# New York Taxi Workers Alliance

## Medallion Loan Guarantee Program

**WHAT IS IT:** A government guarantee would replace the personal guarantee on medallion loans. **As medallion loans are largely underwater**—according to a NYC TLC report the average loan balance is $500,000 while the average sale price is $100,000—**owner-drivers are at risk of losing their savings and assets such as equity on their homes following a medallion foreclosure.** Today, owner-drivers personally guarantee medallions loans. This means in the event of a foreclosure, the lender will seize the medallion asset and sell it to recover on the loan, and then pursue the owner-driver for any balance that remains after the sale. **High monthly mortgages have also left owner-drivers earning below poverty wages.** Thousands use credit cards to pay for rent and groceries as their income is consumed by the medallion mortgage. What was once a pathway to middle-class economic security and a retirement nest egg is now a job at poverty pay and **life-long debt.**

**A government guarantee would secure the loan, leading to a restructuring of the debt and helping workers in despair restore their lives.** Owner-drivers would be protected against loss of equity on their homes and long-term liens. They would be able to earn a living wage as lenders would be sufficiently incentivized to reduce monthly payments. Further, with lower principal balances, they could pay off loans rather than live in perpetual debt.

**HOW IT WOULD WORK:** The guaranteeing entity would 1) define terms that restructured loans must comply with in order to be guaranteed 2) prescribe the procedural process for lenders to recover in the event of a foreclosure; and 3) expend monies only after a foreclosure and if a balance remains post-sale.

**Defining the Terms:** In order to limit the guaranteeing entity's liability and to create the stability in the medallion market, it is crucial that loan terms which prevent foreclosures and delinquencies are established. Those terms would include a maximum principal amount, the interest rate and the amortization schedule. **NYTWA's proposed terms are as follows: maximum loan amount of $145,000; 4% fixed interest rate; no prepayment penalty; and 25 to 30-year amortization schedule. These terms would yield a monthly payment of roughly $800.** TLC data on average driver earnings conclusively show that, even under the best market conditions, owner-drivers will not be able to sustain a monthly medallion mortgage more than $800.

**Procedural Process for Lender Recovery:** The guaranteeing entity would prescribe the rules for how a lender would recover in the event of a foreclosure. At minimum, a recovering lender would be obligated to provide notice and an opportunity to cure a default prior to initiating foreclosure. In the event of a foreclosure, a recovering lender would be obligated to make a good faith effort to resale the medallion for the highest market value possible. Following the resale of the medallions, should there be a balance, the guaranteeing entity would issue a payment for that balance in addition to reasonable costs associated with the reselling of the medallion. *NYTWA believe the approach described here is the least administratively burdensome approach for the guaranteeing entity, but we defer to the guarantee entity with respect to what is feasible.*

**HOW MUCH DOES IT COST:** The projected cost of the guarantee program under the terms outlined above for 4,000 medallions would be **$93 million dollars over 30 years**, or **$3 million a year.** We assume a static medallion value of $75,000 over the 30-years and a default rate of 5% for the first five years with a gradual drop over the remainder of the term. The cost to the city only applies in case of a foreclosure, and only if the lender recovers less than the balance of the loan after selling the medallion.

**IMPORTANT NOTE:**

Our risk model to assess the cost of the guarantee is based on data published by the New York City Taxi and Limousine Commission. The New York City Comptroller's office vetted this model and concluded that it was "fiscally sound." The model, along with the underlying data and the bases of our assumption is available for review and can be downloaded here.

**EXPOSURE TO GUARANTEEING ENTITY**

| Risk Factors & Mitigators | Total |
|---|---|
| Participating Loans | 4,000 |
| Maximum Loan Amount | $175,000 |
| NYC Medallion Fund* | ($30,000) |
| Guaranteed amount | $145,000 |
| Collateral | ($75,000) |
| Default Rate | 5% |
| ***Total Exposure (over 30-y)*** | ***$92 million*** |
| **Average Yearly Exposure** | **$3 *million*** |

*This assumes the TLC maintains the $65m fund & adds an average of $3M a year over 30 years as the projected cost of the guarantee.