Supervisory Letter

NCUA | Office of Examination & Insurance
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April 1, 2014[*]

TO: **All Field Staff**

SUBJ: **Taxi Medallion Lending**

This Supervisory Letter provides information about the taxi medallion industry and establishes a consistent framework for the exam and supervision field staff use to review loans secured by taxi medallions. It outlines a general overview of how taxi medallion loans are typically structured and identifies the key risks they pose. It also explains some unique aspects of the taxi-medallion business model, including medallion valuations, complex ownership structures, and sources of cash flow and income.

The guidance in this document applies to credit unions that originate or purchase participation interests in taxi medallion loans. Taxi medallion loans are a form of business lending, and are subject to the Member Business Loan (MBL) rule – especially the standards for underwriting, credit analysis, and due diligence.[1]

I. Background

A. What is a taxi medallion?

A taxi medallion is a physical fixture (usually a metal plate or sticker) that represents an owner's license to **operate** a vehicle as a taxicab within a certain municipality.[2] The value of a medallion is derived from the intangible licensing right it gives the owner; this right is transferable, and is not associated with a specific vehicle. A separate driver's license governs the right to actually **drive** the vehicle.[3]

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[*] In May 2015, NCUA provided clarification on this guidance in the form of a series of frequently asked questions. The FAQ is provided as an addendum to this letter.

[1] Part 723 of NCUA Rules and Regulations outlines requirements for member business lending programs. Section 723.6(g) addresses underwriting and due diligence requirements for member business loans.

[2] In New York City, a "taxicab" is a yellow motor vehicle that bears a medallion indicating that it has been licensed and authorized by the Commission to accept hails from persons in the street and carry up to five passengers. (NYC Taxi and Limousine Commission Rules and Regulations, Chapter 20 definitions.)

[3] Credit and Finance Risk Analysis. *Taxi Medallion Financing & Lending.* © 2012 (See http://credfinrisk.com/taxi.html)

1. Governance by Jurisdiction

Each city with a taxi medallion system has a governing body, or "taxi authority," which licenses and regulates taxi industry operations within its jurisdiction. A taxi authority may be an independent agency or a division of another department (e.g., a police department). They control all aspects of taxi operation, which typically includes:

- Usage, safety, quality, and operation of taxis
- Permissible vehicle types
- Medallion lease terms and rates
- Fare rates
- Number of medallions issued

As an integral component of the public transportation system in most major cities, the taxi industry is heavily regulated to ensure stability, quality of service, and consumer safety. See Appendix A for a list of taxi authorities in several major cities.[4]

2. Types of Taxi Medallions

While municipal authorities may vary on the regulatory structure of taxi operations in their jurisdiction, the New York City (NYC) taxi medallion system described below is representative of the industry and structure. Taxi authorities generally govern two types of medallion ownership - an individual medallion and a minifleet medallion (also known as a "corporate medallion").

a. **Individual Medallion**
In NYC, an individual medallion is a class of license in which an owner may only own one taxi medallion. Individual medallion owners are required to drive a taxi a specific number of shifts per year, and may lease out any remaining shifts to other drivers.[5] The taxi authority establishes shift-leasing rates.

b. **Minifleet Medallion ("Corporate Medallion")**
In NYC, a minifleet medallion is a class of license in which an owner typically holds two taxi medallions and does not drive the taxi. A minifleet medallion owner may lease a medallion, with or without a corresponding taxi, directly to a driver. However, the majority of minifleet medallion owners lease their medallions to a management company.

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[4] Credit unions that serve the taxi industry typically provide financing in New York City, Chicago, Philadelphia, and Boston. While New York City has the largest number of taxi medallions, credit unions offer limited taxi medallion financing in other jurisdictions.

[5] There are typically two shifts per day: a 12-hour day shift and a 12-hour night shift.

Management companies lease taxi medallions and vehicles to drivers, who work in shifts. The taxi authority establishes the lease rates that minifleet owners or management companies can charge drivers for each shift.

While an individual can own a minifleet, most owners purchase a medallion through a separate business entity.[6] A single business entity typically owns only one minifleet (two taxi medallions). A buyer can acquire multiple minifleet medallions by establishing a separate business entity for each pair of medallions; this is a common practice in the taxi industry. As a result, it is common for principals in the medallion industry to hold multiple minifleet medallions through an intricate network of business entities. The relationships between the principal's multiple business entities can become complex, making them difficult to analyze and requiring an enhanced level of expertise and analysis.

In addition to the horizontal complexity that occurs when one or more principals control multiple minifleet medallions through individual business entities, these medallion owners often share common ownership in one or more *management* companies. This creates a vertically integrated relationship.

B. How do taxi medallions generate income?

Individual medallion owners are required to operate a taxi for a certain number of shifts each year; these owners earn income through the fares they generate while driving shifts. Individual medallion owners influence earnings by working the maximum number of shifts possible and through their efforts to generate fares while they operate the taxi. In addition, individual medallion owners can increase earnings by leasing any remaining shifts to other drivers at rates regulated by the taxi authority.

In contrast, most **minifleet medallion** owners lease their medallions to a management company. A management company generates revenue by leasing a medallion (and, in most instances, a vehicle) to a driver.[7] The taxi authority establishes the lease rates that a management company can charge drivers. The revenue a management company can generate is limited by the number of shifts available and the regulated lease rates. Therefore, a management company maximizes its earnings by minimizing the downtime of the taxi (equipment), and by optimizing expenses.

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[6] LLCs, corporations, and partnerships are business entities commonly formed to own medallions.

[7] In most instances, the lease relationship between a medallion owner and a management company is not regulated by the local taxi authority.

Vertical Integration[8]

Minifleet owners frequently share ownership in the management company that leases their medallions, resulting in vertically integrated operations. Vertically integrated operations add extra layers of complexity to the due diligence process.

Management companies' primary source of income is the lease of medallions to drivers. This income is controlled by the taxi authority and ultimately pays the medallion loan, either directly (when the medallion is owned by the management company) or indirectly through lease payments to the minifleet owner (when the owner leases the medallion to a management company). A minifleet medallion *owner's* revenue is limited by the amount a management company can pay to lease a medallion from its owner.

C. What affects the value of a taxi medallion?

A medallion's value is affected by its income-producing potential, and by the laws of supply and demand. Taxi authorities closely regulate and control the type and number of medallions that are issued, and periodically release new medallions through public auctions. In addition, an active secondary market exists for medallions. Secondary market medallion buyers primarily consist of existing medallion owners.

The limited supply of medallions available in the market can lead to a speculative premium (market premium), which occurs when the sales price of a medallion exceeds the value that is supported by the medallion's ability to generate net operating income (NOI).[9]

Premium market prices that significantly exceed the value supported by the net operating income a medallion generates may reflect an asset inflation cycle, or "asset bubble," which can exacerbate credit losses. Credit unions that practice proper credit analysis and take steps to limit loans to amounts that are based on a borrower's ability to repay through operations should be able to withstand the impact of fluctuations in the value of taxi medallions.

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[8] When a company expands its business into areas that are at different points on the same production path, such as when a manufacturer owns its supplier and/or distributor. In this case, minifleets provide the medallion via a lease to the management companies with common ownership. See http://www.investopedia.com/terms/v/verticalintegration.asp)

[9] Individual and corporate medallion prices in NYC increased by 2.5 times and 3.3 times, respectively, between 2004 and 2012. Fare and lease rates in NYC remained unchanged between 2006 and 2012. See *2012 Monthly Medallion 'Non-Accessible' Sales – Average Prices & Number of Transfers*, New York Taxi and Limousine Commission; *2004 Annual Report to the New York City Council*, New York Taxi and Limousine Commission (Jan. 10, 2005); *Newly Passed Fare and Lease Cap Rules*, New York Taxi and Limousine Commission (August, 2012); *New York's taxi fare hike pleases drivers, but owners want more*, Capital New York (July 12, 2012); and *New York taxi drivers win big, finally, with a fare hike and limits on agent fees*, Capital New York (July 12, 2012)

Interest Rates and Loan Terms can Inflate Value

As of April 2014, the market value of a taxi medallion continues to benefit from record low financing costs, as well as liberal underwriting terms. Low or decreasing interest rates on loans can make a medallion more affordable to a buyer, even if the borrower does not experience a corresponding increase in income.

While recent history reflects a continuously rising market price for medallions, an adverse change in market conditions and economic cycles can decrease prices. When economic conditions change, credit unions that engage in significant levels of liberal financing can suffer from significant loan-to-value shortfalls. The real estate market crisis of 2008 demonstrates how quickly a collateral-deficient loan portfolio can impair a credit union's viability.

Credit unions that offer liberal loan terms may be exposed to elevated risk, requiring heightened due diligence, risk modeling, and mitigation strategies. Liberal terms include extended amortization schedules, interest-only payment terms, and unsupported cash-out refinancing.

1. **Extended Amortization**

   An extended amortization exposes a loan to multiple economic and interest rate cycles, which could significantly impact the valuation of collateral if interest rates increase or when there is an adverse change in the market or industry conditions.[10] A loan with a long-term amortization can result in significantly higher interest cost for a borrower if interest rates increase, even by a small amount. Interest rates have an *inverse* relationship to the market value of taxi medallions; as interest rates rise, borrowers can face a significant increase in interest expense that decreases the borrowing capacity of the medallion resulting in an adverse impact on value.

   An extended amortization period may affect a medallion owner's ability to refinance, even if a loan has a shorter-term maturity.[11] This is especially true in an adverse economic environment, where collateral values for income producing assets can fall below the outstanding principal amount, resulting in a collateral shortfall. Field staff should verify that credit unions monitor market conditions and shorten the amortization period if industry volatility is evident or expected.

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[10] To protect against interest rate fluctuations, lending intuitions offer these loans with floating interest rates or short-term maturities with the renewal set at the current market interest rate. Both of these methods expose a loan to interest rates changes over the amortization period.
[11] Most taxi medallion loans are structured as shorter-maturity balloon loans, with payments based on a longer amortization period such as 25 years.

2. Interest-Only Payment Terms

Interest-only payment terms expose a loan to the same risks as a loan with an extended amortization. However, the adverse impact to the credit union is greater because there is no reduction in principal.

3. Unsupported Cash-Out Refinancing

Cash-out refinancing occurs when an existing loan is refinanced with a new, larger loan, and the borrower receives the difference between the two loans as a cash disbursement. Cash-out refinancing on taxi medallion loans should be for an identified business purpose or need. Cash-outs that do not support a valid and approved business need could mask operational problems a borrower or principal is experiencing, such as insufficient debt service ability or operational losses. Credit unions can protect against this by clearly identifying the purpose of the refinancing, along with **controlling and tracking** the disbursement of the loan proceeds to ensure the funds are used for the **agreed-upon** purpose.

D. What additional factors should field staff consider when supervising taxi medallion loans?

1. Quality of Financial Information

The quality of the financial information used in the financial analysis should be commensurate with the level of risk and complexity of the borrower and principals' operations. Obtaining the tax return from the borrower and principal, along with a personal financial statement, is generally sufficient for less complex borrowing relationships (those that are limited to a single operation of the borrower and principal). For more complex borrowing relationships (e.g., the borrower or principals have multiple operations, or the operations are interrelated), field staff should ensure that a credit union requires borrowers and principals, depending on the level of risk associated with the relationship, to provide either:

- Financial statements prepared in accordance with generally accepted accounting principles (GAAP) and subjected to a ***review*** engagement by a licensed professional accountant (CPA), or
- GAAP financial statements subjected to an ***audit*** performed under generally accepted auditing standards (GAAS) by a licensed independent professional accountant (CPA).

With complex borrowers, and significant loan dollars at stake, field staff will ensure that credit unions require financial information of sufficient quality and detail to properly evaluate financial strength, cash flow and ability to repay before entering a credit arrangement and continuously throughout the lending relationship.

2. Complex Relationships – Vertical and Horizontal Complexity

With complex relationships, including vertically integrated or large horizontal relationships (principals owning many entities holding minifleets), credit unions are expected to enhance due diligence by obtaining high quality ***consolidated*** GAAP financial statements, including the ***consolidating*** statement, and completing global risk, financial and cash flow analysis of the overall borrower and principal relationship.

Field staff will ensure that the credit union's credit risk assessment process and administration function is commensurate to the complexity of the borrower's relationship (i.e., ensure the credit union fully understands the financial capacity of the borrowing relationship). Field staff will ensure credit union management demonstrates the ability to identify complex and interrelated borrower relationships and to complete a comprehensive analysis of such relationships.

3. Debt Service Ability

A debt service coverage ratio (DSCR) is the amount of cash available from operations[12] to meet annual interest and principal payments on **all** borrower debt and to pay unfunded capital expenses.[13]

The **recommended** DSCR to qualify a borrower for a taxi medallion loan is 1.25:1.0 times (1.25X) for the borrower. This ratio indicates that a borrower is generating enough income to pay all obligations, and should have enough excess cash flow to build a capital cushion to protect against unforeseen adversity.

Field staff must ensure that credit unions document their analysis of a borrower's ability to repay, and base the analysis on *actual* cash flows from reliable information sources. Credit unions with borrowers or principals that show less-favorable cash flow characteristics need to appropriately segregate and risk grade weaker credits.

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[12] Calculate *cash available from operations* by subtracting any cash distributions to the shareholder or principal (e.g., dividends or loans) from the Net Operating Income (NOI).
[13] Unfunded capital expenses are those expenses that are capitalized and funded through the operations of the business and not from borrowed funds.

II. Exam Procedures for Taxi Medallion Loans

Before reviewing taxi medallion loans, field staff should review the governing taxi authority's revenue regulations, including fare and lease rates and medallion sales reports. The credit union should provide this documentation, which is critical for evaluating its cash flow analysis and risk assessment.

Understanding and evaluating a commercial loan portfolio, including a medallion portfolio, requires a review and evaluation of individual credit arrangements and relationships. However, field staff also need to evaluate the overall portfolio in terms of size, diversity, credit quality, and type and levels of activity (e.g., purchase money, cash-out refinancing, non-cash-out refinancing, workouts, troubled debt restructuring, etc.) to assess total portfolio performance and to identify potential areas of risk.

In reviewing the portfolio, consider the scale and complexity of risk the taxi medallion loans pose. This includes, but is not limited to, the credit union's:

- Amount of current and future activity, in relation to capital and earnings
- Level of ALLL funding
- Reliability of financial reporting
- Past credit administration quality and performance

Expand the scope of the exam if you are concerned about inadequate due diligence.

When evaluating a credit union involved with taxi medallion lending, ensure the credit union:

1. Has **sound governance and policies over taxi medallion lending.** Specifically, confirm that the credit union:
    a. Assigns loan authority to an individual or committee commensurate with their knowledge and experience.
        i. **For borrowing relationships that are large and complex,** there must be close oversight by management and the board. This can be accomplished through direct involvement in the loan approval process or by delegating authority to a designated committee.
        ii. The board must ensure that each loan's risk assessment is complete and accurate through sound policies, reporting, procedures, and controls.
    b. Maintains a loan review, risk assessment, and credit risk grading validation function separate from the lending function. Confirm that this has been established as addressed in Attachment 1 of *Interagency Policy Statement on the*

Allowance for Loan and Lease Losses, NCUA Accounting Bulletin Number 06-01, dated December 2006.[14]

c. Establishes **concentration limits** in relation to net worth.[15]

   i. A credit union with a large concentration of taxi medallion loans must have documented policies and practices in place that ensure concentration risk is appropriate for their net worth levels and consistent with the credit union's strategic plan.

   ii. **Interest-only taxi medallion loans represent elevated risk and should only be granted on a case-by-case basis.** The credit union must adequately limit the increased risk associated with an interest-only taxi medallion loan and ensure the additional risk is properly mitigated.[16]

d. Requires a minimum debt service coverage ratio (1.25X is recommended).

   i. Confirm that the credit union bases its minimum DSCR on traditional cash flow measures that reflect all influences on cash flow from operations, including any transfers of cash from the borrower to other entities, shareholders, owners or principals (e.g., advances to the owners or shareholders in dividends or loans), and unfunded capital expenditures.

   ii. If the proposed or historic borrower or relationship DSCR is less than the recommended 1.25X, ensure that the credit union has documented the rationale for accepting a lower ratio and demonstrated that the additional risk is being mitigated appropriately by other factors, such as a strong guarantor with significant liquidity, superior collateral coverage, etc. ***DSCR coverage less than 1.0X is unsafe and unsound unless there is an outside committed source supplementing the repayment.***

   iii. Mitigates the additional risk of longer payment periods for loans that *amortize* more than 25 years, and for interest-only loans. If an amortization exceeds 25 years, ensure the credit union qualified the borrower's repayment ability using a 25-year (or less) amortization

2. Has **strong underwriting and documentation practices.** Specifically, confirm that the credit union:

   a. Documents its understanding of:

      i. Ownership of the borrowing entity

      ii. The borrower's entity type and structure

      iii. How the borrower operates and generates revenue

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[14] http://www.ncua.gov/Legal/GuidesEtc/AccountingBulletins/ACCTBUL06-01ALL.pdf
[15] NCUA Letter to Credit Unions 10-CU-03, *Concentration Risk* (See http://www.ncua.gov/Resources/Documents/LCU2010-03Encl.pdf)
[16] Examples of appropriate mitigations are strong guarantor with significant liquidity, superior overall relationship debt service ability, low loan-to-value, etc.

1. If the borrower is an independent medallion owner in addition to driving the taxi, do they also lease additional shifts to another driver?
2. If the borrower is a minifleet medallion owner, does the borrower lease one or more medallions directly to one or more drivers, or to a management company?
3. Does the owner of the minifleet medallion entity also own the management company?

iv. The principals, their operations, and their relationship with the borrower

v. How long the borrower and principal have been in the taxi business

vi. How the borrower and principal got started in the taxi business

vii. The borrower or principal's professional background and experience

viii. In what other businesses the borrower and guarantors are involved

ix. How the borrower relates to other associated borrowers

x. The size of the relationship

b. Makes loan decisions within approved lending authorities. Compliance with internal lending authorities and NCUA rules and regulations (§723.8, *Member Business Loans*) should be confirmed and documented with every credit decision by including a **detailed summary and aggregation of all loans and commitments** outstanding to the member and associated members in the loan approval document.

c. Performs and documents risk assessments that include an analysis of the financial trends and capacity of the borrower and principal over a reasonable time period based on financial reporting commensurate with the level of complexity and risk.

i. For a **simple individual owner/operator that has a limited number of other business interests,** ensure the credit union analyzes the borrower's tax return and the guarantor's tax return and personal financial statement, at a minimum.

ii. For more **complex borrower and principal relationships**, ensure the credit union requires the appropriate level of financial statement quality[17] that will allow the credit union to base its risk assessment on a reliable and understandable representation of the borrower and overall principal's financial condition.

iii. The credit union needs to perform a global cash flow analysis for *all* borrowers and guarantors, including analysis of a global consolidation of

[17] Determine the appropriate level of financial statement assurance based on the associated risk; the appropriate level may be either 1) an auditor's **review** of the financial statements prepared consistent with GAAP to obtain limited assurance, or 2) an independent financial statement **audit** under GAAS for the expression of an opinion on the financial statements prepared in accordance with GAAP.

the principal's activities for complex borrowers. The complete calculation of the global cash flow analysis should be included in the body of the credit approval document or as an attachment.

1. Ensure the credit union requires the borrower and principal to submit a *consolidated* financial statement along with the *consolidating* financial statements prepared by a licensed independent accountant (CPA) in accordance with the requirements of GAAP.

iv. Ensure the credit union analyzes the borrower's balance sheets to determine the reason for any material changes in assets and liabilities. This is especially important if there is significant cash-out to principals or shareholders reported on the borrower's balance sheet (dividends, loans to shareholder, etc.).

v. References to financial information and calculations in the credit approval document should be easily identified, and supported, in the supporting financial information.

vi. Determine whether the credit union is relying on sources of repayment other than provided through the borrowers operations and ensuring that those sources are obligated to repay, such as co-borrowers or loan guarantors. **Reliance on other sources is valid only when those sources are also obligated to repay the loan.**

1. The portion of repayment supplemented by the other sources must be adequately secured.

vii. For a borrower that is a new entity and does not have any financial history, or a borrower that does not demonstrate sufficient historic cash flows to support the proposed debt, ensure the credit union requires and validates reasonable pro-forma financial projections, **prepared by the borrower**.

1. **For a new entity owned by principals that are active in the taxi medallion business**, projections for the new entity should be supported and validated by **actual** operational performance of similar business/taxi operations that are owned and operated by the principal. This can be done by comparing the new entity's projected cash flow to actual performance documented in acceptable financial statements of similar entities owned by the principal(s) to determine the reasonableness of the borrower prepared projection. This will also document that the principal has been successful operating a similar business.

2. **For a new entity owned by principals that are not active in the taxi medallion business**, projections for the new entity should be supported and validated by **actual** operations of comparable taxi operations. **These projections must be prepared by the borrower.**

viii. Evaluates the ability of any guarantor to meet a guaranty commitment by requiring all personal guarantors to provide a tax return and personal financial statement at origination, and annually thereafter.

> The **business principal (other than a not for profit organization)** – the owner or owners that have the controlling interest – must provide a personal guarantee that the loan will be repaid in accordance with 12 CFR Part 723, *Member Business Loans* (see NCUA Supervisory Letter 13-01).

ix. Refinancing must be supported by a specific business purpose and benefit. Ensure the credit union fully explains and justifies all cash-out refinancing. The proposed use of the funds should be outlined in detail in the credit approval document and tracked to confirm the funds were used for the approved and intended purpose. If any portion of the financing is to reimburse the borrower for operating losses, the credit decision should be supported by a well-documented and reasonable **borrower prepared plan (projection)** that demonstrates a return to profitability.

d. Ensures loan documents establish a valid obligation, are properly executed, and that the security interest in the taxi medallion is perfected.

i. Licensing rights should be correctly assigned to the lender, and the lien must be recorded in accordance with the appropriate local taxi authority and UCC requirements.

ii. Confirm that loan documents incorporate the use of loan and financial covenants that require the regular submission of financial information (annually, at a minimum) and allow the lender to monitor the financial condition of the borrower and guarantor (i.e., leverage, liquidity, and DSCR requirements). Loan and financial covenants should be designed to recognize a material change in risk, and authorize the lender to take appropriate action.

iii. Loan documentation should provide the credit union the right to require more frequent borrower and guarantor financial reporting if it deems necessary.

iv. An opinion from an attorney that the credit union's loan documentation and lien perfection process meet the requirements for establishing an enforceable obligation and valid lien in the specific jurisdiction is recommended.

3. **Has effective ongoing servicing procedures and risk management controls.** Specifically, confirm the credit union:

    a. Performs regular reviews, analyses, and risk modeling to test the overall taxi medallion loan portfolio's ability to withstand changes in market conditions, interest rates, and collateral values.

        i. Credit unions need to take necessary precautions to limit exposure and/or adjust underwriting standards when premium market prices significantly exceed the value supported by the net operating income (NOI) the medallion generates.[18]

        ii. Confirm that a credit union that places more emphasis on the collateral value than on standard cash flow qualifications supports the market premium with other **committed** sources of repayment to the loan and additional collateral.

    b. Conducts periodic reviews and visits with the borrower, including a review of the operational and financial condition of the borrower and principal.

        i. Review requirements should be addressed in the credit union's policies as they regard loan covenants.

        ii. Relationship reviews should be conducted annually, **at a minimum**, and in adequate depth to address the risk level of the borrowing relationship. The review should include a full borrower and principal financial analysis and document any changes to the borrower or principals business structure and market conditions.

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[18] Premium market prices that significantly exceed the value supported by the NOI a medallion generates may reflect an asset inflation cycle, or "asset bubble," which can exacerbate credit losses.

III. Additional Guidance Relevant to Taxi Medallion Lending

This document outlines the unique attributes of taxi medallion lending, and builds on previously-issued NCUA guidance, rules, and regulations, including:

- *Evaluating Credit Union Requests for Waivers of Provisions in NCUA Rules and Regulations Part 723, Member Business Loans (MBLs)* (NCUA Supervisory Letter 13-01)
- *Loan Participation Waivers* (NCUA Letter to Credit Unions 13-CU-07)
- *Concentration Risk* (NCUA Letter to Credit Unions, 10-CU-03)
- *Interagency Policy Statement on the Allowance for Loan and Lease Losses* (NCUA Accounting Bulletin 06-01)
- 12 CFR §723, *Member Business Loans*
- 12CFR §701.22, *Participation Loans*
- 12 CFR §701.23, *Loan Participations; Purchase, Sale and Pledge of Eligible Operations*[19]
- 12 CFR §741.8, *Purchase of Assets and Assumption of Liabilities*

A credit union that originates or purchases interests in taxi medallion loans must understand the unique influences of the particular jurisdiction on the borrower's operation. These influences include methods of generating revenue, the local supply of medallions and requirements for perfecting a lien on the medallion, and the associated licensing rights. Understanding the borrowers, jurisdiction, and industry they operate in is part of the standard due diligence and risk assessment required of any lender, and is essential for managing risk and mitigating losses.

Field staff should expect credit unions to have a full understanding of the borrower's taxi medallion operations and other operations of the principal. Credit unions that practice proper due diligence and credit analysis using reliable and accurate information should be able to limit the risk associated with these products.

Please direct any questions on the material in this letter to your immediate supervisor or regional management.

Sincerely,

Larry Fazio
Director
Office of Examination & Insurance

[19] Revisions to NCUA Rules and Regulations Part 701.23, *Loan Participations; Purchase, Sale and Pledge of Eligible Obligations* and Part 741.8, *Purchase of Assets and Assumption of Liabilities* became effective September 23, 2013.

APPENDIX A: Taxi Authorities in Major Cities

Location	Governance
Boston, MA	Boston Police Department, Hackney Carriage Unit http://www.cityofboston.gov/police/hackney *Responsible for regulating all taxis, sight-seeing automobiles, horse and carriages, and pedi-cabs in the city of Boston.*
Chicago, IL	Department of Business Affairs and Consumer Protection (BACP) http://www.cityofchicago.org/city/en/depts/bacp.html *BACP oversees licensing, purchasing taxicab medallions, vehicle inspections and rates of fare.*
Houston, TX	City of Houston, Transportation Section http://www.houstontx.gov/ara/regaffairs/transportation.html *Responsible for issuing licenses and permits to the operators and drivers of several different categories of vehicles for hire that include taxicabs, limousines, private school vehicles, scheduled ground transportation and charter sightseeing vehicles.*
Los Angeles, CA	Los Angeles Department of Transportation (LADOT) http://www.ladot.lacity.org/about_Commissions_taxicab_records.htm *LADOT regulates taxicab companies, vehicle owners, and drivers. Permission to operate taxicab service in the City of Los Angeles is approved by the* ***Board of Taxicab Commissioners****, the City Council, and the Mayor through the granting of a taxi franchise.*
New York City, NY	NYC Taxi and Limousine Commission (TLC) www.nyc.gov/html/tlc/html/home/home.shtml *Licenses and regulates NYC's medallion (yellow) taxicabs, for-hire vehicles (community-based liveries and black cars), commuter vans, paratransit vehicles (ambulettes) and certain luxury limousines.*
Philadelphia, PA	Taxi and Limousine Division of Philadelphia's Parking Authority http://philapark.org/taxis-limousines/ *Establishes and oversees taxi regulations, as well as medallion sales and licensing.*