sharpen financial intelligence into the wisdom today's investors need. For more information, visit www.spcapitaliq.com or www.snl.com.

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