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Political Lending

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ABSTRACT

Using a unique dataset provided by the Center for Responsive Politics (CRP), we document a direct channel through which financial institutions contribute to the net worth of members of the U.S. Congress, particularly those sitting on the finance committees in the Senate and the House of Representatives. These individuals report greater levels of leverage and new liabilities as a proportion of their total net worth, relative to when they are not part of the finance committee or relative to other congressional members. Politicians increase new liabilities by over 30% of their net worth in the first year of their finance committee membership. We do not find similar patterns for members of non-finance powerful committees. We find no evidence that finance committee members arrange new personal liabilities ahead of their appointments to the committees. Finance committee members also report liabilities with lower interest rates and longer maturities. Finally, focusing on banks that lend to U.S. Congress members, we find that the weaker performing financial institutions lend to more finance committee members and provide more new debt to these politicians. Our findings suggest that lenders may create political connections with finance committee members in an attempt to obtain regulatory benefits.

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Introduction

Researchers suggest that firms and individuals attempt to influence the political process through campaign contributions and/or lobbying. According to Sobel and Graefe-Anderson (2014), donations given directly to U.S. federal political campaigns (made largely through political action committee contributions) increased from $287 million during the 2006 election cycle to $319 million during the 2010 election cycle. Although these contributions have been increasing over time, the donations to individual politicians' campaigns seem to be surprisingly small given the potentially large policy and regulatory favors that could be obtained if these politicians are elected. In this paper, we investigate a previously unexplored channel that could be used by firms to enhance the wealth of individual politicians: the amount and terms of the personal debt taken on by politicians and their close family members. Personal debt is economically significant as liabilities are close to 40% of the overall net worth of the average U.S. congressional member.

Our empirical analysis is motivated in part by anecdotal evidence suggesting that some U.S. politicians, who are in a position to potentially affect the future performance of financial institutions that lend to them, have allegedly received preferential treatments from lenders. For example, a 2012 congressional report that resulted from a three-year investigation finds that: "…between 1996 and 2008, Countrywide's VIP loan unit operated a "Friends of Angelo" program that made hundreds of loans to current and former members of Congress, congressional staff, and other high-ranking government officials. The VIPs received discounted mortgage rates and faster loan processing. Meanwhile, some of the lawmakers and staff who received the VIP loans were "positioned to affect" legislation that Countrywide opposed. In fact, Countrywide lobbyists — and CEO Angelo Mozilo himself — referred several Members and staff from the

Senate Committee on Banking and the House Committee on Financial Services to the VIP unit."[1]

We focus on the borrowing activities of politicians that join the finance committees in the Senate and the House of Representatives of the U.S. Congress (finance committee going forward).[2] An investigation of the extent to which financial institutions could directly enhance the personal wealth of a certain group of U.S. Congress members via their lending activities is interesting for several reasons. First, congressional members on the finance committees could face greater conflicts of interest when taking personal debt given that these committees oversee the entire financial services industry in the U.S., including the securities, insurance, banking, and housing industries. Finance committee members potentially take actions that directly influence the regulatory environment in which their lenders, the banks, operate (e.g., Kroszner and Stratmann, 1998). Second, the U.S. is considered to be one of the countries with very strong institutions that monitor and hold politicians accountable (e.g., Djankov et al., 2010). In particular, the laws and regulations in the U.S. prohibit congressional members and their staff from accepting preferential loans. Also, the Standing Rules of the U.S. Senate bar senators and their staff from knowingly accepting gifts of $100 or more in a given year or any gifts from companies that employ registered lobbyists. Such gifts include loans on terms that are not available to the general public.[3] Third, members of the U.S. Congress are required by the Ethics

[1] The "Friends of Angelo" unit processed loans for key senators and their staff "who could be helpful when legislation that affected the company was drafted or up for a vote." Countrywide gave VIP loans to former Senate Banking Committee Chairman Christopher Dodd; Senate Budget Committee Chairman Kent Conrad; and Mary Jane Collipriest, Communications Director for former Senator Robert Bennett, who served on the Banking Committee. The Congressional report could not find a single instance of quid pro quo directly connecting a lawmaker's vote to a sweetheart deal, according to Rep. Jason Chaffetz, a Utah Republican and member of the Committee on Oversight and Government Reform, which produced the report. The press covered this story in detail and some of the articles are available online at: http://business.time.com/2012/07/06/countrywide-vip-loans-went-to-key-lawmakers-congressional-report/;http://upstart.bizjournals.com/news-markets/top-5/2008/06/12/Countrywide-Loan-Scandal.html?page=all; http://online.wsj.com/news/articles/SB121279970984353933

[2] These committees are U.S. Senate Committee on Finance, Senate Banking, and the Financial Services Committee in the House.

[3] See http://www.entrepreneur.com/article/196180.

in Government Act of 1978 to file annual reports detailing their income, assets, liabilities, and other relevant information about their personal finances. This disclosure requirement allows us to observe all liabilities assumed by the congressional members including some of the important contractual characteristics of these liabilities and the names of the banks that provided them.

We start by comparing the levels of debt and new liabilities of finance committee members with the levels during periods when they are not part of finance committees or the levels reported by other congressional members. We document that finance committee members report more new liabilities and a higher overall level of debt as a proportion of their net worth during their committee membership relative to other congressional members. Compared to their net worth, politicians in finance committees report increases in new liabilities and the level of leverage by over 30% during their membership. We also find that, controlling for politician fixed effects, these politicians obtain significantly more new liabilities in the year of joining the committee and the following year relative to the years prior to their committee membership suggesting that self-selection is unlikely to drive our results. Overall, this evidence suggests that finance committee membership is associated with the decision to incur more debt.

Being a member of an important committee to the financial sector might bring additional visibility to lenders and signal greater future income, a potential explanation for the additional borrowing reported by the congressional finance committee members. We thus assess the borrowing activities of those who are members of other powerful congressional committees since membership in such committees implies similar effects.[4] We do not find that the members of these other committees borrow more during their committee appointment. This evidence indicates that congressional members' decisions to borrow more and lenders' willingness to lend

[4] We present in Section 2 the list of powerful committees in both the Senate and the House.

are not due to the higher visibility or income associated with membership in a powerful committee but rather to the relevance of the committee's activities to the lenders. The political connection between a member of Congress and the lender is created or reinforced only once the individual joins the influential finance committees. Thus the connection between banks and finance committee members is stronger than for other powerful committee appointments.

We also assess whether finance committee members receive more favorable lending terms. We find that, relative to both the liabilities reported by finance committee members in other periods and to non-committee congressional members, the liabilities reported in the year of joining the committee have a significantly longer maturity. These maturities are 32% longer than the maturities reported in other years. In addition, we find that finance committee members pay significantly lower interest rates on the debt reported in the year of their committee appointment. The economic magnitude of these results is significant, with the interest rates on the liabilities reported in the year of joining being lower by 58-66 bps than the interest rates on debt instruments issued in other years. Overall, members of Congress report more favorable debt terms when they join the finance committee, relative to other years and to the terms other congressional members obtain including those on other powerful committees.[5]

In our last analysis, we exploit the fact that congressional members' disclosures reveal the name of their lending institution. We hand-collect the names of the bank holding companies that lent to members of Congress, including finance committee members, and have financial data available in the Call Reports published by the Federal Reserve Bank of Chicago. We examine the characteristics of the banks that lend to finance committee members. We capture the aggregate characteristics of these banks through an index that measures the extent to which the bank has

[5] These more favorable terms do not imply that the average finance committee member obtains preferential loans that are not available to the general public. We are not able to test this possibility.

poor profitability (return on assets), weak capital ratios, and risky assets in the year previous to lending to a congressional member. We find that banks with worse performance provide new liabilities to more finance committee members than to other members of Congress. In addition, underperforming banks lend greater amounts of new debt to finance committee members. We do not find any effect regarding their lending to members on other Congressional committees. Our results indicate that these banks might expect benefits from their lending to finance committee members who potentially have greater ability to influence financial regulation.

While our results indicate that US Congress members report significantly more loans with favorable terms when they join the finance committees, our analyses do not provide any insights on the consequences of this borrowing. However, it is challenging to assess whether the additional debt taken by finance committee members contributes to a biased law making process in a meaningful way given the multitude of activities politicians engage in and the long period over which these activities take place. Furthermore, data on politicians' views and influence in committee meetings that could indicate potential regulatory benefits for the lending banks is unavailable.

Our paper contributes to two streams of literature. We first add to the literature on the wealth accumulation of politicians by showing that U.S. politicians who influence bank regulation might enhance their personal wealth by borrowing from regulated banks. A branch of this literature focuses on politicians in countries with weak institutions. For example, Fisman, Schulz, and Vig (2014) examine the private returns to public office for state politicians in India. They show that the annual asset growth of winning politicians is ~3%-5% higher than that of runners-up. The other branch of this literature focuses on politicians in countries with strong institutions (e.g., U.S. and U.K.). Eggers and Hainmueller (2009), Lenz and Lim (2009), and

Querubin and Snyder (2009) find limited evidence that politicians benefit financially from their public positions. While our work does not directly demonstrate that debt taken by politicians contributes to their higher wealth as this is beyond the scope of our paper, researchers have shown that household debt financing is associated with a higher return on assets and thus greater wealth (e.g., Pawasutipaisit and Townsend, 2011).

Second, we contribute to the literature on the exchange of benefits between politicians and firms. Firms can receive a variety of economic benefits from politicians, e.g., in terms of favorable legislation, tax exemptions, preferential access to finance, government contracts, or less scrutiny from regulatory agencies.[6] To be able to obtain and/or ensure the continuous provision of these benefits, firms have to help and support politicians. Prior work has shown that firms contribute to politicians' (re)election campaigns, employ more people, time the opening and closing of plants in the politician's district (Bertrand et al. 2006) or increase their lending activity during election years to help incumbent politicians get reelected (Dinç 2005). Our results show another form of influence that financial institutions in particular can potentially use to obtain benefits from politicians, namely *the provision of personal lending* to politicians.

1. Institutional Background

The U.S. Congress is a representative assembly whose mandate, set forth in the first article of the Constitution, is to write the laws that govern the U.S. The current 114th U.S. Congress has 541 individuals: 100 senators (the Senate), 435 representatives (the House of

[6] See, e.g., Roberts, 1990; Stratmann, 1991; Fisman, 2001; Faccio, 2004; Faccio, Masulis, and McConnell 2006; Jayachandran, 2006; Faccio & Parsley, 2009; Hochberg, Sapienza, and Vissing-Jorgensen, 2009; Igan, Mishra, and Tressel, 2009; Richter, Samphantharak, and Timmons, 2009; Cooper et al., 2010; Hill, Kelly, and Van Ness, 2010; Yu and Yu, 2010; Wu and Cheng, 2011; Duchin and Sosyura 2012; Tahoun and van Lent 2013; Goldman et al. 2013; Correia 2014; Tahoun 2014; Akey, 2015.

Representatives), five delegates, and one resident commissioner. Congressional members are elected by registered voters within geographic constituencies; senators serve for six-year terms while representatives are elected for two-year terms.

Despite many reforms, the cost of campaigning has continued to escalate. Expenditures for congressional election campaigns have nearly tripled over the last 40 years, with the average Senate (House) race costing $7 million ($1 million) for each nominee according to the Center for Responsive Politics (CRP). Campaign finance regulations stipulate that congressional candidates can raise funds from only four sources (e.g., Davidson et al. 2016): (1) individual contributions, (2) political action committees (PACs), (3) party committees, and (4) themselves and their families. Individual contributions are the most important, amounting to about half of the total campaign funds on average. Beginning in April 2014, these contributions have been capped at $2,600 per individual for each election campaign of a candidate.[7] PACs are the second most important source of campaign financing and can contribute up to $5,000 to each candidate per election. Party committees (national, state or local) also have a similar limit of $5,000 per election of a candidate while the use of the candidate's own funds has no limits. In addition, candidates can receive funding indirectly from many organizations, known as "Super PACs," that are not connected to PACs. These organizations have been permitted to make unlimited campaign contributions because the money they raise is not tied to a specific candidate and thus they are less closely regulated.[8] While the sources of campaign financing discussed above are regulated, mortgages, lines of credit, and other types of loans accumulated by congressional members directly impact their personal wealth and have no limit. This debt can amount to

[7] Prior to April 2014, the cap was $46,200. The U.S. Supreme Court has invalidated this amount.
[8] See, for instance, the court rulings in the cases Citizens United *v*. Federal Election Commission and SpeechNow.org *v*. Federal Election Commission.

millions of dollars (e.g., CRP's website). Given the paucity of evidence on politicians' liabilities, we examine the amount and timing of debt amassed by U.S. Congress members to provide new insights on politicians' wealth accumulation and on how lending institutions build political connections.

Members of the U.S. Congress are split into an elaborate committee system. The rules of the House and Senate define the jurisdiction of each committee, making the committees the main centers of policy making, oversight of federal agencies, and public education, and allowing the simultaneous consideration of many laws. Indeed, most bills die in a committee with only a small percentage (below 5%) being enacted into law. There are 16 standing (or permanent) committees in the Senate, 20 in the House, and 4 that are joint House-Senate committees.[9] The committees are subdivided into 170 subcommittees in both the Senate and the House for further specialization and to shoulder most of the work. The number of committees and their subcommittees reflects an expansion in the scope and complexity of the legislative work over time.

Members of standing committees (and subcommittees), including their chairs, are elected by the leadership of the Democratic and Republican parties.[10] The number of members in each committee as well as the ratio of Democrats to Republicans is established by party leaders in the Senate or the majority leadership in the House. The policy making in a committee includes hearings with a wide variety of witnesses, markups (i.e., decisions on the actual language of the

[9] In addition to standing committees, there are also select (or special) committees that are temporary panels that do not have legislative authority and dissolve after two years. These committees are usually created to deal with concerns of individual congressional members or to supplement the work of standing committees that might lack time to investigate certain issues (see Davidson et al. 2016).

[10] It is possible that US Congress members self-select onto committees (by submitting requests to their party leaders) if these committees represent interests within their electoral districts (e.g., Frisch and Kelly, 2004). We do not expect that preferences of various electoral districts that might trigger this selection bias are likely to be associated with the extent to which committee members take personal debt.

bill), and reports that summarize both arguments favorable to the bill and the results of staff research and hearings. Most bills pass in a form that is close to the form they emerged from committees (e.g., Ritchie, 2010).

Edwards and Stewart (2006) classify the committees into powerful and non-powerful.[11] In the Senate, the powerful committees are the Finance, Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce; for the House, these committees are Ways and Means, Appropriations, Energy and Commerce, Rules, International Relations, Armed Services, Intelligence, Judiciary, Homeland Security, and Transportation and Infrastructure. The finance committees are considered to be some of the largest and important, having a significant impact on the legislation and oversight of the financial sector in the U.S. The House Committee on Financial Services (also referred to as the House Banking Committee) has 60 members in the most recent Congress and regulates the financial services industry, including the securities, insurance, banking, and housing industries. The U.S. Senate Committee on Finance has 26 members and deals with matters concerning taxation, deposit of public monies, government debt, and reciprocal trade agreements while the U.S. Senate Committee on Banking, Housing, and Urban Affairs has 22 members and jurisdiction over banking, insurance, financial markets, securities, international trade and finance, and economic policy among others.[12]

2. Data

Our empirical analysis relies on the data provided by the Center for Responsive Politics

[11] Also see Cohen, Coval, and Malloy (2011).
[12] Since 1973, the finance committees in the U.S. Congress have discussed 5,777 bills affecting the financial sector (see www.congress.gov/legislation).

(CRP), a non-profit and non-partisan research group, through its website OpenSecrets.org. CRP is the most comprehensive resource for federal campaign contributions, lobbying data, and analysis available anywhere in the U.S. Our sample covers the period from 2004 to 2011 because politicians' reported liabilities and assets have been collected by CRP only since 2004. CRP gathers the information from the Senate Office of Public Records and the Office of the Clerk of the House by coding the annual reports filed by politicians into datasets. CRP's primary purpose is to gather detailed information about the funds involved in U.S. politics with the scope of facilitating assessments of the funds' implications on election outcomes and public policies.

2.1.Politicians' Personal Finances

According to the Ethics in Government Act of 1978, members of the U.S. Congress, candidates for federal office, senior congressional staff, nominees for executive branch positions, cabinet members, Supreme Court justices, the president, and the vice president are required to file a report by May 15 of each year that details their personal financial information for the previous calendar year. These data include details such as income, assets, liabilities, gifts, non-governmental positions held, travel reimbursements, and agreements into which the politician has entered. Relevant information also needs to be reported for the politician's spouse and dependent children, although some discretion is permitted in terms of the level of detail required.

We focus on two main datasets from the CRP: liabilities and assets. The first dataset comprises liabilities owed by individual politicians, as well as their spouse and dependent children. The amounts of these liabilities must be at least $10,000 during the calendar year to be reported. The database presents liabilities by type, politician, year of report, and creditors. Additional fields include the liabilities' amounts, maturity dates, and interest rates. However,

information disclosure on maturities and interest rates for reported loans is not always reported.

In some instances, the various liability fields for a particular politician are not reported consistently across years, so we manually harmonize them. For example, in one year a creditor name might be abbreviated while in another year it might be written in full. To avoid introducing any errors, we look at the liabilities of a particular politician and compare their types, amounts, and interest rates (when available), as well as the creditors that provided them over time. Whenever a pair of liabilities shows the same characteristics across consecutive years, we match them and standardize the name of the creditors and the description of the liability. We then manually classify all liabilities into broad-level categories (loans, mortgages, lines of credit, guarantees, and investment related loans) based on the liabilities' description coded by CRP. In addition, since the origination date is not available for all liabilities in the dataset, we apply the following assumptions to the missing values: i) we set the origination year as the year of reporting for all lines of credit, given their short maturity (usually up to one year); ii) we set the origination year as the year when the liability was first reported, as long as this year does not coincide with the year when the politician entered the dataset. Given that the amount of each liability is usually reported by politicians in a range, following disclosure guidelines set by ethics committees within the US Congress, we compute the midpoint of the range and use this value in our analyses. For all liabilities with information on their interest rate, we manually check and standardize these figures. In some cases the information is in a numerical format, while in others it is presented as text. Also, some politicians report the total interest rate payable on the loan while others provide just the loan spread. Unless the dataset specifies a particular base rate used for the loan, we add the prime rate to the loan spreads to compute the total interest rate. If the liabilities have their maturities presented in months, we convert the maturity data into years.

Most liabilities in the dataset have their maturity stated in years. Finally, we remove any duplicate liabilities if their descriptions and amounts overlap.

The second dataset includes information about politicians' (as well as their spouses' and dependent children's) assets and income. Politicians need to disclose legal ownerships in companies or properties, including brokerage accounts, corporate bonds, and stocks that are worth more than $1,000 at the end of the calendar year, or producing more than $200 of income. The reporting of the value of the primary residence is not required (unless it produces income). In addition, lawmakers must report any transactions that involve purchases, sales or exchanges of assets during the year of more than $1,000. Of particular interest are the data about the income produced by their assets and the categories of assets they own (securities, real estate, business ownerships, bank accounts, and loans provided to other parties). We use these data to construct variables that capture changes in the income produced by the assets, as well as changes in the liquid assets. Note that the income of an asset is frequently provided in ranges, thus we use the midpoint of these ranges in our analysis.

2.2. Committee Membership

We obtain the dataset on congressional committee assignments from the website of Charles Stewart III.[13] This dataset comprises information about Congress members, along with the committees they were appointed to, the dates of their committee appointments, and the dates when their appointments ended. Using these data, we construct our variables of interest which capture the years in which a politician was a member of a particular standing committee. Since the committee data are provided at the politician-committee level and we run our analyses at the year level, we convert the information into politician-year observations. We code the years of the

[13] Link: http://web.mit.edu/17.251/www/data_page.html.

appointment and the termination of each committee appointment (committee appointments typically span two years) and then track the years during which a Congress member sat on finance and/or other powerful committees. In order to ensure that an individual remains on a committee long enough to have the opportunity to affect the committee's work on legislation, all observations capturing appointments that lasted less than a month are excluded. We also construct control variables that are likely to affect the borrowing activities of the lawmakers, such as their age and seniority in the Congress. Given that our analyses rely on individuals that were appointed (or not) to congressional standing committees, we focus only on Senate and House of Representatives members.

2.3. Bank Characteristics

The data regarding lenders' characteristics are retrieved from Bank Call Reports (FR Y-9C reports) collected by the Federal Reserve Bank of Chicago. These reports provide detailed information on the consolidated financial statements and capital ratios of bank holding companies. From this dataset, we select variables related to banks' profitability, as well as their financial and regulatory capital positions.

We manually match the list of creditors provided in the liabilities dataset with the bank data using banks' names and locations. If the location of the bank is not in the liabilities dataset, we match just on the name as long as we can unambiguously do so. The matching process allows us to retrieve a unique identifier for each bank from the National Information Center (NIC) website.

Given that our analyses are conducted at the year level, we convert the quarterly data in the FR Y-9C reports into annual values. We select the end of year balance sheet figures and

cumulate the income statement performance metrics over the four quarters. Banks with missing information for at least two consecutive years or that do not have information for all quarters in a year are excluded from our analyses.

2.4. Descriptive Statistics

Our final sample consists of 2,781 congressional member-year observations (belonging to 564 congressional members) for the 2004-2011 period. Table 1 presents the descriptive statistics for the final sample. For each congressional member, we compute two borrowing measures: *Leverage*, computed as the total amount of a member's liabilities divided by his/her net worth in the preceding year, and *New Leverage*, computed as the amount of new liabilities contracted by a member during the current year divided by his/her net worth in the preceding year. We also report distributions of congressional member characteristics (seniority, age, transaction activity, membership in Congress) and changes in income or liquid assets. Panel A shows that the average congressional member has liabilities close to $0.9 million or about 35% of their net wealth (Std. Dev. is ~$7.5 million), has been in the Congress for close to 13 years, and is 59 years old. As expected, given the relative sizes of the House of Representatives and the Senate, 84% of the congressional member-year observations cover members of the House. The US Congress members report asset transactions in the two years preceding the report in 30% of the years, suggesting that they frequently adjust their portfolio of assets.

In Panels B and C of Table 1, we provide descriptive statistics for the years when congressional members were not and were assigned to a finance committee, respectively. We only keep in our sample congressional members that joined the finance committees during our sample period. When congressional members are on finance committees they report significantly greater liabilities ($2.5 million) relative to the years when they are not members of these

committees or politicians who were never members of these committees. The differences in borrowing are also significant in the case of new liabilities or when the measures are scaled by the congressional member's net worth in the prior year.

To investigate whether the descriptive findings above are due to some potential self-selection mechanism that could drive congressional members with more debt to become members of the finance committees, we plot the level of new liabilities by finance and other powerful committee members over time in Figures 1 and 2. We show that finance committee members take significantly more debt in the first year of their committee appointment relative to years before and after the appointment or relative to members of other powerful committees. This evidence shows that the level of individual borrowing is associated with the appointment to the finance committee. Although this graphical representation provides just univariate evidence, the magnitude of the result is quite strong, suggesting that our analysis potentially captures a first order determinant of politicians' personal debt levels.

3. Results

3.1. Finance Committee Membership and Personal Borrowing

We begin by investigating the levels of personal liabilities of congressional members on finance committees. These committee members likely have greater conflicts of interest when taking personal debt given that their duties involve the oversight and regulation of the financial sector that lends to them. We assess whether their committee membership has any bearing on the level of leverage they disclose, as well as the amount of new liabilities taken during their period of committee membership. We run the following basic empirical model with our panel of congressional member-year observations:

$$Leverage\ (New\_Leverage) = \alpha + \beta \cdot Finance + \chi \cdot Politician\ Charact. + \delta \cdot Politician\ FE + \gamma \cdot Year\ FE + \varepsilon_{ijt}. \quad (1)$$

We estimate the model using both an ordinary least squares (OLS) regression and a Tobit regression as congressional members' liabilities are left-censored at zero. The left censoring of the data is due to the fact that some congressional members do not have any liabilities outstanding or do not borrow during the period covered by our sample. *Leverage* is the congressional member's total liabilities divided by their reported net worth at the beginning of the year. *New_Leverage* is the amount of new liabilities taken by the congressional member during the current year divided by their net worth at the beginning of the year. *Finance* is an indicator variable that equals one if the individual is a member of a finance committee in the current year, and zero otherwise. The finance committees considered are the Banking, Housing and Urban Affairs (Senate), Finance (Senate), and Financial Services (House of Representatives).

We control for a couple of congressional member characteristics that are likely to be associated with their personal liabilities. *Seniority* is the number of years since the date when the individual was first elected to the Congress; *Age* is the individual's age; *Income_assets_change* is the change in total income generated by the individual's assets divided by their total average assets over the current year; *Liquid_assets_change* is the change in total liquid assets[14] owned by the individual during the current year divided by their average total assets over the current year; *Active* is an indicator variable that takes the value one if the individual purchased or sold an asset in the two preceding years and zero otherwise; and *House* is an indicator variable that takes the value one if the individual is a member of the House of Representatives and zero otherwise. We

[14] Liquid assets are defined as all holdings in the form of cash, savings and checking accounts, money market securities, government bonds, stock holdings in public companies, and indirect holdings via mutual funds.

further control for politician fixed effects (*Politician FE*) to take into account other unobservable (time-invariant) congressional member-specific characteristics and year fixed effects (*Year FE*) to capture time-specific conditions in the lending market. All regressions are estimated using robust standard errors clustered at the congressional member level.

Table 2 presents the results from estimating equation (1). Columns 1-3 present the results using the full panel of congressional member-years. In both the OLS and Tobit regressions, we find that during years of finance committee membership, congressional members take out significantly more liabilities. The coefficient on *Finance* in the OLS regression indicates that finance committee members obtain new liabilities (as a percentage of net worth) that are about 24% larger than the liabilities obtained by members who are not members of the finance committees or the liabilities taken by members of the finance committees during years when they are not part of these committees. We repeat the OLS estimation for the model with *Leverage* as the dependent variable and find in column 3 that finance committee members report 33% higher overall liabilities than the liabilities they report during other periods or liabilities reported by other members; the larger overall leverage reported by finance committee members indicates that their new liabilities do not simply involve the refinancing of prior loans. Because the pooled sample results might be due to significant differences between finance committee members and the rest of the congressional members, we estimate the results using a subsample of congressional member-years that includes only politicians that at some point were members of the finance committees. The results shown in columns 4-6 continue to be robust and even stronger. We find that, relative to other years, finance committee members report leverage that is 68% higher and arrange 34% more new liabilities during their tenure on finance committees.

We find that adding congressional member fixed effects to the regressions mitigates most

of the differences in congressional members' characteristics. Only *Liquid_assets_change* is significant with a negative coefficient, as shown in Table 2. The coefficient indicates that congressional members who report increases in liquid assets during the current year are less likely to need additional resources from lenders.

The results in Table 2 indicate that finance committee membership is associated with higher levels of personal borrowing. We next examine whether this additional borrowing is caused by the finance committee membership per se by investigating whether the borrowing is more likely to be initiated during the first year of the membership. We verify the result in Figure 1 which shows that finance committee members accumulate significantly more new liabilities during the year when they were appointed to the committee in a multivariate setting by splitting the main indicator variable *Finance* into two variables and rerunning equation (1). The results are presented in Table 3. *Fin_entry (year t)* equals one in the first year a congressional member is appointed to a finance committee and zero otherwise; *Fin_entry (years t≥ +1)* equals one for all other years the member is on a finance committee and zero otherwise. In line with the other results, we find that finance committee members take out more new liabilities in both the first year of their appointment and subsequent years than during non-membership periods or other congressional members. During the first year on a finance committee, the new labilities taken are 33% higher relative to non-membership years or individuals who are not members of finance committees while for the remaining years of membership the liabilities are only 18% higher (we do not find that the difference between these two is statistically significant). The high level of new liabilities arranged by finance committee members in the first year is robust when we estimate the results using the sample without members who were never appointed in the finance committees.

One concern with the previous analyses is that rather than capturing a one-year effect around the finance committee appointment we are detecting a trend that characterizes these congressional members' personal borrowing activities. In order to rule out this possibility, we run an additional test where we include an indicator variable for the year prior to the finance committee appointment. *Fin_entry (year t-1)* takes the value one in the year before a congressional members joins a finance committee and zero otherwise. We also include indicator variables for the first two years of finance committee membership and an indicator for the subsequent years. We include *Fin_entry (year t)*, *Fin_entry (year t*+1*)*, which equals one for the first year after the committee appointment and zero otherwise, and *Fin_entry (years t*≥ +2*)*, which equals one for all years, other than the first two years, when the individual is a member of a finance committee and zero otherwise. We replicate the analyses in Tables 2 and 3 on the new liabilities accumulated by congressional members and report the results in Table 4. We find no evidence that finance committee members arrange new personal liabilities ahead of their appointments to the committees. Across all columns, the coefficient of *Fin_entry (year t*-1*)* is insignificant. The coefficients of *Fin_entry (years t), Fin_entry (years t*+1*)*, and *Finance* continue to be positive and significant with similar magnitudes regardless of whether we use the pooled sample of all congressional members (columns 1 and 2) or the sample of finance committee members (columns 3 and 4).

We next investigate whether the findings above apply only to finance committee members or also to members of other powerful committees in the U.S. Congress. One interpretation of the results we present in Tables 2 to 4 is that finance committee members gain greater visibility at the time of their appointment and this visibility allows them to obtain more

loans from lenders.[15] If that is the case, then members of other powerful congressional committees should also gain higher visibility when they join these committees, which could facilitate more personal borrowing. To examine this question, we add two variables to the model to identify individuals who are members of these other committees: *Non-Finance*, which is an indicator variable that equals one for all the years an individual is a member of a powerful committee and zero otherwise and *Non-Fin_entry (year t)*, which is an indicator variable that takes the value one in the year when an individual is appointed to a powerful congressional committee and zero otherwise. As discussed above, the powerful committees in the Senate are the Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. In the House of Representatives, these committees include Ways and Means, Appropriations, Energy and Commerce, Rules, International Relations, Armed Services, Intelligence, Judiciary, Homeland Security, and Transportation and Infrastructure.

The results in Table 5 indicate that only the variables that capture the membership or appointment to a finance committee are significant and positive. Indeed, the variables that capture a congressional member's involvement with other powerful committees have no significant relation with *New_leverage*. These findings suggest that it is not the visibility of the individual that is driving our main result. Lending institutions that provide the debt seem to connect only with individuals who have a more direct means of affecting their regulatory environment.

Overall, the results presented in this section indicate that finance committee members significantly increase their overall leverage by accumulating new liabilities in the first and

[15] Another possibility is that once politicians become members of a finance committee, they need to work harder and meet more frequently in Washington. As a result they need to move to Washington and buy a house there. Therefore, they might get a mortgage to finance the house purchase, increasing their liabilities after the appointment. If that is the case, then politicians in other powerful committees should behave similarly.

second year of their appointment in these committees. Members of other powerful committees do not take out the same level of new liabilities, suggesting that banks create a political connection with finance committee members via their lending activities.

3.2. Finance Committee Membership and Personal Loan Terms

In this section, we investigate whether the lending terms received by finance committee members are consistent with banks and congressional members establishing or reinforcing a mutually beneficial relationship. Given that the terms of the liabilities owed by a congressional member are only voluntarily disclosed, the data available for this analysis is limited. We test whether, relative to other politicians, finance committee members receive better lending terms by estimating the following OLS regression:

$$Liab\_maturity\ (Liab\_int\_rate) = \alpha + \beta \cdot Fin\_entry\ (year\ t) + \chi \cdot Politician\ Charact. + \sigma \cdot Liability\ Type\ FE + \delta \cdot Politician\ FE + \gamma \cdot Year\ FE + \varepsilon_{ijt}. \quad (2)$$

Given the limited data on the terms of the liabilities, we focus on only two dependent variables: *Liab_maturity* is the natural logarithm of each liability's maturity in years and *Liab_int_rate* is the interest rate on the liability. In our sample of congressional member-years, the average maturity of a liability is 14 years while the average interest rate is 5.75%, suggesting that a lot of the liabilities are likely mortgages.

The main variable of interest is *Fin_entry (year t)*, which reflects the extent to which liabilities reported in the first year of finance committee membership have significantly different maturities or interest rates. We also control for the same set of individual characteristics (seniority, age, change in income generated by assets, change in liquid assets, transactional activity, congressional membership), as well as fixed effects for liability type (e.g., mortgages, personal loans or lines of credit), congressional members, and calendar years. We estimate the statistical significance of the coefficients in the regression using robust standard errors clustered

at the congressional member level.

We present the results for maturities in Panel A of Table 6 and for interest rates in Panel B. Across all columns in Panel A, *Fin_entry (year t)* has a positive and significant coefficient. The results in column 1 indicate that finance committees members report liabilities in their first year of committee membership with maturities that are 32% higher than the maturities of the liabilities reported in other periods or the liabilities reported by individuals who are not on finance committees. Therefore, relative to the average maturity of a liability in the sample, finance committee members accumulate liabilities that are longer by 4.5 years. The results in column 2 indicate that the maturities of the liabilities reported in the year prior to their committee appointment are not longer than the sample average while the results in column 3 show that individuals on other powerful committees do not report the same in their first year of appointment. Finally, we replicate the results in column 1 after controlling for the interest rate of the liabilities and present the results in column 4. It is possible that finance committee members obtain longer maturities on their liabilities but need to pay higher interest rates as a result. We do not find evidence consistent with this interpretation. The coefficient of *Fin_entry (year t)* continues to be positive and significant, although its economic magnitude is reduced. The maturities of the liabilities reported in the first year of committee membership are longer by only three years relative to the maturities of liabilities reported in other periods or reported by others.

The results in Panel B in Table 6 indicate that finance committee members also receive significantly lower interest rates on the liabilities reported in the first year of their membership. *Fin_entry (year t)* has a negative and significant coefficient in all specifications. The results in column 1 indicate that finance committee members secure interest rates that are 58 bps lower than the interest rates on the liabilities in other periods or reported by members who are not on

finance committees. We investigate whether this result might be due to the fact that these individuals have lower credit risk, unrelated to their finance committee membership. If that is the case, then they should be able to obtain lower interest rates in the year prior to their committee appointment. The results in column 2 indicate that the interest rates on the liabilities reported by these congressional members in the year prior to their committee appointment are not significantly different from the sample average. We note that interest rates on the liabilities reported by congressional members are voluntarily disclosed, so it is possible that the economic magnitude of the results we report is understated. Politicians that receive very good deals from lenders are less likely to report the interest rates on the loans.

We also examine whether members on other powerful committees receive the same interest rate benefits as members on finance committees in their first year of appointment. However, we do not find any evidence of that in the results in column 3. We then replicate the results in column 1 after controlling for the maturity of the liabilities and present the results in column 4.

The results in this section suggest that finance committee members may have obtained more favorable lending terms on their liabilities than other politicians. We document these better terms on the liabilities reported in the year when they join finance committees suggesting that the appointment to these committees could change lenders' perception of the credit risk associated with a new debt for these politicians. It is also possible that lending banks may provide preferential lending terms to finance committee members because of their ability to influence the level of oversight and regulation of the banking sector.

3.3. Banks that Lend to Finance Committee Members

We also examine which banks are more likely to lend to finance committee members to

gain insight into the characteristics of these lenders. We estimate the following empirical model using bank-year observations:

$$Lending\_politicians = \alpha + \beta \cdot Index + \chi \cdot Assets + \sigma \cdot Loans\_scaled + \delta \cdot Deposits\_scaled + \gamma \cdot Year\ FE + \varepsilon_{ijt}. \quad (3)$$

The dependent variable, *Lending_politicians*, is based on four separate measures. The first measure, *Count_fin*, is measured as the natural logarithm of the number of finance committee members to whom a bank provides new liabilities. The second, *Count_non_fin*, is similarly computed as the natural logarithm of the number of non-finance committee members to whom a bank grants new liabilities. *Amount_lent_fin* is the third measure and is computed as the natural logarithm of the total amount of new liabilities provided by a bank to finance committee members. Finally, *Amount_lent_nonfin* is defined similarly to the previous variable except that it applies to non-finance committee members.

The main independent variable, *Index*, is a bank-specific variable that captures the extent to which a bank is underperforming or has a weak balance sheet in the current year. Since it is difficult to pick one variable that reflects the performance of a bank, we use a set of variables.[16] *Index* is computed as the average of the rank classification (0, 1, 2) of the following nine variables: (1) the inverse of net income divided by average total assets, (2) the inverse of tier 1 equity divided by total assets, (3) non-performing loans divided by total assets, (4) the inverse of liquid assets divided by total assets, (5) bank provisions divided by average total assets, (6) total liabilities divided by total assets, (7) mortgage-backed securities divided by total assets, (8) the inverse of the ratio of risk-weighted assets to total assets, and (9) securitized off-balance sheet

[16] This choice is consistent with the supervisory rating system initiated by the U.S. Federal Reserve System to oversee U.S. banking institutions. The rating system (also called CAMELS rating system) relies on a ratio analysis of the banks' financial statements that includes indicators of capital adequacy, types of assets, earnings, management capabilities, earnings, and liquidity.

assets divided by total assets. First, we rank the banks in our sample based on each of the above characteristics every year. We then average these rank classifications per bank and year. Higher values of this index indicate lower performance or a worse financial position of a bank. We include few other bank-specific controls. *Assets* is the natural logarithm of the total assets. *Loans_scaled* is the total loans divided by total assets. Finally, *Deposits_scaled* is the total deposits divided by total assets.

Panel A of Table 7 provides descriptive statistics on the cross-sectional sample used for the banks analysis. The sample includes all banks that provide a liability to a congressional member during our sample period. We sum the dependent variables and average the independent variables across all years. Not surprisingly, the banks lend more to individuals who sit on other powerful committees given that the number of these members is significantly higher than the number of finance committee members. The average bank in the sample has 66% of its assets in loans and 32.5% of its capital comes from deposits.

In Panel B of Table 7, we provide the regression results when *Count_fin* and *Count_non_fin* are included as dependent variables. The regressions for the results in columns (1) and (3) use the full panel data sample, where the unit of observation is bank-year, while the results columns (2) and (4) are based on the cross-sectional sample of banks. The reason behind using the cross-sectional sample is that most bank characteristics are relatively sticky over time. The results in columns 1 and 2 indicate that banks with higher values for *Index*[17] (i.e., banks with worse financial performance and weaker balance sheets), lend to more finance committee members. We do not find an association between *Index* and *Count_non_fin*, consistent with the interpretation that weaker financial institutions are more likely to lend to finance committee

[17] The results documented in this section are qualitatively similar when instead of using *Index*, which is an average; we use a similar variable that corresponds to the sum of the ranks.

members to potentially benefit from a political relationship given that these individuals have an ability to influence the regulatory environment of the financial system. Regarding control variables, we find that banks that are larger, have more deposits, and engage in less lending are more likely to lend to finance committee members.

We add to the regression the total amount lent to congressional members as the dependent variable. The results in Panel C in Table 7 are similar. We find that banks that are characterized by lower financial performance and weaker balance sheets lend greater amounts to finance committee members. However, we do not identify an association between *Index* and *Amount_lent_nonfin*. This result further supports our finding that poorer performing banks do not particularly benefit from political relationships with individuals sitting on committees other than finance committees.

Our evidence shows that weaker financial institutions that are more likely to benefit from a political relationship are more likely to lend to finance committee members than to members of other powerful committees in the U.S. Congress. Finance committee members can promote and support policies designed to have a positive impact on the financial industry thus poor performing banks would reap greater benefits relative to other banks because the threat of insolvency would likely diminish.[18] Finance committee members can also influence policies that would harm the financial industry. Weaker financial institutions would benefit the most if these policies created opportunities for them to remain solvent.

4. Conclusion

In this paper, we study a previously unexplored channel through which firms can directly

[18] Other banks still benefit from this positive activity, but for them the threat of insolvency is much smaller or might be irrelevant.

provide personal benefits to politicians. Using a unique dataset provided by the CRP, we investigate the extent to which financial institutions provide personal liabilities to members of the U.S. Congress. In particular, we analyze whether finance committee members, who are responsible for oversight and legislation affecting the financial sector, receive preferential access to bank financing.

We document that finance committee members report more new liabilities and greater leverage as a proportion of their net worth during the period of their membership relative to other periods or individuals who are not finance committee members. The issuance of new personal liabilities to these committee members is concentrated in the first two years of their finance committee appointment. We do not find greater borrowing by members of other powerful committees in the U.S. Congress, suggesting that it is not the visibility of a committee membership that is driving our personal liability results. We further document that finance committee members report more favorable terms on their liabilities during their first year of committee membership. Specifically, these liabilities have longer maturities and smaller interest rates compared to liabilities reported in other years or to liabilities reported by members of other powerful committees in their first year of appointment. Finally, we find that weaker financial institutions are more likely to establish or reinforce a relationship with finance committee members. This last result further suggests that weaker institutions, which are more likely to benefit from legislation influenced by finance committee members, create connections with these individuals via their lending activities.

While our results indicate that, through their personal liabilities, finance committee members may use their oversight and legislative power to potentially extract benefits from financial institutions, our evidence is circumstantial as we cannot prove causality with our

empirical tests. We hope that additional research in this area will provide further insights into the personal borrowing activities of members of the U.S. Congress and how this borrowing influences their committee activities on legislative matters and their positions with respect to various pieces of legislation that affect the financial sector.

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Figure 1

Figure 1 provides the average level of new liabilities by finance committee members, which for each individual is calculated as the amount of new liabilities they obtained during the year divided by his/her net worth at the beginning of that year. Year "0" is the first year an individual is appointed to a congressional finance committee. The finance committees are Senate Banking, Senate Finance, and House Financial Services.

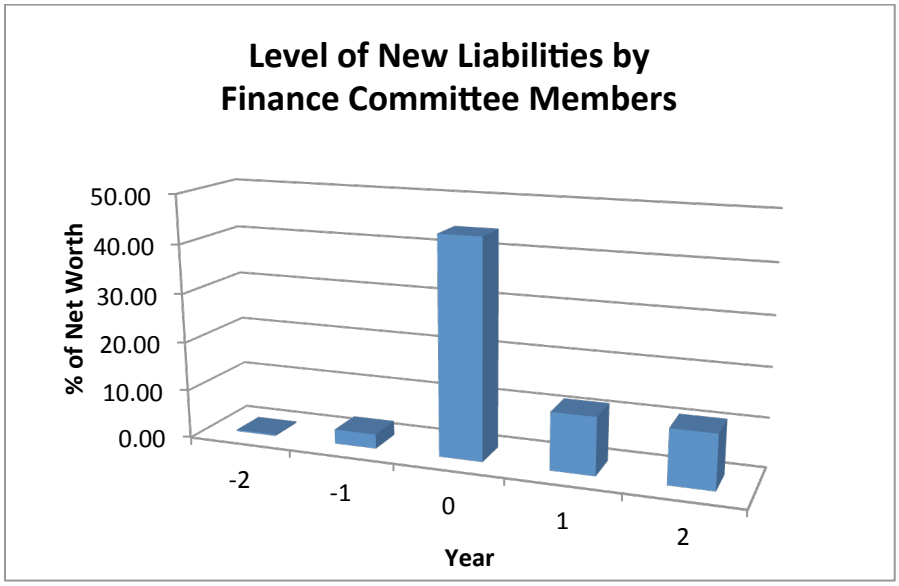

Figure 2

Figure 2 provides the average level of new liabilities by members of powerful committees, which for each individual is calculated as the amount of new liabilities they obtained during the year divided by his/her net worth at the beginning of that year. Year "0" is the first year an individual joins a powerful committee. The powerful committees in the Senate are the Veterans Affairs, Appropriations, Rules, Armed Services, Foreign Relations, Intelligence, Judiciary, Budget, and Commerce. In the House of Representatives these committees are Ways and Means, Appropriations, Energy and Commerce, Rules, International Relations, Armed Services, Intelligence, Judiciary, Homeland Security, and Transportation and Infrastructure.

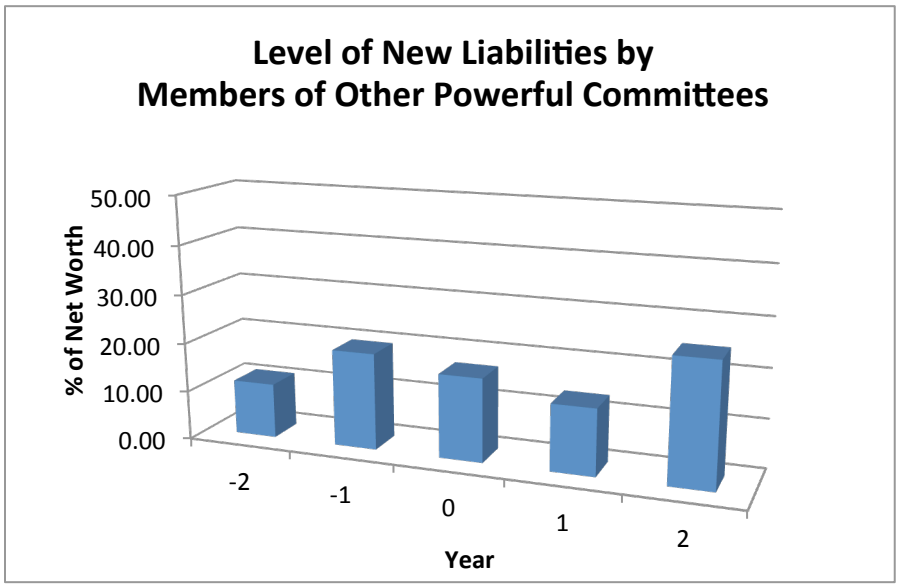

Table 1

Summary Statistics

Panel A provides the descriptive statistics for all 564 congressional members over the 2004-2011 period. Panel B provides the descriptive statistics for all non-finance years (i.e., both the periods for belonging to the non-finance committee members *and* the non-finance periods belonging to the finance committee members). Panel C provides the descriptive statistics only for the finance periods for the finance committee members. *New_leverage* is the amount of new liabilities obtained by a congressional member during the year divided by his/her net worth at the beginning of that year. *Leverage* is the total amount of a congressional member's liabilities divided by his/her net worth at the beginning of the year. *Age* is congressional member's age. *Seniority* is the number of years since the date a congressional member was first elected to Congress. *Active* is an indicator variable that takes the value one if a politician purchased or sold an asset in the two preceding years and zero otherwise. *Inc_assets_change* is the change in the total income generated by the assets owned by a congressional member divided by average total assets. *Liq_assets_change* is the change in total liquid assets owned by a congressional member divided by average total assets. *House* is an indicator variable that takes the value one if an individual is a House member and zero otherwise.

Panel A

Variable	***N***	**Mean**	**P25**	**Median**	**P75**	**Std. Dev.**
New_leverage	2781	0.13	0.00	0.00	0.00	0.67
Leverage	2781	0.36	0.00	0.00	0.20	1.72
Liabilities ($)	2781	890764.20	0.00	0.00	282501.50	7556163
New Liabilities ($)	2781	119918.4	0	0	12500	443023
Seniority (years)	2781	12.76	5.00	11.00	17.00	9.19
Age (years)	2781	58.94	52.00	59.00	66.00	10.36
Active	2781	0.30	0.00	0.00	1.00	0.46
Inc_assets_change	2781	0.00	-0.01	0.00	0.01	0.11
Liq_assets_change	2781	-0.01	-0.10	0.00	0.08	0.30
House	2781	0.84	1.00	1.00	1.00	0.37

Panel B

Variable	***N***	**Mean**	**P25**	**Median**	**P75**	**Std. Dev.**
New_leverage	2542	0.12	0.00	0.00	0.00	0.66
Leverage	2542	0.36	0.00	0.00	0.21	1.70
Liabilities ($)	2542	738673.30	0.00	0.00	252501.50	5809211
New Liabilities ($)	2542	113611.50	0.00	0.00	12500.00	426587.10
Seniority (years)	2542	13.31	6	12	18	9.29
Age (years)	2542	59.27	52	59	66	10.37
Active	2542	0.299	0	0	1	0.46
Inc_assets_change	2542	-0.003	-0.009	0	0.009	0.11
Liq_assets_change	2542	-0.01	-0.095	0	0.08	0.30
House	2542	0.85	1	1	1	0.35

Panel C

Variable	*N*	Mean	P25	Median	P75	Std. Dev.
New_leverage	239	0.15	0.00	0.00	0.00	0.74
Leverage	239	0.40	0.00	0.01	0.19	1.91
Liabilities ($)	239	2508400	0.00	32500.50	387500.50	17400000
New Liabilities ($)	239	186998.20	0.00	0.00	32500.50	587152.40
Seniority (years)	239	6.97	3	5	10	5.22
Age (years)	239	55.43	51	56	60	9.58
Active	239	0.293	0	0	1	0.46
Inc_assets_change	239	-0.008	-0.009	0	0.007	0.115
Liq_assets_change	239	-0.017	-0.09	0	0.08	0.31
House	239	0.63	0	1	1	0.48

Table 2
Finance Committee Membership and Personal Borrowing

This table provides estimates of *New_leverage* and *Leverage*, where *New_leverage* is the amount of new liabilities obtained by a congressional member during the year divided by his/her net worth at the beginning of that year and *Leverage* is the total amount of a congressional member's liabilities divided by his/her net worth at the beginning of the year. *Finance* is an indicator variable that equals one if a congressional member is a member of a finance committee at year *t* and zero otherwise. All other variables are defined in Table 1. Standard errors are clustered at the politician level and *t*-stats are reported in parentheses (two-tailed test). *p<.10, **p<.05, ***p<.01

	(1)	(2)	(3)	(4)	(5)	(6)
Variable	*New_leverage*	*New_leverage*	*Leverage*	*New_leverage*	*New_leverage*	*Leverage*
Finance	**0.237****	**0.664****	**0.391***	**0.338****	**0.893****	**0.686****
	(2.029)	**(2.292)**	**(1.648)**	**(2.226)**	**(2.293)**	**(2.464)**
Seniority	-0.038	-0.483	-0.017	0.344	0.119	0.808
	(-0.294)	(-1.230)	(-0.040)	(0.713)	(0.162)	(0.528)
Age	3.678	19.514**	-3.917	2.194	-0.257	-18.698
	(1.441)	(2.297)	(-0.611)	(0.398)	(-0.881)	(-1.314)
Inc_assets_change	0.262	0.785*	0.310	0.090	-0.436	-1.064*
	(1.498)	(1.724)	(1.186)	(0.404)	(-0.423)	(-1.896)
Liq_assets__change	-0.091*	-0.305*	-0.118	-0.251	-1.145*	-0.757**
	(-1.708)	(-1.731)	(-1.010)	(-1.308)	(-1.936)	(-2.474)
Active	-0.014	0.029	-0.167	-0.285	-0.559	-2.195*
	(-0.261)	(0.193)	(-1.068)	(-0.971)	(-1.128)	(-1.853)
House	0.072	0.609	-0.417	-0.018	0.945	-0.762
	(0.182)	(0.657)	(-0.719)	(-0.030)	(1.091)	(-0.872)
Sample	All members	All members	All members	Finance	Finance	Finance
Model	OLS	Tobit	OLS	OLS	Tobit	OLS
N	2,781	2,781	2,781	376	376	376
Number of members	564	564	564	83	83	83
Year FE	YES	YES	YES	YES	YES	YES
Member FE	YES	YES	YES	YES	YES	YES
Within R^2	0.0757		0.0649	0.0994		0.173
Pseudo R^2		0.371			0.348	

Table 3
Finance Committee Membership and Personal Borrowing

This table provides estimates of *New_leverage*, defined as the amount of new liabilities obtained by a congressional member during the year divided by his/her net worth at the beginning of that year. *Fin_entry (year t)* equals one in the first year a congressional member joins a finance committee and zero otherwise. *Fin_entry (years t≥ +1)* is an indicator variable that equals one for all years, other than the first year, when the individual is a member of a finance committee and zero otherwise. All other variables are defined in Table 1. Standard errors are clustered at the congressional member level and *t*-stats are reported in parentheses (two-tailed test). *p<0.10, **p<0.05, ***p<0.01

	(1)	(2)	(3)	(4)
Variable	*New_leverage*	*New_leverage*	*New_leverage*	*New_leverage*
Fin_entry (year t)	**0.330***	**0.779****	**0.413****	**1.138****
	(1.881)	**(2.149)**	**(2.120)**	**(2.391)**
Fin_entry (years t≥ +1)	**0.177***	**0.568***	**0.265***	**0.724***
	(1.770)	**(1.826)**	**(1.900)**	**(1.699)**
Seniority	-0.038	-0.471	0.284	0.409
	(-0.298)	(-1.198)	(0.597)	(0.309)
Age	3.726	19.293**	2.188	-0.727*
	(1.463)	(2.277)	(0.401)	(-1.834)
Inc_assets_change	0.259	0.775*	0.071	-0.522
	(1.479)	(1.694)	(0.314)	(-0.496)
Liq_assets_change	-0.092*	-0.306*	-0.253	-1.153*
	(-1.718)	(-1.735)	(-1.327)	(-1.962)
Active	-0.014	0.031	-0.273	-0.522
	(-0.254)	(0.208)	(-0.951)	(-1.147)
House	0.080	0.637	0.015	0.917
	(0.207)	(0.711)	(0.025)	(1.002)
Sample	All members	All members	Finance	Finance
Model	OLS	Tobit	OLS	Tobit
N	2,781	2,781	376	376
Number of members	564	564	83	83
Year FE	YES	YES	YES	YES
Member FE	YES	YES	YES	YES
Within R^2	0.0764		0.102	
Pseudo R^2		0.371		0.350

Table 4:
Finance Committee Membership and Timing of Personal Borrowing

This table provides estimates of *New_leverage*, defined as the amount of new liabilities obtained by a congressional member during the year divided by his/her net worth at the beginning of that year. *Leverage* is defined as the total amount of a politician's liabilities divided by his/her net worth at the beginning of the year. *Fin_entry(year t-*1) is an indicator variable that takes the value one in the year before a congressional members joins a finance committee and zero otherwise. *Fin_entry (year t)* equals one in the first year a congressional member joins a finance committee and zero otherwise. *Fin_entry(year t+*1*)* is an indicator variable that equals one for the first year after the committee appointment and zero otherwise. *Fin_entry (years t≥ +*2*)* is an indicator variable that equals one for all years, other than the first two years, when the individual is a member of a finance committee and zero otherwise. *Finance* is an indicator variable that equals one if a congressional member is a member of a finance committee at year t and zero otherwise. All other variables are defined in Table 1. Standard errors are clustered at the politician level and t-stats are reported in parentheses (two-tailed test). *p<0.10, **p<0.05, ***p<0.01

	(1)	(2)	(3)	(4)
Variable	*New_leverage*	*New_leverage*	*New_leverage*	*New_leverage*
Fin_entry(year t-1)	**-0.066**	**-0.068**	**-0.176**	**-0.160**
	(-0.652)	**(-0.687)**	**(-1.153)**	**(-1.098)**
Fin_entry(year t)	**0.298***		**0.356***	
	(1.669)		**(1.845)**	
Fin_entry(year t+1)	**0.235****		**0.218***	
	(2.362)		**(1.889)**	
Fin_entry(years t≥ +2)	**0.078**		**0.165**	
	(0.564)		**(0.908)**	
Finance		**0.217***		**0.284***
		(1.829)		**(1.857)**
Seniority	-0.005	-0.040	0.279	0.310
	(-0.042)	(-0.308)	(0.627)	(0.652)
Age	3.658	3.666	1.733	1.903
	(1.436)	(1.433)	(0.307)	(0.335)
Income_assets_change	0.260	0.262	0.082	0.096
	(1.490)	(1.500)	(0.359)	(0.433)
Liquid_assets_change	-0.092*	-0.092*	-0.261	-0.259
	(-1.715)	(-1.718)	(-1.374)	(-1.353)
Active	-0.015	-0.014	-0.279	-0.293
	(-0.274)	(-0.270)	(-0.970)	(-0.997)
House	0.078	0.071	0.032	-0.008
	(0.200)	(0.180)	(0.053)	(-0.013)
Sample	All members	All members	Finance	Finance
Model	OLS	OLS	OLS	OLS
N	2,781	2,781	376	376
Number of members	564	564	83	83
Year FE	YES	YES	YES	YES
Politician FE	YES	YES	YES	YES
Within R^2	0.0774	0.0758	0.105	0.102

Table 5
Finance versus Powerful Non-finance Congressional Committees

This table provides estimates of *New_leverage*, defined as the amount of new liabilities obtained by a congressional member during the year divided by his/her net worth at the beginning of that year. *Fin_entry (year t)* equals one in the first year a congressional member joins a finance committee and zero otherwise. *Fin_entry (years t≥ +1)* is an indicator variable that equals one for all years, other than the first year, when the individual is a member of a finance committee and zero otherwise. *Non Fin_entry (year t)* is an indicator variable that takes the value one in the first year a congressional member is appointed to a powerful non-finance congressional committee and zero otherwise. *Finance* is an indicator variable that equals one if a congressional member is a member of a finance committee at year t and zero otherwise. *Non Finance* is an indicator variable that equals one if a congressional member is a member of a powerful non-finance committee at year t and zero otherwise. All other variables are defined in Table 1. Standard errors are clustered at the politician level and t-stats are reported in parentheses (two-tailed test). *p<0.10, **p<0.05, ***p<0.01

	(1)	(2)	(3)	(4)
Variable	*New_leverage*	*New_leverage*	*New_leverage*	*New_leverage*
Fin_entry (year t)	**0.339***	**0.800****		
	(1.928)	**(2.216)**		
Fin_entry (years t≥ +1)	**0.185***	**0.559***		
	(1.802)	**(1.766)**		
Non Fin_entry (year t)	**0.078**	**0.252**		
	(1.001)	**(1.111)**		
Finance			**0.240***	**0.645****
			(1.944)	**(2.182)**
Non Finance			**0.012**	**-0.150**
			(0.114)	**(-0.558)**
Seniority	-0.031	-0.447	-0.039	-0.472
	(-0.243)	(-1.132)	(-0.294)	(-1.195)
Age	3.802	19.622**	3.688	19.581**
	(1.485)	(2.297)	(1.443)	(2.301)
Income_assets_change	0.260	0.784*	0.262	0.773*
	(1.487)	(1.709)	(1.499)	(1.685)
Liquid_assets_change	-0.093*	-0.312*	-0.092*	-0.306*
	(-1.736)	(-1.766)	(-1.705)	(-1.739)
Active	-0.016	0.022	-0.014	0.032
	(-0.294)	(0.149)	(-0.262)	(0.216)
House	0.105	0.724	0.075	0.586
	(0.263)	(0.783)	(0.187)	(0.628)
Sample	All members	All members	All members	All members
Model	OLS	Tobit	OLS	Tobit
N	2,781	2,781	2,781	2,781
Number of Politicians	564	564	564	564
Year FE	YES	YES	YES	YES
Politician FE	YES	YES	YES	YES
Within R^2	0.0770		0.0757	

Table 6
Finance Committee Membership and Personal Loan Terms

Panel A provides OLS estimates of *Liab_maturity*, defined as the natural logarithm of maturity of each liability owned by a politician. Panel B provides OLS estimates of Liab_int_rate, defined as the interest rate on each liability owned by a politician. The main variable of interest, *Fin_entry (year t)* equals one in the first year a congressional member joins a finance committee and zero otherwise. *Fin_entry (year t-1)* is an indicator variable that takes the value one in the year before a congressional members joins a finance committee and zero otherwise. *Non Fin_entry (year t)* is an indicator variable that takes the value one in the first year a congressional member is appointed to a powerful non-finance congressional committee and zero otherwise. *Prime* is the Prime U.S. rate (annual values). All other variables are defined in Table 1. The specification in columns (1) - (4) uses a sample that includes all outstanding liabilities. Standard errors are clustered at the politician level and t-stats are reported in parentheses (two-tailed test). *p<0.10, **p<0.05, ***p<0.01

Panel A:

	(1)	(2)	(3)	(4)
Variable	*Liab_maturity*	*Liab_maturity*	*Liab_maturity*	*Liab_maturity*
Fin_entry (year t)	**0.280*** **	**0.299*** **	**0.287*** **	**0.188** **
	(3.009)	**(3.336)**	**(3.032)**	**(2.518)**
Fin_entry(year t-1)		**0.065**		
		(0.672)		
Non Fin_entry (year t)			**0.034**	
			(0.499)	
Seniority	0.360*	0.375*	0.397*	0.630***
	(1.824)	(1.936)	(1.811)	(2.641)
Age	-16.452	-16.746	-16.693	-23.585*
	(-1.355)	(-1.384)	(-1.366)	(-1.990)
Income_assets_change	-0.294	-0.289	-0.287	0.117
	(-0.525)	(-0.528)	(-0.501)	(0.207)
Liquid_assets_change	-0.027	-0.038	-0.027	-0.060
	(-0.342)	(-0.472)	(-0.333)	(-0.629)
Active	-0.620***	-0.611***	-0.633***	-0.514**
	(-3.076)	(-3.096)	(-3.128)	(-2.170)
House	0.152	0.171	0.163	0.079
	(0.911)	(1.029)	(1.011)	(0.504)
Liab_interest_rate				-0.066
				(-1.374)
N	480	480	480	439
R^2	0.416	0.417	0.416	0.434
Number of members	83	83	83	78
Liability Type FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Member FE	YES	YES	YES	YES
Within R^2	0.416	0.417	0.416	0.434

Panel B:

	(1)	(2)	(3)	(4)
Variable	*Liab_int_rate*	*Liab_int_rate*	*Liab_int_rate*	*Liab_int_rate*
Fin_entry (year t)	**-0.584****	**-0.666****	**-0.649****	**-0.469***
	(-1.967)	**(-2.402)**	**(-2.104)**	**(-1.820)**
Fin_entry(year t-1)		**-0.248**		
		(-1.426)		
Non Fin_entry (year t)			**-0.356**	
			(-1.453)	
Prime	0.313***	0.316***	0.316***	0.337***
	(2.790)	(2.797)	(2.798)	(3.198)
Seniority	0.045	0.009	-0.394	0.339
	(0.083)	(0.018)	(-0.858)	(0.598)
Age	-9.971	-8.578	-7.728	-21.931
	(-0.445)	(-0.387)	(-0.348)	(-1.031)
Inc_assets_change	2.826	2.754	2.820	2.761
	(1.295)	(1.257)	(1.293)	(1.399)
Liq_assets_change	-0.754**	-0.710**	-0.760**	-0.754**
	(-2.220)	(-2.130)	(-2.374)	(-2.207)
Active	2.929***	2.886***	3.086***	2.577***
	(4.625)	(4.667)	(5.249)	(4.866)
House	-0.646	-0.719	-0.746	-0.567
	(-1.225)	(-1.405)	(-1.631)	(-1.281)
Liab_maturity				-0.510*
				(-1.818)
N	439	439	439	439
Number of members	78	78	78	78
Liability Type FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
Politician FE	YES	YES	YES	YES
Within R^2	0.172	0.173	0.174	0.206

Table 7
Banks that Lend to Finance Committee Members

Panel A provides the descriptive statistics for the cross-sectional sample used in the tests that focus on the characteristics of the banks that lend to members of finance committees, as well as to members of other committees. *Count_fin* is defined as the natural logarithm of the number of finance committee members to whom a bank provides new loans. *Count_non_fin* is defined as the natural logarithm of the number of non-finance committee members to whom a bank grants new loans. *Amount_lent_fin* is defined as the natural logarithm of the total amount of new loans provided by a bank to finance committee members. *Amount_lent_nonfin* is defined similarly to the previous variable except that it applies to non-finance committee members. *Index*, is a bank specific variable that captures the extent to which the bank is underperforming or has a weak balance sheet in the current year. It is computed as the average of the rank classification (0, 1, 2) of the following nine variables: (1) the inverse of net income divided by average total assets, (2) the inverse of Tier 1 Equity divided by total assets, (3) non-performing loans divided by total assets, (4) the inverse of liquid assets divided by total assets, (5) bank provisions divided by average total assets, (6) total liabilities divided by total assets, (7) mortgage-backed securities divided by total assets, (8) the inverse of the ratio of risk-weighted assets to total assets, (9) securitized off-balance sheet assets divided by total assets. Higher values of the index indicate lower performance or a worse financial position of a bank. *Assets* is the natural logarithm of the total assets. *Deposits_scaled* is the total deposits divided by total assets. *Loans_scaled* is the total loans divided by total assets. Panel B (C), columns 1-2 provide OLS estimates for regressions with *Count_fin* (*Amount_lent_fin*) as a dependent variable while columns 3-4 provide OLS estimates for regressions with Count_non_fin (*Amount_lent_*nonfin) as a dependent variable. Both panels B & C use a sample that includes all the banks that at some point, within our sample period, lent to a politician. In columns (1) and (3), the results are based on a panel structure where the unit of observation is bank-year, and the standard errors are corrected for clustering at the bank level. In columns (2) and (4), we collapse the sample at the bank level and report robust standard errors. T-stats are reported in parentheses (two-tailed test). T-stats are reported in parentheses (two-tailed test). *p<0.10, **p<0.05, ***p<0.01

Panel A:

Variable	***N***	**Mean**	**Median**	**Std. Dev.**
Count_fin (raw count)	189	0.12	0	0.49
Count_non_fin (raw count)	189	0.66	0	2.67
Amount_lent_fin ($)	189	193029.5	0	818577.6
Amount_lent_nonfin ($)	189	2069248	0	10400000
Assets	189	14.624	14.203	2.005
Loans_scaled	189	0.661	0.680	0.135
Deposits_scaled	189	0.325	0.308	0.123
Index	189	1.001	1	0.253

Panel B:

	Count_fin		*Count_non_fin*	
Variable	(1)	(2)	(3)	(4)
Index	**0.077****	**0.126****	**0.063**	**0.053**
	(2.270)	**(2.281)**	**(0.908)**	**(0.395)**
Assets	0.071***	0.074***	0.171***	0.172***
	(3.683)	(4.157)	(4.649)	(5.091)
Loans_scaled	-0.281*	-0.289*	-0.297	-0.105
	(-1.820)	(-1.659)	(-1.062)	(-0.325)
Deposits_scaled	0.175	0.317*	0.174	0.375
	(1.407)	(1.951)	(0.769)	(1.228)
Constant	-0.935***	-1.056***	-2.263***	-2.397***
	(-3.632)	(-4.138)	(-4.283)	(-4.817)
Observations	1,161	189	1,161	189
Adj. R^2	0.280	0.386	0.371	0.406
Year FE	YES	-	YES	-

Panel C:

	Amount_lent_fin		*Amount_lent_nonfin*	
Variable	(1)	(2)	(3)	(4)
Index	**0.789****	**3.423****	**-0.197**	**-2.993**
	(2.291)	**(2.538)**	**(-0.296)**	**(-1.488)**
Assets	0.670***	1.125***	1.170***	1.389***
	(4.308)	(4.706)	(6.177)	(6.200)
Loans_scaled	-2.256	-4.813	-0.357	6.535*
	(-1.617)	(-1.464)	(-0.177)	(1.763)
Deposits_scaled	1.256	3.745	-0.417	-7.561*
	(1.033)	(1.182)	(-0.231)	(-1.739)
Constant	-8.910***	-15.763***	-14.425***	-12.847***
	(-3.945)	(-3.458)	(-4.367)	(-2.903)
N	1,161	189	1,161	189
Adj. R^2	0.216	0.222	0.209	0.207
Year FE	YES	-	YES	-