Do Banks’ Partisan Affiliations Shape their Lending Decisions?

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

EMPIRICAL MODEL
\[ Y_{ijt} = \mu_{it} + \pi_{jt} + \beta \text{Political Alignment}_{ijt} + \delta X_{ijt} + \epsilon_{ijt} \]
\( Y_{ijt} \) is the number of mortgages approved by bank \( i \) in county \( j \) at time \( t \).
\( \text{Political Alignment}_{ijt} \) is a dummy indicating that a bank \( i \) and a borrower's home county \( j \) share the same political affiliation in year \( t \).

Political Alignment between Banks and Counties and Mortgage Lending

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

Partisan Preferences and Minority Applicants

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

Reasons for Denial

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

Efficiencies of preference-induced lending decisions

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

Data

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

Examples of Distribution of Counties with Different Partisan Affiliations

Figure 1: Number of Approved Mortgages

Figure 2: Washington - Democratic State

Figure 3: Georgia - Republican State

Figure 4: Comparison of Log(No.) Log($) APRate_N APRate_V

Minority -1.392*** -1.5706*** -0.099*** -0.095***
DEM Bank*Minority 0.084*** 0.1248*** 0.018*** 0.022***
Observations 863,754 863,754 885,587 885,587
Controls Yes Yes Yes Yes
County*Year FE Yes Yes Yes Yes
Adjusted R-squared 0.431 0.502 0.193 0.170

Table 2: Comparison of Non-Performing Loans and Non-Performing RE Loans and ROA

Approval Rate* Alignment 0.001** 0.001** -0.001***
Observations 470,863 470,863 470,866
Controls Yes Yes Yes
Bank*Year FE Yes Yes Yes
County*Year FE Yes Yes Yes
Adjusted R2 0.512 0.492 0.464