

DO BANKS' PARTISAN AFFILIATIONS SHAPE THEIR LENDING DECISIONS?

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ABSTRACT

- We find that banks consistently approve more mortgages in counties that share their political beliefs.
- There is no evidence showing that rent extraction or political influence can explain the lending differences. Instead, ideological differences across banks based on their partisan affiliations seem to drive the results.
- We also find that lending decisions based on partisan allegiances have a negative effect on banks' health as reflected in their higher non-performing loan ratios and lower return on assets.

DATA

- Bank Balance Sheet Variables - Call Reports
- Mortgage Data- HMDA
- Depository Branches - Summary of Deposits
- Presidential Elections - MIT Election Data and Science Lab & Dave Leip's Atlas of U.S. Presidential Election Data
- Political Contribution - Center for Responsive Politics & National Institute on Money in Politics.

EMPIRICAL MODEL

$$Y_{ijt} = \mu_{it} + \pi_{jt} + \beta \text{Political Alignment}_{ijt} + \delta X_{ijt} + \varepsilon_{ijt}$$

- Y_{ijt} is the number of mortgages approved by bank i in county j at time t .
- $\text{Political Alignment}_{ijt}$ is a dummy indicating that a bank i and a borrower's home county j share the same political affiliation in year t .

POLITICAL ALIGNMENT BETWEEN BANKS AND COUNTIES AND MORTGAGE LENDING

- Compared to non-aligned counties, aligned counties receive about 12.2% more mortgages.

	(1)	(2)	(3)	(4)	(5)
	Log(No. Approved Mortgages)				
Alignment	0.158*** (10.075)	0.115*** (9.212)	0.118*** (9.026)	0.122*** (9.175)	0.122*** (9.175)
Observations	507,903	503,975	492,328	488,783	488,783
Controls	No	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	No	No	No
Year FE	Yes	Yes	No	No	No
County FE	Yes	Yes	Yes	No	No
Bank*Year FE	No	No	Yes	Yes	Yes
County*Year FE	No	No	No	Yes	Yes
Bank*State FE	No	No	No	No	Yes
Adjusted R-squared	0.403	0.590	0.627	0.624	0.624

PARTISAN PREFERENCES AND MINORITY APPLICANTS

- Democratic banks are in general nicer to minority borrowers than the Republican banks.

	(1)	(2)	(3)	(4)
	Log(No.)	Log(\$)	APRate_N	APRate_V
Minority	-1.392*** (-57.281)	-1.5706*** (-62.7523)	-0.099*** (-51.124)	-0.095*** (-47.926)
DEM Bank*Minority	0.084*** (3.904)	0.1248*** (5.9664)	0.018*** (9.786)	0.022*** (11.575)
Observations	863,754	863,754	885,587	885,587
Controls	Yes	Yes	Yes	Yes
County*Year FE	Yes	Yes	Yes	Yes
Adjusted R-squared	0.431	0.502	0.193	0.170

REASONS FOR DENIAL

- Banks are more likely to use unspecified reasons ("Others") to reject mortgage applications from non-aligned counties.

2[4]*Reasons	BHC(HD) & County-Aligned Differences		T Statistics	
	No	Yes		
Debt-to-Income Ratio	0.01	-0.02	-0.03	0.48
Employment History	-0.05	-0.07	0.02	1.29
Credit History	-0.18	0.15	-0.33***	-4.10
Collateral	-0.07	0.07	-0.14**	-2.13
Insufficient Cash (Down payment, losing costs)	-0.04	-0.09	0.05***	2.73
Unverifiable Information	-0.07	-0.07	0	-0.24
Credit Application Incomplete	-0.21	0.01	-0.22***	-5.69
Mortgage Insurance Denied	0.00	0.00	0	0.57
Other	0.08	-0.05	0.13**	2.21

EFFICIENCIES OF PREFERENCE-INDUCED LENDING DECISIONS

- Incorporating partisan preferences into lending decisions leads to worse performance.

	(1)	(2)	(3)
	Non-Performing Loans	Non-performing RE Loans	ROA
Approval Rate* Alignment	0.001** (2.387)	0.001** (2.455)	-0.001*** (-4.206)
Observations	470,863	470,863	470,866
Controls	Yes	Yes	Yes
Bank*Year FE	Yes	Yes	Yes
County*Year FE	Yes	Yes	Yes
Adjusted R2	0.512	0.492	0.464

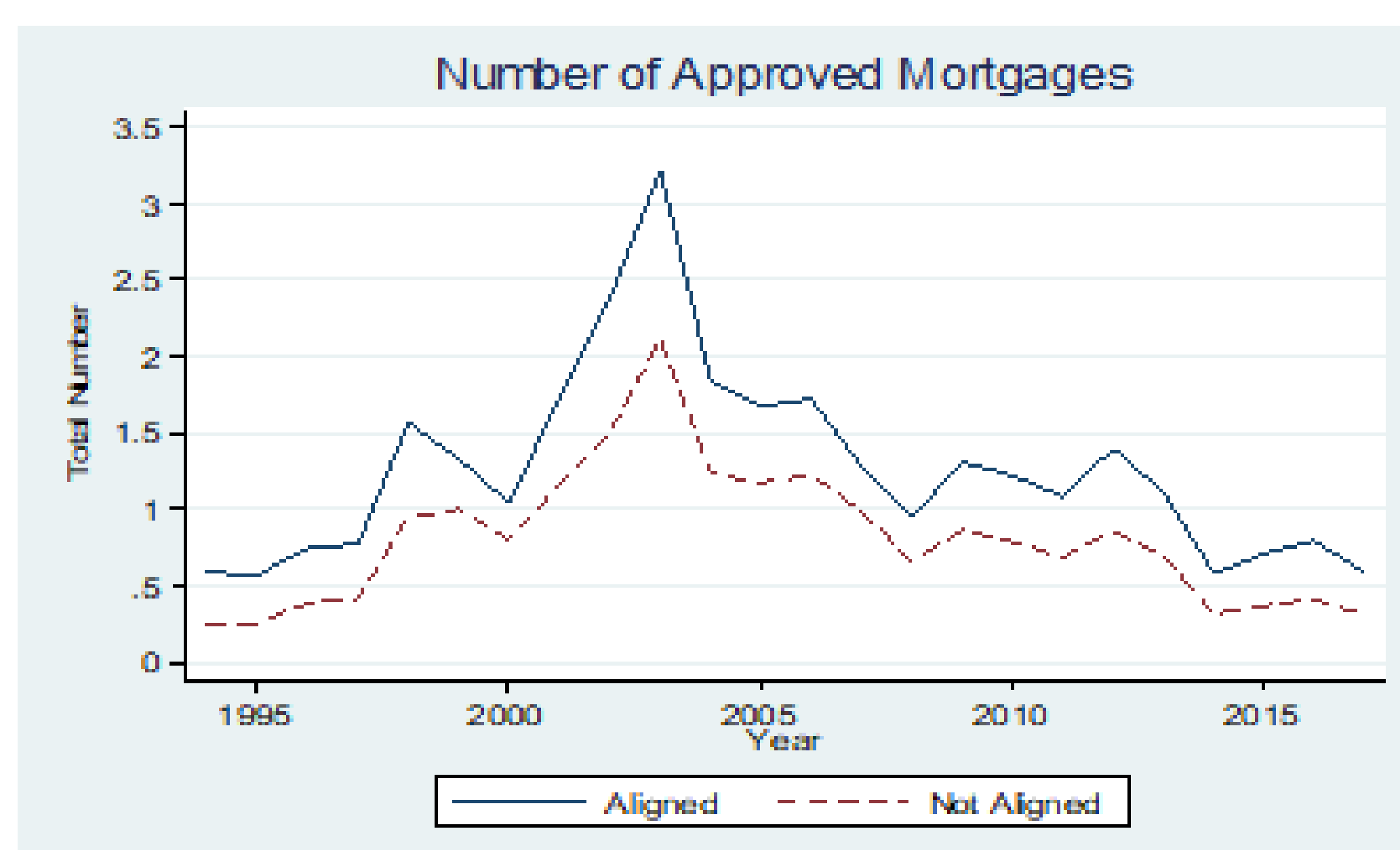


Figure 1: Number of Approved Mortgages

Examples of Distribution of Counties with Different Partisan Affiliations

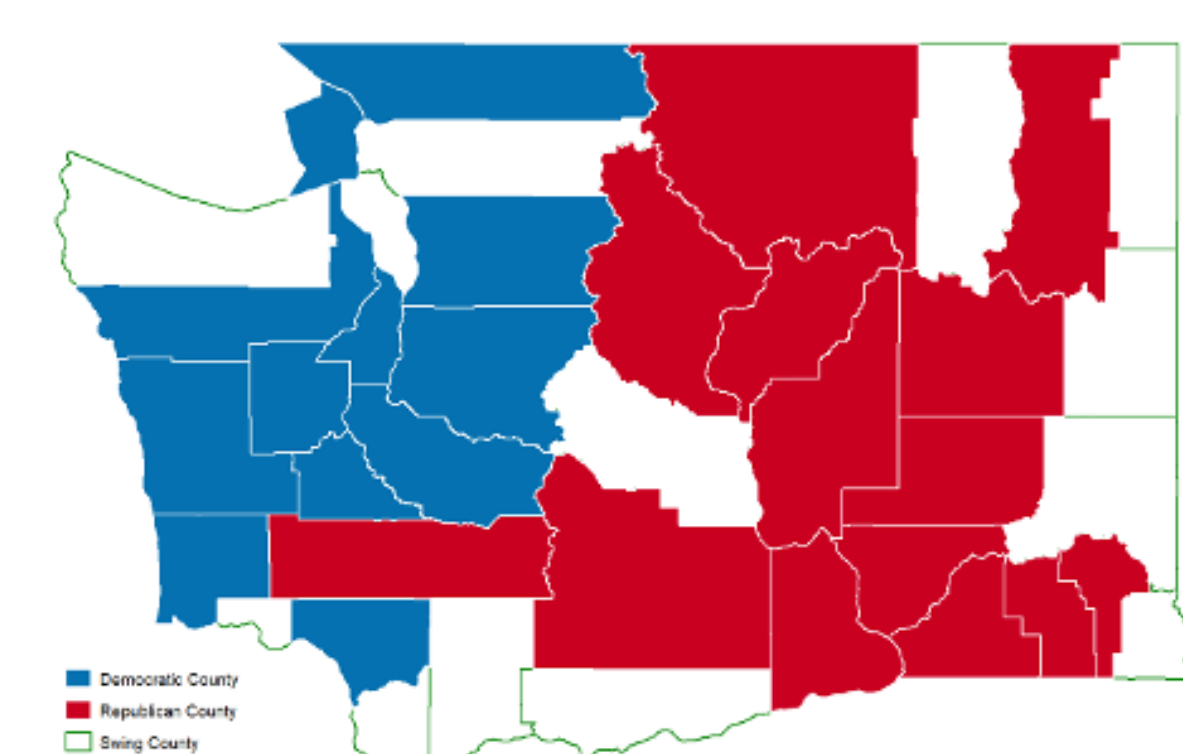


Figure 2: Washington - Democratic State

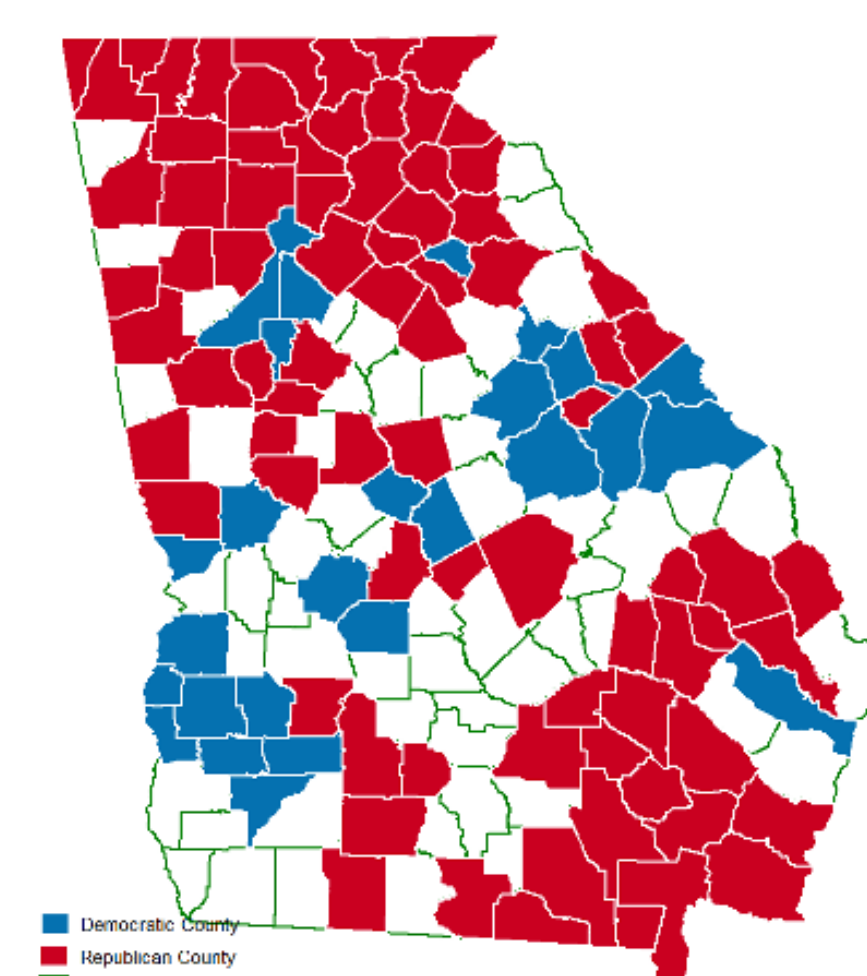


Figure 3: Georgia - Republican State