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Medallions

With the rise of app-based ride services such as Lyft and Uber, many taxi medallion owners have seen dramatic declines in their business. A taxi medallion is essentially the license issued by the Taxi & Limousine Commission (TLC) that permits taxi cabs to pick up roadside hails. At one point, medallions were selling for anywhere from half a million to upwards of a million dollars. The problem is these medallions have plummeted in value to the point where they are often sold at fire-sale auctions – due to being repossessed – for just over $100,000. This steep decline in value leaves medallion owners saddled with enormous loans for something that no longer has the ability to generate the income to meet the monthly payments. Fortunately, there is a powerful tool in bankruptcy, known as the cramdown, that can often help alleviate this predicament.

Cramdown is a tool available in Chapter 13 and Chapter 11 bankruptcy where you reduce the secured portion of a loan down to the value of the collateral. It works as follows: Suppose you have a car with $15,000 remaining on the auto loan. However, your trusty old Camry is now approaching the 100,000-mile mark and likely will not fetch much more than $5,000 on Craigslist. The cramdown option will remove $10,000 of the secured portion of the loan and leave you with only a $5,000 secured debt. The $10,000 is transformed into unsecured debt and is lumped in with your other unsecured debts (like credit cards). As explained in our earlier articles, generally speaking, in Chapter 13, only secured debts must be repaid in full. With respect to unsecured debts, you typically pay only a percentage of the amount owed based off of what you can afford. The remaining debt gets legally discharged at the completion of your five-year repayment plan. This means you will end up owning your Camry free and clear at the end of the bankruptcy, provided you make all your plan payments.

This cramdown option is only available in bankruptcy court. A lender will almost never agree to such terms voluntarily

The same principle can be applied for medallions. If you owe $800,000 on the medallion but the medallion is unlikely to sell for more than $200,000 on the open market, you can cramdown the secured portion of the loan to $200,000. The remaining $600,000 becomes unsecured debt, of which, as discussed, you would only pay back a percentage. You are thus effectively modifying the loan down to the value of the medallion. At the end of your repayment plan you will come out owning the medallion free and clear. Equally important, you will also be debt free.

This cramdown option is only available in bankruptcy court. A lender will almost never agree to such terms voluntarily. This is why it is called cramdown. The bankruptcy court forcibly crams the secured portion of the loan down to the value of the collateral (i.e., the medallion).

Medallion owners should carefully consider this option before jumping into the first modification offered by the lender. Any workout or restructuring accomplished through the bankruptcy courts is generally much more affordable and has a substantially higher success rate than the traditional modification offered by the lender.

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