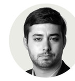
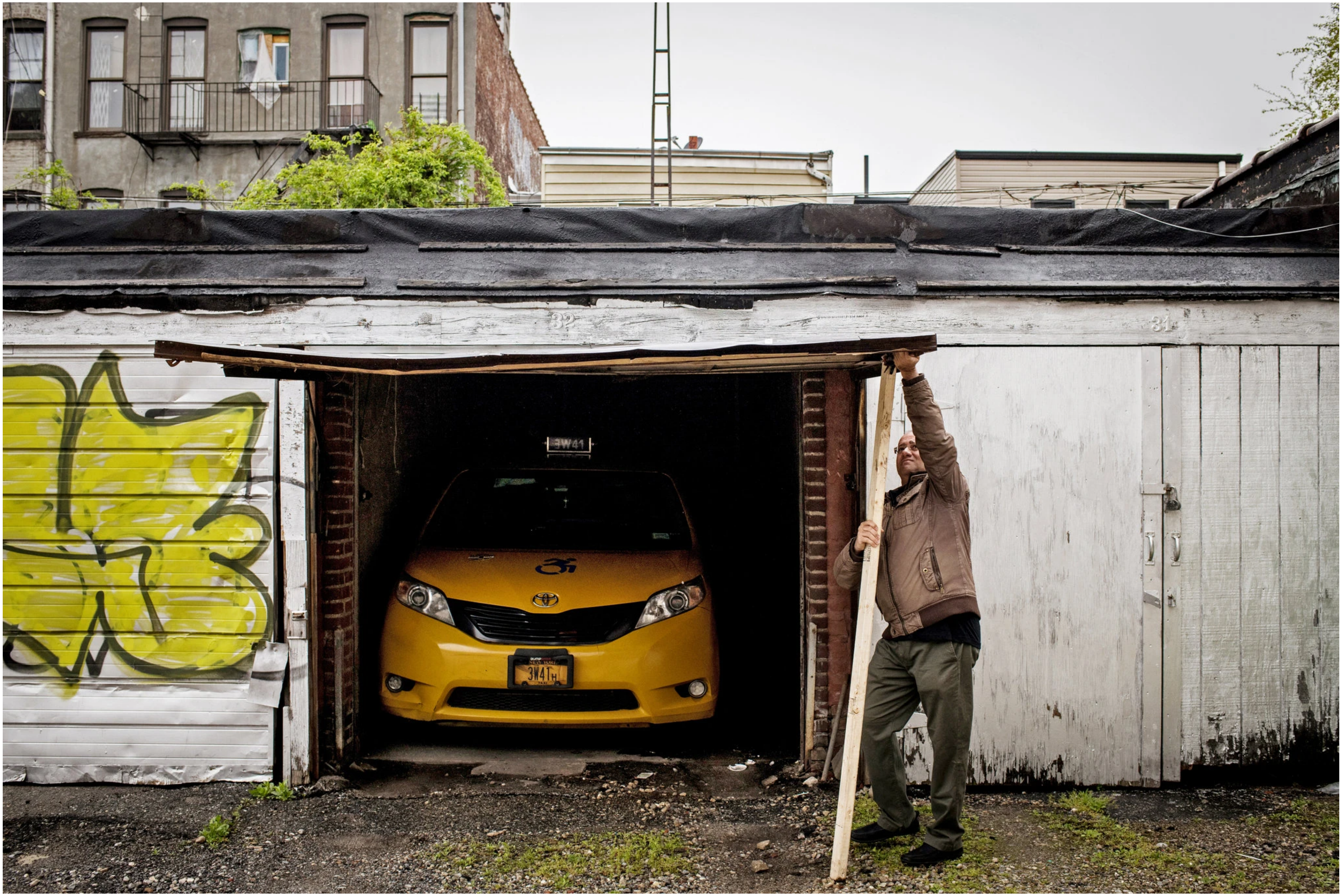
The New York Times | https://www.nytimes.com/2019/05/19/nyregion/taxi-medallions.html

As Thousands of Taxi Drivers Were Trapped in Loans, Top Officials Counted the Money



By Brian M. Rosenthal

May 19, 2019



Wael Ghobrayal, an Egyptian immigrant, bought a taxi medallion for $890,000 and now cannot make his loan payments. Kholood Eid for The New York Times

[Read Part 1 of The Times's investigation: How Reckless Loans Devastated a Generation of Taxi Drivers]

At a cramped desk on the 22nd floor of a downtown Manhattan office building, Gary Roth spotted a looming disaster.

An urban planner with two master's degrees, Mr. Roth had a new job in 2010 analyzing taxi policy for the New York City government. But almost immediately, he noticed something disturbing: The price of a taxi medallion — the permit that lets a driver own a cab — had soared to nearly $700,000 from $200,000. In order to buy medallions, drivers were taking out loans they could not afford.

Mr. Roth compiled his concerns in a report, and he and several colleagues warned that if the city did not take action, the loans would become unsustainable and the market could collapse.

They were not the only ones worried about taxi medallions. In Albany, state inspectors gave a presentation to top officials showing that medallion owners were not making enough money to support their loans. And in Washington, D.C., federal examiners repeatedly noted that banks were increasing profits by steering cabbies into risky loans.

They were all ignored.

Medallion prices rose above $1 million before crashing in late 2014, wiping out the futures of thousands of immigrant drivers and creating a crisis that has continued to ravage the industry today. Despite years of warning signs, at least seven government agencies did little to stop the collapse, The New York Times found.

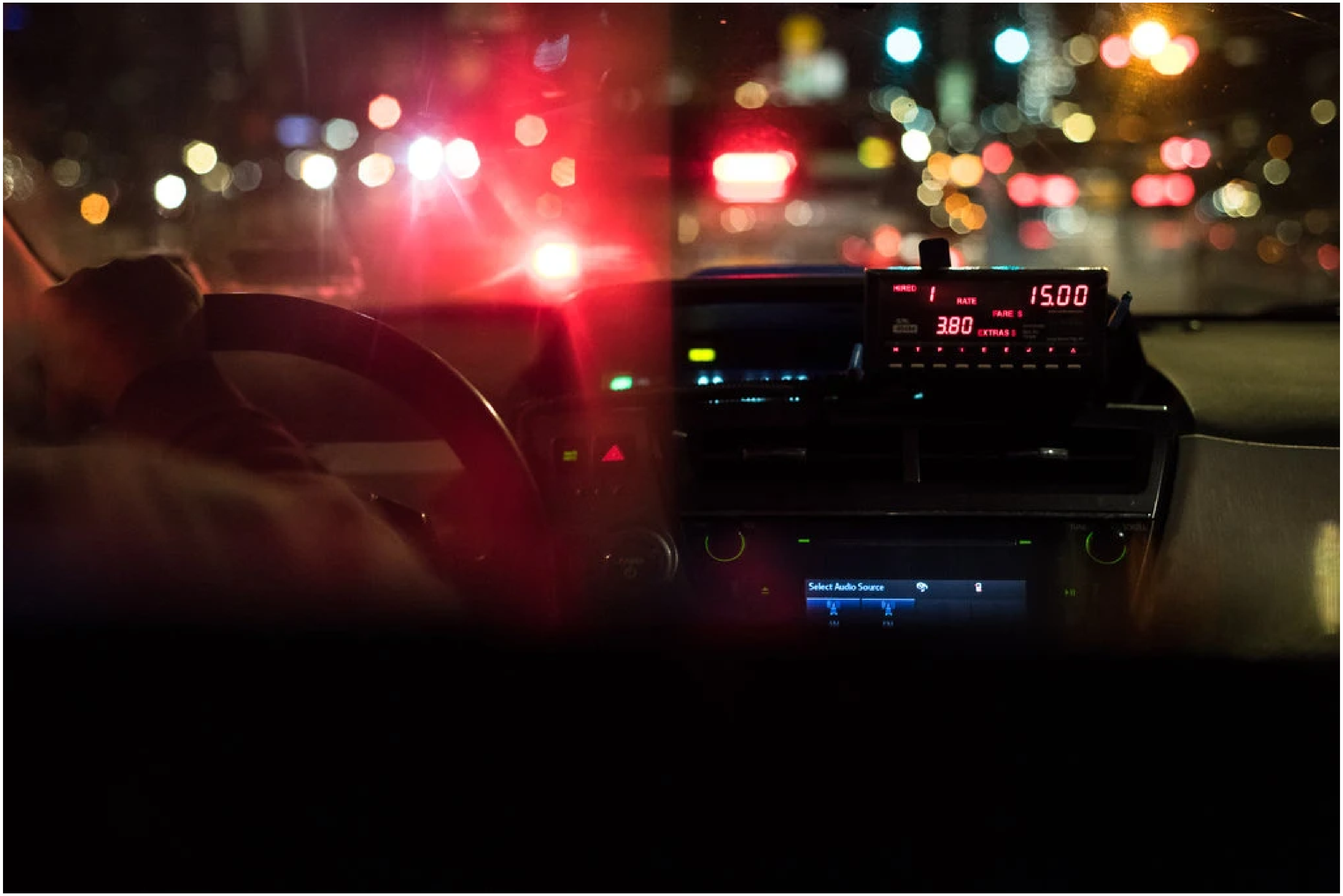
Instead, eager to profit off medallions or blinded by the taxi industry's political connections, the agencies that were supposed to police the industry helped a small group of bankers and brokers to reshape it into their own moneymaking machine, according to internal records and interviews with more than 50 former government employees.

For more than a decade, the agencies reduced oversight of the taxi trade, exempted it from regulations, subsidized its operations and promoted its practices, records and interviews showed.

Their actions turned one of the best-known symbols of New York — its signature yellow cabs — into a financial trap for thousands of immigrant drivers. More than 950 have filed for bankruptcy, according to a Times analysis of court records, and many more struggle to stay afloat.

"Nobody wanted to upset the industry," said David Klahr, who from 2007 to 2016 held several management posts at the Taxi and Limousine Commission, the city agency that oversees cabs. "Nobody wanted to kill the golden goose."

New York City in particular failed the taxi industry, The Times found. Two former mayors, Rudolph W. Giuliani and Michael R. Bloomberg, placed political allies inside the Taxi and Limousine Commission and directed it to sell medallions to help them balance budgets and fund priorities. Mayor Bill de Blasio continued the policies.



Kholood Eid for The New York Times

Under Mr. Bloomberg and Mr. de Blasio, the city made more than $855 million by selling taxi medallions and collecting taxes on private sales, according to the city.

But during that period, much like in the mortgage lending crisis, a group of industry leaders enriched themselves by artificially inflating medallion prices. They encouraged medallion buyers to borrow as much as possible and ensnared them in interest-only loans and other one-sided deals that often required them to pay hefty fees, forfeit their legal rights and give up most of their monthly incomes.

When the medallion market collapsed, the government largely abandoned the drivers who bore the brunt of the crisis. Officials did not bail out borrowers or persuade banks to soften loan terms.

“They sell us medallions, and they knew it wasn’t worth price. They knew,” said Wael Ghobrayal, 42, an Egyptian immigrant who bought a medallion at a city auction for $890,000 and now cannot make his loan payments and support his three children.

“They lost nothing. I lost everything,” he said.

The Times conducted hundreds of interviews, reviewed thousands of records and built several databases to unravel the story of the downfall of the taxi industry in New York and across the United States. The investigation unearthed a collapse that was years in the making, aided almost as much by regulators as by taxi tycoons.

Publicly, government officials have blamed the crisis on competition from ride-hailing firms such as Uber and Lyft.

In interviews with The Times, they blamed each other.

The officials who ran the city Taxi and Limousine Commission in the run-up to the crash said it was the job of bank examiners, not the commission, to control lending practices.

The New York Department of Financial Services said that while it supervised some of the banks involved in the taxi industry, it deferred to federal inspectors in many cases.

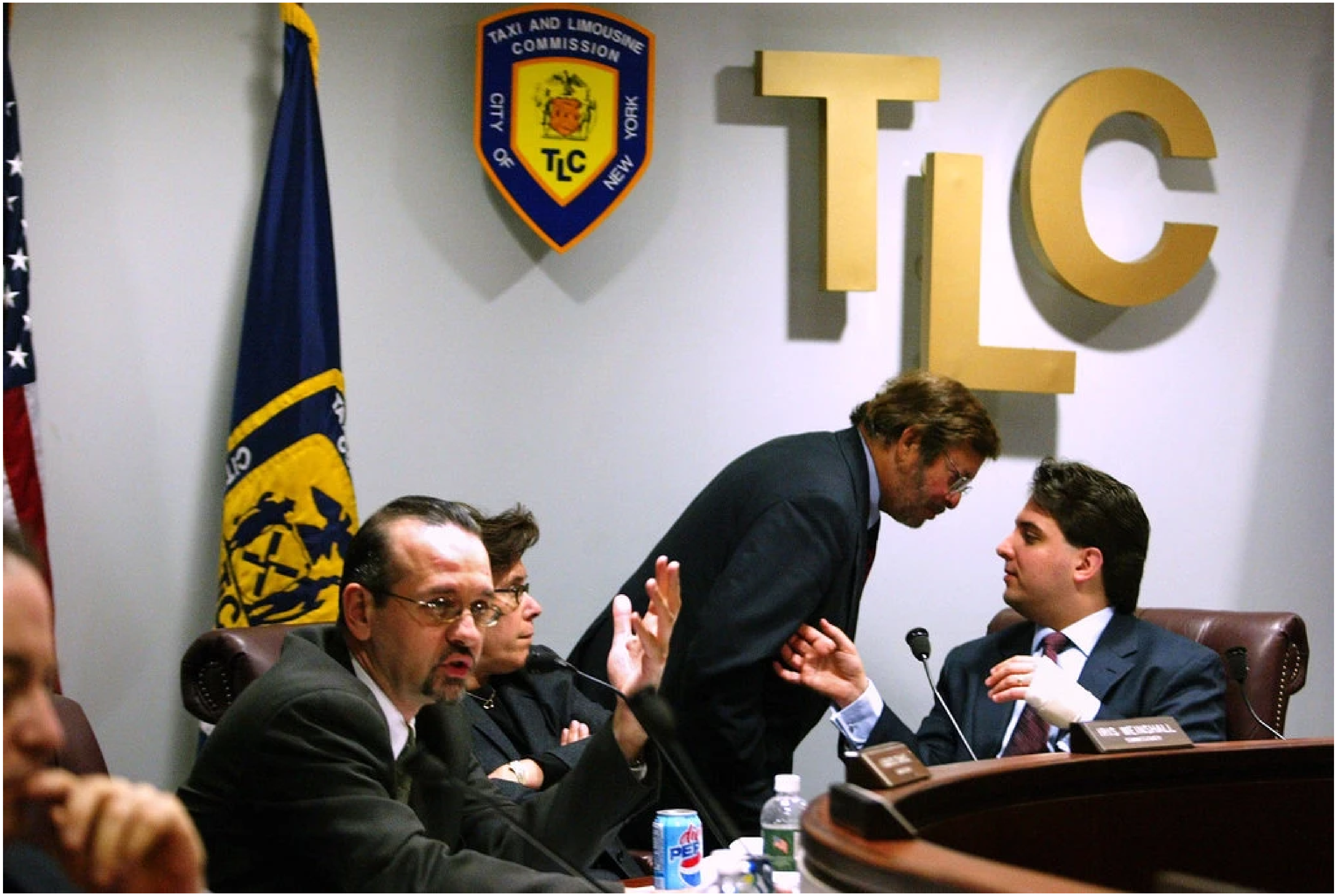
The federal agency that oversaw many of the largest lenders in the industry, the National Credit Union Administration, said those lenders were meeting the needs of borrowers.

The N.C.U.A. released a March 2019 internal audit that scolded its regulators for not aggressively enforcing rules in medallion lending. But even that audit partially absolved the government. The lenders, it said, all had boards of directors that were supposed to prevent reckless practices.

And several officials criticized Congress, which two decades ago excepted credit unions in the taxi industry from some rules that applied to other credit unions. After that, the officials said, government agencies had to treat those lenders differently.

Ultimately, former employees said, the regulatory system was set up to ensure that lenders were financially stable, and medallions were sold. But almost nothing protected the drivers.

A ‘once-in-a-lifetime opportunity’



Matthew W. Daus, far right, at a hearing of the New York City Taxi and Limousine Commission in 2004. Marilynn K. Yee/The New York Times

Matthew W. Daus was an unconventional choice to regulate New York's taxi industry. He was a lawyer from Brooklyn and a leader of a political club that backed Mr. Giuliani for mayor.

The Giuliani administration hired him as a lawyer for the Taxi and Limousine Commission before appointing him chairman in 2001, a leadership post he kept after Mr. Bloomberg became mayor in 2002.

The commission oversaw the drivers and fleets that owned the medallions for the city's 12,000 cabs. It licensed all participants and decided what cabs could charge, where they could go and which type of vehicle they could use.

And under Mr. Bloomberg, it also began selling 1,000 new medallions.

At the time, the mayor said the growing city needed more yellow cabs. But he also was eager for revenue. He had a $3.8 billion hole in his budget.

The sales put the taxi commission in an unusual position.

It had a long history of being entangled with the industry. Its first chairman, appointed in 1971, was convicted of a bribery scheme involving an industry lobbyist. Four other leaders since then had worked in the business.

It often sent staffers to conferences where companies involved in the taxi business paid for liquor, meals and tickets to shows, and at least one past member of its board had run for office in a campaign financed by the industry.

Still, the agency had never been asked to generate so much money from the business it was supposed to be regulating.

Former staffers said officials chose to sell medallions with the method they thought would bring in the most revenue: a series of limited auctions that required participants to submit sealed bids above ever-increasing minimums.

Ahead of the sales, the city placed ads on television and radio, and in newspapers and newsletters, and held seminars promoting the "once-in-a-lifetime opportunity."

"Medallions have a long history as a solid investment with steady growth," Mr. Daus wrote in one newsletter. In addition to guaranteed employment, he wrote, "a medallion is collateral that can assist in home financing, college tuition or even 'worry-free' retirement."

At the first auctions under Mr. Bloomberg in 2004, bids topped $300,000, surprising experts.

Some former staffers said in interviews they believed the ad campaign inappropriately inflated prices by implying medallions would make buyers rich, no matter the cost. Seven said they complained.

The city eventually added a disclaimer to ads, saying past performance did not guarantee future results. But it kept advertising.

During the same period, the city also posted information on its website that said that medallion prices were, on average, 13 percent higher than they really were, according to a Times data analysis.

In several interviews, Mr. Daus defended the ad campaigns, saying they reached people who had been unable to break into the tight market. The ads were true at the time, he said. He added he had never heard internal complaints about the ads.

In all, the city held 16 auctions between 2004 and 2014.

"People don't realize how organized it is," Andrew Murstein, president of Medallion Financial, a lender to medallion buyers, said in a 2011 interview with Tearsheet Podcast. "The City of New York, more or less, is our partner because they want to see prices go as high as possible."

Help from a federal agency

New York City made more than $855 million from taxi medallion sales under Mayor Bill de Blasio and his predecessor, Michael R. Bloomberg. Richard Perry/The New York Times

For decades, a niche banking system had grown up around the taxi industry, and at its center were about half a dozen nonprofit credit unions that specialized in medallion loans. But as the auctions continued, the families that ran the credit unions began to grow frustrated.

Around them, they saw other lenders making money by issuing loans that they could not because of the rules governing credit unions. They recognized a business opportunity, and they wanted in.

They found a receptive audience at the National Credit Union Administration.

The N.C.U.A. was the small federal agency that regulated the nation's credit unions. It set the rules, examined their books and insured their accounts.

Like the city taxi commission, the N.C.U.A. had long had ties to the industry that it regulated. One judge had called it a "rogue federal agency" focused on promoting the industry.

In 2004, its chairman was Dennis Dollar, a former Mississippi state representative who had previously worked as the chief executive of a credit union. He had just been inducted into the Mississippi Credit Union Hall of Fame, and he had said one of his top priorities was streamlining regulation.

Dennis Dollar, the former chairman of the National Credit Union Administration, is now a consultant in the industry. Jay Mallin/Bloomberg News

Under Mr. Dollar and others, the N.C.U.A. issued waivers that exempted medallion loans from longstanding rules, including a regulation requiring each loan to have a down payment of at least 20 percent. The waivers allowed the lenders to keep up with competitors and to write more profitable loans.

Mr. Dollar, who left government to become a consultant for credit unions, said the agency was following the lead of Congress, which passed a law in 1998 exempting credit unions specializing in medallion loans from some regulations. The law signaled that those lenders needed leeway, such as the waivers, he said.

“If we did not do so, the average cabdriver couldn’t get a medallion loan,” Mr. Dollar said.

The federal law and the N.C.U.A. waivers were not the only benefits the industry received. The federal government also provided many medallion lenders with financial assistance and guaranteed a portion of their taxi loans, assuring that if those loans failed, they would still be partially paid, according to records and interviews.

As lenders wrote increasingly risky loans, medallion prices neared $500,000 in 2006.

‘Snoozing and napping’

Under Mr. Bloomberg, the New York City Taxi and Limousine Commission began selling 1,000 new medallions. Suzanne DeChillo/The New York Times

Another agency was also supposed to be keeping an eye on lending practices. New York State banking regulators are required to inspect all financial institutions chartered in the state. But after 2008, they were forced to focus their attention on the banks most affected by the global economic meltdown, according to former employees.

As a result, some industry veterans said, the state stopped examining medallion loans closely.

“The state banking department would come in, and they’d be doing the exam in one room, and the N.C.U.A. would be in another room,” said Larry Fisher, who was then the medallion lending supervisor at Melrose Credit Union, one of the biggest lenders. “And you could catch the state banking department snoozing and napping and going on the internet and not doing much at all.”

The state banking department, which is now called the New York Department of Financial Services, disputed that characterization and said it had acted consistently and appropriately.

Former federal regulators described a similar trend at their agencies after the recession.

Some former employees of the N.C.U.A., the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency said that as medallion prices climbed, they tried to raise issues with loans and were told not to worry. The Securities and Exchange Commission and the Federal Reserve Board also oversaw some lenders and did not intervene.

A spokesman for the Federal Reserve said the agency was not a primary regulator of the taxi lending industry. The rest of the agencies declined to comment.

“It was obvious that the loans were unusual and risky,” said Patrick Collins, a former N.C.U.A. examiner. But, he said, there was a belief inside his agency that the loans would be fine because the industry had been stable for decades.

Meanwhile, in New York City, the taxi commission reduced oversight.

For years, it had made medallion purchasers file forms describing how they came up with the money, including details on all loans. It also had required industry participants to submit annual disclosures on their finances, loans and conflicts of interest.

But officials never analyzed the forms filed by buyers, and in the 2000s, they stopped requiring the annual disclosures altogether.

“Reviewing these disclosures was an onerous lift for us,” the commission’s communications office said in a recent email.

By 2008, the price of a medallion rose to $600,000.

At around the same time, the commission began focusing on new priorities. It started developing the “Taxi of Tomorrow,” a model for future cabs.

The agency’s main enforcement activities targeted drivers who cheated passengers or discriminated against people of color. “Nobody really scrutinized medallion transfers,” said Charles Tortorici, a former commission lawyer.

A spokesman for Mr. Bloomberg said in a statement that during the mayor’s tenure, the city improved the industry by installing credit card machines and GPS devices, making fleets more environmentally efficient and creating green taxis for boroughs outside Manhattan.

“The industry was always its own worst enemy, fighting every reform tooth and nail,” said the spokesman, Marc La Vorgna. “We put our energy and political capital into the reforms that most directly and immediately impacted the riding public.”

Records show that since 2008, the taxi commission has not taken a single enforcement action against brokers, the powerful players who arrange medallion sales and loans.

Alex Korenkov, a broker, suggested in an interview that he and other brokers took notice of the city’s hands-off approach.

“Let’s put it this way,” he said. “If governing body does not care, then free-for-all.”

Ignored warnings

Gabriella Angotti-Jones/The New York Times

By the time that Mr. Roth wrote his report at the Taxi and Limousine Commission in 2010, it was clear that something strange was happening in the medallion market.

Mr. Daus gave a speech that year that mentioned the unusual lending practices. During the speech, he said banks were letting medallion buyers obtain loans without any down payment. Experts have since said that should have raised red flags. But at the time, Mr. Daus seemed pleased.

“Some of these folks were offering zero percent down,” he said. “You tell me what bank walks around asking for zero percent down on a loan? It’s just really amazing.”

In interviews, Mr. Daus acknowledged that the practice was unusual but said the taxi commission had no authority over lending.

Inside the commission, at least four employees raised concerns about the medallion prices and lending practices, according to the employees, who described their own unease as well as Mr. Roth’s report.

David S. Yassky, a former city councilman who succeeded Mr. Daus as commission chairman in 2010, said in an interview that he never saw Mr. Roth’s report.

Mr. Yassky said the medallion prices puzzled him, but he could not determine if they were inflated, in part because people were still eager to buy. Medallions may have been undervalued for decades, and the price spike could have been the market recognizing the true value, he suggested.

Meera Joshi, who became chairwoman in 2014, said in an interview that she was worried about medallion costs and lending practices but was pushed to prioritize other responsibilities. Dominic Williams, Mr. de Blasio's chief policy adviser, said the city focused on initiatives such as improving accessibility because no one was complaining about loans.

Worries about the taxi industry also emerged at the National Credit Union Administration. In late 2011, as the price of some medallions reached $800,000, a group of agency examiners wrote a paper on the risks in the industry, according to a recent report by the agency's inspector general.

In 2012, 2013 and 2014, inspectors routinely documented instances of credit unions violating lending rules, the inspector general's report said.

David S. Yassky, the former chairman of the New York City Taxi and Limousine Commission. Michael Appleton for The New York Times

The N.C.U.A. chose not to penalize medallion lenders or impose extra oversight. It did not take any wide industry action until April 2014, when it sent a letter reminding the credit unions in the taxi market to act responsibly.

Former staffers said the agency was still focused on the fallout from the recession.

A spokesman for the N.C.U.A. disputed that characterization and said the agency conducted appropriate enforcement.

He added the agency took actions to ensure the credit unions remained solvent, which was its mission. He said Congress allowed the lenders to concentrate heavily on medallion loans, which left them vulnerable when Uber and Lyft arrived.

At the New York Department of Financial Services, bank examiners noticed risky practices and interest-only loans and repeatedly wrote warnings starting in 2010, according to the state. At least one report expressed concern of a potential market bubble, the state said.

Eventually, examiners became so concerned that they made a PowerPoint presentation and called a meeting in 2014 to show it to a dozen top officials.

“Since 2001, individual medallion has risen 455%,” the presentation warned, according to a copy obtained by The Times. The presentation suggested state action, such as sending a letter to the industry or revoking charters from some lenders.

The state did neither. The department had recently merged with the insurance department, and former employees said it was finding its footing.

The department superintendent at the time, Benjamin M. Lawsky, a former aide to Gov. Andrew M. Cuomo, said he did not, as a rule, discuss his tenure at the department.

In an emailed statement, the department denied it struggled after the merger and said it took action to stop the collapse of the medallion market. A department spokesman provided a long list of warnings, suggestions and guidelines that it said examiners had issued to lenders. He said that starting in 2012, the department downgraded some of its own internal ratings of the lenders.

The list did not include any instances of the department formally penalizing a medallion lender, or making any public statement about the industry before it collapsed.

Between 2010 and 2014, as officials at every level of government failed to rein in the risky lending practices, records show that roughly 1,500 people bought taxi medallions. Over all, including refinancings of old loans and extensions required by banks, medallion owners signed at least 10,000 loans in that time.

Several regulators who tried to raise alarms said they believed the government stood aside because of the industry’s connections.

Many pointed to one company — Medallion Financial, run by the Murstein family. Former Gov. Mario M. Cuomo, the current governor’s father, was a paid member of its board from 1996 until he died in 2015.

Others noted that Mr. de Blasio has long been close to the industry. When he ran for mayor in 2013, an industry lobbyist, Michael Woloz, was a top fund-raiser, records show. And Evgeny Freidman, a major fleet owner who has admitted to artificially inflating medallion prices, has said he is close to the mayor.

Some people, including Mr. Dollar, the former N.C.U.A. chairman, said Congress excepted the taxi trade from rules because the industry was supported by former United States Senator Alfonse D’Amato of New York, who was then the chairman of the Senate Banking Committee.

“The taxi industry is one of the most politically connected industries in the city,” said Fidel Del Valle, who was the chairman of the taxi commission from 1991 to 1994. He later worked as a lawyer for drivers and a consultant to an owner association run by Mr. Freidman. “It’s been that way for decades, and they've used that influence to push back on regulation, with a lot of success.”

A spokesman for Mr. Cuomo said Medallion Financial was not regulated by the state, so the elder Mr. Cuomo’s position on the board was irrelevant. A spokeswoman for Mr. de Blasio said the industry’s connections did not influence the city.

Mr. Murstein, Mr. Woloz, Mr. Freidman and Mr. D’Amato all declined to comment.

The aftermath

“I think city will help me,” Mohammad Hossain, who is in deep debt from a taxi medallion loan, said at his family’s home in the Bronx. Kholood Eid for The New York Times

New York held its final independent medallion auction in February 2014. By then, concerns about medallion prices were common in the news media and government offices, and Uber had established itself. Still, the city sold medallions to more than 150 bidders. (“It’s better than the stock market,” one ad said.)

Forty percent of the people who bought medallions at that auction have filed for bankruptcy, according to a Times analysis of court records.

Mohammad Hossain, 47, from Bangladesh, who purchased a medallion for $853,000 at the auction, said he could barely make his monthly payments and was getting squeezed by his lender. “I bought medallion from the city,” he said through tears. “I think city will help me, you know. I assume that.”

The de Blasio administration’s only major response to the crisis has been to push for a cap on ride-hail cars. The City Council at first rejected a cap in 2015 before approving it last year.

Taxi industry veterans said the cap did not address the cause of the crisis: the lending practices.

Richard Weinberg, a taxi commission hearing officer from 1988 to 2002 and a lawyer for drivers since then, said that when the medallion bubble began to burst, the city should have frozen prices, adjusted fares and fees and convinced banks to be flexible with drivers. That could have allowed prices to fall slowly. “That could’ve saved a lot of people,” he said.

In an interview, Dean Fuleihan, the first deputy mayor, said the city did help taxi owners, including by reducing some fees, taxes and inspection mandates, and by talking to banks about loans. He said that if the City Council had passed the cap in 2015, it would have helped.

“We do care about those drivers, we care about those families. We attempted throughout this period to take actions,” he said.

Federal regulators also have not significantly helped medallion owners.

In 2017 and 2018, the N.C.U.A. closed or merged several credit unions for “unsafe business practices” in medallion lending. It took over many of the loans, but did not soften terms, according to borrowers. Instead, it tried to get money out as quickly as possible.

The failure of the credit unions has cost the national credit union insurance fund more than $750 million, which will hurt all credit union members.

In August 2018, the N.C.U.A. closed Melrose in what it said was the biggest credit union liquidation in United States history. The agency barred Melrose’s general counsel from working for credit unions and brought civil charges against its former C.E.O., Alan Kaufman, saying he used company funds to help industry partners in exchange for gifts.

The general counsel, Mitchell Reiver, declined to answer questions but said he did nothing wrong. Mr. Kaufman said in an interview that the N.C.U.A. made up the charges to distract from its role in the crisis.

“I’m definitely a scapegoat,” Mr. Kaufman said. “There’s no doubt about it.”

Glamour, then poverty

After he struggled to repay his taxi medallion loan, Abel Vela left his family in New York and moved back to Peru, where living costs were cheaper. Angela Ponce for The New York Times

During the medallion bubble, the city produced a television commercial to promote the permits. In the ad, which aired in 2004, four cabbies stood around a taxi discussing the perks of the job. One said buying a medallion was the best decision he had ever made. They all smiled. Then Mr. Daus appeared on screen to announce an auction.

Fifteen years later, the cabbies remember the ad with scorn. Three of the four were eventually enticed to refinance their original loans under far riskier terms that left them in heavy debt.

One of the cabbies, Abel Vela, had to leave his wife and children and return to his home country, Peru, because living costs were lower there. He is now 74 and still working to survive.

The only woman in the ad, Marie Applyrs, a Haitian immigrant, fell behind on her loan payments and filed for bankruptcy in November 2017. She lost her cab, and her home. She now lives with her children, switching from home to home every few months.

“When the ad happened, the taxi was in vogue. I think I still have the tape somewhere. It was glamorous,” she said. “Now, I’m in the poorhouse.”

Today, the only person from the television commercial still active in the industry is Mr. Daus. He works as a lawyer for lenders.

[Read Part 1 of The Times’s investigation: How Reckless Loans Devastated a Generation of Taxi Drivers]

Madeline Rosenberg contributed reporting. Doris Burke contributed research. Produced by Jeffrey Furticella and Meghan Louttit.

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