



Legislation Text

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Res. No. 1004

Resolution calling upon New York State to prohibit the practice of allowing medallion lenders to classify medallion deals as business loans rather than consumer loans.

By Council Members Levin, Cabrera and Louis

Whereas, In 1937, New York City enacted the Haas Act which regulated the taxi industry by creating the medallion system that is currently still in place today; and

Whereas, For many low-income and immigrant drivers, the goal of owning their own individual taxi medallion was viewed as a path to the middle class since medallions were considered assets that could be later sold and allowed drivers to keep all their earnings and set their own schedules; and

Whereas, Since the taxi medallion system was established in the City, for almost eighty years the value of medallions sold in the open market kept rising steadily over time and hovered at around the \$200,000 price range in 2002; and

Whereas, In 2004, the City of New York began auctioning new medallions as a way of raising revenue for the City and providing additional hail service to New Yorkers, the first time in several decades that new medallions were added to the industry; and

Whereas, When the City began auctioning new medallions in 2004, many new drivers took out large loans to finance their medallion purchases, lured by the promise of being able to participate in a “once in a lifetime opportunity” and by ads that stated that an investment in a taxi medallion was “better than the stock market”; and

Whereas, Some of the lending institutions that financed taxi medallion loans in the City were banks and credit unions chartered under the New York State Department of Financial Services, with credit unions having

additional oversight by the National Credit Union Administration; and

Whereas, Banks offered business loans to medallion buyers, sometimes at terms that were less favorable to the borrower; and

Whereas, Many taxi drivers chose to take out loans through credit unions because they are not-for-profit entities that have historically offered better loan terms and benefits to their members; and

Whereas, Under federal guidelines in place since 1998, credit unions that provide loans in the taxi industry have been exempt from some of the statutory member business lending cap rules that apply to other credit unions under the federal oversight of the National Credit Union Administration; and

Whereas, In 2004, the National Credit Union Administration issued a waiver that exempted credit unions from requiring borrowers to put at least a 20% down payment for the purchase of their taxi medallions; and

Whereas, Spurred by a flurry of medallion sales activity between 2002 and 2014, the taxi industry in the city saw the value of medallions grow exponentially during that time with the value of some peaking at \$1.3 million in 2014; and

Whereas, Since the peak in 2014, the taxi industry in the city has seen the value of taxi medallions drop, with some selling recently for as low as \$150,000 in the secondary market; and

Whereas, Recent reports have indicated that due to the drop in medallion values and a decrease in the overall earnings of taxi drivers, many medallion owners have significant amounts of debt and some are unable to earn enough money to make their outstanding loan payments; and

Whereas, Currently, New York State Banking regulations allows lenders to classify financing for taxi medallions as business loans, rather than consumer loans; and

Whereas, Business loans tend to be more complex, have shorter payback periods, usually carry a higher rate of interest and, according to the Federal Deposit Insurance Corporation, are not subject to most federal consumer protection laws and regulations; and

Whereas, Consumer loans tend to provide borrowers with greater state and federal financial protections and regulations; and

Whereas, Current consumer protection laws cover loans established primarily for personal, family, or household purposes; and

Whereas, Some of the protections for consumer loans include requiring lenders to show the cost of credit as an actual dollar amount, list an annual percentage rate, disclose terms in a meaningful and uniform manner and prohibit abusive, unfair, or deceptive collection practices; now, therefore, be it

Resolved, That the Council of the City of New York calls upon New York State to prohibit the practice of allowing medallion lenders to classify medallion deals as business loans rather than consumer loans.

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RA
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