

Political Connections and Loan Syndication

Lindsay Baran
Kent State University

Steven Dennis
Kent State University

Maneesh Shukla
Ohio Northern University

M. Tony Via
U. of Tennessee Knoxville

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Abstract

This paper investigates the role of borrower political connections on loan syndication activity. Using active efforts of borrowers to gain political influence from lobbying and election contributions and a passive measure based on geographic location, we find that for loans to politically connected borrowers lead arrangers sell a larger proportion of the loan to participant lenders, are more likely to syndicate loans, and attract more participant lenders to the loan syndicate. The results are robust to matched sample and instrumental variable approach as well as to various robustness tests. Additional tests reveal that political connections are particularly valuable for opaque borrowers. The rationale for increased ability to syndicate loans to politically connected borrowers is explained through improved creditworthiness, performance, capital expenditure, and cash flow in the next two years following loan origination to these borrowers.

JEL Classification: G21, D72

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Introduction

Companies with connections to politicians have the potential benefit of information access to regulatory or industry changes and other forms of preferential treatment. Extant literature shows that firms' relationships with politicians have a significant impact on their behavior and performance (Khwaja and Mian (2005); Pastor and Veronesi (2012)). While Houston et al. (2014) finds that politically connected borrowers are granted lower cost loans by banks, our current research explores the ability of a lead arranger to syndicate loans to politically connected borrowers. Studies on loan syndication reveal several factors that lead to participant banks joining a loan and the portion of the loan the lead arranger can sell. Given the potential benefits of political connections to borrowers, participant lenders' assessment of borrower risk and interest in joining a syndicate may depend on political connections. In this study, we explore the effect of a borrower's political connections on the ability of lead arrangers to syndicate a loan. In addition, we examine the channels through which borrower political connections affect the loan syndication activity of the lead arrangers.

To conduct this analysis, we examine a sample of 9,587 loans over the period of 1996 to 2016. At this stage, a firm's political connections are proxied using three measures. First, we use a measure of firms actively developing political connections by either their lobbying activities (Duchin and Sosyura (2012)) or donations to election campaigns through Political Action Committees (PACs) (Akey (2015)). As a robustness test, we use a passive form of political connections using a firm's geographic location, i.e., if the firm is from the same state as the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs (a.k.a. Senate Banking Committee) at the time of loan origination (Zhou (2019); Chu and Zhang (2019)). In the

future, we plan to add the presence of politically connected board members or top executives (Goldman, Rocholl, and So (2009); Halford and Li (2020)).

Using all three measures of political connections, we find a positive relationship between a borrowing firm's political connections and the ability of the lead arrangers to syndicate a loan. More specifically, we find that, for loans to borrowers with political connections, the lead arrangers are more likely to syndicate a loan, sell a larger proportion of the loan to participant lenders, and attract more participant lenders to the syndicate. The results remain unchanged after controlling for the lead arrangers' reputation proxied by the market share of the lead arrangers in the year prior to loan origination.

Concerns about omitted variables or unobservable firm heterogeneity may confound the relationship between the firms' expenditure on lobbying activities and PAC contributions. Companies make the choice to lobby or donate to political campaigns when the potential benefits to either the firm's shareholders or executives outweigh the money spent. Therefore, even after controlling for lender and borrower characteristics, it is possible that some omitted variables may affect the loan syndication activity and the choice of firms' expenditure on lobbying activities and election campaigns simultaneously. We address this potential endogeneity concern using two techniques: propensity score matching (Boubakri et al. (2012)) and an instrumental variable approach (Lambert (2019); Houston et al. (2014)).

In the first approach to alleviate endogeneity concerns, we match firms with political connections with similar firms without political connections based on borrower characteristics. We find results consistent with the baseline models in our matched sample tests. In the second approach, an instrumental variable (IV) method, we use distance to Washington D.C. as an instrument (Houston et al. (2014)). Firms close to Washington D.C. engage in building strong

political connections through lobbyists as they have greater access to politicians and lawmakers. Therefore, the instrument is associated with lobbying expenditure but not directly with the lead arranger's ability to syndicate loans. Our results continue to hold using the IV approach.

The financial crisis of 2008/09 significantly affected the loan market, and bank lending fell substantially due to increased risk (Ivashina and Scharfstein (2010)). During this period, lead arrangers generally retained a larger fraction of the loan as a signal for better monitoring (De Haas and Van Horen (2010)). Since firms' political connections provide protection during unfavorable situations like the financial crisis (Blau, Brough, and Thomas (2013); Blau (2017); Banerji, Duygun, and Shaban (2018)), lead arrangers may not need to retain a larger share of loans to politically connected borrowers during the financial crisis. We find that the lead arrangers are more likely to syndicate loans during the financial crisis period to firms that contribute to PACs.

Prior literature reveals that the lead arrangers' ability to syndicate a loan is affected by the information asymmetry between lead arrangers and borrowers and between participant lenders and borrowers, and the information asymmetry problem is severe for opaque borrowers Sufi (2007). However, due to the various benefits associated with political connections, the effect of the information asymmetry problem may be mitigated for politically connected borrowers improving the ability of the lead arrangers to syndicate loans. Consistent with this prediction, we find the lead arrangers sell a larger proportion of the loan to participants and are more likely to syndicate loans to opaque borrowers with political connections, revealing political connections are more valuable for opaque borrowers.

Next, we examine channels through which a borrower's political connections affect the lead arranger's ability to syndicate loans. If borrowers benefit from their political connections, we expect an improvement in borrower performance, leading to more capital expenditure and cash

flow after the loan origination. To test this, we use return on assets (ROA) as a proxy for firm performance and find that firms with political connections experience improved and performance in the two years following loan origination. In addition, we find that politically connected firms have higher capital expenditures and cash flow in the next two years following the loan origination. This finding reveals that lenders perception of politically connected borrowers as safe and less risky at loan origination is warranted.

This study contributes to the existing literature in several ways. First, it contributes to the literature on loan syndication by examining the role of borrower political connections in the loan syndication process. Existing literature shows various factors that affect the loan syndicate structure, such as information asymmetry (Sufi (2007)), lead arranger reputation (Dennis and Mullineaux (2000); Gopalan, Nanda, and Yerramilli (2011)), corporate governance of borrowers (Elyasiani and Zhang (2018); Lin, Song, and Tian (2016)), corporate governance of lead arrangers (Baran, Dennis, and Shukla (2021)), and quality of external auditors of the borrowers (Kim and Song (2011)). This study adds to the existing literature by identifying borrower political connections as another determinant of the loan syndicate structure by revealing that the lead arrangers' ability to syndicate loans is more remarkable for politically connected borrowers.

Second, it contributes to the literature on borrower political connections by highlighting the value of political connections in the syndicated loan market. Prior studies show that politically connected firms receive an advantage over their non-connected peers in terms of lower tax payments (Faccio (2006)), preferential access to the loan market (Chen, Shen, and Lin (2014)), support during adverse market conditions (Faccio, Masulis, and McConnell (2006)). Although one might assume that firms experience improved performance given the benefits of the political connections, empirical evidence shows a mixed outcome (Rajwani and Liedong (2015)). Firms

experience improved performance only if the benefits of political connections outweigh the cost of political connections. Consistent with this conjecture, we find that politically connected borrowers benefit from political connections and experience improved firm performance, creditworthiness, and capital expenditure following loan origination.

Third, we contribute to the literature on lender political connections by revealing that the lead arranger's ability to syndicate loans and attract participant lenders increases if they have political connections. Delis et al. (2021) show that the lender's political connections help improve borrowers' future performance. Gopalan, Nanda, and Yerramilli (2011) reveal that poor performance by the borrowers of the lead arrangers has a negative impact on their ability to syndicate loans. Therefore, improved borrower performance should positively affect loan syndication activity. Consistent with this idea, we find a positive effect on the likelihood of syndicating a loan and attracting participant lenders to politically connected borrowers by politically connected lead arrangers.

1. Background, Prior Literature, and Hypothesis Development

1.1. Loan Syndication and Related Literature

Loan syndication is a process in which multiple lenders provide a large loan to a single borrower. A loan syndication begins with a demand for a large loan from a borrower and comprises the borrower, lead arrangers (principal lenders), and participant lenders. The lead arrangers perform due diligence on the borrowers, negotiate loan terms, finalize the deal, and invite potential participant lenders to form a syndicate to provide the funds to the borrowers. In addition, the lead arrangers are responsible for ex-post monitoring of the borrowers. Lead arrangers benefit from an upfront underwriting fee as compensation for arranging and managing the loan syndicate and diversifying their risk and credit among the participants. Participant lenders join the loan syndicate

to diversify their risk, expand their lending border, and avoid regulatory restrictions such as capital-asset ratios (Simons (1993)).

Syndicated loans not only offer benefits to the lenders but also pose risks to the banking system as an information asymmetry exists among the syndicate members: both between the lead arrangers and borrowers as well as between the lead arrangers and participant lenders. The information asymmetry between lead arrangers and participant lenders exists because the participant lenders depend on the lead arrangers for information on the borrower leading to an adverse selection problem. This incentivizes the lead arrangers to sell only poor-quality loans to the participant lenders (Ivashina (2009); Amiram et al. (2017)). In addition, the lead arrangers retain only a fraction of the loan syndicate, leading to a moral hazard problem incentivizing the lead arrangers to take opportunistic actions and underperform ex-ante screening and ex-post monitoring of the borrowers (Sufi (2007); Chaudhry and Kleimeier (2015)). The empirical literature suggests that the participant lenders require a larger contribution from the lead arrangers to protect themselves from information asymmetry problems (Sufi (2007); Ivashina (2009)).

Existing evidence suggests that banks perform a special role of delegated monitoring which allows them to collect soft information on borrowers and enables them to assess borrowers' quality (Diamond (1984); Diamond (1991); James (1987); Gande and Saunders (2012); Demiroglu and James (2015); Botsch and Vanasco (2019)). The lender-borrower relationship can help mitigate the information asymmetry problem between lead arrangers and borrowers, resulting in a lower contribution by the lead arrangers (Dennis and Mullineaux (2000)).

The reputation of the lead arrangers also affects their ability to syndicate loans. Dennis and Mullineaux (2000) measure the reputation of the lead arrangers by market share and repeat business with the participant lenders. They find that reputable lead arrangers sell a larger portion

of the loan syndicate and are more likely to syndicate loans. Similarly, Gopalan, Nanda, and Yerramilli (2011) examine the effect of a shock to the reputation of the lead arrangers, proxied by the bankruptcy filing by the borrowers of the lead arrangers on the syndicate structure. They find that the lead arrangers for the loan to borrowers filing for bankruptcy retain a larger fraction of the loan and are less likely to attract participating lenders and syndicate future loans.

Elyasiani and Zhang (2018) examine the effect of the corporate governance of borrowers on loan syndication activity. They find that the lead arrangers retain a larger loan share for borrowers with entrenched CEOs, and the number of participating lenders is smaller. Similarly, Baran, Dennis, and Shukla (2021) examine the effect of lead arrangers' board structure on loan syndicate structure and find that the lead arrangers with monitoring and networking quality sell a larger fraction of the loan to participants, attract more participants, and are more likely to syndicate loans.

1.2 Political Connections and Related Literature

Firms operate in a dynamic environment affected by many factors, including government policies and regulations. The political connections of firms have a significant impact on their behavior and performance (Faccio, Masulis, and McConnell (2006); Boubakri et al. (2012); Houston et al. (2014)), and literature in this area has grown rapidly over the years. Politically connected firms get access to relevant government information, enabling them to shape their operating activities (Pastor and Veronesi (2012)). In addition, politically connected firms receive numerous benefits such as access to government funds (Duchin and Sosyura (2012)), profitable government contracts (Goldman, Rocholl, and So (2013)), bailouts during the economic crisis (Faccio, Masulis, and McConnell (2006); Kostovetsky (2015)), favorable regulation (Goldman, Rocholl, and So (2009)), and pay lower taxes (Richter, Samphantharak, and Timmons (2009)).

Given the benefits of political connections, firms use various tools to establish relationships with government officials and lawmakers. These include contributions to election campaigns and donations to politicians (Goldman, Rocholl, and So (2009); Akey (2015)), expenditure on lobbying activities (Yu and Yu (2011); Duchin and Sosyura (2012); Kang and You (2016)), hiring politically connected executives and board members (Goldman, Rocholl, and So (2009); Halford and Li (2020)), and employment of connected directors during an election year (Duchin and Sosyura (2012)).

Firms' relationships with politicians play a crucial role in the debt financing market. Existing literature reveals that lenders favor politically connected borrowers (Houston et al. (2014); Infante and Piazza (2014); Chen, Shen, and Lin (2014)), and investors require a lower cost of equity capital from connected firms (Boubakri et al. (2012)). Houston et al. (2014) find that the political connections increase the value of US firms, reduce monitoring costs, and banks charge a significantly lower rate to the connected firms. Claessens, Feijen, and Laeven (2008) find that firms that contribute to election campaigns have increased access to bank financing four years after the election compared to the non-contributing groups and experience higher stock returns that confirm firm-specific political favor of the politicians. Chen, Shen, and Lin (2014) investigate if political connections improve the firm's access to financing in China. They find that politically connected firms get preferential treatment in both rate and non-rate terms. Infante and Piazza (2014) examine the effect of the political connections of Italy's credit market and find that the connected firms enjoy lower interest rates.

Additionally, politically connected firms, on average, are less likely to be involved in Securities and Exchange Commission enforcement action and, if prosecuted, face lower penalties (Correia (2014)). These firms have a lower likelihood of fraud detection and usually have a longer

detection period than non-connected firms (Yu and Yu (2011)). Moreover, the connected firms experience high stock returns and increased firm value (Claessens, Feijen, and Laeven (2008); Goldman, Rocholl, and So (2009); Cooper, Gulen, and Ovtchinnikov (2010); Amore and Bennedsen (2013); Goldman, Rocholl, and So (2013); Cheng (2018)). Acemoglu et al. (2016) find that politically connected firms experience improved firm value even during a time of acute financial crisis and heightened policy discretion.

Although political connections help improve firm value and performance, not every firm invests in establishing political connections. Shen, Lin, and Wang (2015) show that firms with strong corporate governance focus less on building political connections. Similarly, Aggarwal, Meschke, and Wang (2012) show that firms with poor corporate governance donate heavily to political candidates to establish connections and these firms experience a negative annual excess return.

It is not that only firms benefit from politicians, but the politicians also benefit from their connected firms. Politically connected firms fund the election campaign of the connected politicians (Goldman, Rocholl, and So (2009); Akey (2015)) and help them to re-elect in future elections (Bertrand et al. (2018)). Bertrand et al. (2018) show that corporations alter their corporate employment strategy to create more jobs and plants in the election year to help re-elect their connected politicians, incurring a cost to the connected firms. Additionally, they show that the firms that support politicians to re-elect by creating more jobs experience reduced profitability, and the profitability even drops when a connected CEO comes to power. Moreover, Aggarwal, Meschke, and Wang (2012); Carretta et al. (2012); Bertrand et al. (2018) show that connected firms experience negative annual excess returns.

Political connections of firms can make them riskier. Khwaja and Mian (2005) study the effect of political connection in Pakistan. They find that firms with political ties borrow 45% more and have 50% higher default rates than their peers without political connections. Bliss and Gul (2012) study the effect of political connections of firms in Malaysia and find that politically connected firms are riskier as these firms have relatively higher leverage and a high likelihood of reporting a loss. As a result, lenders charge a higher interest rate to politically connected firms. Moreover, Huang and Yuan (2019) find that firms' political connections make them less innovative, and Carretta et al. (2012) reveal a negative effect of having politicians on the board of directors on banking activities. Leuz and Oberholzer-Gee (2006) examine the effect of political connections in Indonesia and find that the firms' political relationships influence their financing strategies and long-term performance. They find that politically connected firms have more domestic and less foreign financing because their political network enables them to have easy access to domestic financing and therefore forgo foreign financing.

1.3 Hypothesis Development

The literature on political connections is mixed and highlights the value and drawbacks of political connections (Rajwani and Liedong (2015)). The literature on the value of political connections reveals that firms with political connections receive numerous government information and resources (Pastor and Veronesi (2012); Duchin and Sosyura (2012)). Lenders favor politically connected firms by providing larger loans and loans with better terms (Infante and Piazza (2014); Chen, Shen, and Lin (2014)). Houston et al. (2014) find that the political connections increase the value of U.S. firms, reduce monitoring costs, and banks charge a significantly lower rate to politically connected firms. Agarwal et al. (2016) find that borrowers with political connections have easy access to bank lending, lower loan spread, and require less

collateral than their non-connected firms. Halford and Li (2020) find that distressed firms with politically connected executives are less likely to file for Chapter 11 bankruptcy as they are more likely to reorganize outside the court. In addition, politically connected firms experience improved performance and positive abnormal stock returns (Goldman, Rocholl, and So (2009); Acemoglu et al. (2016)). Based on this evidence, we argue that lenders find politically connected firms less risky and therefore are more likely to provide loans to such borrowers and participate in the loan syndicate. Therefore, our first hypothesis is:

H₁: There is a positive relationship between borrower political connections and the ability of lead arrangers to syndicate loans measured in terms of the fraction of the loan sold by the lead arrangers to participant lenders, the likelihood of syndicating a loan, and the number of participant lenders in the loan syndicate.

On the other hand, the literature on the drawbacks of political connections suggests that the political connections of firms create moral hazard problems as they believe that their political connections would protect them in case of adverse market conditions. Khwaja and Mian (2005) show that politically connected firms borrow 45% more and have 50% higher default rates than their peers without political connections. Bliss and Gul (2012) find that politically connected firms are riskier as these firms have relatively higher leverage and a high likelihood of reporting a loss; as a result, lenders charge a higher interest rate to politically connected firms. Bertrand et al. (2018) show that politically connected firms experience negative annual excess returns as they alter their corporate employment strategy to create more jobs and plans to help their political connections in re-election. Aggarwal, Meschke, and Wang (2012) show that firms with poor corporate governance donate heavily to political candidates to establish connections and these firms experience a negative annual excess return. Thus, we predict politically connected firms are riskier and require better monitoring. Therefore, the participant lenders require a larger contribution from the lead arrangers. Based on these arguments, we derive an alternate hypothesis as:

H2: There is a negative relationship between borrower political connections and the ability of lead arrangers to syndicate loans measured in terms of the fraction of the loan sold by the lead arrangers to participant lenders, the likelihood of syndicating a loan, and the number of participant lenders in the loan syndicate.

2. Estimation Methods and Key Variables

2.1. Measure of Political Connections

Prior studies find various ways to measure the political connections of a firm. Following the literature, we measure a firm's political connections using active efforts by a firm to establish connections with politicians by lobbying and donations to the PACs as well as a passive political connection based on the location of the company.

2.1.1 Political Connections Based on Firm's Expenditure on Lobbying Activities

Our first measure of political connections is the firm's expenditure on lobbying activities (Yu and Yu (2011); Duchin and Sosyura (2012)). Firms use lobbying as a tool to influence government officials and politicians. We define a firm as politically connected if they have spent on lobbying activities in the year prior to the loan origination. The definition of lobbying is different in different states; generally, lobbying is an act of influencing public officials or government action to make changes in laws and legislation that support the firms' motives.¹

Firms spend a massive amount on lobbying Congress and federal agencies each year. They hire professional advocates called lobbyists who work on their behalf to lobby Congress members and government officials to pass a law or make changes in the existing laws that may help the companies' growth and performance. If the lobby is successful, firms gain huge returns over a longer period. In 2020, organizations spent approximately \$3.53 billion in lobbying government

¹ According to National Conference of State Legislatures (NCSL). <https://www.ncsl.org/research/ethics/50-state-chart-lobby-definitions.aspx>

officials and politicians and hired 11,544 lobbyists.² Appendix Table A3 presents the total expenditure by the corporations on lobbying and the number of lobbyists involved between January 1998 and July 2021.

2.1.2 Political Connections Based on Firm's Contribution to Political Action Committee

Another way firms build relationships with politicians is by contributing to PACs. According to Federal Election Commission, corporations, labor unions, membership organizations, or trade associates establish and administer a political committee called the Political Action Committee (PAC) to influence elections or legislation.³ These committees solicit contributions from the associated members to fund the election campaign to elect or defeat candidates. PACs may also solicit contributions from the general public or other PACs. PACs can give \$5,000 to a candidate committee per election, up to \$15,000 annually to any national party committee, and \$5,000 annually to any other PAC. Individual associates in the PACs can contribute up to \$5,000 per calendar year.⁴

Prior studies have shown that firms that provide funds to election campaigns receive benefits from their winning candidates. Following the literature, we use contributions to PACs as the second measure of political connections (Akey (2015); Claessens, Feijen, and Laeven (2008)). Claessens, Feijen, and Laeven (2008) show that contribution to election campaigns helps shape policies on a firm-specific basis resulting in higher stock return around the election than the firms that do not contribute. Similarly, Akey (2015) finds that firms experience higher abnormal equity return post-election donating to winning candidates.

² Opensecrets.org, Lobbying Data Summary, <https://www.opensecrets.org/federal-lobbying/>

³ Federal Election Commission (USA), Political Action Committees (PACs).

<https://www.fec.gov/press/resources-journalists/political-action-committees-pacs/>

⁴ Center for Responsive Politics, Political Action Committee (PAC). <https://www.opensecrets.org/>.

2.1.3 Geography-Based Measure of Political Connections

As a robustness test, we define a firm as politically connected if its headquarter is located in the same state as the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, hereafter, U.S. Senate Banking Committee, at the time of loan origination (Kostovetsky (2015); Zhou (2019); Chu and Zhang (2019)). The Chairperson has the most authority in the committee and has significant influence over banks and financial institutions. Their area of authority includes, but is not limited to banking, insurance, financial markets, securities, housing, urban development and mass transit, international trade and finance, and economic policy. The details of the committee Chairperson are shown in the Appendix Table A2.

2.2. Estimation Approach and Key Variables

This study examines the role of borrower political connections on loan syndication activities. The baseline econometric specification is given by the following equation:

$$\begin{aligned} \text{Syndication}_{l, i, t} = & \beta_0 + \beta_1 x (\text{Borrower Political Connections})_{i, t-1} \\ & + \beta_2 x (\text{Borrower Characteristics})_{i, t-1} + \beta_3 x (\text{Bank Characteristics})_{j, t-1} \\ & + \beta_4 x (\text{Loan Characteristics})_{l, t-1} + \text{Year FE} + \text{Loan Type FE} \\ & + \text{Loan Purpose FE} + \text{Error term} \end{aligned} \quad (1)$$

In the above equations, subscript l denotes loan, i denotes borrowers, and j denotes the lead arrangers. Subscripts t and $t-1$ represent the year the loan originated and a year prior to the loan origination, respectively. The dependent variable *Syndication* includes three variables: *SYND%*, *Participants*, and *Syndicated*. The dependent variable *SYND%* is the proportion of loans sold by the lead arrangers to the participating lenders. Its value is zero for non-syndicated loans and greater than zero for syndicated loans. Following the literature, we use a Tobit model to examine the effect of political connection on *SYND%* (Dennis and Mullineaux (2000)).

The dependent variable *Participants* is the number of participant lenders in the loan syndicate. Following the literature, we use an OLS model to test the effect of political connections

on the number of participating lenders (Gopalan, Nanda, and Yerramilli (2011)). The dependent variable, *Syndicated*, is an indicator variable equal to one if the loan is a syndicated loan and zero otherwise. Following the literature, we use a probit model to examine the effect of political connections on the likelihood of syndicating a loan (Gopalan, Nanda, and Yerramilli (2011)).

The key explanatory variable of interest in equation (1) is *Borrower Political Connections* measured by the three proxies previously described. *Lobbying Expenditure* is the lobbying expenditure of a firm in the year prior to loan origination. *PAC Expenditure* is the firm's contributions to the Political Action Committees (PACs) in the year prior to loan origination. *Geographic Location* is an indicator that equals one if the borrower is from the same state as the Chairperson of the U.S. Senate Banking Committee at loan origination and zero otherwise.

Following the literature on loan syndication, we use several controls that have been shown to impact the loan syndicate structure. We control for loan characteristics, borrower characteristics, and lender characteristics (Dennis and Mullineaux (2000); Gopalan, Nanda, and Yerramilli (2011); Chaudhry and Kleimeier (2015); Amiram et al. (2017)). The controls for loan characteristics include loan size and loan maturity. The controls for borrower characteristics include borrower size, leverage, market-to-book ratio, return on assets, Altman Z-Score, and age. The controls for lender characteristics are lender size, return on assets (ROA), deposit-to-assets, loan-to-assets, and tier1 capital-to-assets. Since syndication activities can be affected by heterogeneity across time, we use a year-fixed effects (Ivashina (2009)). We further use the loan type and loan purpose fixed effect in all regressions. Loan purpose fixed effect is based on loan purpose variables takeover, debt repayment, working capital, corporate purpose, and others. Loan type fixed effect is based on loan type variables – revolver/line loans less than one year, term loans, 364-day facility, and others. The definitions of the variables are shown in Appendix Table A1.

3. Data and Descriptive Statistics

3.1. Data Sources

In this study, we utilize data from varying sources over the period of 1996 - 2016. We use Thomson-Reuters' LPC (Loan Pricing Corporation) DealScan database for information on loans and lenders. Following Gopalan, Nanda, and Yerramilli (2011), we use the variable *LeadArrangerCredit* to identify if the lender is also a lead arranger.

For information on political connections, we acquire data from varying sources. For the geography-based measure of political connections, we obtain information on the Chairman serving on the United States Senate Committee on Banking, Housing, and Urban Affairs Committee from the United States Senate Committee on Banking, Housing, and Urban Affairs website.⁵ Information on the Chairman of the Senate Banking Committee is shown in Appendix Table A2. For information on the firm's lobbying expenditure and PAC contribution, we utilize data from the Center for Responsive Politics on the OpenSecrets website. The OpenSecrets website provides comprehensive information on firms' lobbying expenditure starting in 1998 and PAC information starting in 1990.⁶

We obtain data on borrowers' financial characteristics from Compustat and lenders' financial characteristics at the bank holding company (BHC) level from the Bank Regulatory database. We use the linking table provided by Chava and Roberts (2008) to link firm-level characteristics from Compustat to DealScan and the CRSP-FRB link provided by the Federal Reserve Bank of New York,⁷ and the linking table provided by Schwert (2018) to merge data from

⁵ History of the Chairman of the Senate. Source: United States Senate Committee on Banking, Housing, and Urban Affairs. <https://www.banking.senate.gov/about/history>.

⁶ In our sample, the lobbying data spans between 1998-2016 and the PAC data between 1996-2012. We plan to extend the sample in future research.

⁷ Federal Reserve Bank of New York. 2017. [CRSP-FRB Link](#).

the Bank Regulatory database with the DealScan. We exclude loans from our sample (i) that are not originated in the United States, (ii) for which lead arrangers cannot be identified, (iii) with missing financial information on lenders and borrowers, and (iv) that are made to financial institutions with SIC codes 6000 to 6799.

3.2. *Sample Characteristics*

Table 1 reports summary statistics of the key variables in our sample for loans originated between 1997 - 2016. After restricting our sample to lenders and borrowers with available financial information and loans made to non-financial firms, the final sample contains 9,587 loans where 3,144 firms borrow from fifty-three unique lead arrangers at the bank holding company (BHC) level.⁸

Panel A provides summary statistics of the measures of political connections. In our sample, 3% of the borrowers and 4% of the lead arrangers are from the home state of the Chairman of the U.S. Senate Banking Committee, 37% of the firms engage in lobbying activity with an average expenditure of \$615,620, and 23% of the borrowers donate to Political Action Committees (PACs) with an average contribution of \$22,920.

The average loan amount is \$624 million, with a median of \$250 million. Our sample includes both syndicated and non-syndicated loans, in which 75% of the loans are syndicated, with an average of 8.62 participant lenders. The average proportion of the loans sold by the lead arrangers to participating lenders is 61.04%. On average, the loans have a maturity of 44.14 months, and 44% of the loans are secured. On average, borrowers have a leverage of 0.27, a market-to-book value of 1.46, a return on assets (ROA) of 12%, and an age of 20.54 years. On

⁸ All continuous variables are winsorized at 1% and 99% levels to mitigate the effect of outliers in our sample.

average, the lead arrangers have a ROA of 4%, a deposit to assets ratio of 0.56, a loan to assets ratio of 0.50, and Tier1 capital-to-assets value of 0.07.

4. Empirical Results

4.1 Baseline Results: Borrower Political Connections and Loan Syndication Activity

This section analyzes the effect of borrower political connections on the ability of the lead arrangers to syndicate a loan. We begin the empirical analysis using the specification shown in equation (1). Table 3 reports the results of the effect of borrower expenditure on lobbying activities on the loan syndication activity of the lead arrangers.⁹ The coefficient on *SYND%* in Column (1) is positive and statistically significant, indicating that the lead arrangers sell a larger proportion of the loan to participating lenders if the borrowers are involved in lobbying activities. Similarly, the coefficients on *Syndicated* in Column (2) and *Participants* in Column (3) are positive and significant, indicating that the lead arrangers are more likely to syndicate loans and attract more participant lenders to the syndicate for loans to politically connected borrowers.

Consistent with the results using the definition of political connections via borrowers' expenditure on lobbying activities, the coefficients on *PAC Expenditure* in Columns (4) – (6) are also positive and significant, confirming the positive relationship between borrower political connections and loan syndication activity. More specifically, the results indicate that the lead arrangers are more likely to syndicate a loan, sell a larger fraction of the loan syndicate to participant lenders, and attract more participants for loans to borrowers that spend on lobbying activities or donate to PACs.

⁹ We control for the loan amount as loan size affects the loan syndicate structure. However, there is a high correlation of 0.85 between *Loan Size* (logarithm of loan amount) and *size* (logarithm of total assets), causing a multicollinearity problem. Therefore, we regress *Loan Size* on *Lobbying Expenditure*, estimate the residual, and use the residual in all regressions where the dependent variable is *Lobbying Expenditure* and do the same for the *PAC Expenditure* to resolve the multicollinearity issue.

4.2 *Endogeneity Issues*

A potential concern that may confound the baseline results is some unobservable borrower or bank characteristics that may influence the relationship between borrower political connections and loan syndication activity. Even after controlling for lender and borrower characteristics, it is possible that some omitted variables may correlate with both the loan syndication activity and firms' lobbying expenditure and PAC contribution simultaneously. We address this potential endogeneity concern using propensity score matching and an instrumental variable approach.

4.2.1 *Propensity Score Matching*

The first approach we use to alleviate the endogeneity concern is a propensity-score matching technique developed by Rosenbaum and Rubin (1983). Using this method, we match politically connected firms with similar non-politically connected firms based on borrower characteristics to control for potential differences between the two groups. This is a two-stage approach. The first stage is a probit model with a binary dependent variable (*LobbyDummy* or *PACDummy*) for firms that lobby or donate to PACs. The independent variables include borrower characteristics in the baseline regression. The second stage performs one-to-one matching with a replacement for each observation in the treatment group and a matched observation in the control group. In Table 4, we re-estimate the baseline analysis using the matched sample. The coefficients on *Lobbying Expenditure* in Columns (1) - (3) and *PAC Expenditure* in Columns (4) - (6) are positive and significant, confirming the positive relationship between borrower political connections and loan syndication activity in the baseline analysis.

4.2.2 *Instrumental Variable Analysis*

Another approach used to alleviate the confounding effect of omitted variables in the baseline regression is by using a 2-stage least square (2SLS) method. Following the literature, we

use distance to Washington D.C., *DistanceToDC*, as an instrument for lobbying activities (Houston et al. (2014); Lambert (2019); Gao and Huang (2016)). *DistanceToDC* is estimated as a logarithm of one plus the distance of the firm's headquarters from Washington D.C. in miles. The instrument, *DistanceToDC*, proxies for the cost of lobbying and satisfies both conditions of exclusion and relevance (Gao and Huang (2016); Lambert (2019)). Lobbying is less costly for firms close to Washington D.C., as regular interaction with lobbyists and government officials is possible. Therefore, firms close to D.C. are more likely to spend on lobbying activity to build strong relationships with government officials, satisfying relevance condition. The distance between firms and Washington D.C. is unlikely to affect the loan syndication activity, satisfying the exclusion condition.

2SLS is a two-stage process. The first stage is an OLS model where the instrument, *DistanceToDC*, is regressed on the endogenous variable *Lobbying Expenditure* and estimates the predicted value.¹⁰ The second stage uses the fitted value from the first stage as the key independent variable to assess the effect of borrower political connections on the loan syndication activity. The result of the instrumental variable approach is presented in Table 5. Columns (1) and (2) present the first stage of the 2SLS. The coefficient on *DistanceToDC* in Columns (1) is negative and significant, indicating that the firms close to D.C. are more likely to spend on lobbying activities. Therefore, such firms are more likely to have political connections than firms located far from D.C. This is consistent with existing literature. Columns (3) – (5) report the second stage of the IV analysis. The coefficients on the *Lobbying Expenditure* in Columns (3) - (5) are positive and significant, consistent with the baseline results.

¹⁰ We present results of lobbying expenditure only because the instrument *DistanceToDC* is not a valid instrument for *PAC Expenditure*, indicated by the non-significant coefficient on *DistanceToDC* in the first stage of the 2-stage least square (2SLS) in Column (2), Table 1.6.

4.3 *Other Robustness Tests*

4.3.1 *Borrower Geographic Location and Loan Syndication*

The measure of political connections via lobbying activities and donations to PACs are the active measures of political connections. As a robustness test, we use a passive form of political connections, *Geographic Location*, from borrowers' location in the home state of the Chair of the U.S. Senate Committee on Banking, Housing, and Urban Affairs. Table 6 reports the results using the passive measure of political connections. The positive relationship between the measure of political connections and the loan syndication activity is consistent with the baseline regression.

4.3.2 *Subsample Test*

Our sample consists of both syndicated and non-syndicated loans. The syndicated loans have multiple lead arrangers. In our sample, 75% of the loans are syndicated loans, 49.73% of the observations have one lead arranger, 8.41% have two lead arrangers, and the rest have three or more lead arrangers. As a robustness test, we create a sub-sample of loans with only one lead arranger and only syndicated loans and re-estimate the baseline regressions. The results are presented in Table 7. Panel A presents results on the sub-sample of only one lead arranger, and Panel B shows results of the sub-sample of only syndicated loans. The results largely hold and are consistent with the baseline results.

4.3.3 *Political Connections and Loan Syndication During the Financial Crisis*

The financial crisis of 2008/09 significantly affected the loan market, causing bank lending to fall significantly due to increased risk (Ivashina and Scharfstein (2010)). During this period, the lead arrangers generally retained a larger fraction of the loan as a signal for better monitoring (De Haas and Van Horen (2010)). Studies on political connections have shown that politically connected firms receive favorable regulatory terms and support during the adverse economic

condition (Houston et al. (2014); Faccio, Masulis, and McConnell (2006); Boubakri et al. (2012); Infante and Piazza (2014); Chen, Shen, and Lin (2014)).

Blau, Brough, and Thomas (2013) show that politically connected firms are more likely to receive government support such as the Troubled Asset Relief Program (TARP) and a larger amount than non-politically connected firms during the 2008 financial crisis. Similarly, Faccio, Masulis, and McConnell (2006) examine the likelihood of government bailouts on politically connected firms from countries worldwide. They find that politically connected firms are significantly more likely to be bailed out than their non-connected peers. Thus, we hypothesize that the lead arranger's ability to syndicate loans should not be affected adversely during the financial crisis for politically connected borrowers.

Table 8 presents the results of the role of borrower political connections on loan syndication activity during the financial crisis period. The independent variable, *Financial Crisis*, is an indicator variable that equals one if the loan originated in 2008 and 2009 and zero otherwise. The coefficients on *Financial Crisis* in all columns are negative and significant, indicating that the ability of the lead arrangers to syndicate loans declines during the financial crisis. However, the coefficients on the variable of interest, i.e., the interaction between the measures of political connections and financial crisis, are non-significant in all columns except in Column (5), where the coefficient on the interaction term between *PAC Expenditure* and *Financial Crisis* is positive and significant at 10% level. This result reveals that the lead arrangers are unlikely to experience the adverse effect of the financial crisis on their ability to syndicate loans. In fact, the lead arrangers are more likely to syndicate loans for borrowers that contribute to election campaigns in the year prior to loan origination. This finding is consistent with existing literature that discovers various benefits of political connections during adverse market conditions (Acemoglu et al. (2016)).

4.3.4 *Political Connections and Loan Syndication for Opaque Borrowers*

Prior literature suggests that due to the information asymmetry among the syndicate members, participant lenders require a larger contribution from the lead arrangers to protect themselves from the information asymmetry problems. Sufi (2007) shows that opaque borrowers have severe information asymmetry problems. Therefore, in this section, we examine the effect of borrower political connections on loan syndication activity for opaque borrowers. The result is presented in Table 9.

Borrower opacity is measured by the presence or absence of a S&P 500 credit rating. The independent variable in Table 9, *Unrated*, is an indicator variable that equals one if the borrowers do not have an S&P 500 credit rating and zero otherwise. The main variable of interest is the interaction term between the measures of political connections and *Unrated*. The coefficients on the interaction between *Lobbying Expenditure* and *Unrated* in Columns (1) and (2) and *PAC Expenditure* and *Unrated* in Columns (4) and (5) are positive and significant, indicating that the lead arrangers sell a larger fraction of the loan and are more likely to syndicate loans if the opaque borrowers have political connections. However, the coefficients on the interaction terms in Column (6) is negative and significant. Overall, the results in this section are consistent with the value of political connections and reveal that political connections are more valuable for opaque borrowers as the lead arrangers are more likely to syndicate loans and sell a larger fraction of the loans to participant lenders.

4.4 *Post-Lending Performance of Politically Connected Firms: Channel Effect*

The analysis so far reveals that the lead arrangers of loans to politically connected borrowers are more likely to syndicate loans, sell a larger proportion of the loans, and attract more participant lenders to the loan syndicate. These results are consistent with participant lenders

perceiving politically connected borrowers as less risky or better performing. This section sheds light on whether this perception is true by analyzing the post-lending performance of politically connected borrowers.

4.4.1 Political Connections and Firm Performance

Next, we examine the post-lending effect of borrower political connections on the connected firm's performance. Since the political relations of the borrowers are valuable sources of government information and connected firms can seek favorable policies and various other benefits, their future performance should improve. In addition, lenders also favor connected borrowers by offering larger loans, loans with lower costs, and better terms, which can also help the connected firms boost their performance. To test this argument, we use return on assets (ROA) as a proxy for firm performance. The results are presented in Table 10.

The dependent variables $ROA_{(t+1)}$ in Columns (1) and (2) and $ROA_{(t+2)}$ in Columns (3) and (4) are the return on assets in one year and two years following the loan origination, respectively. The coefficients $ROA_{(t+1)}$ and $ROA_{(t+2)}$ in all columns are positive and significant, suggesting that the borrowers with political connections experience an increase in return on assets in one year and two years following the loan origination. This result is consistent with the study by Ovtchinnikov and Pantaleoni (2012), in which they show that firms making political contributions experience improved operating performance as they receive support from politicians with jurisdiction over the industry.

4.4.2 Political Connections and Firm's Investment Activities

Next, we examine the effect of political connections on borrowers' investing activities. Due to the numerous benefits politically connected firms receive, we expect an increase in capital expenditure and cash flow in politically connected firms following loan origination. To test this

argument, we regress a firm's capital expenditure to total assets and cash flow to assets on the measures of political connections. The results are reported in Table 11.

In Panel A, the dependent variables $Capex\text{-}to\text{-}TA_{(t+1)}$ in Columns (1) and (2) and $Capex\text{-}to\text{-}TA_{(t+2)}$ in Columns (3) and (4) are the logarithm of the ratio of the firm's capital expenditure to total assets in one year and two years following loan origination, respectively. The coefficient on *Lobbying Expenditure* in Column (1) is positive and significant, indicating that the firms that spend on lobbying experience higher capital expenditure in the year following loan origination. The coefficients on *PAC Expenditure* in Columns (2) and (4) are positive and significant, revealing that the firms donating to PACs experience higher capital expenditure in the next two years following loan origination.

In Panel B, the dependent variables $Cashflow\text{-}to\text{-}TA_{(t+1)}$ in Columns (1) and (2) and $Cashflow\text{-}to\text{-}TA_{(t+2)}$ in Columns (3) and (4) are the logarithm of the ratio of the firm's cash flow to total assets in one year and two years following loan origination. The coefficients on *Lobbying Expenditure* in Columns (1) and (3) and the coefficients on *PAC Expenditure* in Columns (2) and (4) are positive and significant, indicating that the firms that spend on lobbying or donate to PACs have higher cash flow in the next two years following the loan origination.

Overall, the results in this section are consistent with the information transmission hypothesis. Politically connected firms receive valuable government information that helps them adjust their strategy resulting in improved creditworthiness, performance, and investment expenditure in the years following the loan origination. Due to this, the ability of the lead arrangers to syndicate loans is better for politically connected firms.

5. Future Research

We have several additional tests planned. First, we are in the process of using BoardEx data to identify board members and top executives with political employment backgrounds or other political connections. This would be another mechanism for firms to establish political connections to complement the current measures (Goldman, Rocholl, and So (2009); Halford and Li (2020)). We are also updating the PAC and lobbying contribution data from Open Secrets to cover a more recent time period.

We also plan to explore the intersection of lender and borrower political connections. Recent studies highlight that the lenders' political connections directly impact borrowing firms' performance and investment activity. Delis et al. (2021) study the real effect of bank market power, proxied by bank political lobbying, on borrowers' performance. They find that the borrowing firms' performance improves after receiving loans from lobbying banks. Furthermore, the credit supply from the lobbying banks enables borrowers to increase capital expenditures leading to increased sales. We can also identify the political connections of the participant banks to see if politically connected participants gravitate toward loans to politically connected borrowers.

Our current tests explore the syndication of loans during the financial crisis and the moderating effect of political connections. However, information from politicians may be more beneficial during periods of high economic policy uncertainty. To complement the results on the financial crisis, we will add these tests.

Lastly, we will expand the channel tests related to firm performance and investment following loan issuance. In addition to measures of performance and capital investment, we plan to test the impact of political power on borrower creditworthiness and market share in the industry.

6. Conclusion

In this paper, we study the effect of borrower political connections on the loan syndication activity of the lead arrangers. Using a passive form of political connections based on the firm's geographic location and active forms based on a firm's expenditure on lobbying activity and contributions to Political Action Committees (PACs), we find that for loans to borrowers with political connections, the lead arrangers sell a larger fraction of the loan, are more likely to syndicate loans, and attract more participant lenders to the syndicate. This finding highlights the benefit of borrower political connections to the lead arrangers. This result is consistent with findings in the existing literature that show the lenders also benefit from borrower political connections (Agarwal et al. (2016)).

A firm's decision to lobby or donate to PACs is endogenous. Firms may lobby or donate to election campaigns to build connections with politicians and lawmakers when the cost of political connections outweighs the benefits. To mitigate the effect of endogeneity in our results, we use matched sample and instrumental variable approaches and find comparable results. Additional tests reveal that the political connections are valuable during the financial crisis and particularly for opaque borrowers.

Lastly, we examine the channel effects through which borrower political connections work in loan syndication. We find that politically connected borrowers experience improved performance, capital expenditure, and cash flow in the next two years following the loan origination. This may serve as a credible signal for future borrower performance resulting in the enhanced ability of the lead arrangers to syndicate loans and attract participant lenders.

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Table A1
Variable Definitions

This appendix table contains the definitions of all independent and dependent variables in our sample.

Variable	Definition
Political Connections	
<i>Geographic Location</i>	An indicator variable equals one if the borrower is from the same state as the Chairperson of the U.S. Senate Committee on Banking, Housing, and Urban Affairs in year t and zero otherwise.
<i>Lobbying Expenditure</i>	Total expenditure on lobbying activities by borrowers in the year $t-1$. It is estimated as a $\log(1 + \text{lobbying expenditure})$.
<i>PAC Expenditure</i>	Total expenditure on donations to Political Action Committee (PAC) by borrowers in year $t-1$. It is estimated as a $\log(1 + \text{PAC expenditure})$.
Loan Characteristics	
<i>Syndicated</i>	An indicator variable equals one if the loan is a syndicated loan and zero otherwise. A syndicated loan has more than one lender.
<i>SYND%</i>	A fraction of loans sold by lead arrangers to participant lenders multiplied by 100. Its value is 0% for non-syndicated loans and more than 0% and less than or equal to 100% for a syndicated loan.
<i>Participants</i>	The number of participant lenders in a loan syndicate.
<i>Loan Amount</i>	The logarithm of facility amounts in DealScan.
<i>Maturity</i>	The logarithm of the loan's maturity period in months.
<i>Secured:</i>	An indicator variable equals one if the loan has collateral against it and zero otherwise.
<i>Average Loan Size</i>	The average facility amount in a deal package.
<i>Average Maturity</i>	The average maturity (in months) of loans in a deal package.
Lead Arranger Characteristics	
<i>BHC_Size:</i>	The natural log of the bank's book value of total assets (BHCK2170).
<i>BHC_ROA:</i>	The ratio of the bank's income before extraordinary items (BHCK4592) to total assets.
<i>BHC_Deposit-to-TA:</i>	The ratio of total deposits (BHDM6631 + BHDM6636 + BHFN6631 + BHFN6636) to total assets.
<i>BHC_Loan-to-TA:</i>	The ratio of total bank loans (BHCK2122) to its total assets.
<i>BHC_Tier1Capital-to-TA:</i>	The ratio of Tier-1 capital (BHCK8274) to its total assets.
<i>Market Share</i>	Lead lender's last year's market share in the syndicated loan market.
<i>Financial Crisis</i>	An indicator equals one if the loan originated in the years 2007 and 2008 and zero otherwise.
Borrower Characteristics	
<i>Size</i>	The log of total assets.
<i>Leverage</i>	The ratio of the sum of long-term debt and debt in current liabilities to total assets.

<i>Market to book</i>	The ratio of the sum of long-term debt, debt in current liabilities, and market value of equity to assets. The market value of equity is the product of the price per share and the number of shares outstanding.
<i>ROA</i>	The ratio of earnings before interest, depreciation, and taxes (EBITDA) to total assets.
<i>Tobin's Q</i>	The ratio of the market value of assets to the book value of assets.
<i>Altman Z-score</i>	It is estimated as: $Altman\ Z\text{-score} = 1.2X1 + 1.4X2 + 3.3X3 + 0.6X4 + 0.99X5$ (Where $X1$ = ratio of working capital to total assets $X2$ = ratio of retained earnings to total assets $X3$ = ratio of EBIT to total assets $X4$ = ratio of the market value of equity to book value of total liabilities $X5$ = ratio of sales to total assets
<i>Stock Volatility</i>	The annualized standard deviation of stock return based on daily stock return.
<i>Distance to D.C.</i>	The distance of Washington D.C. from the borrower headquarters (in miles). It is estimated as a $\log(1+Distance\ to\ D.C.)$.

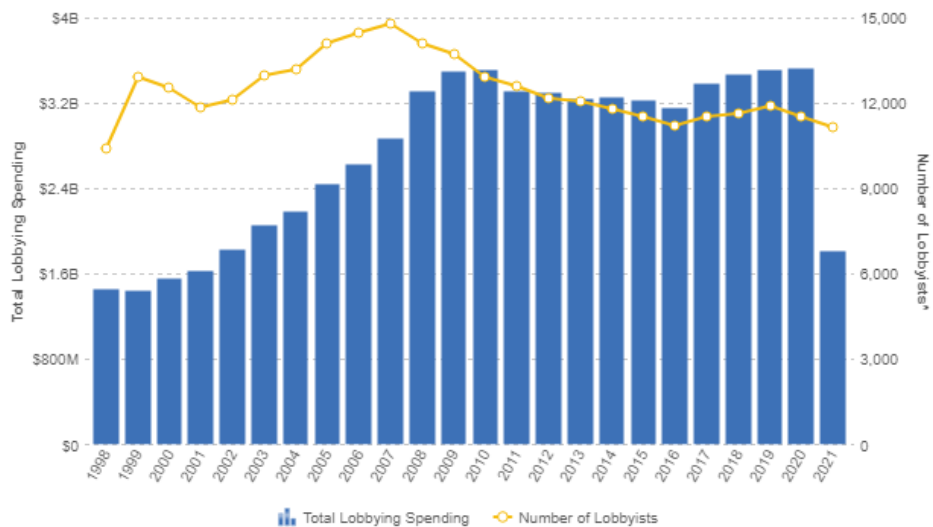
Table A2
List of Chairpersons Serving on the US Senate Committee on Banking, Housing, and Urban Affairs and their Home States

This table reports the list of Chairpersons serving in the U.S. Senate over the period of 1995 – 2020.¹¹

Start Year	End Year	Name	Party	State
1995	1998	Alfonse D'Amato	Republican	New York
1999	2000	Phil Gramm	Republican	Texas
2001	2002	Paul Sarbanes	Democratic	Maryland
2003	2006	Richard Shelby	Republican	Alabama
2007	2010	Chris Dodd	Democratic	Connecticut
2011	2014	Tim Johnson	Democratic	South Dakota
2015	2016	Richard Shelby	Republican	Alabama
2017	2020	Mike Crapo	Republican	Idaho

Table A3
Total Lobbying Expenditure and Lobbyists

This table shows the total expenditure on lobbying and the number of lobbyists used by the corporations between January 1998 and July 2020. Source: Opensecrets.org



¹¹ History of the Chairmen of the senate. Source: United States Senate Committee on Banking, Housing, and Urban Affairs. <https://www.banking.senate.gov/about/history>

Table 1: Summary Statistics of Key Variables

This table reports summary statistics of the key variables in the dataset. The variables are identified uniquely at the loan- and deal-year levels. The descriptive statistics cover data from 1997 to 2016. All continuous variables are winsorized at 1% and 99% levels. The final sample contains 9,587 loans where 3,144 firms borrowing from 53 unique BHCs. The definition of all variables is shown in Appendix A1.

	Mean	Std. Dev.	P25	Median	P75	N
Panel A: Political Connections						
Geographic Location	0.03	0.18	0.00	0	0	13202
Lobbying Expenditure ('000')	615.62	1,825.02	0.00	0	240,000	11556
LobbyingDummy	0.37	0.48	0.00	0	1	11556
PAC Expenditure ('000')	22.92	83.44	0.00	0	0	10352
PACDummy	0.23	0.42	0.00	0	0	10352
Lead Arranger Geographic Location	0.04	0.19	0.00	0	0	13202
Panel B: Loan Characteristics						
Loan Amount (millions)	624	1,062	50	250	725	13202
Maturity (months)	44.14	20.62	25	54	60	13202
SYND%	61.04	37.91	0.00	82.33	90	13202
Syndicated	0.75	0.44	0.00	1	1	13202
Participants	8.62	9.05	0.00	7	14	13202
Secured	0.44	0.50	0.00	0	1	13202
Panel C: Borrower Characteristics						
Size	7.34	2.2	5.73	7.49	8.92	13202
Leverage	0.27	0.18	0.14	0.26	0.38	13202
Market-to-Book	1.46	0.97	0.84	1.16	1.71	13202
ROA	0.12	0.10	0.09	0.13	0.17	13202
Altman Z-Score	3.51	3.05	1.77	2.85	4.33	13202
Age	20.54	15.67	7.00	16	34	13202
Distance-to-DC	861.54	717.74	304.05	614	1214.5	12956
Panel D: Lead Arrangers Characteristics						
BHC Size	20.04	1.42	19.16	20.38	21.32	13202
BHC ROA	0.04	0.02	0.02	0.04	0.05	13202
BHC Deposit-to-TA	0.56	0.13	0.47	0.56	0.66	13202
BHC Loan-to-TA	0.50	0.16	0.37	0.50	0.64	13202
BHC Tier1Capital-to-TA	0.07	0.01	0.06	0.07	0.08	13202
Market Share	0.11	0.13	0.01	0.06	0.20	12914
Financial Crisis	0.05	0.21	0.00	0	0	13202

Table 2: Correlation Matrix of Key Independent Variables

This table reports the correlation matrix of the key independent variables. All continuous variables are winsorized at 1% and 99% levels. The definition of all variables is shown in Appendix A1.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) Loan Amount	1.00													
(2) Maturity	0.19	1.00												
(3) Secured	-0.48	0.08	1.00											
(4) Size	0.85	0.08	-0.52	1.00										
(5) Leverage	0.17	0.05	0.01	0.21	1.00									
(6) MarketToBook	-0.06	-0.02	-0.03	-0.14	-0.18	1.00								
(7) ROA	0.24	0.13	-0.21	0.15	-0.05	0.30	1.00							
(8) Altman Z-Score	-0.13	0.00	-0.01	-0.22	-0.51	0.68	0.41	1.00						
(9) Age	0.41	0.03	-0.37	0.48	0.05	-0.15	0.13	-0.12	1.00					
(10) BHC Size	0.61	0.22	-0.29	0.58	0.10	-0.07	0.24	-0.05	0.34	1.00				
(11) BHC ROA	-0.37	-0.11	0.17	-0.36	-0.05	0.06	-0.11	0.06	-0.20	-0.46	1.00			
(12) BHC Deposit-to-TA	-0.42	-0.04	0.22	-0.43	-0.12	0.06	-0.16	0.07	-0.19	-0.57	0.42	1.00		
(13) BHC Loan-to-TA	-0.47	-0.06	0.24	-0.48	-0.07	-0.01	-0.05	0.09	-0.22	-0.53	0.46	0.76	1.00	
(14) BHC Tier1Capital-to-TA	-0.01	0.09	0.05	0.00	-0.03	0.04	-0.13	-0.03	0.04	-0.24	0.07	0.50	0.27	1.00

Table 3: Lobbying and PAC Expenditure and Loan Syndication

This table reports the results of regression analysis of the borrower political connections proxied by lobbying expenditure and PAC contributions on the loan syndication activities of the lead arrangers. The dependent variable, *SYND%* is the fraction of the loan sold by the lead arrangers to participant lenders; *Syndicated* is a dummy equal to (1) if the loan is a syndicated loan and (0) otherwise, and *Participants* is the total number of participating lenders in the loan syndicate. The key independent variables, *Lobbying Expenditure* and *PAC Expenditure*, are log one plus firm's expenditure on lobbying activity and political action committee (PAC) in the year prior to loan origination. In all specifications, we include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)
	SYND%	Syndicated	Participants	SYND%	Syndicated	Participants
Lobbying Expenditure	1.643*** (0.071)	0.079*** (0.005)	0.295*** (0.016)			
PAC Expenditure				2.621*** (0.119)	0.111*** (0.008)	0.472*** (0.026)
Loan Amount	13.818*** (0.401)	0.599*** (0.023)	1.974*** (0.075)	16.689*** (0.497)	0.615*** (0.023)	2.078*** (0.076)
Maturity	17.035*** (0.857)	0.527*** (0.045)	2.806*** (0.150)	15.858*** (1.004)	0.395*** (0.043)	2.041*** (0.152)
Secured	-4.232*** (0.699)	-0.210*** (0.044)	0.891*** (0.157)	-3.702*** (0.870)	-0.111*** (0.043)	0.943*** (0.163)
Size	1.791*** (0.345)	0.065*** (0.019)	1.389*** (0.069)	1.977*** (0.432)	0.046** (0.019)	1.179*** (0.070)
Leverage	12.587*** (2.197)	0.241* (0.131)	0.318 (0.406)	13.146*** (2.675)	0.212* (0.123)	-0.957** (0.405)
Market-To-Book	-3.699*** (0.461)	-0.144*** (0.026)	-0.158** (0.072)	-4.493*** (0.616)	-0.146*** (0.028)	0.122* (0.073)
ROA	58.101*** (4.485)	1.973*** (0.248)	-2.350*** (0.604)	65.401*** (5.383)	2.000*** (0.237)	-1.418*** (0.538)
Altman Z-Score	0.166 (0.195)	0.008 (0.010)	-0.012 (0.027)	0.463* (0.239)	0.015 (0.010)	-0.095*** (0.025)
Age	-0.010 (0.321)	0.020 (0.021)	-0.225*** (0.066)	-0.422 (0.399)	-0.007 (0.020)	-0.301*** (0.069)
BHC_Size	1.994*** (0.452)	0.049* (0.026)	0.079 (0.083)	1.414** (0.584)	-0.028 (0.026)	0.126 (0.083)
BHC_ROA	-97.88*** (18.712)	-4.575*** (1.286)	-8.618** (4.053)	-130.82*** (22.720)	-5.398*** (1.305)	-7.322* (4.335)
BHC_Deposit-to-TA	19.412*** (4.414)	1.339*** (0.295)	4.714*** (0.942)	3.342 (5.892)	0.219 (0.323)	3.171*** (1.016)
BHC_Loans-to-TA	-9.617*** (3.573)	-0.300 (0.194)	-4.348*** (0.593)	-12.286*** (4.186)	-0.243 (0.189)	-5.004*** (0.575)
BHC_Tier1Capital-to-TA	86.846** (40.183)	2.131 (2.380)	-4.304 (7.030)	211.289*** (50.632)	2.187 (2.262)	1.852 (6.447)
Observations	11556	11556	11556	10352	10352	10352
R-squared/ Pseudo R ²	0.111	0.525	0.500	0.122	0.518	0.526
Specification	Tobit	Probit	OLS	Tobit	Probit	OLS
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 4: Borrower Political Connection and Loan Syndication: Matched Sample

This table reports the results of regression analysis of the borrower political connections on the loan syndication activities on a matched sample. The key independent variables, *Lobbying Expenditure* and *PAC Expenditure* are log one plus firm's expenditure on lobbying activity and political action committee (PAC) in the year prior to loan origination. Columns (1) – (3) reports the results of matched sample for lobbying firm. Columns (4) – (6) report the results of matched sample for firms contributing to PAC. In all specifications, we include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1) SYND%	(2) Syndicated	(3) Participants	(4) SYND%	(5) Syndicated	(6) Participants
Lobbying Expenditure	1.757*** (0.062)	0.101*** (0.006)	0.457*** (0.016)			
PAC Expenditure				2.578*** (0.126)	0.139*** (0.009)	0.713*** (0.034)
Loan Amount	11.448*** (0.374)	0.670*** (0.030)	3.063*** (0.092)	12.268*** (0.580)	0.608*** (0.034)	3.501*** (0.134)
Maturity	10.149*** (0.784)	0.376*** (0.056)	3.495*** (0.180)	12.741*** (1.209)	0.346*** (0.072)	5.490*** (0.324)
Secured	-5.642*** (0.757)	-0.346*** (0.060)	1.252*** (0.228)	-7.092*** (1.151)	-0.277*** (0.085)	1.323*** (0.355)
Size	-1.296*** (0.290)	-0.020 (0.021)	0.949*** (0.072)	-2.930*** (0.493)	-0.125*** (0.027)	1.215*** (0.114)
Leverage	6.421*** (2.311)	0.202 (0.213)	1.170* (0.617)	-0.935 (3.123)	-0.369 (0.260)	0.673 (0.863)
Market-To-Book	-4.235*** (0.494)	-0.064 (0.041)	-0.528*** (0.109)	-1.940** (0.803)	0.042 (0.071)	-1.053*** (0.217)
ROA	45.189*** (5.149)	2.592*** (0.398)	1.547 (1.194)	31.093*** (7.355)	2.240*** (0.639)	-2.971 (1.969)
Altman Z-Score	0.452* (0.269)	0.002 (0.020)	0.121** (0.054)	-0.083 (0.350)	-0.047 (0.030)	0.492*** (0.089)
Age	-0.324 (0.329)	0.017 (0.030)	-0.072 (0.094)	-0.284 (0.485)	-0.049 (0.043)	-0.363** (0.157)
BHC_Size	0.716 (0.493)	-0.021 (0.045)	-0.083 (0.140)	-1.955** (0.821)	-0.219*** (0.057)	0.089 (0.204)
BHC_ROA	2.964 (17.061)	2.264 (2.033)	-1.859 (5.484)	-81.77*** (23.795)	-8.435*** (2.538)	-1.215 (7.613)
BHC_Deposit-to-TA	20.296*** (4.322)	1.621*** (0.394)	4.495*** (1.225)	-6.377 (6.746)	-0.983 (0.601)	2.733 (1.853)
BHC_Loans-to-TA	-3.274 (4.073)	0.309 (0.366)	-4.257*** (1.050)	-4.749 (5.298)	1.018** (0.441)	-7.087*** (1.483)
BHC_Tier1Capital-to-TA	-152.58*** (38.486)	-6.092 (3.887)	-25.581** (11.041)	-63.908 (62.624)	-8.686* (5.002)	18.620 (15.563)
Observations	8574	8574	8574	4800	4800	4800
R-squared	0.066	0.452	0.411	0.056	0.390	0.432
Specification	Tobit	Tobit	Tobit	Tobit	Probit	OLS
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 5: Borrower Political Connection and Loan Syndication: Instrumental Variable Approach

This table reports the results of regression analysis of the borrower political connections on the loan syndication activities using an instrumental variable (IV) approach. The instrument variable *DistancetoDC* is the log of one plus the distance of a firm's headquarters to Washington D.C. Columns (1) and (2) show the first stage of regression of the 2-stage least square (2SLS) approach. Columns (3) – (5) present the second stage of the 2SLS. The dependent variable, *SYND%* is the fraction of the loan sold by the lead arrangers to participant lenders; *Syndicated* is a dummy equal to (1) if the loan is a syndicated loan and (0) otherwise; *Participants* is the total number of participant lenders in the loan syndicate. In all specifications, we include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1) Lobbying Expenditure	(2) PAC Expenditure	(3) SYND%	(4) Syndicated	(5) Participants
DistancetoDC	-0.138*** (0.047)	-0.013 (0.035)			
Lobbying Expenditure			3.724* (2.155)	0.178*** (0.011)	0.865* (0.501)
Loan Amount	-0.283*** (0.062)	-0.148*** (0.044)	14.816*** (0.750)	0.279*** (0.083)	2.203*** (0.166)
Maturity	-0.415*** (0.115)	-0.378*** (0.078)	18.764*** (1.279)	0.277*** (0.077)	3.065*** (0.269)
Secured	0.214* (0.124)	0.030 (0.085)	-5.114*** (0.986)	-0.120*** (0.040)	0.780*** (0.206)
Size	1.787*** (0.059)	1.146*** (0.043)	-5.080 (3.864)	-0.291*** (0.032)	-0.071 (0.896)
Leverage	-1.253*** (0.333)	0.072 (0.235)	17.290*** (3.745)	0.304*** (0.081)	1.402* (0.812)
Market-To-Book	0.584*** (0.069)	0.256*** (0.044)	-6.009*** (1.367)	-0.158*** (0.021)	-0.626** (0.305)
ROA	-0.501 (0.531)	0.731** (0.304)	60.205*** (5.210)	0.843*** (0.305)	-2.079*** (0.772)
Altman Z-Score	-0.164*** (0.024)	-0.057*** (0.014)	0.801* (0.415)	0.032*** (0.006)	0.121 (0.088)
Age	0.743*** (0.057)	0.514*** (0.038)	-2.926* (1.679)	-0.126*** (0.017)	-0.839** (0.387)
BHC_Size	-0.274*** (0.067)	-0.207*** (0.047)	3.060*** (0.809)	0.069*** (0.016)	0.297* (0.174)
BHC_ROA	4.386 (3.480)	3.349 (2.717)	-114.84*** (24.921)	-2.509** (0.998)	-11.733** (5.331)
BHC_Deposit-to-TA	0.250 (0.742)	0.154 (0.612)	19.349*** (5.392)	0.479* (0.259)	4.300*** (1.149)
BHC_Loans-to-TA	-0.861* (0.490)	-0.216 (0.324)	-6.533 (4.516)	0.039 (0.128)	-3.479*** (0.820)
BHC_Tier1Capital -to-TA	-24.225*** (6.152)	-12.770*** (4.032)	171.337** (70.173)	5.027*** (1.470)	14.272 (14.930)
Observations	11329	10151	11329	11329	11329
Specification	OLS	OLS	Tobit	Probit	OLS
Year FE	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes	Yes

Table 6: Borrower Geographic Location and Loan Syndication

This table reports the results of regression analysis of the borrower political connections on the loan syndication activities of the lead arrangers using the geography-based measure of political connections. The dependent variable, *SYND%* is the fraction of the loan sold by the lead arrangers to participant lenders; *Syndicated* is a dummy equal to (1) if the loan is a syndicated loan and (0) otherwise, and *Participants* is the total number of participating lenders in the loan syndicate. The key independent variable *Geographic Location* is a dummy equal to (1) if the borrower is from the same state as the Chairperson of the United States Senate Committee on Banking, Housing, and Urban Affairs and zero otherwise. In all specifications, we include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1) SYND%	(2) Syndicated	(3) Participants
Geographic Location	4.603** (1.802)	0.236*** (0.088)	0.994*** (0.346)
Loan Amount	15.153*** (0.397)	0.602*** (0.020)	2.009*** (0.071)
Maturity	16.403*** (0.829)	0.431*** (0.040)	2.351*** (0.137)
Secured	-3.358*** (0.708)	-0.141*** (0.040)	1.121*** (0.150)
Size	1.375*** (0.336)	0.050*** (0.017)	1.439*** (0.063)
Leverage	12.959*** (2.207)	0.233** (0.115)	0.030 (0.385)
Market-To-Book	-3.766*** (0.476)	-0.137*** (0.025)	-0.074 (0.066)
ROA	59.281*** (4.471)	1.957*** (0.219)	-1.977*** (0.530)
Altman Z-Score	0.268 (0.193)	0.011 (0.009)	-0.017 (0.024)
Age	-0.471 (0.323)	-0.007 (0.018)	-0.217*** (0.061)
BHC_Size	1.406*** (0.451)	-0.003 (0.023)	0.045 (0.076)
BHC_ROA	-118.48*** (19.165)	-5.330*** (1.217)	-9.972** (4.022)
BHC_Deposit-to-TA	17.538*** (4.439)	1.034*** (0.269)	4.295*** (0.872)
BHC_Loan-to-TA	-11.825*** (3.572)	-0.316* (0.175)	-4.765*** (0.555)
BHC_Tier1Capital-to-TA	97.611** (40.467)	0.192 (2.073)	-2.523 (6.317)
Observations	13202	13202	13202
R-squared	0.116	0.522	0.501
Specification	Tobit	Probit	OLS
Year FE	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes

Table 7: Robustness Tests

This table reports the results of regression analysis of the borrower political connections on the loan syndication activity on sub-samples. Panel A presents the results on a sub-sample of only one lead arranger. Panel B presents results on a sub-sample of only syndicated loans. The independent variables *Lobbying Expenditure* and *PAC Expenditure* are log one plus firm's expenditure on lobbying activity and political action committee (PAC) in the year prior to loan origination, respectively. In all specifications, we control for loan, lender, and borrower characteristics and include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

Panel A: Only one lead arranger

	(1)	(2)	(3)	(4)	(5)	(6)
	SYND%	Syndicated	Participants	SYND%	Syndicated	Participants
Lobbying Expenditure	2.839*** (0.207)	0.072*** (0.007)	0.282*** (0.023)			
PAC Expenditure				4.000*** (0.276)	0.099*** (0.009)	0.561*** (0.044)
Observations	4974	4974	4974	6229	6229	6229
R-squared	0.108	0.375	0.482	0.112	0.388	0.478
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Specification	Tobit	Probit	OLS	Tobit	Probit	OLS
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Only syndicated loans

	(1)	(2)	(3)	(4)
	SYND%	Participants	SYND%	Participants
Lobbying Expenditure	0.483*** (0.033)	0.281*** (0.019)		
PAC Expenditure			0.667*** (0.052)	0.479*** (0.031)
Observations	9129	9129	7192	7192
R-squared	0.067	0.433	0.066	0.474
Specification	Tobit	OLS	Tobit	OLS
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes

Table 8: Political Connections and Loan Syndication during the Financial Crisis

This table reports the results of regression analysis of the borrower political connections on the loan syndication activities during the financial crisis. The independent variable, *Financial Crisis*, is an indicator variable that equals one if the loan originated in the years 2008 and 2009 and zero otherwise. The independent variables *Lobbying Expenditure* and *PAC Expenditure* are log one plus firm's expenditure on lobbying activity and political action committee (PAC) in the year prior to loan origination, respectively. In all specifications, we control for loan, lender, and borrower characteristics and include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)
	SYND%	Syndicated	Participants	SYND%	Syndicated	Participants
Financial Crisis (FC)	-5.322*** (1.765)	-0.21*** (0.079)	-1.748*** (0.249)	-5.557*** (1.775)	-0.319*** (0.077)	-1.792*** (0.240)
Lobbying Expenditure	1.598*** (0.072)	0.076*** (0.005)	0.290*** (0.016)			
Lobby X FC	0.159 (0.199)	-0.012 (0.012)	0.0360 (0.044)			
PAC Expenditure				2.557*** (0.119)	0.104*** (0.008)	0.474*** (0.027)
PAC X FC				0.453 (0.280)	0.038* (0.020)	-0.037 (0.060)
Observations	11556	11556	11556	10352	10352	10352
R-squared	0.110	0.514	0.482	0.119	0.503	0.519
Specification	Tobit	Probit	OLS	Tobit	Probit	OLS
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type, Loan Purpose FE	Yes	Yes	Yes	Yes	Yes	Yes

Table 9: Political Connections and Loan Syndication for Opaque Borrowers

This table reports the results of regression analysis of the borrower political connections on the loan syndication activities for opaque borrowers. The independent variable *Unrated* is an indicator variable for borrower opacity that equals one if the borrowers do not have an S&P 500 credit rating and zero otherwise. The independent variables *Lobbying Expenditure* and *PAC Expenditure* are log one plus firm's expenditure on lobbying activity and political action committee (PAC) in the year prior to loan origination, respectively. In all specifications, we control for loan, lender, and borrower characteristics and include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1)	(2)	(3)	(4)	(5)	(6)
	SYND%	Syndicated	Participants	SYND%	Syndicated	Participants
Unrated	-4.166*** (0.865)	0.123** (0.058)	0.091 (0.193)	-1.816* (1.050)	0.110** (0.056)	-.621*** (0.199)
Lobbying Expenditure	1.457*** (0.073)	0.074*** (0.006)	0.301*** (0.017)			
Lobby X Unrated	0.927*** (0.114)	0.017** (0.008)	-0.029 (0.026)			
PAC Expenditure				2.465*** (0.121)	0.106*** (0.008)	0.481*** (0.027)
PAC X Unrated				1.643*** (0.274)	0.039** (0.016)	-0.164*** (0.043)
Observations	11556	11556	11556	10352	10352	10352
R-squared	0.112	0.526	0.499	0.122	0.519	0.527
Specification	Tobit	Probit	OLS	Tobit	Probit	OLS
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type,	Yes	Yes	Yes	Yes	Yes	Yes
Loan Purpose FE						

Table 10: Borrower Political Connections and Firm Performance

This table reports the results of the post-lending performance of borrower political connections on firm performance. The dependent variables $ROA_{(t+1)}$ and $ROA_{(t+2)}$ are borrowers' ROA in one year and two years after loan origination, respectively. In all specifications, we include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

	(1) $ROA_{(t+1)}$	(2) $ROA_{(t+1)}$	(3) $ROA_{(t+2)}$	(4) $ROA_{(t+2)}$
Lobbying Expenditure	0.001** (0.000)		0.001*** (0.000)	
PAC Expenditure		0.001** (0.000)		0.001*** (0.000)
Loan Amount	0.003** (0.002)	0.005** (0.002)	0.002* (0.001)	0.002** (0.001)
Maturity	-0.014 (0.012)	-0.019 (0.012)	0.002 (0.003)	0.005* (0.003)
Secured	-0.002 (0.002)	-0.004 (0.003)	-0.001 (0.002)	-0.005** (0.003)
Size	-0.003* (0.002)	-0.005** (0.002)	-0.002* (0.001)	-0.002** (0.001)
Leverage	0.010 (0.017)	0.036* (0.019)	0.014 (0.010)	0.028** (0.011)
Market-To-Book	-0.009 (0.012)	-0.025* (0.014)	0.013*** (0.003)	0.008** (0.004)
ROA	0.842*** (0.111)	0.937*** (0.125)	0.611*** (0.034)	0.613*** (0.036)
Altman Z-Score	0.000 (0.001)	0.001 (0.002)	-0.004*** (0.001)	-0.004** (0.001)
Age	0.005** (0.002)	0.008*** (0.003)	0.002** (0.001)	0.001 (0.001)
BHC_Size	-0.003 (0.004)	0.002 (0.006)	0.005*** (0.002)	0.006*** (0.002)
BHC_ROA	0.069 (0.090)	0.178 (0.132)	-0.015 (0.087)	-0.009 (0.103)
BHC_Deposit-to-TA	-0.052 (0.035)	-0.153** (0.067)	-0.012 (0.016)	-0.004 (0.021)
BHC_Loans-to-TA	0.062** (0.027)	0.098*** (0.036)	0.029 (0.019)	0.025 (0.020)
BHC_Tier1Capital -to-TA	-0.240 (0.197)	0.787 (0.600)	-0.092 (0.177)	-0.066 (0.222)
Observations	11087	9807	10608	9299
R-squared	0.150	0.138	0.315	0.288
Specification	OLS	OLS	OLS	OLS
Year FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes

Table 11: Borrower Political Connections and Firm Capital Expenditure and Cashflow

This table reports the results of the post-lending effect of borrower political connections on the firm's capital expenditure and cash flow. Panel A presents the results of political connections on capital expenditure. The dependent variables Capex-to-TA_(t+1) in Columns (1) – (2) and Capex-to-TA_(t+2) in Columns (3) – (4) are the logarithm of the ratio of borrowers' capital expenditure to total assets in one year and two years following loan origination, respectively. Panel B presents the results of political connections on the cash flow of connected firms. The dependent variables Cashflow-to-TA_(t+1) in Columns (1) – (2) and Cashflow-to-TA_(t+2) in Columns (3) – (4) are the log ratio of borrowers' cash flow to total assets in one year and two years following loan origination, respectively. In all specifications, we control for loan, lender, and borrower characteristics and include year, loan type, and loan purpose fixed effects to control for heterogeneity across time and within the sample. Robust standard errors appear in parentheses below the coefficient estimates. ***, **, and * denotes significance at the 1%, 5%, and 10% levels, respectively. The definition of all the variables is shown in Appendix Table A1.

Panel A: Borrower Political Connections on Firm Capital Expenditure

	(1)	(2)	(3)	(4)
	Capex-to-TA _(t+1)		Capex-to-TA _(t+2)	
Lobbying Expenditure	0.006*** (0.002)		0.003 (0.002)	
PAC Expenditure		0.022*** (0.003)		0.021*** (0.003)
Observations	11025	9728	10559	9225
R-squared	0.084	0.107	0.076	0.089
Specification	OLS	OLS	OLS	OLS
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes

Panel B: Borrower Political Connections on Firm Cashflow

	(1)	(2)	(3)	(4)
	Cashflow-to-TA _(t+1)		Cashflow-to-TA _(t+2)	
Lobbying Expenditure	0.005*** (0.001)		0.005*** (0.002)	
PAC Expenditure		0.012*** (0.002)		0.012*** (0.002)
Observations	9948	8590	9522	8150
R-squared	0.250	0.217	0.208	0.195
Specification	OLS	OLS	OLS	OLS
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Loan Purpose FE	Yes	Yes	Yes	Yes