January 22, 2020

The Honorable Rodney Hood, Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Chairman Hood:

On behalf of America's credit unions, we are writing to express our concerns regarding the National Credit Union Administration's stewardship and potential sale of taxi medallion loans acquired through the resolution of credit unions that had engaged in high concentrations of these loans.

We appreciate the agency's focus on the potential adverse impact to the National Credit Union Share Insurance Fund of a sale of these loans. However, it is important to recognize there are other factors at play that could also cause significant harm to our nation's credit unions. We offer below several suggestions on steps the agency can and should take to minimize the financial impact to all involved parties, as well as mitigate the reputational hit the credit union industry is already experiencing.

One of the most pressing steps for NCUA to take is to establish a plan on how it can better communicate with the industry and public regarding actions the agency has already taken and actions it plans to take going forward with respect to taxi medallion loans. Under your leadership, the agency has made strides in improving its overall communication to the industry. Unfortunately, on this matter, the agency's lack of transparency has fueled speculation and rumor that undermines confidence in the agency's ability to manage the situation and willingness to consider a wide array of options that may be available to it. We urge NCUA to be more transparent regarding its intentions, and to seek stakeholder input on potential resolutions. To this end, the agency should consider holding a public hearing on its plans to resolve this situation.

Adverse Impacts of Sale to a Single Buyer

As the largest holder of taxi medallion loans, steps taken by NCUA will have a broad and far-reaching financial impact. It is our understanding—based largely on press reports—that the agency is considering selling its entire loan portfolio to for-profit debt buyers. Such a sale would have a significant adverse impact on credit unions and borrowers. For several reasons, we urge the NCUA to refrain from such a drastic step.

First, we would be very concerned if the NCUA structured the sale such that NCUA's entire portfolio of taxi medallion loans would be sold to a single investor. Although this may be a quick and easy solution, a single buyer sale would almost certainly result in a lower sale price, which would negatively impact the Share Insurance Fund. As set forth below, NCUA should consider an alternative structure to the sale that could maximize returns.

Second, there could be substantial collateral harm to credit unions that continue to hold these loans. Unloading the entire portfolio could further depress the market value of the loans, which in turn, could result in a significant devaluation of similar loans held by credit unions. Such a decrease in the value could put those credit unions currently holding taxi medallion loans at risk.

Third, the reputational risk to NCUA and the entire credit union industry associated with the taxi medallion crisis is significant. There has already been extensive media coverage of the crisis, including speculation on its cause. All future activity by the agency will certainly be scrutinized. Any harmful impact on consumers—that could otherwise be avoided—will likely be highlighted by the media and only result in additional reputational harm. While an NCUA sale of its entire portfolio at fire-sale prices might take the agency off the front pages from an "ownership" perspective, it would almost certainly cause major harm to the taxi drivers that took out such loans, many whom immigrated to the United States to pursue the American dream. Such direct harm to consumers would be antithetical to the credit union philosophy of people helping people.

NCUA Should Seek Input on Alternatives from Key Stakeholders

We urge the NCUA to refrain from such a sale and to instead engage with CUNA, the state leagues, and credit unions—both those directly and indirectly involved. Such collaboration could bring about a more creative solution than simply selling the entire loan portfolio to a single investor at a significant loss. While such a sale may be the quickest and easiest approach for the agency, it is not in the best interest of credit unions and their members, including borrowers who took out loans to obtain taxi medallions.

There are several alternatives to a quick sale. One is not to have a sale at all. NCUA could partner with credit unions to service the loans, work out loan modifications with the borrowers, and over time reduce the agency's—and the Share Insurance Fund's—exposure to these loans. Such a step would better ensure a stable and orderly transition from the crisis we face today to a more positive future for the borrowers. At a minimum, NCUA should consider refraining from selling its portfolio until 2021, to align the sale with any potential equity distribution from the corporate resolution.

If, against our strong opposition, the NCUA moves forward with a sale of its entire portfolio, we urge it to act to mitigate the adverse impact to those credit unions that hold medallion loans. NCUA could sell the loans in segments or tranches that reflect the varying value of the loans. Investors are more likely to pay more for a specific segment of loans that fills their needs. Treating all taxi medallion loans like they are similar would undoubtedly result in a lower bid. While we do not believe NCUA should sell its taxi medallion loans at this time, if it were to do so, it would make better financial sense to segment the portfolio and seek bids on each segment.

NCUA could also mitigate the adverse consequences on credit unions holding these loans by directing examiners to pursue Prompt Corrective Action (PCA) forbearance for credit unions that are pushed into PCA territory due to a decrease in the value of medallion loans resulting from NCUA's sale.

On behalf of America's credit unions, thank you for considering our concerns regarding the taxi medallion loan crisis. We reiterate our request that the NCUA refrain from selling its entire portfolio of loans at this time. As described above, there are many reasons to hold off on such a sale, allowing time to determine the most appropriate next steps.

Sincerely,

Jim Nussle
President and CEO
Credit Union National Association

Patrick Conway
President and CEO
CrossState Credit Union Association

Tom Kane
President and CEO
Illinois Credit Union League

William Mellin
President and CEO
New York Credit Union Association