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Partisanship in Loan Pricing*

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Abstract

Do partisan perceptions influence the way investors price securities? Using voter registration data of bankers originating large corporate loans, we show that bankers whose party differs from that of the U.S. President charge 7% higher loan spreads than other bankers. This effect is amplified when greater partisan disagreement is portrayed in the media, including news articles and political advertisement. Bankers do not match disproportionately with co-partisan borrowers but are more likely to lead syndicates with co-partisan bankers. Our results are not driven by bank or borrower fundamentals. Instead, they suggest that investors' optimism, driven by political alignment, shapes asset prices.

Keywords: Partisanship, Politics, Syndicated Loan Pricing, Credit Spreads.

JEL classification: G21, G32, G42, G10, D72

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Researcher(s)' own analyses calculated (or derived) based in part on data from The Nielsen Company (US), LLC and marketing databases provided through the Nielsen Datasets at the Kilts Center for Marketing Data Center at The University of Chicago Booth School of Business. The conclusions drawn from the Nielsen data are those of the researcher(s) and do not reflect the views of Nielsen. Nielsen is not responsible for, had no role in, and was not involved in analyzing and preparing the results reported herein.

1 Introduction

The past few decades have witnessed a heightened level of partisan conflict in the U.S. (e.g., Mason 2015; Boxell et al. 2017). Partisan individuals have biased expectations regarding the state of the economy, whereby people in agreement with the party in power (aligned individuals) hold more optimistic beliefs than misaligned individuals. Such partisan divide influences many aspects of social and economic choices, including political issue opinions, economic projections, and career choices (e.g., Cookson et al. 2020; Engelberg et al. 2021a; Meeuwis et al. 2021). An important, yet under-explored channel through which partisan biases can affect real economic activities is by distorting the pricing mechanism of financial markets. As partisan individuals differ in their degree of optimism, it is plausible that partisanship may lead investors to price assets differently. For example, misaligned investors might require a higher return on securities because they have more pessimistic expectations about future issuers' conditions than aligned investors. If this is the case, partisan biases can shape firms' cost of capital and ultimately their investment decisions. Despite the importance of this question, there is little direct evidence showing that investors' partisan beliefs can systematically distort asset prices.

Research on the effect of investors' partisan beliefs on asset prices faces key empirical challenges. In markets where assets frequently change hands among a dispersed set of investors, it is difficult to pin down the price-setting agent or to identify the pricing effect of investors' partisan beliefs. We overcome these challenges by examining the pricing decisions of corporate bankers in the U.S. syndicated loans market. This market represents the largest source of external financing for U.S. public firms (Sufi 2009) and the deals in this market generally carry large face values. As such, the determination of interest rates constitutes an economically important decision. The key agents in our setting are corporate bankers responsible for issuing syndicated loans. These bankers are tasked with prospecting, screening, and monitoring borrowers and they gather soft information in the process.[1] Such information helps them set a range for interest rate spreads to recruit participants and finalize the rates after the syndicate is formed. Indeed, recent evidence

[1] A more detailed discussion about bankers' role is provided in Appendix A.

suggests that corporate bankers have some discretion to influence loan prices (Bushman et al. 2021; Carvalho et al. 2020; and Herpfer 2021). If partisanship shapes bankers' optimism, it could also influence their expectations about a borrower's creditworthiness and ability to repay, thus shaping bankers' perceived "correct" loan spreads.

The idea that partisanship affects the optimism of finance professionals is grounded in prior evidence. Kempf and Tsoutsoura (2021) document that politically misaligned credit analysts issue lower ratings. Such ratings can affect firms' bond yields if bondholders face frictions in evaluating corporate credit risk and have to rely on analyst opinions. However, analysts' recommendations do not represent investors' *own* partisan beliefs, and it remains unclear whether investors' partisan biases can alter prices in a high-stake market. There are at least two reasons why we may not detect such a link. While bankers do have some discretion, syndicated lending decisions are disciplined by competitive market forces. Borrowers could seek quotes from different lenders and use recently closed deals as reference points (i.e., comparable pricing, Murfin and Pratt 2019). Bankers may choose to conform to market conditions instead of acting upon their partisan beliefs.[2] Moreover, bankers' beliefs may be offset by other human or institutional factors, such as beliefs of other syndicate members and the supervision of bank credit committees. These constraints could weaken or even eliminate the effect of lenders' partisan beliefs on loan spreads.

We examine how bankers' partisan perceptions affect the interest rate spreads of the loans they originate. We do so by comparing the spreads on loans issued by politically misaligned and aligned bankers. *Misaligned* (*aligned*) bankers are defined as the ones affiliated with a different (the same) party from the one represented by the President of the United States.[3] We find a strong partisan pricing gap: politically misaligned bankers charge significantly higher loan spreads compared to aligned bankers. Our estimation incorporates a stringent fixed effect structure, including banker, bank, year, and industry-rating-presidential term interactive fixed effects. It also controls for a wide array of

[2]See also Scharfstein and Stein (1990): "In his [Keynes'] view, investors may be reluctant to act according to their own information and beliefs, fearing that their contrarian behavior will damage their reputations as sensible decision makers."

[3]During the majority of our sample period, the President's party aligned with the Senate. Our results remain robust if we exclude the period 2015–2016 under the Obama administration when Republicans controlled the Senate.

borrower characteristics and loan contract terms. This empirical strategy tracks the same banker's pricing tendencies over time and identifies the effect of partisan perceptions through the changes in loan prices around party-switching elections. The change in pricing by a misaligned banker is then compared to that of an aligned banker, who issues a loan to a borrower in the same industry, with similar credit quality, during the same four-year presidential term.

Our estimate remains stable across specifications and suggests that misaligned bankers charge 7% higher spreads than aligned bankers, which translates to around a 14-basis point difference. This magnitude is economically meaningful, compared to the 30 basis point difference in spreads between firms right below and those right above the investment grade cutoff (i.e., BBB- to BB+). It is also in line with the effects arising from other types of lender behavioral biases documented in prior studies (cf. Dougal et al. 2015; Carvalho et al. 2020). To examine the dynamic effect of partisan perceptions on pricing, we track the loan spreads assigned by Democratic and Republican bankers around the 2016 presidential election, the outcome of which surprised many Americans. Using an event-study approach, we find that the partisan pricing gap reached 13% immediately following the 2016 election. The effect persists for a long period of time after the election.

Do partisan bankers lend disproportionately to same-party borrowers? We answer this question by measuring borrowers' political leaning in several ways. To start, we look at the political campaign contribution (PAC) made by a firm as well as by its CEO.[4] A borrower is classified as Republican-leaning or Democrat-leaning based on which party's candidates receive more contributions from the firm (CEO). Furthermore, we compute the cumulative equity abnormal return (CAR) of a firm following each party-switching presidential election. Election-day CARs capture market-wide perceptions regarding how much a firm may benefit from the winning party. Across all definitions, we do not find evidence that bankers are more likely to originate loans to borrowers of the same party. Our baseline estimates also stay unchanged when we control for borrower political leaning-by-year fixed effects. One explanation for the lack of banker-borrower matching is that

[4]We thank Slava Fos, Elisabeth Kempf, and Margarita Tsoutoura for sharing with us the data on CEO contributions, used in Fos et al. (2021).

corporate bankers are compensated for attracting clients and generating deals. This type of incentive may offset favoritism towards extending credit to co-partisans.

While volume-based incentives may reduce bankers' favoritism to same-party borrowers, bankers may still prefer to form syndicates with other co-partisan lenders. Many studies document that individuals, including finance professionals, prefer to collaborate with others sharing similar personal traits (e.g., Gompers et al. 2016; Stolper and Walter 2018). Given that partisanship is shown to promote social sorting and group identity (Mason and Wronski 2018), we expect that bankers may prefer to collaborate with co-partisans, potentially to facilitate agreement and deal execution. Consistent with this conjecture, we find that bankers affiliated with the same party are more likely to co-lead a syndicate than bankers of different parties. Importantly, we show that the lack of political diversity within teams carries economic implications: the pricing gap is almost four times larger among politically homogeneous syndicates (i.e., where all lead bankers belong to the same party) compared to balanced teams. Together, our evidence suggests that endogenous team formation reinforces bankers' partisan perceptions, leading to amplified disagreement on pricing.

We seek to shed light on the mechanisms underlying the partisan pricing gap by exploring the heterogeneity of the effect over time, across locations, and across borrower types. Our first set of analyses examines the role of information environment in shaping beliefs (e.g., Della Vigna and Kaplan 2007; Prior 2013; Martin and Yurukoglu 2017). Partisan slant in the media is shown to affect like-minded people and polarize viewer beliefs (Chiang and Knight 2011; Levendusky 2013; Allcott and Gentzkow 2017). According to this logic, partisan conflicts portrayed by the media should amplify the disagreement between aligned and misaligned bankers. We test this conjecture in several ways. First, we show that banker partisanship generates a greater effect loan spreads during periods of heightened partisan conflicts reported by the media, measured by the Partisan Conflict Index (Azzimonti 2018). Our effect is also stronger when left- and right-wing media outlets produce macro news with diverging sentiments. Notably, this amplification role of media disagreement is present only for economy-related topics and not for other topics.

This suggests that bankers' beliefs about economic conditions are an important factor underlying the partisan pricing gap. Finally, we document a stronger partisan pricing gap across bankers living in areas heavily targeted by political campaigns.

We next examine the role of credit market competition in moderating our effects. First, we predict that the partisan pricing gap should be more pronounced when there is significant uncertainty related to borrowers' credit quality. For those firms, outside lenders may fear adverse selection and refrain from quoting a lower spread, leaving the current bankers with more discretion to determine loan spreads. Indeed, our effect intensifies for borrowers with speculative credit ratings and more intangible assets. Next, we look into borrowers' outside credit options, and find that the partisan pricing gap widens for borrowers that have interacted with fewer other banks and for borrowers that do not have access to the public bond market. Those borrowers face greater switching costs and are more "held up" with the current banker, who may issue an above-market rate.

Taken together, our evidence suggests that a polarized information environment amplifies lenders' partisan disagreement. Lenders' bargaining power over borrowers also solidifies the partisan pricing gap. These results shed light on the mechanisms through which partisanship influences bankers' pricing decisions.

In the remainder of our analyses, we address alternative explanations to the baseline findings. First, our result could capture politically misaligned (aligned) bankers selecting riskier (safer) borrowers. Looking into borrower characteristics, we do not find evidence supporting this claim. Borrowers of misaligned bankers do not appear riskier at the time of loan origination, or experience deteriorating financial health over the course of the loan, compared to borrowers of aligned bankers. Borrowers of misaligned bankers also do not face more rating downgrades or higher default rates than those of aligned bankers. To further control for differences in firm fundamentals, we include firm-by-time interactive fixed effects. Given that political misalignment varies by presidential terms, we include firm-presidential term interactive fixed effects and continue to find a partisan pricing gap. The inclusion of firm-by-time fixed effects slightly reduces the magnitude of the partisan effect because this analysis focuses on firms that have multiple banking relationships, for

which lender partisan effects should be weaker.

Another concern is that our effect may capture the policies or beliefs at the bank institution level. This seems unlikely as our results remain unchanged when we include bank-by-presidential term fixed effects. Finally, it is possible that misalignment may correlate with certain time-varying banker characteristics representing their knowledge or ability to collect information. We consider banker age and experience to be examples of such characteristics. After imposing stringent controls for banker age, seniority in the profession, and past lending experience, we do not find those characteristics to matter for our results.

This paper contributes to several strands of literature. First, it is related to the literature on the growing presence of partisan bias in the U.S. Partisan bias manifests in people's beliefs regarding a wide range of events, including political outcomes, macroeconomic conditions, climate change, and even pandemic outbreaks (Campbell et al. 1960; Bartels 2002; Bullock et al. 2015; Guilbeault et al. 2018; Coibion et al. 2020; Barrios and Hochberg 2021). In related work, partisan biases are found to influence the opinions of sophisticated professionals, including judges, managers, and regulators (Gormley et al. 2021; Rice 2021; Engelberg et al. 2021b). Kempf and Tsoutsoura (2021) document that partisanship leads to diverging opinions by sell-side bond analysts. We push this line of literature forward by showing that partisanship not only influences the output of information intermediaries, but also changes investors' optimism/pessimism and their pricing decisions. Importantly, we document this effect for the syndicated loans market, which is a more prevalent source of credit for a broader set of firms compared to the bond market.[5] Our findings also highlight the role of information environment and lender market power in shaping the effect of investor partisan beliefs.

To the extent that the cost of credit can influence real economic activities, our research is also related to studies showing the "real effect" of partisan beliefs, including household consumption, firm investment, entrepreneurship, and fertility choices (Mian et al. 2021; Meeuwis et al. 2021; Rice 2021).

[5]A significant fraction of businesses in the U.S. do not have access to the bond market and rely on bank credit. In our sample, these firms make up 42% of the loans and 49% of borrowers. In other words, the syndicated loans market represents a distinct market segment and involves different investors and clienteles from the one analyzed by Kempf and Tsoutsoura.

Finally, we contribute to the burgeoning literature on the role of partisan investors in equity markets. Cookson et al. (2020) document that partisan disagreement among investors regarding COVID news affects stock trading patterns. Sheng et al. (2021) show that firms headquartered in Republican-dominated areas are more resilient to COVID news. Bonaparte et al. (2017) and Ke (2019) show that partisan individuals have different participation rates and security choices in the stock market. Wintoki and Xi (2020) find that fund managers are more likely to select companies whose executives and directors share the same party affiliation. We examine the effect of partisan beliefs in the syndicated loans market, a major financing source for corporations. Importantly, we identify the role of investors' partisan beliefs by focusing on individuals directly in charge of setting prices. This sets us apart from the prior literature as it allows us to assess directly how lenders' partisan perceptions influence credit spreads.

2 Data and Sample

We collect data from several sources. Starting with syndicated loan contracts from LPC Dealscan issued between 1994 and 2019, we retain loans with available information on contract terms (i.e. spread, loan amount, and maturity). We require the borrowers to be public firms outside of the financial and utility sectors (SIC codes 6000–6999 and 4900–4999, respectively) and to have available information to calculate firm characteristics. For each loan in our sample, we collect data on the identities of its lead arranger bankers using electronic signatures on the credit agreements filed to the SEC. Once we have the names of lead bankers, we search for their voting records and party affiliation in LexisNexis Public Records. This helps us pin down bankers' political affiliation at loan origination.

2.1 Data Sources

We follow Bushman et al. (2021) and Gao et al. (2020) to identify the lead bankers who are in charge of originating a syndicated loan. To start, we search a publicly listed borrower's 8-K, 10-K, and 10-Q filings to the SEC. Syndicated loan contracts are often

included in these filings as exhibits because they are considered to be material information that needs to be disclosed to shareholders. Bankers underwriting those loans can be identified based on their electronic signatures at the end of each credit agreement. Appendix A describes the role of these bankers and their discretion in the loan-pricing process. We scrape lead bankers' signatures together with their employment affiliation so as to connect each banker to a lender in Dealscan. This search results in a sample of 4,742 lead arranger bankers working in 140 banks, who are associated with 5,800 loans. When mapping loans to bankers' pricing decisions, we assign the origination date by subtracting 90 days from the facility start date in Dealscan (Murfin 2012). This is because a credit agreement is normally reached two to three months before the loan effective date, which is the date reported by Dealscan (Ivashina and Sun 2011).

We manually search for each banker's political party affiliation based on their voting records from LexisNexis Public Records, which combines information from public record sources. LexisNexis data cover 23 states.[6] In the case that a banker's name results in multiple matches, we gather additional information from LinkedIn, Google, and FINRA to uniquely identify the banker. This includes the banker's age range, employment history, or educational background (Carvalho et al. 2020).

LexisNexis provides individuals' historical voter registration data and updates that information whenever an individual votes in a national or local election. We collect a banker's party registration that is active on the date of a U.S. presidential general election and consider the banker as affiliated to that party during the corresponding presidential term. For example, if we observe that a banker voted on 11/4/2008 and on that date he is registered as a Democrat, we consider him to be a Democrat during the period of November 2008 through November 2012. This treatment is consistent with the evidence that party registration records can accurately capture voters' political views (Igielnik et al. 2018). We exclude all individuals that have switched party affiliation during our sample period (only around 10% of bankers), as party switches may be endogenous to

[6]These states are Alabama, Alaska, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Florida, Louisiana, Massachusetts, Michigan, Mississippi, Nevada, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Texas, Utah, and Wisconsin.

other personal and economic conditions that could confound our analysis.

To further verify the quality of the voter registration data in LexisNexis, we file a FOIA request with the New York State Board of Election and obtain historical voter registration data for residents of New York City. We find a complete overlap of party affiliation between our data and the information provided by New York State.

2.2 Sample Construction

Following prior literature studying lender-side effects in the syndicated loans market (e.g., Santos 2011; Murfin 2012; Chodorow-Reich and Falato 2022), we construct a lender (banker)-by-loan panel. To do so, we merge the information on loans issued by our sample bankers with their political party affiliation on the loan origination date. Using this information, we classify a banker's political alignment according to whether he is affiliated with the party represented by the U.S. President. Specifically, we define *Misaligned* as a dummy variable that equals one if a banker's party affiliation is different from the party of the President, and zero otherwise.

While many of our sample bankers are affiliated with either the Republican or the Democratic party, some bankers remain unidentified. These include bankers residing in states that do not require a registration for the primary elections (such as Texas), or bankers that do not declare their registration at a vote. We classify these bankers as "unaffiliated" and assign *Misaligned* as zero for these banks during all years. Including unaffiliated bankers in the sample helps us more accurately estimate fixed effects and other controls in our specification (Kempf and Tsoutsoura 2021) but does not influence the estimates for *Misaligned*. This is because our estimation imposes banker fixed effects, which absorb time-invariant effects of party affiliations. In Section 5.3, we show that our results remain unchanged if we focus only on bankers that can be clearly identified as Democrats or Republicans. Appendix D also shows that our results are robust to an alternative specification where we separate politically aligned bankers from unaffiliated ones.

Our final sample includes 1,199 bankers, among whom 219 are affiliated with the

Democratic party and 348 are affiliated with the Republican party.[7] These bankers collectively underwrite 2,974 loans with a total face value exceeding $2.46 trillion. In cases where there is more than one lead arranger on the loan, we assign a separate observation for each lead banker. This results in a panel of 5,731 loan-banker observations. In Section 5.3, we show that our results are robust in a loan-level sample, in which the unit of observation is a loan contract.

3 Empirical Methodology

Our variable of interest is the log of all-in-drawn spread over LIBOR specified on a syndicated loan contract. Studies on the implications of partisan perceptions generally adopt the methodology where they track the choices of an individual (or a group) over time, across party-changing elections (e.g., Ke 2019; Kempf and Tsoutsoura 2021; Meeuwis et al. 2021; Engelberg et al. 2021a). Given that our sample period contains more than one such election, we follow this approach by fixing a banker and comparing his pricing behaviors during periods of political alignment and misalignment. Formally, we estimate the regression model below:

$$Log(Spread)_{k,i} = \beta Misaligned_{i,t} + \psi \cdot FirmChar_{f,t-1} + \xi \cdot LoanChar_k + \alpha_i + \theta_b + \tau_t + \gamma_{j,r,p} + \epsilon_k \quad (1)$$

where k indicates a loan contract that is issued to borrower f by banker i working in bank b during year t. Our estimation controls for people fixed effects (α_i), bank fixed effects (θ_b), and year fixed effects (τ_t). These fixed effects help remove intrinsic, time-invariant heterogeneity across people and banks, as well as macroeconomic conditions. As mentioned above, banker fixed effects absorb time-invariant differences in the pricing tendency between Democratic and Republican bankers, and help us focus on the changes in a banker's pricing decisions as the ruling party changes over time.

[7]The fact that we observe more Republican bankers than Democratic bankers is consistent with evidence based on individuals' political contribution data. See, for example, Bonica (2014) and `https://www.opensecrets.org/industries/indus.php?ind=F03`.

Our specification also includes borrower industry (j)-rating category (r)-presidential term (p) fixed effects, γ_{jrp}. Industry is classified at the 2-digit SIC level, and rating categories refer to one of three broad categories, including investment grade (ratings of BBB- and above), speculative grade (ratings of BB+ and below), and unrated. This set of fixed effects allows us to compare the pricing between a misaligned banker with an aligned banker, both of whom underwrite loans to borrowers in the same industry, with similar credit risks, during the same four-year presidential term. To further sharpen our comparison, we control for a host of borrower characteristics, including size, age, profitability, leverage, asset tangibility, market-to-book ratio, equity volatility, and fixed effects for a 22-grid credit rating.[8] Finally, we control for other characteristics of the loan contract, including the log of loan maturity, the log of loan amount, a dummy variable indicating whether the loan is secured, and fixed effects for loan types (term loans, revolvers, or other). Standard errors are double-clustered at the banker and borrower level.

If misaligned bankers charge higher loan rates, we should observe $\beta > 0$.

4 Univariate Analyses

Table 1 describes the distribution of bankers across states and party affiliations. 26% of our sample bankers reside in New York, and an additional 22.9% of the bankers reside in Texas. North Carolina accounts for another 13.2% of bankers, followed by New Jersey (8.3%), Connecticut (8%), and Ohio (5.2%). The rest of the bankers (16.3% of the sample) are split across 14 other states. Democrats and Republicans are equally distributed in states such as New York and New Jersey, while there is a larger fraction of Republican bankers in Texas, North Carolina, and Connecticut.

Table 1 About Here

Figure 1 reports the geographical distribution of bankers across U.S. counties. We use red (blue) to represent counties where the majority of bankers in our sample are Republi-

[8]The rating grids are defined as follows: 1 for AAA, 2 for AA+, 3 for AA, ..., 21 for C, and 22 for D. We also set the rating grid to be 0 for unrated firms.

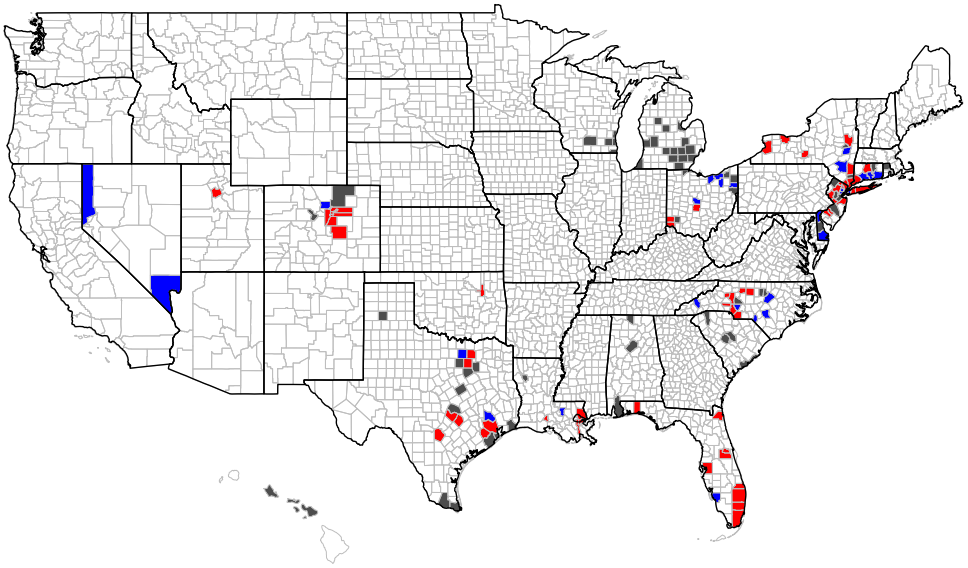


Figure 1. Geographical Distribution of Bankers. This figure reports the geographical distribution of bankers across U.S. counties. We use red (blue) to represent counties where the majority of bankers in our sample are Republicans (Democrats). Grey counties represent those where the majority of identified bankers are Independent or unaffiliated voters.

cans (Democrats). Grey counties represent those where the majority of identified bankers are Independent or unaffiliated voters. In our sample, 12 states have both Republican and Democrat bankers.

We next look into the presence of Democratic and Republican bankers in the major banks in our sample. Figure 2 illustrates these patterns for bankers working in the top 10 lead arranger banks in terms of loan origination volume. The height of the red (blue) columns indicates the average fraction of Republican (Democrat) bankers among all bankers working in each bank in our sample. Both Republicans and Democrats are present in these large banks, but there is heterogeneity of party representation across banks.

Table 2 reports summary statistics for the variables used in the paper. About 36% of loans in our sample are extended by misaligned bankers. The average loan in our sample has a face value of $1.04 billion, matures in about 5 years, and has an all-in-drawn spread over LIBOR of 215 basis points. Over half of the loans in the sample are secured. Our tests also include controls for borrower characteristics, including *Firm Size, Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*. All continuous variables except *Leverage* are winsorized at 1^{st} and 99^{th} percentiles. *Leverage* is restricted to be within 0 and 1. Detailed definitions of these variables are provided in Appendix B.

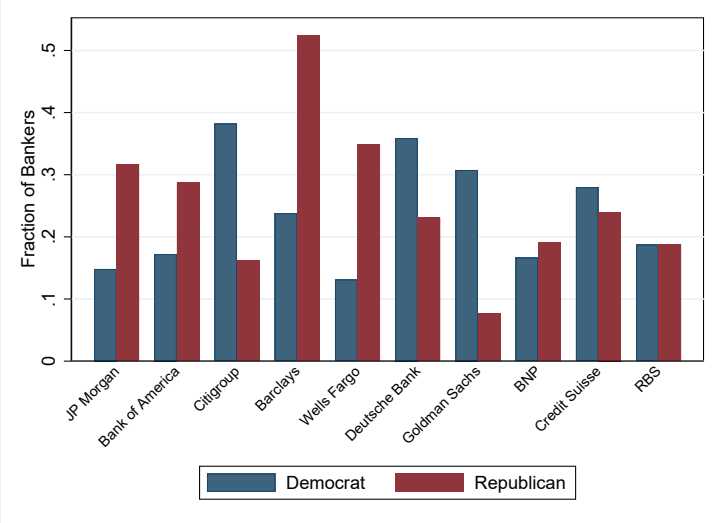


Figure 2. Distribution of Partisan Bankers inside Banks. This figure describes the presence of Democratic and Republican bankers across the 10 largest banks in our sample. The height of the red (blue) columns indicates the average fraction of Republican (Democratic) bankers among all bankers working in each bank throughout our sample period.

TABLE 2 ABOUT HERE

5 Main Results

5.1 Baseline Results

We examine whether bankers' partisan perceptions affect the spreads they issue on syndicated loans. We do so by estimating Equation (1).

Results are reported in Table 3. We add controls in stages. In Column (1), we report the results controlling for banker, bank, and year fixed effects. We also control for rating fixed effects along with firm characteristics. In Column (2), we further impose industry-rating-presidential term interactive fixed effects. In Column (3), we layer on fixed effects indicating the type of the loan (term loan vs. revolver) and whether the loan is secured. Finally, we control for the size and maturity of the loan in Column (4). Across all specifications, banker political misalignment generates a positive and statistically significant coefficient ($p < 1\%$), indicating that misaligned bankers charge higher spreads than aligned bankers on loans with similar characteristics. The coefficients are highly stable

across specifications, staying around 7%. Such an effect corresponds to around a 14-basis point difference in loan spreads, which is a similar magnitude to those generated by prior studies arising from other lender behavioral effects, such as anchoring and optimism about real estate values (see, e.g., Dougal et al. 2015; Carvalho et al. 2020).[9] Another way to interpret this magnitude is to compare it with the rate gap between loans issued to borrowers around critical credit rating cutoffs. For example, loans to borrowers right below and right above the investment grade cutoff (i.e., BBB- to BB+) differ in spreads by about 30 bps. Our results yield a magnitude of 14 bps, which seem substantial in comparison.

Table 3 About Here

5.2 Event Study Using the 2016 Presidential Election

We perform an event study around the 2016 presidential election (the "Trump election") to trace the dynamic effect of partisanship on loan pricing. The 2016 election provides a desirable setting because its outcome was largely unexpected and the candidates put forward economic agendas that were in stark contrast with each other.[10] An event study helps reveal how partisan disagreement arises and dissipates over time during this period of strong political discord. In this analysis, we focus on loans extended from 2014 onward, and regress loan spreads on interaction terms between an indicator for Democratic bankers (*Democrat Banker*) and indicators for each of the six quarters prior to the election and six quarters following the election. We maintain the controls in our baseline regressions shown in Equation (1). Note that in this time frame, Democratic bankers switched from being aligned to being misaligned, and Republican bankers switched from being misaligned to being aligned. Our analysis captures the pricing difference between the two groups of bankers through the switch.

Figure 3 depicts the results from the event study. We define the base period as

[9]We also consider simpler specifications where we remove both the banker and bank fixed effects. Whenever the banker fixed effects are not present, we include party fixed effects, representing the political affiliation of the officer extending the loan, as to identify the effect of partisanship in loan pricing. Table C1 in the Appendix shows that the effect remains strongly significant throughout.

[10]Prior to the election, all the election polls suggested a high chance for Clinton to win. See, for example, "2016 Election Forecast: Who Will Be President?", *The New York Times* (2016).

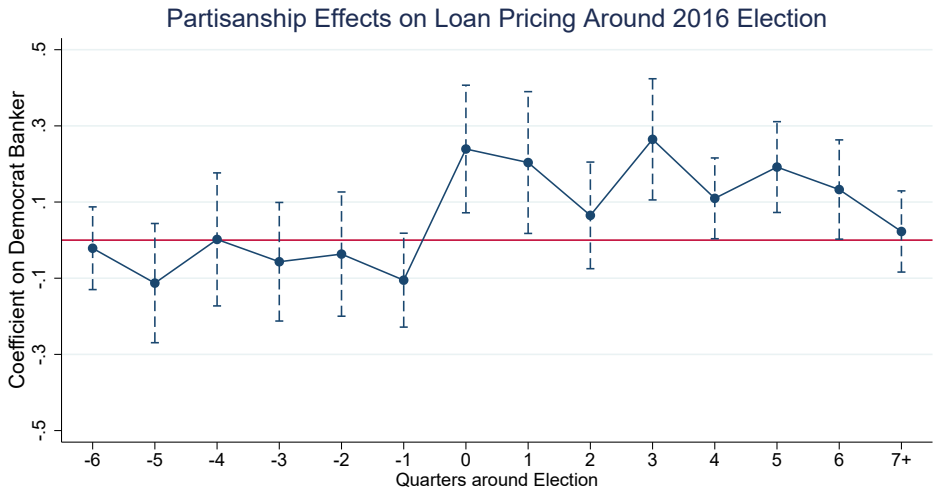


Figure 3. Event Study Around the 2016 Presidential Election. This figure depicts the results from the event study around the 2016 presidential Election. The base period is January 2014 to April 2015, which is under the Obama administration. The horizontal axis indicates quarters around the election, which are defined as time relative to November 2016. For example, Quarter -6 is defined as May 2015 to Aug 2015, and Quarter -1 is defined as Aug 2016 to Nov 2016 (non-inclusive). The vertical axis shows the coefficients on the interaction terms of *Democrat Banker* and event-quarter dummies. Higher values of those coefficients indicate that misaligned bankers charge higher spreads than aligned bankers.

January 2014 to April 2015, which is under the Obama administration. May 2015 to Aug 2015 is defined as Quarter -6 to the election, and Aug 2016 to Nov 2016 (non-inclusive) is Quarter -1 to the election. Similarly, we track the differences in loan spreads for 6 quarters following the election, with Nov 2016 to Feb 2017 as Quarter 0, Feb 2017 to May 2017 as Quarter 1, and May 2018 to Aug 2018 as Quarter 6 after the election. We collapse all loans issued after Quarter 6 as Quarter 7 and forward ("7+").

Given that the Democratic party was in power during both the base period and Quarters -6 through -1, we do not observe changes in the spread differential between aligned and misaligned bankers in those pre-election periods relative to the base period. Immediately following the Trump election, the pricing gap spikes, suggesting that Democrat bankers charge 26% more than Republicans on similar loans in the first quarter after the election. To interpret the economic magnitude, recall that the base period corresponds to the Obama presidency, during which period Democrats are aligned with the White House and charge *lower* spreads than Republican bankers. After the Trump election, Democratic bankers become misaligned and charge *higher* spreads than Republican bankers. The coefficients for post-election periods indicate the cumulative effects of political mis-

alignment during the two presidencies. Thus, the impact of political misalignment under each presidency is 13% right after the election and declines to 5% after 6 quarters. This means that on average, for a four-year term, the effect of partisanship is in the range of 7-8%, which is similar to the magnitudes suggested in the baseline results.

Taken together, the event study around the Trump election suggests that the election represents a shock to lenders' expectations and fosters heightened disagreement among bankers on the opposite side of the political spectrum. We also observe the partisanship effect to gradually weaken over time. There are several potential explanations for the dissipation. First, bankers originating loans at a later point in the Trump presidency may account for the possibility that a Democratic president may be elected in year 2020. In addition, supervision at the bank level could impose limitations to bankers' pricing biases over time. Finally, the partisan disagreement could be abated as bankers observe the pricing of new deals issued by other bankers during the presidential term.

5.3 Alternative Samples

We test the robustness of our baseline findings to multiple alternative sampling choices. To start, we consider the concern that our outcome variable, loan spread, is repeated across multiple lead bankers of the same syndicate team. While this multiple-lender design is common in the literature, we rerun our tests on samples where we retain one observation per loan. We do so in two ways. First, for loans with more than one lead banker, we retain the banker that most frequently appears in the sample. This choice is helpful because we need to track a banker's pricing decision over time. Second, we focus on loans originated by a politically homogeneous group of lead bankers. This includes loans originated by a single lead banker, or loans whose lead bankers are all affiliated with the same party (either Democratic or Republican party). In both samples, each loan facility appears only once.

We repeat our baseline regressions in these loan-level samples. Table 4 reports the results. Panel A presents results from the sample where we retain one banker per loan, and Panel B presents results from the set of loans originated by homogeneous teams.

Note that in Panel B, we no longer keep track of the banker, so we only control for fixed effects indicating the political party of the syndicate team, instead of banker fixed effects. Our results obtain in both samples and yield slightly stronger magnitudes: loans with misaligned lenders carry credit spreads that are around 9% to 12% higher than loans with aligned lenders.

Table 4 About Here

In the next analysis, we remove all unaffiliated bankers from the sample. Unaffiliated bankers are the ones who reside in states that do not require a registration to the primary elections (such as Texas), or bankers that do not declare their registration at the polls. As previously discussed, the inclusion of unaffiliated lenders helps us estimate the fixed effects and controls, but it does not affect the identification of banker partisanship. Results in Panel A of Table E1 confirm this argument because our inferences stay unchanged when unaffiliated lenders are excluded from the sample.

Third, we remove loans jointly issued by more than three lead bankers. Panel B of Table E1 shows that our results carry through this sample restriction.

6 Matching Based on Political Beliefs

We investigate whether partisan perceptions influence the matching among key agents in the syndicated loans market. Our analysis focuses on two types of matching, borrower-to-lender matching and lender-to-lender matching. Specifically, we ask whether bankers are more likely to originate loans to co-partisan borrowers, and whether bankers are more likely to co-lead a syndicate with co-partisan bankers.

6.1 Banker-Borrower Matching

Do bankers and borrowers match based on their political affiliation? While partisanship-driven matching is documented in the context of portfolio choices by mutual fund managers (Wintoki and Xi 2020), the answer is much less straightforward in the syndicated loans market. In this market, lenders are compensated for completing deals, which re-

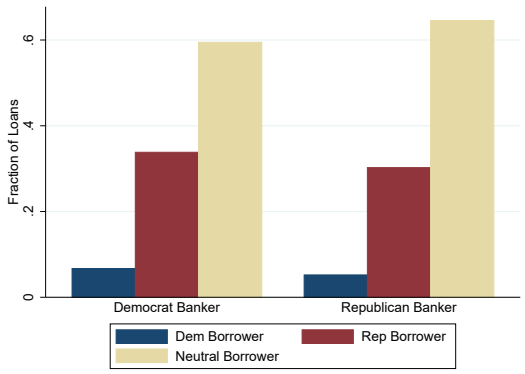
quires them to attract clients and maintain a long-term relationship with those clients. Under such incentives, lenders may not be biased against anti-partisan borrowers if they bring along high-volume deals.

To answer this question, we must classify the political leaning of borrowers. We do so in three ways. First, following Cooper et al. (2010) and Akey (2015), we collect firms' political contribution data from the Federal Election Commission and candidate summary contribution files. The data contain information on campaign contributions made by firms through their political action committees (PACs). About 35% of the firms in our sample have a corporate PAC. We split candidates according to their political party (Democrat, Republican, Neutral) and classify a firm as being connected to the Democratic party if it contributes more to Democrat candidates than to other parties in a given year, and vice versa. Borrowers that do not have PAC contribution, contribute mainly to a third party, or contribute equally to both parties are classified as "neutral."

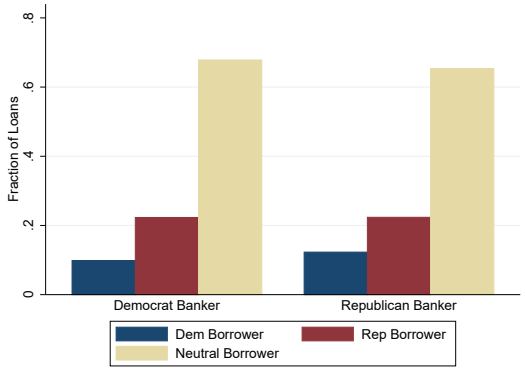
Next, we consider the possibility that banker-borrower matching may be based on personal relationships, and utilize the data on political contributions made by borrowers' CEOs. We define a borrower to be Republican-leaning (Democrat-leaning) if its CEO donates mainly to the Republican (Democrat) party. We classify other executives as "neutral" in an analogous way to the firm contribution measure.

While political contribution data should reveal a firm's or its executives' preferences, investors may perceive the political leaning of a firm differently. Our third measure thus gauges the market perception of the extent to which a firm might benefit from a party being in power. Following Goldman et al. (2009), we compute the cumulative equity abnormal return (CAR) of a firm during five trading days following each party-switching presidential election (i.e., elections of 2000, 2008, and 2016). The benchmark is Fama-French 3 factor returns. If a firm experiences higher CARs around the 2008 presidential election, we consider this firm should benefit more from the Obama administration and is more likely to be perceived as Democratic leaning during 2008–2016. In the analysis to follow, we relate this measure to bankers' political alignment.

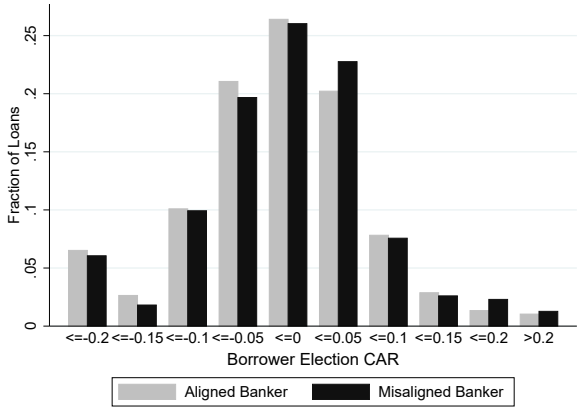
To describe the matching between bankers and borrowers based on political affiliation,



Panel A: Firm PAC Contributions



Panel B: CEO Contributions



Panel C: Firm Election Day CAR

Figure 4. Distribution of Loans by Banker and Borrower Political Leaning. This figure plots the proportion of loans issued based on borrowers' and lenders' political leaning. In Panel A, borrower political leaning is measured based on firms' PAC contribution. In Panel B, borrowers' political leaning is determined by their CEOs' personal contributions. In Panel C, we compute firms' cumulative abnormal equity return for firms during 5 days following party-switching elections and use the cumulative return to gauge firms' "alignment" with the current administration. In all panels, the y-axis represents the percentage of loans issued to a type of firms by bankers of each affiliation (or alignment).

we plot the percentage of loans extended by bankers to firms based on the affiliation of both sides. Figure 4 depicts these patterns. Panel A shows the distribution of loans

extended to Democratic-leaning and Republican-leaning firms by both Democratic and Republican bankers. Panel B reports the same distribution while classifying borrower affiliation based on CEOs' personal contributions. In both panels, the left (right) side of the graph presents the percentage of loans made by Democratic (Republican) bankers. We do not observe borrower-lender matching based on political affiliation from these patterns.

In Panel C, we plot the distribution of borrower election-day CARs for both aligned (grey) and misaligned bankers (black). We do not observe that (mis)aligned bankers provide more loans to (low) high-CAR firms. If anything, misaligned bankers seem to extend slightly more loans to borrowers with high election CARs, i.e., "aligned" borrowers. Our graphic evidence so far does not support the argument that bankers and borrowers match along their political affiliations.

We formally examine the matching between borrowers and bankers in a regression framework. To do so, we construct borrower-banker pairs for all borrowers that obtain a loan and all lenders that extend a loan in a given year.[11] Our variable of interest is an indicator *Have Loan*, which turns to one when the borrower receives a loan from the banker in a given year, and zero otherwise. We then examine whether bankers are more likely to extend loans to firms with similar political beliefs than to other firms. Results are presented in Table 5. In Columns (1) through (6), we regress this indicator on whether the banker and the borrower belong to the same party (*Same Party*), either based on firm or CEO personal contributions. In Columns (7) through (9), we regress *Have Loan* on the interaction of banker political misalignment (*Misaligned*) and borrowers' election day CAR and focus on the interaction term. In each test, we control for firm fixed effects, banker fixed effects, and year fixed effects. We then layer on firm-year interactive fixed effects and banker-year interactive fixed effects. If bankers disproportionately extend credit to firms of similar political orientation, we should observe a positive coefficient for *Same Party*, and a negative coefficient for the interaction term *Misaligned* $\times$ *CAR*. However, our evidence does not support this hypothesis. Through all definitions of

[11] This sampling restriction makes our analysis more tractable. It also helps us focus on years where borrowers have demand for credit and examine their choices of lenders. Relaxing these restrictions does not affect our results.

borrower political affiliation and regression specifications, coefficients of *Same Party* are statistically insignificant and close to zero, suggesting no lender-firm matching based on political affiliation. In Appendix F, we design a similar test using our baseline sample and regressing borrower political leaning on banker's affiliation. Again, we find no evidence of borrower-banker matching.

TABLE 5 ABOUT HERE

Finally, we control for borrowers' political orientation in our baseline analysis using dynamic fixed effects. Table 6 reports the results. For each definition of borrower political leaning, we first control for borrower party-by-year interactive fixed effects. These controls allow us to compare the effects of banker partisanship within loans extended to borrowers that have the same affiliation during the same year. In Column (1), borrower political leaning is defined by firm PAC contribution, and in Column (2), it is defined by CEO contribution. In Column (3), we divide borrowers into terciles based on their election CAR in the most recent party-switching election and impose CAR tercile-by-year fixed effects. Across all columns, banker misalignment continues to generate positive and statistically significant coefficients, with magnitudes close to the baseline estimates.

TABLE 6 ABOUT HERE

Overall, we do not find evidence in support of banker-borrower matching based on political affiliations in the syndicated corporate loans market. Borrowers' political leaning, either reflected by campaign contributions or by stock market reactions, does not seem to influence our estimation of banker partisanship effects. As discussed above, the lack of matching between borrowers and lenders based on partisanship could be attributed to the volume-based incentive faced by bankers. While bankers do not disproportionately provide credit to borrowers who share their political leaning, it is still possible that bankers may form syndicates with co-partisans. We explore this question in turn.

6.2 Syndicate Formation and Partisan Pricing Gap

Homophily is shown to be a key determinant of group formation, even among sophisticated agents in financial markets (see, e.g., Currarini et al. 2009; Gompers et al. 2016; Houston et al. 2018; Stolper and Walter 2018). People with similar characteristics and beliefs are more likely to connect socially, trust one another, and collaborate professionally. To the extent that partisanship strengthens in-group social ties and social sorting (Mason 2015), it is plausible that bankers may favor co-leading syndicates with others who share their political beliefs. Working in teams with co-partisans, bankers may experience less disagreement and find it easier to execute deals.

We examine whether shared political beliefs are positively associated with the likelihood of two bankers co-leading a syndicate. We do so using a banker-pair-year panel, where we pair each banker who has lead arranged a loan in our sample with another, and track the co-syndication activity between these two bankers from the first year to the last year that both bankers appear in the sample. Co-syndication is measured in two ways. First, we define $\textit{Co-lead}_{i,j,t}$ as a dummy variable that equals one if banker i and banker j co-lead at least one syndicated loan in year t. Secondly, we define $\textit{Log(Co-lead Loans)}_{i,j,t}$ as the log of one plus the number of loans that bankers i and j originate together in year t. We estimate the following regression:

$$Y_{i,j,t} = \beta \textit{Same Party}_{i,j} + \phi_{i,t} + \mu_{j,t} + \epsilon_{i,j,t}, \tag{2}$$

where $Y \in \{\textit{Co-lead, Log(Co-lead Loans)}\}$. $\textit{Same Party}_{i,j}$ is an indicator equal to one if banker i and banker j are both affiliated with the Democratic party or are both affiliated with the Republican party, and zero otherwise. We control for people-year fixed effects ($\phi_{i,t}$ and $\mu_{j,t}$) to remove time-varying lending tendencies of each banker. Standard errors are double clustered by banker i and banker j. If bankers with the same political beliefs are more likely to collaborate, we expect $\beta > 0$.

Panel A of Table 7 presents the results. Columns (1) through (3) report the results for *Co-lead* and Columns (4) through (6) report the results for *Log(Co-lead Loans)*. For each dependent variable, we first control for banker i-year, banker j, and year fixed effects. We

then impose both banker i-year and banker j-year fixed effects. Finally, we restrict the sample to banker-pair-year observations where both bankers are active, i.e., originating at least one loan during that year. Across all variations in terms of sampling, syndication measure, and fixed effect choices, results consistently indicate that bankers with the same political beliefs are more likely to form lending syndicates than ones with different beliefs. Estimates from Column (3) suggest that same-party bankers are 0.2 percentage points more likely to co-lead a syndicate, which accounts for 14% of the sample average syndication likelihood (0.014).

Table 7 About Here

We next examine whether partisan bias generates stronger effects on loan pricing in a politically homogeneous group compared to a balanced group. Existing research suggests that people in homogeneous groups develop stronger identity with the group and this can enhance party alignment and partisan disagreement (Tajfel and Turner 1979, Mason and Wronski 2018). This predicts that bankers who work in homogeneous teams should exhibit stronger partisan biases. If a syndicate consists of bankers supporting the same political party, partisan perceptions are likely echoed and reinforced by team members, thus generating a stronger effect on loan terms. In contrast, in teams composed of people with balanced political beliefs, the effect of partisan bias on loan pricing could be mitigated.

We test this hypothesis by interacting *Misaligned* with an indicator *Homogeneous Team*, which turns to one if all lead arrangers in the syndicate are affiliated with the same party as the banker of interest. We compare politically homogeneous teams with balanced teams, i.e., those with 50% Democrats and 50% Republicans. Syndicates with only one lead arranger are excluded because we examine the role of group identity. The interaction term *Misaligned* $\times$ *Homogeneous Team* generates a significant, positive coefficient, indicating that the partisan pricing gap widens in homogeneous syndicates compared to balanced ones.

Overall, our result complements existing research by showing that homophily in terms of political affiliation fosters team formation. Furthermore, the endogenous team forma-

tion among bankers could reinforce their beliefs and amplify the effect of partisanship on loan pricing.

7 Economic Mechanisms

In this section, we investigate potential economic mechanisms underlying the partisan pricing gap that we document. We propose that the pessimism (optimism) of misaligned (aligned) bankers can be shaped by the information environment around bankers. We also expect the effect of bankers' partisan beliefs to weaken with market competition. We provide evidence in support of these conjectures.

7.1 Partisan Conflicts and Banker Beliefs

Our first analysis focuses on the degree of polarization in the information environment around bankers. This analysis is grounded in the view that individuals tend to selectively incorporate information based on their parties' ideology.[12] As a result, a more divided partisan information environment could strengthen people's existing perceptions and further polarize the beliefs of aligned and misaligned bankers.

We examine several sources of partisan disagreement in bankers' information environment. First, we look at periods of intense political conflict and gridlock portrayed by the media, measured by the Partisan Conflict Index (PCI, see Azzimonti 2018). The PCI is constructed using a semantic approach that measures the degree to which news articles report political disagreement. During periods of high partisan conflicts, misaligned and aligned bankers may disagree to a larger extent regarding economic fundamentals, leading to a wider pricing gap. Accordingly, we construct *High PCI*, which equals one in months when the partisan conflict index ranks above the median during a given presidential term, and zero otherwise. Given that partisan conflicts have large variation over time and have spiked over the recent few years, partitioning within a presidential term helps us compare periods within a four-year interval rather than comparing periods that are far apart. In

[12]Such a bias is discussed in prior literature (Campbell 1960), and also supported by anecdotal evidence. See, for example, reports from the Pew Research Center (Mitchell et al. 2014; Gottfried et al. 2017).

Column (1) of Table 8, we regress loan spreads on the interaction of banker political misalignment and *High PCI*. The interaction term generates a significant, positive coefficient, suggesting that misaligned bankers charge higher spreads during times of severe partisan conflicts than during periods of low conflicts.

TABLE 8 ABOUT HERE

Next, we directly examine the role of partisan news. Recent studies document a significant level of partisan disagreement across news outlets (e.g., Della Vigna and Kaplan 2007; Flaxman et al. 2016; Goldman et al. 2020). In particular, left-wing and right-wing media outlets often differ in their coverage and the tone of news articles. Prior literature also suggests that media slant affects like-minded people, thus polarizing the beliefs of viewers (Chiang and Knight 2011; Levendusky 2013; Allcott and Gentzkow 2017). We expect that strong disagreement between left- and right-wing media could amplify the partisan biases of corporate bankers.

To test this conjecture, we measure partisan disagreement in the news using the divergence in news sentiment between articles published by left-wing and right-wing outlets. Following Rees and Twedt (2022), we use the Media Bias Chart provided by Allsides.com to classify the political leaning of media outlets. Data on news sentiment come from Ravenpack. Ravenpack provides a sentiment score ranging between 1–100 that gauges the level of optimism in a news article. Following prior literature, we consider articles with sentiment scores above 50 as conveying positive sentiment. Each month, we compute the percentage of news articles displaying positive sentiment that are published by left-wing and right-wing media outlets, respectively. We then take the absolute difference in this percentage between the two sides, forming a time series of media partisan disagreement. Similar to *High PCI*, *High Partisan News* is defined as an indicator that equals one for months when the partisan disagreement in the news ranks above the median over a presidential term, and zero otherwise. This indicator flags time periods of strong divergence in the sentiment conveyed in the media. We define this indicator for news of all topics, news about the economy, and other non-economy topics, respectively.

We find that bankers' partisan pricing biases amplify during periods of highly polarized news. Columns (2) through (4) report the result. Based on coefficients from Column (2), during periods of low partisan disagreement, spreads issued by aligned and misaligned bankers differ by less than 4%. This gap in spreads rises to a significantly higher level (7.5%) during periods of heightened partisan news gap. Columns (3) and (4) suggest that the effect of partisan news is mostly driven by economy-related news. When media outlets disagree strongly regarding the economy, bankers' partisan biases lead to a pricing difference of 9%. When we examine media disagreement regarding other, non-economy topics, there is no change in the partisan pricing gap. This result reveals that bankers' pricing decisions are most likely to reflect their beliefs regarding economic conditions, and not other types of beliefs. While non-economic topics, such as environmental and social issues, may also have implications for future borrower conditions, it is possible that heightened news disagreement over these subjects affects bankers' partisan biases to a lesser extent than the disagreement over the economy. As a result, this disagreement over other topics may not be strong enough to be detected by our test.

Third, we capture the partisan information environment surrounding bankers using the prevalence of political campaign ads in the area where bankers reside. Political advertising affects voter turnout and election outcomes (Spenkuch and Toniatti 2018). It is possible that bankers living in areas targeted by intense political campaign ads may exhibit stronger partisan perceptions than those living in lightly campaigned areas. To test this conjecture, we collect political advertising data from Nielsen Ad Intel database. Our data cover the political ads aired on local TV immediately preceding the 2012 and 2016 presidential elections. The placement and schedule of ads are determined by the broad demographic market areas (DMA). For each DMA, we gather information on the airtime and spending on advertisements sponsored by presidential candidates and compute ad intensity, defined both by ad occurrence and ad spending scaled by DMA population. Per capita ad occurrence is multiplied by 1000 to make coefficients legible.

Our analysis focuses on a short time interval around presidential elections. This is because political advertisement is shown to have a short-term effect on people's behavior

(e.g., Gerber et al. 2011; Spenkuch and Toniatti 2018). Moreover, the majority of political campaign ads are aired in the months leading up to the election. We measure ad intensity using political ads aired during a ten-week interval prior to national elections, and only sample on loans originated in the 3 months following the election (November of the election year till January of the following year). Once we match bankers' addresses with the DMA of political ads, we are left with 257 banker-loan observations, with few bankers originating multiple loans across time. Due to the sample restriction, we drop banker fixed effect from the regression and impose banker political party fixed effect instead. Our inference stems from the cross-sectional comparison between bankers living in DMAs with high political ads coverage and those living in low-coverage DMAs.[13]

Columns (5) and (6) report the results. Both interaction terms *Misaligned* × *Ad Expenses* and *Misaligned* × *Ad Occurrence* generate positive and statistically significant coefficients. This suggests that bankers living in highly campaigned areas exhibit stronger partisan biases. The magnitude of such an effect is substantial: a one-standard deviation increase in political ad occurrence (expenditure) is associated with a 64% (50%) increase in bankers' partisan pricing gap.[14]

Taken together, our findings suggest that an information environment featuring intense partisan conflicts can exacerbate bankers' partisan biases. This evidence is consistent with the view that partisan bankers have different perceptions regarding economic conditions, which influence their pricing decisions.

Finally, we analyze the timing of loan issuance in relation to an upcoming election. To the extent that our sample loans have an average maturity of 56 months (longer than four years), bankers may account for the likelihood that a new president may be in power by the time a loan matures. If misaligned bankers are pessimistic about economic policies issued by the party in power, they may be less pessimistic if the loan is issued close to an upcoming election, which could switch the ruling party. If, on the other hand, bankers' beliefs are influenced by a general optimism due to the current social and

[13]Borrowers of those bankers are generally not headquartered in the same DMA.

[14]The standard deviation for ad occurrence (expenditure) is 1.3 (0.6), so the interaction effect suggests an additional effect of *Misaligned* of $0.043 = 0.033 \times 1.3$ ($0.034 = 0.056 \times 0.6$), which is 64% (50%) of the baseline coefficient, 0.067.

economic backdrop, their pricing may not vary according to the time of loan issuance. We investigate this mechanism by interacting *Misaligned* with a variable measuring the number of quarters since the previous presidential election (*Time Since Election*). In this analysis, we focus only on loans with relatively short maturity, i.e., no longer than 5 years (the shortest maturity above 4 years), so that time of the principal payment will not extend over two election cycles. Column (7) reports the results. The interaction term generates a negative sign, suggesting that the increased cost of debt induced by political misalignment is alleviated as one approaches the end of the current presidential term.

7.2 The Role of Market Competition

We evaluate the role of lender market power and competitive forces in the syndicated loans market. We expect the effect of lender partisan bias to manifest in cases where borrowers are difficult to value and when the borrowers have limited alternative options to access credit.

Borrowers with less tangible assets and with speculative ratings are more opaque and difficult to value. In those cases, outside lenders may fear adverse selection and do not extend cheaper credit to the firm, leaving the firm limited options other than to borrow from its relationship lender. In this case, partisan perceptions can play a bigger role in influencing lenders' beliefs regarding borrowers' credit quality. In Column (1) of Table 9, we interact *Misaligned* with an indicator for the borrower having a speculative credit rating. The sample contains only observations where the borrower has a credit rating outstanding. In Column (2), we interact *Misaligned* with an indicator for the borrower having below-median tangibility. Both interaction terms generate a positive coefficient, indicating that the effect of partisan perceptions is more pronounced for opaque borrowers.

Table 9 About Here

Next, we directly measure borrowers' outside credit options. We expect that lenders' partisan bias should be less likely to prevail if a firm has access to multiple lenders or

to the public bond market. Accordingly, we create three measures for firms' alternative sources of credit access. First, we define an indicator *Many Lenders*, which equals to one if a firm has received loans from more than three lead arranger banks in the past. Second, we consider whether a firm has a corporate bond outstanding (i.e., *Bond Outstanding*). Finally, we check whether a firm has issued corporate bonds in the past (i.e., *Past Bond Issuance*). Corporate bond data come from the Mergent-FISD database. We regress loan spreads on the interaction of these indicators and an officer's political misalignment. Columns (3) through (5) report the results. The interaction term generates a negative and significant coefficient across all measures of a borrower's alternative sources of credit. This result is consistent with our conjecture as well as the evidence related to borrower opacity, suggesting that the effect of banker partisan bias is more pronounced for borrowers that are "held-up" in the current lending relationships.

8 Alternative Explanations

Our results so far are consistent with the interpretation that bankers' partisan beliefs influence their pricing of corporate loans. In this section, we address a few concerns related to such interpretation. We first discuss the effect of borrower fundamentals and then consider the effect of bank-level conditions or policies. Finally, we examine whether our results could be driven by banker experience or expertise.

8.1 Addressing the Effect of Borrower Fundamentals

We first discuss the concern that politically misaligned bankers may lend to riskier firms compared to aligned bankers, which might explain the higher spreads. We address this concern in several ways. First, we regress borrower characteristics including size, profitability, leverage, tangibility, market-to-book ratio, equity volatility, and credit ratings, on banker political misalignment. Panel A of Table 10 shows the results. We find no evidence that the borrowers of misaligned bankers are riskier at the time of loan origination than the borrowers of aligned bankers. If anything, misaligned bankers lend to

firms with lower stock return volatility. We next check whether misaligned bankers are more likely to extend loans to new borrowers than aligned bankers. This helps address the concern that the partisan pricing gap may reflect misaligned bankers facing higher information asymmetry due to new lending relationships. Column (8) in Panel A suggests this is unlikely to be the case.

TABLE 10 ABOUT HERE

We next examine ex post borrower performance. We track the changes in borrower fundamentals from the year before loan origination to a period after loan origination and compare whether the borrowers of misaligned bankers fare worse than those of aligned bankers. Changes in borrower conditions, including firm size, profitability, tangibility, market-to-book ratio, equity volatility, and rating downgrades are calculated over a 1-year and a 3-year window following loan issuance as well as throughout the course of the loan (i.e., origination till maturity).[15] In addition to the above characteristics, we also consider an indicator for whether the borrower drops to a default rating during those horizons. Our estimation imposes banker, bank, and origination year fixed effects. In the "Till Maturity" sample, we retain only loans that mature prior to the end of our sample period and also impose maturity fixed effects to account for the differences in performance horizon across borrowers. Panel B reports the results from this analysis. We do not find borrowers of misaligned bankers to under-perform after loan origination compared to those of aligned bankers.

In Panel C, we add more rigorous fixed effects in the baseline framework to control for borrower heterogeneity. We first include firm fixed effects (Column (1)) followed by firm-by-banker fixed effects (Column (2)). This latter set of controls allows us to track how loan spreads change within a borrower-lender relationship when the ruling party switches, so that the results are not affected by borrowers switching lenders. Next, we control for firm-by-time fixed effects that match the variation in partisan alignment. Given that *Misaligned* for a given banker switches between 0 and 1 as the President's party changes,

[15]Rating downgrades are calculated as the changes in numerical rating scale for a firm over a given time horizon. Firms without credit ratings are removed from this regression.

we design the following tests. In Column (3), we include firm-by-President party fixed effects, which remove differences in a firm's credit demand and financial condition between Democratic and Republican administrations. In Column (4), we add firm-by-presidential term interactive fixed effects that eliminate heterogeneity across firms in every four-year period. For analyses imposing firm, firm-by-president party, or firm-by-term fixed effects, the goal is to compare across lenders of the same firm. We thus remove firms, firm-president party, or firm-presidential terms that are only associated with one loan package. This is because loan spreads do not vary across lead arrangers inside the same deal.

Results from this analysis show that our baseline findings remain robust across all specifications. Meanwhile, we note that the coefficient magnitude decreases in Columns (3) and (4), likely because the fixed effects limit our comparison to a subset of firms that have access to multiple lenders. As shown in Table 9, the effects of banker partisan beliefs become weaker for borrowers with outside options.

8.2 Addressing Bank-Side Effects

In the last step of our base analysis, we address the possibility that our findings could be driven by bank-level conditions or lending policies. To do so, we enrich our baseline specification with bank-by-time interactive fixed effects, so that we can compare loans extended by aligned and misaligned bankers working for the same bank during the same presidential term. We report the results from this specification in Table 11. Similar to the firm fixed effect analyses above, we add bank-by-President party fixed effects in Column (1) and bank-by-presidential term fixed effects in Column (2). In Column (3), we impose a rigorous fixed effect structure that interacts banks with presidential term, industry, and rating categories. Our results continue to hold and generate similar magnitudes as those from the base results.

Table 11 About Here

8.3 Addressing the Effects of Banker Experience

We end this section by discussing an alternative explanation to our finding, that is, misaligned individuals are less capable of collecting or accessing information to determine borrower conditions. This hypothesis suggests that political misalignment may correlate with certain uncontrolled time-varying banker characteristics that represent their ability or skill in collecting information.

To address this concern, we consider banker experience as a proxy for their ability to navigate an uncertain political environment and assess borrower conditions. We thus design several approaches to control for the effect of bankers' experience and focus our comparison between aligned and misaligned bankers with similar experiences. First, we collect information regarding bankers' age and partition them into groups of 5-year age range. We augment our baseline regression by including age range-by-year interactive fixed effects. Second, we impose bankers' work experience-by-year fixed effects, whereby work experience is measured as the number of years since a banker's first loan origination to date. Next, we measure banker experience using past loan origination volume. We group bankers based on the number of loans they issued in the past, in multiples of 5. We also count the number of loans a banker has issued to a specific borrower in the past. This captures firm-specific expertise. We create grids for a banker's past origination volume and interact this grid with the year of observation. These stringent fixed effect structures allow us to compare the loan terms issued by aligned and misaligned bankers with similar age, seniority in the profession, and experience with the borrower. Results in Table 12 show that our baseline findings remain largely unchanged to all the specifications. This suggests that our results are unlikely to be fully driven by misaligned bankers being less informed and less capable of determining borrower conditions. Meanwhile, we do not differentiate from a "confidence" interpretation, which suggests that aligned individuals are more optimistic about their ability to judge borrower conditions than misaligned individuals.

Table 12 About Here

Overall, results from this section help rule out alternative explanations such as our effect being driven by borrowers' conditions, bank-level policies, or banker experience.

9 Conclusion

This paper examines whether investors' partisan perceptions affect firms' costs of capital. We address this question in the context of the U.S. syndicated loans market. We build a unique dataset that tracks corporate bankers' political affiliation and contract terms of the loans they originate. From this data, we document that politically misaligned bankers charge significantly higher loan spreads compared to aligned bankers. Our estimation incorporates a rigorous fixed effect structure, thus excluding the possibility that such partisan effect is confounded by banker intrinsic characteristics, borrower conditions, or bank time-varying policies. Our analysis also helps shed light on the channel through which partisan beliefs are formed and solidified. We provide evidence suggesting that the pricing differentials between politically aligned and misaligned bankers arise from the difference in their economic expectations.

Our paper provides the first evidence that investors' political beliefs affect the cost of credit for U.S. corporations. This finding contributes to the literature studying the effect of the political beliefs of households, managers, and investors. It suggests that partisan perceptions not only breed disagreement among investors, but also influence asset prices. This study thus advances our understanding of the "real effects" of partisan perceptions on financial markets.

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Table 1
Banker Distribution
This table presents the distribution of bankers' party affiliation across U.S. states. Our sample includes 1,199 bankers residing in 20 states. The sample spans the period from May 1998 through August 2019.

State	%Bankers	Democrat	Republican	Other	Undeclared
Alabama	0.5%	0	0	0	6
Colorado	3.3%	2	18	1	18
Connecticut	8.0%	20	45	5	26
D.C.	0.4%	1	2	0	2
Delaware	0.7%	4	3	1	0
Florida	2.3%	4	19	0	4
Hawaii	0.7%	0	0	0	8
Louisiana	0.8%	1	7	0	1
Michigan	3.8%	0	0	0	46
North Carolina	13.2%	24	77	0	57
New Jersey	8.3%	10	13	1	76
Nevada	0.8%	3	3	0	3
New York	26.2%	117	105	71	21
Ohio	5.2%	12	17	0	33
Oklahoma	0.1%	0	1	0	0
Rhode Island	0.2%	0	0	0	2
South Carolina	0.6%	0	0	0	7
Texas	22.9%	21	37	1	215
Utah	0.4%	0	1	0	4
Wisconsin	1.9%	0	0	0	23

Table 2
Summary Statistics
This table reports the summary statistics for the main variables used in our study, including banker political misalignment, loan contract terms, and firm characteristics. Detailed variable definitions are provided in Appendix B.

	N	Mean	St. Dev.	Median
Misaligned	5,731	0.361	0.480	0
Log(Spread)	5,731	5.251	0.490	5.170
Spread (bps)	5,731	215.0	122.8	175
Log(Loan Amount)	5,731	20.04	1.284	20.08
Loan Amount ($million)	5,731	1,044	1,825	525
Log(Loan Maturity)	5,716	3.963	0.481	4.111
Loan Maturity (months)	5,716	56.09	17.66	60
Secured	5,731	0.535	0.499	1
Firm Size	5,731	8.222	1.381	8.271
Firm Age	5,639	22.75	17.88	18
Profitability	5,731	0.122	0.0818	0.119
Leverage	5,731	0.380	0.226	0.361
Tangibility	5,731	0.305	0.258	0.214
M/B	5,355	1.815	0.924	1.578
Equity Volatility	5,157	0.355	0.193	0.309

Table 3
Credit Spreads and Banker Partisanship
This table reports the results from estimating Equation (1), the effect of bankers' partisan beliefs on the spread they charge on syndicated loans. *Log(Spread)* is the log of the all-in-drawn interest rate loan spread over LIBOR. *Misaligned* takes the value of one if the banker's party of affiliation differs from the party of the U.S. President, and zero otherwise. Rating-scale refers to a 22-point scale that corresponds to S&P rating grids. Unrated borrowers are assigned a separate dummy. *Pres. Term* is defined as a four-year presidential term. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.065***	0.071***	0.068***	0.067***
	(0.022)	(0.018)	(0.017)	(0.017)
Firm Size	-0.063***	-0.075***	-0.073***	-0.068***
	(0.012)	(0.011)	(0.010)	(0.010)
Firm Age	0.000	0.000	0.000	0.000
	(0.001)	(0.001)	(0.001)	(0.001)
Profitability	-0.614***	-0.607***	-0.595***	-0.599***
	(0.133)	(0.123)	(0.121)	(0.122)
Leverage	0.281***	0.298***	0.262***	0.265***
	(0.051)	(0.054)	(0.053)	(0.053)
Tangibility	0.079*	-0.075	-0.055	-0.046
	(0.042)	(0.067)	(0.066)	(0.066)
M/B	-0.062***	-0.074***	-0.070***	-0.069***
	(0.012)	(0.013)	(0.013)	(0.013)
Equity Volatility	0.350***	0.307***	0.299***	0.307***
	(0.067)	(0.065)	(0.064)	(0.065)
Secured			0.063**	0.062**
			(0.029)	(0.029)
Log(Loan Amount)				-0.007
				(0.007)
Log(Loan Maturity)				0.031**
				(0.016)
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE		Yes	Yes	Yes
Loan Type FE			Yes	Yes
Observations	4,797	4,720	4,720	4,712
Adjusted R^2	0.720	0.786	0.804	0.804

Table 4
Analysis in Loan-level Samples

This table repeats our baseline analysis using two loan-level samples, where we only retain one observation for each loan facility. In Panel A, we select one lead banker from each loan contract. For loans with more than one lead banker, we choose the banker that most frequently appear in our sample. In Panel B, we focus on loans originated by politically homogeneous teams, where the loan is either originated by a single lead arranger banker, or all lead arranger bankers are affiliated with the Democratic party, or all lead arranger bankers belong to the Republican party. In this sample, the political alignment of a loan contract is assigned according to the (same) political affiliation of all bankers in the team. We control for the fixed effects for the political party of the lead arranger team. See Appendix B for variable definitions. *Loan Controls* include *Secured*, *Log(Loan Amount)*, and *Log(Loan Maturity)*. Firm Controls include *Firm Age*, *Profitability*, *Leverage*, *Tangibility*, *M/B*, and *Equity Volatility*. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: One Banker per Loan

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)
Misaligned	0.074**	0.125***	0.116***
	(0.031)	(0.031)	(0.030)
Firm Controls	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE		Yes	Yes
Loan Type FE			Yes
Loan Controls			Yes
Observations	2,398	2,292	2,285
Adjusted R^2	0.730	0.784	0.804

Panel B: Loans Originated by Homogeneous Teams

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)
Misaligned	0.050**	0.080***	0.088***
	(0.024)	(0.031)	(0.028)
Firm Controls	Yes	Yes	Yes
Party FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE		Yes	Yes
Loan Type FE			Yes
Loan Controls			Yes
Observations	1,421	1,329	1,322
Adjusted R^2	0.621	0.742	0.769

Table 5
Banker-Borrower Matching Based on Partisanship
This table examines whether corporate bankers disproportionately provide loans to borrowers with similar political leanings. The unit of observation is a banker-borrower-year. The dependent variable is *Have Loan*, an indicator that turns to one if a banker extends a loan to a borrower in a given year. *Same Party* takes the value of one if the banker's party registration is the same from the borrower's party, and zero otherwise. Borrowers' party is determined based on corporate PAC contribution in Columns (1) through (3), CEO personal contribution in Columns (4) through (6). *CAR* refers to a firm's cumulative abnormal equity returns during five days following a party-switching election. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Borrower Leaning Measured by:	Firm Contribution			CEO Contribution			Election CAR		
Dep. Var.: *Have Loan*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Same Party	-0.000	-0.000	-0.001	-0.000	-0.000	-0.000			
	(0.002)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)			
Misaligned							0.001	0.003	0.003
							(0.001)	(0.004)	(0.004)
CAR							-0.001	-0.001	0.000
							(0.004)	(0.004)	(0.000)
Misaligned × *CAR*							0.003	0.003	0.003
							(0.005)	(0.005)	(0.005)
Firm FE	Yes	Yes		Yes	Yes		Yes	Yes	
Banker FE	Yes			Yes			Yes		
Year FE	Yes			Yes			Yes		
Banker×Year FE		Yes	Yes		Yes	Yes		Yes	Yes
Firm×Year FE			Yes			Yes			Yes
Observations	164,411	164,411	164,411	113,680	113,680	113,680	138,509	138,509	138,509
Adjusted R^2	0.006	0.006	0.007	0.010	0.010	0.011	0.006	0.007	0.007

Table 6
Controlling for Firm Political Leaning

This table repeats the baseline analysis while controlling for borrowers' political leaning. *Log(Spread)* is the log of the all-in-drawn interest rate loan spread over LIBOR. *Misaligned* takes the value of one if the banker's party of affiliation differs from the party of the U.S. President, and zero otherwise. Control variables are defined in the same way as in Table 3. In Column (1), firm party is determined based on corporate PAC contribution; In Columns (2), CEO party is defined based on a firm's CEO personal contribution; In Columns (3), borrower political leaning refers to each tercile of the election-day CAR. Election-day *CAR* refers to a firm's cumulative abnormal equity returns during five days following a party-switching election. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)
Borrower Leaning Measured by:	Firm Contribution	CEO Contribution	Election CAR
Misaligned	0.060***	0.062***	0.069***
	(0.017)	(0.018)	(0.018)
Controls	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes
Firm Party×Year FE	Yes		
CEO Party×Year FE		Yes	
CAR Tercile×Year FE			Yes
Observations	4,712	3,266	4,059
Adjusted R^2	0.807	0.825	0.800

Table 7
Partisanship, Group Identity, and Syndicate Formation
This table presents results regarding how group identity influences the partisanship effect on loan pricing. In Panel A, we examine whether bankers with same political beliefs are more likely to originate loans with each other. The sample is a banker-pair-year panel, with each observation indicating the syndication activity between banker i and banker j during year t. The dependent variable in Columns (1) through (3) is *Co-lead*, an indicator for whether two bankers co-lead at least one syndicated loan in a given year. The dependent variable in Columns (4) through (6) is *Log(Co-lead Loans)*, the log of one plus the number of loans that banker i and banker j originate together in year t. *Same Party* is a dummy variable equal to one if banker i and banker j are both affiliated with the Democratic party or both affiliated with the Republican party. In Columns (1), (2), (4), and (5), we use all banker-pair-year observations. In Columns (3) and (6), we restrict the sample to bankers that issue at least one loan in year t. In Panel B, we examine whether the partisan pricing effect amplifies in homogeneous teams. *Homogeneous Team* is a dummy variable equal to one if all bankers in a lending syndicate are affiliated with the same party, and zero if the syndicate is politically balanced, i.e., consisting of 50% Democratic bankers and 50% Republican bankers. The analysis excludes syndicates where one party has weak majority (e.g., 2 Democratic and 1 Republican bankers). In Panel A, standard errors are double clustered by banker i and banker j. In Panel B, standard errors are double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Syndicate Formation

Dep. Var.:	*Co-Lead*			*Log(Co-Lead Loans)*		
	(1)	(2)	(3)	(4)	(5)	(6)
Sample:	All	All	Active Bankers	All	All	Active Bankers
Same Party	0.004***	0.003***	0.002**	0.005***	0.003***	0.002**
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Banker i-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Banker j FE	Yes			Yes		
Year FE	Yes			Yes		
Banker j-Year FE		Yes	Yes		Yes	Yes
Observations	756,228	756,228	460,240	756,228	756,228	460,240
Adjusted R^2	0.027	0.034	0.034	0.029	0.038	0.039

Panel B: The Moderating Role of Group Identity

Dep. Var.: *Log(Spread)*	(1)
Misaligned	0.022
	(0.027)
Homogeneous Team	-0.011
	(0.023)
Misaligned × *Homogeneous Team*	0.064**
	(0.032)
Controls	Yes
Banker FE	Yes
Bank FE	Yes
Year FE	Yes
Rating Scale FE	Yes
Loan Type FE	Yes
Ind.×Rating×Pres. Term FE	Yes
Observations	2,443
Adjusted R^2	0.828

Table 8
Partisan Conflict, Information Environment, and Lender Beliefs

This table reports results for cross-sectional variation in the effect of lender partisanship. *Log(Spread)* is the log of the all-in-drawn interest rate loan spread (in basis points over the LIBOR). *Misaligned* takes the value of one if the banker's party of affiliation differs from the party of the U.S. President, and zero otherwise. *High PCI* is a dummy variable that equals one when the Partisan Conflict Index (Azzimonti 2018) of the current month exceeds the median level in the same presidential term, and zero otherwise. *High Partisan News* indicates months when the absolute difference in sentiment between left- and right-wing media is above the median of a presidential term. This measure is created for news of all topics, news related to the economy, and news regarding non-economy topics, respectively. *Ad Occurrence (Expenses)* measures the total number (cost) of political ads aired through the local station in the lender's living area (DMA) divided by the population of the DMA. In constructing these advertisement measures, we only consider ads sponsored by presidential candidates shown in the 10 weeks prior to the 2012 and 2016 national elections, a period when political campaign ads are most concentrated. *Time Since Election* measures the number of quarters since the most recent presidential election. The sample in Column (7) only includes loans with no longer than five years of maturity. All regressions include the same set of controls as shown in Column (4) of Table 3. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Misaligned	0.044**	0.039*	0.035*	0.059***	-0.027	-0.027	0.108***
	(0.020)	(0.020)	(0.020)	(0.020)	(0.038)	(0.039)	(0.031)
High PCI	-0.006						
	(0.019)						
Misaligned × *High PCI*	0.048**						
	(0.022)						
High Partisan News (All)		-0.006					
		(0.018)					
Misaligned × *High Partisan News (All)*		0.036*					
		(0.020)					
High Partisan News (Economy)			-0.050***				
			(0.017)				
Misaligned × *High Partisan News (Economy)*			0.054**				
			(0.021)				
High Partisan News (Non-Economy)				-0.041**			
				(0.016)			
Misaligned × *High Partisan News (Non-Economy)*				0.002			
				(0.020)			
Ad Expenses					0.006		
					(0.050)		

Misaligned × *Ad Expenses*					0.056*		
					(0.033)		
Ad Occurrence						-0.003	
						(0.019)	
Misaligned × *Ad Occurrence*						0.034**	
						(0.016)	
Time Since Election							-0.006
							(0.007)
Misaligned × *Time Since Election*							-0.006**
							(0.003)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes			Yes
Party FE					Yes	Yes	
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes			Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,712	4,387	4,450	4,387	257	257	3,852
Adjusted R^2	0.804	0.787	0.790	0.788	0.780	0.780	0.812

Table 9
The Role of Market Competition

This table reports results for the heterogeneous effect of lender partisanship in terms of borrowers' characteristics. *Log(Spread)* is the log of the all-in-drawn interest rate loan spread (in basis points over the LIBOR). *Misaligned* takes the value of one if the banker's party registration is different from the party in the White House, and zero otherwise. *Speculative* is a dummy variable that equals one if the borrower has a speculative-grade credit rating. The sample in Column (1) only includes rated firms. *Low Tangibility* is an indicator for whether the borrower's asset tangibility ranks below the sample median level. *Many Lenders* is an indicator for whether a firm has received loans from more than three lead arranger banks in the past. *Bond Outstanding* indicates whether a firm has a corporate bond outstanding. *Past Bond Issuance* is an indicator equal to one if a firm has issued corporate bonds in the past. All regressions include the same set of controls as shown in Column (4) of Table 3. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)
Misaligned	0.028	0.044**	0.148***	0.106***	0.109***
	(0.020)	(0.022)	(0.053)	(0.022)	(0.023)
Misaligned × *Speculative*	0.086***				
	(0.024)				
Low Tangibility		0.012			
		(0.032)			
Misaligned × *Low Tangibility*		0.042*			
		(0.022)			
Many Lenders			0.032		
			(0.037)		
Misaligned × *Many Lenders*			-0.086*		
			(0.052)		
Bond Outstanding				0.020	
				(0.020)	
Misaligned × *Bond Outstanding*				-0.062***	
				(0.021)	
Past Bond Issuance					0.036*
					(0.020)
Misaligned × *Past Bond Issuance*					-0.065***
					(0.021)
Controls	Yes	Yes	Yes	Yes	Yes
Officer FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	Yes	Yes	Yes
Observations	3,912	4,712	4,712	4,712	4,712
Adjusted R^2	0.811	0.804	0.804	0.804	0.804

Table 10
Addressing Borrower-Side Effects

This table reports results from analyses that address borrower-side effects. Panel A shows results related to banker-firm matching. Panel B examines the changes in firm fundamentals after loan origination. In this panel, the dependent variables are changes in firm characteristics over a 1-year window after loan origination, a 3-year window after origination, and from origination till loan maturity. All regressions in this panel control for banker, bank, and year fixed effects. In the "Till Maturity" sample, we only keep loans that mature prior to the end of our sample period and add loan maturity (in years) fixed effects. Panel C reports results from including additional sets of borrower fixed effects in the baseline specification. In Column (1), we only include firms that obtain more than one loan package over the sample period. In Columns (3) and (4), we retain firm-president party and firm-presidential terms that are associated with more than one loan, respectively. All regressions include the same set of controls as shown in Column (4) of Table 3. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Banker-Firm Matching

Dep. Var.:	(1) *Firm Size*	(2) *Profitability*	(3) *Leverage*	(4) *Tangibility*	(5) *M/B*	(6) *Equity Volatility*	(7) *Rating Scale*	(8) *New Borrower*
Misaligned	-0.084	0.008	0.017	0.004	-0.031	-0.024*	-0.086	-0.010
	(0.066)	(0.005)	(0.017)	(0.015)	(0.052)	(0.014)	(0.213)	(0.039)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,797	4,797	4,797	4,797	4,797	4,797	3,983	4,797
Adjusted R^2	0.589	0.206	0.422	0.578	0.320	0.490	0.478	0.332

Panel B: Changes in Firm Fundamentals After Loan Origination

Dep. Var.:	(1) Δ*Firm Size*	(2) Δ*Profitability*	(3) Δ*Leverage*	(4) Δ*Tangibility*	(5) Δ*M/B*	(6) Δ*Equity Vol.*	(7) *Downgrades*	(8) *Default*
Measurement Horizon for Firm Performance: 1 Year After Loan Origination								
Misaligned	0.005	0.006	-0.003	0.004*	-0.003	-0.011	-0.298	-0.089
	(0.014)	(0.005)	(0.005)	(0.002)	(0.033)	(0.015)	(0.254)	(0.054)
Measurement Horizon for Firm Performance: 3 Years After Loan Origination								
Misaligned	0.013	0.013*	-0.011	0.006	-0.010	-0.027	-0.145	-0.155
	(0.032)	(0.007)	(0.011)	(0.004)	(0.040)	(0.020)	(0.385)	(0.099)
Measurement Horizon for Firm Performance: Till Loan Maturity								
Misaligned	0.042	0.020	-0.015	0.013	0.047	-0.001	0.256	-0.067
	(0.045)	(0.014)	(0.012)	(0.008)	(0.074)	(0.020)	(0.267)	(0.053)

Panel C: Firm Fixed Effects

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.072***	0.088***	0.058***	0.041***
	(0.019)	(0.028)	(0.017)	(0.015)
Controls	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Banker FE	Yes		Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes		
Firm FE	Yes			
Firm×Banker FE		Yes		
Firm×President Party FE			Yes	
Firm×Pres. Term FE				Yes
Observations	3,676	3,772	2,682	2,186
Adjusted R^2	0.855	0.859	0.856	0.862

Table 11
Addressing Bank-Side Effects
This table reports results from analyses that address bank-side effects. In Column (1), we add bank-by-President party interactive fixed effects, and in Column (2), we include bank-presidential term interactive fixed effects. In Column (3), we include bank-industry-rating grid-presidential term fixed effects. All regressions include the same set of controls as shown in Column (4) of Table 3. See Appendix B for variable definitions. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)
Misaligned	0.068***	0.065***	0.054**
	(0.018)	(0.018)	(0.021)
Controls	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	
Bank×Pres. Party FE	Yes		
Bank×Pres. Term FE		Yes	
Bank×Ind.×Rating×Pres. Term FE			Yes
Observations	4,708	4,706	4,332
Adjusted R^2	0.800	0.801	0.816

Table 12
Controlling for Banker Experience Effect
This table reports results when we further control for bankers' experience. In Column (1), we add banker age range-by-year fixed effects. Age range is defined based on 5-year categories. In Column (2), we control for work experience-by-year fixed effects. Work experience is measured as the number of years from a banker's first loan to the year of observation. Bankers with over 15 years of experience are put in the same category. In Column (3), we add banker origination volume-year fixed effects. Bankers' origination volume is the number of loans a banker has issued in the past, in multiples of 5. Bankers with over 20 loans are put in the same category. In Column (4), we add firm-specific origination volume-by-year fixed effects, whereby firm-specific origination volume is the number of loans a banker has issued to a specific borrower in the past. Bankers that originate more than 3 loans to the same borrower are put in the same category. All regressions include the same controls as in the baseline analyses, shown in Column (4) of Panel A, Table 3. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.051***	0.064***	0.065***	0.059***
	(0.019)	(0.019)	(0.017)	(0.017)
Controls	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes
Secured Loan FE	Yes	Yes	Yes	Yes
Ind.×Rating ×Pres. Term FE	Yes	Yes	Yes	Yes
Age Range×Year FE	Yes			
Work Experience×Year FE		Yes		
Origination Volume×Year FE			Yes	
Firm-Specific Origination Volume ×Year FE				Yes
Observations	4,574	4,699	4,708	4,707
Adjusted R^2	0.807	0.811	0.809	0.805

Appendix A The Role of Corporate Bankers

We identify lead bankers that are responsible for underwriting syndicated corporate loans. These lead bankers perform key functions in the syndicated lending process. They are the point of contact with the borrower and are tasked with establishing and maintaining relationships with the borrower. Bankers collect soft information regarding the borrower's creditworthiness and recruit syndicate participants. They set a range for the interest rate spread and finalize the spread once the syndicate forms. After loan origination, lead arrangers monitor the borrower throughout the course of the loan.[16]

These job functions are often described in bankers' LinkedIn profiles as well as job postings for corporate bankers. For example, bankers advertise that they are "responsible for pricing ... loans booked on the firms' balance sheet" and "led loan ... origination teams in the proposal and negotiation of all aspects of... loan structures." Job postings for corporate bankers also describe the need for candidates who are expert in loan pricing, are able to evaluate and manage credit exposure, and can structure and lead negotiations with clients. Notably, those job postings often emphasize the ability to develop and sustain relationship with clients and to work with minimal supervision. Carvalho et al. (2020) provide more examples of job ads and LinkedIn profiles in Internet Appendix.

Recent academic evidence supports the view that the corporate bankers in our sample have discretion in setting loan contract terms and influencing lending outcomes. For example, Bushman et al. (2021) show that banker fixed effects explain a significant portion of variation in loan spreads, after controlling for borrower characteristics and bank conditions. Carvalho et al. (2020) document that lender optimism induced by recent, local housing price shocks shapes the spreads that bankers issue. Herpfer (2021) provides evidence that relationships between these individual officers and borrowers significantly reduce loan spreads. Gao et al. (2020) find that bankers face adverse career consequences for loan failures, suggesting that they are considered responsible for lending decisions.

While there exist projections regarding macroeconomic indicators and firm-specific conditions, the corporate loans we analyze have an average maturity of 4 years and projections at such horizons can be noisy. It is plausible that bankers' pricing decisions may be affected by their own judgment of future credit exposure. Consistent with this argument, practitioners also emphasize the importance of bankers exercising their own "intelligence and philosophy" and not fully following the market (Nathenson 2004).

[16] While the bankers we identify may work with a team to produce loan documents and form lending syndicates, we confirm with practitioners that the signers are usually the leader of the team.

Appendix B Variable Definitions

- *Misaligned*: An indicator variable that equals to one if a banker's party affiliation is different from the party of the president, and zero otherwise. For unaffiliated bankers (bankers that do not declare their registration at a vote), *Misaligned* is defined as 0.
- *Log(Spread)*: Log of all-in-drawn loan spread over LIBOR.
- *Log(Loan Maturity)*: Log of the loan maturity (in months).
- *Log(Loan Amount)*: Log of the total loan amount (in U.S. dollars).
- *Loan Type*: A discrete variable that indicates if the loan is a term loan or if the loan is a revolver.
- *Secured*: An indicator variable that equals to one if the loan is secured, and zero otherwise.
- *Default*: An indicator variable that equals to one if the borrower drops to a default rating ("D" or "SD") during the course of the loan, and zero otherwise.
- *Firm Size*: Log of total assets (at).
- *Firm Age*: The number of years since the firm first appeared in the Compustat database.
- *Profitability*: Operating income (oibdp)/total assets (at).
- *Leverage*: (Long-term debt (dltt) + current debt (dlc))/total assets (at).
- *Tangibility*: Property, plant, and equipment (ppent)/total assets (at).
- *M/B*: (Stock price (prcc) × shares outstanding (csho) + total assets (at) - book equity (ceq))/total assets (at).
- *Equity Volatility*: Annualized standard deviation of daily stock returns.
- *Rating Scale*: A numerical scale for S&P long-term issuer ratings. The rating grid is defined as follows: 1 for AAA, 2 for AA+, 3 for AA, ..., 21 for C, and 22 for D or SD. It is set to 0 for unrated firms.
- *Rated/Unrated*: *Rated* (*Unrated*) is an indicator variable that equals to one (zero) if the borrower is rated, and zero (one) otherwise.
- *Downgrades*: The changes in the number of rating scale.
- *Default*: An indicator for whether a rated firm drops to a default rating (D or SD) during a horizon.
- *Speculative*: An indicator variable that equals to one if the borrower has a rating of BB+ and below, equals to zero if the borrower has a rating of BBB- and above.
- *Low Tangibility*: An indicator variable that equals to one if the borrower's asset tangibility is below the sample median, and zero otherwise.
- *Aligned Borrower*: An indicator variable that equals to one if the borrower contributes more to the same party as the one represented by the U.S. President, as captured by the borrower's political action committee (PAC) contributions, and zero otherwise.
- *Misaligned Borrower*: An indicator for whether the borrower contributes more to a different party than the one represented by the U.S. President. Political contribution is measured as the contribution made by the borrower's political action committee (PAC).
- *Neutral Borrower*: An indicator variable that equals to one if the borrower does not have a political action committee (PAC), or it contributes equally to political parties, and zero

otherwise.

- *High PCI*: An indicator variable that equals to one if the Partisan Conflict Index (Azzimonti 2018) is above the median over a presidential term, and zero otherwise.
- *High Partisan News*: An indicator variable that equals to one for months when the partisan disagreement in the news ranks above the median over a presidential term, and zero otherwise. The partisan disagreement in the news is calculated by taking the absolute difference between the percentage of news articles displaying positive sentiment (i.e., sentiment score above 50) that are published by left-wing and right-wing media outlets. This measure is created for news of all topics, news related to the economy, and news regarding non-economy topics, respectively.
- *Ad Occurrence*: Total number of political ads sponsored by presidential candidates aired through the local station in the lender's living area (DMA) during the 10 weeks prior to the 2012 and 2016 elections divided by the population of the DMA.
- *Ad Expenses*: Total cost of political ads sponsored by presidential candidates aired through the local station in the lender's living area (DMA) during the 10 weeks prior to the 2012 and 2016 elections divided by the population of the DMA.
- *Time Since Election*: The Number of quarters since the most recent presidential election.
- *Many Lenders*: An indicator variable that equals to one if the firm has received loans from more than three lead arranger banks in the past.
- *Bond Outstanding*: An indicator variable that equals to one if the firm has a corporate bond outstanding.
- *Past Bond Issuance*: An indicator variable that equals to one if the firm has issued corporate bonds in the past.
- *Homogeneous County*: An indicator variable that equals to one if the banker lives in a county where the vote share for his party exceeds the sample median, conditional on the banker's party having won the majority of votes in that county.
- *Homogeneous Team*: An indicator variable that equals to one if all bankers in a lending syndicate are affiliated with the same party, and zero if the syndicate is composed of members with different political affiliation and lacks a majority representation, i.e. 50% Democratic bankers and 50% Republican bankers.
- *Same Party*: An indicator variable that equals to one if bankers in the pair are both affiliated with the Democratic party or are both affiliated with the Republican party.

Appendix C Simpler Baseline Specification

We consider simpler specifications to estimate the effect of banker partisanship on loan pricing. To identify the effect of partisan bias, whenever the banker fixed effect is removed, we include the party fixed effect, representing the political affiliation of the banker extending the loan.

Specifically, in Columns (1) to (2), we exclude the bank and banker fixed effects, and impose only banker party fixed effects. In Columns (3) and (4), we add bank fixed effects. In Column (5) and (5), we include banker fixed effects without bank fixed effects. In all three tests, we alternate the inclusion and exclusion of loan contract controls.

Table C1
Alternative Baseline Specification
This table reports results when we exclude banker or bank fixed effects. *Misaligned* equals one when a banker's party affiliation is the opposite to that of the U.S. President (i.e., a Democratic banker under a Republican President, or a Republican banker under a Democratic President), and zero otherwise. All regressions include the same set of fixed effects and controls as in the baseline analyses, Table 3, but include party fixed effects whenever banker fixed effects are removed. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	0.032***	0.032***	0.029**	0.029***	0.068***	0.064***
	(0.011)	(0.010)	(0.011)	(0.011)	(0.018)	(0.017)
Firm Char Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind.-Rating-Pres. Term FE	Yes	Yes	Yes	Yes	Yes	Yes
Party FE	Yes	Yes	Yes	Yes		
Bank FE			Yes	Yes		
Banker FE					Yes	Yes
Loan Type FE		Yes		Yes		Yes
Secured Loan FE		Yes		Yes		Yes
Loan Char Controls		Yes		Yes		Yes
Observations	5,045	5,032	5,035	5,022	4,722	4,714
Adjusted R^2	0.710	0.739	0.717	0.745	0.787	0.805

Appendix D Treating Unaffiliated Bankers as "Neutral"

In our baseline analyses, *Misaligned* is assigned to be zero for unaffiliated bankers at all time. This specification groups unaffiliated bankers together with bankers whose political beliefs line up with the ruling party. We now consider an alternative classification for unaffiliated bankers, where we consider them as relatively impartial and less influenced by partisan biases. Thus, we create a new indicator *Aligned* that equals one for bankers registered with the President's party. Both *Aligned* and *Misaligned* turn to zero for unaffiliated bankers at all time.

In this alternative specification, we are able to identify the pricing effect of optimists (i.e., aligned bankers) and pessimists (i.e., misaligned bankers) relative to the unaffiliated group. Our estimation keeps all the controls and fixed effects as the baseline (Table 3) while removing banker fixed effects. This is because banker fixed effects will lead to colinearity between *Aligned* and *Misaligned*. Within the same banker, *Aligned* and *Misaligned* either move in exactly opposite directions or both equal zero.

The table below shows that the pricing of aligned and misaligned bankers deviates from the benchmark group (the unaffiliated) to a similar extent.

Table D1
Alternative Classification of Unaffiliated
This table reports results when we separate unaffiliated bankers from aligned bankers. *Aligned* is an indicator that turns to one when a banker's party affiliation is the same as the U.S. President. *Misaligned* equals one when a banker's party affiliation is the opposite to that of the U.S. President (i.e., a Democratic banker under a Republican President, or a Republican banker under a Democratic President), and zero otherwise. Both indicators equal zero for unaffiliated individuals. All regressions include the same set of fixed effects and controls as in the baseline analyses, shown in Panel A, Table 3 but remove banker fixed effects. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Aligned	-0.017	-0.022*	-0.023**	-0.023**
	(0.017)	(0.012)	(0.012)	(0.011)
Misaligned	0.033*	0.031***	0.028***	0.029***
	(0.017)	(0.012)	(0.011)	(0.011)
Firm Controls	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Ind.-Rating-Pres. Term FE	No	Yes	Yes	Yes
Loan Type FE	No	No	Yes	Yes
Secured Loan FE	No	No	Yes	Yes
Loan Controls	No	No	No	Yes
Observations	5,132	5,035	5,035	5,022
Adjusted R^2	0.592	0.718	0.745	0.745

Appendix E Alternative Sample Choices

Table E1
Robustness: Alternative Samples
This table reports results under alternative sampling choices. Panel A removes all unaffiliated bankers from the sample. Panel B removes loans for which we can identify more than three lead bankers. Regressions in both panels follow the specifications in the baseline analyses, shown in Panel A, Table 3. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Excluding Unaffiliated Bankers

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.060***	0.081***	0.075***	0.076***
	(0.020)	(0.020)	(0.020)	(0.020)
Firm Chars Control	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	No	Yes	Yes	Yes
Secured Loan FE	No	No	Yes	Yes
Loan Type FE	No	No	Yes	Yes
Loan Chars Control	No	No	No	Yes
Observations	2,388	2,319	2,319	2,314
Adjusted R^2	0.754	0.811	0.825	0.824

Panel B: Excluding Loans ≥ 3 Bankers

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.081***	0.103***	0.099***	0.097***
	(0.028)	(0.028)	(0.025)	(0.025)
Firm Chars Control	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	No	Yes	Yes	Yes
Secured Loan FE	No	No	Yes	Yes
Loan Type FE	No	No	Yes	Yes
Loan Chars Control	No	No	No	Yes
Observations	3,161	3,078	3,078	3,069
Adjusted R^2	0.736	0.802	0.823	0.824

Appendix F Borrower-Banker Matching, Additional Test

In this section, we present results from tests of borrower-banker matching using the baseline sample. The unit of observation is a banker-loan contract. In Columns (1) and (2), we examine the matching when defining borrowers' affiliation based on firms' PAC contribution. In Columns (3) and (4), we classify borrowers using their CEO's political contribution. In Column (5), we measure borrowers' leaning based on their five-day election CARs. When classification borrowers based on political contributions, we regress indicators of borrower affiliation on bankers' affiliation. Borrower election CAR is regressed on banker misalignment. The results provide little support for the argument that borrowers and bankers match based on political affiliation. In Columns (1), (2) and (5), the coefficients are not statistically significant and are economically small. In Columns (3) and (4) the signs go in the opposite direction.

Table F1
Matching Between Banker and Borrower
This table reports results regarding the matching between banker and borrower based on their political leanings. In Columns (1) and (2), the dependent variable *Dem Borrower* (*Rep Borrower*) is an indicator that turns to one when the borrower's party affiliation is Democrat (Republican) based on corporate PAC contribution. In Columns (3) and (4), the dependent variable refers to CEO's party based on a firm's CEO personal contribution. In Column (5), *Election CAR* refers to a firm's cumulative abnormal equity returns during five days following a party-switching election. *Democrat Banker* (*Republican Banker*) is an indicator that turns to one when a banker's party affiliation is Democrat (Republican). In Column (1) to (4), We only keep bankers that affiliated with Democrat party or Republican party. In Column (5), *Misaligned* equals one when a banker's party affiliation is the opposite to that of the U.S. President (i.e., a Democratic banker under a Republican President, or a Republican banker under a Democratic President), and zero otherwise. Both indicators equal zero for unaffiliated individuals. Continuous control variables are the same as in the baseline analyses, shown in Column (4), Panel A of Table 3. Standard errors are reported in parentheses and are heteroskedasticity robust and double clustered by banker and firm. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Borrower Leaning Measured by:	Firm Contribution		CEO Contribution		
Dep. Var.:	(1) Dem Borrower	(2) Rep Borrower	(3) Dem Borrower	(4) Rep Borrower	(5) Election CAR
Democrat Banker	0.006		-0.022		
	(0.014)		(0.019)		
Republican Banker		0.004		-0.035	
		(0.023)		(0.031)	
Misaligned					-0.000
					(0.005)
Controls	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes
Observations	2,541	2,541	1,840	1,840	4,442
Adjusted R^2	0.244	0.368	0.257	0.235	0.240