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# The real effects of bank lobbying: Evidence from the corporate loan market

## **Abstract**

Using a large sample of corporate loan facilities and hand-collected data on bank lobbyists, we show that borrowers' performance improves after receiving credit from lobbying banks. This especially holds for opaque borrowers for which the bank possesses valuable information, in the presence of strong bank-firm relationships and intensive monitoring, and for borrowers with strong corporate governance incentives (high board independence, institutional ownership, and compensation incentives). Further analysis shows that the credit supply from lobbying banks enables corporate capital expenditures that increase the scope of firm operations, thereby leading to sales growth. Our findings are consistent with the information-transmission theory that political lobbying provides regulators with valuable borrower information, which results in improved bank-lending supervisory decisions and corporate borrower performance.

*JEL classification:* D72, G21, G30

*Keywords:* Bank lobbying, Firm performance, Syndicated loans, Information-transmission

## 1. Introduction

Lobbying is the main avenue through which banks attempt to influence regulations and supervisory decisions. Based on data compiled by the Centre for Responsive Politics and reported by Igan and Lambert (2019), the financial sector alone spent \$7.4 billion on lobbying from 1998 to 2016. Moreover, the financial sector spent \$488 million on lobbying in 2012 but only \$81 million on contributions to political action committees (PACs) during the 2011-2012 congressional cycle. Banks hire external lobbyists or set up in-house lobbying teams to meet privately with politicians and regulators in order to advance their interests. The key aims are to receive preferential treatment in the form of policy changes, bailout guarantees, privileged access to licenses, or lax treatment in supervision.

In this study, we examine the real effects of bank lobbying, focusing on borrowers' performance after credit origination. We also examine the means through which these effects transmit. The answers to these questions are important to understand the role of bank lobbying in real economic outcomes, especially considering the two contradicting theories of the potential effects of bank lobbying.

On one hand, the information-transmission theory suggests that banks have better information than regulators do and hence they lobby in order to meet with regulators and reveal their superior information (Ball, 1995; Grossman and Helpman, 2001; Bertrand, Bombardini, and Trebbi, 2014). This is the perspective of The National Institute for Lobbying & Ethics (a trade association representing American lobbyists). It states: *“Lobbying is a legitimate and necessary part of our democratic political process. Government decisions affect both people and organizations, and information must be provided in order to produce informed decisions. Public officials cannot make fair and informed decisions without considering information from a broad*

*range of interested parties.*” Under the information-transmission view, bank lobbying provides regulators with valuable borrower information that improves supervisory and bank lending decisions. Igan and Lambert (2019) suggest that, due to industry expertise or borrower relationships, certain lenders have more information than regulators do about opaque borrowers. Lobbying lenders can thus reveal private information to regulators in order to avoid tighter lending regulation. Overall, under the information-transmission view, bank lobbying thus leads to better loan decisions and borrower performance.

On the other hand, the regulatory-capture view proposed by Stigler (1971) and Peltzman (1976) suggests that banks lobby simply to seek preferential treatment. For example, banks may foresee that risky loans will default; before making those loans, they might lobby to seek preferential treatment that mitigates the costs of default. This is in line with recent studies documenting that politically connected banks are more likely to obtain preferential treatment. For example, Braun and Raddatz (2010) provide international evidence suggesting that banks with politically connected directors are able to shift regulations in their favor. In the same vein, Duchin and Sosyura (2012, 2014) find that politically connected financial institutions were more likely to receive TARP investments and these investments underperformed in politically connected financial institutions compared to unconnected financial institutions. Similarly, Berger and Roman (2015) documented that banks that received TARP funding support from the government also gained competitive advantages that enabled them to increase their market shares and market power. Under the regulatory-capture view, moral-hazard elements drive the decision to lobby regulators. This is distinctly different from the information-transmission view, where revealing private information drives the decision to lobby. Hence, under the regulatory-capture view, bank lobbying leads to worse loan decisions and borrower performance.

In this paper, we test these two competing hypotheses by examining the relation between bank lobbying and borrower performance using an extensive sample of 30,048 syndicated loan facilities from 1999 to 2017. Controlling for bank and firm characteristics together with bank, firm, and year fixed effects, our baseline results show that bank lobbying is positively related to firm performance, as proxied by return on assets and Tobin's  $q$  for borrowing firms in the year after the loan origination. The results are robust to the exclusion of large banks, banks with high capital adequacy, and banks that have no history of political lobbying.

Although our baseline results are supportive of the information-transmission view of bank lobbying, a potential concern is that unobservable firm heterogeneity correlated with both bank lobbying and firm performance drive the results. We use three approaches to mitigate the endogeneity issue. First, we examine episodes of additions of in-house lobbyists and find that this leads to better borrower performance. Second, we follow Lambert (2019) and use an instrumental variable based on the geographical distance from Washington D.C. Third, we perform a regression analysis based on a propensity-score matched sample to control for the potential systematic differences between lobbying and nonlobbying banks. We find that our results continue to hold across these three different robustness tests.

Importantly, we examine the channels through which bank lobbying improves firm performance. The information-transmission view predicts that bank lobbying improves firm performance because opaque firms that typically find it difficult to raise external capital for profitable projects can now access bank financing if lobbying banks provide valuable firm information to regulators. To validate our hypothesis, we conduct five tests.

First, we show that lobbying banks are more likely to lend to less transparent firms — that is, firms with higher analyst forecast dispersion, analyst forecast error, and earnings volatility.

Second, we identify the types of firms that benefit the most in terms of firm performance. Consistent with our predictions, we find that opaque firms drive the positive relation between bank lobbying and firm performance, as these often more financially constrained firms can now take up profitable projects through external bank financing from lobbying banks.

Third, we examine how information transmission between banks and regulators improves firm performance. We find that the positive relation between bank lobbying and firm performance is concentrated in the sample of loans to borrowers for which the lending banks have valuable information, consistent with the information-transmission view. Fourth, we investigate how managerial monitoring drives the relation between bank lobbying and firm performance, as one would expect that managers who are not monitored may waste funds borrowed from lobbying banks on self-serving projects rather than spend them on productive uses that enhance shareholder value. Using board independence and institutional monitoring as proxies of managerial monitoring, we find firms in which managers are adequately monitored drive the positive effect of bank lobbying on firm performance.

Fifth, we examine the relation between bank lobbying and firm performance conditional upon managerial incentives, as managers without sufficient incentives may not put a lot of effort into searching for profitable projects. Using CEO delta and vega incentives as proxies of managerial incentives, we find that firms offering managers high incentives drive the positive effect of bank lobbying on firm performance. Sixth, we examine how firms improve their performance after receiving credit from lobbying banks. We find that credit granted by lobbying banks enables corporate borrowers to make capital expenditures that increase the scope of their operations, thereby leading to increased sales growth.

Our paper is related to studies on political connections in the banking industry. For example, Braun and Raddatz (2010) provide international evidence suggesting that politically connected banks tilt regulations in their favor. Duchin and Sosyura (2012, 2014) study the effect of TARP investment on risk-taking and performance in the financial sector. They find that politically connected financial institutions are more likely to receive TARP investments, initiate riskier loans, and shift assets toward riskier securities after receiving TARP funding. Kostovetsky (2015) show that politically connected financial institutions have higher leverage, and their stocks have higher volatility and beta. Our paper adds to this literature by showing that lobbying banks lend to more opaque borrowers and their political lobbying activities help to improve the performance of these informationally opaque borrowers.

Moreover, our paper contributes new evidence to the emerging literature on bank lobbying. Igan, Mishra, and Tressel (2012) find that lobbying banks engage in risky mortgage lending in the lead-up to the Great Recession. They show that lobbying banks originate mortgages with higher loan-to-income ratios, securitize a larger proportion of the loans that they originate, and have more rapidly growing mortgage loan portfolios. Igan and Mishra (2014) show that lobbying in the financial industry is positively associated with the probability of a legislator changing positions in favor of deregulation. Lambert (2019) finds that regulators are less likely to initiate enforcement actions against lobbying banks. Our paper contributes to this literature by showing that bank lobbying provides regulators with valuable borrower information.

The rest of the paper is organized as follows. Section 2 describes the data and sample selection and explains the construction of various variables in this study. Section 3 examines the impact of bank lobbying on firm performance. Section 4 analyzes the channels through which bank lobbying improves firm performance, and section 5 concludes.

## 2. Data sources and bank lobbying

### 2.1. Data sources

We use syndicated loans data from the DealScan database to examine whether bank lobbying affects borrower performance. Syndicated loans are the largest source of U.S. corporate financing activity (Sufi, 2007; Ivashina, 2009), with total U.S. loans volume reaching \$2.4 trillion in 2019. These loans are so large that Federal examiners review them on a loan-by-loan basis every year.<sup>1</sup> During the review process, each examiner independently gives each loan one of five grades: “pass” (best), “special mention,” “substandard,” “doubtful,” and “loss” (worst). Adverse ratings are more likely to lead to a review in subsequent checks, heightened supervisory monitoring, and higher loan-loss reserve requirements. Loans rated “substandard,” “doubtful,” or “loss” entail required loan reserves of 20%, 50%, and 100% of the loan utilized exposure amount, respectively. Increases in loan loss reserves lead to higher provision expenses for banks, and as a result, lower net income. There is therefore an incentive for banks to engage in political lobbying to influence the rating process. Using DealScan, we obtain information on the borrowers, lenders, and characteristics of these syndicated loans.

In addition, we obtain bank lobbying data from the Centre for Responsive Politics, financial data from Compustat, and company executive information from Execucomp.<sup>2</sup> Our sample spans 1999 to 2017, given that bank-lobbying data is only available back to 1998 and we measure bank lobbying using annual lags. We consider only the lobbying status of the lead banks (lead arrangers)

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<sup>1</sup> <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200131a.htm>

<sup>2</sup> We link the bank-level lobbying expense variable from the Centre for Responsive Politics to DealScan via the “lender linking table” by Schwert (2018). We also link the firm-level control variables from Compustat to DealScan via the “borrower linking table” provided by Chava and Roberts (2008).

for each syndicated loan because the lead arranger decides on the borrowers and the lending terms. Hence, we only keep observations where *Lead arranger credit* takes the value “Yes” in DealScan. The final sample has 30,048 loan facilities in our baseline regressions.

(Insert Tables 1 & 2 here)

## 2.2. Bank lobbying

The Lobbying Disclosure Act of 1995 requires lobbyists to report information on their activities to the Senate Office of Public Records. Following prior studies (Igan, Mishra, and Tressel, 2012; Lambert, 2019), we use lobbying disclosure reports compiled by the Centre for Responsive Politics, a nonprofit organization based in Washington, D.C., to identify what lobbying banks spend in a given year. The information includes the names of lobbying banks and their annual lobbying expenses.<sup>3</sup> In line with prior studies, we consider all lobbying activities at the parent financial institution level, as individuals benefit from lobbying activities of parent banks, and parents may lobby on behalf of subsidiaries. To reduce simultaneity concerns, we use bank-lobbying expenses in the year before the loan origination.

Table 1 provides definitions for the variables in our empirical analysis, and table 2 provides summary statistics. Panel A of table 2 shows that the average bank in our sample is 38 years old, has total assets of \$1.45 trillion, and spent \$3 million on lobbying. We also split our sample into quartiles based on bank lobbying expense and present the statistics in the last two columns in panel A of table 2. We find that high-lobbying banks are on average bigger and older. Panel B of table 2 presents bank lobbying expense by year. We find that lobbying by banks increased steadily over our sample period, from a trough of \$14.24 million in 2005 to a peak of \$36.68 million in 2011.

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<sup>3</sup> Details can be found on [www.opensecrets.org](http://www.opensecrets.org).

### 2.3. Control variables

We control for a vector of bank, firm, and loan characteristics, which we define in table 1. In our empirical specifications, we use the annual lags of all the control variables. At the bank-year level, we control for bank size, bank age, tier 1 capital, and bank liquidity. Larger and older banks lobby hard (*Wall Street Journal*, 2010) and are likely to exhibit different lending behavior than smaller and younger banks; hence, we need to control for bank size and age. We also need to control for tier 1 capital and bank liquidity, as banks with higher tier 1 capital and liquidity are also likely to exhibit different lobbying and/or lending behavior. For example, they are likely to be more risk-tolerant or lobby more to avoid regulatory compliance.

At the firm-year level, we control for firm size, age, leverage, ROA, R&D, CEO age, and CEO gender. First, larger and older firms are likely to have more limited growth opportunities compared to smaller and younger firms; hence, they are likely to have very different investment and financing policies. Second, firm leverage is the most important determinant of financing policy and loan structure. Third, prior year ROA and R&D are two of the most important factors in determining future performance. Fourth, CEO age and gender affect investment and financing decisions (Huang and Kisgen, 2013; Yim, 2013).

At the loan level, we control for loan spread, loan amount, loan maturity, the number of financial covenants, the presence of performance pricing provisions, collateralization, and the number of lenders in the syndicate. The price and nonprice terms define the cost and riskiness of the loan, whereas the number of lenders in the syndicate measures the level of risk the lead arranger is taking.

Panel A of table 2 reports summary statistics. The average borrower has a ROA of 12.20%, a leverage ratio of 32%, and is led by a CEO who is 56 years old. The average syndicate has a total

of 12 lenders, 42% of the loans have performance pricing provisions in place and 39% of the loans are collateralized.

### 3. Bank lobbying and firm performance

#### 3.1. Baseline results

To examine how bank lobbying affects firm performance, we estimate the following model:

$$FirmROA_{i,t+1} = \alpha + \beta LnBankLobbyingExp_{j,t-1} + \gamma Z_{i,j,t-1} + Bank_j + Firm_i + Year_t + \varepsilon_{i,t} \quad (1)$$

where  $t$  denotes year,  $i$  denotes the firm, and  $j$  denotes the bank. The dependent variable,  $FirmROA_{i,t+1}$ , is the borrower's return on assets one year after obtaining the loan, which is the most common measure of firm performance in the corporate finance literature (e.g., Adams and Ferreira, 2009). The bank lobbying measure,  $LnBankLobbyingExp_{j,t-1}$ , is the logarithm of 1 plus the lender's lobbying expense.  $Z_{i,t}$  is a vector of bank and firm characteristics that are likely to affect the relation between bank lobbying and firm performance.  $Bank_j$ ,  $Firm_i$ , and  $Year_t$  capture bank, firm, and time fixed effects, respectively. In robustness tests, we also use additional location-specific fixed effects. Due to the presence of serial lenders in our sample, the residuals in our regressions may be correlated and hence may overstate the  $t$ -statistics (Petersen, 2009). To control for this potential problem, we cluster standard errors by bank.<sup>4</sup>

(Insert Table 3 here)

Table 3 reports our baseline results. Column 1 shows the results for the full sample. We find that bank lobbying is positively related to firm performance, and the relation is significant at

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<sup>4</sup> As a robustness check, we also cluster standard errors by bank-year, bank-firm, and bank-firm-year. We present the regression results in Appendix Table A2.

the 5% level. In terms of economic importance, an increase in bank lobbying expense by 1% increases ROA for the average corporate borrower in the following year by 0.044 points or 1%  $((12.2+0.044)/12.2)$  for the firm with mean ROA. The equivalent effect on the firm with the mean ROA from a one standard deviation increase is approximately 6.41%  $((12.2+0.044)/12.2)*6.39$ , which is economically substantial.

In column 2, we exclude banks that never lobby from our sample, as these banks may be systematically different from lobbying banks. Column 2 of table 3 reports the results, which actually gain in statistical and economic significance. In column 3, we exclude banks with the highest 20% in bank capital (based on their capital adequacy ratios), as the lending behavior of these banks is likely different because they can afford to take more risk (well-capitalized banks are associated with higher risk-taking due to adverse selection and moral hazard). Fourth, from each year we exclude the largest banks (the top 20% by asset size), as endemic unobserved characteristics of these banks are likely to lead them to both lobby and take higher risk. Again, our baseline result holds.

As a robustness check, we repeat the analysis of table 3 using Tobin's q as the dependent variable. Tobin's q is a future-oriented measure of firm performance, reflecting the premium the capital market pays for book assets. Table A1 in the appendix shows the results. We continue to find a positive and significant relation between bank lobbying and firm performance, and the economic significance is similar to our baseline regressions that use ROA as a measure of firm performance. Specifically, the coefficient estimates indicate that for a corporate borrower with the mean Tobin's q a one standard deviation increase in bank lobbying expense results in an increase in Tobin's q of 6.4%  $((1.69+0.003)/1.69)*6.39$  in the following year for the borrower.

Our baseline results are consistent with the information transmission view of political lobbying. That is, due to industry expertise or borrower relationships certain lenders have more information than regulators do about opaque borrowers. Lenders can thus lobby to reveal private information to regulators in order to avoid tighter lending regulation, leading to better loan decisions and borrower performance.

A potential endogeneity issue that may affect our baseline results is omitted-variables bias. Even after controlling for several known firm and bank characteristics, as well as for year, bank, and firm fixed effects, there may still be unobservable bank or firm heterogeneity correlated with both bank lobbying and firm performance. In what follows, we provide three tests aiming to alleviate these endogeneity concerns.

### *3.2. Adding an in-house lobbyist*

There is much less turnover among in-house lobbying personnel at banks compared to external lobbyists. Using hand-collected data from the Centre for Responsive Politics, we find that each bank on average only expands its in-house lobbying team three times over our 18-year sample period. This indicates that the decision to expand an in-house lobbying team is closely related to lobbying efforts and is not associated with fluctuations in the general business environment or to other bank characteristics.<sup>5</sup>

To examine how the addition of an in-house lobbyist affects firm performance, we estimate the following model:

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<sup>5</sup> We show this in appendix table A3, where we regress a dummy variable reflecting the timing of the addition of an in-house lobbyist on bank characteristics. All the coefficient estimates on the bank characteristics are statistically insignificant.

$$FirmROA_{i,t+1} = \alpha + \beta AdditionofInhouselobbyist_{j,t-1} + \gamma Z_{i,j,t-1} + Bank_j + Year_t + \varepsilon_{i,t} \quad (2)$$

where *Addition of In-house lobbyist* is an indicator variable that takes the value 1 in the year of the in-house lobbyist addition and 0 in all the other years. Combined with bank fixed effects and year fixed effects, it is hard to think of confounding effects on firm ROA consistently occurring at the same time in which banks hire an additional in-house lobbyist.

Table 4 shows the results. Consistent with our hypothesis, the results show that the addition of an in-house bank lobbyist on average increases ROA by 2.2% (0.265/12.2) for the average borrower in our sample.

(Insert Table 4 here)

### 3.3. Instrumental variable analysis

Our second approach to alleviate endogeneity bias is to use an IV model. We resort to the framework proposed by Lambert (2019) and use *Distance to D.C.* as the instrument.<sup>6</sup> *Distance to D.C.* is defined as the interaction between the distance (in km) between the headquarter of the bank and Washington, D.C. (bank-specific cost of lobbying) and the foreign purchases of U.S. Treasury securities (time-varying cost of lobbying). We obtain headquarter locations of U.S. banks from SEC Form 10-K filings, and global purchases of U.S. Treasury securities from the Flow of Funds Accounts published by the Federal Reserve.

Our premise is that *Distance to D.C.* theoretically satisfies both the relevance and the exclusion conditions. Concerning the relevance condition, proximity to Washington, D.C. should

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<sup>6</sup> Lambert (2019) also uses *Initial market size* as an instrument; however, this instrument is perfectly collinear with bank fixed effects.

be less costly for lobbyists in their regular interactions with politicians and regulators. Hence, banks near Washington, D.C. are more likely to hire lobbyists and intensify their lobbying intensity (Igan, Mishra, and Tressel, 2012; Gao and Huang, 2016). Relating to global purchases of U.S Treasury securities, the rationale is that when capital inflows are high, the cost of capital decreases, and therefore the opportunity cost of lobbying decreases. Importantly, *Distance to D.C.* satisfies the exclusion condition as the distance between bank headquarters and Washington, D.C. and foreign purchases of U.S. Treasury securities is unlikely to directly affect a particular borrower's performance.<sup>7</sup>

Table 5 shows the IV results. The first-stage results in column 1 show that *Distance to DC* is indeed negatively related to bank lobbying expenditures, consistent with the relevance conditions. The second-stage results in column 2 show that the coefficient estimate of  $\ln(1+Bank\ Lobbying\ expense)$  remains positive and significant, indicating that our baseline finding holds. The coefficient estimate of 0.23 reveals that a 1% increase in bank lobbying expense results in a ROA increase of 1.02%  $((12.2+0.23)/12.2)$  for the average borrower in our sample. This indicates that the effect of a one standard deviation increase is approximately 6.51%  $((12.2+0.23)/12.2)*6.39$ ), which is similar to the findings from our baseline regressions.

(Insert Table 5 here)

### 3.4. Propensity-score matching

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<sup>7</sup> There is a concern that banks in certain locations may have access to better borrowers during certain times. This would affect the instrument in satisfying the exclusion restriction. We add bank state - year fixed effects and firm state - year fixed effects to our baseline regression results and find that our results continue to hold, indicating that bank- and firm-locations do not affect the significant relation between bank lobbying and firm performance. The regression results are in Appendix Table A4.

Our third approach to alleviate endogeneity is via propensity-score matching, in which we match lobbying banks with “similar” nonlobbying banks to control for potential systematic differences between these two groups. To construct the matched sample, we first estimate a logit regression where the dependent variable is *Lobby*, which equals 1 if the bank lobbies in the year before providing the loan and zero otherwise. The independent variables include all bank-characteristics in our baseline regressions. This generates a predicted probability of being a lobbying bank for each observation, which is the propensity score. Second, we match each lobbying bank with a matched nonlobbying bank that has the closest propensity score within a caliper of 1% (and 10% in order to expand the sample size).

Using the matched samples, we re-estimate the baseline regressions. Table 6 reports the regression results. The coefficients for  $\ln(1 + \text{Bank Lobbying expense})$  are positive and significant at the 5% level. In terms of economic significance, the regression results show that a one standard deviation increase in bank lobbying expense results in a ROA increase of 6.41%  $((12.2 + 0.061) / 12.2) * 6.37$ ) for a corporate borrower with mean ROA, which is again similar to the magnitudes we find in our baseline regression results.

(Insert Table 6 here)

### *3.5 Bank lobbying, corporate investment, and sales growth*

Next, we investigate how firms improve their performance after receiving credit from lobbying banks. Under the information-transmission theory, lobbying banks have information on how borrowers allocate their resources to increase firm performance. Given the sheer size of syndicated loan amounts, we expect that corporate borrowers are likely to use the credit granted by lobbying banks to boost their capital expenditures to increase the scope of their operations, thereby leading

to increased sales growth. To test this prediction, we examine the relation between bank lobbying and corporate capital expenditures in year  $t+1$ , and the relation between bank lobbying and firm sales at year  $t+1$ .

Table 7 presents these results. We find that consistent with our predictions, borrowers' capital expenditures and sales revenue increase after receiving credit from lobbying banks. This finding is consistent with Stiglitz and Weiss (1981) and Greenwood, Sanchez, and Wang (2010), who propose that constraints on external financing stemming from asymmetric information results in opaque firms being underfunded. Our results go further to show that the alleviation of information problems via bank lobbying can help to spur real economic activity.

(Insert Table 7 here)

#### **4. Which firms benefit?**

##### *4.1. Lobbying banks' lending behavior*

We first look at the types of firms that lobbying banks are more likely to lend to, as those firms directly benefit from bank lobbying. The information-transmission view of lobbying predicts that lobbying banks are more likely to lend to opaque firms. We test this prediction by using analyst forecast dispersion, analyst forecast error, and earnings volatility to proxy for firm opaqueness. Analyst forecast dispersion is the standard deviation of analyst forecasts divided by mean analyst forecast value. Analyst forecast error is the absolute value of the difference between estimated and realized earnings, scaled by stock price as of the forecast date. Earnings volatility is the standard deviation of ROA over the five years prior to obtaining the bank loan.

Table 8 presents the results. Columns 1 to 3 show that, consistent with our prediction, lobbying banks are more willing to lend to more opaque and volatile firms. For example, the results

indicate that a bank with a one standard deviation higher lobbying expense would lend to firms with 6.42%  $((2.95+0.013)/2.95)*6.39$  higher earnings volatility. Column 4 of table 8 shows that lobbying banks also charge higher loan spreads as compensation.

(Insert Table 8 here)

Next, we identify exactly the types of firms that benefit from bank lobbying. The information-transmission view of lobbying predicts that bank lobbying improves firm performance because opaque firms that often find it difficult to raise external capital due to asymmetric information can now take up profitable projects by borrowing from lobbying banks. This notion is also consistent with Stiglitz and Weiss (1981) and Greenwood, Sanchez, and Wang (2010), who propose that constraints on external financing stemming from asymmetric information results in opaque firms being underfunded. To test this hypothesis, we split our sample of borrowing firms based on analyst forecast dispersion, analyst forecast error, and earnings volatility. We run the baseline regressions again to identify the types of firms that drive our results. Table 9 shows the results. Consistent with our expectations, we find that opaque and volatile firms drive the positive effect of bank lobbying on firm performance.

(Insert Table 9 here)

Importantly, we examine how information transmission between banks and regulators improves the bank-lending supervisory decisions and corporate borrower performance. The information-transmission theory suggests that banks have better information than regulators and hence they lobby in order to meet with regulators and reveal their superior information, thereby improving supervisory decisions and corporate borrower performance. If this is the case, the improvement in corporate borrower performance should be concentrated in the sample of information-intensive relationship borrowers for which the bank is likely to have superior

information. Banks are most likely to have superior information on two subsamples of borrowers: repeat borrowers, as widely documented in the banking relationship literature (Peterson and Rajan, 1994; Berger and Udell, 1995), and borrowers in sectors and regions where the bank has the greatest relative exposure. Berger, Minnis, and Sutherland (2017) share this view; they find that banks are less likely to collect audited financial statements from firms in industries and regions in which they have more exposure. They conclude that portfolio concentration reveals a bank's expertise.

To test the information-transmission theory of lobbying, we divide firms according to whether a borrower is a repeat borrower at the bank, whether the borrower is in an industry in which the bank has the greatest relative sectoral exposure, and whether the borrower is from a region in which the bank has the greatest relative geographical exposure. Specifically, we calculate each bank's percentage of loans to firms in different Fama-French-12 industries (states) and define the industry (state) as high exposure for the bank if the percentage of loans to that industry (state) ranks within the top quintile of all banks.<sup>8</sup>

Table 10 shows the results. Consistent with the information-transmission theory, we find that the positive relation between bank lobbying and firm performance is concentrated in the subsample of relationship corporate borrowers to which the bank specializes in lending and has gained superior information over time. For example, for corporate borrowers from industries in which its bank has expertise in, an increase of bank lobbying expense by 1% on average results in an ROA increase of 0.257 points for these borrowers in the following year. This is distinctly different to the sample of borrowers in industries where its bank has less exposure to, as we find

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<sup>8</sup> Data on borrower headquarter state are from SEC Form 10-K filings.

that a 1% increase in bank lobbying expense on average only increases ROA for these borrowers by 0.022 points in the following year.

(Insert Table 10 here)

#### *4.2. Firm corporate governance and managerial incentives*

Our results so far suggest that opaque firms benefit from external bank financing from lobbying banks. However, it is also plausible that managers in these firms promote their self-serving investments if they are not monitored. Thus, we expect the positive effect of bank lobbying on firm performance to be concentrated in firms in which managers are adequately monitored. Adams and Ferreira (2007) and Harris and Raviv (2008) suggest that the primary role of independent directors is to monitor firm managers, while Aggarwal, Saffi, and Sturgess (2015) and McCahery, Sautner, and Starks (2016) show that institutional investors have the power to monitor and discipline firm managers through voting. Following these findings, we proxy managerial monitoring with board independence and institutional monitoring. Specifically, we classify firms as having a high level of managerial monitoring if at least 70% of firm directors are independent directors and/or at least 70% of shareholders are institutional shareholders.

Table 11 shows the subsample results. We find that the positive effect of bank lobbying on firm performance is indeed concentrated in firms with a high level of managerial monitoring. For instance, a 1% increase in bank lobbying expense on average increases ROA for corporate borrowers with high board independence by 0.081 points in the following year, whereas the same increase in bank lobbying expense on average result in a 0.02 points reduction in ROA for corporate borrowers with low board independence.

(Insert Table 11 here)

Moreover, given the findings in section 4.1 on the role of firm opaqueness in the loan spread equations, managers might need to exert additional effort in finding and investing capital into highly profitable projects. Therefore, in addition to managerial monitoring, it is likely that our results are driven by firms providing CEOs with the right compensation incentive structures. In the compensation literature, CEO incentives are typically measured using delta and vega incentives (Core and Guay, 1999; Coles, Daniel, and Naveen, 2006). CEO delta is the dollar increase in a CEO's portfolio wealth for a 1% increase in the firm's stock price, whereas CEO vega is the dollar increase in a CEO's portfolio wealth for a 1% increase in the standard deviation of the firm's stock volatility.<sup>9</sup> CEO delta compensation aligns CEO and shareholder incentives, but CEO vega compensation increases CEO risk tolerance. In our setting, CEOs who improve firm performance are likely the ones with high delta and high vega compensation because high delta compensation incentivizes CEOs to work harder, and high vega compensation incentivizes CEOs to undertake risky but potentially highly profitable projects (which is necessary because syndicated loans are expensive).

To test our hypothesis, we split firms into four groups according to their CEO delta and vega compensation and rerun the baseline regressions. Table 12 shows the results. Consistent with our predictions, we find that the positive effect of bank lobbying on firm performance only exists in firms that offer CEOs high delta and vega compensation packages. The coefficient estimates reveal that a 1% increase in bank lobbying expense on average increases ROA for corporate borrowers with high compensation incentive structures by 0.05 points in the following year, as opposed to a reduction of -0.002 points for borrowers with poor compensation incentive structures.

(Insert Table 12 here)

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<sup>9</sup> See e.g. Coles, Daniel, and Naveen (2006) for the detailed steps involved in the calculations.

## **5. Conclusion**

In this paper, we examine how bank lobbying affects firm performance through the prism of syndicated bank lending. Using an extensive sample of 30,048 syndicated loan facilities and bank-lobbying data from the Centre for Responsive Politics, we find that bank lobbying improves firms' performance one year after loan origination. Our findings hold in an analysis based on additions of in-house lobbyists, an instrumental variable model, and propensity-score matched-sample regressions. We also find that lobbying banks are more likely to provide loans to opaque and volatile firms, and the credit granted by lobbying banks enables corporate borrowers to make capital expenditures and increase the scope of their operations, thereby leading to increased sales growth. Moreover, the positive effect of bank lobbying on firm performance especially holds if firm managers are monitored and have strong compensation incentives. Overall, our findings are consistent with the information-transmission theory that lobbying provides regulators with valuable information that results in better bank-lending supervisory decisions and firm performance.

Our paper contributes to the extant literature on political connections in the banking industry. Although prior studies document that politically connected financial institutions receive preferential treatment and create moral-hazard problems, our study contributes to the literature by providing the bright side of political connections in the banking industry. Specifically, we show that bank lobbying allows information-intensive firms to access bank credit, which helps these firms to undertake more productive investments and boosts corporate performance.

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**Table 1: Variable Definitions and Sources**

Variable name	Variable definition	Source
Panel A: Bank-level variables		
Ln (1+Lobbying expense)	Log of 1 plus lobbying expenses incurred by the bank (annual lag)	www.opensecrets.org
Ln (Bank Size)	Log of total assets ( <i>AT</i> )	Compustat
Ln (Bank Age)	Number of years since the bank's first appearance on Compustat	Compustat
Bank Tier 1 Capital	Bank Tier 1 capital ratio ( <i>CAPRI</i> )	Compustat
Bank Liquidity	Liquid assets ( <i>CHE</i> ) scaled by total assets ( <i>AT</i> )	Compustat
Distance to D.C.	The interaction between the distance (in km) between the headquarter of the bank and Washington, D.C. (bank-specific component) and the foreign purchases of U.S. Treasury securities (time-varying component)	SEC Form 10-K filings and Federal Reserve
Panel B: Firm-level variables		
Firm ROA	Operating income before depreciation ( <i>OIBDP</i> ) divided by total assets ( <i>AT</i> )	Compustat
Firm Tobin's Q	Market value of assets over book value of assets ( $AT - CEQ + CSHO * PRCC / AT$ )	Compustat
Ln (Firm Size)	Log of total assets ( <i>AT</i> )	Compustat
Ln (Firm Age)	Number of years since the firm's first appearance in Compustat	Compustat
Firm R&D	R&D expense ( <i>XRD</i> ) scaled by total assets ( <i>AT</i> )	Compustat
Firm Leverage	Book value of debt ( $DLC + DLTT$ ) divided by total assets ( <i>AT</i> )	Compustat
Firm Capex	Capital expenditure ( <i>CAPX</i> ) scaled by total assets ( <i>AT</i> )	Compustat
Ln (Firm Sales)	Log of sale ( <i>SALE</i> )	Compustat
CEO Age	Age of the CEO	Execucomp
CEO Gender	Gender of the CEO	Execucomp
Forecast Dispersion	Standard deviation of earnings forecast divided by mean earnings forecast	I/B/E/S
Forecast Error	The absolute value of actual earnings minus mean earnings forecast, all divided by the stock price at the time of the earnings forecast	I/B/E/S
Earnings Volatility	Standard deviation of ROA over the past five years	Compustat
Board Independence	Percentage of independent directors on the board	Riskmetrics
Institutional Ownership	Percentage of institutional investors in the firm	Thomson Reuters
Panel C: Loan-level characteristics		
Ln (Loan Spread)	Log of Loan spread in basis points over LIBOR	Dealscan
Ln (Loan Maturity)	Log of Loan maturity in months	Dealscan
Ln (Loan Amount)	Log of Loan amount	Dealscan
Number of Lenders	Number of lenders in the syndicate	Dealscan
Financial Covenants	Number of financial covenants	Dealscan
Performance Pricing	Indicator variable that equals 1 if the loan involves performance pricing, and zero otherwise	Dealscan
Collateral	Indicator variable that equals 1 if the loan involves collateral, and zero otherwise	Dealscan
Panel D: Instrument		
Distance to D.C.	The interaction between the distance (in km) between the headquarter of the bank and Washington, D.C. (bank-specific component) and the foreign purchases of U.S. Treasury securities (time-varying component)	Compustat, SEC Form 10-K filings, and Federal Reserve

**Table 2: Summary Statistics**

This table reports the summary statistics for variables and bank lobbying expenditures. Panel A reports the summary statistics for the bank-level, firm-level, and loan-level variables and compares high-lobbying banks and low-lobbying banks. *T*-statistics are calculated from robust standard errors clustered by bank and statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively. Panel B reports bank lobbying expenditures by year. We winsorize all continuous variables at the 1st and 99th percentile levels. We define all variables in table 1.

Panel A: Summary statistics					
	Mean	Std. dev.	Q1	Median	Q3
<b>Bank-level variables</b>					
Ln (1+Bank Lobbying Expense)	11.25	6.39	10.60	14.86	15.51
Ln (Bank Size)	13.90	0.92	13.52	14.26	14.59
Ln (Bank Age)	3.54	0.56	3.33	3.76	3.97
Bank Tier 1 Capital Ratio	11.36	2.38	8.74	11.90	12.90
Bank Liquidity	0.13	0.07	0.07	0.14	0.17
<b>Firm-level variables</b>					
Firm ROA (%)	12.20	8.45	8.34	11.39	15.47
Firm Tobin's Q	1.69	0.81	1.16	1.44	1.92
Ln (Firm Size)	8.72	1.57	7.64	8.70	9.73
Ln (Firm Age)	3.23	0.78	2.77	3.33	3.93
Firm Earnings Volatility (%)	2.95	3.76	1.19	2.04	3.40
Firm Forecast Dispersion (%)	3.73	15.22	1.35	2.40	5.15
Firm Forecast Error (%)	1.19	3.71	0.14	0.35	0.86
Firm Leverage	0.32	0.20	0.19	0.30	0.43
Firm R&D	0.01	0.03	0.00	0.00	0.01
Firm Capex (%)	4.54	4.46	1.79	3.36	5.88
Firm Sales	8.49	1.37	2.93	7.59	8.45
Firm CEO Age	55.92	6.58	52.00	56.00	60.00
Firm CEO Gender	0.03	0.17	0.00	0.00	0.00
<b>Loan-level variables</b>					
Ln (Loan Spread)	5.00	0.74	4.72	5.01	5.52
Ln (Loan Maturity)	3.81	0.60	3.69	4.09	4.09
Ln (Loan Amount)	19.88	1.29	19.11	20.00	20.72
Number of Lenders	12.05	8.83	6.00	10.00	15.00
Financial Covenants	1.04	1.09	0.00	1.00	2.00
Performance Pricing	0.42	0.49	0.00	0.00	1.00
Collateral	0.39	0.49	0.00	0.00	1.00
<b>Panel B: Lobbying expenditures by year</b>					
Year	Lobbying expense (\$millions)	Year	Lobbying expense (\$millions)		
1998	22.91	2007	25.11		
1999	18.33	2008	24.24		
2000	16.85	2009	26.38		
2001	19.03	2010	33.90		
2002	19.06	2011	36.68		
2003	28.66	2012	35.06		
2004	24.46	2013	34.46		
2005	14.24	2014	34.01		
2006	24.34	2015	32.90		

**Table 3: Bank Lobbying and Firm Performance**

This table reports the relation between bank lobbying and firm performance. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)
	Full sample	Lobbying banks only	Exclude top 20% capital adequacy banks from each year	Exclude top 20% largest banks from each year
Dep.: Firm ROA ( <i>t</i> +1)				
Ln (1+Bank Lobbying Expense)	0.044** (2.624)	0.048*** (2.805)	0.049** (2.122)	0.050** (2.561)
Ln (Bank Size)	0.093 (0.286)	0.160 (0.510)	0.134 (0.367)	0.276 (0.662)
Ln (Bank Age)	-0.184 (-0.492)	-0.070 (-0.168)	-0.482 (-1.232)	-0.224 (-0.569)
Bank Tier 1 Capital	0.011 (0.198)	0.002 (0.035)	-0.065 (-0.847)	-0.015 (-0.260)
Bank Liquidity	-0.468 (-0.358)	0.228 (0.154)	0.751 (0.452)	-0.525 (-0.319)
Ln (Firm Size)	-2.821*** (-13.719)	-2.847*** (-11.734)	-2.918*** (-12.604)	-2.930*** (-13.322)
Ln (Firm Age)	-0.050 (-0.095)	0.013 (0.021)	-0.073 (-0.125)	-0.346 (-0.805)
Firm Leverage	3.011*** (5.586)	3.397*** (6.954)	3.403*** (7.407)	3.185*** (5.899)
Firm ROA	-0.001 (-0.131)	0.009 (0.743)	-0.005 (-0.375)	0.002 (0.158)
Firm R&D	-13.222 (-1.550)	-14.778 (-1.597)	-16.886* (-1.776)	-14.681 (-1.572)
Firm CEO Age	0.040*** (3.532)	0.035*** (2.814)	0.038*** (3.140)	0.042*** (2.924)
Firm CEO Gender	0.186 (0.469)	0.145 (0.350)	0.192 (0.495)	0.220 (0.542)
Ln (Loan Spread)	-0.814*** (-10.661)	-0.843*** (-11.414)	-0.823*** (-9.908)	-0.759*** (-8.536)
Ln (Loan Amount)	-0.029 (-0.640)	-0.015 (-0.316)	-0.007 (-0.135)	-0.017 (-0.356)
Ln (Loan Maturity)	0.357*** (6.306)	0.406*** (6.123)	0.386*** (6.203)	0.347*** (5.662)
Number of Lenders	0.007 (1.217)	0.005 (0.900)	0.005 (0.920)	0.012 (1.508)
Financial Covenants	-0.080 (-1.352)	-0.113* (-1.878)	-0.105* (-1.703)	-0.090 (-1.338)
Performance Pricing	0.265** (2.248)	0.348** (2.601)	0.309** (2.201)	0.217* (1.763)
Collateral	-0.415** (-2.556)	-0.490*** (-3.028)	-0.457** (-2.584)	-0.426** (-2.377)
Bank FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes
Number of Observations	30048	25572	25626	26046
Adjusted R <sup>2</sup>	0.609	0.598	0.593	0.597

**Table 4: Bank Lobbying and Firm Performance: Addition of In-house Lobbyist**

This table reports the relation between the addition of an in-house lobbyist and firm performance. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

Dep.: Firm ROA ( <i>t</i> +1)	(1)	(2)
Addition of In-House Lobbyist	0.265*** (2.744)	0.205*** (2.788)
Ln (Bank Size)	0.248 (0.637)	0.016 (0.051)
Ln (Bank Age)	0.610 (1.436)	-0.312 (-0.861)
Bank Tier 1 Capital	0.075 (1.262)	0.009 (0.145)
Bank Liquidity	-0.860 (-0.409)	-0.578 (-0.435)
Ln (Firm Size)	-1.034*** (-11.567)	-2.811*** (-13.700)
Ln (Firm Age)	0.093 (0.939)	-0.044 (-0.083)
Firm Leverage	5.380*** (14.602)	3.009*** (5.571)
Firm ROA	0.393*** (12.174)	-0.001 (-0.130)
Firm R&D	11.383*** (7.438)	-12.857 (-1.505)
Firm CEO Age	0.007 (0.927)	0.040*** (3.548)
Firm CEO Gender	0.378 (1.276)	0.162 (0.407)
Ln (Loan Spread)	-1.836*** (-11.488)	-0.810*** (-10.692)
Ln (Loan Amount)	0.089 (1.183)	-0.027 (-0.593)
Ln (Loan Maturity)	0.433*** (4.753)	0.355*** (6.264)
Number of Lenders	-0.011* (-1.720)	0.007 (1.320)
Financial Covenants	-0.215*** (-4.629)	-0.083 (-1.387)
Performance Pricing	0.390*** (3.698)	0.260** (2.221)
Collateral	-0.228 (-1.292)	-0.411** (-2.531)
Bank FE	Yes	Yes
Firm FE	No	Yes
Year FE	Yes	Yes
Clustered SE	Yes	Yes
Number of Observations	30048	30048
Adjusted R <sup>2</sup>	0.271	0.609

**Table 5: Bank Lobbying and Firm Performance: 2SLS Results**

The table reports the 2SLS regressions of bank lobbying on firm performance. Column 1 reports the result of the first stage, where bank lobbying expenditure is regressed on *Distance to DC*. Column 2 reports the results for the second stage, where firm performance is regressed over instrumented bank lobbying expenditures. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1) First stage Dep. = Ln (1+bank lobbying expense)	(2) Second stage Dep.=Firm ROA ( <i>t</i> +1)
Ln (1+Bank Lobbying Expense)		0.230** (2.157)
Distance to DC	-0.596** (-2.115)	
Ln (Bank Size)	-2.167 (-1.304)	0.190 (0.628)
Ln (Bank Age)	-2.501 (-0.380)	1.533 (0.681)
Bank Tier 1 Capital	-0.657* (-1.721)	0.134* (1.840)
Bank Liquidity	-15.339*** (-3.333)	3.530* (1.986)
Ln (Firm Size)	0.142** (2.401)	-2.901*** (-11.832)
Ln (Firm Age)	0.167 (0.986)	-0.050 (-0.078)
Firm Leverage	-0.017 (-0.086)	3.173*** (5.877)
Firm ROA	-0.001 (-0.222)	0.020 (1.528)
Firm R&D	6.543** (2.162)	-18.193* (-1.801)
Firm CEO Age	0.006 (0.934)	0.041*** (2.832)
Firm CEO Gender	-0.194** (-2.059)	0.039 (0.089)
Ln (Loan Spread)	0.086* (1.693)	-0.868*** (-11.965)
Ln (Loan Amount)	0.051* (1.925)	-0.009 (-0.165)
Ln (Loan Maturity)	0.006 (0.288)	0.393*** (6.617)
Number of Lenders	0.007*** (3.195)	0.002 (0.313)
Financial Covenants	0.006 (0.286)	-0.054 (-0.812)
Performance Pricing	-0.047 (-1.354)	0.180 (1.488)
Collateral	0.032 (0.831)	-0.644*** (-4.409)
Bank FE	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Clustered SE	Yes	Yes
Number of Observations	22202	22202

**Table 6: Bank Lobbying and Firm Performance: Matched Sample**

This table reports the relation between bank lobbying and firm performance using a matched sample. To construct this matched sample, we first estimate a logit regression in which the dependent variable equals 1 if a bank lobbies in the year before the loan is made and zero otherwise. The independent variables are all the bank characteristics variables. The predicted likelihood is the propensity score. We then match each treatment bank (a lobbying bank) with a matching bank (a nonlobbying bank) that has the closest propensity score within a caliper of 1% (and 10%). All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

Dep.=Firm ROA ( <i>t</i> +1)	(1) Caliper = 1%	(2) Caliper = 10%
Ln (1+Bank Lobbying Expense)	0.052** (2.578)	0.061** (2.659)
Ln (Bank Size)	-0.111 (-0.290)	0.625 (0.810)
Ln (Bank Age)	-0.081 (-0.181)	-0.456 (-0.638)
Bank Tier 1 Capital	-0.045 (-0.654)	0.017 (0.135)
Bank Liquidity	-0.879 (-0.230)	-3.751 (-0.667)
Ln (Firm Size)	-2.065*** (-4.254)	-2.382*** (-4.269)
Ln (Firm Age)	1.079 (1.217)	2.018** (2.133)
Firm Leverage	0.146 (0.101)	-0.675 (-0.424)
Firm ROA	0.095** (2.196)	0.039 (0.643)
Firm R&D	-36.509* (-1.863)	-6.206 (-0.383)
Firm CEO Age	0.027 (1.296)	0.033 (1.657)
Firm CEO Gender	1.200 (1.437)	1.918* (1.878)
Ln (Loan Spread)	-0.114 (-0.411)	-0.058 (-0.268)
Ln (Loan Amount)	-0.199** (-2.234)	-0.143* (-1.795)
Ln (Loan Maturity)	0.117 (0.934)	0.050 (0.366)
Number of Lenders	0.009 (0.712)	0.022 (1.386)
Financial Covenants	-0.087 (-0.823)	-0.298 (-1.562)
Performance Pricing	0.375 (1.661)	0.689* (1.945)
Collateral	0.479* (1.995)	0.551 (1.677)
Bank FE	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Clustered SE	Yes	Yes
Number of Observations	4202	5245
Adjusted R <sup>2</sup>	0.793	0.705

**Table 7: Bank Lobbying, Firm Capital Expenditure, and Sales Growth**

This table reports the relation between bank lobbying and firm capital expenditure and sales growth. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1) Firm Capex ( <i>t</i> +1)	(2) Ln (Firm Sales) ( <i>t</i> +1)
Ln (1+Bank Lobbying Expense)	0.019* (1.908)	0.002* (1.789)
Ln (Bank Size)	-0.001 (-0.009)	-0.012 (-0.704)
Ln (Bank Age)	-0.365* (-1.748)	-0.063*** (-3.949)
Bank Tier 1 Capital	-0.034 (-1.575)	0.002 (0.961)
Bank Liquidity	0.358 (0.552)	-0.069 (-0.953)
Ln (Firm Size)	-0.454*** (-5.020)	0.467*** (27.062)
Ln (Firm Age)	-1.192*** (-5.247)	0.147*** (4.741)
Firm Leverage	-1.093*** (-4.341)	-0.174*** (-5.886)
Firm ROA	0.031*** (8.957)	0.006*** (7.607)
Firm R&D	-2.182 (-0.629)	2.963*** (4.764)
Firm CEO Age	0.027*** (3.580)	-0.000 (-0.151)
Firm CEO Gender	0.489*** (2.985)	-0.017 (-1.433)
Ln (Loan Spread)	-0.470*** (-8.851)	-0.010 (-1.097)
Ln (Loan Amount)	-0.071*** (-3.764)	0.026*** (8.296)
Ln (Loan Maturity)	0.130*** (5.914)	-0.025*** (-4.845)
Number of Lenders	0.002 (0.561)	0.001*** (5.871)
Financial Covenants	0.011 (0.445)	-0.009** (-2.402)
Performance Pricing	-0.081 (-1.337)	0.015*** (3.321)
Collateral	-0.175*** (-3.000)	-0.009 (-1.023)
Bank FE	Yes	Yes
Firm FE	Yes	Yes
Year FE	Yes	Yes
Clustered SE	Yes	Yes
Number of Observations	29950	30044
Adjusted R <sup>2</sup>	0.807	0.971

**Table 8: Bank Lobbying and Lending Behavior**

This table reports the relation between bank lobbying and lending behavior. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)
	Forecast dispersion	Forecast error	Earnings volatility	Ln(Loan spread)
Ln (1+Bank Lobbying Expense)	0.090** (2.371)	0.013* (1.901)	0.013** (2.146)	0.004** (2.081)
Ln (Bank Size)	-0.511 (-0.568)	0.352* (1.926)	-0.090 (-0.945)	-0.074* (-1.977)
Ln (Bank Age)	1.552* (1.973)	-0.198 (-0.960)	-0.151 (-0.861)	-0.042 (-1.096)
Bank Tier 1 Capital	0.135 (0.964)	0.021 (0.716)	0.016 (0.734)	0.007** (2.040)
Bank Liquidity	3.004 (0.838)	0.220 (0.292)	-2.211*** (-3.192)	0.358** (2.629)
Ln (Firm Size)	-2.085*** (-3.293)	-0.239** (-2.147)	-1.002*** (-10.851)	-0.010 (-0.827)
Ln (Firm Age)	2.465** (2.197)	0.657*** (3.705)	-1.722*** (-9.744)	-0.290*** (-15.917)
Firm Leverage	-3.760* (-1.821)	3.084*** (8.099)	0.491* (1.891)	0.376*** (7.261)
Firm ROA	-0.002 (-0.030)	-0.043*** (-7.967)	-0.281*** (-16.167)	-0.005*** (-4.496)
Firm R&D	9.234 (0.721)	4.735 (1.373)	16.943*** (4.690)	-0.866 (-1.465)
Firm CEO Age	0.048 (1.482)	0.001 (0.170)	-0.006 (-1.431)	-0.002 (-1.170)
Firm CEO Gender	-1.843** (-2.442)	0.001 (0.004)	-0.582*** (-3.851)	0.036 (1.020)
Ln (Loan Spread)	0.436 (1.084)	0.054 (0.836)	-0.162*** (-2.967)	
Ln (Loan Amount)	-0.354*** (-3.302)	0.006 (0.263)	0.044*** (3.222)	-0.058*** (-8.381)
Ln (Loan Maturity)	-0.383* (-1.741)	0.105** (2.548)	0.057** (2.355)	0.038*** (5.107)
Number of Lenders	0.146*** (4.489)	-0.037*** (-5.389)	-0.002 (-0.695)	-0.007*** (-7.707)
Financial Covenants	-1.025*** (-3.069)	0.088 (1.068)	-0.047 (-1.331)	0.022*** (3.438)
Performance Pricing	0.614* (1.963)	-0.183*** (-4.022)	0.089* (1.889)	-0.051*** (-4.813)
Collateral	-1.575*** (-3.124)	0.225*** (3.151)	0.066 (1.249)	0.341*** (14.713)
Bank FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes
Number of Observations	23733	22356	28233	30048
Adjusted R <sup>2</sup>	0.339	0.622	0.734	0.749

**Table 9: Bank Lobbying and Firm Performance Conditional upon Lending Behavior**

This table reports the relation between bank lobbying and firm performance conditional upon lending behavior. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Low	High	Low	High	Low	High
	forecast	forecast	forecast	forecast	earnings	earnings
	dispersion	dispersion	error	error	volatility	volatility
Dep.= Firm ROA ( <i>t</i> +1)						
Ln (1+Bank Lobbying Expense)	0.020 (1.093)	0.081** (2.254)	0.023 (1.591)	0.108** (2.285)	0.015 (1.608)	0.086** (2.570)
	H0: $\beta(1) = \beta(2)$ (0.137)		H0: $\beta(3) = \beta(4)$ (0.061)		H0: $\beta(5) = \beta(6)$ (0.027)	
Ln (Bank Size)	0.015 (0.075)	0.371 (0.481)	-0.339 (-1.034)	1.245 (1.576)	-0.177 (-1.367)	0.455 (0.693)
Ln (Bank Age)	-0.485 (-1.094)	0.901 (1.249)	-0.190 (-0.363)	-0.201 (-0.254)	-0.172 (-1.170)	-0.063 (-0.091)
Bank Tier 1 Capital	-0.000 (-0.002)	0.148 (1.236)	0.038 (0.837)	0.073 (0.797)	-0.008 (-0.228)	-0.018 (-0.192)
Bank Liquidity	1.341 (0.940)	-1.684 (-0.638)	4.236*** (4.006)	-5.061 (-1.584)	0.834 (1.207)	-1.282 (-0.538)
Ln (Firm Size)	-0.572** (-2.452)	-4.725*** (-8.074)	-1.272*** (-4.679)	-5.143*** (-6.176)	-0.472** (-2.603)	-4.226*** (-10.324)
Ln (Firm Age)	-1.419** (-2.465)	0.676 (0.327)	-1.859*** (-3.283)	2.755 (1.395)	-0.673 (-1.350)	2.437** (2.173)
Firm Leverage	1.692* (1.800)	3.511** (2.491)	0.116 (0.174)	8.971*** (5.995)	1.887*** (3.422)	5.120*** (4.022)
Firm ROA	0.295*** (11.864)	-0.012 (-0.918)	0.236*** (8.453)	-0.107*** (-3.169)	0.386*** (14.319)	-0.053* (-1.991)
Firm R&D	20.068 (1.527)	-30.500** (-2.171)	30.356** (2.312)	-34.002* (-1.718)	49.873*** (6.160)	-20.251* (-1.813)
Firm CEO Age	0.027* (1.800)	0.129*** (4.299)	0.026** (2.303)	0.098*** (2.893)	-0.001 (-0.222)	0.074** (2.453)
Firm CEO Gender	0.097 (0.180)	2.001*** (3.623)	-0.630 (-1.463)	0.656 (1.155)	-0.867** (-2.442)	1.400** (2.100)
Ln (Loan Spread)	-0.817*** (-11.186)	-0.440** (-2.018)	-0.710*** (-4.479)	-0.878*** (-4.096)	-0.328*** (-5.258)	-1.084*** (-5.797)
Ln (Loan Amount)	-0.226*** (-5.294)	0.041 (0.435)	-0.162*** (-3.965)	0.097 (0.963)	-0.065*** (-3.074)	0.075 (0.823)
Ln (Loan Maturity)	0.275*** (4.100)	0.486*** (3.809)	0.250*** (3.840)	0.234 (1.347)	0.125*** (3.186)	0.458*** (2.954)
Number of Lenders	-0.011* (-1.970)	0.050** (2.659)	0.005 (0.845)	0.037*** (2.766)	-0.011** (-2.347)	0.028* (1.996)
Financial Covenants	0.055 (0.894)	-0.408** (-2.596)	-0.119 (-0.842)	-0.192 (-1.177)	-0.018 (-0.399)	-0.096 (-0.784)
Performance Pricing	0.074 (1.108)	0.319 (1.157)	-0.099 (-1.205)	0.408 (1.386)	0.085 (1.216)	0.354 (1.318)
Collateral	0.121 (0.984)	-0.415 (-1.177)	0.065 (0.290)	-0.183 (-0.741)	0.044 (0.451)	-0.667** (-2.201)
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	11816	11732	11129	11043	14069	13997
Adjusted R <sup>2</sup>	0.866	0.457	0.792	0.522	0.866	0.538

**Table 10: Bank Lobbying and Firm Performance Conditional upon Bank Information Intensity**

This table reports the relation between bank lobbying and firm performance conditional upon bank information intensity about the borrower. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1) Bank-firm relationship =0	(2) Bank-firm relationship =1	(3) Bank- industry expertise=0	(4) Bank- industry expertise=1	(5) Bank- location expertise=0	(6) Bank- location expertise=1
Dep.= Firm ROA ( <i>t</i> +1)						
Ln (1+Bank Lobbying Expense)	0.015 (0.705)	0.048** (2.562)	0.022 (1.267)	0.257** (2.415)	0.034** (2.381)	0.146*** (2.678)
	H0: $\beta(1) = \beta(2)$ (0.143)		H0: $\beta(3) = \beta(4)$ (0.022)		H0: $\beta(5) = \beta(6)$ (0.044)	
Ln (Bank Size)	-1.098*** (-2.845)	0.305 (0.706)	-0.262 (-1.379)	2.808 (0.921)	-0.021 (-0.123)	2.434 (1.265)
Ln (Bank Age)	0.201 (0.467)	-0.226 (-0.475)	-0.036 (-0.072)	-0.240 (-0.193)	-0.029 (-0.075)	0.120 (0.126)
Bank Tier 1 Capital	-0.033 (-0.576)	0.017 (0.208)	-0.024 (-0.450)	0.260 (1.193)	0.012 (0.189)	0.216** (2.063)
Bank Liquidity	1.821 (0.729)	0.087 (0.052)	1.053 (0.907)	-15.340* (-1.719)	0.833 (0.643)	-10.438 (-1.626)
Ln (Firm Size)	-2.268*** (-4.500)	-3.088*** (-11.272)	-2.808*** (-12.394)	-3.039*** (-3.087)	-2.998*** (-10.268)	-2.330*** (-4.138)
Ln (Firm Age)	-0.660 (-0.682)	0.243 (0.303)	-0.124 (-0.229)	1.321 (0.711)	0.621 (0.977)	-2.309* (-1.891)
Firm Leverage	2.040** (2.668)	3.428*** (3.756)	3.020*** (5.087)	5.690*** (3.054)	3.275*** (6.148)	0.265 (0.167)
Firm ROA	0.062 (1.568)	-0.046*** (-3.214)	-0.007 (-0.505)	0.099 (1.567)	-0.023** (-2.080)	0.049 (1.301)
Firm R&D	-20.958 (-1.617)	2.668 (0.286)	-17.955** (-2.036)	44.150 (1.515)	-3.583 (-0.349)	-4.919 (-0.319)
Firm CEO Age	0.051** (2.151)	0.025** (2.257)	0.042*** (3.735)	-0.005 (-0.123)	0.037*** (2.752)	0.067*** (3.037)
Firm CEO Gender	-0.108 (-0.198)	0.343 (0.697)	0.144 (0.398)	3.363* (2.001)	0.213 (0.501)	1.192 (0.907)
Ln (Loan Spread)	-1.098*** (-6.731)	-0.759*** (-5.783)	-0.834*** (-9.135)	-0.040 (-0.087)	-0.765*** (-7.322)	0.231 (0.646)
Ln (Loan Amount)	0.032 (0.211)	-0.059 (-1.476)	-0.016 (-0.276)	-0.069 (-0.557)	0.023 (0.377)	-0.205** (-2.253)
Ln (Loan Maturity)	0.103 (1.014)	0.413*** (6.138)	0.369*** (6.120)	-0.028 (-0.091)	0.335*** (5.296)	0.096 (0.475)
Number of Lenders	0.006 (0.565)	0.008 (1.206)	0.002 (0.371)	0.039 (1.594)	0.001 (0.224)	0.013 (0.730)
Financial Covenants	-0.013 (-0.163)	-0.148** (-2.270)	-0.047 (-0.987)	-0.631** (-2.276)	-0.062 (-0.753)	-0.361* (-1.711)
Performance Pricing	0.141 (1.184)	0.400** (2.523)	0.169 (1.422)	1.082** (2.092)	0.199 (1.543)	0.235 (1.304)
Collateral	0.099 (0.406)	-0.642*** (-3.205)	-0.494*** (-2.817)	0.009 (0.020)	-0.389*** (-2.724)	0.310 (0.779)
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes	Yes	Yes
Number of Observations	10155	19529	26145	3586	23482	4166
Adjusted R <sup>2</sup>	0.720	0.581	0.621	0.627	0.594	0.764

**Table 11: Bank Lobbying and Firm Performance: Firm Monitoring**

This table reports the relation between bank lobbying and firm performance conditional upon firm monitoring. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)
	Low board independence	High board independence	Low institutional ownership	High institutional ownership
	(< 70%)	(>= 70%)	(< 70%)	(>= 70%)
Dep.= Firm ROA ( <i>t</i> +1)				
Ln (1+Bank Lobbying Expense)	-0.020 (-0.724)	0.081*** (3.048)	0.009 (0.377)	0.080*** (3.197)
	H0: $\beta(1) = \beta(2)$ (0.005)		H0: $\beta(3) = \beta(4)$ (0.011)	
Ln (Bank Size)	-0.404 (-0.622)	0.965* (1.695)	-0.269 (-0.740)	0.635 (1.098)
Ln (Bank Age)	-0.554 (-1.249)	-0.340 (-0.737)	-0.435 (-1.285)	0.359 (0.517)
Bank Tier 1 Capital	-0.120 (-1.204)	0.177*** (3.403)	0.062 (1.505)	0.109 (1.267)
Bank Liquidity	-0.883 (-0.257)	-1.258 (-0.705)	1.154 (0.669)	0.983 (0.462)
Ln (Firm Size)	-3.642*** (-11.771)	-3.050*** (-10.050)	-1.645*** (-3.137)	-3.994*** (-8.452)
Ln (Firm Age)	-2.543 (-1.186)	0.647 (0.742)	1.137 (1.413)	0.700 (0.655)
Firm Leverage	3.416** (2.021)	-0.087 (-0.087)	3.004** (2.464)	2.386** (2.362)
Firm ROA	-0.218*** (-2.713)	-0.064*** (-3.421)	-0.004 (-0.096)	-0.026 (-0.904)
Firm R&D	21.925 (0.644)	-0.256 (-0.044)	28.466 (1.412)	-6.492 (-0.715)
Firm CEO Age	0.011 (0.375)	0.016 (1.243)	0.021* (1.714)	0.060*** (3.251)
Firm CEO Gender	-0.393 (-0.418)	0.198 (0.362)	-1.189*** (-3.158)	0.718 (0.941)
Ln (Loan Spread)	-0.164 (-0.537)	-0.262* (-1.968)	-0.231 (-1.637)	-0.674*** (-3.151)
Ln (Loan Amount)	0.098 (1.075)	-0.005 (-0.079)	-0.139*** (-2.711)	0.065 (0.619)
Ln (Loan Maturity)	0.041 (0.287)	0.214** (2.528)	0.035 (0.588)	0.399*** (3.449)
Number of Lenders	0.004 (0.386)	0.022*** (2.675)	-0.021* (-1.791)	0.027*** (3.186)
Financial Covenants	-0.173 (-0.650)	-0.341*** (-3.086)	0.237* (1.994)	-0.367** (-2.648)
Performance Pricing	0.427** (2.285)	0.394** (2.074)	-0.020 (-0.128)	0.534** (2.278)
Collateral	-0.258 (-0.749)	-0.113 (-0.514)	-0.301* (-1.807)	-0.135 (-0.504)
Bank FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes
Number of Observations	5075	15900	7053	16453
Adjusted R <sup>2</sup>	0.738	0.565	0.861	0.536

**Table 12: Bank Lobbying and Firm Performance: Firm CEO Incentives**

This table reports the relation between bank lobbying and firm performance conditional upon firm CEO incentives. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)
Dep.= Firm ROA ( <i>t</i> +1)	Low CEO delta and low CEO vega	Low CEO delta and high CEO vega	High CEO delta and low CEO vega	High CEO delta and high CEO vega
Ln (1+Bank Lobbying Expense)	-0.002 (-0.104)	0.012 (0.605)	0.009 (0.340)	0.050** (2.356)
	H0: $\beta(1) = \beta(4)$ (0.060)			
Ln (Bank Size)	-0.328 (-0.810)	-0.404 (-1.160)	-0.847 (-1.472)	0.790 (1.070)
Ln (Bank Age)	0.130 (0.302)	-1.429** (-2.317)	-0.786 (-1.251)	-0.412 (-0.547)
Bank Tier 1 Capital	-0.017 (-0.338)	0.081 (1.537)	-0.041 (-0.564)	0.038 (0.309)
Bank Liquidity	-3.238** (-2.126)	0.120 (0.064)	4.065*** (2.691)	0.206 (0.067)
Ln (Firm Size)	-3.023*** (-9.036)	-0.942** (-2.025)	0.644* (1.744)	-2.693*** (-4.787)
Ln (Firm Age)	-1.021* (-1.700)	-2.566 (-1.465)	-10.029*** (-3.931)	2.519** (2.369)
Firm Leverage	4.764*** (4.935)	3.364 (1.144)	-0.826 (-0.517)	3.842*** (2.936)
Firm ROA	-0.004 (-0.367)	-0.010 (-0.193)	-0.044 (-0.481)	0.131*** (2.754)
Firm R&D	-22.187* (-1.776)	-31.836** (-2.474)	-96.538** (-2.218)	7.049 (0.448)
Firm CEO Age	0.000 (0.028)	0.016 (0.641)	0.099*** (4.452)	0.056*** (3.810)
Firm CEO Gender	0.606** (2.288)	-0.609 (-0.347)	7.831** (2.040)	0.182 (0.228)
Ln (Loan Spread)	-0.533*** (-3.632)	-0.446** (-2.297)	-0.042 (-0.404)	-0.218 (-1.411)
Ln (Loan Amount)	0.017 (0.486)	-0.143*** (-3.013)	0.125 (1.423)	0.052 (0.585)
Ln (Loan Maturity)	-0.238*** (-2.961)	0.199*** (2.957)	-0.047 (-0.641)	0.311** (2.529)
Number of Lenders	0.022*** (2.808)	-0.010 (-0.752)	0.012* (1.792)	-0.014*** (-2.711)
Financial Covenants	0.131* (1.713)	-0.287** (-2.048)	-0.318 (-0.777)	-0.319*** (-3.096)
Performance Pricing	-0.176 (-1.589)	0.833*** (3.217)	-0.543 (-1.452)	0.837*** (3.518)
Collateral	-0.402* (-1.791)	-0.324 (-1.060)	0.333 (1.149)	0.341 (1.229)
Bank FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes
Number of Observations	10492	3486	3526	10445
Adjusted R <sup>2</sup>	0.768	0.916	0.763	0.598

## Appendix

**Table A1: Bank Lobbying and Firm Performance measured by Tobin's Q**

This table reports the relation between bank lobbying and firm performance proxied by Tobin's q. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

	(1)	(2)	(3)	(4)
	Full	Lobbying	Exclude top 20%	Exclude top 20%
Dep.=Firm Tobin's Q ( <i>t</i> +1)	sample	banks only	capital adequacy	largest banks
			banks	from each year
			from each year	
Ln (1+Bank Lobbying Expense)	0.003** (2.495)	0.003** (2.231)	0.004** (2.491)	0.004** (2.334)
Ln (Bank Size)	0.012 (0.600)	0.009 (0.449)	0.016 (0.670)	0.016 (0.723)
Ln (Bank Age)	-0.029 (-1.325)	-0.028 (-0.932)	-0.022 (-0.913)	-0.045 (-1.429)
Bank Tier 1 Capital	0.001 (0.281)	-0.004 (-0.882)	0.001 (0.124)	0.007 (1.267)
Bank Liquidity	0.162* (1.803)	0.119 (1.084)	0.137 (1.247)	0.236** (2.340)
Ln (Firm Size)	-0.268*** (-17.252)	-0.277*** (-15.731)	-0.269*** (-16.627)	-0.268*** (-16.695)
Ln (Firm Age)	-0.051 (-0.901)	-0.044 (-0.754)	-0.088 (-1.463)	-0.051 (-0.975)
Firm Leverage	0.144** (2.336)	0.144** (2.253)	0.122* (1.937)	0.168*** (3.381)
Firm ROA	0.004** (2.661)	0.004*** (2.741)	0.003** (2.424)	0.004*** (2.784)
Firm R&D	1.387 (1.049)	1.626 (1.134)	0.950 (0.586)	2.275 (1.649)
Firm CEO Age	0.001 (0.836)	0.000 (0.136)	0.001 (0.551)	-0.000 (-0.212)
Firm CEO Gender	-0.016 (-0.407)	-0.040 (-1.316)	-0.019 (-0.458)	-0.042 (-1.264)
Ln (Loan Spread)	-0.073*** (-8.006)	-0.071*** (-6.456)	-0.073*** (-8.626)	-0.069*** (-7.385)
Ln (Loan Amount)	-0.007*** (-2.695)	-0.006** (-2.419)	-0.006** (-2.483)	-0.007** (-2.391)
Ln (Loan Maturity)	0.018*** (4.055)	0.015*** (3.329)	0.015*** (3.213)	0.016*** (3.575)
Number of Lenders	-0.002*** (-5.146)	-0.002*** (-5.478)	-0.002*** (-4.967)	-0.002*** (-4.584)
Financial Covenants	0.008* (1.776)	0.010** (2.110)	0.008 (1.628)	0.008 (1.659)
Performance Pricing	-0.009* (-1.685)	-0.008 (-1.454)	-0.011* (-1.877)	-0.010 (-1.468)
Collateral	-0.019* (-1.938)	-0.028*** (-2.741)	-0.015 (-1.240)	-0.026*** (-2.830)
Bank FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes	Yes
Number of Observations	29365	25059	25478	25102
Adjusted R <sup>2</sup>	0.802	0.790	0.794	0.799

**Table A2: Bank Lobbying and Firm Performance: Alternative Standard Error Clustering**

This table reports the relation between bank lobbying and firm performance with alternative standard error clustering. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

Dep.=Firm ROA ( <i>t</i> +1)	(1) Clustered by Bank- Year	(2) Clustered by Bank- Firm	(3) Clustered by Bank-Firm- Year
Ln (1+Bank Lobbying Expense)	0.044** (2.385)	0.044** (2.474)	0.044** (2.368)
Ln (Bank Size)	0.093 (0.314)	0.093 (0.258)	0.093 (0.265)
Ln (Bank Age)	-0.184 (-0.608)	-0.184 (-0.544)	-0.184 (-0.574)
Bank Tier 1 Capital	0.011 (0.242)	0.011 (0.227)	0.011 (0.242)
Bank Liquidity	-0.468 (-0.362)	-0.468 (-0.304)	-0.468 (-0.315)
Ln (Firm Size)	-2.821*** (-10.567)	-2.821*** (-9.670)	-2.821*** (-10.669)
Ln (Firm Age)	-0.050 (-0.134)	-0.050 (-0.100)	-0.050 (-0.129)
Firm Leverage	3.011*** (5.242)	3.011*** (4.537)	3.011*** (5.573)
Firm ROA	-0.001 (-0.055)	-0.001 (-0.068)	-0.001 (-0.054)
Firm R&D	-13.222* (-1.775)	-13.222 (-1.446)	-13.222* (-1.728)
Firm CEO Age	0.040*** (3.292)	0.040*** (3.200)	0.040*** (3.252)
Firm CEO Gender	0.186 (0.653)	0.186 (0.514)	0.186 (0.640)
Ln (Loan Spread)	-0.814*** (-6.298)	-0.814*** (-6.645)	-0.814*** (-6.614)
Ln (Loan Amount)	-0.029 (-0.451)	-0.029 (-0.499)	-0.029 (-0.462)
Ln (Loan Maturity)	0.357*** (4.871)	0.357*** (4.320)	0.357*** (4.329)
Number of Lenders	0.007 (1.057)	0.007 (0.985)	0.007 (1.104)
Financial Covenants	-0.080 (-1.079)	-0.080 (-0.994)	-0.080 (-1.132)
Performance Pricing	0.265** (2.456)	0.265** (2.064)	0.265** (2.370)
Collateral	-0.415*** (-3.155)	-0.415*** (-2.488)	-0.415*** (-2.815)
Bank FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Clustered SE	Yes	Yes	Yes
Number of Observations	30048	30048	30048
Adjusted R <sup>2</sup>	0.609	0.609	0.609

**Table A3: Timing of In-house Lobbyist Addition**

This table examines the timing of in-house lobbyist addition. The sample consists of bank-year observations from 1998 to 2015 for all banks in our sample. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

Dep.=Addition of In-house Lobbyist	(1)
Ln (Bank Size)	0.025 (0.624)
Ln (Bank Age)	0.008 (0.309)
Bank Tier 1 Capital	-0.067 (-0.337)
Bank Liquidity	-0.002 (-0.340)
Bank FE	Yes
Year FE	Yes
Clustered SE	Yes
Number of Observations	830
Adjusted R <sup>2</sup>	0.226

**Table A4: Bank Lobbying and Firm Performance: Controlling for Bank- and Firm- Locations**

This table reports the relation between bank lobbying and firm performance controlling for bank state - year fixed effects and firm state - year fixed effects. All variables are defined in table 1. *T*-statistics are calculated from robust standard errors clustered by bank and are displayed in parentheses. Statistical significance at the 10%, 5%, and 1% level is indicated by \*, \*\*, and \*\*\*, respectively.

Dep.=Firm ROA ( <i>t</i> +1)	(1)	(2)
Ln (1+Bank Lobbying Expense)	0.049** (2.113)	0.049* (1.899)
Ln (Bank Size)	1.320** (2.187)	0.850 (1.592)
Ln (Bank Age)	4.957** (2.324)	2.887 (1.613)
Bank Tier 1 Capital	0.098 (0.964)	-0.001 (-0.010)
Bank Liquidity	-0.790 (-0.682)	1.089 (0.563)
Ln (Firm Size)	-2.840*** (-10.871)	-2.914*** (-11.684)
Ln (Firm Age)	0.081 (0.125)	-0.086 (-0.126)
Firm Leverage	3.112*** (5.426)	2.638*** (5.175)
Firm ROA	0.020 (1.502)	0.011 (0.618)
Firm R&D	-16.447* (-1.843)	1.126 (0.099)
Firm CEO Age	0.044*** (2.890)	0.036** (2.526)
Firm CEO Gender	0.008 (0.018)	-0.207 (-0.511)
Ln (Loan Spread)	-0.861*** (-11.062)	-0.757*** (-9.687)
Ln (Loan Amount)	-0.016 (-0.268)	0.052 (0.877)
Ln (Loan Maturity)	0.386*** (7.129)	0.387*** (6.525)
Number of Lenders	0.003 (0.530)	-0.006 (-1.451)
Financial Covenants	-0.050 (-0.757)	-0.053 (-0.829)
Performance Pricing	0.152 (1.229)	0.116 (1.342)
Collateral	-0.641*** (-4.339)	-0.586*** (-3.142)
Bank FE	Yes	Yes
Firm FE	Yes	Yes
Bank state - year FE	Yes	Yes
Firm state - year FE	No	Yes
Clustered SE	Yes	Yes
Number of Observations	22178	21305
Adjusted R <sup>2</sup>	0.614	0.649