Challenges Mounting For Medallion Financial Entering 2016

James Hickman

Summary

NYC taxi medallion revenues falling at the fastest rate since Uber's arrival.

Bank at 25% maximum for non-RIC assets and near 15% minimum leverage ratio, creating an urgent need for outside capital yet DZ Bank just reduced the revolver.

Entire Medallion Bank dividend returned to the Bank, cosmetically shifting $0.21/share from unrealized gains to NII in Q3.

Dubious write-ups and inadequate write-downs saved last two quarters' earnings.

Institutional sellers significantly outpace buyers of stock during Q3.

MEDALLION FINANCIAL GROUP

Medallion Financial (NASDAQ:TAXI) enters 2016 with rising headwinds. Third-quarter earnings of $0.30 per share were reported on November 3, 2015 (see Table 2 at bottom of report), including another dubious write-up of Medallion Bank (MB) in the amount of $0.20 per share. Reported earnings in the second quarter of $0.33 per share would have also been hugely disappointing but for a $0.43 per share write-up of MB. There was again no commentary in the Management's Discussion and Analysis about the onslaught of new supply into long-protected taxi medallion markets and attendant declines in medallion

revenues and values. The Risk Factors section was finally altered in this regard, albeit inadequately as evidenced by breaking news that DZ Bank has reduced TAXI's revolving credit agreement from $150 million to $125 million in addition to tightening other taxi medallion lending terms. The timing of DZ Bank news could not be worse given MB's need for equity capital at the same time TAXI is up against the maximum non-RIC asset limit of 25%, a challenge requiring outside debt to solve. TAXI has 250% of its book value exposed to combined medallion assets.

This report addresses a number of issues expected to impact TAXI's Q4 and 2016 earnings and share price, issues largely ignored by paid company cheerleaders. TAXI's website includes a section titled "Analyst Reports" linking to ten Sandler O'Neill & Partners (SO) reports and one by Keefe, Bruyette & Woods (NYSE:KBW), both are TAXI investment bankers. Sadly, despite HVM Capital accurately and precisely forecasting declines in taxi medallion economics and the impact on TAXI in the last 12 months, none of our work is cited on TAXI's website. Obviously, the management is unimpressed by accuracy and disinclined to share HVM's analysis owing to the conflicted interest from our disclosed short position, yet the more egregiously conflicted interests of TAXI's handsomely paid investment bankers are apparently of no concern. The respective disclaimers issued by SO and KBW are amusingly shared below:

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NYC Taxi Medallion Revenue Declines Accelerating

In NYC, delayed-and-recently-released TLC data shows the average year-over-year comparison for taxi medallion revenues in the months of August, September and October was negative 9.8%. For context, monthly comparisons in 2014 averaged negative 4.9%, and the first half of 2015 averaged negative 5.6%. In short, the revenue declines are getting far worse in direct contradiction to prominent media reports that significantly boosted TAXI's share price.

Multiple NYC taxi medallion brokers are reporting medallion management companies are offering lower daily lease rates to drivers in the hope of filling idle shifts. At the same time, payments to passive mini-fleet owners have been further reduced to $2,000/month, down from $3,600 in the second half of 2014 (for details on the taxi medallion industry structure, cash flows and values, see *Valuing Taxi Medallions: A Simple Framework*). A corroborative data point emerged in a November lawsuit filed by NYC credit unions and other NYC taxi players against the Taxi and Limousine Commission:

... companies like White & Blue Group Corp. [one of largest NYC taxi medallion management companies] have been forced to repeatedly slash daily lease rates to compete, thereby reducing leasing payments to medallion owners. Despite this, there are still not enough drivers willing to lease medallion taxicabs at any price, resulting in "taxicab graveyards" scattered throughout New York City.

Incidentally, as of September 2015 the owner of White & Blue, Floren Peremen, has at least $7.7 million of NYC taxi medallion loans paying 3% interest with TAXI, and was the paper-taking seller (received no cash) of two Chicago taxi medallions in March 2015 at $290,000, nearly-double the prevailing street asking price at the time. TAXI was listed as the secured party in those cashless transfers.

Assuming 30-year amortization and 4% interest, $2,000 per month can only support a $425,000 mortgage, commensurate with mini-fleet prices of around $565,000 ($1.13 million per mini-fleet pair) if one assumes a 75% LTV ratio. Brokers are reporting some mutual interest of mini-fleet buyers and sellers in the range of $1.1 million to $1.4 million per pair. Clearing prices for independent medallions are indicated at around $500,000. Official November TLC data showed a single transfer of an independent medallion at $325,545 and two mini-fleet pairs at $1.75 million each. None of these transfers were arm's length, according to our sources.

Lenders continue to frustrate brokers, buyers and sellers by refusing credit at these lower prices they arbitrarily deem "below fair value," effectively freezing markets except for sporadic, non-arm's length transfers involving little cash down or deals between related parties. The only reason for lenders to actually*demand higher prices* as a pre-condition for making loans is to avoid marking loan collateral to lower fair-market values that would expose the reality of entire taxi medallion portfolio loan-to-value (LTV) ratios now being well in excess of 100%, i.e., under water. As far as we know, that is not an acceptable fair-market valuation methodology under GAAP.

Medallion Bank Written Up ... Again

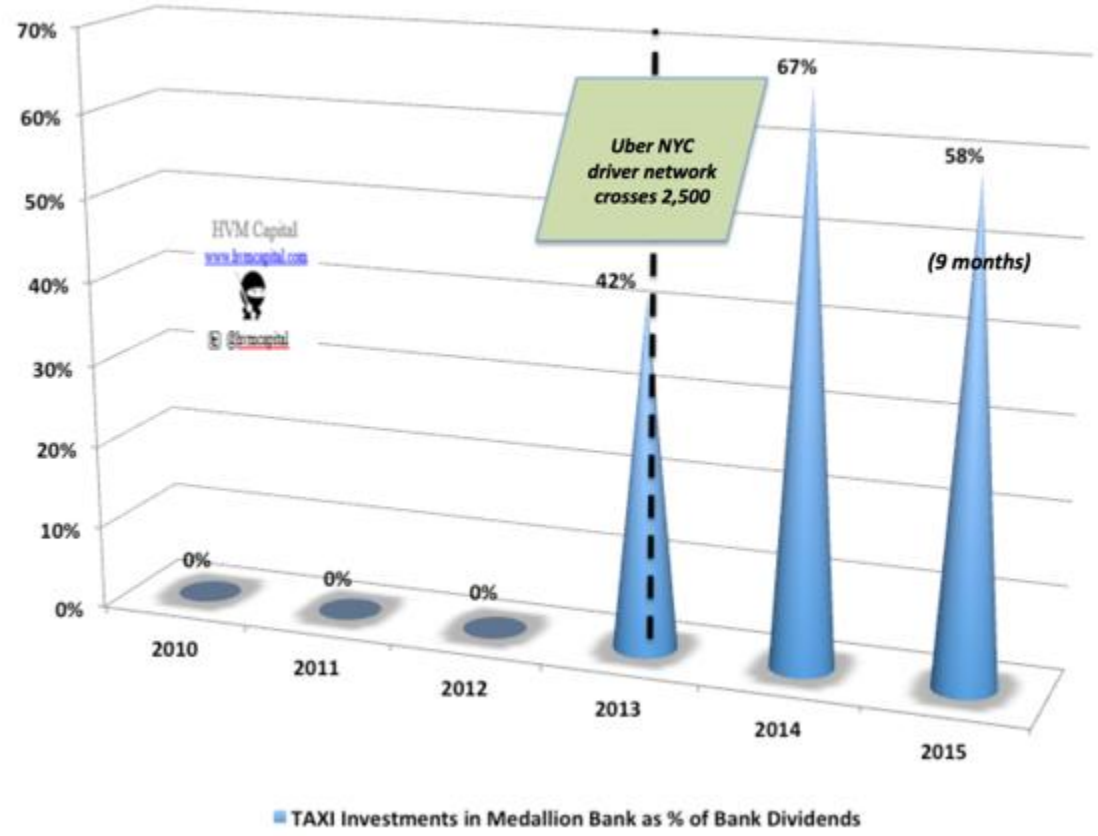
Despite the fact that MB has $346 million of taxi medallion loans - more than double total bank equity of $159 million - TAXI's second-quarter 2015 10-Q states "... we became aware of external interest in Medallion Bank and its portfolio's assets at values in excess of their book value." This new "awareness" prompted management to abandon its historical valuation

assumptions for MB and hire a third party to revalue the Bank. Apparently, the third party concluded a MB write-up was indeed in order despite its taxi medallion loan portfolio suffering, so far, roughly a 40% decline in collateral values, an 18% decline in gross revenue generated by that collateral (dropping faster than ever), an increase in reported portfolio LTV ratio from roughly 40% to 75% (still based on inflated medallion value assumptions across markets), and the sum of delinquencies, troubled debt restructured and nonaccruals rising from 0.5% to over 6% of the loan portfolio. This loan segment represents over 200% of the Bank's book value. These are not the trends normally prompting an asset write-up. A cynic might suggest the write-ups were taken to avoid the catastrophic Q3 and Q2 earnings misses that would have occurred in their absence.

Net Investment Income Worse Than It Looked

For the second quarter in a row, an accounting quirk resulted in a significant nominal boost to Q3 net investment income (NII), a barometer of health for lending institutions. NII has been trending down since Q3 2014, but the downward trend would have been far worse if NII in Q3 2015 had not included a $5 million cash dividend from MB, despite the immediate re-routing of the full amount back to MB. That is $0.21 per share reported in NII that but for accounting convention arguably belonged in "unrealized appreciation of Medallion Bank." The net cash flow between MB and TAXI was, after all, *zero*. Dividends are generally paid out when it is determined the cash flow cannot be redeployed at an acceptable return. BDC/RIC structures supersede this philosophy because of compulsory 90% payouts, but that factor does not explain MB dividends being paid and immediately re-routed back to the Bank. The artificial boost to NII has been rising significantly since 2013, when Uber (Private:UBER) first began ramping up its NYC operations (see Chart 1 below and note, 70% of MB dividend re-invested in last six months).

Chart 1. TAXI Investments In Medallion Bank As % Of Bank Dividends



Source: Medallion Bank FDIC Call Reports

TAXI's practice of re-routing part or all dividends back to MB in the same quarter is an exercise in paper shuffling with the effect of cosmetically elevating NII because of an accounting quirk, regardless of management's intent or rationale. Against this backdrop, MB is now very near its Tier 1 capital ratio/leverage ratio limit (see below) and *needs equity capital*, raising questions about any cash dividends it would pay.

Medallion Bank Growth Constrained By Leverage Ratio Requirement

According to TAXI's Q3 10-Q:

... Medallion Bank, our wholly-owned, unconsolidated portfolio company has access to independent sources of funds for our business originated there,

primarily through brokered certificates of deposit. At the current required capital levels, it is expected, although there can be no guarantee, that deposits of approximately $5,000,000 could be raised by Medallion Bank to fund future loan origination activities, and Medallion Bank also has $25,000,000 available under Fed Funds lines with several commercial banks. In addition, Medallion Bank, as a non-RIC subsidiary of ours, is allowed to retain all earnings in the business to fund future growth.

MB is required to maintain a minimum leverage ratio of 15.0% (leverage ratio is equal to Tier 1 capital divided by average total assets). The ratio stood at 15.2% in Q3. Notwithstanding the 10-Q declaration, it does not appear the Bank can borrow or take more deposits without an increase in equity, either from earnings growth or an equity capital infusion. Even if a nuance to the rules allows MB to take the deposits or Federal funds cited, it is near the point of urgently requiring equity capital if it wants to grow faster than the rate facilitated by redeploying earnings alone. Given MB's need for equity, it is irrational for the Bank to be paying *any* cash dividends, the effect of which is to *reduce* equity.

Medallion Bank And 25% Maximum Non-RIC Asset Test

As a RIC, TAXI cannot own a non-RIC company representing more than 25% of its assets. MB is a non-RIC company and in the last two quarters ending in September, TAXI's $15.5 million write-up of the Bank, the Bank's net income reported less dividends it paid, plus the company's reinvestment back in the Bank, increased its reported book value of the Bank above the 25% limit. According to the 10-Q, management took unspecified remedial action in October (likely the $10 million SBA commitment to purchase debentures), but this issue will have to be managed going forward.

Staying below the 25% non-RIC asset limit may also be playing a part in TAXI management's slowness to adequately and properly write-down Chicago medallions to current market value of no more than $150,000 per medallion. In other words, for every $1 write-down of Chicago medallions,

TAXI needs a write-up of other RIC assets to stay compliant with the 25% limit on non-RIC assets, all else being equal. Even if it is a factor, management would never acknowledge these two issues are related, as maintaining RIC status is obviously not an acceptable reason for failing to properly value assets for NAV purposes from a GAAP and regulatory standpoint.

Since the Bank has been growing faster than the non-bank asset base, it will be increasingly challenging to balance MB's need for *equity* growth capital with TAXI's desire to maintain RIC status by satisfying the 25% test. Any further investment in MB raises the Bank's value as a percentage of RIC assets (all else being equal). On the flip side, any MB dividend reduces TAXI's investment but also reduces the Bank's leverage capital ratio.

HVM Capital first reported TAXI was facing increasing pressure from creditors in our January 2015 report *Medallion Financial Corporation Has Far More Than '28%' Exposure To Medallion Prices***.** In that report, we pointed out an event of default appeared to have already occurred on the $150 million revolving credit agreement with DZ Bank (TAXI's largest creditor) per Article VI of the Omnibus Amendment to Loan and Security Agreement (and Medallion Loan Sale and Contribution Agreement and each Affiliated Loan Sale Agreement). See excerpt in Table 1 below. TAXI just filed an 8-K with the SEC in which it disclosed DZ Bank reduced the amount available on the $150 million revolver to $135 million, and a further reduction to $125 million will occur on July 1, 2016. TAXI declared in its Q3 10-Q, under the heading **Liquidity and Capital Resources,** "Trust III's $150,000,000 revolving line of credit with DZ Bank had $27,382,000 of availability, $10,400,000 was available under revolving credit agreements with commercial banks …" Management and the Board's ongoing assurances of ample liquidity in SEC filings without any mention of liquidity risk despite an apparent default (at least technically) could become a serious regulatory problem for TAXI if liquidity becomes a bigger issue.

Prior to this news, it seemed logical TAXI might soon draw down the remaining $27 million on the revolver in addition to $10 million of SBA debt (through Medallion Capital, Inc.) secured in October and announced in the **Subsequent Events** section of the 10-Q. The DZ Bank revolver reduction to $135 million reduces that potential cushion from $37 million to $22 million. An increase in assets of that magnitude would mean MB could earn around $6.5 million in Q4 (MB earned just under $7 million in Q3 and averaged almost $6 million per quarter through nine months) without blowing through the 25% limit on non-RIC assets (all else being equal). The fact that the 25% breach occurred in Q3 means this problem is only getting worse with no obvious solution. The bottom line is more outside capital, in the form of debt, is going to be needed at the TAXI (parent) level in the near future, and the company's long time lender just*reduced* credit.

Table 1. For-hire Regulators Allowing Ridesharing In TAXI's Medallion Lending Markets Appears To Be Event Of Default

From Omnibus Loan Agreement with DZ Bank, 8K filed December 12, 2013

Section 6.01. Events of Default. If any of the following events (each an "*Event of Default*") shall occur:

(e) (i) the introduction of or any change in or in the interpretation by any Governmental Authority of any law or regulation applicable to Medallions or Medallion Loans or (ii) the compliance by the Borrower with any directive or request from any Governmental Authority (whether or not having the force of law) imposed after the date hereof, shall adversely affect the value of the Medallion Loans or any Medallion Loan Collateral, as determined by the Agent in good faith; or

Illinois and Massachusetts implement regs allowing ride sharing:

Gov. Baker of MA proposes ride sharing regs after federal judge rejected taxi advocates' attempts to block new regulations allowing Uber and Lyft.

Chicago Mayor Emanuel approved ride share permits and Governor Quinn vetoes HB 4075 to overturn regulations in August 2014.

Maintaining RIC Status Increasingly Challenging And Hard To Justify

Ironically, maintaining RIC status is an impediment to raising the outside capital needed to maintain RIC status. Abandonment of the RIC structure would make outside capital more accessible while simultaneously making it less urgently needed once dividends/distributions are reduced to levels allowing internal funding of operations and ongoing growth of both TAXI and MB.

Management appears intent on maintaining BDC/RIC status. As a BDC, TAXI cannot raise equity capital below book value (the company has recently traded at less than 65% of recently reported book value), leaving debt as the only solution. It has an estimated $106 million of debt capacity under the maximum 200% asset coverage requirement of BDCs, not including additional SBA debt or preferred securities (total assets were $661 million at quarter-end and total debt was $277 million excluding SBA debentures and preferred securities of $110 million). If RIC structure is maintained and more credit is somehow secured, TAXI would still have to deploy no more than

25% of new debt into the capital-needy Bank to stay compliant with the 25% non-RIC asset test.

The challenge will be convincing creditors to lend when roughly 45% of TAXI's assets are tied up in toxic taxi medallions and 90% of its total income (including non-cash, unrealized capital gains) must be paid out in dividends/distributions. DZ Bank's decision to cut back the revolver is a corroborative data point on an argument we have been making since our first report that the secular decline in taxi medallion economics will constrain the historical growth rate of TAXI's asset values and its cash flow, making it harder to secure the outside capital necessary, for four years and counting, to fund the 90% compulsory distribution. It is hard to imagine the Board would write-up MB in the last two quarters, precipitating the current liquidity challenges, without having a solution in hand, but the DZ Bank news suggests otherwise.

It is worth noting that TAXI could "de-RIC," as it has in the past for significant stretches, but still maintain the current distribution. Indeed, President Andy Murstein has indicated in the past that despite having no intention of de-RICing anytime soon; if TAXI ever did, it would not simultaneously cut the distribution. If true, the 25% non-RIC limit would go away as an issue and TAXI could invest some of the $37 million of cash on hand (plus the $10 million coming from SBA) to increase MB's equity capital base. But in addition to the loss of its federal tax exemption, which has scarcely been used but management thinks will be valuable in the coming year, this action would leave TAXI in the same ironical bind cited above. The main problem of needing outside capital to finance distributions that exceed operating cash flow will not have been solved.

Institutional Investors Cut TAXI Holdings During Q3

According to NASDAQ, 44 institutional investors reduced their holdings in TAXI during Q3 by a total of 2.7 million shares (8.0% of fully diluted shares outstanding) while 27 increased positions by a total of 816 thousand shares

(2.4% of shares outstanding). 15 institutions closed out positions entirely in the aggregate amount of 1.3 million shares while nine initiated new positions in the aggregate amount of 82 thousand shares.

Interestingly, the impactful September 19 Barron's article bullishly quoted Wasatch Advisors (one of the five largest institutional holders). The article indicated Wasatch was "... buying the stock." In actuality, Wasatch sold 121 thousand shares or 18% of its position during the quarter.

Slowdown In Deteriorating Medallion Loan Performance Or Proactive Loan Restructurings?

The decline in medallion loan quality flattened for TAXI in Q3 (see Chart 2). From the 10Q (emphasis added): "Increase in medallion loan delinquencies reflected borrower issues with competitive car sharing services and decreases in medallion values ***stressing certain borrowers, all of whom we continue to work with for whom we continue to provide short term solutions.***"

In addition to a significant increase in troubled debt restructured (TDR) over the last three quarters (from zero to $11.5 million), it appears TAXI has been proactive in restructuring medallion debt prior to the loans reaching troubled status. Snapshots of TAXI's medallion loan maturity schedules at the end of Q2 2014 and Q2 2015 reveal that in those 12 months, medallion loans maturing between July 2015 and December 2016 were reduced by $29 million in par value (15% of total loans). We believe the accelerating trend in TDRs and delinquencies flattened in Q3, in part, owing to this pro-active debt restructuring. Through spot checks, we found several individual loans originally scheduled for maturity between July 2015 and December 2016 restructured to slightly higher interest rates, higher mortgage par values (suggesting new capital put at risk, likely accompanied by additional collateral) and later maturities. To TAXI's credit, in addition to raising interest rates, the appropriate action when credit risk is rising, it has also allowed other lenders to refinance some taxi medallion loans, taking them

off TAXI's books altogether. Unfortunately, it is too late to micro-manage its way out of this problem given the existing levels of exposure.

TAXI's management believes rapidly falling taxi medallion revenues will abate before any significant impairment of its balance sheet and earnings has occurred. If correct, providing a debt service "bridge" to a more benign future makes sense. If incorrect, losses will have only been delayed and likely exacerbated.

The company booked an additional $2.2 million of "unrealized depreciation on loans" during the quarter - the first meaningful acknowledgement of *loan*impairment. In addition, TAXI took another modest and entirely inadequate write-down of roughly $10,000 per medallion (to $238,000), on owned Chicago medallions, despite only one official transfer at $150,000 during the quarter (all cash).

The deterioration in medallion loan quality continued unabated for Credit Unions (see Chart 3). Medallion Financial reported only a modest uptick in consolidated LTV ratio to 78% from 75% in Q2, reflecting fantasy collateral values that could not be realized on even modest numbers of medallion sales not only in Chicago, but Boston and NYC as well.

Risk Disclosures Slightly More Expansive On Rideshare Threat But Still Inadequate

The single most important issue for Medallion Financial and its investors is the ongoing, accelerating decline in taxi medallion cash flows and values caused by the regulatory shift from blocking *any* new competition to allowing it without restriction.

Perhaps in response to our repeated calls for greater transparency about the material downside risk for TAXI's balance sheet and earnings power, the "Risk Factors" section of the 10-Q contained significantly more discussion on the matter, though still inadequate as evidenced by the DZ Bank news, including the following new sections:

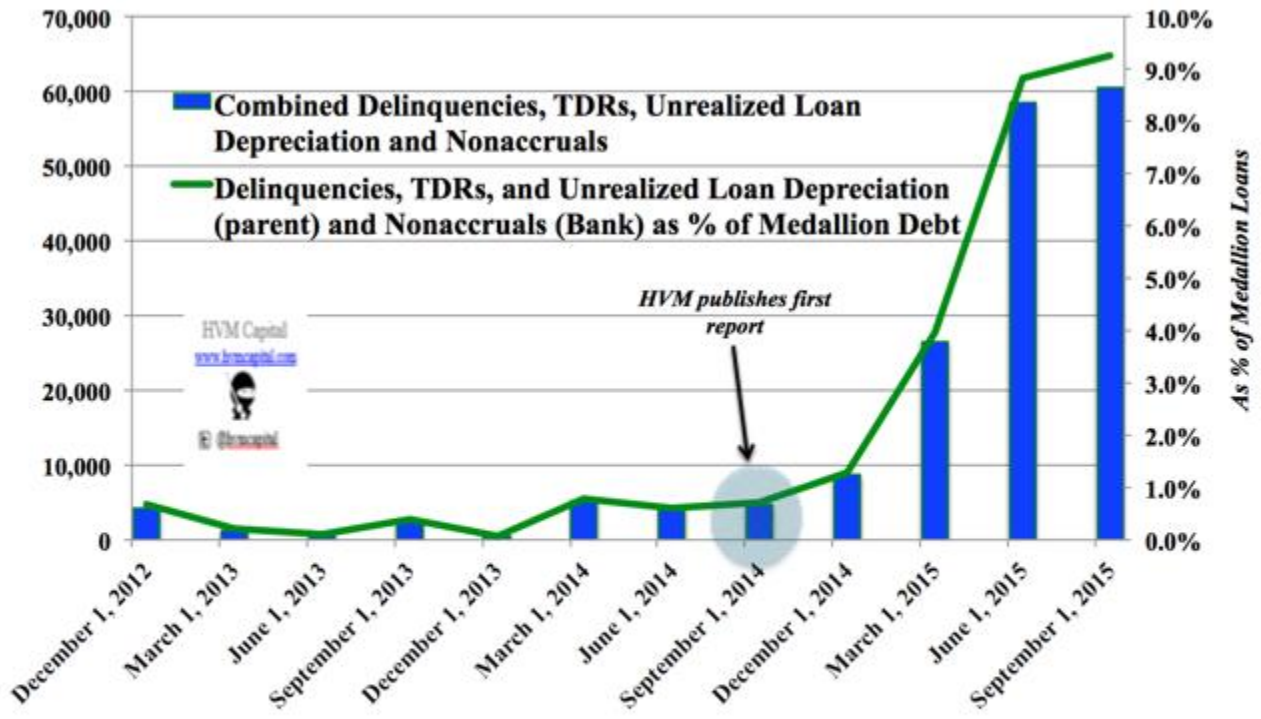
Changes in the taxicab and for-hire vehicle industries have resulted in increased competition and could have a material adverse effect on our business, financial condition and operations.

Decreases in the value of our medallion loan collateral and our Chicago medallions purchased out of foreclosure would have a material adverse effect on our business.

Changes in taxicab industry regulations that result in the issuance of additional medallions or increases in the expenses involved in operating a medallion would lead to a decrease in the value of our medallion loan collateral and our Chicago medallions purchased out of foreclosure.

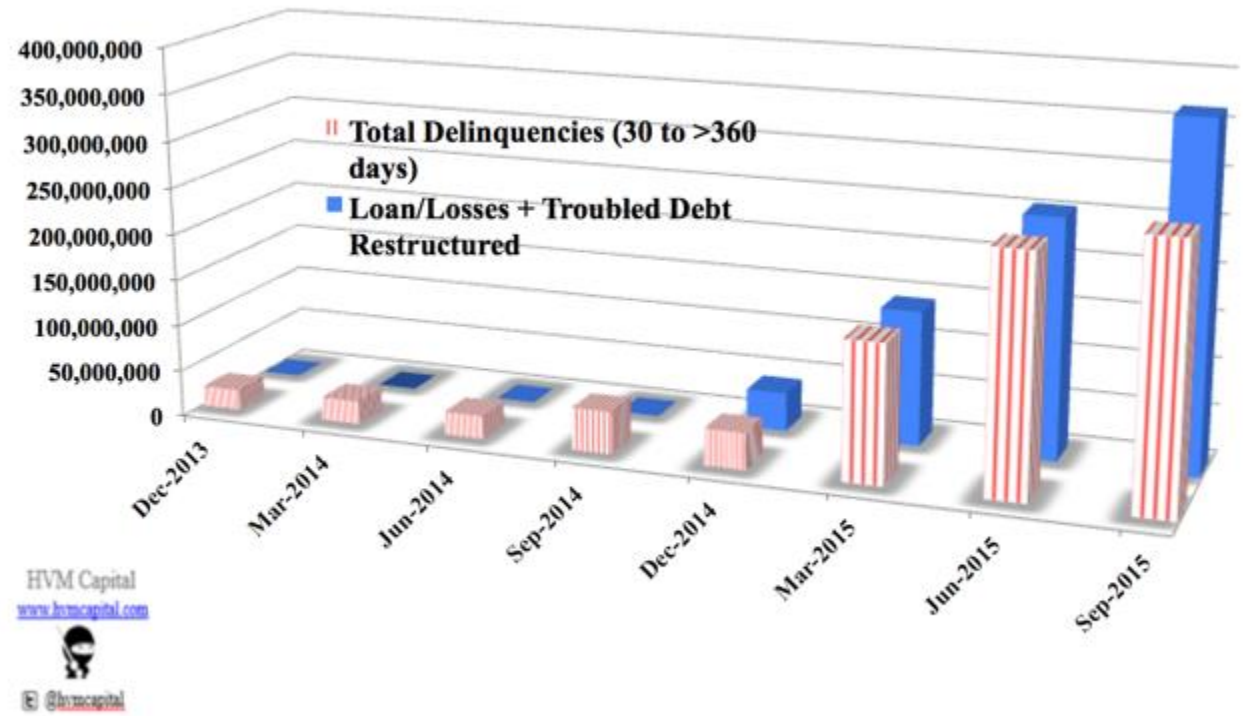
But the critical and more discretionary "Management's Discussion and Analysis" section remained largely silent on the subject. It is amazing that TAXI's management and its auditors did not deem the ridesharing threat worthy of any significant disclosure in its SEC filings until Q3 2015, and still not yet worthy of MD&A discussion.

Chart 2. Medallion Financial Medallion Loan Performance Trends



Source: Medallion Financial Corp. SEC filings and Medallion Bank FDIC Call Reports.
Note: Medallion Bank "Loan Loss Provisions" and parent "Nonaccruals" not included becasue neither broken out for medallion loans.

Chart 3. Credit Union Medallion Loan Performance Trends



Aggregate totals for Montauk, Melrose, Progressive and Lomto credit unions.
Source: NCUA

Note: CU data reported as "Member Business Loans not Secured by Real Estate."

Dividends/Distributions

TAXI declared a $0.25 per share dividend/distribution in the quarter. As we pointed out in our first report, for nearly four years, the company has not generated enough cash from operations to fund the 90% earnings payout required of RICs. That is why it has had to issue additional equity and increase borrowings to fund its cash obligations - a known dynamic chosen by companies structured as BDCs/RICs and a sustainable one as long as underlying assets are appreciating at a healthy and consistent rate. Table 2 below shows cash earnings per diluted share have been below the dividend/distribution in every recent quarter except the first of 2015 when significant asset sales actually occurred - the only quarter that has been true

in recent years. We continue to believe the deterioration in taxi medallion cash flows and values will undermine TAXI's access to outside capital and force a dividend/distribution cut. The fact that MB is now bumping up against the 25% of total assets test and its leverage capital ratio may compel a cut sooner.

Conclusion

The impact of ridesharing on taxi medallion economics is still in the relative early stages, yet TAXI is already struggling to sustain earnings. Sudden write-ups of Medallion Bank that are hard to fathom and unlikely to ever be monetized have been the only reason the company has not materially missed earnings in consecutive quarters. Moreover, the write-ups have created greater urgency for outside debt capital that we have repeatedly argued is going to be harder to raise going forward given the combination of heavy asset exposure to toxic taxi medallions and the compulsory 90% RIC payout of earnings. News that TAXI's largest creditor DZ Bank has cut back the revolver affirms this concern. Hence, TAXI's headline, retail-friendly "yield" of nearly 14% is meaningfully more at risk. Of greatest importance, NYC taxi medallion revenues declined far faster in the last three months than at any time since the introduction of Uber et al. The coming year will be extremely challenging for TAXI.

Table 2 Medallion Financial Quarterly Earnings Trends

Medallion Financial Corp. Selected Consolidated Statement of Operations (Unaudited) *(Dollars in thousands, except per share data)*	Q3 2015 Three Months Ended September 30	Q2 2015 Three Months Ended June 30	Q1 2015 Three Months Ended March 31	Q4 2014 Three Months Ended December 31	Q3 2014 Three Months Ended September 30	Q2 2014 Three Months Ended June 30	Q1 2014 Three Months Ended March 31
Interest income on investments	$ 5,300	$ 5,462	$ 5,583	$ 5,132	$ 6,933	$ 6,434	$ 5,415
Dividends and interest income on short-term investments	5,014	5,014	5,902	5,224	4,015	3,010	3,191
Medallion lease income	351	362	346	423	431	431	429
Total investment income	$10,665	$10,838	$11,831	$10,779	$11,379	$9,875	$9,035
Total interest expense	2,402	2,343	2,212	2,261	2,222	2,085	1,975
Net interest income	$ 8,263	$ 8,495	$ 9,619	$ 8,518	$ 9,157	$ 7,790	$ 7,060
Total noninterest income	121	110	56	74	136	108	191
Salaries and benefits	2,916	2,975	3,343	4,372	2,906	2,965	2,560
Professional fees	374	367	412	571	70	294	258
Occupancy expense	221	219	230	210	207	189	192
Other operating expenses	637	714	786	774	882	647	791
Total operating expenses	4,148	4,275	4,771	5,927	4,065	4,095	3,801
Net investment income before income taxes	4,236	4,330	4,904	2,665	5,228	3,803	3,450
Income tax (provision) benefit	-	-	-	-	-	-	-
Net investment income after income taxes	4,236	4,330	4,904	2,665	5,228	3,803	3,450
Net realized gains (losses) on investments	353	324	7,899	(4,556)	(193)	(685)	(172)
Net change in unrealized appreciation (depreciation) on investments	(3,925)	(5,634)	(3,309)	3,491	(1,723)	681	1,062
Net change in unrealized appreciation on other controlled subsidiaries ex-Medallion Bank	268	(433)	(4,125)	3,988	700	(223)	(481)
Net change in unrealized appreciation on Medallion Bank (FDIC Call Reports)	6,380	9,499	1,699	2,540	2,682	3,529	2,907
Net unrealized appreciation on investments	2,723	3,432	(5,735)	10,019	1,659	3,987	3,488
Net realized/unrealized gains on investments	3,076	3,756	2,164	5,463	1,466	3,302	3,316
Net increase in net assets resulting from operations	$ 7,312	$ 8,086	$ 7,068	$ 8,128	$ 6,694	$ $ 7,105	$ 6,766
Net increase in net assets resulting from operations per diluted common share	$ 0.30	$ 0.33	$ 0.29	$ 0.33	$ 0.27	$ 0.28	$ 0.27
Cash earnings per diluted share	$ 0.19	$ 0.19	$ 0.52	$ 0.11	$ 0.21	$ 0.15	$ 0.14
Distributions declared per share	$ 0.25	$ 0.25	$ 0.25	$ 0.24	$ 0.24	$ 0.24	$ 0.24

Disclosure: I am/we are short TAXI.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

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Biological

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Thanks for all the negatives; good - let's bring it down to <5 again so we can ride it, no pun intended, back up to 7 or so. This is fun. And profitable.

04 Jan 2016, 07:32 AM Report AbuseReply3Like

alarriva

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Sounds like a short ride to me, but admittedly managed earnings have looked pretty good so far. I suspect that TAXI will report very good earnings from their consumer lending division, though it's hard to hide all of those Medallion issues.

04 Jan 2016, 07:57 AM Report AbuseReply1Like

rick5512

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Don't the short sellers have to pay the dividend? We have been hearing for the last year that the sky is falling, you know what they haven't been that bad and taxi has raised the div. I have been buying more because the div. is quite nice. They have been getting into a lot more consumer loans, they have been getting away from the taxi loans. Long term I like taxi and I have been aver. down.

04 Jan 2016, 10:10 AM Report AbuseReply5Like

TheAbyss16

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I think it's very dangerous to screen financials for dividend yield or P/E. If things are unhealthy the surprise will come from the balance sheet. In this case most likely the medallion loans... which are only partly financed by equity.

I don't think it's a coincidence that DZ is reducing it's exposure by cutting the credit facility. Not very likely somebody else will step in at the end of 2016.

So if you made money being long this name, I would pick up my chips and look somewhere else. This could end very bad.

04 Jan 2016, 11:33 AM Report AbuseReply2Like

User 43341906

Comments (1) |+ Follow |Send Message

Agree with TheAbyss in regard to not looking at dividends or yields as the only signal for a buy or healthy company. Anytime you have to borrow from Peter to pay Paul, that is never good. Also, saying 75% of their profits (or at least a majority of profits) is coming from non-medallion collateralized loans is actually not a good thing considering that the about half of their assets are medallion type loans. So half the assets of a bank are either not performing or starting to not perform. They admit themselves they are focusing on consumer assets, indirectly admitting Medallion loans are not invest-able assets. That's great that they are de-risking their asset pool, but they still have almost half their current assets in Medallion loans; does the stock price today reflect that (I don't think so). They need to offload these bad assets, bottom line, and they are super illiquid and would sell at a deep discount (bringing down stock price further). The same thing happened to Lehman and Bear (and many others) with the CMO/MBA/ABS assets they held. There are much better buys out there is all I am saying; these guys are up against it in my opinion...why would you buy them.

04 Jan 2016, 02:29 PM Report AbuseReply1Like

User 40483395

Comments (1) |+ Follow |Send Message

Has anyone looked into the structure of the various subsidiaries? According to the 10Q Medallion Loan Trust III (the borrower on the mentioned credit line) stands on its own

from a credit perspective. In other words, the only recourse the lender has is the collateral - the underlying medallion loans.

If you take a look at the list of subsidiaries and consider the business acumen of management I think it's probable that they've significantly reduced doomsday scenarios by the way they've structured the business. They have medallion loans in an independently financed trust, they have servicing in another entity, preferred debt in another, etc....

If the only recourse DZ has on their line is the medallion loans that serve as collateral you have to further consider that they have substantial motivation to do whatever is necessary to work with TAXI to make sure the portfolio remains viable. I've seen situations like that where the bank actually gave the borrower inducement to work the portfolio by absorbing a disproportionate amount of any losses.

Without having a full understanding of the corporate structure and the assets/liabilities/int... agreements it's really not possible to fully evaluate the company. However, what we do know is that Andrew Murstein had no issue raising a ton of equity for a venture that never came together (buying a sports team) in one of the worse economic times ever. In the end businesses are about people and there are two things that are certain - that management here is sharp and that management here has no issue raising cash if its needed.

04 Jan 2016, 04:01 PM Report AbuseReply2Like

WickerMan20

Comments (2) |+ Follow |Send Message

Want to mention big picture first. A year ago you said the company would have major loan writeoffs. Has not happened. Still seeing virtually no losses. Over this entire year it is apparent that underwriting is what has shielded them from the troubles others are having. Lots of talk about declining taxi revenues but not showing up in medallion loans here. Also would like to see source for claims of YOY revenue declines. Not here or in other places you published.

Claim of reduced DZ facility being bad seems misplaced. Why pay fees on the part of a facility not being used? Company has long said it is more focused on consumer lending (up about 30% YOY), and it makes way more money than medallion lending. Shareholders should be happy that mgmt. steered company towards reduced medallion

exposure years ago while everyone else was increasing exposure. Cap One and Sig Bank combined have over $2B in exposure, more than 3x more than company does. Medallion portfolio here hasn't grown. If that isn't conservative I don't know what is. You keep comparing company to CU's when there is no comparison to be made.

The Chicago writedowns: a few points. Writedowns have been reasonable, are non-cash, and from what I see, are indeed remains of larger portfolio sold off for a big profit. Even with the writedowns I see TTM earnings through the roof.

RIC: I think you're wrong on this. Chicago writedowns carried as bad investment which helps RIC threshold.

I get your skepticism about writeup of the bank but if assets have to be written down they have to be written up when appropriate.

Contest the claim that transactions are not arm's length. Says who? Why mention decline in institutions in Q3 but not increase in Q2?
Still don't see how losses if they ever occur in the $20M range have any material effect on the business since there are personal guarantees behind all loans. Attacking investment bankers when their analysis has been dead-on seems odd. Whatever you may say about broader taxi economics isn't happening at company.

05 Jan 2016, 04:25 AM Report AbuseReply3Like

James Hickman, Contributor

Comments (361) |+ Follow |Send Message

Author's reply »

Yes, we predicted massive writedowns to medallion loans and were clear they would not occur until second half of 2016, but there would be lots of evidence along the way. You are confusing our prediction of more immediate writedowns of owned medallions, which have occurred, but have been woefully inadequate. You say appropriate? You have not read our meticulously sourced research on Chicago values or you would not blithely accept the company line on this issue. As to progress toward the end game we forecast last December re near-worthless medallions - TAXI's LTV has gone from 40% to 78% using grossly inflated values, delinquencies, TDRs and non-accruals have gone from 0.7% to 9.3% of portfolio, foreclosures in Chicago and NYC have increased by orders of

magnitude, and NYC data falling than at any time since Uber's arrival and TAXI is down over 20% NET of a $1 dividend. As consistently stated, NYC data obtained directly from TLC. And you are suggesting we have been wrong? You are entitled to your opinion, but don't ignore the facts.

Brokers say they are not arm's length transactions, and we documented that other than the $150K cash transfers, NONE of the $200K+ transfers have been arm's length. On what basis do you argue otherwise?

I didn't "attack investment bankers" I pointed out they are conflicted, and they have been diametrically wrong. Sandler O'Neill has downplayed the relevance of ridesharing and had a buy since $17/share. How do you define "dead on" as you describe patently wrong conclusions from bankers?

05 Jan 2016, 09:49 PM Report AbuseReply1Like

WickerMan20

Comments (2) |+ Follow |Send Message

"Yes, we predicted massive writedowns to medallion loans and were clear they would not occur until second half of 2016 but there would be lots of evidence along the way."

that is not what your reports have said. you said medallion values would go to zero and do so in 12-18 months. It's been 12.5 months and no such thing has happened

"You are confusing our prediction of more immediate writedowns of owned medallions, which have occurred, but have been woefully inadequate. You say appropriate? You have not read our meticulously sourced research on Chicago values or you would not blithely accept the company line on this issue."

what company line? i have seen a list of all the transfers in Chicago. medallion write downs are in line with average chicago transfer prices, almost exact in fact.

chicago is also non-cash. your meticulous research does not account for this, that it has no bearing on earnings.

"TAXI's LTV has gone from 40% to 78% using grossly inflated values, delinquencies, TDRs and non-accruals have gone from 0.7% to 9.3% of portfolio"

went to 75% last spring and have not budged since then. delinquencies do not = losses and so far losses = 0.

"foreclosures in Chicago and NYC have increased by orders of magnitude"

Not at TAXI. why you keep comparing everyone else to a company that is obviously a better operation?

"and NYC data falling than at any time since Uber's arrival"

what proof that this has trickled down to TAXI?

"TAXI is down over 20% NET of a $1 dividend."

so what? have you covered?

"Brokers say they are not arm's length transactions, and we documented that other than the $150K cash transfers, NONE of the $200K+ transfers have been arm's length. On what basis do you argue otherwise?"

what brokers? says who?

"I didn't "attack investment bankers" I pointed out they are conflicted, and they have been diametrically wrong."

Sandler has correctly pegged earnings every qtr. As for conflicted, YOU ARE SHORT! Talk about conflict! Good for the goose is good for the gander.

from my vantage, you keep moving from one argument to another all year long. you point to macro situations yet have no proof that they apply to the company. your buddy gossage intentionally underreported uber costs and it took me to set him straight. conclusion is that uberx and taxis earn the same in ny. you yourself claimed uber had fewer costs and that's been shot down as well. the basis for your argument that why would anyone keep a medallion if driving uber is cheaper and earns more has also been shot down. thats why you keep trying to trick investors into things like RIC status being important when it isn't.

btw, all evidence points to uber decline going forward.

http://bit.ly/1S36JWC

http://bit.ly/1S36KcQ

http://lat.ms/1S36Mlc

http://bit.ly/1S36KcR

05 Jan 2016, 11:52 PM Report AbuseReply0Like

James Hickman, Contributor

Comments (361) |+ Follow |Send Message

Author's reply »

"you yourself claimed uber had fewer costs and that's been shot down as well."

Shot down by whom? Anyone claiming Uber drivers have greater costs than taxi drivers is absolutely clueless. You based that ridiculous conclusion on the false conclusion that Hall Krueger took out the known fees Uber withholds. Have you ever once spoken to a medallion management company in NYC? They will state the obvious to you. Does it really make sense to you that flexibility of hours is enough to compel drivers to walk away from yellows for higher overhead at Uber et al? I guess you don't think much of efficient free markets!

06 Jan 2016, 08:18 AM Report AbuseReply0Like

WickerMan20

Comments (2) |+ Follow |Send Message

Few other things:Bank at 25% and 15%. Yes but that has been the case every quarter for the past 5 years. Why can't they grow in other areas that help with those ratios like their parent company loans, asset based loans, mezz loans? All growing, all good assets. I see mezz lending up 25% this year.

Did you see that SBA changed guidelines to permit increased borrowings up to $350M? Company has about $75M out with SBA. That's $275M available at about 4%, all which can be loaned out on higher yielding plays.

I want to talk about the MB writeup more. I see $150M equity. I see $25M earnings. I see carrying value of about $160-170M. Writeup seems reasonable.

Company at 65% of tangible book, sustainable divvy, growing not-medallion portfolio, mgmt. that's ahead of everyone else in the space. Why short this when you can short TSLA????

05 Jan 2016, 04:35 AM Report AbuseReply2Like

James Hickman, Contributor

Comments (361) |+ Follow |Send Message

Author's reply »

Who would buy Medallion Bank and include the medallion loans? If excluded, TAXI would probably have to make a net payment to the buyer!

"Sustainable divvy"? Do you know difference between a dividend and a distribution? Do know the distributions have exceeded OPERATING cash flow for 4 years plus, and the difference financed through equity offerings and debt increases? You must have an interesting definition of "sustainable divvy."

05 Jan 2016, 09:51 PM Report AbuseReply1Like

WickerMan20

Comments (2) |+ Follow |Send Message

You know how many companies have been paying more in dividends than operating cash flow? somehow you lay blame at taxi's feet when scores of other companies do this on a regular basis.

Who would buy medallion bank if it includes medallion loans? just because YOU wouldn't hardly means that nobody would!! the bank is undervalued based on book value.

bank is undervalued when compared to its peers which is something you do not discuss nor have you ever pointed out exactly how much in losses company would have to have to experience serious damage.

http://seekingalpha.co...

05 Jan 2016, 11:57 PM Report AbuseReply0Like

James Hickman, Contributor

Comments (361) |+ Follow |Send Message

Author's reply »

Wickerman,
Companies that cannot pay their dividends out of operating cash flow must source capital from third parties to pay that dividend - that is the mathematical truth. If you are a BDC in the business of growing companies, much of your earnings will come in the form of non-cash, unrealized appreciation in the value of those companies. As long as those underlying companies are perceived to have sustainable value growth ahead of them, equity and debt can be sourced from third parties, and the 90% payout - well in excess of operating cash flow - can be SUSTAINED. That has been the historical story for TAXI. Are you saying lenders are unlikely to have changed their outlook on the continued growth of TAXI's underlying asset values despite 45% asset exposure to taxi medallions, in the wake of taxi medallion markets facing unlimited new competition for the first time in history? Are you saying DZ Bank's reduction in the revolver, at a time TAXI needs more debt capital, is actually a DISCRETIONARY change initiated by TAXI management to save on fees on unused debt? If that is what you are saying, good luck to you, but that risibly naive.

"bank is undervalued when compared to its peers which is something you do not discuss nor have you ever pointed out exactly how much in losses company would have to have to experience serious damage."

What peers with 2X their book value in toxic taxi medallion loans, no brand, all-brokered deposits and understated stand-alone costs owing to origination and debt service costs borne by a parent trade at a premium to book?

All one has to do is look at the balance sheet to confirm the exposures I have discussed ad nauseum. Then take a position on why a previously exclusive license to conduct commerce in a big market - a medallion - that now has either no or very limited exclusivity with nothing proprietary to defend e.g. demand from street hailing, would still generate free cash flow once market reaches equilibrium. Taxi revenues falling faster than at any time, meaning nowhere near equilibrium yet. My thesis is a medallion should not generate free cash flow and eventually won't even generate a competitive wage to a driver, and not you or anyone else has made ANY compelling, economically sound argument as to why it would. If no free cash flow, a medallion has no value, unless you want to tell the world "your buddy," Larry Meyers, has debunked Modigliani-Miller!

TAXI is another supplier of debt along a cost curve that has slope, like any other. CUs are equivalent of higher cost lenders and TAXI lower cost. Securities analysis involves understanding the trends caused by the competitive landscape and translating it into earnings, cash flow and stock price performance. The competitive landscape has moved unambiguously against taxi medallion lenders, reflected in industry and their individual loan quality metrics. No matter how many times I repeat those for TAXI, you insist there is no problem. You still say "zero" losses. Are you serious? When Chicago medallions are written down, that is not a loss? When Boston medallion loans are written down, that is not a loss? A delinquency is nonpayment of interest. It is not recorded at a loss on day one, but do you understand a TDR is an alternative to recording a loss? So does a spike in TDRs constitute the equivalent of pushing out losses or preventing them when taxi medallion revenue is falling faster than ever?

I have to hand it to you, you are a "glass is one quarter full" kind of guy.

06 Jan 2016, 08:39 AM Report AbuseReply0Like

Frederick Steier, Contributor

Comments (135) |+ Follow |Send Message

The shorts have been throwing everything at the wall to see what sticks. RIC status means nothing. The Bank already pays taxes on its earnings, leaving about 3-4 cents per share from the parent that would be taxed -- a whole penny per share! Yet the shorts go on the rampage, insisting this is some terrible development! IT's meaningless.

Plus the earnings from Q to Q are ALWAYS going to vary because of the gain or loss, realized or otherwise, on a whole portfolio of assets! They keep harping on this over and over again, yet refuse to acknowledge it is no different from any other BDC.

The institutional investor angle? Unreal. Truly. Silence from the shorts when institutions ADD, but when they sell suddenly its' indicative of some terrible trend!

The DZ angle? Seriously. "Event of default"? You ask others if they know the difference between distributions and dividends, yet do you know the difference between actual events of default and claims that have no basis for being made?

Here we are a year later and I see zero losses.

06 Jan 2016, 12:38 AM Report AbuseReply0Like

James Hickman, Contributor

Comments (361) |+ Follow |Send Message

Author's reply »

If "RIC status means nothing" why does TAXI management insist on staying with it?

As we stated in the article "But in addition to the loss of its federal tax exemption, which has scarcely been used but management thinks will be valuable in the coming year ..." Why are you using comment space to make points already made in the article as if they actually rebut something said in the article. Do you understand anything written regarding the constraints imposed by RIC status? RIC status means compulsory payout of 90% of income, including significant non-cash income. That is "meaningless" to you? If they abandoned RIC and cut distribution, which would be sensible in an environment in which they CANNOT raise equity below BV (and probably could not even if it were allowed), just had long-time lender reduce its credit, but have not funded distributions through operating cash flow for over 4 years, do you think that would be "meaningless?"

"Silence from shorts" - when were institutions significantly net-buying in the way they were net-selling in Q3? Moreover, we mentioned this but hardly made a big deal out of it.

Why don't you explain how the exact language shared in the article from TAXI's Omnibus Loan Agreement is not a technical "event of default" as defined in the document? Just because DZ hasn't declared them in default, crystal clear language of default is not something investors should worry about? Shortly thereafter, the bank cuts back the credit facility? Sounds like the "apparent" event of default was an accurate warning sign. Please explain why making this point almost a year ago had "no basis for being made."

See reply to Wicker on losses. Your assertion "... a year later and I see zero losses" is patently false if you read Call Reports and SEC filings. Please explain how actual write-downs are not losses in the same manner write-ups are included in earnings.

06 Jan 2016, 11:44 AM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

Jay and any other reader:

Does anyone know the most recent research notes and target prices from Sandler and KBW?

22 Jan 2016, 06:46 PM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

WickerMan20: you agreed Uber drivers make more than taxi drivers in New York, correct?

We both agreed my model and estimates for Chicago and Boston UberX driver earnings were the best available online. Do you agree?

Working together through the comments, we determined that New York was much more complex than either of us thought in the beginning.

After a lot of useful conversation neither of us was "proven right or wrong".

Unlike in every other city, the fixed annual cost of required commercial insurance substantially skews the cost per hour incurred by Uber drivers regularly driving 10 hours a week vs. 50 hours per week.

However, WickerMan20, we agreed on a new model and set of reasonable estimates for New York resulting in my 14 Nov 2015, 06:04 PM comment concluding:

"$16.95 is your best case estimate of Net New York Uber Driver Pre-Tax Income Per Hour After All Incremental Costs for drivers paying a 20% Commission

$14.56 is your estimate of Net New York Taxi Driver Pre-Tax Income Per Hour After All Incremental Costs

Therefore, your best case estimate is:

Uber drivers paying a 20% commission make 16% more than taxi drivers in New York."

Link for comment above:

http://seekingalpha.co...

On 14 Nov 2015, 06:20 PM, you said:
"that looks about right Gordon. thanks."

Link for comment above:

http://seekingalpha.co...

28 Jan 2016, 06:03 PM Report AbuseReply0Like

Mellar

Comments (83) |+ Follow |Send Message

Except Uber drivers pay closer to a 33% commission when factoring in the 25% cut, the black car fund, and the NY State sales tax 8.50%. My forensic studies indicate that Uber drivers retain 33% after car payment and Uber fees, and before costs like insurance and repairs. In effect, Uber drivers earn significantly less than yellow cab drivers, but may make up for lower earnings with flexibility of working hours and ownership of a car for personal use. Big problem for NYC taxi fleets is drivers making too much money currently and therefore working fewer shifts.

29 Jan 2016, 10:57 AM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

The confusion caused by commenters on investment sites and by many Uber drivers is due to two things:

1) Uber driver income must be estimated from calculating Uber driver gross income PER HOUR, not PER RIDE.

PER HOUR, not PER RIDE!
PER HOUR, not PER RIDE!
PER HOUR, not PER RIDE!

Why is this so difficult to understand?

2) using the IRS mileage deduction to estimate Uber driver costs is just plain WRONG because it includes average FIXED costs, not just VARIABLE costs.

Uber drivers use their PERSONAL vehicles to pick up passengers to make a living.

They have vehicle costs they must pay WHETHER OR NOT they drive for Uber.

The INCREMENTAL costs of driving for Uber over and above those incurred if NOT driving for Uber are the correct costs to use.

Why is this so difficult to understand?

The model I published in my October 2015 SA article provided the framework to use varying LOGICAL and REASONABLE input values to calculate varying Uber driver income estimates.

Wickerman20 had the intelligence and civility to discuss the model and reasonable input values in an extensive discussion in the comments with me about the less complex cases of Chicago and Boston, but especially the much, much more complex model and input values needed for New York.

I've had similarly substantive discussions with others in addition that are not documented on message boards.

NO ONE has suggested a model or input values that arrive at Uber driver incomes lower than medallion taxi drivers. Intelligent analysis of alternatives also can not prove ANY sensible estimates calculating Uber Driver Income After Deducting Incremental Costs anywhere near minimum wage.

All of you have the choice between continuing this discussion on Uber driver income in New York using facts, logic and coherent opinions or you can continue the discussion with substance free posts.

You guys decide.

29 Jan 2016, 03:17 PM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

The "Attrition Rate" Criticism of Uber Makes No Sense

This unfounded “criticism” has come up again and again and again since the publication of Hall Krueger on January 22, 2015.

On page 16, Figure 6: Continuation Rate for U.S. Drivers Over the Course of a Year

details that approximately 50% of Uber drivers remained active a year after starting.

On page 8, Table 1: Characteristics of Uber's Driver-Partners, Taxi Drivers and All Workers

details the values of 20 demographic characteristics across these three categories of workers.

On page 20, Table 4: Distribution of Uber's Driver-Partners and Taxi Drivers and Chauffeurs by Hours Worked

compares the significant difference between average length of work week for Uber drivers and drivers who work as taxi drivers and chauffeurs AS A CAREER

1-15 hours per week
51% of Uber drivers
4% of taxi drivers and chauffeurs

16-34 hours per week
30% of Uber drivers
15% of taxi drivers and chauffeurs

35-49 hours per week
12% of Uber drivers
46% of taxi drivers and chauffeurs

50 or more hours per week
7% of Uber drivers
35% of taxi drivers and chauffeurs

From page 10:

"Uber's driver-partners fall into three roughly equal-sized groups:

driver-partners who are partnering with Uber and have no other job (38 percent),

driver-partners who work full-time on another job and partner with Uber (31 percent), and

driver-partners who have a part time job apart from Uber and partner with Uber (30 percent)"

From the Abstract on the first page of the Hall Krueger study:

"…Uber [drivers] appear to be attracted to the platform in large part because of the flexibility it offers, the level of compensation, and the fact that earnings per hour do not vary much with hours worked, which facilitates part-time and variable hours.

Uber's driver-partners are more similar in terms of their age and education to the general workforce than to taxi drivers and chauffeurs.

Uber may serve as a bridge for many seeking other employment opportunities, and it may attract well-qualified individuals because, with Uber's star rating system, driver-partners' reputations are explicitly shared with potential customers.

Most of Uber's driver-partners had full- or part-time employment prior to joining Uber, and many continued in those positions after starting to drive with the Uber platform, which makes the flexibility to set their own hours all the more valuable.

Uber's driver-partners also often cited the desire to smooth fluctuations in their income as a reason for partnering with Uber."

All readers:

If you have an alternative point of view of the differences between Uber drivers and taxi drivers, please post so that we can all have a meaningful conversation using verifiable facts, sound logic and coherent opinions.

Thanks!

30 Jan 2016, 07:53 AM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

Posted by Jay Hickman as "truthincyber" on Yahoo Finance Message Board for TAXI on January 30, 2016

Medallion Bank Q4 Nothing Short of Ugly as Medallion Loan Deterioration Accelerates

Sum of delinquencies, nonaccruals, TDRs, loan loss reserves and chargeoffs net of recoveries, went from $26.8 mm to $46.2 mm. Don't know what medallion loan balances are, but if flat (probably declined again, which means the loan quality deterioration was even worse on a % basis) went from 7.5% to 13.1%.

Earnings fell sequentially, and were down for the year.

Tier 1 capital as % of average assets effectively at the MINIMUM as set by TAXI and FDIC (looks to be 15.1%). Helps explain

They paid a $3 mm dividend, and only got back $1 mm from TAXI. Will be interesting to see how TAXI handles 25% max non-RIC asset test.

No way to put lipstick on this quarter and make it pretty. UGLY.

30 Jan 2016, 08:13 PM Report AbuseReply0Like

Gordon Gossage, Contributor

Comments (342) |+ Follow |Send Message

My first article on Uber Driver Pay focused on the US as a whole.

The Impact On Medallion Financial Of Uber Driver Pay (1)
By Gordon Gossage
Seeking Alpha
October 27, 2015

As can be seen in Figure 1: Net Uber Driver Pre-Tax Income Per Hour By Market and Vehicle, I was able to make reasonable estimates for five cities:

Boston
San Francisco
Los Angeles
Chicago
Washington, DC

None of these five estimates have been successfully challenged in any coherent way.

However, after many civil and substantive discussions with wickerman20 and others online and off, it became clear to me that my New York estimate was not adequate. There are certainly a reasonable set of input values to arrive at my New York estimate in Figure 1.

Nevertheless, estimating and presenting New York Uber pay is more complex than for other cities, especially due to New York's requirement that all UberX drivers must carry commercial insurance.

I decided it was best to create a new model and article solely focused on New York.

It's taken me a lot more time to get this done than I hoped. I will now try to get moving!

Conclusions from my October 2015 article follow.

Uber and Taxi Driver Income Across U.S.

The benchmark U.S. average wage adjusted for self-employment tax is $26.92 per hour
Net Uber Driver Pre-Tax Income After All Incremental Costs in the U.S. is $17.99 per hour
Net Taxi Driver Pre-Tax Income After All Incremental Costs in the U.S. is $12.35 per hour
Uber offers a living not even requiring a high school degree that pays two-thirds of the average U.S. wage
Uber drivers earn 47% more per hour than taxi drivers in the U.S.

In order to help me move forward, wickerman20 and any other reader:

Please agree or disagree with the following:

A) The most recent value we have for Gross New York Uber Driver Pre-Tax Income After Deducting Uber Commission is $27.71 per hour.

This value is the simple weighted average of the income values by work week length in

Table 2: Distribution and Median Hourly Earnings of uberX Driver-Partners by Hours Worked, Oct. 2014 on page 18 of

An Analysis of the Labor Market for Uber's Driver Partners in the United States (2)
By Jonathan Hall and Alan Krueger
January 22, 2015

As of February 1, 2016 there is no other publicly available value that should reasonably be used to replace the $27.71 value.

The Uber commission rate in October 2014 was 20%, therefore the Gross New York Uber Driver Pre-Tax Income BEFORE Deducting Uber Commission is $34.64 per hour.

The $34.64 is the value AFTER Uber deducts the 8.875% state and city sales tax and 2.59% black car fee levied on the gross fare total paid by the passenger. To arrive at the value of what the passenger pays in total we gross up to $39.07.

Therefore, the passenger is paying on average $39.07 per hour for a ride with an Uber driver.

Uber includes tips in the amount charged to Uber passengers, so Uber Drivers on average only receive 1% to 2% of their fare in tips. We will ignore this very small amount.

All readers:

It is extremely important that ANY of you provide arguments disagreeing with Sentence A above and Sentence B and Sentence C below.

I will do my best to analyze your arguments as quickly as I can. The remainder of my analysis of New York Uber and Taxi Driver income DEPENDS on the three values included in Sentences A, B and C: $27.71, $34.64 and $29.40.

If no reader is able to provide a reasonable argument disagreeing with these input values, then I will use them in the base case of my article. Thanks guys.

B) Gross New York Uber Driver Income in October 2014 was $34.64 per hour AFTER the deduction of the 8.875% state and city sales tax and the 2.59% black car fee levied on the gross fare total paid by the passenger.

C) Gross New York Taxi Driver Income in October 2014 was $29.40 per hour including credit card and cash tips as estimated by the NYC Taxi and Limousine Commission (TLC) (3) and AFTER the deduction of the 8.875% state and city sales tax and the 2.59% black car fee levied on the gross fare total paid by the passenger.

New York Uber Drivers made 18% in Gross Income Per Hour compared to New York Taxi Driver Gross Income Per Hour.

It would be very helpful if someone could provide links and/or calculations to source the $29.40 value.

I believe the TLC value a year later in October 2015 was $26.81.

It would also be helpful if someone could provide the most recent TLC value available with the same definition.

1. http://seekingalpha.co...
2. http://bit.ly/1AUBUWC
3. http://on.nyc.gov/1NMmREe

01 Feb 2016, 12:38 PM Report AbuseReply0Like

WickerMan20

Comments (2) |+ Follow |Send Message

Gordon i actually heard back from Kreuger and finally have hard info. the amounts mentioned in the study are net of uber fees but not sales tax or black car fee. so gross driver earnings are $34.64. Earnings net of commissions (but not tax and fees) depend on what amount you use. $27.71 is correct if 20% commission. It is $25.95 if we are talking 25%. Finally you deduct 8.875% sales tax and 2.59% black car fee of of $34.64, which is $3.07 and $0.90 each or $3.97 total.

so true net would be $27.71 - $3.97 = $23.74.

but! yes there's a but! uber just cut fees by 15%. so to be honest for what is happening right here and now for all drivers since April.....

$34.64 is now $29.44
commission is 25% so subtract $7.36
tax and black fee subtract $3.38
true net pre-tax hourly is now $18.70

email answer from Kreuger here is what he said when i asked about commissions fees and taxes:

From: --------
Sent: Tuesday, February 02, 2016 1:11 AM
To: Alan B. Krueger [akrueger@princeton.edu]
Subject: Re: Uber Study

- Earning per hour are net of Uber fees and commissions. (Note: we did not call them wages because driving expenses were not deducted.) Any fees or taxes levied by municipalities are not Uber fees, and they are not excluded in either the net earnings per hour or taxi driver wages.

03 Feb 2016, 02:59 AM Report AbuseReply0Like

Gordon Gossage, Contributor

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wickerman20: I applaud that you got an answer from Krueger!

Let me digest what you have written in your post and get back to you and our readers. OK?

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please post entire email you got from Krueger, with just your name in the From: field left blank. Thanks.

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TheAbyss16

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Hi James, are you planning any updates on this name? A lot off interesting additional news flow has been out over the last weeks... Thanks in advance.

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Gordon Gossage, Contributor

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Here are my thoughts on estimating February 2016 New York Uber driver gross income by only making the two adjustments for decreases in commission percentages and base rates.

I just published the content below in my blog in the article titled:

Comparing Uber and Taxi Base Rates To Compare Uber And Taxi Driver Gross Income Is Just Wrong (1)

Readers, see my post:

Now You Can Compare Uber And Taxi Rates In 1001 Locations Worldwide (2)

Try routes you are familiar with.

See how often a ride with UBER IS LESS EXPENSIVE than a ride with a medallion taxi.

Of course they are. Taxi drivers making onerous debt payments or paying medallion lease fees can't possibly compete with Uber. They are forced to pay thousands of dollars for a piece of tin which in most jurisdictions is simply an occupational license costing less than $500.

Offering lower rates is Uber's overwhelming benefit to consumers.

Thinking lower prices for a service ALWAYS triggers lower wages for the producers of the service is a misunderstanding of the primary benefit of FREE MARKET CAPITALISM.

Companies that lower prices through radical increases in efficiency benefit consumers AND producers.

If any of you think high prices are required to generate high wages simply don't understand the POWER OF THE FREE MARKET. PERIOD.

Focusing on the cost of a ride from Point A to Point B to estimate Uber vs taxi driver income ignores Uber's massive Big Data competitive advantage.

Across 300 cities worldwide in real time, Uber optimizes driver incomes and passenger fares using millions of data points. Uber continually steals the best data scientists in the world from Google and Facebook.

"Surge pricing" is a negative term that vilifies dynamic pricing. Those of you who insist market clearing prices need to be replaced by government imposed fixed taxi rates are ENEMIES OF FREE MARKETS. PERIOD.

Dynamic pricing obviously boosts Uber driver income above income otherwise generated by base rates.

Uber's data scientists have created software that offers drivers hourly income guarantees to get them on the road when they are needed by passengers. Without these guarantees, driver income would drop exactly when they are needed behind the wheel.

As an active Uber driver, I personally get these guarantees and incentives in real time. Here's an email and text I JUST RECEIVED:

Make More With Uber. This weekend, we're bringing you hourly guarantees to make the most of your time on the road.

You will earn $28 per hour in gross fares when you drive during these times:

Thursday Evening February 4 5:00pm - 7:00pm
Friday Late Night February 6 12:00am - 2:00am
Saturday Late Night February 7 12:00am - 2:00am

To get in on the earnings, sign up below: MAKE $28 PER HOUR

Once again, Uber's massive Big Data advantage satisfies the needs of drivers and passengers.

Uber's nonstop driver incentives and guarantees ensures their income meets the target Uber's data scientists KNOW will keep drivers consistently earning more than medallion taxi drivers.

Only a hard core Uber Denier is blind to the relentless competition devastating the indentured servants of Big Taxi.

Only a hard core Uber Denier is blind to the hemorrhage of medallion taxi drivers defecting to Uber.

My article, The Impact On Medallion Financial Of Uber Driver Pay (3) was published in Seeking Alpha on October 27, 2010.

The model I provided in the article provided the framework to use varying LOGICAL and REASONABLE input values to calculate varying Uber driver income estimates.

Wickerman20, a frequent commenter on TAXI on Seeking Alpha and the Yahoo Finance Message Board had the intelligence and civility to discuss the model and reasonable input values in an extensive discussion in the comments with me about the less complex cases of Chicago and Boston, but especially the much, much more complex model and input values needed for New York.

I've had similarly substantive discussions with others in addition that are not documented on message boards.

NO ONE has suggested a model or input values that arrive at Uber driver incomes lower than medallion taxi drivers.

Net Uber Driver Pre-Tax Income After All Incremental Costs in the U.S. is $17.99
Net Taxi Driver Pre-Tax Income After All Incremental Costs in the U.S. is $12.35
Uber drivers earn 47% more per hour than taxi drivers in the U.S.

The $17.99 value is derived from the Hall Krueger study, the most comprehensive study of Uber drivers to date. An Analysis of the Labor Market for Uber's Driver-Partners in the United States (4) was published on January 22, 2015.

Gross Uber Driver Income in the study is from October 2014 and was sourced directly from Uber's accounting system.

Do we all wish there was a more recent study? Absolutely. However, there isn't one.

In October 2014 there was a unique and complex mix of base passenger rates, commission percentages, incentives and guarantees in New York resulting in a value of $27.71 per hour.

WickerMan20 recently received an email from Alan Krueger stating that the Uber gross income value was before municipal taxes and fees, not after. My upcoming article specifically on pay for New York Uber drivers will offer an input value that takes this email into account.

However, we can't estimate New York Uber driver income for February 2016 by making only two adjustments to the October 2014 value.

It's true that commission rates decreased from 25% to 20% and base rates decreased by 15% between the two dates separated by 16 months.

Between these two dates, radically different dynamic pricing, incentives and guarantees prevailed. They can't be ignored.

Comparing Uber and Taxi Base Rates To Compare Uber And Taxi Driver Gross Income Is Just Wrong

1. http://bit.ly/1Kyp4Zn

2. http://bit.ly/1Kyp3oa

3. http://seekingalpha.co...

4. http://bit.ly/1AUBUWC