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 misaligned bankers, whose party differs from that of the U.S. President, charge 7% higher loan spreads than aligned bankers. This effect is amplified during periods of intense partisan conflicts, when left- and right-wing media strongly disagree over economic conditions, and for borrowers with limited outside options. Bankers and borrowers do not seem to match on political affiliations. Our results are not driven by bank or borrower fundamentals, but suggest misaligned bankers have more pessimistic outlook than aligned bankers.

Key words: Partisanship, Politics, Syndicated Loan Pricing, Credit Spreads.

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

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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 identity creates a perceptual screen that shapes individuals' expectations regarding the state of the economy. In particular, people who stand in agreement with the party ruling the White House tend to hold more optimistic beliefs than those misaligned with the party in power (see, e.g., Campbell et al. 1960; Kempf and Tsoutsoura Forthcoming; Alesina et al. 2020; Coibion et al. 2020). Does such partisan divide in beliefs affect the way investors price financial securities? If so, what are the potential mechanisms underlying this effect? While prior research has examined how partisan individuals make purchases and allocate their assets (see, e.g., Mian et al. Forthcoming; Meeuwis et al. Forthcoming), little is known regarding whether such biases shape the pricing decisions of professional investors, ultimately affecting the cost of capital for U.S. corporations.

We attempt to fill this gap by examining the pricing decisions of corporate bankers in the U.S. syndicated loans market, a market that represents the largest source of external financing for U.S. public firms (Sufi 2009). We construct a novel dataset that identifies individual bankers working in lead arranger banks, who are in charge of originating and pricing large-scale corporate loans. Our sample includes 1,199 lead arranger bankers residing in 20 states, who collectively originate loans with a total value of $2.46 trillion during the period of 1998 to 2019. We gather information on these bankers' political party affiliation as well as the detailed terms of the loans they underwrite. The granularity of our data allows us to distinguish the effect of bankers' beliefs from the impact of the bank, the borrower, and the prevailing market conditions.

Compared to previous literature studying the effect of partisan bias on households' and traders' investment behavior, a unique feature of this market is that bankers in our sample have discretion to directly influence the spread on the loans they issue (Herpfer 2021; Bushman et al. 2021; and Carvalho et al. 2020). Those bankers are responsible for prospecting, screening, and monitoring borrowers and they gather soft information in the process. Such information helps them set a range for interest rate spreads to recruit

syndicate participants, and finalize the pricing once the syndicate is formed. Given the discretion involved in loan pricing, it is plausible that bankers' partisan perceptions could influence how they produce and interpret information, thus forming their perceived "correct" loan spreads. At the same time, we note that high-stake lending decisions are disciplined by competitive market forces. Not only could some borrowers compare spreads quoted by different lenders, but also recently closed deals from other lenders are frequently used as reference points for borrowers of similar quality (i.e., comparable pricing). These features may limit the effect of bankers' partisan beliefs on loan spreads.

We examine how bankers' partisan perceptions affect the interest rate spreads of the loans they originate. We do so comparing the loan pricing by politically misaligned and aligned bankers. *Misaligned* (*aligned*) bankers are defined as ones affiliated with a different (the same) party from the one represented by the President of the United States.[1] If partisan perceptions can influence bankers' pricing decisions, misaligned bankers should be more pessimistic than aligned bankers and assign higher interest rates to the loans they issue. We find evidence consistent with this 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 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. It also allows us to compare the changes in the pricing of a misaligned banker with that of an aligned banker, both facing borrowers in the same industry and with similar credit quality during the four-year presidential term.

Our estimate 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

[1]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.

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). Overall, our results imply that partisan beliefs of corporate bankers generate a sizable effect on firms' cost of credit.[2] We further show that such a partisanship effect is not concentrated on rated borrowers, the financial crises period, or bankers residing in New York State.

We track the evolution of the partisan pricing gap 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 remains statistically significant for around 6 quarters after the election and gradually declines over time. The pattern by which the partisan pricing gap dwindles towards the end of a presidential term also holds in our main sample of loans. Such a pattern may arise because lenders account for the possibility of a different party being in power at the time of loan maturity.

Does partisanship influence the matching between lenders and borrowers? We answer this question measuring borrowers' political leaning in several ways. First, we look at the political campaign contribution (PAC) made by a firm, and classify the firm as Republican-leaning or Democrat-leaning based on which party's candidates receive more contributions from the firm. Second, we rely on the political contributions made by the borrower CEO and define a borrower to be Republican (Democratic) if its CEO donates mainly to that party.[3] Third, 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-year fixed effects.

To shed light on the mechanisms underlying the partisan pricing gap, we explore

[2]In later analysis, we show that misaligned bankers also seem to generate lower lending volume than aligned bankers, but this volume effect is not statistically significant.

[3]We thank Slava Fos, Elisabeth Kempf, and Margarita Tsoutoura for sharing this data with us.

the heterogeneous effects of banker partisanship over time, across locations and teams, and across borrower types. Our first set of analysis builds on the view that individuals tend to selectively gather and incorporate information that is favorable to their partisan ideology (Campbell et al. 1960). This suggests a role for information environment in shaping beliefs (e.g., Della Vigna and Kaplan 2007; Prior 2013; Martin and Yurukoglu 2017). In particular, prior literature documents that partisan slant in the media affects like-minded people and polarizes 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 the effect of banker partisanship on loan pricing is more pronounced 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 sentiment. 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 stronger partisan biases by bankers who live in areas heavily targeted by political campaigns.

We then explore how group identity may affect the partisan bias in loan pricing. Social identity theory suggests that people belonging to homogeneous groups exhibit stronger ideological identity and become less tolerant of outgroups (Tajfel and Turner 1979; Mason and Wronski 2018). We test this theory leveraging on the fact that syndicated loans are often originated by more than one lead arranger. We find that the partisan effect on pricing becomes stronger when the lending syndicate is composed of bankers affiliated with the same political party. Motivated by this evidence, we next examine whether partisanship shapes the formation of lending syndicates. We find that bankers affiliated with the same party are more likely to co-lead a syndicate compared to bankers of different parties. Such evidence is consistent with endogenous team formation reinforcing bankers' partisan perceptions, leading to amplified disagreement on pricing.

Lastly, we examine the role of credit market competition in moderating our effects. We do so by exploiting cross-sectional variation in borrower characteristics. First, we predict that the partisan pricing gap should be more pronounced when there is significant uncertainty related to borrowers' credit quality, in which case 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. Borrowers that have outside options are significantly less affected by their lenders' partisan perceptions. Finally, we provide evidence suggesting that misaligned bankers extend a lower volume of credit than aligned bankers. While such an effect is economically meaningful, it is not statistically significant.

Taken together, our evidence sheds light on the mechanisms through which partisanship influences banker pricing decisions. Our results are consistent with the view that polarized information environment and group identities may amplify lenders' partisan disagreement. Lenders' bargaining power over borrowers also solidifies the partisan pricing gap.

In the remainder of our analyses, we address alternative explanations to the banker partisanship-spread relation that we document. To start, we examine whether our result could capture politically misaligned (aligned) bankers selecting riskier (safer) borrowers or changes in firm fundamentals. Looking into borrower characteristics, we do not find that borrowers of misaligned bankers 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 changes in credit demand at the firm level, we include firm-by-time interactive fixed effects. Given that lender 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.

We also consider the possibility 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, thus ruling out the possibility that changes in bank-level lending policies could explain our finding. Finally, we discuss the argument that misaligned (aligned) individuals may be less (more) capable of assessing borrower conditions. In other words, 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 a growing literature on the effect of political partisan bias. 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; Cookson et al. 2020; Coibion et al. 2020; Barrios and Hochberg 2021). Partisanship is also shown to influence the asset allocation of individuals and managers (Mian et al. Forthcoming; Bonaparte et al. 2017; Wintoki and Xi 2020; Meeuwis et al. Forthcoming; Rice 2021). In a related paper, Kempf and Tsoutsoura (Forthcoming) find that credit rating analysts exhibit partisan bias, whereby misaligned analysts issue less optimistic ratings. Relatedly, Fos et al. (2021) document increasing political polarization in US executive teams and Engelberg et al. (2021) show an increase in partisanship among SEC Commissioners. Our study is the first to show that partisan perceptions of corporate bankers affect loan spreads, suggesting a direct effect of *investors'* partisan beliefs on the cost of credit for U.S. corporations. In addition, our work reveals mechanisms that could drive professional bankers' beliefs, such as

partisan disagreement conveyed by the media.

Our study also adds to the burgeoning literature on how lenders' behavioral traits influence the pricing of corporate credit. Koudijs and Voth (2016) show that the personal experience of syndicated lenders with bankruptcy increases their risk aversion, leading them to charge higher loan markups in the future. Dougal et al. (2015) find that lenders on the syndicated loans market tend to anchor on borrowers' past deal terms. Carvalho et al. (2020) show that corporate bankers' recent experience with local housing price growth influences the spreads they charge. Our evidence adds to this literature showing that corporate loan spreads are affected by lender optimism associated with political alignment.

More broadly, this paper is related to the literature on how investors' political affiliation relates to their investment behavior and financial market outcomes. Studies in this literature focus on documenting a political party-specific preference, such as Democratic investors having preference over more socially responsible firms (Hong and Kostovetsky 2012) and Republican investors having preference over more conservative investments (Kaustia and Torstila 2011). We focus on investors' time-varying optimism associated with political alignment and distinguish such optimism from individual fixed effects. Importantly, we show that the political beliefs of high-stake investors can move prices, which represents an innovation to the literature.

2 The Role of Corporate Bankers: Hypotheses

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.[4]

[4]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.

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.[5]

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.

We conjecture that bankers' optimism may influence their beliefs about borrower conditions and thus loan pricing 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 thus 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). To the extent that politically misaligned bankers may be more pessimistic, they are likely to charge a higher spread than aligned bankers, holding fixed borrowers' risk profile. This leads to the following hypothesis:

Hypothesis 1 *Misaligned bankers charge higher loan spreads than aligned bankers.*

[5]Carvalho et al. (2020) provide more examples of job ads and LinkedIn profiles in Internet Appendix.

Recent studies suggest that the presence of persistent partisan disagreement can be partially attributed to the lack of credible information. In other words, partisan individuals do not change their opinions because they are unfamiliar with facts or distrust certain information sources. This means that partisan perceptions can be shaped by the source of information, e.g., the choice and availability of media outlets (Chiang and Knight 2011; Levendusky 2013; Allcott and Gentzkow 2017). These arguments further suggest that the observed partisan pricing gap should widen when bankers face a more polarized information environment.

Hypothesis 2 *More polarized information environment increases the difference in spreads charged by misaligned and aligned bankers.*

We note that it is not obvious that bankers' partisanship should influence loan spreads. Bankers' pricing decisions may be constrained by other forces, such as competition in credit markets. Firms may be able to procure credit from more than one bank or tap into the public debt market. However, banks possess substantial market power (Schwert 2020) and lending relationships matter (Bharath et al. 2011). These add to the switching costs for borrowers. In addition, banks' abilities to monitor and renegotiate loan contracts remain valuable to firms (Matvos 2013). As such, we expect that competition could weaken, but not eliminate the effect of bankers' personal beliefs. Specifically, we expect to observe a smaller partisan pricing gap among firms that have multiple banking relationships, or firms that have access to the corporate bonds market. We test this effect directly in later analysis.

Hypothesis 3 *Competition reduces the pricing difference between misaligned and aligned bankers.*

3 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.

3.1 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 syndicate 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. 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.

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 education background (Carvalho et al. 2020).

Bankers' historical voter registration data come from LexisNexis, which updates voter registration 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 gen-

[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, Wisconsin.

eral 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 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.

3.2 Sample Construction

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 to 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 Forthcoming) 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 9, we show that our results remain unchanged if we focus only on bankers that can be clearly

identified as Democrats or Republicans. Appendix B also shows that our results are robust to an alternative specification where we separate the 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.

4 Empirical Methodology

Our variable of interest is the log of all-in-drawn spread over LIBOR specified on a syndicated loan contract. We estimate the following regression model to examine the effect of banker partisanship on loan pricing:

$$Log(Spread)_k = \beta Misaligned_{it} + \psi \cdot FirmChar_{ft} + \xi \cdot LoanChar_k + \alpha_i + \theta_b + \tau_t + \gamma_{jrp} + \epsilon_k \quad (1)$$

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. Notably, banker fixed effects absorb time-invariant differences in the pricing tendency between Democratic and Republican bankers. This helps us focus on the changes in a banker's pricing decisions as the ruling party changes over time.

Our specification 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

[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`.

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.

Hypothesis 1 suggests that $\beta > 0$, i.e., misaligned bankers charge a higher spread.

5 Univariate Analyses

Table 1 describes the distribution of bankers across states and party affiliation. Over 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 Republicans (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.

[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.

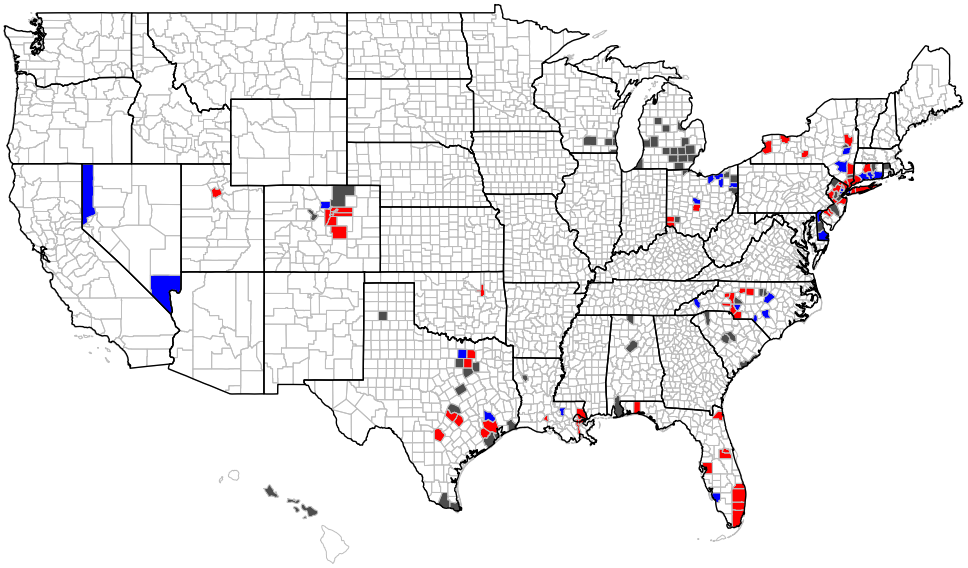


Figure 1. Geographical Distribution of Bankers. This figure reports the geographical distribution of bankers across U.S. counties. We use red (blue) to represent counties where the majority of bankers in our sample are Republicans (Democrats). Grey counties represent those where the majority of identified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

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 A.

TABLE 2 ABOUT HERE

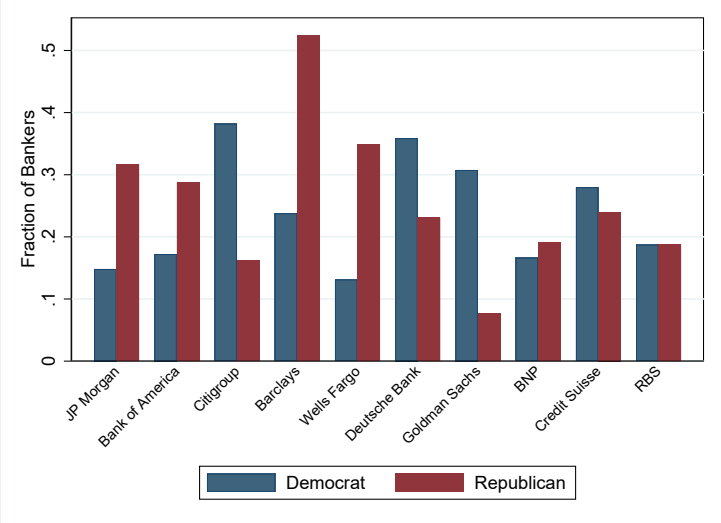


Figure 2. Distribution of Partisan Bankers inside Banks. This figure describes the presence of Democratic and Republican bankers across the 10 largest banks in our sample. The height of the red (blue) columns indicates the average fraction of Republican (Democratic) bankers among all bankers working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

6 Main Results

6.1 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. The triple interactive fixed effects help sharpen our comparison to loans extended during the same 4-year term to firms that operate in the same industry and have similar credit risk. 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 and Kempf et al. 2021).

TABLE 3 ABOUT HERE

6.2 Event Study Using the 2016 Presidential Election

We perform an event study around the 2016 presidential election (the "Trump election") to trace the dynamics of the partisanship effect. 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.[9] 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 January 2014 to April 2015, which is under 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

[9]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).

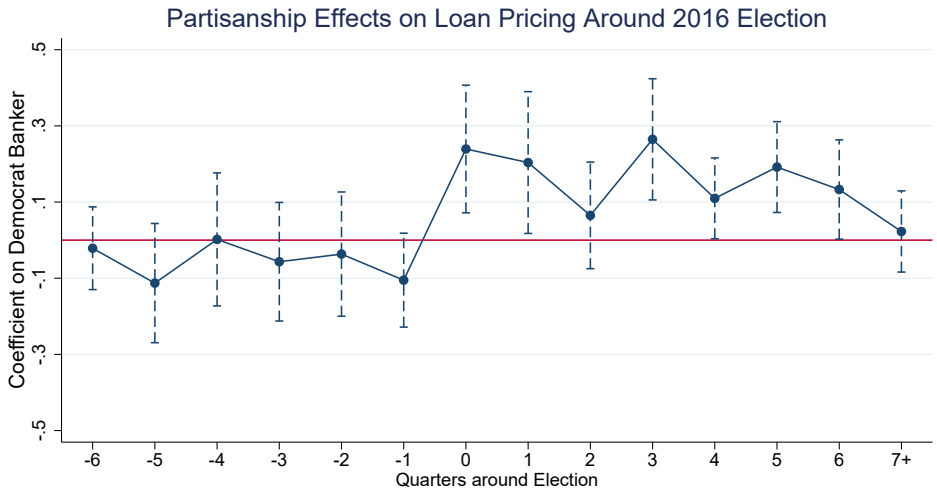


Figure 3. Event Study Around the 2016 Presidential Election. This figure depicts the results from the event study around the 2016 presidential Election. The base period is January 2014 to April 2015, which is under the Obama administration. The horizontal axis indicates quarters around the election, 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.

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 differential spikes, with Democrats charging significantly higher spreads than Republicans on similar loans. Such a pricing differential dissipates over time, becoming insignificant seven quarters after the election. The magnitude of the jump is large: Democrats charge 26% more than Republicans in the first quarter after the election. This effect declines to around 10% after six quarters.

To interpret these coefficients, 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 thus indicate the cumulative effects of political misalignment 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, partisan disagreement could be abated as bankers observe the pricing of new deals issued by other bankers during the presidential term.

6.3 Banker-Borrower Matching Based on Political Beliefs

Do bankers and borrowers match based on their political affiliation? We assess this question by looking into the political leaning of firms that borrow from Democratic and Republican bankers.

We determine the political leaning of borrowers in several 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 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 with the firm contribution measure.

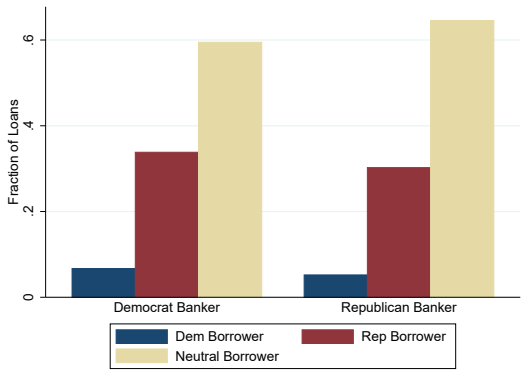
While political contribution data should reveal a firm's or its executive's preferences, investors may perceive the political leaning of a firm differently. Our third measure thus gauges the market perception of the extent to which a firm might benefit from an administration. Following Goldman, Rocholl, and So (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 returns around the 2008 presidential election than other firms, 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, 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 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 contribution. 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.

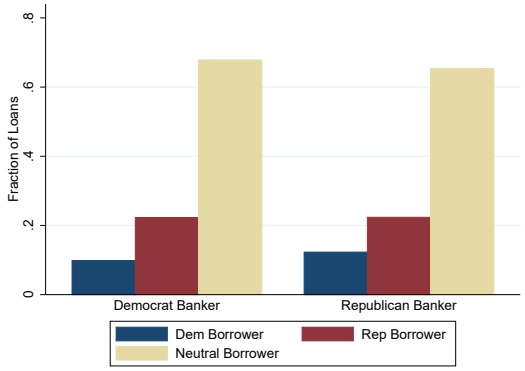
In Panel C, we plot the distribution of borrower election-day CARs for both aligned (grey) and misaligned bankers (black). We do not observe that (mis)aligned bankers provide more loans to (low) high-CAR firms. If anything, misaligned bankers seem to extend slightly more loans to borrowers with high election CARs, i.e., "aligned" borrowers. Our 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.[10] Our variable of interest is

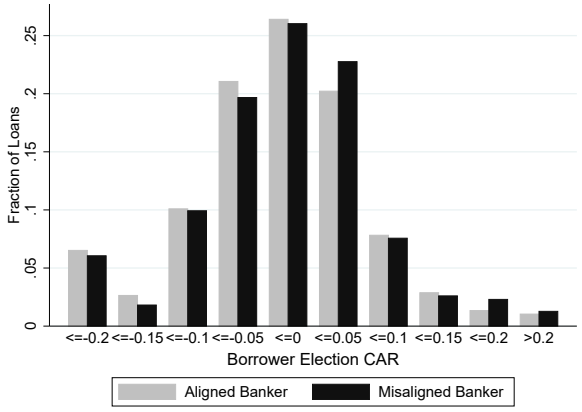
[10]This sampling restriction makes our analysis more tractable. It also helps us focus on years where borrowers have demand for credit and examine their choices of lenders. Relaxing these restrictions do not affect our results.



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 contribution. 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" from the current administration. In all panels, y-axis represents the percentage of loans issued to a type of firms by bankers of each affiliation (or alignment).

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 4. 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 borrower political affiliation and regression specification, all coefficients are statistically insignificant and close to zero, suggesting no lender-firm matching based on political affiliation. In Appendix C, we repeat this test in the baseline sample, and find similar results.

Table 4 About Here

Finally, we control for borrowers' political orientation in our baseline analysis using dynamic fixed effects. Table 5 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 same affiliation during the same year. Next, we control for a "market benchmark" spread for borrowers with a given political affiliation and risk profile. Specifically, the benchmark spread is defined as the average spreads on loans extended over the past 365 days to all borrowers of the same political leaning and industry (2-digit SIC code), with the same maturity range (above or below five years), and loan type (revolvers, term loans, or other) as the loan of interest. Controlling for the benchmark spread allows us to gauge the deviation of loan spreads from market prevailing rates.

Columns (1) and (2) report results for borrower political leaning defined by firm PAC contribution; Columns (3) and (4) present results for CEO contribution; and Columns (5)

and (6) report results for borrowers' election CAR. In Column (5), 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. Benchmark spreads are analogously defined for each terciles of election CARs. Across all columns, banker misalignment continues to generate positive and statistically significant coefficients, with magnitudes close to the baseline estimates.

Table 5 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 contribution or by stock market reactions, does not seem to influence our estimation of banker partisanship effects.

7 Economic Mechanisms

In this section, we investigate potential economic mechanisms underlying the partisan pricing gap that we document. We propose that misaligned (aligned) bankers hold more pessimistic (optimistic) views, and such pessimism (optimism) can be shaped by information environment around bankers and amplified by group identity (i.e., Hypothesis 2). We also expect the effect of bankers' partisan beliefs to weaken with market competition (i.e., Hypothesis 3). We provide evidence in support of these views by exploring cross-sectional variation related to the partisan disagreement faced by lenders and homogeneity of political beliefs within loan syndicates. We also examine whether lenders of similar beliefs endogenously form loan syndicates, which helps reinforce their biases. Finally, we look into the role of market competition.

7.1 Partisan Conflicts and Banker Beliefs

Our first analysis focuses on the degree of polarization in the information environment around bankers. Our analysis is grounded in the view that individuals tend to

selectively incorporate information based on their parties' ideology.[11] 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 when the partisan conflict index in a given month 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 Column (1) of Table 6, 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 6 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 thus expect that strong disagreement between left- and right-wing media could amplify the partisan biases of corporate bankers.

[11] Such a bias is discussed above in Section 2. It is also supported by anecdotal evidence. See, for example, reports from the Pew Research Center (Mitchell et al. 2014; Gottfried et al. 2017).

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 (Forthcoming), 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, thus 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 news partisanship. 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. These results suggest that diverging left- and right-wing news media strengthen bankers' partisan beliefs, and such polarized beliefs contribute to further divergence in loan pricing decisions.

Overall, our findings are consistent with the view that partisan beliefs can be moderated by the information environment. Crucially, our analysis suggests that bankers' pricing decisions are most likely to reflect their beliefs regarding economic conditions.

This is because the partisan pricing gap is only moderated by partisan news covering economy-related topics, but not other topics. While those other 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.

We also 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 thus likely 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 thus 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 thus stems from the cross-sectional comparison between bankers

living in DMAs with high political ads coverage and those living in low-coverage DMAs.[12]

Columns (5) and (6) report the results. Both interaction terms *Misaligned* × *Ad Expenses* and *Misaligned* × *Ad Occurrence* generate positive and statistically significant coefficients. This result 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.[13] This finding echoes our previous evidence on partisan news and suggests that an information environment featuring intense partisan conflicts potentially exacerbates bankers' partisan biases. Meanwhile, we caution that our evidence is based on a restricted sample and do not warrant causal interpretations.

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 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, 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.

Taken together, our analysis suggests the effect of lender partisan biases in pricing can be moderated by disagreement in the media and by political campaigns. This evidence

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

[13]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.

is consistent with the view that partisan bankers have different perceptions regarding economic conditions, which influence their pricing decisions.

7.2 Group Identity and Partisanship

We explore how group identities affect the partisan bias in loan pricing. 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. 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.

Table 7 About Here

Motivated by this finding, we take a step further to investigate whether bankers of similar beliefs tend to form lending syndicates together. Using a banker-pair-year panel, we examine whether shared political beliefs are positively associated with the likelihood of two bankers co-leading a syndicate. We track a banker from the first year to the last year he is observed to originate loans in our main sample. Co-syndication is measured in two ways. First, we define $Co\text{-}lead_{i,j,t}$ 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 *Log(Co-lead*

Loans)$_{i,j,t}$ as the log number of loans that bankers i and j originate together in year t. We estimate the following regression:

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

where $Y \in$ {*Co-lead, Log(Co-lead Loans)*}. *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 same political beliefs are more likely to collaborate, we expect $\beta > 0$.

Panel B 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 in originating loans during that year. Across all variation 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. 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).

Our result complements existing research showing that homophily fosters team formation (see, e.g., Currarini et al. 2009; Gompers et al. 2016; Houston et al. 2018). Combined with the previous result that partisan bias is aggravated in homogeneous teams, this finding suggests that the endogenous team formation among bankers could reinforce their beliefs and amplify the effect of partisanship on loan pricing.

7.3 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. Instead, the firm is likely constrained to borrow from its relationship lender. In this case, partisan perceptions can play a bigger role influencing lenders' beliefs regarding borrowers' credit quality. In Column (1) of Table 8, 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 8 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.

If some borrowers may switch to alternative lenders, do misaligned bankers generate

lower lending volume? To answer this question, we compute lead arranger volume by multiplying the face value of a loan with lenders' shares provided by Dealscan. When lead arranger share is missing, we follow Chodorow-Reich (2014) and impute lead lender shares based on the syndicate structure. Specifically, we use the average lead arranger share from other loans with the same number of lead arrangers and participants. Lending volume is transformed in log terms.

Table 9 reports the results from this analysis. In Column (1), we repeat Eq. (1) while switching the dependent variable to be a banker's lending volume on each granted loan. In Column (2), we add firm-by-presidential term fixed effects to hold fixed a firm's demand for credit during a four-year term, comparing the same firm's borrowing from different partisan lenders. In Column (3), we account for effects on the extensive margin, i.e., some clients may stop borrowing from misaligned bankers altogether. We thus construct a banker-quarter sample, calculating a banker's total loan origination volume during a quarter. In this sample, all fixed effect dummies are also averaged at the banker-quarter level. For comparison, we also report the results for loan spreads in corresponding specifications (Columns (4) through (6)).

Across all specifications, *Misaligned* generates a negative yet statistically insignificant coefficient. The lack of significance could arise from the measurement errors involved in imputing lenders' shares in syndicated loans. The magnitudes of the effects are small from the intensive margin (Columns (1) and (2)) but become much larger when we account for the extensive margin (Column (3)). According to Column (3), misaligned bankers issue 9% less credit than aligned bankers. This magnitude is on par with the increase in loan spreads. The reduction in lending volume could be a result of misaligned bankers holding a higher lending standard when granting loans, or borrowers being discouraged by the higher interest rates charged by misaligned bankers.[14] We caution the interpretation of this result due to the noisy estimation.

TABLE 9 ABOUT HERE

[14]In untabulated analyses, we do not find any difference in the total *number* of loans issued by misaligned and aligned bankers during a quarter. We also do not find evidence that relationship borrowers switch away from misaligned to aligned bankers.

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.

8.1 Addressing the Effect of Borrower Fundamentals

One concern with such an interpretation is that politically misaligned bankers may lend to different types of firms from aligned bankers. For example, misaligned bankers may lend to riskier firms, and the higher spread they charge simply reflect higher credit risk exposure. We address concerns related to borrower-side effects in several ways.

First, we regress firm characteristics including size, profitability, leverage, tangibility, market-to-book ratio, equity volatility, and rating, 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 financial conditions 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 impose also 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.

We further control for variation in borrower risk by examining the "abnormal" spreads charged by bankers. Abnormal spreads are calculated as the difference between the spread on a loan and the spread on recently closed loans with similar characteristics. Murfin and Pratt (2019) show that syndicated loan spreads are heavily influenced by the spreads charged on recently closed, comparable deals (i.e., comparable spreads), because comparable spreads reflect the market-wide pricing of loans with similar risk profiles. Examining the effect of lender partisanship on abnormal spreads helps capture the extent to which lender political beliefs lead the pricing of a loan to deviate from its market benchmark.

We follow Murfin and Pratt (2019) to compute comparable spreads. For every loan in our sample, we define comparables as loans with the same type and maturity range (below or above five years) that are extended in the previous 12 months to firms in the same industry and rating category. The comparable spread is then defined as the average spread on all comparable loans. We regress the log of abnormal spread (i.e., spread − comparable spread) on banker political misalignment, following the same specification as in Equation (1). Panel C shows that our baseline effect persists.

In Panel D, 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

[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.

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, 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 8, 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 homogeneous experiences. First, we collect information regarding bankers' age and partition them in 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 experience. 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 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 Robustness

We test the robustness of our baseline results in several ways. First, we repeat our main specification in various subsamples and show that our results are not unduly driven by a specific borrower type, banker location, or time period. We also consider two alternative sampling criteria.

9.1 Subsample Analyses

Our first robustness check looks into the effect of partisanship on loan spreads for different subsamples. In particular, we examine whether our results are driven by firms with or without credit ratings, the 2008 financial crises, or bankers residing in New York State. Table 13 shows the results. In Column (1), we interact banker misalignment with indicators for unrated and rated firms, respectively. Both interaction terms generate a positive and statistically significant coefficient. The point estimate is particularly large for unrated firms. Building on the fact that we control for rating category-presidential term fixed effects in the baseline specification, this result further validates that the lender partisanship effect we document is not purely driven by the opinions of credit rating analysts (Kempf and Tsoutsoura Forthcoming).

Table 13 About Here

We then investigate whether the partisanship effect we document is solely driven by the 2008 financial crisis. Column (2) looks at the impact of partisanship on loan pricing during crisis and non-crisis periods. We define the crisis period as the 2007Q3 to 2010Q1, following Kahle and Stulz (2013). Regressing loan spreads on the interaction of lender misalignment with both crisis and non-crisis periods, we find a significant coefficient for the non-crisis period. This result indicates that bankers' partisan bias does not manifest only during the crises.

A substantial proportion of bankers in our sample reside in New York State (26%). We explore whether such a concentration of location affects our findings. Results in Column (3) show that the partisanship effects are not concentrated on New York residents, but are strongly present among bankers in other states as well.

9.2 Sampling Choices

We test the robustness of our central findings to two alternative sampling choices. First, 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 14 confirm that our inferences stay unchanged when unaffiliated lenders are excluded from the sample. Second, we remove loans jointly issued by more than three lead bankers. Panel B shows that our results carry through this sample restriction.

Table 14 About Here

10 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 solidifies. 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 such they 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 term, and firm characteristics. Detailed variable definitions are provided in Appendix A.

	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 registration is different from the party in the White House, and zero otherwise. Rating-scale refers to a 22-point scale that corresponds to S&P rating grids. *Pres. Term* is defined as a four-year presidential term. See Appendix A 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	No	Yes	Yes	Yes
Loan Type FE	No	No	Yes	Yes
Observations	4,797	4,720	4,720	4,712
Adjusted R^2	0.720	0.786	0.804	0.804

Table 4
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 A 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 5
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 registration is different from the party in the White House, and zero otherwise. Control variables are defined in the same way as in Table 3. In Columns (1) and (2), firm party is determined based on corporate PAC contribution; In Columns (3) and (4), CEO party is defined based on a firm's CEO personal contribution; In Columns (5) and (6), *CAR* refers to a firm's cumulative abnormal equity returns during five days following a party-switching election. Benchmark spreads are defined as the average spread on loans issued over the past 365 days to borrowers with the same political leaning, same industry, in the same maturity range and same loan type. In Column (6), borrower political leaning refers to each tercile of the election-day CAR. See Appendix A 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.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)	(6)
Misaligned	0.060***	0.072***	0.062***	0.057***	0.069***	0.078***
	(0.017)	(0.019)	(0.018)	(0.020)	(0.018)	(0.019)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes		Yes		Yes
Rating Scale FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	Yes	Yes	Yes	Yes
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm Party×Year FE	Yes					
CEO Party×Year FE			Yes			
CAR Tercile×Year FE					Yes	
Benchmark Spreads		Yes		Yes		Yes
Observations	4,712	4,322	3,266	2,493	4,059	3,573
Adjusted R^2	0.807	0.803	0.825	0.823	0.800	0.808

Table 6
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 registered party is different from the party in the White House, 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 A 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*			0.054**				
(Economy)			(0.021)				
High Partisan News (Non-Economy)				-0.041**			
				(0.016)			
Misaligned × *High Partisan News*				0.002			
(Non-Economy)				(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	No	No	Yes
Party FE	No	No	No	No	Yes	Yes	No
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	No	No	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 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 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 B, 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 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 A, standard errors are double clustered by banker and firm. In Panel B, standard errors are double clustered by banker i and banker j. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: 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

Panel B: 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	No	No	Yes	No	No
Year FE	Yes	No	No	Yes	No	No
Banker j-Year FE	No	Yes	Yes	No	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

Table 8
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 A 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 9
Lending Volume

This table reports results regarding the lending volume of politically misaligned and aligned bankers. The dependent variable for Columns (1) through (3) is *Log(Volume)* and for Columns (4) through (6) is *Log(Spread)*. Lending volume is the total contribution made by a lead arranger bank that a banker works for. When lead arranger share is missing, we follow Chodorow-Reich (2014) and impute the lead arranger's contribution based on the syndicate structure. The unit of observation is a loan-banker in Columns (1), (2), (4), and (5) and a banker-quarter in Columns (3) and (6). In the banker-quarter sample, all loan terms and borrower characteristics are the average value across all loans (borrowers) issued by a banker during a quarter. Lending volume is the total volume issued by the banker during the quarter. Loan spreads and all fixed effect dummies are also transformed to banker-quarter averages. Standard errors are reported in parentheses and are heteroskedasticity robust. Standard errors are double clustered by banker and firm in the loan-banker sample and by banker and quarter in the banker-quarter sample. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Dep. Var.:	*Log(Volume)*			*Log(Spreads)*		
Sample:	(1) Loan-Banker	(2) Loan-Banker	(3) Banker-Quarter	(4) Loan-Banker	(5) Loan-Banker	(6) Banker-Quarter
Misaligned	-0.041	-0.016	-0.087	0.067***	0.041***	0.076***
	(0.041)	(0.035)	(0.064)	(0.017)	(0.015)	(0.020)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Rating Scale FE	Yes	Yes	Yes	Yes	Yes	Yess
Loan Type FE	Yes	Yes	Yes	Yes	Yes	Yes
Ind.×Rating ×Pres. Term FE	Yes	No	Yes	Yes	No	Yes
Firm×Pres. Term FE	No	Yes	No	No	Yes	No
Observations	4,712	4,376	2,607	4,712	2,186	2,466
Adjusted R^2	0.616	0.644	0.516	0.804	0.856	0.810

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 the effects of partisanship on abnormal spreads (i.e., *Spread − Comparable Spread*). Comparable spreads are defined following Murfin and Pratt (2019). Panel C follows the specifications in the baseline analyses, shown in Panel A, Table 3. Panel D 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 A 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: Abnormal Spread

Dep. Var.: *Log(Abnormal Spread)*	(1)	(2)	(3)	(4)
Misaligned	0.075**	0.101***	0.101***	0.101***
	(0.033)	(0.025)	(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
Secured Loan FE	No	No	Yes	Yes
Loan Chars Control	No	No	No	Yes
Loan Type FE	No	No	Yes	Yes
Ind.×Rating×Pres. Term FE	No	Yes	Yes	Yes
Observations	4,201	4,128	4,128	4,122
Adjusted R^2	0.321	0.460	0.515	0.516

Panel D: 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	No	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	No
Firm FE	Yes	No	No	No
Firm×Banker FE	No	Yes	No	No
Firm×President Party FE	No	No	Yes	No
Firm×Pres. Term FE	No	No	No	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 A 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	No
Bank×Pres. Party FE	Yes	No	No
Bank×Pres. Term FE	No	Yes	No
Bank×Ind.×Rating×Pres. Term FE	No	No	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

Table 13
Subsample Analyses
This table shows the robustness of our finding in various subsamples. *Log(Spread)* is the log of the all-in-drawn interest rate loan spreads over 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. Rating-scale refers to a 22-point scale that corresponds to S&P rating grids. *Pres. Term* is defined as a four-year presidential term. *Crisis* represents the 2008 financial crisis. *New York State* is an indicator for whether the banker resides in New York State. See Appendix A 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 × *Unrated*	0.106***		
	(0.038)		
Misaligned × *Rated*	0.064***		
	(0.017)		
Misaligned × *Crisis*		0.118	
		(0.160)	
Misaligned × *NonCrisis*		0.067***	
		(0.017)	
Misaligned × *New York State*			0.062***
			(0.018)
Misaligned × *Other States*			0.081***
			(0.030)
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
Loan Type FE	Yes	Yes	Yes
Ind.×Rating×Pres. Term FE	Yes	Yes	Yes
Observations	4,712	4,712	4,712
Adjusted R^2	0.804	0.804	0.804

Table 14
Robustness
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 A 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) $\times$ 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.
- *Crisis/NonCrisis*: *Crisis* (*NonCrisis*) is an indicator variable that equals to one (zero) if it is during the period of 2007Q3 to 2010Q1 following Kahle and Stulz (2013), and zero (one) otherwise.
- *New York State/Other States*: *New York State* (*Other States*) is an indicator variable that equals to one (zero) if the banker resides in New York State, and zero (one) 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 B Alternative Classification of Unaffiliated Bankers

We consider an alternative classification for unaffiliated bankers. 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 separate the two groups by creating 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 B1
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 C Borrower-Banker Matching, Alternative 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 C1
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