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Partisanship in loan pricing☆

Ramona Dagostino [a], Janet Gao [*,b], Pengfei Ma [c]

[a] University of Rochester, 500 Joseph C. Wilson Blvd Rm 3-145, Rochester, 14627, NY, USA
[b] Georgetown University, 37th and O Streets NW Rm 423, Washington, 20057, DC, USA
[c] Singapore Management University, 50 Stamford Road Rm 4109, 178899, Singapore

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ABSTRACT

Does partisanship influence the way investors price financial assets? Using voter registration data of bankers originating large corporate loans, we show that bankers whose party differs from that of the U.S. President charge 7% higher loan spreads than other bankers. This effect holds regardless of borrowers' partisanship, and becomes stronger for politically active bankers and when partisan media exhibit greater disagreement. Bankers do not match disproportionately with co-partisan borrowers but they lead syndicates more frequently with co-partisan bankers. Our results are not driven by bank or borrower fundamentals, but suggest that investor optimism, driven by political alignment, shapes asset prices.

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). Growing evidence suggests that partisan individuals have biased expectations regarding the state of the economy, whereby people in agreement with the party in power (aligned individuals) are more optimistic than misaligned individuals. Such partisan divide influences many aspects of social and economic choices, including political issue opinions, economic projections, and career choices (e.g., Meeuwis et al., 2018; Cookson et al., 2020; Engelberg et al., 2022a). An important, yet under-explored channel through which partisan biases can affect real economic activities is by influencing the pricing mechanism of financial markets. As partisan individuals differ in their degree of optimism, they may price assets differently. For example, misaligned investors might require a higher return on assets because they are more pessimistic about future issuers' conditions than aligned investors. If this is the case, partisan biases can affect firms' cost of capital and ultimately their investment decisions. Despite the importance of this question, there is little direct evidence showing that investors' partisanship can systematically shape asset prices.

Research on the effect of investors' partisanship on asset prices faces key empirical challenges. In markets where assets frequently change hands among a dispersed set of investors, it is difficult to pin down the price-setting agent or to identify the pricing effect of investors' partisan optimism. We overcome these challenges by examining the pricing decisions of corporate bankers in the U.S. syndicated loans market. This market represents the largest source of external financing for U.S. public firms (Sufi, 2007) and the deals in this market generally carry large values. As such, the determination of interest rates constitutes an economically important decision. The key agents in our setting are corporate bankers responsible for issuing syndicated loans. These bankers are tasked with prospecting, screening, and monitoring borrowers, and they gather soft information in the process (see Section 2).

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* Corresponding author.
E-mail addresses: ramona.dagostino@simon.rochester.edu (R. Dagostino), janet.gao@georgetown.edu (J. Gao), pengfeima@smu.edu.sg (P. Ma).

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Such information helps them set a range for interest rate spreads to recruit participants and finalize the rates after the syndicate is formed. Indeed, recent evidence suggests that corporate bankers have some discretion to influence loan prices (Bushman et al., 2021; Carvalho et al., 2023; Herpfer, 2021). If partisanship shapes bankers' optimism, it could also influence their views about a borrower's creditworthiness and ability to repay, thus shaping bankers' pricing decisions.

The idea that partisanship affects the optimism of finance professionals is grounded in prior evidence. Kempf and Tsoutsoura (2021) document that politically misaligned credit analysts issue lower ratings. Such ratings can affect firms' bond yields if investors face frictions in evaluating corporate credit risk and have to rely on analyst opinions. However, analysts' recommendations do not represent investors' *own* partisan orientation, and it remains unclear whether investors' partisan biases can shape prices in a high-stake market. There are at least two reasons why we may not detect such a link. While bankers do have some discretion, syndicated lending decisions are disciplined by competitive market forces and secondary market trading. Borrowers could seek quotes from different lenders and use recently closed deals as reference points (i.e., comparable pricing, Murfin and Pratt, 2019). Bankers may choose to conform to market conditions instead of acting upon their partisan biases.[1] Moreover, the effect of banker partisanship may be offset by other human or institutional factors, such as the beliefs or preferences of other syndicate members and the supervision of bank credit committees. These constraints could weaken or even eliminate the effect of lender partisan biases on loan spreads.

We examine how bankers' partisanship affects the interest rate spreads of the loans they originate. We do so by comparing the spreads on loans issued by politically misaligned and aligned bankers. Misaligned (aligned) bankers are defined as ones affiliated with a different (the same) party from the one represented by the President of the United States.[2] We find a strong partisan pricing gap: politically misaligned bankers charge significantly higher loan spreads compared to aligned bankers. This result is robust to various sets of fixed effects, with the strictest specification 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. With banker fixed effects, we track the same banker's pricing tendencies over time and identify the effect of partisanship through the changes in loan prices around party-switching elections. The change in pricing by a misaligned banker is then compared to that of an aligned banker, who issues a loan to a borrower in the same industry, with similar credit quality, during the same four-year presidential term.

Our estimate remains stable across specifications and suggests that misaligned bankers charge 7% higher spreads than aligned bankers, which translates to around a 14-basis point difference. This magnitude is economically meaningful, compared to the 30 basis point difference in spreads between firms right below and those right above the investment grade cutoff (i.e., BBB- to BB+). It is also in line with the effects arising from other types of lender behavioral biases documented in prior studies (cf. Dougal et al., 2015; Carvalho et al., 2023). To examine the dynamic effect of partisan perceptions on pricing, we track the loan spreads assigned by Democrat and Republican bankers around the 2008 and 2016 presidential elections. We find that the partisan pricing gap reached 12% immediately following the 2016 election. The effect persists for a long period of time after the election. A similar effect is documented for the 2008 election.

Does borrowers' own partisanship also play a role in shaping credit spreads? We collect data on borrower CEOs' party affiliations and define their partisanship in an analogous way to that of bankers. We find that borrowers' partisanship has a small and statistically insignificant effect on their cost of credit.[3] Regardless of borrowers' political alignment, misaligned lenders charge around 5–6% higher spreads than aligned lenders, but conditional on bankers' alignment, borrowers' partisanship does not play a significant role. A potential explanation for this finding is that executives have fiduciary duties towards shareholders, which may lead them to try to minimize their firms' cost of capital. Such an incentive could counteract the effect of their own partisanship. It is also possible that borrowers' partisan effect is under-estimated in our limited sample. Future research may uncover stronger effects in other samples and contexts. Finally, we examine the matching between bankers and borrowers based on partisanship, but do not find partisan bankers lend disproportionately to co-partisan borrowers. One explanation for the lack of banker-borrower matching is that corporate bankers are compensated for attracting clients and generating deals. This type of incentive may offset favoritism towards co-partisans.

While partisanship may not significantly alter the matching between bankers and borrowers, it may influence the formation and structure of lending syndicates. Given that partisanship promotes social sorting and group identity (Mason and Wronski, 2018), we expect that bankers may prefer to collaborate with co-partisans, potentially to facilitate agreement and deal execution. We find evidence consistent with this conjecture. Importantly, the lack of political diversity within teams carries economic implications: the partisan pricing gap is almost four times larger among politically homogeneous syndicates (i.e., where all lead bankers belong to the same party) compared to balanced teams. Moreover, we find that misaligned bankers are associated with a smaller lead arranger share, indicating that over-priced loans face higher demand from syndicate participants.

We seek to shed light on the mechanisms underlying the partisan pricing gap by exploring the heterogeneity of the effect across bankers, time periods, and borrower types. Our first set of analyses differentiates between more and less politically active bankers. We conjecture bankers who vote more frequently in elections have stronger partisan biases. Consistent with this hypothesis, we find the partisan pricing gap to be significantly wider among politically active bankers compared to inactive ones.

We next show that the information environment plays an important role in shaping investors' partisan optimism/pessimism. Specifically, our effect becomes stronger when left- and right-wing media outlets produce macro news with diverging sentiments. This amplification role of media disagreement is present only for economy-related topics and not for other topics, suggesting that bankers' perceptions of economic conditions are an important factor underlying the partisan pricing gap.

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

Together, our evidence suggests that politically active bankers exhibit stronger partisan effects, a polarized information environment

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

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

[3] This result remains robust when we account for CFOs' party affiliations in defining firm partisanship.

amplifies lenders' partisan disagreement, and lenders' bargaining power over borrowers also solidifies the partisan pricing gap. These results shed light on the mechanisms through which partisanship influences bankers' pricing decisions.

In the remainder of our analyses, we address alternative explanations to the baseline findings. First, we show that the secondary market trading of leveraged loans has little effects on our findings. This is because 74% of our sample observations come from revolvers and Term A loans, for which lead arrangers' stakes are rarely sold. Next, we discuss the concern that our result could capture politically misaligned (aligned) bankers selecting riskier (safer) borrowers. Looking into borrower characteristics, we do not find evidence supporting this claim. Borrowers of misaligned bankers do not appear riskier at 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 exhibit higher default rates than those of aligned bankers. To further control for differences in firm fundamentals, we include firm-by-time interactive fixed effects. Given that political misalignment varies by presidential terms, we include firm-presidential term interactive fixed effects and continue to find a partisan pricing gap.

Another concern is that our effect may capture the policies or beliefs at the bank institution level. This seems unlikely as our results remain unchanged when we include bank-by-year fixed effects. We also show that the banker partisan effect disappears in a placebo setting where we scramble bankers and randomly match them to loans extended by the same bank within the same year. Finally, we address the concern that misalignment may correlate with bankers' knowledge or ability to collect information.

In closing, we investigate whether bankers' partisanship also manifests in other dimensions of loan contracts. We find that aside from charging higher spreads, misaligned bankers also impose higher fees on loan contracts and offer higher original issue discounts (OID) in the secondary market. They also issue loans with smaller values, but the effects are not statistically significant at conventional levels. We do not find discernible differences in maturity or loan covenants.

This paper contributes to several strands of literature. First, it is related to the literature on the growing presence of partisan bias in the U.S. Partisan bias manifests in people's attitudes towards a wide range of events, including political outcomes, macroeconomic conditions, climate change, and even pandemic outbreaks (Campbell et al., 1980; Bartels, 2002; Bullock et al., 2013; Guilbeault et al., 2018; Coibion et al., 2020; Barrios and Hochberg, 2021). In related work, partisan biases are found to influence the opinions of sophisticated professionals, including judges, managers, and regulators (Gormley et al., 2021; Rice, 2021; Engelberg et al., 2022b). Kempf and Tsoutsoura (2021) document that partisanship leads to diverging opinions by credit rating analysts. We push this line of literature forward by showing that partisanship not only influences the output of information intermediaries, but also changes investors' optimism/pessimism and their pricing decisions. Importantly, we document this effect for the syndicated loans market, which is a more prevalent source of credit for a broader set of firms compared to the bond market.[4] Our analysis allows us to rule out various alternative explanations, such as bank policies, borrower conditions, and banker experience. While we do not directly distinguish whether such optimism arises from different belief variations or time-varying risk aversion among partisan investors, we add to the literature by isolating the effect of investors' partisanship on asset prices.

To the extent that the cost of credit can influence real economic activities, our research is also related to studies showing the "real effect" of the partisan divide in the U.S., including household consumption, firm investment, entrepreneurship, and fertility choices (Mian et al., 2021; Meeuwis et al., 2018; Rice 2021; Dahl et al., 2021; Engelberg et al., 2022b).

Finally, we contribute to the burgeoning literature on the role of partisan investors in equity markets. Cookson et al. (2020) document that partisan disagreement among investors regarding COVID news affects stock trading patterns. Sheng et al. (2021) show that firms headquartered in Republican-dominated areas are more resilient to COVID news. Bonaparte et al. (2017) and Ke (2022) show that partisan individuals have different participation rates and security choices in the stock market. Wintoki and Xi (2020) find that fund managers are more likely to select companies whose executives and directors share the same party affiliation. We examine the effect of partisan biases in the syndicated loans market, a major financing source for corporations. Importantly, we identify the role of investors' partisanship by focusing on individuals directly in charge of setting prices.

2. The role of lead arrangers and corporate bankers

We identify lead bankers that are responsible for underwriting syndicated corporate loans. In the syndicated loans market, lead arrangers play an important role in setting interest rate spreads. They are responsible for conducting due diligence, negotiating loan terms with the borrower, and setting a price range to recruit syndicate participants. After the syndicate is finalized, lead arrangers continue to monitor borrowers over the course of the loan. A long-standing literature documents that lead arrangers possess information advantage regarding the borrowers relative to participants (Sufi, 2007). As a result, loan prices are shaped by lead bank-borrower relationships as well as shocks that occur to lead arrangers (Bharath et al., 2011; Chodorow-Reich, 2014; Amiti and Weinstein, 2018).

The recent years have observed an influx of institutional funding in the syndicated loans market. Such institutional tranches are labeled as "Term Loan B," "Term Loan C," etc. Revolving lines of credit and Term Loan A are rarely sold to institutions.[5] In our sample, 74% of the loans are revolvers and Term Loan A, while only 14% are Term Loan B and higher. This composition is similar to the Dealscan-Compustat universe, which is our key data source. For revolvers and Term Loan A, lead arrangers hold a share of the loans on their balance sheet and thus have incentives to collect soft information about the borrowers and assess credit quality. In Section A of the Internet Appendix, we show that our results are robust when we restrict our sample to only revolvers and Term A loans. For institutional loans, lead arrangers continue to have incentives to carefully assess borrower quality, because they face pipeline risk and reputational concerns (Blickle et al., 2020; Bruche et al., 2020). Recent academic evidence also confirms that lead arrangers possess private information regarding borrowers and monitor borrowers, even for leveraged loans and institutional loans (Zhang et al., 2022; Berlin et al., 2020).

Inside lead arranger banks, corporate bankers perform key functions in the syndicated lending process. They are the point of contact with the borrower and are tasked with building relationships with the borrower and designing tailored financial solutions. These job functions are often described in bankers' LinkedIn profiles as well as job postings for

[4] A significant fraction of businesses in the U.S. do not have access to the bond market and rely on bank credit. In our sample, these firms make up 43% of the loans and 45% of the borrowers. In other words, the syndicated loans market represents a distinct market segment and involves different investors and clienteles from the one analyzed by Kempf and Tsoutsoura (2021).

[5] As shown by Blickle et al. (2020), only 4% of revolvers are sold by lead arrangers throughout the course of the loan. Ivashina and Sun (2011) also document that revolvers and Term Loan A are typically held by banks and not sold to institutional investors. Even among loans distributed to institutional investors, a substantial fraction of them have zero flex in the book-building process. This is likely because lead arrangers possess private information about the borrowers and can price the credit risk more accurately (Zhang et al., 2022).

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 experts 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.[6] Practitioners also emphasize the importance of bankers exercising their own "intelligence and philosophy" and not fully following the market (Nathenson, 2004). Consistent with anecdotal evidence, recent research provides evidence that the corporate bankers in our sample have discretion in setting loan contract terms and influencing lending outcomes (e.g., Bushman et al., 2021; Herpfer, 2021; Carvalho et al., 2023; Gao et al., 2020).

Prior literature suggests that when facing complex choices, individuals tend to draw on their intuition or beliefs, leaving room for their optimism or pessimism to influence such decisions (Akerlof and Shiller, 2010; Graham et al., 2015; Kempf and Tsoutsoura, 2021). Since bankers have the discretion to assess borrower quality and influence loan pricing, it is plausible that their optimism or pessimism can shape the interest rates charged on the loans. Specifically, we expect that politically misaligned bankers, who are more pessimistic than aligned bankers, should charge higher loan spreads, holding fixed borrowers' risk profiles. However, if partisan investors do not differ in their optimism regarding borrower conditions, or if their optimism does not affect loan pricing, we should not observe a link between investors' partisan alignment with loan spreads.

3. Data, sample, and empirical method

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) to identify the lead bankers who are in charge of originating a syndicated loan. To start, we search a publicly listed borrower's 8-K, 10-K, and 10-Q filings to the SEC. Syndicated loan contracts are often included in these filings as exhibits because they are considered to be material information that needs to be disclosed to shareholders. Bankers underwriting those loans can be identified based on their electronic signatures at the end of each credit agreement. We scrape lead bankers' signatures together with their employment affiliation so as to connect each banker to a lender in Dealscan. This search results in a sample of 4,742 lead arranger bankers working in 140 banks, who are associated with 5,800 loans. When mapping loans to bankers' pricing decisions, we assign the origination date by subtracting 90 days from the facility start date in Dealscan (Murfin, 2012). This is because a credit agreement is normally reached two to three months before the loan effective date, which is the date reported by Dealscan (Ivashina and Sun, 2011).

We manually search for each banker's political party affiliation based on their voting records from LexisNexis Public Records, which combines information from public record sources. LexisNexis data cover 23 states.[7] In the case that a banker's name results in multiple matches, we gather additional information from LinkedIn, Google, and FINRA to uniquely identify the banker. This includes the banker's age range, employment history, or educational background (Carvalho et al., 2023).

LexisNexis provides individuals' historical voter registration data and updates that information whenever an individual votes in a national or local election. We collect a banker's party registration that is active on the date of a U.S. presidential general election and consider the banker as affiliated with that party during the corresponding presidential term. For example, suppose we observe that a banker voted on 11/4/2008 and on that date, he is registered with the Democratic party. 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

Following prior literature studying lender-side effects in the syndicated loans market (e.g., Santos, 2011; Murfin, 2012; Chodorow-Reich and Falato, 2022), we construct a lender (banker)-by-loan panel. To do so, we merge the information on loans issued by our sample bankers with their political party affiliation on the loan origination date. Using this information, we classify a banker's political alignment according to whether he is affiliated with the party represented by the U.S. President. Specifically, we define *Misaligned Banker* 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 registration for the primary elections (such as Texas), or bankers that do not declare their registration at a vote. We classify these bankers as "undeclared" and assign *Misaligned Banker* as zero for these banks during all years. Including undeclared bankers in the sample helps us more accurately estimate fixed effects and other controls in our specification (Kempf and Tsoutsoura, 2021) but does not influence the estimates for *Misaligned Banker*. This is because our baseline estimation imposes banker fixed effects, which absorb time-invariant effects of party affiliations.[8]

Our final sample includes 1,112 bankers, among whom 202 are affiliated with the Democratic party and 324 are affiliated with the

[6] Carvalho et al. (2023) provide more examples of job ads and LinkedIn profiles in the Internet Appendix.

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

[8] In Table H1 of the Internet Appendix, we show that our results are robust to an alternative specification where we separate politically aligned bankers from undeclared ones. In Table H3 of the Internet Appendix, we show that our results remain unchanged if we focus only on bankers that can be identified as Democrats or Republicans.

Republican party.[9] These bankers collectively underwrite 2,619 loans with a total face value exceeding $2.3 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 5,130 loan-banker observations.

3.3. Empirical methodology

Our variable of interest is the log of all-in-drawn spread over LIBOR specified on a syndicated loan contract. Studies on the implications of partisan perceptions generally adopt the methodology where they track the choices of an individual (or a group) over time, across party-changing elections (e.g., Ke, 2022; Kempf and Tsoutsoura, 2021; Meeuwis et al., 2018; Engelberg et al., 2022a). Given that our sample period contains more than one such election, we follow this approach by fixing a banker and comparing his pricing behaviors during periods of political alignment and misalignment. Formally, we estimate the regression model below:

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

where k indicates a loan contract that is issued to borrower f by banker i working in bank b during year t. Our estimation controls for banker 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 bankers and banks, as well as macroeconomic conditions. As mentioned above, banker fixed effects absorb time-invariant differences in the pricing tendency between Democrat and Republican bankers, and help us focus on the changes in a banker's pricing decisions as the ruling party changes over time.[10]

Our specification also includes borrower industry (j)-rating category (r)-presidential term (p) fixed effects, γ_{jrp}. Industry is classified at the 2-digit SIC level, and rating categories refer to one of three broad categories, including investment grade (ratings of BBB- and above), speculative grade (ratings of BB+ and below), and unrated. This set of fixed effects allows us to compare the pricing between a misaligned banker with an aligned banker, both of whom underwrite loans to borrowers in the same industry, with similar credit risks, during the same four-year presidential term. To further sharpen our comparison, we control for a host of borrower characteristics, including size, age, profitability, leverage, asset tangibility, market-to-book ratio, equity volatility, and fixed effects for credit rating grids.[11] 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). All continuous variables except *Leverage* are winsorized at 1st and 99th percentiles. *Leverage* is restricted to be within 0 and 1. Detailed definitions of these variables are provided in Appendix A. Standard errors are double-clustered at the banker and borrower level.

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

Table 1
Descriptive Statistics
This table presents summary statistics regarding bankers' geographical distribution as well as key variables used in our study. The sample spans the period from May 1998 through August 2019. Panel A describes the distribution of bankers' party affiliation across U.S. states. Our sample includes 1,112 bankers residing in 20 states. Panel B reports the summary statistics for the main variables, including banker political misalignment, loan contract terms, and firm characteristics. When reporting statistics for *Rating Grid*, we restrict our sample to rated firms. Detailed variable definitions are provided in Appendix A.

Panel A: Distribution of Bankers Across States

State	%Bankers	Democrat	Republican	Other	Undeclared
Alabama	0.3%	0	0	0	3
Colorado	3.1%	2	17	1	15
Connecticut	8.3%	21	43	6	23
D.C.	0.4%	1	2	0	2
Delaware	0.7%	4	3	1	0
Florida	2.1%	3	18	0	3
Hawaii	0.7%	0	0	0	8
Louisiana	0.7%	1	6	0	1
Michigan	3.8%	0	0	0	43
North Carolina	13.5%	21	75	0	56
New Jersey	8.5%	10	13	1	71
Nevada	0.7%	2	3	0	3
New York	25.6%	106	94	68	20
Ohio	5.3%	12	16	0	31
Oklahoma	0.1%	0	1	0	0
Rhode Island	0.2%	0	0	0	2
South Carolina	0.5%	0	0	0	6
Texas	23.1%	21	36	1	201
Utah	0.4%	0	1	0	3
Wisconsin	2.0%	0	0	0	22

Panel B: Summary Statistics

	N	Mean	Std. Dev.	Median
Misaligned Banker	5,130	0.358	0.480	0
Log(Spread)	5,130	5.213	0.480	5.165
Spread (bps)	5,130	206.9	113.7	175
Log(Loan Amount)	5,130	20.11	1.262	20.21
Loan Amount ($million)	5,130	1,089	1,894	600
Log(Loan Maturity)	5,130	3.930	0.509	4.094
Loan Maturity (Months)	5,130	55.66	17.68	60
Secured	5,130	0.513	0.500	1
Firm Size	5,130	8.323	1.337	8.377
Firm Age	5,130	23.75	17.83	19
Profitability	5,130	0.122	0.0785	0.119
Leverage	5,130	0.383	0.208	0.361
Tangibility	5,130	0.306	0.259	0.217
M/B	5,130	1.800	0.898	1.560
Equity Volatility	5,130	0.355	0.193	0.308
Rating Grid	4,279	11.42	2.701	11

4. Univariate analyses

Panel A of Table 1 describes the distribution of bankers across states and party affiliations. 25.6% of our sample bankers reside in New York, and an additional 23.1% of the bankers reside in Texas. North Carolina accounts for another 13.5% of bankers, followed by New Jersey (8.5%), Connecticut (8.3%), and Ohio (5.3%). The rest of the bankers (15.7% of the sample) are split across 14 other states. Democrats and Republicans are nearly 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.

Fig. 1 reports the geographical distribution of bankers across U.S. counties. We use red (blue) to represent counties where the majority of

[9] The fact that we observe more Republican bankers than Democrat 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.

[10] We note that a large fraction of our sample consists of loans issued by bankers who switch between being politically aligned and being misaligned due to party-changing elections (i.e., "switchers"). Switcher loans account for nearly 30% of total loans and 53% of total dollar volume in our sample. These fraction numbers become higher if we focus on loans extended by Democrat and Republican bankers only (excluding bankers with unknown affiliations or those affiliated with other parties, who do not switch alignment by construction). Indeed, loans issued by switchers represent nearly 60% (72%) of total loan counts (dollar volume) issued by Democrat and Republican bankers. Note that switchers only change their political alignment, but maintain the same political affiliation throughout the sample.

[11] The rating grids are defined as follows: 22 for AAA, 21 for AA+, 20 for AA,..., 2 for C, and 1 for D or SD. We also set the rating grid to 0 for unrated firms.

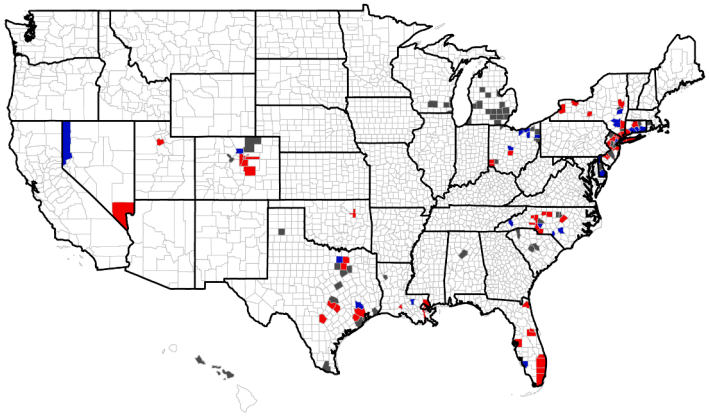


Fig. 1. Geographical Distribution of Bankers. This figure reports the geographical distribution of bankers across U.S. counties. We use red (blue) to represent counties where the majority of bankers in our sample are Republicans (Democrats). Grey counties represent those where the majority of identified bankers are affiliated with other parties or undeclared voters. (For interpretation of the references to colour in this figure legend, the reader is referred to the web version of this article).

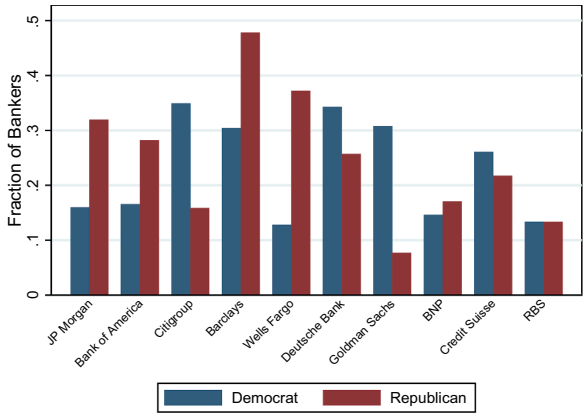


Fig. 2. Distribution of Partisan Bankers inside Banks. This figure describes the presence of Democrat and Republican bankers across the 10 largest banks in our sample. The height of the red (blue) columns indicates the average fraction of Republican (Democratic) bankers among all bankers working in each bank throughout our sample period. (For interpretation of the references to colour in this figure legend, the reader is referred to the web version of this article).

bankers in our sample are Republicans (Democrats). Grey counties represent those where the majority of identified bankers are affiliated with other parties or undeclared voters. In our sample, 12 states have both Republican and Democrat bankers.

We next look into the presence of Democrat and Republican bankers in the major banks in our sample. Fig. 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.

Panel B of Table 1 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 $1.09 billion, matures in about 5 years, and has an all-in-drawn spread over LIBOR of 207 basis points. Over half of the loans in the sample are secured.

Before our main analysis, we compare the characteristics of loans extended by Republican and Democrat bankers in several ways. First, we compare the average loan terms and borrower characteristics between observations where the lead arranger banker is affiliated with the Democrat and the Republican party. Results are provided in Columns (1) and (2) of Panel A, Table 2. We note that Democrat bankers seem to generate loans with lower spreads and larger face value than Republican bankers. Loans by Democrat bankers are also less likely to be secured. Borrowers of Democrat bankers are generally larger, older, and more profitable. They also have lower credit risk, as shown by lower equity volatility and higher credit ratings.

We next regress these characteristics on an indicator *Democrat Banker*, which turns to one if a loan is originated by bankers affiliated with the Democratic party, and remains zero for loans from Republican bankers. To provide a direct comparison, the regression sample includes only banker-loan observations where the lead banker is affiliated with either the Democratic or the Republican party. Thus, the coefficient represents the difference in borrower and loan characteristics between Democrat and Republican bankers (i.e., Dem - Rep). Standard errors are double clustered by banker and borrower as in our baseline analysis. Fig. 3 plots the coefficient estimates of *Democrat Banker* with the 90% confidence intervals. Panel A reports results without any controls and Panel B presents results with industry and year fixed effects. In both panels, we find that most of the above-listed differences between Democrat and Republican bankers are not statistically significant from zero, except for equity volatility and credit ratings.

In Panel B of Table 2, we further regress the log of loan spreads on *Democrat Banker*. We include controls in stages. In Column (1), we do not include any controls. In Column (2), we add bank, year, and borrower rating grid fixed effects. In Column (3), we add continuous firm characteristics, including asset size, profitability, market-to-book, tangibility, leverage, age, and equity volatility. In Column (4), we further impose industry-rating category-presidential term (4 years) fixed effects. Finally, in Column (5), we include other loan characteristics as controls, including loan type fixed effects, an indicator for secured loans, loan size, and loan maturity. Across all specifications, we find no significant difference between the loan spreads set by Democrat and Republican bankers.

5. Main results

5.1. Baseline results

We examine whether bankers' partisanship affects the spreads they issue on syndicated loans. We do so by estimating Eq. (1).

Results are reported in Table 3. We add controls and fixed effects in stages. Regressions in Panel A include less stringent fixed effects

Table 2
Difference Between Democrat and Republican Bankers
This table describes the difference between loans issued by Democrat bankers and Republican bankers. The sample includes only loan-banker pairs where the lead arrangers are Republican and Democrat bankers. Panel A compares loan contract terms and borrower characteristics between the two groups using a *t*-test. Columns (1) and (2) report the average value of each variable for Republican bankers and Democrat bankers, respectively. Column (3) presents the difference between Republican and Democrat bankers and the associated statistical significance from a *t*-test. In Panel B, we regress *Log(Spread)* on an indicator *Democrat Banker*, which turns to one for loans extended by bankers affiliated with the Democratic party and zero for Republican bankers, with progressively more fixed effects. Rating Grid refers to a 22-point scale that corresponds to S&P rating grids: 22 for AAA, 21 for AA+,..., and 1 for D or SD. It is set to 0 for unrated firms. *Pres. Term* is defined as a four-year presidential term. Firm Controls include *Firm Size, Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*. Loan Controls include loan type fixed effects, an indicator for secured loans, the log of loan amount, and the log of loan maturity. In Panel B, standard errors are double clustered by borrower and banker. Detailed variable definitions are provided in Appendix A. *, **, and *** indicate statistical significance at the 10%, 5%, and 1%, respectively.

Panel A: Difference between Democrat and Republican Bankers

Banker Party:	(1) Republican	(2) Democrat	(3) Diff (Dem - Rep)
Log(Spread)	5.237	5.179	-0.058***
Spread (bps)	215.630	197.862	-17.768***
Log(Loan Amount)	20.078	20.262	0.183***
Loan Amount ($million)	1,076.412	1,312.469	236.058**
Log(Loan Maturity)	3.919	3.949	0.030
Loan Maturity (Months)	55.810	56.184	0.374
Secured	0.541	0.468	-0.072***
Firm Size	8.319	8.536	0.217***
Log(Firm Age)	2.869	2.956	0.086**
Profitability	0.122	0.128	0.006**
Leverage	0.381	0.389	0.008
Tangibility	0.290	0.268	-0.021*
M/B	1.781	1.854	0.073*
Equity Volatility	0.360	0.327	-0.033***
Rating Grid	11.299	11.824	0.526***

Panel B: Banker Party Affiliation and Loan Pricing

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)
Democrat Banker	-0.058	-0.001	0.000	-0.002	-0.000
	(0.050)	(0.022)	(0.020)	(0.017)	(0.016)
Bank FE		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Rating Grid FE		Yes	Yes	Yes	Yes
Firm Controls			Yes	Yes	Yes
Ind. × Rating × Pres. Term FE				Yes	Yes
Loan Controls					Yes
Observations	2,550	2,542	2,542	2,466	2,466
Adjusted R^2	0.003	0.583	0.635	0.756	0.775

compared to Panel B. Column (1) of Panel A reports the coefficient on *Misaligned Banker* without any control variable. This provides a cross-sectional comparison between the rates set by politically aligned and misaligned bankers. We find that on average, misaligned bankers charge around 5.5% higher loan spreads than aligned ones. In Column (2), we control for banker-party fixed effects, which are separate indicators for whether a banker is affiliated with the Democratic party, the Republican party, other party, or undeclared. This set of fixed effects helps us track how bankers affiliated with the Democrat or Republican party, as a group, change their pricing around party-switching elections. In Column (3), we add year fixed effects and borrower rating grid fixed effects. In Column (4), we include other borrower characteristics as controls, including size, profitability, market-to-book, tangibility, leverage, age, and equity volatility. We also include industry-rating category-presidential term fixed effects. Column (5) adds loan-level controls. Throughout all specifications, we find positive and significant coefficients for *Misaligned Banker*, suggesting that misaligned bankers charge higher spreads than aligned ones.

Panel B reports the main results of our study. We impose banker fixed effects here to track how a given banker changes his pricing over time, around party-switching elections. In Column (1), we report the results controlling for banker, bank, and year fixed effects. We also control for rating grid fixed effects along with firm characteristics. In Column (2), we further impose industry-rating category-presidential term interactive fixed effects. In Column (3), we layer on fixed effects indicating the type of the loan (term loans, revolvers, or other) 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., 2023). Another way to interpret this magnitude is to compare it with the rate gap between loans issued to borrowers around critical credit rating cutoffs. For example, loans to borrowers right below and right above the investment grade cutoff (i.e., BBB- to BB+) differ in spreads by about 30 bps. Our results yield a magnitude of 14 bps, which seems substantial in comparison.

5.2. Event study using the 2016 presidential election

We perform an event study around the 2016 presidential election (the "Trump election") to trace the dynamic effect of partisanship on loan pricing. 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 Democrat bankers (*Democrat Banker*) and indicators for each of the six quarters prior to the election and six quarters following the election. Note that in this time frame, Democrat 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.

Fig. 4 depicts the results from the event study. We define the base period as January 2014 to April 2015, which is under the Obama administration. May 2015 to Aug 2015 is defined as Quarter -6 to the election, and Aug 2016 to Nov 2016 (non-inclusive) is Quarter -1 to the election. Similarly, we track the differences in loan spreads for 6 quarters following the election, with Nov 2016 to Feb 2017 as Quarter 0, Feb 2017 to May 2017 as Quarter 1, and May 2018 to Aug 2018 as Quarter 6 after the election. We collapse all loans issued after Quarter 6 as Quarter 7 and forward ("7+").

Given that the Democratic party was in power during both the base period and Quarters -6 through -1, we do not observe changes in the spread differential between aligned and misaligned bankers in those pre-election periods relative to the base period. Immediately following the Trump election, the pricing gap spikes, suggesting that Democrat bankers charge 24% more than Republicans on similar loans in the first quarter after the election. To interpret the economic magnitude, recall that the base period corresponds to the Obama presidency, during which period Democrats are aligned with the White House and charge *lower* spreads than Republican bankers. After the Trump election, Democrat bankers become misaligned and charge *higher* spreads than Republican bankers. The coefficients for post-election periods indicate the cumulative effects of political misalignment during the two presidencies. Thus, the impact of political misalignment under each presidency is 12% right after the election and declines to 7% after six quarters. This means that on average, for a four-year term, the effect of partisanship is in the

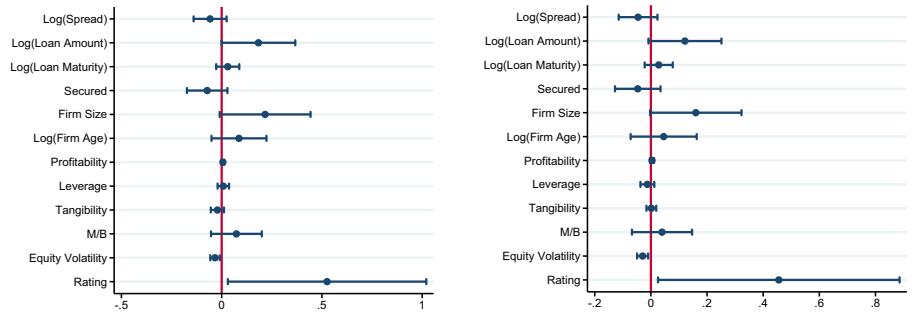


Fig. 3. Difference between Democrat and Republican Bankers. This figure reports the coefficients for *Democrat Banker*, an indicator that turns to one if a banker is affiliated with the Democratic party, and zero for those affiliated with the Republican party. The dots represent point estimates of the coefficients and the horizontal bars show 90% confidence intervals. The regression sample includes banker-loan observations where the lead banker is affiliated either with the Democratic or Republican party, so the coefficient represents the difference between the two groups. Panel A reports results when the regressions include no control. Panel B reports the results when we control for industry and year fixed effects. In both panels, standard errors are double clustered by banker and borrower.

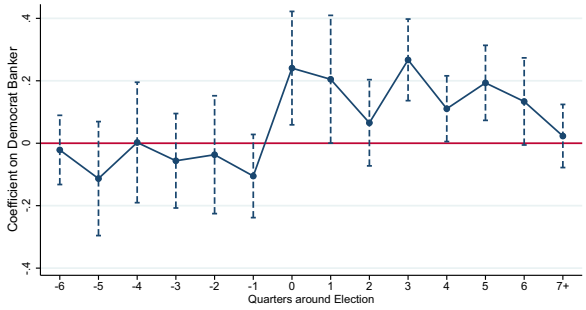


Fig. 4. Event Study Around the 2016 Presidential Election. This figure depicts the results from the event study around the 2016 Presidential Election. The base period is January 2014 to April 2015, which is under the Obama administration. The horizontal axis indicates quarters around the election, which 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. The dots represent point estimates of the coefficients and the horizontal bars show 90% confidence intervals. The regression controls for banker, bank, year, rating grid, industry-by-presidential term fixed effects, as well as firm and loan characteristics. Standard errors are double clustered by banker and firm.

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' optimism 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 this. First, bankers originating loans at a later point in the Trump presidency may account for the possibility that a Democrat president may be elected in year 2020. In addition, supervision at the bank level could impose limitations on bankers' pricing biases over time. Finally, the partisan disagreement could be abated as bankers observe the pricing of new deals issued by other bankers during the presidential term. In Appendix B, we provide results from a similar event study around the 2008 presidential election (the "Obama" election). Results suggest that, as Democrat bankers switched from being misaligned to being aligned following the election, they substantially reduced loan spreads compared to Republican bankers.[12]

6. The role of Borrowers' partisanship

Our main results suggest that lenders' partisanship has a strong influence on loan prices. Given that syndicated loans are bilateral contracts that reflect the negotiated outcome of borrowers and lenders, borrowers' political beliefs could also play a role. To investigate the effect of borrowers' partisanship, we collect the voter registration records of firm CEOs from LexisNexis, following the same data collection method for bankers' political affiliation. Based on CEOs' voter registration records, we classify them into Democrat, Republican, Other Party, and Undeclared. Analogous to the definition of banker partisanship, we define a borrower to be misaligned if its CEO has a party affiliation that is different from the U.S. President (*Misaligned Firm*). Among the CEOs of Compustat firms for whom we can identify voter registration records, 17.6% are Democrats and 76.4% are Republican. The remaining 6% are affiliated with other parties. Such composition remains similar after the CEO registration records are merged with our banker-loan sample.

In the analysis to follow, we assess the effects of borrowers' partisanship on loan spreads, as well as the interactive effects between borrowers' and lenders' partisan alignment. We further examine whether partisanship affects borrower-lender matching, i.e., whether bankers are more likely to originate loans to co-partisan borrowers.

6.1. The effect of borrower partisanship on loan pricing

Ex ante, it is not clear how borrower partisanship could affect their cost of credit. On the one hand, if a borrower's CEO is politically misaligned, he may have a more pessimistic view regarding the firm's future prospects. As such, the CEO may be less likely to push back when presented with a higher interest rate. On the other hand, misaligned borrowers may have stronger incentives to bargain for lower interest rates, because they are pessimistic about the firm's future cash flows and may expect lower margins to cover interest payments. Finally, it is also possible that borrower CEO's political views do not affect loan prices because borrowers always try to minimize the cost of capital, regardless

[12] Our focus on the 2016 election is based on multiple reasons. First, the 2016 election outcome was more surprising than the 2008 outcome. Second, the candidates of the 2016 election (Clinton and Trump) put forward opposing economic agendas, representing strong partisan conflicts. Third, the 2008 election coincided with the onset of the Global Financial Crisis. Finally, we face some data limitations in the early years of our sample period.

Table 3
Credit Spreads and Banker Partisanship
This table reports the results from estimating Eq. (1), the effect of bankers' partisanship on the spread they charge on syndicated loans. *Log(Spread)* is the log of the all-in-drawn interest rate spread over LIBOR. *Misaligned Banker* takes the value of one if the banker's party of affiliation differs from the party of the U.S. President, and zero otherwise. Panel A reports results when we impose banker party fixed effects, but not banker fixed effects. Panel B reports results when banker fixed effects are included. Rating Grid refers to a 22-point scale that corresponds to S&P rating grids: 22 for AAA, 21 for AA+, Q, and 1 for D or SD. It is set to 0 for unrated firms. *Pres. Term* is defined as a four-year presidential term. Firm Controls include *Firm Size, Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*. 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 Party Fixed Effects

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)	(5)
Misaligned Banker	0.055*	0.079**	0.038*	0.047***	0.047***
	(0.030)	(0.036)	(0.020)	(0.015)	(0.014)
Banker Party FE		Yes	Yes	Yes	Yes
Year FE			Yes	Yes	Yes
Rating Grid FE			Yes	Yes	Yes
Firm Controls				Yes	Yes
Ind. × Rating × Pres. Term FE				Yes	Yes
Loan Type FE					Yes
Secured Loan FE					Yes
Loan Size and Maturity					Yes
Observations	5,130	5,130	5,128	5,032	5,032
Adjusted R^2	0.003	0.006	0.501	0.711	0.740

Panel B: Banker Fixed Effects

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned Banker	0.065***	0.071***	0.069***	0.068***
	(0.022)	(0.018)	(0.017)	(0.018)
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE		Yes	Yes	Yes
Loan Type FE			Yes	Yes
Secured Loan FE			Yes	Yes
Loan Size and Maturity				Yes
Observations	4,789	4,712	4,712	4,712
Adjusted R^2	0.720	0.787	0.804	0.804

of their political opinions.

We analyze the effects of borrower partisanship in two ways. First, we directly examine whether misaligned firms face higher loan spreads than aligned firms with similar conditions. We estimate a version of Eq. (1) by including both *Misaligned Firm* and *Misaligned Banker* in the regression. Panel A of Table 4 reports the results. All regressions include bank, year, rating grid, industry-rating category-presidential term fixed effects, and firm and loan characteristics as controls. We do not include banker or CEO party fixed effects in Column (1), and only include banker party fixed effects in Column (2). These specifications gauge the cross-firm difference in the cost of debt between aligned and misaligned borrowers, but do not identify the effects of time-varying optimism related to CEO partisanship. *Misaligned Firm* generates a positive, significant coefficient, suggesting that the average firm with a politically misaligned CEO receives higher loan spreads than the average firm with an aligned CEO. In Column (3), we include fixed effects for the political

Table 4
The Partisanship Effects of Borrower CEOs
This table reports the results from estimating the effects of both borrower CEOs' partisanship as well as bankers' partisanship on loan spreads. The dependent variable is *Log(Spread)*, the log of the all-in-drawn interest rate spread over LIBOR. *Misaligned Firm* takes the value of one if a firm's CEO's affiliation differs from the party of the U.S. President, and zero otherwise. *Misaligned Banker* and control variables are defined in the same way as Table 3. Panel A reports results when we include both *Misaligned Firm* and *Misaligned Banker* in the same regression, and Panel B provides results from their interaction. In all columns, we report the differences between the estimated coefficients for *Misaligned Firm* × *Misaligned Banker* and *Misaligned Firm* × *Aligned Banker*, and *Misaligned Firm* × *Misaligned Banker* and *Aligned Firm* × *Misaligned Banker*. We also report the estimated standard errors for these differences. Rating Grid refers to a 22-point scale that corresponds to S&P rating grids: 22 for AAA, 21 for AA+,..., and 1 for D or SD. It is set to 0 for unrated firms. Firm Controls include *Firm Size, Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*. Loan controls include loan type fixed effects, an indicator for secured loans, the log of loan amount, and the log of loan maturity. 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: The Role of Borrower CEO Partisanship

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned Firm	0.086***	0.085***	0.040	0.023
	(0.030)	(0.030)	(0.030)	(0.029)
Misaligned Banker	0.026***	0.049***	0.049***	0.063***
	(0.010)	(0.014)	(0.014)	(0.017)
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes	Yes
Loan Controls	Yes	Yes	Yes	Yes
Banker Party FE		Yes	Yes	
CEO Party FE			Yes	Yes
Banker FE				Yes
Observations	5,022	5,022	5,022	4,712
Adjusted R^2	0.748	0.748	0.750	0.806

Panel B: Interactive Effects of Borrower CEO and Banker Partisanship

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned Firm × *Misaligned Banker*	0.098**	0.098***	0.087**	0.085**
	(0.050)	(0.036)	(0.035)	(0.034)
Misaligned Firm × *Aligned Banker*	0.032	0.048	0.041	0.023
	(0.044)	(0.033)	(0.032)	(0.031)
Aligned Firm × *Misaligned Banker*	0.049**	0.051***	0.049***	0.063***
	(0.020)	(0.016)	(0.015)	(0.018)
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes	Yes
Rating Grid FE		Yes	Yes	Yes
Firm Controls		Yes	Yes	Yes
Loan Controls			Yes	Yes
Banker Party FE	Yes	Yes	Yes	
CEO Party FE	Yes	Yes	Yes	Yes
Banker FE				Yes
Observations	5,022	5,022	5,022	4,712
Adjusted R^2	0.593	0.724	0.750	0.806
(Misaligned Banker - Aligned Banker)	0.066**	0.051**	0.045**	0.062**
× *Misaligned Firm*	(0.031)	(0.023)	(0.022)	(0.028)
(Misaligned Firm - Aligned Firm)	0.049	0.048	0.037	0.022
× *Misaligned Banker*	(0.048)	(0.035)	(0.033)	(0.032)

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

Panel A: Syndicate Formation

Dep. Var.:	*Co-Lead*			*Log(Co-Lead Loans)*		
	(1)	(2)	(3)	(4)	(5)	(6)
Sample:	All	All	Active Bankers	All	All	Active Bankers
Same Party	0.005***	0.003***	0.002**	0.005***	0.004***	0.002***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Banker *i*-Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Banker *j* FE	Yes			Yes		
Banker *j*-Year FE		Yes	Yes		Yes	Yes
Observations	646,624	646,624	395,242	646,624	646,624	395,242
Adjusted R^2	0.026	0.032	0.032	0.027	0.035	0.037

Panel B: The Moderating Role of Group Identity

Dep. Var.: *Log(Spread)*	(1)
Misaligned Banker	0.023
	(0.027)
Homogeneous Team	-0.012
	(0.023)
Misaligned Banker × *Homogeneous Team*	0.064**
	(0.032)
Controls	Yes
Banker FE	Yes
Bank FE	Yes
Year FE	Yes
Rating Grid FE	Yes
Ind. × Rating × Pres. Term FE	Yes
Observations	2,443
Adjusted R^2	0.828

party of borrower CEOs, thus quantifying how firms' cost of credit changes as their political alignment switches over time. In Column (4), we further add banker fixed effects.[13] We find no statistically significant relation between borrowers' political misalignment and loan spreads. This suggests that changes in CEO partisanship induced by political elections do not substantially affect the cost of bank loans. In contrast, banker misalignment consistently produces positive and significant coefficients, with reasonable economic magnitudes. In Section B of the Internet Appendix, we consider alternative definitions of *Misaligned Firms* by incorporating the political affiliations of CFOs, in addition to those of CEOs. These alternative definitions yield similar results.

In our second analysis, we investigate the interactive effects between firm CEO's and lenders' partisanship. We define *Aligned* as one minus *Misaligned*, for both the banker and the CEO, and regress the log of loan spreads on the interaction of the political alignment of these two agents. Panel B reports the coefficients of three interaction terms: *Misaligned Firm* × *Misaligned Banker, Misaligned Firm* × *Aligned Banker*, and *Aligned Firm* × *Misaligned Banker*. The absorbed base case is where both parties are politically aligned. The coefficients of those interactive terms indicate the differences in loan spreads relative to the base case. Panel B of Table 4 reports the results.

We again introduce controls and fixed effects in stages. Column (1) controls for banker party and CEO party fixed effects, and also includes bank fixed effects, year fixed effects, and industry-rating category-presidential term fixed effects. Column (2) adds rating grid fixed effects along with firm characteristics. In Column (3), we further control for loan characteristics. Finally, we impose banker fixed effects in Column (4). In this analysis, we analyze the effect of bankers' and borrowers' partisan disagreement, holding fixed the other party's political alignment. For example, the difference between the coefficients of *Misaligned Firm* × *Misaligned Banker* and *Misaligned Firm* × *Aligned Banker* helps us estimate the effect of bankers' partisan disagreement, given the borrower is misaligned. Similarly, the difference between *Misaligned Firm* × *Misaligned Banker* and *Aligned Firm* × *Misaligned Banker* shows the effect of borrower partisanship, conditional on the bankers being misaligned. The effects of banker and borrower partisanship conditional on the other party being aligned can be directly inferred from the coefficients of *Misaligned Firm* × *Aligned Banker* and *Aligned Firm* × *Misaligned Banker*, because they are estimated relative to *Aligned Firm* × *Aligned Banker*.

We find all interactive terms bear positive coefficients, suggesting that spreads become higher when either the borrower or the lender is misaligned. Spreads are the highest when both the lender and the borrower are misaligned. Based on estimates from Column (4), loans issued by a misaligned banker to a misaligned borrower have around 9%

[13] Only 12% of our sample loans are associated with CEOs who take out loans under both Democrat and Republican President, and experience a change in political alignment. This small sample size limits our ability to impose CEO fixed effects.

higher spreads than loans issued by an aligned banker to an aligned borrower. Misaligned bankers tend to issue loans with 5–6% higher spreads than aligned bankers, conditional on borrowers' partisanship. Based on estimates from Column (4), banker misalignment is associated with 6.3% higher spreads within aligned borrowers and 6.2% higher spreads within misaligned borrowers ($= 0.085 - 0.023$). Similarly, misaligned borrowers receive around 2% higher spreads than aligned borrowers, holding fixed their bankers' partisanship. However, these differences are not statistically significant at conventional levels.

Overall, our analysis provides evidence that loan spreads are weakly higher for firms with politically misaligned CEOs than firms with politically aligned CEOs. This effect does not explain away the influence of bankers' partisan perceptions on loan pricing. A potential explanation for the weak effect of borrower partisanship is that managers have the fiduciary duty to minimize the firm's cost of capital, which may dominate any effect that their political views might have. Meanwhile, our evidence may be limited by the sample and measurement that we use. For example, our sample of borrowers do not include the universe of U.S. public firms. We also do not consider all decision makers in the firm, such as non-executive managers or board members. It is possible that future research could uncover stronger effects using more comprehensive data.

6.2. Banker-borrower matching

Do bankers and borrowers match based on their political affiliation? While partisanship-driven matching is documented in the context of portfolio choices by mutual fund managers (Wintoki and Xi, 2020), the answer is much less straightforward in the syndicated loans market. In this market, lenders are compensated for completing deals, which requires them to attract clients and maintain a long-term relationship with those clients. Under such incentives, lenders may not be biased against borrowers with opposite partisan views if they bring along high-volume deals.

We examine the matching between borrowers and bankers in a regression framework. Section C of the Internet Appendix shows that bankers are not significantly more likely to provide credit to firms whose CEOs have the same political affiliation. This evidence suggests that there is limited matching between bankers and borrowers based on political affiliations in the syndicated corporate loans market. As discussed above, the lack of co-partisan matching between borrowers and bankers could be attributed to the volume-based incentive faced by bankers.

Table 6
Partisanship Effects and Political Activeness
This table reports results for the heterogeneous effect of lender partisanship across more and less politically active bankers. *Log(Spread)* is the log of the all-in-drawn interest rate spread (in basis points over the LIBOR). *Misaligned Banker* takes the value of one if the banker's party registration is different from the party in the White House, and zero otherwise. *High Times Voted* is an indicator that turns to one if a banker's voting count exceeds the sample median. *High Times Voted - Age Adjusted* is an indicator that turns to one if a banker's voting count exceeds the median across bankers of the same age range, where an age range is defined using 5-year intervals (i.e., 35-39, 40-44, 45-49, etc). Bankers with missing age information are grouped into a separate category. *Voting Intensity* is the ratio of times voted to date and the number of years that a banker is eligible to vote (current age - 18). Bankers with missing age information are dropped from the sample. All regressions include the same set of controls as shown in Column (4), Panel B 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 Banker	0.033	0.038	0.040
	(0.022)	(0.023)	(0.025)
High Times Voted	-0.002		
	(0.023)		
Misaligned Banker × *High Times Voted*	0.072***		
	(0.027)		
High Times Voted - Age Adjusted		-0.009	
		(0.024)	
Misaligned Banker × *High Times Voted - Age Adjusted*		0.059**	
		(0.028)	
Voting Intensity			0.175
			(0.153)
Misaligned Banker × *Voting Intensity*			0.228*
			(0.137)
Controls	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes
Observations	4,712	4,712	4,589
Adjusted R^2	0.805	0.804	0.804

7. Partisan bankers and syndicate formation

Despite there being limited matching between partisan bankers and partisan firms, it is still possible that banker partisanship could shape the structure of lending syndicates. To the extent that partisanship strengthens in-group social ties and social sorting (Mason, 2015), it is plausible that teams composed of co-partisan bankers experience less disagreement and close deals more easily. We thus hypothesize that co-partisan bankers are more likely to co-lead syndicates together compared to bankers with different partisan views.

We test this hypothesis using a banker-pair (i,j)-year (t) panel, where we pair each banker who has lead arranged a loan in our sample with another, and track the co-syndication activity between these two bankers from the first year to the last year that both bankers appear in the sample. Co-syndication is measured in two ways. First, we define $Co\text{-}lead_{i,j,t}$ 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 $Log(Co\text{-}lead\ Loans)_{i,j,t}$ as the log of one plus the number of loans that bankers i and j originate together in year t. We then regress measures of co-syndication activities on an indicator $Same\ Party_{i,j}$, which equals 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.

Panel A of Table 5 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 and banker j fixed effects. We then impose both banker i-year and banker j-year fixed effects. Finally, we restrict the sample to banker-pair-year observations where both bankers are active, i.e., originating at least one loan during that year. Across all variations in terms of sampling, syndication measure, and fixed effect choices, results consistently indicate that bankers with the same political affiliation are more likely to form lending syndicates than ones with different affiliations. 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).

We next examine whether partisan bias generates stronger effects on loan pricing in a politically homogeneous group compared to a balanced group. 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 views, the effect of partisan bias on loan pricing could be mitigated. Indeed, Panel B shows that the partisan pricing gap widens in homogeneous syndicates compared to balanced ones.

Overall, our result complements existing research by showing that homophily in terms of political affiliation fosters team formation, which in turn reinforces bankers' biases and amplifies the effect of partisanship

on loan pricing. In Section D of the Internet Appendix, we show that misaligned bankers are also associated with smaller lead arranger shares. This suggests that syndicate participants could partially take advantage of the over-pricing by misaligned bankers and subscribe a greater share of the loan.

8. Economic mechanisms

In this section, we investigate potential economic mechanisms underlying the partisan pricing gap that we document. To start, we explore the heterogeneity across individual bankers, and test the difference between more and less politically active bankers. In addition, we assess the role of partisan information environment and propose that such environment can shape the pessimism (optimism) of misaligned (aligned) bankers. Finally, we discuss how borrowers' outside options could moderate the partisan pricing effects.

8.1. Politically active bankers

We explore differences across bankers in the strength of their partisan biases. We conjecture that bankers who actively vote in political elections are likely to identify more strongly with their party ideology and have stronger partisan biases compared to less active bankers. Thus, we expect politically active bankers should be more pessimistic (optimistic) and charge higher (lower) loan spreads when they become misaligned (aligned), compared to inactive ones.

We measure bankers' political activeness in several ways. First, we count the number of times that a banker has voted to date and create an indicator that turns to one if a banker's voting count exceeds the sample median, *High Times Voted*. One issue with the total vote count is that older bankers generally have voted more times. To address this, we create a second indicator, *High Times Voted - Age Adjusted*. This variable turns to one if a banker's voting count exceeds the median across bankers of the same age range, where an age range is defined using 5-year intervals (i.e., 3539, 4044, 4549, etc.). Finally, we create a continuous variable, by scaling the number of times a banker has voted by the number of years he is eligible to vote (i.e., the current year minus the year the banker turned 18). We label this variable *Voting Intensity*.

We regress the log of loan spreads on the interaction between *Misaligned Banker* and each of the above measures of political activeness. Table 6 reports the results. We find a positive and statistically significant coefficient on the interaction terms across all measures. These results are consistent with the notion that politically active bankers become more optimistic/pessimistic when they are politically aligned/misaligned. Thus, the partisan pricing gap is wider among active bankers than among inactive ones.

8.2. Partisan media and banker partisanship

Our next analysis focuses on the degree of polarization in the information environment around bankers. This analysis is grounded in the view that individuals tend to selectively incorporate information based on their parties' ideology.[14] As a result, a more divided partisan information environment could strengthen people's existing perceptions and further polarize the views of aligned and misaligned bankers.

We directly examine the role of partisan news. Recent studies document a significant level of partisan disagreement across news outlets (e.g., DellaVigna and Kaplan, 2007; Flaxman et al., 2016; Goldman et al., 2021). 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 viewers' beliefs (Chiang and Knight, 2011; Levendusky, 2013; Allcott and Gentzkow, 2017). We expect that strong disagreement between left- and right-wing media could amplify the partisan biases of corporate bankers.

Table 7
Partisan Conflict, Information Environment, and Lender Partisanship
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 spread (in basis points over the LIBOR). *Misaligned Banker* takes the value of one if the banker's party of affiliation differs from the party of the U.S. President, and zero otherwise. *High 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. All regressions include the same set of controls as shown in Column (4), Panel B 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 Banker	0.040*	0.035*	0.060***
	(0.021)	(0.020)	(0.020)
High Partisan News (All)	-0.006		
	(0.018)		
Misaligned Banker × High Partisan News (All)	0.036*		
	(0.020)		
High Partisan News (Economy)		-0.050***	
		(0.017)	
Misaligned Banker × High Partisan News (Economy)		0.054**	
		(0.021)	
High Partisan News (Non-Economy)			-0.041**
			(0.016)
Misaligned Banker × High Partisan News (Non-Economy)			0.002
			(0.020)
Controls	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes
Observations	4,387	4,450	4,387
Adjusted R^2	0.787	0.790	0.788

To test this conjecture, we measure partisan disagreement in the news using the divergence in news sentiment between articles published by left-wing and right-wing outlets. Following Rees and Twedt (2022), we use the Media Bias Chart provided by Allsides.com to classify the political leaning of media outlets. News sentiment is a score from Ravenpack ranging between 1–100, with higher values indicating greater optimism in a news article. Following prior literature, we consider articles with sentiment scores above 50 as conveying positive sentiment. Each month, we compute the percentage of news articles displaying positive sentiment that are published by left-wing and right-wing media outlets, respectively. We then take the absolute difference in this percentage between the two sides, forming a time series of media partisan disagreement. We define *High Partisan News* 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.[15] 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. Table 7 reports the result. Based on

[14] Such a bias is discussed in prior literature (Campbell et al., 1980), and also supported by anecdotal evidence. See, for example, reports from the Pew Research Center (Mitchell et al., 2014; Gottfried et al., 2017).

[15] Given that partisan conflicts have large variations 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.

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 spread (in basis points over the LIBOR). *Misaligned Banker* 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 of whether the borrower's asset tangibility ranks below the sample median level. *Many Lenders* is an indicator of 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), Panel B 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 Banker	0.028	0.044**	0.149***	0.106***	0.110***
	(0.020)	(0.022)	(0.053)	(0.022)	(0.023)
Misaligned Banker × *Speculative*	0.086***				
	(0.024)				
Low Tangibility		0.014			
		(0.032)			
Misaligned Banker × *Low Tangibility*		0.043*			
		(0.023)			
Many Lenders			0.032		
			(0.037)		
Misaligned Banker × *Many Lenders*			-0.086*		
			(0.052)		
Bond Outstanding				0.021	
				(0.020)	
Misaligned Banker × *Bond Outstanding*				-0.062***	
				(0.021)	
Past Bond Issuance					0.036*
					(0.020)
Misaligned Banker × *Past Bond Issuance*					-0.065***
					(0.021)
Controls	Yes	Yes	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Rating Grid 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	0.805	0.805

coefficients from Column (1), 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 (7.6%) during periods of heightened partisan news gap. Columns (2) and (3) suggest that the effect of partisan news is mostly driven by economy-related news, but not other, non-economy topics.

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

8.3. The role of credit market competition

We test whether lenders' market power and market competitiveness could influence our results. 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. For those borrowers, outside lenders may fear adverse selection and do not extend cheaper credit to the firm, leaving the firm limited options other than to borrow from its relationship lender. In this case, lender partisanship can play a bigger role in influencing borrowers' cost of capital. In Column (1) of Table 8, we interact *Misaligned Banker* 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 Banker* 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.

We next 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 credit options. 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.

In Section E of the Internet Appendix, we examine the role of credit market options in moderating the effect of *borrower* partisanship. While politically misaligned firms receive weakly higher loan spreads than aligned firms, such an effect is mitigated when borrowers face more outside options to borrow. However, these interactive effects are not statistically significant at conventional levels. Controlling for the full interaction of borrower partisanship and market competitiveness, banker partisanship continues to matter, with its effect differing significantly across borrowers with more or fewer outside options.

9. Alternative explanations and robustness

Our results so far are consistent with the interpretation that bankers' partisan optimism (pessimism) influences their pricing of corporate loans. In this section, we address a few concerns related to this interpretation. First, we examine the effect of borrower fundamentals as well as the effect of bank-level conditions or policies in driving our results. We next investigate whether banker partisanship is associated with changes in other loan terms. In the Internet Appendix, we examine whether our results could be driven by banker experience or expertise and discuss the role of institutional investor demand. Finally, we test the robustness of our findings using alternative samples and specifications.

9.1. Addressing the effect of borrower fundamentals

We discuss the concern that politically misaligned bankers may lend to riskier firms compared to aligned bankers, which might explain the higher spreads. We address this concern in several ways. First, we regress borrower characteristics including size, profitability, leverage, tangibility, market-to-book ratio, equity volatility, and credit ratings, on banker political misalignment. Panel A of Table 9 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

Table 9
Addressing Borrower-Side Effects

This table reports results from analyses that address borrower-side effects. Panel A shows results related to banker-firm matching. Panel B examines the changes in firm fundamentals after loan origination. In this panel, the dependent variables are changes in firm characteristics over a 1-year window after loan origination, a 3-year window after origination, and from origination till loan maturity. All regressions in this panel control for banker, bank, and year fixed effects. In the "Till Maturity" sample, we only keep loans that mature prior to the end of our sample period and add loan maturity (in years) fixed effects. Panel C reports results from including additional sets of borrower fixed effects in the baseline specification. In Column (1), we only include firms that obtain more than one loan package over the sample period. In Columns (3) and (4), we retain firm-president party and firm-presidential terms that are associated with more than one loan, respectively. Controls include *Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*, loan type fixed effects, an indicator for secured loans, the log of loan amount, and the log of loan maturity. 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 Grid*	(8) *New Borrower*
Misaligned Banker	-0.083	0.008	0.017	0.004	-0.032	-0.024*	0.087	0.011
	(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	4,789	4,789	4,789	4,789	4,789	4,789	3,975	4,789
Adjusted R^2	0.589	0.206	0.422	0.577	0.319	0.490	0.478	0.332

Panel B: Changes in Firm Fundamentals After Loan Origination

Dep. Var.:	(1) *ΔFirm Size*	(2) *ΔProfitability*	(3) *ΔLeverage*	(4) *ΔTangibility*	(5) *ΔM/B*	(6) *ΔEquity Vol.*	(7) *Downgrades*	(8) *Default*
Measurement Horizon for Firm Performance: 1 Year After Loan Origination								
Misaligned Banker	0.009	0.005	-0.006	0.004	-0.002	-0.009	-0.099	-0.001
	(0.015)	(0.005)	(0.006)	(0.002)	(0.035)	(0.015)	(0.155)	(0.001)
Measurement Horizon for Firm Performance: 3 Years After Loan Origination								
Misaligned Banker	0.025	0.010	-0.014	0.003	-0.023	-0.023	0.234	0.008
	(0.034)	(0.008)	(0.011)	(0.005)	(0.042)	(0.018)	(0.208)	(0.017)
Measurement Horizon for Firm Performance: Till Loan Maturity								
Misaligned Banker	0.066	0.018	-0.013	0.011*	-0.017	0.004	0.282	-0.018
	(0.041)	(0.015)	(0.015)	(0.006)	(0.077)	(0.020)	(0.317)	(0.019)

Panel C: Firm Fixed Effects

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned Banker	0.073***	0.088***	0.060***	0.042***
	(0.019)	(0.028)	(0.018)	(0.016)
Controls	Yes	Yes	Yes	Yes
Banker FE	Yes		Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes		
Firm FE	Yes			
Firm × Banker FE		Yes		
Firm × President Party FE			Yes	
Firm × Pres. Term FE				Yes
Observations	3,607	3,772	2,648	2,170
Adjusted R^2	0.855	0.859	0.856	0.862

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.

We next examine ex post borrower performance. We track the changes in borrower fundamentals from the year before loan origination to a period after loan origination and compare whether the borrowers of misaligned bankers fare worse than those of aligned bankers. Changes in borrower conditions, including firm size, profitability, leverage, 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).[16] In addition to the above characteristics, we also consider an indicator for whether the borrower drops to a default rating during those horizons. Our estimation imposes banker, bank, and origination year fixed effects. In the "Till Maturity" sample, we retain only loans that mature prior to the end of our sample period and also impose maturity fixed effects to account for the differences in performance horizon across borrowers. Panel B reports the results from this analysis. We do not find borrowers of misaligned bankers to under-perform after loan origination compared to those of aligned bankers.

In Panel C, we add more rigorous fixed effects in the baseline framework to control for borrower heterogeneity. We first include firm fixed effects (Column (1)) followed by firm-by-banker fixed effects (Column (2)). This latter set of controls allows us to track how loan spreads change within a borrower-lender relationship when the ruling

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

Table 10
Addressing Bank-Side Effects
This table reports results from analyses that address bank-side effects. Panel A reports results when we impose additional fixed effects related to bank-level conditions. In Column (1), we add bank-by-President party interactive fixed effects. In Column (2), we include bank-presidential term interactive fixed effects. In Column (3), we include bank-by-year fixed effects. Controls include *Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*, loan type fixed effects, an indicator for secured loans, the log of loan amount, and the log of loan maturity. Panel B reports results from a placebo test, where we randomly assign loans to bankers working in the same bank. In this assignment, we maintain the linkage between loans and the bank. *Misaligned Banker* (Scrambled) represents the political misalignment of the randomly assigned banker. All regressions in Panel B include the same controls as in the baseline analyses, shown in Panel B 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: Bank Fixed Effects

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)
Misaligned Banker	0.070***	0.064***	0.066**
	(0.019)	(0.018)	(0.019)
Controls	Yes	Yes	Yes
Banker FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes
Bank × Pres. Party FE	Yes		
Bank × Pres. Term FE		Yes	
Bank × Year FE			Yes
Observations	4,708	4,706	4,651
Adjusted R^2	0.804	0.804	0.814

Panel B: Placebo Tests, Scrambled Bankers Within a Bank

Dep. Var.: *Log(Spread)*	(1)	(2)	(3)	(4)
Misaligned Banker (Scrambled)	-0.007	0.005	0.006	0.006
	(0.016)	(0.014)	(0.014)	(0.014)
Banker (Scrambled) FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Firm Controls	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE		Yes	Yes	Yes
Loan Type FE			Yes	Yes
Secured Loan FE			Yes	Yes
Loan Size and Maturity				Yes
Observations	4,734	4,620	4,620	4,620
Adjusted R^2	0.641	0.745	0.767	0.768

party switches, so that the results are not affected by borrowers switching lenders. Next, we control for firm-by-time fixed effects that match the variation in partisan alignment. Given that *Misaligned Banker* for a given banker switches between 0 and 1 as the President's party changes, we include firm-by-President party fixed effects in Column (3), which remove differences in a firm's credit demand and financial condition between Democrat 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 parties, or firm-presidential terms that are only associated with one loan package, 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 partisanship become weaker for borrowers with outside options.

Table 11
Other Loan Outcomes
This table reports the effects of banker partisanship on other loan outcomes. Panel A reports results on fees and original issue discount. Fees are measured in the log of basis points, including commitment fees, upfront fees, and facility fees. *OID* is in percentage points, and is measured as the original issue discount divided by four (the typical loan maturity). Panel B reports the effects on loan amount, maturity, and covenants. Loan covenants include the number and strictness of loan covenants. Covenant strictness is measured as in Demerjian and Owens (2016). *Strictness* (PCOV) indicates the strictness of performance covenants and *Strictness* (CCOV) indicates the strictness of capital covenants. Firm Controls include *Firm Age, Profitability, Leverage, Tangibility, M/B*, and *Equity Volatility*. 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: Fees and Original Issue Discount

Dep. Var.:	(1) *Commitment Fee*	(2) *Upfront Fee*	(3) *Facility Fee*	(4) *OID*
Misaligned Banker	0.064**	0.415*	-0.001	0.027
	(0.027)	(0.239)	(0.029)	(0.027)
Banker FE	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes
Firms Controls	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes	Yes
Observations	1,760	660	458	429
Adjusted R^2	0.822	0.481	0.892	0.895

Panel B: Loan Size, Maturity, and Covenants

Dep. Var.:	(1) *Amount*	(2) *Maturity*	(3) *Covenants*	(4) *Strictness*	(5) *Strictness*
	(log)	(log)	(Counts)	(PCOV)	(CCOV)
Misaligned Banker	-0.028	0.004	-0.065	-0.002	0.006
	(0.041)	(0.026)	(0.077)	(0.030)	(0.006)
Banker FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Rating Grid FE	Yes	Yes	Yes	Yes	Yes
Firms Controls	Yes	Yes	Yes	Yes	Yes
Ind. × Rating × Pres. Term FE	Yes	Yes	Yes	Yes	Yes
Observations	4,712	4,712	4,457	2,367	2,367
Adjusted R^2	0.591	0.293	0.620	0.737	0.563

9.2. Addressing bank-side effects

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 10. 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 bank-year fixed effects. Our results continue to hold and generate similar magnitudes as those from the base results.

To further address any remaining concerns related to bank-level conditions, we design a placebo test where we randomly assign a loan to a banker working in the same bank, issuing loans at the same time. If our results are driven by bank-level policies or beliefs, we should see the partisanship of colleagues working inside the same bank to also influence loan pricing. However, results in Panel B suggest this is not the case. We do not find the partisanship of same-bank colleagues to generate any effect on loan pricing.

9.3. Other loan terms

Our results so far suggest that misaligned bankers charge higher spreads on the loans they issue. Do they also tighten other loan terms? We examine a variety of other loan terms, including fees, original issue discount, loan size, maturity, and covenants. Table 11 reports the results.

In Panel A, we examine fees and original issue discount. We focus on the most common types of fees including commitment fees, upfront fees, and facility fees (Berg et al., 2016). Fees are measured in basis points and converted to log terms. Original issue discount (*OID*) represents the percentage discount relative to the face value of the loan that lead arrangers offer to investors. This discount is often considered as a type of upfront fee. Similar to Bruche et al. (2020), we "amortize" original issue discount over a four-year window (the average loan maturity), thus dividing it by 4. We find misaligned bankers charge higher fees and offer higher original issue discount. These results are consistent with the results on loan spreads, suggesting that misaligned bankers are more pessimistic and increase the cost of credit for firms. We find no significant results for facility fees and the original issue discount, likely because of the limited sample size.[17]

In Panel B, we examine non-pricing terms of the loan contract, including loan amount, maturity, and covenants. We find that *Misaligned Banker* carries a negative coefficient for loan amount, which suggests that misaligned (pessimistic) officers provide less credit to borrowers. Yet, the effect is economically small and statistically insignificant. We do not observe a clear relation between *Misaligned Banker* and loan maturity either.

We also examine the number and the strictness of covenants. We do not find a clear relation between banker misalignment and the number of covenants, likely because there is limited variation in this outcome (ranging from 0 to 3 in our sample). Adding or dropping one covenant represents a substantial change and may not be captured by our refined identification strategy. When measuring covenant strictness, we look at performance covenants and capital covenants separately (Demerjian and Owens, 2016). This is because performance covenants are often based on borrowers' interest rate expenditure. If misaligned bankers already charge a higher interest rate, they may not tighten performance covenants further, but they could still impose stricter capital covenants. We find evidence consistent with this prediction. However, the effects on capital covenant strictness are economically small and statistically insignificant.

Overall, results from this analysis suggest that, as a banker's optimism shifts with political regimes, he is more likely to adjust loan spreads and fees instead of other terms. The partisan pricing gap we document is thus unlikely to be explained by bankers' intention to compensate for, or coordinate with, changes in other contract terms.[18]

9.4. Additional analyses

In closing, we discuss several additional robustness checks. To start, we consider the possibility that our finding might be driven by misaligned individuals being less capable of collecting information or assessing borrower conditions. In the Internet Appendix Section G, we include various stringent fixed effects controlling for bankers' past experience, including banker age, work experience, and firm-specific experience. Our results remain unchanged with the addition of these fixed effects, suggesting that banker experience or expertise is unlikely to explain the partisanship effects.

Next, we discuss the role of institutional investor demand. In recent years, the syndicated loans market has experienced an influx of institutional investors. Could the demand from institutional investors reduce the room for lead arranger discretion and mitigate their partisanship effects? As discussed in Section 2, the presence of institutional loans is rather limited in our sample. As mentioned above, in Internet Appendix Section A, we further address this concern by showing that our results remain virtually unchanged on subsamples of loans where lead arrangers' stakes are rarely sold.

Finally, in Section H of the Internet Appendix, we test the robustness of our findings using alternative specifications and samples. For example, we consider undeclared bankers as a æneutralg group and document that the pricing of aligned and misaligned bankers deviates to a similar degree from this group. We also show that our results remain robust if we remove undeclared bankers from the sample, keep one observation per loan facility, or remove loans jointly issued by more than three lead bankers.

10. Conclusion

This paper examines whether investors' partisanship affects how they price financial assets. 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 biases are formed and solidified. We provide evidence suggesting that the pricing differentials between politically aligned and misaligned bankers may arise from the difference in their economic expectations, which are amplified by media slant and lack of political diversity within teams.

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

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

Dagostino, Ramona; Ma, Pengfei; Gao, Janet (2023), "Partisanship in Loan Pricing", Mendeley Data, V1, doi:10.17632/ft6hy9k58t.1.

[17] Facility fees are available for 13% of our sample. Original issue discount is mostly available for Term B loans, i.e., loans designed to be sold to institutional investors, and such loans account for a small fraction of our sample. In Dealscan-Compustat universe, only 13% of loans have OID. This fraction is 12% for our sample.

[18] In Section F of the Internet Appendix, we examine the relationship between borrower CEOs' partisanship biases and other loan terms. In general, we do not find a significant association between borrower partisanship with any of the loan terms we examine.

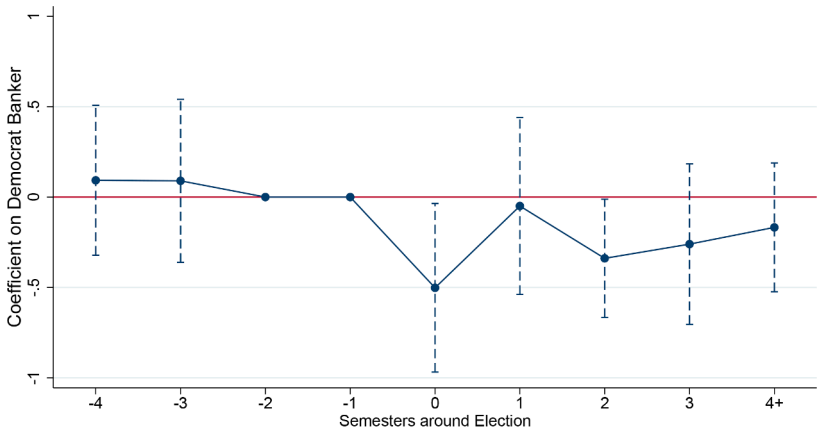
Appendix A. Variable Definitions

- *Misaligned Banker*: An indicator variable that equals to one if a banker's party affiliation is different from the party of the U.S. president, and zero otherwise. For undeclared bankers (bankers that do not declare their registration at a vote), *Misaligned Banker* is defined as zero.
- *Democrat Banker*: An indicator variable that equals to one if a banker is affiliated with the Democratic party, and zero otherwise.
- *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, revolver or other loan type.
- *Secured*: An indicator variable that equals to one if the loan is secured, and zero otherwise.
- *Firm Size*: Log of total assets (at).
- *Firm Age*: The number of years since the firm first appeared in the Compustat database.
- *Profitability*: Operating income (oibdp)/total assets (at).
- *Leverage*: (Long-term debt (dltt) + current debt (dlc))/total assets (at).
- *Tangibility*: Property, plant, and equipment (ppent)/total assets (at).
- *M/B*: (Stock price (prcc) × shares outstanding (csho) + total assets (at) - book equity (ceq))/total assets (at).
- *Equity Volatility*: Annualized standard deviation of daily stock returns.
- *Rating Grid*: A numerical scale for S&P long-term issuer ratings. The rating grid is defined as follows: 22 for AAA, 21 for AA+, 20 for AA, Q, 2 for C, and 1 for D or SD. It is set to 0 for unrated firms.
- *Aligned Firm*: An indicator variable that equals to one if the CEO of the borrower is affiliated with the same party as the U.S. President, and zero otherwise.
- *Misaligned Firm*: An indicator variable that equals to one if the CEO of the borrower is affiliated with a different party from the U.S. President, and zero otherwise.
- *Co-lead*: An indicator for whether two bankers co-lead at least one syndicated loan in a given year.
- *Log(Co-lead Loans)*: The log of one plus the number of loans that two bankers originate together in a given year.
- *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.
- *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 affiliations and lacks a majority representation, i.e. 50% Democrat bankers and 50% Republican bankers.
- *Lead Arranger Share*: The fraction of loans retained by lead arrangers. When data on this allocation is missing, we follow the method used in Chodorow-Reich (2014) to impute the shares based on syndicate structures.
- *High Times Voted*: An indicator variable that equals to one if a banker's voting count exceeds the sample median, and zero otherwise.
- *High Times Voted - Age Adjusted*: An indicator that equals to one if a banker's voting count exceeds the median across bankers of the same age range, where an age range is defined using 5-year intervals (i.e., 20-24, 25-29, 30-34, etc). Bankers with missing age information are grouped into a separate category.
- *Voting Intensity*: The ratio of times voted to date and the number of years that a banker is eligible to vote (current age - 18).
- *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.
- *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.
- *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.
- *New Borrower*: An indicator variable that equals to one if the banker extends a loan to the firm for the first time, and zero otherwise.
- *Downgrades*: The changes in the numerical scale of rating grids.
- *Default*: An indicator variable that equals to one if the borrower drops to a default rating ("D" or "SD") during a horizon, and zero otherwise. Loan covenants include the number and strictness of loan covenants.
- *Covenants (Counts)*: Total number of covenants on the loan.
- *Strictness*: Covenant strictness is measured as in Demerjian and Owens (2016). *Strictness* (PCOV) indicates the strictness of performance covenants and *Strictness* (CCOV) indicates the strictness of capital covenants.

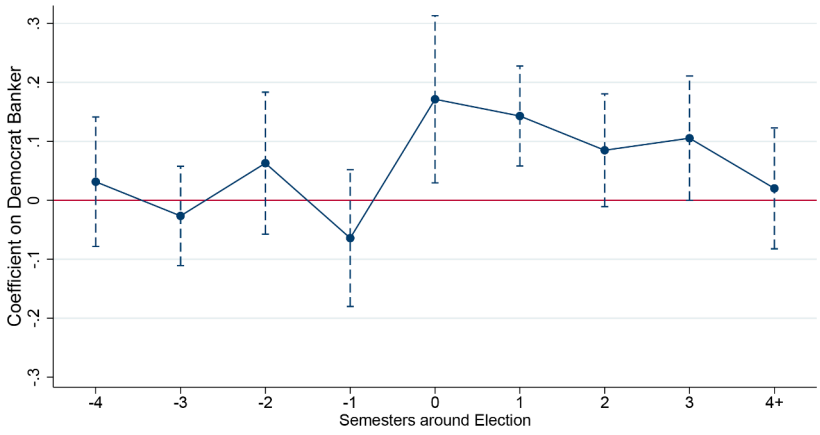
Appendix B. Partisanship Effects Around the 2008 Election

Our data becomes well-populated around 2004. After that, there are two major party-switching presidential elections, the 2008 (Obama) election and the 2016 (Trump) election. In this section, we explore the dynamic effect of bankers' partisanship on loan pricing around the 2008 Presidential Election.

We face a data limitation in that there are relatively few loans issued in the years around the 2008 election, likely related to the Global Financial Crisis. In particular, during the 12 months prior to November 2008, our data only covers two facilities issued by Democrat bankers. The limited sample prevents us from estimating the dynamic effects around the election at a quarterly frequency. Instead, we group observations by semesters (six-month periods). We also use a less saturated set of fixed effects, including banker party, event semester, and industry fixed effects. We maintain the same set of firm and loan controls as in Table 3.



Panel A: Pricing of Democrat Bankers Around the 2008 Election



Panel B: Pricing of Democrat Bankers Around the 2016 Election

Fig. B1. Banker Partisanship Effects on Loan Pricing Around the 2008 and 2016 Presidential Elections. This figure plots the results from event studies around the 2008 and 2016 Presidential Elections. The dependent variable is the log of spreads. Panel A reports results for the 2008 election. The absorbed benchmark period is January 2005 to November 2006, which is under the Bush administration. Panel B reports results for the 2016 election. The absorbed benchmark period is January 2013 to November 2014, which is under the Obama administration. In both panels, the horizontal axis indicates semesters (6-month periods) around the election date. The vertical axis shows the coefficients on the interaction terms of *Democrat Banker* and event-semester dummies. The dots represent coefficient estimates, surrounded by 90% confidence intervals. All regressions include the same set of firm and loan controls as in Table 3, and also control for banker party, event semester, and industry fixed effects. Standard errors are double clustered by banker and borrower.

Similar to Fig. 4, we examine the differential pricing by Democrat bankers and Republican bankers, regressing the log of spreads on the interaction of the indicator for Democrat bankers and separate indicators for each semester around the 2008 election. Effects during the two semesters prior to the election cannot be estimated due to the limited observations. The regression controls for the above-mentioned fixed effects, as well as firm and loan characteristics. After the 2008 election, Democrat bankers switched from being misaligned to aligned. We thus expect the coefficients on *Democrat Banker* to generate a negative sign in the post-event period.

Panel A of Fig. B1 reports results from this event study. We find that Democrat bankers significantly *reduced* their loan spreads following the 2008 election relative to Republican bankers, as they switched from politically misaligned to aligned. While the pricing gaps are associated with large economic magnitudes, these effects are also estimated with relatively wide confidence intervals, likely due to the restricted sample we use.

For consistency, we also repeat the event study from the 2016 presidential election using the same specification as the one in the 2008 election event study. Results are presented in Panel B. We continue to find that Democrat bankers significantly *increased* their loan spreads following the 2016 election (Trump), around which event they changed from politically aligned to misaligned.

Supplementary material

Supplementary material associated with this article can be found, in the online version, at doi:10.1016/j.jfineco.2023.103717.

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