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# Elections, political competition and bank failure<sup>§</sup>

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## ABSTRACT

We exploit exogenous variation in the timing of gubernatorial elections to study the timing of bank failure in the US. Using a Cox proportional hazard model, we show that bank failure is about 45% less likely in the year leading up to an election. Political control can explain all of this average election year fall in the hazard rate. In particular, we show that the hazard rate for banks operating in states where the governor has control of both the upper and lower house of the state legislature (i.e. complete political control) heading into an election falls by approximately 75%.

JEL Classification: G21, G28, D72, D73

Key Words: bank failure, elections, political competition/control

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*“In Washington, the view is that the banks are to be regulated, and my view is that Washington and the regulators are there to serve the banks.”*

Rep. Spencer Bachus – chairman of the House Financial Services Committee in the 112th Congress<sup>1</sup>

## **1. Introduction**

The relationship between banking and politics is an intimate one. Governments control the supply of banks in the economy through chartering restrictions and licensing, they set up institutions that provide depositors with insurance and banks with a lender of last resort, and routinely set rules that attempt to govern the risk taking behaviour of banks.

Indeed, according to the bi-annual “Banking Banana Skins” survey by Pricewaterhouse Coopers and the Centre for the Study of Financial Innovation, “political interference” was rated as the number one risk that banks faced in 2010.<sup>2</sup> Surprising, given the international banking system had witnessed possibly the worst crisis on record which was largely attributed to credit and liquidity risks. And ironic given the banks were bailed out by politicians using public money.

This active role of government in the banking sector creates an incentive problem: on the one hand, governments play a role in the creation of institutions that make a banking system possible, while on the other hand they quite often look to the banking system to facilitate their own political survival. Political support can be indirect, through say, subsidized lending to preferred industries or direct in the form of campaign contributions or a share of profits due to ownership. For example, according to the Centre for Responsive Politics, Spencer Bachus, who is the chairman of the House Financial Services Committee in the 112th Congress, raised over

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<sup>1</sup> Quoted from an interview with *The Birmingham News* on 8 December 2010.

<sup>2</sup> See <http://www.pwc.com.au/media-centre/2010/political-interference-banking-risks-feb10.htm>

\$2.3 million in campaign funds in 2011-2012 with the top five industries being commercial banks, securities and investment, insurance, real estate and finance/credit companies contributing over 40%.

So while a healthy banking system can be huge source of benefit for politicians, bank failure on the other hand, can get politicians into electoral hot water. Politicians therefore have incentives to interfere with bank closure rules to, for example, favour preferred (politically connected) constituents or simply to avoid the political costs associated with failure.

There have been several examples in the media of political interference in the banking system. Probably the most famous case is that of Lincoln Savings and Loans, where five US senators<sup>3</sup> (known as the “Keating Five”) were accused of improperly intervening in a regulatory investigation of Charles H. Keating, Jr. (Chairman of the Lincoln Savings and Loan Association) by the Federal Home Loan Bank Board (FHLBB) in 1987. Lincoln Savings and Loans eventually collapsed in 1989, at a cost of over \$3 billion to the federal government. The substantial political contributions Keating had made to each of the senators, totalling \$1.3 million, attracted considerable public and media attention leading to a Senate Ethics Committee investigation in which three of the senators were found to have “substantially and improperly interfered with the FHLBB's investigation” and the other two while being cleared were still criticized for exercising “poor judgement”. All five senators served out their terms however only two ran for re-election.<sup>4</sup>

A more recent example is that of Cleveland thrift AmTrust, whose failure was delayed by 11 months because Ohio Congressman Steven LaTourette and Cleveland mayor Frank Jackson

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<sup>3</sup> Alan Cranston (Democrat of California), Dennis DeConcini (Democrat of Arizona), John Glenn (Democrat of Ohio), John McCain (Republican of Arizona), and Donald W. Riegle, Jr. (Democrat of Michigan)

<sup>4</sup> John Glenn (Democrat of Ohio) and John McCain (Republican of Arizona) were cleared of the charges and re-ran for office.

intervened when the Federal Deposit Insurance Corporation (FDIC) tried to seize and sell the institution in January 2009.<sup>5</sup> By the time AmTrust was finally seized by the FDIC on December 4, 2009 its common equity had fallen by \$667 million to \$276 million from the year before. The failure cost the FDIC insurance fund \$2 billion.

Are these incidents isolated cases? Or are they representative of a more systematic phenomenon? A natural place to look for systematic evidence of political interference in banking is around elections as this is when bank failure can potentially be the most costly to a politician. Bank failure typically leads to costs that are borne by the local voting population (for example, due to losses to uninsured depositors, loss of banks jobs etc.), leading the electorate to question the competency of the incumbent in regulating the banking sector. Accordingly, politicians have the incentive to take costly action to delay bank failure during election periods. The economic cost of delay (possibly from larger losses to the insurance fund than would otherwise be the case) is widespread across taxpayers, whereas the benefits are concentrated with interest groups like bank owners, employees and uninsured depositors – which further exacerbate the political incentive to delay bank failure in an election year (see Stigler, 1971; Peltzman, 1976; and Becker, 1983 for more on interest groups).

Our empirical application tests this conjecture using data from the United States (US) between 1934 and 2012, covering all failed banks (3995) documented by the FDIC.<sup>6</sup> We use a Cox proportional hazard model to exploit the significant cross-state and within-state exogenous variations in gubernatorial electoral timing to explain the timing of bank failure. A consistent picture emerges: bank failure is much less likely to occur in the 12 months leading up to an

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<sup>5</sup> AmTrust was issued with a cease and desist order in November 2008, and when they failed to recapitalise by the deadline of December 31, 2008 the FDIC stepped in. The local politicians were able to delay the failure by convincing Treasury and the White House to keep the FDIC at bay.

<sup>6</sup> Note, while our summary statistics include all bank failures between 1934 and 2012, our regression analyses requires accounting data which are only available between 1976 and 2010, covering 1966 bank failures.

election than non-election periods. Our results are not only statistically significant but also economically meaningful. On average, bank failure is approximately 45% less likely in the year leading up to an election. In contrast, if we categorize the sample of failed banks into banks that fail outright versus those receiving government assistance, we find that assistance is in fact much more likely prior to an election whereas outright failure is much less likely. The results are robust to multiple model specifications and estimation techniques.

We also investigate the role of electoral competition, political patronage and political control in contributing to the reduction in the election year hazard rate. We measure electoral competition as the difference in the percentage vote share between the winning candidate and the second place candidate (i.e. the victory margin) which is a party neutral measure of political competition. We do not find a statistical relation between political competition and pre-election year hazard rate; however, the coefficient estimates indicate that competition possibly reduces the election year fall in the hazard rate. We argue that this result may be due to political patronage (i.e. politicians favouring electorates where they have strong support) or political control since control reduces the costs (discussed below) associated with delaying bank failure.<sup>7</sup>

To measure the partisan support for the incumbent, we calculate the Democrat vote share across all gubernatorial candidates in any given election and interact it with the party affiliation of the incumbent governor in an election year. We find evidence that patronage may play a role – Democrat (Republican) states with Democrat (Republican) governors tend to have an even larger reduction in the election year hazard rate. However, the exact role of political patronage is

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<sup>7</sup> A detailed discussion of why costs associated with delaying bank failure are increasing with competition (decreasing with control) is provided in section 4.2. However, briefly, private costs (e.g. those cost incurred if such corrupt behaviour is detected) are increasing since monitoring of the incumbent by the opposition is more effective when political competition is stronger. Also, transactions costs associated with policy making are increasing with competition since competition introduces more veto players (see Tsebelis 1995 and 2002) into the decision making process thereby making it more difficult to implement discretionary decisions like delaying bank failure or providing assistance to failing banks.

difficult to disentangle from political control, since states which are heavily Democrat (Republican) with a Democrat (Republican) governor tend also to be the ones in which the governor's party has more control.

To further investigate the role of political control in determining the election year fall in hazard rate, we construct a variable to capture instances where the incumbent governor's party has control (i.e. holds the majority of seats) of both the lower and upper house *simultaneously* (i.e. complete control of the state legislature). We show that years in which the governor's party has complete political control heading into an election can explain all of the average pre-election fall in the hazard rate. In particular, our estimates suggest that the hazard rate for banks in states where the governor has complete control heading into an election falls by approximately 75%.

Our work is related to several streams of literature. First, our work is most related to a paper by Brown and Dinc (2005) who study electoral incentives to delay bank failure for a sample of 164 banks (40 of which failed) in developing countries between 1994 and 2000. They conduct their analysis at the bank level and show that bank failure is much less likely before an election. Our work complements and extends theirs in several ways. First, a key focus of our analysis is on political competition and political control and its impact on bank failure during election years. Second, our study in a US setting provides us with a much larger sample of banks and a much larger number of failed banks. Moreover, the US setting is useful since the gubernatorial election cycle is not only exogenous, but also differs both across and within state.<sup>8</sup> Third, their analysis is conducted for banks in developing countries where corruption is arguably

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<sup>8</sup> Not all states hold gubernatorial elections in the same year. Moreover, some states change their constitution and, for example, switch from a 2-year election cycle to a 4-year election cycle during our sample period.

more of a problem. In contrast, we study the bank failure in the US – a developed democracy – and show that political incentives to delay bank failure near elections remain strong.

Second, our work relates directly to the early work arguing that politicians have incentives to take actions to induce favourable macroeconomic outcomes before elections (see for example, McRae (1977), Nordhaus (1975) and Rogoff and Sibert, 1988). More recent works by Levitt (1997, 2002) use election cycles to instrument for the number of police in his study of the relation between police and crime – arguing that politicians tend to hire more police prior to elections. Election cycles have also been used recently in the analysis of corporate investment decisions; Julio and Yook (2012) document a fall in corporate investment corresponding with timing of national elections around the world.

Third, this paper is related to a broad literature examining various aspects of the political economy of banking and bank regulation. Earlier work examining the role of politics and the incentives for regulators to intervene in failing banks' operations include Kroszner and Strahan (1996), who show that regulators deferred the realization of costs in failing Savings and Loan (S&L) associations in the United States. Kroszner and Strahan (1999) also study the political economy factors that determine the timing of state level relaxation of bank branching restrictions in the US and find that private-interest (or positive) theory of regulation (Stigler, 1971; and Peltzman, 1976) best explains the timing of branching deregulation. Rosenbluth and Schaap (2003) study how electoral rules (centrifugal vs. centripetal) shape the way politicians choose to regulate their national banking sectors and the resultant impact on market structure. Most recently, Dam and Koetter (2012) show that political factors determine the likelihood of bank bailout and therefore bank risk taking (moral hazard).



Finally, our paper is related to the large and important debate on the role of political competition in determining the degree of corrupt behaviour by public officials. Theoretical studies, for example, by Barro (1973), Rose-Ackerman (1978), Ferejohn (1986), Shleifer and Vishny (1993); Aidt (2003), Alt and Lassen (2003) conclude that political competition tends to ameliorate corrupt behaviour. Empirical contributions also find support for the idea that political competition reduces corruption (see for example, Kunivcova and Rose-Ackerman, 2005; Lederman et. al., 2005; Tavits, 2007; and Nyblade and Reed, 2008). We also find that political competition tends to discipline politicians from delaying bank failure, while political control exacerbates the problem.

The next section discusses the nature of bank failure and bank regulation in the US context. Section three discusses how the US election cycle works and provides some historical background on political competition and bank failure in the US. Section four outlines our empirical approach and presents our results. Section five presents the results from robustness tests. Finally, section six concludes.

## **2. Bank failure**

The US banking sector is unique in the sense that there are an incredibly large number of banks, most of which are relatively small. Bank failure is also more frequent relative to other countries making the US an ideal setting to study bank failure. Data on bank failures and the characteristics of the failing banks at the time of failure are sourced from the FDIC. The FDIC has a number of ways in which it deals with a failing institution, so “failure” does not always imply the bank in question ceases to operate. Broadly, the FDIC categorizes failures into: (1)

those in which the bank's charter survives or "assistance transactions"; and (2) those in which the bank charter is terminated or "outright failure". In the case of the former, the FDIC either (1) provides direct assistance to the failing bank, known as an open bank assistance (OBA) transaction<sup>9</sup>; or (2) provides assistance to an acquiring institution to purchase the entire failing bank. In the case of the latter, the bank charter is terminated and its assets are auctioned off.<sup>10</sup> In what follows we initially consider both assistance transactions and outright failures as the same. In later analysis, we examine whether the type of failure differs around gubernatorial elections.

Bank regulation in the US is also segmented. While the FDIC insures all deposit taking institutions, the chartering authority differs depending on whether the institution is a national bank, a state bank or thrift. The chartering authority for national banks is the Office of the Comptroller of the Currency (OCC) while states banks are chartered by state regulators.<sup>11</sup> Thrifts on the other hand are chartered by the Office of Thrift Supervision (OTS) which is a federal agency.<sup>12</sup>

Panel A in Table 1 presents a summary of all failed banks. In total, there have been 3995 bank failures in the US between 1934 and 2012. Not surprisingly, these have been concentrated (2822 failures) in the two major crises since the great depression: the S&L crisis, 1986-1992 and the recent Global Financial Crisis (GFC), 2007-2010. As we will discuss below, appropriately controlling for these crises is very important for our analysis. Failures are also concentrated in the Southern states where almost half (1979) of the failures were recorded. Of the failures, 2528

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<sup>9</sup> OBA transactions were popular leading into and during the S&L crisis but lost their lustre following the passage of Financial Recovery, Institutions Reform and Enforcement Act (FIRREA) of 1989 and the FDIC Improvement Act (FDICIA) of 1992. The FDICIA in particular made it more difficult for the FDIC to provide assistance to failing banks unless it could: (1) demonstrate that this would minimize the cost to the insurance fund or; (2) show that the closure of the failing bank will increase the risk of systematic failure (Mingo, 1994).

<sup>10</sup> For more detail on FDIC transaction types see: <http://www2.fdic.gov/hsob/help.asp>

<sup>11</sup> Supervision is carried out by the FDIC in the case of state banks while the Federal Reserve supervises national banks as well as state banks electing to be members of the Federal Reserve System.

<sup>12</sup> The OTS was dissolved on July 2011 and its powers transferred to the OCC.

were commercial banks (815 with national charters and 1713 state chartered) and 1467 were thrifts. In terms of the two broad categories of FDIC failure transactions, unlike Brown and Dinc (2005), most of the failures in our sample are outright failures whereby the banks charter is terminated and it ceases to operate – only 593 of the 3995 failures are assistance transactions where the bank’s charter continues. Since our regression analysis below requires bank accounting data which are only available from 1976, we also report a summary of the failed bank sample for banks failing from 1976 onwards in the bottom half of Panel A. The distribution of bank failures is largely the same as described for the full sample. Briefly, 3473 of the 3995 failures occurred between 1976 and 2012. Of these failures, 719 are national banks, 1289 are state banks, 591 are assistance transactions and 2882 are outright failures.

### **3. Elections in the US**

Election timing in the US is exogenously determined by law. Since 1845, Election Day occurs on the Tuesday in November after the first Monday – so Election Day must fall somewhere between November 2 and November 8 (inclusive). Presidential elections follow a four year cycle on even numbered years. Other federal offices (House of Representatives and Senate) run on a two year cycle on even numbered years (i.e. on presidential election years as well as mid-term elections).

At the state level, most states choose to run their gubernatorial elections in the same years at the federal elections (i.e. gubernatorial elections coincide with either presidential or mid-term elections). Only five states run their gubernatorial elections in “off-years” or odd-numbered

years.<sup>13</sup> In all but the states of New Hampshire and Vermont, gubernatorial elections currently follow a four year cycle.<sup>14</sup>

For example, consider the Ohio General Assembly which is the state legislature of the US state of Ohio.<sup>15</sup> State election years coincide with federal midterm elections (i.e. 2010, 2014, 2018, 2022, etc.) – election day involves electing: Governor, Lieutenant Governor, Secretary of State, Treasurer of State, Auditor of State, Attorney General, State Senators (odd-numbered districts), State Representatives, State Board of Education (one-third of members), Supreme Court Justices (two or three) and some county officials.<sup>16</sup> In some cases, states have changed the length of their gubernatorial election cycle. For example, in 1986 the state of Arizona changed from holding gubernatorial elections every two years to every four years.

Accordingly, unlike presidential elections, there are substantial across and within state variations in the timing of gubernatorial elections. We exploit this exogenous variation in gubernatorial election timing to study whether bank failure can be explained by electoral concerns.<sup>17</sup> Since we are focusing on gubernatorial elections, the relevant financial institutions we are interested in are state banks whose charters are controlled by state authorities. While thrifts and nationally chartered banks are not the focus of the main analysis, they are included in our summary statistics for a more complete picture.

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<sup>13</sup> These are Kentucky, Louisiana, Mississippi, New Jersey, and Virginia

<sup>14</sup> These two states hold gubernatorial elections every two years.

<sup>15</sup> It consists of the 99-member Ohio House of Representatives and the 33-member Ohio Senate. Both houses of the General Assembly meet at the Ohio Statehouse in Columbus.

<sup>16</sup> Other state races such as those for State Senators (even-numbered districts), State Representatives, State Board of Education (one-third of members), Supreme Court Justices (two or three) and remaining county officials are held on Presidential election years (2012, 2016, 2020, etc.). State election days also involve electing the federal offices of: the President of the United States, U.S. Senators (if term expires), and Representatives to Congress.

<sup>17</sup> In additional tests, we also examine the impact of Presidential elections for federally chartered banks.

Let the election date be day 0, we report in Table 1 the frequency of bank failure for a 24 month period around day 0 (i.e. 12 months prior to and 12 months after an election) as well as the failures that fall outside this 24 month window. As mentioned previously, since a number of states either currently or historically hold gubernatorial elections every two years we choose the  $[-12, +12]$  window since this is the longest possible window around a gubernatorial election that does not crossover into elections preceding and following it.

If we compare the number of failures that occur in the 12 months prior to an election date to the number that occur in the 12 months following an election date, we find that (for the full sample) 941 failures occur in the 12 months leading up to a gubernatorial election while 963 failures occur in the 12 months following. The remaining 2091 failures fall outside our  $[-12, +12]$  window.<sup>18</sup>

While these data show that there are fewer bank failures in the 12 months prior to an election compared to the 12 months after, the difference is not meaningful. Further investigation shows that failures clustered in crises periods tend to coincide with the pre-election period. To see this, we sub-divide the sample into crisis periods (i.e. the S&L Crisis 1986-1992 and the Global Financial Crisis 2007-2010) versus non-crisis periods (i.e. all other years). The second column of Panel A in Table 1 shows that in crisis years, 705 failures occur in the 12 months leading up to an election while only 577 occur in the 12 months following. We argue that there are several reasons why we should concern ourselves predominantly with investigating political incentives to delay failure in non-crisis years. First, during a crisis, the political cost to a local

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<sup>18</sup> Note that the failures occurring outside our  $[-12, +12]$  window (i.e. “Not around election” rows) are not directly comparable with the  $[-12, 0]$  and  $[0, +12]$  failure counts. For states with a two year gubernatorial election cycle, then by definition, banks will fail either before or after an election. However, for states with a four year election cycle, the “Not around election” period represents a 24 month period – so the failure count would have to be divided by two to be comparable our pre- and post-election windows. In our regression analysis, this “Not around election” period represents our benchmark.

politician associated with a bank failure is lower since he can – in part or in full – deflect the cause of the failure away from his potential mismanagement of the economy and bank regulation. Second, bank failure tends to be more severe during a crisis which accordingly makes it more difficult for politicians to delay regulatory intervention, other things equal. These differing incentives during a crisis imply we are much less likely to observe political factors determining bank failure.

Looking at the third column of Table 1 Panel A, we see that in non-crisis periods, 236 failures occur in the 12 months prior to an election whereas 386 fail in the 12 months after. These data imply that the frequency of bank failure is almost 40% lower in the 12 months before an election compared to the 12 months after. These findings are best illustrated in Figure 1. Here, the blue bars plot the number of bank failures in 3-month blocks leading up to an election while the pink bars plot the number of bank failures in 3-month blocks in the months after state elections. The blue and pink horizontal dashed lines represent the average number of bank failures in a 3-month period before and after elections respectively. Figure 1a plots bank failure for all years between 1934 and 2012 while Figure 1b plots bank failure around elections only for non-crisis years – that is, failures that occur during the S&L Crisis (1985-1992) and the Global Financial Crisis (2007-2010) are excluded.

While Figure 1a shows no discernible difference between the pre- and post-election failure rates (235 vs. 240 failures per 3-months respectively), a striking picture emerges when we control for the clustering of bank failure around crises: bank failure is much less likely in the months leading up to an election than in the months after. For the non-crisis period, the pre- and post-election average number of bank failures are 59 and 97 failures per three-months respectively. Therefore, based on raw numbers alone, bank failure is about 40% less likely in the

months leading up to an election compared to the months following an election. This finding highlights the importance of properly controlling for impact of financial crisis. The pattern described above is largely consistent for our subsamples. Looking further down column 3 of Panel A in Table 1 and comparing failures in the pre-election period to the post-election we find that failure is 53% less frequent for all commercial banks (151 failures pre- vs. 323 failures post-election), 57% less frequent for state chartered banks (115 failures pre- vs. 267 failures post-election), 30% less frequent for all banks and thrifts in the 1976-2012 period (145 failures pre- vs. 206 failures post-election), 58% less frequent for commercial banks in the 1976-2012 period (60 failures pre- vs. 143 failures post-election), and 63% less frequent for state chartered banks in the 1976-2012 period (43 failures pre- vs. 117 failures post-election).

Up to this point, we have used the term bank failure to mean both outright failures where banks lose their charter and cease to operate as well as FDIC assistance transactions where a failing institution is restructured with FDIC assistance and allowed to continue to operate under its existing charter. As a first attempt to examine whether political concerns determine the type of failure transaction chosen by regulators around elections we split all failures into two subsamples depending on the failure type. For the 1934-2012 non-crisis sample (column 3 of Table 1 Panel A) we see that outright failures are about 55% less frequent in the months leading up to an election compared to the months following (154 failures pre- versus. 339 failures post-election). However, interestingly, we find that FDIC assistance transactions are much more likely in the months leading into an election. Based on our raw data, assistance is almost 75% more likely to occur in the 12 months leading up to an election (82 failures pre- versus 47 failures post-election). It appears as though an alternative to delaying outright bank failure, politicians can also opt to provide assistance to failing banks so that they can continue to operate

in the year leading up to an election. In Figure 2 we plot the frequency of bank failures around elections separately for outright failures (Figure 2a) and assistance transactions (Figure 2b). Like Figure 1 the blue bars plot the number of failures in 3-month blocks leading up to an election while the pink bars plot the number of failures in 3-month blocks in the months after elections. The blue and pink horizontal dashed lines represent the average number of bank failures in a 3-month period before and after elections respectively. There is a remarkable difference between the two figures: outright failures are clearly less frequent prior to elections whereas assistance is much more frequent.

[INSERT TABLE 1, FIGURES 1 AND 2 HERE]

#### **4. Empirical strategy and results**

This section describes our empirical approach and presents the results from our analysis. We obtain quarterly accounting data for all (failed and surviving) commercial banks operating in the US from bank call reports filed with regulators. These data are available from March 31, 1976 till December 31, 2010. We hand collect political data on the election dates and outcomes, the composition of state legislatures, party affiliation of governor and so on from the Census Bureau Statistical Abstracts.<sup>19</sup> State macroeconomic data are sourced from the Bureau of Economic Analysis and Bureau of Labour Studies. Our final sample of banks for which accounting data are available is an unbalanced panel of 22230 banks, of which 1966 fail.

Let the election date for state  $j$  be day 0, we construct a PRE-ELECTION variable that equals one if accounting quarter  $t$  of bank  $i$  from state  $j$  falls in the  $[-12, 0)$  month window, and

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<sup>19</sup> See: <http://www.census.gov/compendia/statab/cats/elections.html>. These data are also verified using internet sources such as <http://www.ourcampaigns.com/>



zero otherwise. Likewise, we construct a POST-ELECTION variable that equals one if accounting quarter  $t$  of bank  $i$  from state  $j$  falls in the  $[0, +12]$  month window, and zero otherwise. We test whether bank failures, defined as an outright failure or assistance transaction, do not depend on the gubernatorial election cycle in a Cox proportional hazard model given by<sup>20</sup>

$$h(t) = \exp(\boldsymbol{\beta}'\mathbf{X}_{it} + \gamma_1\text{PRE-ELECTION}_{it} + \gamma_2\text{POST-ELECTION}_{it} + \theta_t + \theta_j) \quad (1)$$

for  $t = t_i, \dots, T_i$ , where  $t_i$  and  $T_i$  represent bank  $i$ 's entry and exit dates (quarter) respectively. In particular, the following entry and exit dates are used for the analysis. Bank  $i$  enters the study in quarter  $t_i$ , which is the later of two possible dates: (1) March 31, 1976 (the start of the sample period); or (2) the date bank  $i$  files its first call report after receiving its charter. Bank  $i$  exits the study in quarter  $T_i$ , which is the earliest of four possible events: (1) the banks fails (outright) and its charter is terminated; (2) the failing bank receives FDIC assistance, is restructured and allowed to continue to operate under its existing charter; (3) the bank is acquired by another bank so balance sheet data are no longer available for that bank as a separate entity; or (4) the bank survives until December 31, 2010 (the end of the sample period). In what follows, exit scenarios (1) and (2) are both considered as bank 'failure' unless we explicitly distinguish between the two in our discussion.

Here  $\mathbf{X}_{it}$  is a vector of bank level and state level controls,  $\theta_t$  is a year fixed-effect to control for common time effects such as crises and  $\theta_j$  is a state fixed-effect. State macroeconomic controls (important for appropriately controlling for crises) include: (1) GROWTH which is annual state personal income growth; and (2) BUDGET DEFICIT, defined as the ratio of total state taxes less total state government expenditure to gross state product. Bank level controls include standard predictors of bankruptcy: (1) SIZE, defined as the natural

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<sup>20</sup> See Shumway (2001) for a discussion of forecasting bankruptcy using hazard models.

log of total deposits; (2) INCOME/ASSETS RATIO, (i.e. return on assets) defined as net income to total assets; (3) CAPITAL RATIO, defined as total equity capital to total assets; and (4) NPL, defined as non-performing loans as a percentage of total loans. Recent policy discussions have emphasized the importance of ‘too big to fail’ in determining bank failure and risk taking, accordingly, we also include the variable TOO BIG TO FAIL defined as a bank’s assets at quarter  $t$  as a percentage of total banking assets in state  $j$  at quarter  $t$ . Finally, Brown and Dinc (2011) provide evidence from developing countries that a government is less likely to takeover or close a failing bank if the banking system is weak. To capture the possibility of a ‘too many to fail’ effect we include in our regressions the variable TOO MANY TO FAIL defined as the average capital ratio of all other banks in state  $j$ .<sup>21</sup>

Panel B in Table 1 presents summary statistics for state controls.<sup>22</sup> State income growth averaged 7% for the entire sample and is lower (6%) for states in the North East and Mid-West. States run persistent government deficits, averaging 2%, with states in the West having the largest deficits of 3% on average. Panel C in Table 1 presents summary statistics for bank level controls for the full sample as well as for the subsamples of failed banks (outright failure and assistance transactions separately) and all other banks. As expected, failed banks are routinely less profitable, have higher non-performing loans and lower capital ratios than banks that do not fail. Of the failed banks, those receiving FDIC assistance tend to be slightly better performing on these three measures compared to banks failing outright. Banks failing outright tend to be slightly smaller than non-failing banks (\$45 million versus \$46 million total deposits), however, banks receiving assistance are significantly larger than both banks failing outright and surviving

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<sup>21</sup> We also use alternative proxies for TOO BIG TO FAIL, namely, (1) the average percentage of NPL of all other banks in state  $j$ ; and (2) the average income to assets ratio of all other banks in state  $j$  and find similar results (not reported).

<sup>22</sup> The regression sample period is 1976-2010 (inclusive).

banks with an average deposit base of approximately \$109 million. Indeed, if we examine state market shares – our proxy for ‘too big to fail’ – we see that banks failing outright control less than 0.3% of state banking assets (almost 0.5% for surviving banks) compared to 2.1% for banks receiving FDIC assistance. This evidence hints at the possibility of there being a ‘too big to fail’ effect in US bank closure policy: larger banks controlling a larger fraction of banking assets tend to receive assistance rather than having their charters terminated by regulators. Finally, comparing our TOO MANY TO FAIL variable across our three categories of banks we find that the average capital ratio of other banks is slightly lower for failing banks than surviving banks (9.0% vs. 9.9%) which is inconsistent with the conjecture that regulators tend to close banks when the banking system is stronger. For banks receiving assistance, the average capital ratio of other banks is 8.8% which is lower than the case for outright failure. Consistent with the ‘too many to fail’ hypothesis, when the banking sector is weak, regulators prefer to provide assistance as opposed to closing a bank. So while the evidence on ‘too many to fail’ is somewhat mixed, our summary statistics do suggest the possibility of regulatory forbearance when the banking sector is weak, where forbearance comes in the form of providing assistance to larger and more systematically important institutions.

#### **4.1. Elections and bank failure**

The main regression results are reported in Table 2. All regressions include state fixed-effects as well as year fixed-effects to control for common state and time factors. Standard errors are robust to heteroscedasticity and clustering at the state level. Regression models 1-4 include only the PRE-ELECTION dummy, whereas models 5-8 include both the PRE-ELECTION and POST-ELECTION dummies. Regression models 1, 2, 5 and 6 are performed on the full sample of banks (i.e. federally chartered and state chartered banks) whereas models 3,

4, 7 and 8 use only state chartered banks. Odd numbered regression models include only standard bank level predictors of failure: INCOME/ASSETS, SIZE, CAPITAL RATIO, and NPL. Even numbered models include the bank level controls mentioned above, TOO BIG TO FAIL and TOO MANY TO FAIL variables as well as macroeconomic controls.

A consistent picture emerges: in all specifications, the coefficient on PRE-ELECTION is negative suggesting that bank failure is less likely in the year leading up to a gubernatorial election. As discussed earlier (and illustrated in Figure 2) controlling for the impact of financial crisis is crucial to our analysis since failures tend to cluster around crises. While some of the impact of crises is accounted for in our time and state fixed effects, it is clear that our results are much stronger when time varying macroeconomic controls are added into our specification. Indeed, the pre-election effect is significant in all but models 1 and 3 where we *do not* include the POST-ELECTION dummy, too big/too many to fail variables and macroeconomic controls. Results are also stronger for our sample consisting only of state chartered banks – which makes sense given we are studying the impact of gubernatorial elections, so the relevant regulatory jurisdiction is at the state level. To give an indication of the economic significance of this pre-election effect, the coefficient for state chartered banks is approximately -0.57 which translates to a reduction in the probability of failure by about 45% in the year leading up to an election. For the full sample, the PRE-ELECTION coefficient of -0.43 translates into a 35% reduction in the probability of failure. Interestingly, in all of our baseline regressions, the POST-ELECTION variable cannot explain bank failure as they are insignificantly different from zero.<sup>23</sup>

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<sup>23</sup> In comparison, Brown and Dinc (2005) show for their sample of developing country banks that there is a decrease in the hazard rate by about 70% in the year leading up to an election.

Across all specifications, INCOME/ASSETS, SIZE and CAPITAL RATIO are negatively related to bank failure whereas higher NPL increases the likelihood of failure. These results are expected and in line with previous studies. Our macroeconomic controls also provide results consistent with expectations. Higher state income growth reduces the likelihood of bank failure, with the effect being stronger for and significant for the regression models using the state chartered banks only (models 4 and 8). This is not surprising given federally chartered banks are usually larger and more diversified across state borders making them less sensitive to changes in local economic conditions. To the extent that delaying bank failure involves some fiscal costs, one might expect a positive relation between BUDGET DEFICIT and bank failure since that states with larger budget deficits are less able to influence the timing of bank failure. Consistent with our conjecture the variable BUDGET DEFICIT is positively related to bank failure, however insignificant. Our TOO BIG TO FAIL variable is positive and significant across all specifications. This might at first seem counterintuitive, however, recall: (1) for our hazard analysis, we define failure to be either outright failure or FDIC assistance; and (2) from our summary statistics, larger banks with a bigger market share are more likely to receive FDIC assistance. To confirm that this positive coefficient on TOO BIG TO FAIL is driven by the assistance banks we re-estimate the regression models in Table 2 (not reported) redefining failure to be outright failure only and find that the coefficient on TOO BIG TO FAIL is negative and significant, consistent with the view that regulators are less willing to close banks that are ‘systematically important’.<sup>24</sup> Finally, unlike Brown and Dinc (2011) we find no evidence of a ‘too many to fail’ effect in our sample of US banks once we control for the ‘too big to fail’ effect and the macroeconomic environment. For the remainder of the paper, we indicate which control variables we use in our specifications but do not report the coefficient estimates to preserve

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<sup>24</sup> All other coefficient estimates remain virtually unchanged when defining failure as outright failure only.

space. Moreover, the coefficient estimates for our control variables remain largely unchanged for our various specifications.

[INSERT TABLE 2 HERE]

Before moving on, we re-estimate our baseline regressions presented in Table 2 using alternative methods to ensure our results are robust to estimation technique. We employ three alternative estimation techniques: (1) linear probability model; (2) dynamic logit model; and (3) the exponential proportional hazard model used in Brown and Dinc (2005). The linear probability model and logit model are discrete models where the dependent variable equals one in the quarter a bank fails and zero otherwise whereas the difference between the Cox and exponential proportional hazard models is that the Cox model leaves the unconditional survival function unspecified whereas survival is assumed to follow an exponential distribution in the case of the latter. The results are presented in Table 3 in two panels. Panel A re-estimates our baseline regressions with only PRE-ELECTION variable (i.e. models 1-4 in Table 2) while Panel B re-estimates our baseline regressions when we include both PRE-ELECTION and POST-ELECTION variables (i.e. models 5-8 in Table 2). In both panels, regression models 1-4 represent estimates from the linear probability regression, models 5-8 are obtained from the logit regression, and models 9-12 from the exponential hazard. We find consistent results from all three estimation techniques. First, the estimates from the exponential hazard model are virtually identical to those obtained from our Cox regression save that the coefficients are statistically more significant. Second, the results from the logit model are again similar to those obtained from the Cox regressions, however, the magnitudes of the coefficient estimates are larger implying a reduction in the hazard rate by about 60% in the year leading up to an election. Similar to the Cox model, the POST-ELECTION variable is insignificant in the logit and

exponential models once a full list of controls is added. Finally, our linear probability estimates also confirm the reduction in hazard rate in the year before an election. The point estimates range between -0.0002 and -0.0003. When compared to the unconditional failure rate of 0.00123, these estimates imply a reduction in failure rate by between 15% and 25%. However, unlike the other models, the coefficient on POST-ELECTION is negative and significant in all specifications and is of approximately the same magnitude as the PRE-ELECTION coefficient implying that the hazard rate remains about 15-25% lower after an election in comparison to non-election periods. It is interesting to note that the linear probability model predicts a reduction in the failure rate of up to 50% in the 24 months around an election, however, evenly split over the pre- and post-election period whereas our non-linear models predict a reduction in the hazard rate of a similar order of magnitude over a 24 month period, however, the reduction occurs in the 12 months leading up to an election with little effect found in the post-election period.

[INSERT TABLE 3 HERE]

In sum, the results in Tables 2 and 3 provide evidence supporting the view that electoral concerns drive politicians to take costly action to delay bank failure in an election year. We do not find evidence of a post-election increase in the hazard rate as suggested might be the case in the summary statistics – we investigate this further in the following section. In particular, in the remaining sections, we will investigate the role of political competition and political control in magnifying or attenuating this pre-election reduction in the hazard rate.

## 4.2. Political competition and bank failure

The costs associated with bank failure; such as losses to uninsured depositors, bank job losses, and potential reductions in local economic activity are likely to be concentrated in the state where the bank operates. Accordingly, political support for the incumbent party in that state may decrease because of these costs. Moreover, if the incumbent and opposition parties have similar levels of voter support, the impact of the voter backlash is likely to be stronger. Political (electoral) competition therefore increases the benefit to politicians from delaying bank failure and therefore we might expect that elections that are closely contested exacerbate the pre-election reduction in the hazard rate, *ceteris paribus*. To measure the extent of political competition, we construct a variable similar to Dinc and Gupta (2011) to measure the closeness of the election. In particular, our party neutral measure, VICTORY MARGIN, is defined as the difference between the winning candidate's vote share and the second place candidate's vote share – smaller values are associated with stronger political competition.<sup>25</sup> The summary statistics in Panel B of Table 1 show that gubernatorial elections post-1976 are on average not very competitive, with the average victory margin of 17%. There is, however, significant variation in this measure with a standard deviation 14%.<sup>26</sup> Southern states are marginally less competitive with an average victory margin of 18%.

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<sup>25</sup> In an earlier version of this paper, we used the party neutral measure of political competition developed in Besley et al. (2010). Their measure uses data originating from the work of Ansolabehere and Snyder (2002), who collected election results for a broad set of directly elected state executive offices. These elections range from US representatives, over the governorship, to down-ballot officers, such as Lieutenant Governor, Secretary of State, Attorney General, and so on. We thank James Snyder for generously providing us with an updated version of this data which was used in our earlier work.

<sup>26</sup> These summary statistics based on a post-1976 sample hide some of the substantial variation in political competition over time in the US – in particular in the US Southern states in the first half of the 20<sup>th</sup> century. By the 1880s, the Democrats held a virtual monopoly over political office in the US Southern states. They achieved this by limiting the political participation of the black and low income population which made up the supporter base of their main rivals – the Republicans. Several voting restrictions were introduced over the years including: the white primary, multiple ballot boxes, poll taxes, literacy tests, and ultimately violence. This effectively eliminated



In our empirical application, we construct two dummy variables: HIGH VICTORY MARGIN (i.e. low competition) and LOW VICTORY MARGIN (i.e. high competition) equal to one for elections with victory margins in the top and bottom quartile respectively.<sup>27</sup> We are interested in the coefficient estimate on the interaction term between these two dummy variables with our PRE-ELECTION variable. From our previous discussion, we expect that if higher competition exacerbates the political incentive to delay bank failure then the coefficient on the interaction between PRE-ELECTION and HIGH VICTORY MARGIN (LOW VICTORY MARGIN) to be positive (negative). The results are presented in Table 4. The first four regression models employ the HIGH VICTORY MARGIN variable whereas the last four models employ the LOW VICTORY MARGIN variable. Regression models 3, 4, 7 and 8 also include an additional control variable DEMOCRAT GOVERNOR, which is equal one when the governor is a democrat.

This analysis presents us with some intriguing results. First, contrary to our expectations, we find that the coefficient on PRE × HIGH VICTORY MARGIN is negative implying electoral competition appears to increase the hazard rate in the 12 months prior to an election (i.e. reduces the election year fall in the hazard rate). However, the impact of political competition is

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opposition to the Democrats (most gubernatorial elections in the South during this period were uncontested). Over time, a number of these practices were eliminated, and by the late 1950s, the remaining two major obstacles to full political participation were the poll tax and the literacy test. It was not until the 1960s that the dominance of the Democrats in US South was challenged with the 24<sup>th</sup> Amendment to the U.S. Constitution, ratified in 1964, prohibiting poll taxes in federal elections, and the introduction of the 1965 Voting Rights Act which did two things: (1) it authorized the US attorney general to challenge the constitutionality of the use of poll taxes in state and local actions; and (2) it provided for direct federal action in “covered jurisdictions” to prohibit the use of the literacy test. A covered jurisdiction was defined to be a state, county, parish, or town that used a test or device (e.g., a literacy test) and had less than a 50% turnout in the 1964 presidential election. Consequently, federal courts quickly struck down the remaining poll taxes in Alabama, Mississippi, Texas, and Virginia. The 1965 Voting Rights Act also targeted the states of Georgia, Louisiana, Mississippi, South Carolina, Virginia, 40 counties in North Carolina, Apache County in Arizona, and Honolulu County in Hawaii because of their literacy tests and low turnout. The resultant impact on political competition in the US South was a reversal of the pre-war decline.

<sup>27</sup> The average victory margin for the bottom (top) quartile is 2.3% (33.6%) with a minimum value of 0% (21.1%) and a maximum of 5.2% (100%).

statistically insignificant. Second, the coefficient on PRE × LOW VICTORY MARGIN is also negative. While this is more in line with our expectations, the coefficient estimates are again insignificant. Third, after controlling for political competition, we find that our POST-ELECTION variable becomes positive and statistically significant in all specifications. This is consistent with our summary statistics, suggesting the reduction in the failure rate in the 12 months before an election is followed by a substantial increase in the bank failure rate in the 12 months after. Fourth, the positive and significant coefficients of POST × HIGH/LOW VICTORY MARGIN seem to indicate that both very competitive and very uncompetitive elections are associated with a bigger post-election increase in the hazard rate. Fifth, the coefficient estimates on our PRE-ELECTION variable are larger in magnitude. For state chartered banks (models 2, 4, 6 and 8), the coefficient on PRE-ELECTION implies a reduction in the hazard rate of about 55% in the 12 months leading up to an election. Finally, the coefficient on our democrat governor indicator is negative, and also significant.

[INSERT TABLE 4 HERE]

Our mixed and insignificant electoral competition results are, on face value, surprising. However, while we argued earlier that the benefit of delay to the politician is increasing with political competition, there are at least two reasons as to why we might observe a larger reduction in the pre-election hazard rate for more competitive elections – meaning the net effect is an empirical matter.

First, a negative relation between political competition and incentives delay may exist due to political patronage – the idea that rent seeking politicians tend to make decisions to reward supporters (see Cox and McCubbins, 1986; and Persson and Tabellini, 2002). Note that

Ansolabehere and Snyder (2007) argue that it is possible that politicians may target both areas that support them as well as politically competitive areas. Previous evidence of political patronage include Ansolabehere and Snyder (2007) who show governing parties provide more public funds to regions that support them, and Dinc and Gupta (2011) who show that politicians do not privatize firms located in the state from which a minister with jurisdiction over that firm is elected.

Second, it is likely that the costs of delay are also increasing with political competition. Private costs associated with delay are those incurred in the event such corrupt behaviour is detected. There have been numerous studies looking at the cost of corruption charges on politicians' subsequent electoral performance (e.g. Alford et. al., 1994; Jacobsen and Dimock, 1994; and Peters and Welch, 1980) and politicians' decisions to retire (e.g. Groseclose and Krehbiel, 1994; and Hall and Van Houweling, 1995).<sup>28</sup> These costs can be increasing with competition for several reasons. First, political competition increases the likelihood that any corrupt behaviour by incumbent politicians is detected since opposition parties are either more numbered and/or more incentivized to monitor the actions of the incumbent leading into an election. Rising private costs to the politician reduces their incentive to delay bank failure. More broadly, this idea is related to the large debate on whether political competition reduces corruption. In general, this literature suggests that competitive elections serve as a disciplining role against corruption.<sup>29</sup>

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<sup>28</sup> Indeed, three of the five "Keating Five" senators retired following an investigation into their interference in the FDIC investigation of Charles Keating, the chairman of Lincoln S&L. These were Alan Cranston (Democrat of California), Dennis DeConcini (Democrat of Arizona), and Donald W. Riegle, Jr. (Democrat of Michigan).

<sup>29</sup> See studies by Barro (1973), Rose-Ackerman (1978), Ferejohn (1986), Shleifer and Vishny (1993); Aidt (2003), Alt and Lassen (2003) for theoretical contributions. Empirical contributions also support the idea that political competition reduces corruption; see for example, Kunivcova and Rose-Ackerman (2005), Lederman et. al. (2005); Tavits (2007); and Nyblade and Reed (2008).

The second condition influencing the cost of delaying bank failure are the transactions costs associated with decision making. As political competition increases, more actors are involved in the decision-making process and as more decision points must be crossed, transactions costs increase. These kinds of transactions costs are often referred to as veto points (Tsebelis 1995 and 2002). More veto points make policy commitments more credible (i.e. irreversible), but they also make them more costly and time-consuming to implement and change. To the extent that bank closure policy is more credible in states-years with more veto players, we expect political competition to reduce the ability of incumbent politician's ability to make discretionary policy decisions like delaying bank failure. Evidence of the important role of veto players in economic policy making can be found in Keefer and Stasavage (2003), who study the role of veto players on the degree of central bank independence and subsequent credibility (i.e. effectiveness) of monetary policy. The authors show that rising veto players enhances central bank independence by reducing the time inconsistency of monetary policy and also reduces central bank governor turnover.<sup>30</sup>

The next section of the paper investigates the possibility of patronage and/or costs (both private and transactions costs determined by the degree of political control) of delay in driving our election year results. Note however, that while both hypotheses predict competition reduces the fall in the election year hazard rate, it is difficult to disentangle their separate effects.

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<sup>30</sup> Their measure of veto players is based on whether the executive and legislative chamber(s) are controlled by different parties in presidential systems and on the number of parties in the government coalition for parliamentary systems. The indicator rises with the number of veto players (depending upon the number of legislative chambers) and falls when the veto points are occupied by the same political party (depending on whether majorities are multiparty coalitions). The index is then modified to take account of the fact that certain electoral rules (closed list vs. open list) affect the cohesiveness of governing coalitions.

### **4.3. Patronage, political control and bank failure**

#### **4.3.1. Political patronage**

We begin by investigating the potential role of patronage in driving the election year fall in the hazard rate. For this, we first create a variable which captures how much support a particular party (Democrat or Republican) has in a given state for a given election period. We calculate the DEMOCRAT VOTE SHARE as the vote share across all gubernatorial candidates affiliated with the Democrat party in any given election. The summary statistics in Table 1 Panel B show that the average Democrat share across all states for our sample period is 49%. There is significant variation in the Democrat vote share with a standard deviation of 14%. For our regression analysis below we construct two dummy variables HIGH DEM SHARE and LOW DEM SHARE which equal to one if DEMOCRAT VOTE SHARE is in the top and bottom quartiles respectively. HIGH DEM SHARE is designed to capture heavily democrat states while LOW DEM SHARE captures heavily republican states. The mean democrat vote shares for our indicators HIGH DEM SHARE and LOW DEM SHARE are 64% and 33% respectively.

We are interested in seeing whether an incumbent governor is more or less likely to delay bank failure in an election year if he is in a state which strongly supports his political party. In particular, we are interested in determining whether a Democrat (Republican) governor in a Democrat (Republican) state is more or less likely to delay bank failure in an election year compared to the same governor in a Republican (Democrat) state. We create interaction terms between our variables HIGH DEM SHARE and LOW DEM SHARE with an indicator for governor party affiliation (either DEM GOV or REP GOV) and our PRE/POST-ELECTION

variables. Table 5 presents the results from our regression analysis.<sup>31</sup> Regression models 1-4 present results using an indicator for when the incumbent governor is a Democrat while models 5-8 replaces the Democrat governor indicator with a Republican governor indicator.

The coefficient on the interaction term  $PRE \times DEM\ GOV \times HIGH\ DEM\ SHARE$  is negative and significant in both specifications (models 1 and 2) suggesting that the election year reduction in hazard rate is exacerbated in instances where there is an incumbent Democrat governor operating in a heavily Democrat state. The inclusion of this interaction term reduces the magnitude and significance of the coefficient on  $PRE-ELECTION$  compared to estimates using party-neutral measures of competition in the previous section. This suggests that the pre-election fall in hazard rate can be attributed, at least in part, to situations where Democrat governors have significant support from the electorate. This seems to also be true for the post-election increase in the hazard rate documented in the previous section, we find that when we include the interaction term  $POST \times DEM\ GOV \times HIGH\ DEM\ SHARE$ , the regression loads up positively (though insignificantly) on this term and results in a loss of significance in the  $POST-ELECTION$  coefficient estimates. In models 3 and 4 we investigate the electoral incentives of an incumbent Democrat governor operating in a Republican state by including  $PRE \times DEM\ GOV \times LOW\ DEM\ SHARE$  into our baseline regression. Our results show that this interaction term is positive (but insignificant) suggesting that on balance, a Democrat governor tends not to exacerbate the reduction in pre-election failure in states where his political receives weak support. Moreover, the inclusion of this interaction term tends to increase both the magnitude and significance of the pre-election fall in the hazard rate.

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<sup>31</sup> We are aware that by introducing three-way interaction terms without including double interaction terms may introduce some bias into our estimation. However, since the double-interaction terms are highly correlated with the three-way interaction terms, including both lead to almost perfect correlation between our independent variables and subsequently resulted in our statistical package automatically dropping one of the terms.

The results in models 5-8 show a similar pattern though not as pronounced. Models 5 and 6 consider the electoral incentives of Republican governors operating in states dominated by the Democrat party. The coefficient estimate on  $PRE \times REP\ GOV \times HIGH\ DEM\ SHARE$  is positive and also significant for the regressions on state chartered banks only. This result suggests that in the election year hazard rate actually increases in Democrat states with a Republican governor. In contrast, models 7 and 8 suggest that there is no evidence that a Republican governor in a Republican state exacerbates the election year fall in the hazard rate. The pattern on the post-election interaction terms are reversed: the weakly positive increase in the election year hazard rate in Democrat states with a Republican governor is followed by a weakly positive/insignificant increase, whereas the insignificant increase in the election year hazard rate in Republican states with a Republican governor is followed by a strong positive and significant increase post-election.

[INSERT TABLE 5 HERE]

In sum, these results are suggestive that political patronage may explain some of the election year reduction in the bank failure rate. The results also reinforce some of the political competition results discussed in the previous section – that is, higher political competition seems to reduce the election year fall in the hazard rate – since states in which there is partisan support for the incumbent governor also tend to be less politically competitive.

#### **4.3.2. Political control**

In this section, we study whether political control can explain the election year reduction in the likelihood of bank failure by examining how the composition of the state legislature affects the bank hazard rate around elections. We first study whether the margin of the

governor's party in the lower/upper house can explain the election year fall in the hazard rate. To do this, we construct two variables: (1) GOV LOWER HOUSE MARGIN which is the margin of the governor's party in the lower house, defined as the difference in seats held by the governor's party and the opposition party as a fraction of the total number of seats in the lower house; and (2) GOV UPPER HOUSE MARGIN which is the margin of the governor's party's in the upper house, defined as the difference in seats held by the governor's party and the opposition party as a fraction of the total number of seats in the upper house. Of interest is the interaction term between these variables and our PRE- and POST-ELECTION dummies.

The results from this analysis are presented in Table 6 for the lower house (models 1-4) and upper house (models 5-8) separately. Regression models 1, 2, 5 and 6 do not control for political competition while the remaining four include our HIGH VICTORY MARGIN variable. The results across all specifications are quite similar: increasing political control as measured by the margin of the governor's party in either the upper or lower house tends to exacerbate the election year fall in the hazard rate (i.e. negative coefficients on PRE  $\times$  GOV LOWER HOUSE MARGIN and PRE  $\times$  GOV UPPER HOUSE MARGIN), though the results is only significant for model 4. If we consider the regression models for state chartered banks with the HIGH VICTORY MARGIN interaction variables (models 4 and 8), the coefficient on PRE-ELECTION is approximately -0.9 which translates roughly into a 60% reduction in the pre-election hazard rate. In addition, the coefficients on PRE  $\times$  GOV LOWER HOUSE MARGIN and PRE  $\times$  GOV UPPER HOUSE MARGIN are about -1.1 implying a 10% increase in the governor's margin in either the upper or lower house of the state legislature will lead to a fall in the election year hazard rate by an additional 5% – for a total fall in the election year hazard rate of about 65%.

[INSERT TABLE 6 HERE]



To further investigate the role of political control, we construct a variable CONTROL OF BOTH HOUSES which is an indicator that equals one if the governor's party has control (i.e. holds the majority of seats) of both the lower and upper house *simultaneously* (i.e. complete control of the state legislature) and interact it with our PRE-ELECTION variable.<sup>32</sup> The results are presented in Table 7. Odd numbered models are for the full sample of banks while even numbers models are for state chartered banks only. Across all specifications, the coefficient estimate for PRE × CONTROL OF BOTH HOUSES is negative and significant. Additionally, the coefficient estimates on our PRE-ELECTION variable not only becomes insignificant but reverses in sign. These results imply that all of the election year fall in hazard rate can be explained by states where the incumbent governor has complete control of the state legislature. Moreover, when we include the level effect of CONTROL OF BOTH HOUSES, the coefficient is insignificant indicating that political control seems to matter for bank failure only around elections. The economic significance of political control is large. For our most complete regression model (model 6) the coefficient on PRE × CONTROL OF BOTH HOUSES is -1.4 implying that in election years where a governor has control of both the upper and lower house, there is a reduction in the bank hazard rate by about 75%. Interestingly, the coefficient on POST × CONTROL OF BOTH HOUSES is also negative suggesting that while on average there is an increase in the post-election hazard rate, political control tends to keep the hazard rate depressed in the 12 months after an election.

[INSERT TABLE 7 HERE]

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<sup>32</sup> We also examine situations where the governor controls: (1) the lower house but not the upper house, and (2) the upper house but not the lower house. In these analyses, which are not reported, we do not find any evidence to suggest that 'partial' control of the state legislature has an impact on the election year fall in bank hazard rate.

These results are consistent with the view that political control tends to lead to more corrupt behaviour. The mechanism through which this occurs is less clear however. As discussed earlier, the disciplining role of political competition can come from: (1) rising private costs to the politician in the event corrupt behaviour is detected; (2) rising costs associated with discretionary policy changes with more veto players when there is a balance of power; or (3) some combination of the two. These results are also consistent with recent studies showing that political competition improves economic outcomes and is therefore welfare enhancing (see for example, Polo, 1998; Svensson, 1998; and Besley et al., 2010). To the extent that political competition enhances competition in the banking industry whereby bank failure is an efficient mechanism to ensure poor performing banks exit – thereby increasing the overall health of the local bank industry – one might expect that political control to be negatively correlated with bank failure. Our finding is also in line with arguments made by Haber (2004, 2008) who demonstrates that political competition lead to the breakdown of segmented banking monopolies and increased bank competition in the US over the last century.

## **5. Robustness**

In the remainder of the paper, we perform additional test as robustness. The results from these analyses are presented in the following sections.

### **5.1. Political change and the post-election failure rate**

We have showed that the likelihood of bank failure falls in the 12 months leading into an election and increases in the 12 months following an election. An interesting question to ask is whether the post-election increase in the hazard rate is affected by a change in the party

affiliation of the governor. We construct three variables (1) PARTY CHANGE which is an indicator equal one if an election results in a change of the political party in power; (2) DEM TO REP which is an indicator equal one if an election results in a switch from a Democrat governor to a Republican governor; and (3) REP TO DEM which is an indicator equal one if an election results in a switch from a Republican to a Democrat governor. We interact these variables with our POST-ELECTION variable and include them in our baseline regressions (controlling for political competition). The results are presented in Table 8. Across all specifications, the interaction between POST-ELECTION and three political change variables above are negative however insignificant. Notwithstanding a lack of significance, a negative coefficient suggests that the new incumbent party lowers the post-election hazard rate – possibly to avoid bank failure in the first few months of governing. There does not appear to be any difference between a switch from a Republican to Democrat governor or from Democrat to Republican.

[INSERT TABLE 8 HERE]

## **5.2. Type of bank ‘failure’**

We previously showed in our discussion of the summary statistics that if we subdivide the sample into outright failures (i.e. the banks loses its charter and ceases to operate) and FDIC assistance transactions (i.e. the bank receives assistance, is restructured and allowed to continue to operate under the same charter), outright bank failure is much less likely in the 12 months prior to an election compared to the 12 months after an election. The reverse however is true for assistance transactions. To see if this result is robust in a multivariate setting we create a variable ASSISTANCE which is an indicator equal one if the recorded failure represents an FDIC assistance transaction. Of interest is the interaction between ASSISTANCE and the PRE-

and POST-ELECTION indicators. The results in Table 9 show that assistance is much more likely to occur in the 12 months before an election. This result is not particularly surprising given assistance allows a bank to continue to operate under its existing charter so is very much like delaying the realization of outright failure.<sup>33</sup>

[INSERT TABLE 9 HERE]

### **5.3. Excluding Louisiana**

One of the benefits of studying the impact of the electoral cycle on bank failure in a US setting is that election timing is exogenous. This is true for all states except for the state Louisiana where elections do not occur in the first week of November, but vary from one election to the next. To ensure our results are robust, we exclude Louisiana from our sample and re-estimate our main regressions. The results presented in the first four regression models of Table 10 show that our results remain unchanged when we exclude Louisiana from our sample.

### **5.4. Federally chartered banks and Presidential elections**

As a final robustness test, we first repeat our analysis for federally chartered banks only. Model 5 in Table 10 shows that while the PRE-ELECTION variable is negative, it is not significant which is to be expected given we are examining the impact of the gubernatorial election cycle. Next, we examine whether the presidential election cycle has a bearing on bank failure for federally chartered banks. In particular, we are interested in seeing whether gubernatorial elections which coincide with presidential elections have an impact on the

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<sup>33</sup> We understand there is a potential endogeneity problem here with using past interventions as a control variable. However, when we attempted to perform hazard analysis where we redefine ‘failure’ to mean assistance only (i.e. we remove banks that failed outright) our regressions simply did not converge (in any of the Cox, Exponential or Logit models) since the number of assistance transactions is so small compared to the size of the sample. Moreover, since this is not the key question of the paper we felt this approach along with our summary statistics is sufficient for robustness.

likelihood of bank failure for federally chartered banks. In model 6 we include additional interaction terms between the PRE- and POST-ELECTION indicators and variables PRE PRESIDENTIAL ELECTION and POST PRESIDENTIAL ELECTION which are indicators equal one for all quarters in the 12 months before and after a presidential election respectively. The coefficient on PRE-ELECTION  $\times$  PRE PRESIDENTIAL ELECTION is negative suggesting that if a gubernatorial election coincides with a presidential election year then the election year fall in the hazard rate is larger for federally chartered banks, however, this result is insignificant. This weak result may reflect the fact that voters may attribute less responsibility to the President for failures of smaller local banks which make up the bulk of our failures.

[INSERT TABLE 10 HERE]

## **6. Conclusion**

We exploit exogenous variation in the timing of gubernatorial elections to study political incentives to delay bank failure round elections. In particular, we examine whether bank failure is less likely in the 12 months leading up to an election. Using a Cox proportional hazard model, our results show that bank failure is about 45% less likely in the year leading up to an election. Once we control for the degree of electoral competition (i.e. victory margin) this election year fall in the hazard rates increases in magnitude to about 55%.

We also investigate if political patronage or political control exacerbates or attenuates the election year fall in the hazard rate. There is some evidence suggesting patronage may play a role – Democrat (Republican) states with Democrat (Republican) governors tend to have an even larger reduction in the election year hazard rate – though the impact of patronage is difficult to

disentangle from political control given state's in which a governor's party is also heavily supported tend also to be the one in which the governor has substantial control. Notwithstanding the possibility of political patronage, we find strong support that political control can explain the election year fall in the hazard rate. That is, we show that election years in which the governor's party has control of both the upper and lower house of the state legislature (i.e. complete political control) can explain all of the average election year fall in hazard rate. In particular, our estimates suggest that the hazard rate for banks in states where the governor has complete control heading into an election falls by approximately 75%.

Our results demonstrate that even developed democracies such as the US are not immune from the incentive problems faced by politicians. The implications for public policy are twofold. First, is that bank regulatory and closure rules need to account for the perverse incentives of politicians. Similar to central bank independence, the results here suggest that bank regulators may also require the same type of independence to effectively carry out their role. Second, political competition appears to discipline politicians by increasing the costs associated with interfering in bank closure policy. This finding illustrates that importance of political institutions which foster electoral competition and reduce the degree of political control any single individual (or group) has in an economy.

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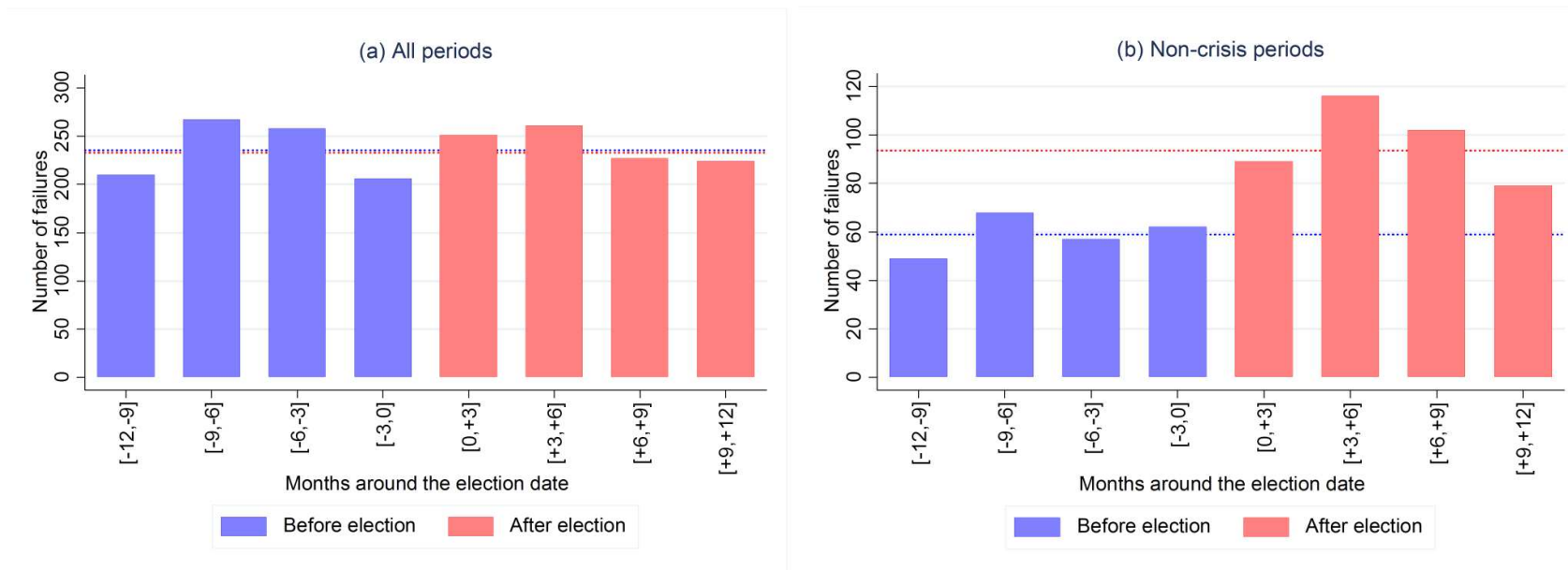
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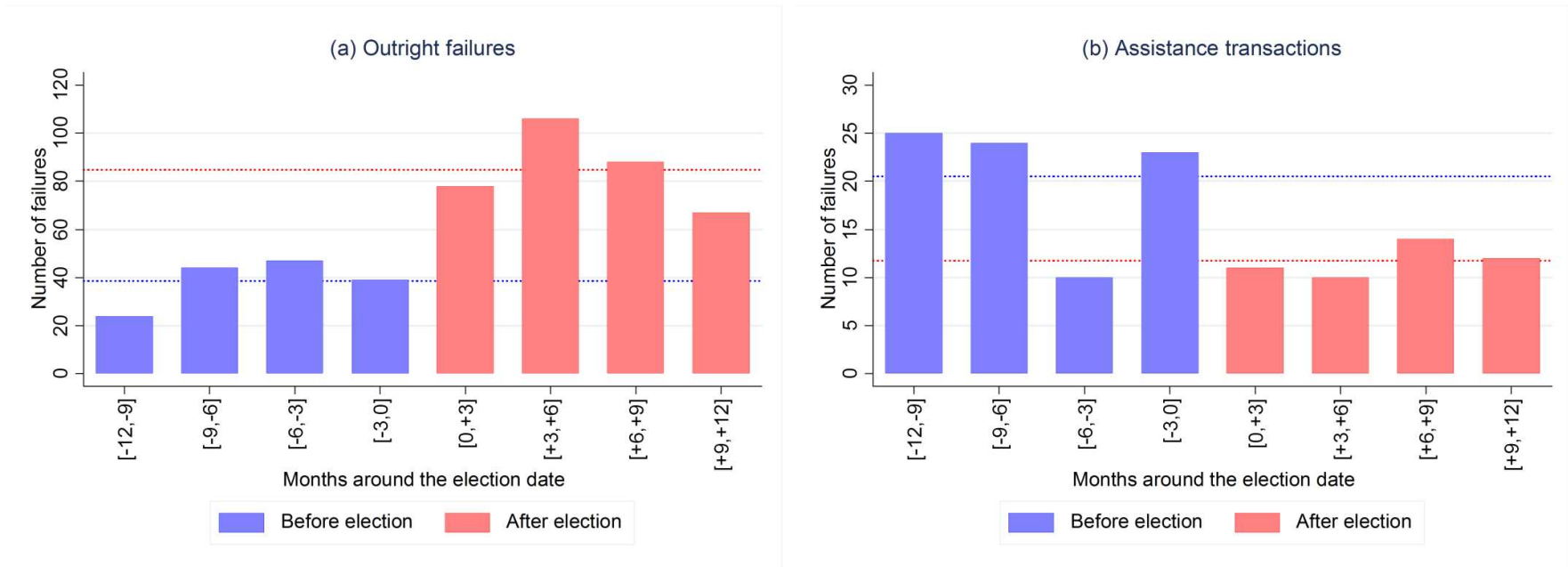
**Figure 1**  
Election cycles and bank failure

The figure below plots the frequency of bank failures around gubernatorial elections for all recorded failures (3995) of FDIC insured financial institutions (commercial banks and thrifts) between 1934 and 2012. Panel (a) plots bank failures in all periods. Panel (b) plots banks fails in non-crisis periods only – that is, failures that occur during the S&L Crisis (1986-1992) and the Global Financial Crisis (2007-2010) are excluded. The blue bars plot the number of failures in 3-month blocks leading up to an election while the pink bars plot the number of failures in 3-month blocks in the months after state elections. The blue and pink horizontal dashed lines represent the average number of failures for a 3-month period before and after elections respectively.



**Figure 2**  
Election cycles and bank failure – by type of failure

The figure below plots the frequency of bank failures around gubernatorial elections for all recorded failures (3995) of FDIC insured financial institutions (commercial banks and thrifts) between 1934 and 2012 in non-crisis periods only – that is, failures occurring during the S&L Crisis (1986-1992) and the Global Financial Crisis (2007-2010) are excluded. Panel (a) plots the frequency of outright bank failures where a failing bank loses its charter and ceases to operate. Panel (b) plots bank failures that are classified as assistance transactions where the failing bank is restructured with FDIC assistance and then allowed to continue to operate under its existing charter. The blue bars plot the number of failures in 3-month blocks leading up to an election while the pink bars plot the number of failures in 3-month blocks in the months after state elections. The blue and pink horizontal dashed lines represent the average number of failures for a 3-month period before and after elections respectively.



**Table 1**  
Summary statistics

This table presents summary statistics of bank failures and the key variables used in this study. Panel A present a summary of frequency of bank and thrift failures for all bank failures between 1934 and 2012 as well as broken down into subcategories. Crisis denotes failures occurring between 1986 and 1992 (S&L Crisis) and between 2007 and 2010 (Global Financial Crisis). Note that an FDIC recorded failures can either be an outright failure where the institution loses its charter and ceases to operate or and assistance transaction whereby the institution is restructured and allowed to retain its charter. Panel B presents the state level controls used in the hazard analysis (sample period 1976-2010). Panel C presents the bank level controls used in the hazard analysis (sample period 1976-2010).

<b>Panel A: Failures</b>		<b>Months around election</b>	<b>All</b>	<b>Crisis</b>	<b>Non-crisis</b>	<b>South</b>	<b>West</b>	<b>North East</b>	<b>Mid-West</b>	
<b>Sample Period: 1934-2012</b>	All Banks and Thrifts	[-12,0]	941	705	236	433	161	97	250	
		[0,+12]	963	577	386	446	151	133	233	
		Not around election	2091	1540	551	1100	317	195	479	
	Commercial Banks Only	[-12,0]	561	410	151	281	88	42	150	
		[0,+12]	656	333	323	327	96	61	172	
		Not around election	1311	855	456	676	204	111	320	
	National Banks	[-12,0]	201	165	36	127	33	18	23	
		[0,+12]	181	125	56	99	27	24	31	
		Not around election	433	329	104	297	56	36	44	
	State Banks	[-12,0]	360	245	115	154	55	24	127	
		[0,+12]	475	208	267	228	69	37	141	
		Not around election	878	526	352	379	148	75	276	
	Assistance	[-12,0]	141	59	82	56	18	21	46	
		[0,+12]	94	47	47	43	14	18	19	
		Not around election	358	283	75	205	41	21	91	
	Outright Failure	[-12,0]	800	646	154	377	143	76	204	
		[0,+12]	869	530	339	403	137	115	214	
		Not around election	1733	1257	476	895	276	174	388	
	<b>Sample Period: 1976-2012</b>	All Banks and Thrifts	[-12,0]	850	705	145	420	158	68	204
			[0,+12]	783	577	206	384	143	110	146
			Not around election	1840	1540	300	1021	304	137	378
		Commercial Banks Only	[-12,0]	470	410	60	268	85	13	104
			[0,+12]	476	333	143	265	88	38	85
			Not around election	1062	855	207	597	191	54	220
National Banks		[-12,0]	182	165	17	126	30	4	22	
		[0,+12]	151	125	26	96	23	14	18	
		Not around election	386	329	57	283	48	16	39	
State Banks		[-12,0]	288	245	43	142	55	9	82	
		[0,+12]	325	208	117	169	65	24	67	
		Not around election	676	526	150	314	143	38	181	
Assistance		[-12,0]	141	59	82	56	18	21	46	
		[0,+12]	93	47	46	43	14	17	19	
		Not around election	357	283	74	205	41	21	90	
Outright Failure		[-12,0]	709	646	63	364	140	47	158	
		[0,+12]	690	530	160	341	129	93	127	
		Not around election	1483	1257	226	816	263	116	288	

<b>Panel B: State Level Variables</b>	<b>Definitions</b>		<b>All</b>	<b>Crisis</b>	<b>Non-crisis</b>	<b>South</b>	<b>West</b>	<b>North East</b>	<b>Mid-West</b>
Victory Margin (party neutral)	winner vote percentage - second vote percentage	Mean	0.17	0.18	0.16	0.18	0.16	0.17	0.16
		SD	0.14	0.16	0.13	0.15	0.13	0.15	0.13
Democrat Vote Share	democrat votes/total votes	Mean	0.49	0.49	0.48	0.52	0.48	0.47	0.46
		SD	0.14	0.17	0.13	0.15	0.13	0.16	0.12
Governor is Democrat	indicator equal 1 if the governor is a democrat	Mean	0.53	0.56	0.52	0.61	0.58	0.52	0.38
		SD	0.5	0.5	0.5	0.49	0.49	0.5	0.49
% Democrat in lower house	democrat seats/total seats in the lower house of state legislature	Mean	0.57	0.58	0.56	0.67	0.49	0.6	0.48
		SD	0.18	0.16	0.18	0.17	0.17	0.16	0.11
% Democrat in upper house	democrat seats/total seats in upper house of state legislature	Mean	0.56	0.57	0.56	0.68	0.49	0.57	0.47
		SD	0.18	0.17	0.18	0.16	0.17	0.17	0.12
Growth	state income growth	Mean	0.07	0.05	0.07	0.07	0.07	0.06	0.06
		SD	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Budget Deficit	(total taxes-government expenditure)/gross state product	Mean	-0.02	-0.02	-0.02	-0.02	-0.03	-0.02	-0.01
		SD	0.03	0.03	0.03	0.03	0.04	0.02	0.01

<b>Panel C: Bank Level Variables</b>	<b>Definitions</b>		<b>All</b>	<b>Crisis</b>	<b>Non-crisis</b>	<b>Failed banks</b>	<b>Assisted Banks</b>	<b>Other banks</b>
Too Big to Fail	bank assets/total state banking assets	Mean	0.0048	0.0049	0.0047	0.0026	0.0206	0.0048
		SD	0.0286	0.0295	0.0281	0.0097	0.0675	0.0286
Too Many to Fail	ave. capital ratio of other banks in the same state	Mean	0.0994	0.099	0.0996	0.0904	0.0875	0.0994
		SD	0.0175	0.0211	0.0157	0.02	0.0418	0.0175
Income/Asset Ratio	net income/total assets	Mean	0.0153	0.0038	0.0217	-0.0449	-0.0231	0.0154
		SD	9.4348	0.0823	11.7264	0.0577	0.0578	9.441
Size	log(total deposits)	Mean	10.7383	10.9572	10.6414	10.7036	11.5951	10.7384
		SD	1.411	1.381	1.4132	1.507	2.2158	1.4108
Capital Ratio	total equity/total assets	Mean	0.0995	0.0991	0.0997	0.0007	0.0013	0.0996
		SD	0.0665	0.0744	0.0627	0.0616	0.1056	0.0664
NPL	non-performing loans/total loans (%)	Mean	1.8864	2.4513	1.4763	13.6842	9.6820	1.869
		SD	2.8619	3.3759	2.3372	9.2565	8.8496	2.8054
Charter authority	indicator equal 1 if federal charter	Mean	0.3019	0.3051	0.3006	0.3539	0.4430	0.3019
		SD	0.4591	0.4604	0.4585	0.4783	0.4984	0.4591

**Table 2**

## Election cycles and bank failure

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: (1) PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and (2) POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank  $i$ 's assets to total banking assets in the state bank  $i$  is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank  $i$  is headquartered in; (7) GROWTH is personal income growth in state  $j$ ; and (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state  $j$ . The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PRE-ELECTION	-0.113 (-1.121)	-0.448** (-2.274)	-0.151 (-1.092)	-0.566* (-1.923)	-0.179* (-1.702)	-0.432** (-2.104)	-0.243* (-1.677)	-0.570* (-1.831)
POST-ELECTION					-0.164 (-1.372)	0.0798 (0.273)	-0.233 (-1.571)	-0.0194 (-0.0567)
INCOME/ASSET	-3.080*** (-3.870)	-1.574 (-0.455)	-6.861*** (-5.085)	-3.957 (-0.817)	-3.098*** (-3.868)	-1.560 (-0.451)	-6.795*** (-5.124)	-3.957 (-0.817)
SIZE	-0.249*** (-4.222)	-0.144** (-2.431)	-0.331*** (-5.411)	-0.153* (-1.955)	-0.249*** (-4.231)	-0.144** (-2.430)	-0.331*** (-5.435)	-0.153* (-1.952)
CAPITAL RATIO	-11.30*** (-5.857)	-45.18*** (-13.42)	-13.46*** (-4.740)	-45.60*** (-8.634)	-11.28*** (-5.859)	-45.20*** (-13.43)	-13.49*** (-4.772)	-45.60*** (-8.634)
NPL	0.0943*** (14.30)	0.0549*** (7.449)	0.0922*** (8.614)	0.0448*** (3.215)	0.0943*** (14.42)	0.0549*** (7.442)	0.0920*** (8.649)	0.0448*** (3.207)
TOO BIG TO FAIL		3.656*** (3.679)		5.493*** (3.836)		3.668*** (3.676)		5.487*** (3.846)
TOO MANY TO FAIL		7.332 (1.168)		-0.796 (-0.108)		7.387 (1.176)		-0.845 (-0.112)
GROWTH		-9.948 (-1.489)		-21.20*** (-2.705)		-10.01 (-1.503)		-21.19*** (-2.688)
BUDGET DEFICIT		9.466 (0.643)		14.88 (0.800)		9.631 (0.652)		14.86 (0.799)
Sample	All banks	All banks	State banks	State banks	All banks	All banks	State banks	State banks
Observations	1,165,698	654,553	819,884	474,540	1,165,698	654,553	819,884	474,540
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00



**Table 3**  
Election cycles and bank failure – alternative estimation techniques

This table presents the regression estimates of equation (1) using three alternative estimation techniques: (1) linear probability (models 1-4); (2) dynamic logit (models 5-8); and (3) exponential proportional hazard (models 9-12). Panel A re-estimates models 1-4 from Table 2 while Panel B re-estimates models 5-8 from Table 2. The independent variables of interest are: (1) PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and (2) POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank *i*'s assets to total banking assets in the state bank *i* is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank *i* is headquartered in; (7) GROWTH is personal income growth in state *j*; and (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state *j*. The reported coefficients are marginal effects. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	Linear Probability				Logit				Exponential			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
<b>Panel A</b>												
PRE-ELECTION	-0.000189*	-0.000217**	-0.000230*	-0.000200*	-0.178*	-0.756***	-0.203	-0.925***	-0.0885	-0.496***	-0.0574	-0.578***
	(-1.966)	(-2.373)	(-1.825)	(-1.841)	(-1.927)	(-4.153)	(-1.623)	(-4.446)	(-1.363)	(-2.995)	(-0.512)	(-3.064)
Sample	All banks	All banks	State banks	State banks	All banks	All banks	State banks	State banks	All banks	All banks	State banks	State banks
Control variables 1-4	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Control variables 5-8	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES
State fixed-effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed-effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,172,949	658,485	824,635	477,425	1,109,253	569,712	776,734	388,898	1,165,698	654,553	819,884	474,540
F/Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Panel B</b>												
PRE-ELECTION	-0.000326**	-0.000278**	-0.000370**	-0.000263*	-0.282***	-0.742***	-0.320**	-0.898***	-0.169**	-0.477***	-0.198	-0.551***
	(-2.494)	(-2.448)	(-2.506)	(-2.001)	(-2.617)	(-3.951)	(-2.310)	(-3.890)	(-2.098)	(-2.733)	(-1.575)	(-2.634)
POST-ELECTION	-0.000383**	-0.000180*	-0.000397***	-0.000192**	-0.259**	0.0524	-0.299**	0.107	-0.185*	0.0828	-0.324**	0.117
	(-2.508)	(-1.978)	(-3.718)	(-2.014)	(-2.561)	(0.173)	(-2.24)	(0.271)	(-1.919)	(0.313)	(-2.298)	(0.355)
Sample	All banks	All banks	State banks	State banks	All banks	All banks	State banks	State banks	All banks	All banks	State banks	State banks
Control variables 1-4	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Control variables 5-8	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES
State fixed-effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Year fixed-effects	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Observations	1,172,949	658,485	824,635	477,425	1,109,253	569,712	776,734	388,898	1,165,698	654,553	819,884	474,540
F/Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

**Table 4****Electoral competition and electoral incentives to delay failure – party neutral measures of competition**

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls for the competitiveness of the election. The measure of electoral competition used in this table is a party neutral measure defined as the difference between the winner's percentage vote share and the runner up's percentage vote share. We construct two indicator variables HIGH VICTORY MARGIN (an indicator for top quartile i.e. least competitive elections) and LOW VICTORY MARGIN (an indicator for bottom quartile i.e. most competitive elections) interacted with the PRE- and POST-ELECTION indicators. Panel A presents the results for HIGH VICTORY MARGIN while Panel B presents the results for LOW VICTORY MARGIN. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank *i*'s assets to total banking assets in the state bank *i* is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank *i* is headquartered in; (7) GROWTH is personal income growth in state *j*; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state *j*; and (9) DEMOCRAT GOVERNOR which is an indicator equal 1 if the governor is from the democrat party. The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PRE-ELECTION	-0.720*** (-2.652)	-0.863* (-1.876)	-0.727*** (-3.046)	-0.821** (-2.066)	-0.661** (-2.220)	-0.828 (-1.592)	-0.694*** (-2.700)	-0.827* (-1.821)
POST-ELECTION	3.997*** (6.672)	4.279*** (5.990)	4.104*** (6.874)	4.290*** (6.252)	3.883*** (6.985)	3.814*** (5.553)	4.124*** (6.410)	4.016*** (5.193)
PRE × HIGH VICTORY MARGIN	-0.248 (-0.570)	-0.178 (-0.273)	-0.441 (-1.029)	-0.383 (-0.615)				
POST × HIGH VICTORY MARGIN	1.325* (1.819)	1.249 (1.010)	1.667** (2.130)	2.071 (1.608)				
PRE × LOW VICTORY MARGIN					-0.275 (-0.661)	-0.257 (-0.445)	-0.312 (-0.694)	-0.293 (-0.457)
POST × LOW VICTORY MARGIN					2.174*** (2.779)	3.036*** (4.142)	1.506* (1.758)	1.956* (1.758)
DEMOCRAT GOVERNOR			-0.621*** (-2.825)	-0.711*** (-3.251)			-0.556*** (-2.665)	-0.611*** (-2.802)
Control variables 1-8	YES	YES	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	All banks	State banks	All banks	State banks
Observations	654,553	474,540	643,079	465,811	654,553	474,540	643,079	465,811
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

**Table 5**  
Political patronage and electoral incentives to delay failure

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls for the competitiveness of the election. The measure of electoral competition used in this table is a partisan measure defined as the democrat percentage vote share (i.e. the vote share of all democrat candidates). We construct two indicator variables which represent low electoral competition HIGH DEM SHARE (an indicator for top quartile) and LOW DEM SHARE (an indicator for bottom quartile) interacted with the DEMOCRAT GOVERNOR indicator as well as the PRE- and POST-ELECTION indicators. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank  $i$ 's assets to total banking assets in the state bank  $i$  is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank  $i$  is headquartered in; (7) GROWTH is personal income growth in state  $j$ ; and (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state  $j$ . The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PRE-ELECTION	-0.340*	-0.506*	-0.449**	-0.571*	-0.560***	-0.785***	-0.701**	-0.835*
	(-1.658)	(-1.695)	(-2.204)	(-1.813)	(-2.646)	(-3.050)	(-2.347)	(-1.912)
POST-ELECTION	0.531	0.551	0.989**	0.841	0.991***	1.081***	0.593	0.550
	(1.071)	(1.030)	(2.162)	(1.595)	(3.007)	(2.593)	(1.641)	(1.311)
PRE × DEM GOV × HIGH DEM SHARE	-1.551**	-30.46***						
	(-2.275)	(-61.13)						
POST × DEM GOV × HIGH DEM SHARE	4.831***	29.24***						
	(6.764)	(14.61)						
PRE × DEM GOV × LOW DEM SHARE			0.411	0.250				
			(0.748)	(0.395)				
POST × DEM GOV × LOW DEM SHARE			0.0109***	0.0114***				
			(12.04)	(8.163)				
PRE × REP GOV × HIGH DEM SHARE					0.948	1.904*		
					(1.108)	(1.897)		
POST × REP GOV × HIGH DEM SHARE					0.369	0.350		
					(0.516)	(0.407)		
PRE × REP GOV × LOW DEM SHARE							0.396	0.380
							(1.589)	(1.104)
POST × REP GOV × LOW DEM SHARE							3.382***	4.089***
							(4.155)	(4.058)
Control variables 1-8	YES	YES	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	All banks	State banks	All banks	State banks
Observations	643,079	465,811	643,079	465,811	654,553	474,540	654,553	474,540
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

**Table 6**  
Composition of the state legislature and electoral incentives to delay failure

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls to capture the composition of the state legislature. We construct two variables GOV LOWER HOUSE MARGIN which is the governor's party's margin in the lower house defined as the difference in seats held by the governor's party and the opposition party as a fraction of the total number of seats in the lower house and GOV UPPER HOUSE MARGIN which is the governor's party's margin in the upper house defined as the difference in seats held by the governor's party and the opposition party as a fraction of the total number of seats in the upper house. Of interest is the interaction between these composition variables with the PRE- and POST-ELECTION indicators. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank  $i$ 's assets to total banking assets in the state bank  $i$  is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank  $i$  is headquartered in; (7) GROWTH is personal income growth in state  $j$ ; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state  $j$ ; and (9) PRE  $\times$  HIGH VICTORY MARGIN (POST  $\times$  HIGH VICTORY MARGIN) which an interaction term between PRE-ELECTION (POST-ELECTION) and an indicator for the top quartile of the party neutral measure of electoral competition VICTORY MARGIN (i.e. least competitive elections). The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PRE-ELECTION	-0.426** (-2.074)	-0.573* (-1.910)	-0.716*** (-2.632)	-0.884* (-1.955)	-0.426** (-2.081)	-0.578* (-1.901)	-0.717*** (-2.641)	-0.881* (-1.936)
POST-ELECTION	0.0468 (0.169)	-0.0119 (-0.0359)	4.010*** (6.899)	4.398*** (6.361)	0.0486 (0.179)	-0.0150 (-0.0451)	4.001*** (7.142)	4.349*** (6.123)
PRE $\times$ GOV LOWER HOUSE MARGIN	-0.0793 (-0.178)	-0.829 (-1.184)	-0.361 (-0.736)	-1.346* (-1.862)				
POST $\times$ GOV LOWER HOUSE MARGIN	0.461 (0.768)	-0.219 (-0.279)	1.281 (0.750)	1.791 (0.860)				
PRE $\times$ GOV UPPER HOUSE MARGIN					-0.418 (-1.065)	-0.754 (-0.977)	-0.659 (-1.364)	-1.116 (-1.279)
POST $\times$ GOV UPPER HOUSE MARGIN					0.437 (0.851)	-0.0906 (-0.128)	0.894 (0.696)	0.438 (0.220)
PRE $\times$ HIGH VICTORY MARGIN			-0.261 (-0.632)	-0.396 (-0.680)			-0.289 (-0.699)	-0.300 (-0.484)
POST $\times$ HIGH VICTORY MARGIN			0.974 (1.088)	0.567 (0.375)			1.083 (1.391)	0.950 (0.697)
Control variables 1-8	YES	YES	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	All banks	State banks	All banks	State banks
Observations	633,550	459,608	633,550	459,608	633,550	459,608	633,550	459,608
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

**Table 7**  
**Political control and electoral incentives to delay failure**

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls to examine the impact of political control. We construct a variable CONTROL OF BOTH HOUSES which is an indicator equal one if the governors party has control (i.e. hold the majority of seats) of both the lower and upper house simultaneously. Of interest is the interaction between this variable with the PRE- and POST-ELECTION indicators. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank *i*'s assets to total banking assets in the state bank *i* is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank *i* is headquartered in; (7) GROWTH is personal income growth in state *j*; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state *j*; and (9) PRE × HIGH VICTORY MARGIN (POST × HIGH VICTORY MARGIN) which an interaction term between PRE-ELECTION (POST-ELECTION) and an indicator for the top quartile of the party neutral measure of electoral competition VICTORY MARGIN (i.e. least competitive elections). The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)
PRE-ELECTION	0.328 (0.929)	0.364 (1.103)	0.236 (0.620)	0.479 (1.427)	0.129 (0.392)	0.262 (0.670)
POST-ELECTION	0.563 (1.582)	0.322 (0.777)	0.464 (1.031)	0.454 (0.925)	6.020*** (5.009)	9.295*** (16.85)
PRE × CONTROL OF BOTH HOUSES	-0.943* (-1.950)	-1.193*** (-2.639)	-0.838* (-1.693)	-1.321*** (-3.071)	-1.087** (-2.232)	-1.399*** (-2.911)
POST × CONTROL OF BOTH HOUSES	-0.597 (-1.590)	-0.414 (-0.904)	-0.480 (-1.052)	-0.568 (-1.080)	-2.170* (-1.862)	-5.633*** (-5.640)
CONTROL OF BOTH HOUSES			-0.136 (-0.498)	0.176 (0.681)	-0.0254 (-0.0896)	0.243 (0.984)
PRE × HIGH VICTORY MARGIN					-0.164 (-0.348)	-0.0697 (-0.0960)
POST × HIGH VICTORY MARGIN					0.689 (0.769)	2.026 (1.299)
Control variables 1-8	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	All banks	State banks
Observations	654,553	474,540	654,553	474,540	654,553	474,540
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00

**Table 8**  
Changes in the political party and post-election bank failure

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls to examine the impact of changes to the governing party as a result of the election. We construct three variables PARTY CHANGE which is an indicator equal one if an election results in a change of the political party in power; DEM TO REP which is an indicator equal one if an election results in a switch from a democrat governor to a republican governor; and REP TO DEM which is an indicator equal one if an election results in a switch from a republican to a democrat governor. Of interest is the interaction between these variables and the POST-ELECTION indicator. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank  $i$ 's assets to total banking assets in the state bank  $i$  is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank  $i$  is headquartered in; (7) GROWTH is personal income growth in state  $j$ ; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state  $j$ ; and (9) PRE  $\times$  HIGH VICTORY MARGIN (POST  $\times$  HIGH VICTORY MARGIN) which an interaction term between PRE-ELECTION (POST-ELECTION) and an indicator for the top quartile of the party neutral measure of electoral competition VICTORY MARGIN (i.e. least competitive elections). The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)	(5)	(6)
PRE-ELECTION	-0.707*** (-2.640)	-0.847* (-1.863)	-0.720*** (-2.666)	-0.856* (-1.873)	-0.707*** (-2.637)	-0.848* (-1.847)
POST-ELECTION	4.182*** (6.833)	4.436*** (5.827)	4.003*** (6.597)	4.354*** (5.917)	4.175*** (6.928)	4.385*** (6.114)
PRE $\times$ HIGH VICTORY MARGIN	-0.253 (-0.583)	-0.179 (-0.275)	-0.249 (-0.571)	-0.178 (-0.274)	-0.255 (-0.589)	-0.180 (-0.277)
POST $\times$ HIGH VICTORY MARGIN	1.502* (1.889)	1.334 (1.007)	1.320* (1.781)	1.192 (0.966)	1.717* (1.894)	1.483 (1.025)
POST $\times$ PARTY CHANGE	-0.553 (-0.957)	-0.435 (-0.662)				
POST $\times$ DEM TO REP			-0.0827 (-0.115)	-0.593 (-0.644)		
POST $\times$ REP TO DEM					-0.878 (-1.225)	-0.644 (-0.690)
Control variables 1-8	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	All banks	State banks
Observations	654,553	474,540	654,553	474,540	654,553	474,540
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00

**Table 9**  
Election cycles and bank failure – by type of FDIC failure transaction

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table includes additional controls to examine the impact type of FDIC failure transaction (i.e. outright failure or assistance). We construct a variable ASSISTANCE which is an indicator equal one if the recorded failure represents an FDIC assistance transaction. Of interest is the interaction between ASSISTANCE and the PRE- and POST-ELECTION indicators. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank *i*'s assets to total banking assets in the state bank *i* is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank *i* is headquartered in; (7) GROWTH is personal income growth in state *j*; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state *j*; and (9) PRE × HIGH VICTORY MARGIN (POST × HIGH VICTORY MARGIN) which an interaction term between PRE-ELECTION (POST-ELECTION) and an indicator for the top quartile of the party neutral measure of electoral competition VICTORY MARGIN (i.e. least competitive elections). The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	(1)	(2)	(3)	(4)
PRE-ELECTION	-0.466** (-2.226)	-0.575*** (-2.777)	-0.754*** (-2.692)	-0.833** (-2.270)
POST-ELECTION	-0.0345 (-0.119)	0.0912 (0.275)	3.910*** (6.614)	4.193*** (6.796)
PRE × ASSISTANCE TRANSACTION	4.030*** (8.584)	4.658*** (8.190)	3.951*** (7.782)	4.563*** (7.944)
POST × ASSISTANCE TRANSACTION	8.108*** (9.963)	6.362*** (12.09)	3.721*** (3.694)	3.505*** (4.947)
PRE × HIGH VICTORY MARGIN			-0.208 (-0.474)	-0.232 (-0.332)
POST × HIGH VICTORY MARGIN			0.964 (1.256)	0.186 (0.101)
Control variables 1-8	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks
Observations	654,553	474,540	654,553	474,540
Wald p-value	0.00	0.00	0.00	0.00

**Table 10**  
Election cycles and bank failure – robustness

This table presents the regression estimates of equation (1) using the Cox proportional hazard model. The independent variables of interest are: PRE-ELECTION which is an indicator variable equal to one for all quarters in the 12 months prior to an election date; and POST-ELECTION which is an indicator variable equal to one for all the quarters 12 months after an election date. This table presents results from robustness tests. Models 1-4 reproduce baseline results excluding Louisiana. Models 5 and 6 present results for federally chartered banks. Model 6 includes additional interaction terms between the PRE- and POST-ELECTION indicators and variables PRE PRESIDENTIAL ELECTION and POST PRESIDENTIAL ELECTION which are indicators equal one for all quarters in the 12 months before and after a presidential election respectively. Control variables include: (1) INCOME/ASSET which is the ratio of net income to total assets; (2) SIZE which is the natural log of total deposits; (3) CAPITAL RATIO which is the ratio of total equity to total assets; (4) NPL which is non-performing loans (+90 days past due) as a percentage of total loans; (5) TOO BIG TO FAIL which is the ratio of bank  $i$ 's assets to total banking assets in the state bank  $i$  is headquartered; (6) TOO MANY TO FAIL which is the average capital ratio of all other banks in the state bank  $i$  is headquartered in; (7) GROWTH is personal income growth in state  $j$ ; (8) BUDGET DEFICIT which is the ratio of total taxes less government expenditure to gross domestic product in state  $j$ ; and (9) PRE  $\times$  HIGH VICTORY MARGIN (POST  $\times$  HIGH VICTORY MARGIN) which an interaction term between PRE-ELECTION (POST-ELECTION) and an indicator for the top quartile of the party neutral measure of electoral competition VICTORY MARGIN (i.e. least competitive elections). The reported coefficients are marginal effects. State and year fixed effects are included in all regressions. Robust t-statistics (clustered standard errors by state) are in parentheses. Significance levels of 10, 5, and 1 percent are represented by \*, \*\*, and \*\*\*.

	Excluding Louisiana				Federal Banks	
	(1)	(2)	(3)	(4)	(5)	(6)
PRE-ELECTION	-0.458**	-0.574*	-0.752***	-0.899*	-1.090	-0.234
	(-2.194)	(-1.762)	(-2.647)	(-1.808)	(-0.124)	(-0.541)
POST-ELECTION	0.116	0.101	4.049***	4.446***	-0.181*	-0.153
	(0.368)	(0.286)	(6.681)	(5.948)	(-1.788)	(-0.166)
PRE $\times$ HIGH VICTORY MARGIN			-0.204	-0.0624		
			(-0.457)	(-0.0979)		
POST $\times$ HIGH VICTORY MARGIN			1.066	1.020		
			(1.323)	(0.782)		
PRE-ELECTION $\times$ PRE PRESIDENTIAL ELECTION						-0.995
						(-0.818)
POST-ELECTION $\times$ POST PRESIDENTIAL ELECTION						0.339
						(0.208)
Control variables 1-8	YES	YES	YES	YES	YES	YES
Sample	All banks	State banks	All banks	State banks	Federal banks	Federal banks
Observations	642,887	464,606	642,887	464,606	180,013	180,013
Wald p-value	0.00	0.00	0.00	0.00	0.00	0.00