

Political Influence and TARP Investments in Credit Unions

Dr. Elisabeta Pana
Associate Professor of Business Administration
Illinois Wesleyan University
CLA 324
Bloomington, IL 61701
Phone: (309) 556-3130
E-mail: epana@iwu.edu

and

Dr. Linus Wilson ^a
Assistant Professor of Finance
University of Louisiana at Lafayette
B. I. Moody III College of Business
Department of Economics & Finance
214 Hebrard Boulevard, Moody Hall 253
P. O. Box 44570
Lafayette, LA 70504-4570
Phone: (337) 482-6209
Fax: (337) 482-6675
E-mail: [linuswilson \[at\] louisiana \[dot\] edu](mailto:linuswilson[at]louisiana[dot]edu)
Web: <http://www.linuswilson.com>

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Forty-eight credit unions received capital injections as part of the financial sector bailout. The predicted probability of receiving bailout funds jumps from 29 percent to 81 percent for the typical credit union, if the institution's headquarters was in the district of a member of the U.S. House Financial Services Committee (HFS). The credit unions receiving funds were significantly less likely to lend, contrary to the goals of the program. These results indicate that political influence may be an important determinant of which institutions receive taxpayer funds.

Journal of Economic Literature Codes: G21, G28, G38

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1. Introduction

Credit unions were largely ignored in the U.S. government's attempts to bail out the financial sector in 2008 and 2009. The \$700 billion bailout program called the Troubled Asset Relief Program (TARP) only invested in credit unions in the final two weeks that the U.S. Treasury had authorization to make new investments, from September 17, 2010, to September 30, 2010. (The TARP legislation only authorized the U.S. Treasury Secretary to make new investments for two years after the enactment of the act on October 3, 2008.) Credit unions received \$69.911 million dollars from the TARP or less than 1/10,000-th of the monies initially authorized.

The lucky 48 credit unions that did receive TARP funds got a great deal. They issued subordinated debt with interest rates at 2 percent for the first eight years and after that 9 percent until maturity or in the event of default.¹ In September 2010, when the investments were made, seven-year U.S. Treasury notes yielded about 2 percent and ten-year notes yielded between 2.5 and 2.75 percent. Wilson (2012) estimates that TARP capital injections should yield between 7.8 and 12.0 percent based on the performance of prior TARP investments in privately held banks. If these loans are expected to be repaid in eight years, the \$69.9 million of capital infusions in credit unions has a present value of between \$37.4 and \$49.4 million, using Wilson (2012)'s yields.

¹ The maturities of these subordinated debentures are between 8 and 13 years. See U. S. Treasury, "Community Development Capital Initiative, CDFI Credit Unions Senior Securities, Summary of Terms of CDCI Senior Securities," accessed online on October 26, 2010, at <http://www.financialstability.gov/docs/CDCI/CDCI%20Credit%20Union%20Term%20Sheet%20042610.pdf>.

Credit unions were probably an afterthought of the TARP because they are mostly small and not very interconnected. The common bond membership and cooperative mission limits their interconnections, size, and access to outside capital. The largest credit union that filed a call report for June 30, 2010, had assets of \$41.1 billion dollars. Few commentators would have thought a \$41 billion institution posed any systemic risks, which were used to justify the TARP legislation. Total credit union assets were \$916.1 billion at that time. Four U.S. commercial banks, Bank of America, Citigroup, JPMorgan Chase, and Wells Fargo, had assets greater than \$1 trillion by mid-year 2010. Thus, each one of those four commercial banks had assets greater than the assets of all 7,600 credit unions filing call reports in mid-2010.

Credit unions may have lacked the political clout to garner a bigger slice of the bailout pie. Saunders and Cornett (2009, p. 428) points out there have long been tensions between credit unions and their more heavily taxed rivals in the banking industry. The political power of the banking lobby, as opposed to the credit union lobby, may have also limited TARP investments in credit unions to a relatively small amount.

There is some evidence that the credit union investments had more to do with politics than financial stability. The administration relied on the House Financial Services (HFS) Committee chaired by Congressman Barney Frank, D-MA, for the drafting and the passage of its Small Business Lending Fund (SBLF) legislation as well as the landmark Dodd-Frank Financial Reform Act of 2010. (The SBLF allowed the administration to buy up to \$30 billion of preferred stock and subordinated debt in small banks after the TARP expired.) Chairman Frank and a high ranking member of that committee, Congresswoman Maxine Waters, D-CA, have been criticized for their

successful efforts to help a poorly capitalized bank, OneUnited Bank of Boston, MA, to receive TARP funds. That bank subsequently missed six out of its first seven TARP dividends owed to taxpayers.²

This paper finds that eligible credit unions were three times more likely to receive TARP funds after controlling for other factors if they had headquarters in the district of a HFS member. The influence of credit unions seems to stem from their role as an employer of and lender to the constituents of key members of Congress. There is no evidence that the modest campaign contributions of credit union employees were significantly associated with receiving bailout funds.

Moreover, we find that TARP recipient credit unions lent out a significantly lower percentage of their deposits than eligible credit unions that did not receive bailout monies. TARP recipient credit unions had significantly lower growth in lending as a percent of assets than other TARP-eligible credit unions who did not get TARP support. This contradicted the goals of the TARP program from which they received funding. The program documents say, “As part of the Administration’s ongoing commitment to improving access to credit for small businesses...This new TARP program will invest lower-cost capital in Community Development Financial Institutions (CDFIs) that lend to small businesses in the country's hardest-hit communities.”³ Ironically, the credit unions receiving funds from this program were significantly less likely to make loans available to their communities.

² Brady Dennis, September 13, 2010, “More Banks Missing TARP dividend Payments,” *Washington Post*, accessed online on October 26, 2010, at <http://www.washingtonpost.com/wp-dyn/content/article/2010/09/13/AR2010091306283.html>

³ See <http://www.financialstability.gov/roadtostability/comdev.html> accessed online on October 26, 2010.

Besides being the first study to look into credit union investments in the TARP. This is the only study to look into the selection process of credit unions into TARP. Moreover, it is the only study of the role of political influence on which credit unions obtained TARP funds. Bauer (2012) looks at several univariate tests of ratios credit unions receiving TARP. Yet, Bauer (2012) does not look at variables of political influence on the selection process. In addition, that study does not have multivariate regressions involving TARP recipient credit unions. Thus, all statistical inferences fail to control for other factors. Bauer (2012) argues that the TARP recipient credit unions had improved capital ratios, net worth ratios, *after* government investments compared to other eligible credit unions. In contrast, we find that *prior to* TARP investments TARP recipients had significantly worse tangible net worth ratios.

Many academic studies have looked at banks which received TARP funds under the Capital Purchase Program (CPP). The CPP was the first and largest program of the TARP, investing \$205 billion in 707 banks and thrifts. Studies of the selection of banks include Banyl *et al.* (2010), Cadman *et al.* (2012), Jordan *et al.* (2011), Li (2010), Ng *et al.* (2010), Taliaferro (2009), and Duchin and Sosyura (2012). Like the present study Duchin and Sosyura (2012) focus on political influence and TARP investments. Duchin and Sosyura (2012) find that banks were more likely to receive TARP funds from the Capital Purchase Program if they had their headquarters in a House Financial Services Committee (HFS) member's district. This paper finds that the apparent influence of HFS members on TARP investments continued with the more recent credit union investments.

This paper proceeds as follows. In section 2, the data sources and the programs are discussed. In section 3, the five principal hypotheses are outlined. In section 4,

univariate and logistic regression results on TARP selection are discussed. In particular, the hypothesis that receives the strongest support says that credit unions located in HFS members' districts are much more likely to receive TARP funds. Moreover, there is no evidence that credit unions selected for the program had demonstrated a better track record of lending to their underserved communities than the eligible credit unions which did not receive funds. In section 5, the conclusions are drawn.

2. Data

Accounting data is from the credit union call reports which are compiled by the National Credit Union Association (NCUA). NCUA is a federal government agency that regulates credit unions and insures credit union deposits. The call reports were from June 30, 2010, which was the most recent data available to regulators and U.S. Treasury officials evaluating applicants to the TARP's Community Development Capital Initiative, which made all of its credit union investments in September 2010. We also used call report data from the fourth quarter of 2011, December 31, 2011, to measure loan growth after taking TARP monies.

We do not know the identity of credit unions that applied for TARP funds. We only know the identities of credit unions that were eligible for TARP funds. There were two primary criteria determining eligibility.⁴ The first was that the credit union was designated a Community Development Financial Institution (CDFI) at the time of the

⁴ NCUA, March 15, 2010, "Community Development Capital Initiative (CDCI) FAQs for Credit Unions," accessed online on September 1, 2011, at www.ncua.gov/Resources/CreditUnionDevelopment/Files/CDCI/FAQ.docx.

investment. Secondly, a credit union had to be designated a low income credit union (LICU) by NCUA. Membership data on the credit unions which are designated as the Community Development Financial Institutions (CDFI) was obtained from the U.S. Treasury's Community Development Financial Institution Fund. There were 189 CDFI credit unions for which we had data. 181 out of the 189 CDFI credit unions were also designated low income credit unions (LICU) by NCUA.

Data on which credit unions were selected into the TARP's Community Development Capital Initiative (CDCI) was obtained from transaction reports from the U.S. Treasury's Office of Financial Stability. Forty-eight of the eligible credit unions were selected to receive TARP funds.

The seniority and membership of the Congressmen and Congresswomen on the U.S. House Financial Services Committee (HFS) was obtained from the committee website. Credit union call reports identify most credit unions' Congressional district. Some credit unions that did not have a Congressional district listed in the call report. For those latter institutions, the author identified the Congressional districts by the institutions' nine digit (five-plus-four) zip codes.

Let M_j be the number of members of the HFS of a particular party j . The two parties are $j = D$ or R , Democrat or Republican respectively. There were $M_D = 42$ Democrats, and $M_R = 29$ Republicans on the HFS committee. Let ρ_j be the rank of a particular member of the HFS. Thus, $\rho_D = 1, 2, \dots, 42$, and $\rho_R = 1, 2, \dots, 29$. The seniority index score, $S_{j,\rho}$, of a HFS member of party j and rank ρ_j equals the following:

$$S_{j,\rho} = 1 - \frac{\rho_j - 1}{M_j} \quad (1)$$

The highest ranking members of the HFS at the time of the TARP's credit union investments were Barney Frank, D-MA, and Spencer Bachus, R-AL. Both members had a seniority rank of 1. Yet, no credit unions in either of their districts received TARP funds. Credit unions lying outside a HFS member's district received a seniority rank of zero. It turns out that no credit unions receiving TARP funds were in districts of Republican members of the HFS. All nine credit unions in our sample of 181 eligible credit unions that were located in HFS members' districts had House of Representative members who were Democrats. At the time of these investments, the Democratic Party was the majority party in both chambers of Congress, and the president was a Democrat.

*****Insert table 1 about here.*****

In table 1, the summary statistics of the sample are presented. The TARP investments in 48 credit unions ranged from \$7,000 to just under \$9.3 million. Over a quarter of the eligible credit unions, 48 out of 181, received TARP funds. Just less than 5 percent were housed in districts of House Financial Service Committee members. Yet, these members of Congress held about 16 percent of the 435 seats in the U.S. House of Representatives. This probably reflects the fact that eligible credit unions were primarily located away from the financial centers from which many of the HFS members were more likely to be drawn.

Only 7 percent of eligible credit unions made campaign or political action committee donations to federal elections. These donations were small in dollar terms totaling \$27,777 among the 181 TARP-eligible credit unions. These campaign donations were smaller than 0.01 percent of total assets even for the biggest donors in the sample.

The best measure of a credit union's capital is its net worth. For this study the author has used the more conservative measure of tangible net worth. This is the difference between the bank's tangible assets and its total liabilities. The median eligible credit union had a tangible net worth of nearly 9 percent of total assets. Non-performing assets were about 2.4 percent of assets on average for TARP-eligible credit unions.

These eligible institutions were very small. The average TARP-eligible credit union had assets of approximately \$51 million. The largest CDFI credit union had assets which were just under \$1.7 billion by June 30, 2010. Very few people would argue that an institution with \$1.7 billion in assets posed any systemic risks. This largest CDFI credit union was less than 1,000 times smaller as measured by total assets than each of the three largest U.S. banks at the time.

3. Hypotheses

In this section, the predictions for the data are outlined. Credit Unions in HFS districts or in the districts of more senior HFS members are predicted to be more likely to receive TARP money. This is because the HFS members' political power influenced regulators and U.S. Treasury officials to invest in credit unions which were based in HFS members' districts. In addition, it is predicted that financially stronger credit unions will

be approved for TARP funds. Larger credit unions are predicted to be more successful in obtaining TARP funds because they have more resources to devote to the fixed cost of putting together a successful application. Also credit unions that have a higher loan-to-deposit or loan-to-asset ratio are predicted to seek and be successful in obtaining TARP funds because they are more likely to lend government capital infusions. Finally, we predict that credit unions which make more money donations to political campaigns will be more likely to receive funding. Yet, this prediction is tempered by the fact that few credit union employees have enough disposable income to make big campaign donations.

The terms of the TARP's CDCI for credit unions states that credit unions will issue subordinated debentures to the U.S. Treasury in exchange for any investment. These unsecured subordinated debentures pay an interest rate of two percent per annum for the first eight years. Some of the debentures mature in eight years and some mature in thirteen years. After eight years, or in the event of default, the interest rate of the debentures rises to nine percent per annum. Since seven year U.S. Treasury yields in September 2010, when these TARP investments were made, were about 2 percent, it is clear that the U.S. Treasury was accepting very low coupons on securities, which were much riskier than U.S. Treasury notes.

Wilson (2012) argues that, based on the rates at which TARP recipients missed their early payments, it is unlikely that most small banks in the TARP could issue preferred stock at a yield of less than 7.8 percent. Thus, credit unions, with suspect profit motives due to their charters as cooperatives organized to benefit their depositors, probably would struggle to find subordinated debt investments from private investors even if they

promised coupons of 7.8 percent. (Deposits in credit unions are called “share certificates” but are federally insured and operate as liabilities of the organization.)

For these reasons, it seems reasonable to assume that most credit unions will seek to participate in the program because of its attractive terms. Demand for TARP funds will be strong. However, credit unions will be constrained by the state and federal regulators and the U.S. Treasury’s determination if they can receive funds. We would expect that Treasury would cherry-pick the strongest eligible credit unions to minimize losses to the program. This leads us to our first hypothesis:

Hypothesis 1:

CDFI credit unions which have greater financial strength will be more likely to receive TARP investments.

A financially strong credit union will have a high tangible net worth. Further, strong credit unions will have lower levels of non-performing assets, fewer net charged off loans, and lower provisions for loan losses.

The maximum amount of capital that credit unions can receive is 3.5 percent of total assets. Yet, the costs of putting together a successful application do not vary with credit union size. Credit unions that are larger will be more likely to expend the necessary resources to overcome the fixed costs of putting together a successful application. These resources may not merely involve filling out application forms. A successful credit union may need to spend many man hours complying with the procedures of the U.S. Treasury or the NCUA. If political influence matters in the

selection process, then successful credit unions may have higher lobbyists or make political donations to raise their chances of success.

Hypothesis 2:

Eligible credit unions that are larger as measured by total assets are more likely to be successful TARP applicants.

Credit unions that are most likely to seek funds will want to make more loans with the supplemental capital. Moreover, the program is designed to extend credit to underserved communities. This means that U.S. Treasury officials will favor banks that have a track record of lending a large proportion of their funds.

Hypothesis 3:

a. The loan-to-deposit ratio or loan-to-assets ratio of TARP recipient credit unions will be higher than eligible credit unions that do not receive TARP funds.

b. Credit unions receiving TARP funds will report greater loan growth than other TARP-eligible credit unions after TARP investments.

Bayazitova and Shivdasani (2010) use the loan-to-deposit ratio to analyze the banks entering TARP. Eligible credit unions in the CDFI which have higher total loans divided by total deposits or total loans divided by total assets demonstrate that they are willing and able to extend credit. This means that they are more likely to seek and receive federal capital so they can extend additional loans. In addition, the U.S. Treasury

and regulators will favor credit unions committed to increasing lending. Thus, we would expect that reported levels of lending will rise by a greater percent (or fall by a lower percent) for TARP recipients relative to eligible credit unions without TARP funds.

Hypothesis 4:

Eligible credit unions headquartered in the districts of House Financial Service Committee (HFS) members will be more likely to receive TARP funds. Eligible credit unions in more senior HFS members' districts will receive TARP funds.

The House Financial Services Committee (HFS) was the committee in the U.S. House of Representatives primarily responsible for drafting the TARP legislation in 2008 and the landmark Dodd-Frank Wall Street Reform Act of 2010. More than any other Congressional committee, it is in charge of regulating the banking and financial services sector. Like Duchin and Sosyura (2012), which studied bank investments in the TARP's Capital Purchase Program but did not study credit union investments in TARP's Community Development Capital Initiative (CDCI), the present paper focuses on this committee.

The author agrees with Duchin and Sosyura (2012) that looking at Senate committees would not be effective, because U.S. Senators usually represent too large a constituency to be closely linked with small financial institutions in their state. Moreover, U.S. Senators' terms are six years versus the two-year terms of U.S. Representatives. Thus, Senators are not under constant pressure of re-election.

Duchin and Sosyura (2012) do find a positive association between political donations and publically traded banks receiving TARP investments. Butler *et al.* (2009) found a positive and significant association between campaign contributions and investment banks winning some kinds of municipal bond underwriting mandates. Making monetary donations to federal campaigns is one way of influencing the political process, but it is not the only way. Legislators generally want to help local employers in their district because their employees vote. (Campaign contributions are a means to winning votes. They are not an end in themselves for most legislators.) Credit unions aid legislators' communities by extending loans to constituents and by employing voters in the credit unions.

Hypothesis 5

Credit unions whose employees make political donations will be more likely to secure TARP funds.

Credit unions are very different organizations from banks, and political donations might not be as important for credit unions as banks. They are much smaller than many of the banks studied in the TARP. The average bank in Duchin and Sosyura (2012) had assets of \$5,978 million compared to \$52 million for the TARP-eligible credit unions in this study. Those TARP banks were over 100 times larger than the credit union's studied! Larger banks not only pay significantly higher salaries to top executives, they have more employees to contribute to federal elections. Credit unions are consumer cooperatives where the depositors own the institution. With this non-profit mission, the

salaries at credit unions are much lower than at commercial banks of similar sizes. The average total compensation of credit union CEOs with less than \$100 million in assets was \$115,245 in 2010 compared to \$142,235 for the CEOs of similarly sized banks.⁵ Overton (2004) found that households earning over \$100,000 gave 85.7 percent of the political donations over \$200 in U.S. election in 2000. Yet, the households earning in excess of \$100,000 made up just 13.4 percent of U.S. households. Thus, since credit unions pay such low salaries relative to banks, they are less likely to have employees contributing to election campaigns. The salaries for lower ranked employees are even lower. Thus, credit unions often don't have many employees and the employees are not that highly paid; so they may find political donations a very costly way to influence their legislators. Contrast this with the banks in Duchin and Sosyura (2012)'s sample. Many banks had over \$100 billion in assets, thousands of employees, and CEOs who made well over \$1 million a year. Similarly, Butler *et al.* (2009) looked at the political contributions of investment banks. It is widely known that MBAs fresh out of business school landing jobs at investment banks make well in excess of \$115,245, the typical salary of a small credit union CEO. Thus, even the low level employees in the investment banks studied in Butler *et al.* (2009) were probably in a better position to make campaign donations than the most highly paid employees in the credit unions in the present paper's sample. In fact, employees of TARP-eligible credit unions only made political donations totaling \$27,777 in the 2008 and 2010 federal election cycles.

4. Results

⁵ Unfortunately, CUES (2011) does not provide firm-level data as their pay data comes from confidential survey results.

In this section, we discuss the univariate and multivariate results of TARP selection of credit unions. Hypothesis 1, which is about financial strength being a factor in selection, has limited support. The hypothesis that credit union size plays a role in TARP selection finds support. Hypothesis 3, which says that credit unions with higher *ex ante* lending levels and *ex post* loan growth will be selected, is decisively rejected. Hypothesis 4, which says that credit unions located in HFS members' districts or more senior HFS members' districts will be more likely to receive TARP funds, is strongly supported by the data. Hypothesis 5 cannot be supported by the data. There is no significant association between political donations and TARP selection.

In table 2, we look at the correlations between the variables of interest. Definitions of those variables are in the caption of the table. The natural log of total assets, LNNTA, is significantly correlated with accounting ratios and the dummy for campaign donations. The latter is not surprising since both the number of employees and the pay of top employees are positively correlated with asset size according to CUES (2011). Larger credit unions have significantly larger levels of scaled loans, but they reported significantly lower loan growth. The larger eligible credit unions have significantly lower capital ratios, but significantly lower scaled levels of non-accrual loans and loan loss provisions.

[*Insert table 2 about here.***]**

There are strong positive correlations between the two different measures of the HFS committee influence as there are between loans scaled by deposits and loans scaled by total assets. For this reason, we never use these substitute measures in the same regression in tables 5 and 6. There is a negative and significant correlation between the scaled levels of loans and the reported change in scaled loans after the TARP investments. The strongly significant positive correlation between the provisions for loans losses, PLL, and net charge off, NCO, measures may have reduced the significance of the coefficient for the provisions for loan losses in table 5, model 3.

*****Insert table 3 about here.*****

Table 3 compares the 48 CDFI credit unions that were awarded TARP funds to the other 133 eligible credit unions which were not given TARP money. The TARP recipients were significantly more like to be headquartered in a House Financial Services Committee (HFS) member's district. Moreover, the HFS seniority index for TARP recipients was significantly higher than for eligible credit unions which did not receive TARP funds. This lends support to Hypothesis 4. 10.4 percent of bailout recipients were headquartered in HFS members' districts. Yet, only 3.0 percent of the credit unions that were both eligible for TARP funds and received no bailout money had their headquarters in HFS members' districts. This table shows that a credit union which received TARP funds was about three times more likely to reside in a HFS member's district than an eligible credit union that did not receive TARP funding.

There was no significant difference between the TARP recipients and other eligible credit unions in terms of political donations. In less than eight percent of credit unions in both groups did any employees make a federal campaign contribution. In addition, these contributions were less than 0.01 percent of total credit union assets for both groups. Thus, it seems hard to accept Hypothesis 5 based on these results so far.

In contrast to the goals of the TARP program, TARP recipients significantly decreased their loan growth as measured as a percent of total assets relative to eligible credit unions which did not receive TARP funds. This would seem to lead to rejection of hypothesis 3b.⁶ Yet, when loan growth is measured relative to deposits, this greater decline in lending for TARP recipients is not significant.

The other hypotheses receive no support or weak support from table 3. The financial strength hypothesis, Hypothesis 1, is partially supported because credit unions that received TARP funds had on average significantly lower percentages of non-performing loans than credit unions that did not receive TARP funds. In addition, the credit unions with TARP funds had significantly lower allowances for loan losses. Net charge-offs were lower, but not significantly lower in TARP recipient credit unions. Yet, capital ratios were insignificantly lower in TARP recipient institutions, contradicting the financial strength hypothesis.

*****Insert table 4 about here.*****

⁶ Using different time windows than the present study, Bauer (2012) also finds that the decline in loans-to-total-assets is significantly greater for TARP recipients than credit unions which were eligible for TARP but did not take government investments.

Given that a credit union received TARP funds, it would be interesting to test to see if the 5 credit unions in HFS members' districts were different from the other TARP recipients.⁷ TARP recipient credit unions in HFS members' districts had three times the percent of non-performing assets, about fifty percent more tangible net worth-to-total-assets, and a loan-to-deposit ratio 21 percent higher than the other 43 TARP recipients. All three differences were statistically different from zero. Thus, credit unions with TARP funds in HFS members' districts, had stronger capital ratios, but were hobbled by high levels of non-performing assets. Credit unions in those districts lent out a much greater percentage of their deposits, consistent with the goal of the program, which was to increase lending. It appears that these credit unions in HFS members' districts had riskier loans, but they held more capital to compensate for their higher risk profile.

Political donations were not made by TARP recipients in HFS members' districts. Yet, both measures of political donations were insignificant in table 4. It appears that any influence came from those credit unions employing and providing financial services to voters in HFS members' districts. Yet, the amounts of money made in donations and numbers of credit unions with employees making political donations were very small for both groups. In total, TARP recipient credit unions made less than \$3,000 in federal campaign contributions in the 2008 and 2010 elections.

*****Insert table 5 about here.*****

⁷ In the whole sample, 181 TARP-eligible credit unions, nine credit unions, were in HFS member districts. Yet, only five credit unions in HFS member districts received TARP investments.

In table 5, a logistic regression tests the factors associated with TARP investments. In these regressions, we only used variables available to the U.S. Treasury officials and regulators at the time of the TARP investments. In table 6, we incorporate reported lending growth to the end of 2011 and political donations. Government decision makers had no way of knowing future loan growth or how much money would be given to federal candidates by each credit union in 2010. In all five specifications, a credit union in an HFS member's district is significantly more likely to receive bailout funds. Thus, Hypothesis 4 receives strong support, even after controlling for other factors.

The logistic models estimated can be used to generate predicted probabilities for TARP selection based on the characteristics of credit unions. Suppose that \mathbf{x} is a column vector of independent variables X_1, \dots, X_N , where N is an integer greater than 1, and \mathbf{b} is a row vector of coefficients b_1, \dots, b_N for the independent variables. The estimated intercept coefficient is α . Let us assume that the independent variable is denoted by the variable Y and that the probability of receiving TARP funds is $p(Y = 1|\mathbf{x})$ below:

$$p(Y = 1|\mathbf{x}) = \frac{1}{1 + \exp(-\alpha - \mathbf{b}\mathbf{x})} \quad (2)$$

Let us plug in the median values for the accounting data in table 1 into models 2 and 5 in table 5. These two models only differ in the measure of the HFS member's influence. Model 2 uses a dummy variable and model 5 uses a seniority index which takes on a value between 0 and 1. If credit union i lies outside a HFS member's district, but it has the median accounting parameters from table 1, then it stands a 29 percent or a 24 percent chance, respectively, of receiving TARP funds. Yet, if this institution lies in a

district of a HFS member with middling seniority, HFS index equal to 0.5, then this hypothetical credit union has about a 81 percent or 77 percent chance of receiving TARP funds according to models 2 and 5, respectively. Thus, being located in a HFS member's district can increase the probability of a credit union's receiving TARP funds by about a factor of 3.

The other hypotheses fared less well than the HFS hypothesis in table 5. The financial strength hypothesis, Hypothesis 1, received mixed results. Tangible net worth ratios had the opposite of the predicted sign in all regressions, indicating that less well capitalized credit unions received bailout cash. In contrast, the provisions for loan loss ratios and non-performing asset ratios were significantly lower for TARP recipients after controlling for other factors. Thus, having fewer troubled loans was associated with easier access to TARP funds. The size hypothesis, Hypothesis 2, had the predicted sign and was weakly significant. The lending hypothesis, Hypothesis 3a, was soundly rejected in the logistic regressions. Credit unions that parked their deposits in securities and did not lend them out were significantly more likely to get TARP money.

*****Insert table 6 about here.*****

In table 6, many of the regularities from table 5 are confirmed even after we control for *ex post* lending growth and political donations. Credit unions in HFS member districts or the districts of more senior HFS members are more likely to receive TARP funds, supporting Hypothesis 4. When we control for loan growth, the negative association between lending scaled by deposits or assets still holds. In addition, when we

scale by total assets, there is a negative and significant coefficient, indicating that TARP recipient credit unions had worse loan growth than credit unions which were eligible for but did not get TARP funds. Thus, we can reject hypotheses 3a and 3b. The credit unions that got TARP funds had a poor record of lending to their communities, and they had worse loan growth than credit unions that did not get government funds. The size hypothesis, Hypothesis 2, does receive support in all specifications. Larger credit unions were more likely to receive TARP funds.

The financial strength hypothesis, Hypothesis 1, is the hardest to decisively reject or accept. In most specifications, there was a negative and significant relationship between capital and TARP funding. Yet, TARP recipients had significantly fewer non-performing loans or loan loss provisions in at least one out of the five specifications. The coefficients for political donations were insignificant in all specifications, leading us to reject Hypothesis 5.

Finally, the coefficients for political donations were insignificant in all specifications in table 6, leading us to reject Hypothesis 5. Thus, credit unions' political influence seems to stem from their employees' and members' voting clout, but not their political donations.

Marginal effects for the logistic model are harder to interpret than for other regression methods. The marginal effects in the logistic model depend on both the values of the independent variables and the coefficients estimated. Contrast this with a linear regression in which the marginal effect of an independent variable is merely the coefficient of that independent variable. Let X_j be one independent variable where $N \geq X_j$

> 1. Using the notation of equation (2), the marginal impact of an increase in the independent variable is the following, according to Bierens (2008):

$$\begin{aligned} \frac{dp(Y = 1|\mathbf{x})}{dX_j} &= b_j p(Y = 1|\mathbf{x})[1 - p(Y = 1|\mathbf{x})] \\ &= b_j \frac{\exp(-\alpha - b\mathbf{x})}{(1 + \exp(-\alpha - b\mathbf{x}))^2} \end{aligned} \quad (3)$$

In table 7, panels A and B, we report the marginal effects for the models 1 through 10 in tables 5 and 6. In those panels, we assume that the independent variables take on their average values, which are reported in table 1.

5. Conclusion

This paper has found that credit unions eligible for TARP funds were three times more likely to be selected for those funds if they were headquartered in the district of a member of the U.S. House Financial Services Committee even after controlling for other factors. This indicates that political influence may have driven the selection of credit unions in the Troubled Asset Relief Program's (TARP) Community Development Capital Initiative (CDCI). This adds support to the contention that political influence drives the U.S. Treasury's bailout investments. This took the form of credit unions in House Financial Services Committee (HFS) districts being much more likely to receive TARP funds even after controlling for other factors. Previous work by Duchin and Sosyura

(2012) found that banks in those HFS districts were significantly more likely to receive capital injections from the TARP.

We can find no evidence that money donations to political campaigns were associated with a greater likelihood to receive government funds. In fact, employees of eligible credit unions donated less than \$30,000 to federal elections in 2008 and 2010. Since Duchin and Sosyura (2012) found a positive association between receiving bailout funds and political donations, this may indicate that campaign donations are a greater channel of influence for large banks versus small credit unions.

This study also finds that credit unions that received bailout money had significantly lower ratios of loans-to-deposits and loans-to-assets. This means that TARP recipients lent less to their communities as a percent of deposits, relative to eligible credit unions that did not receive TARP investments. This poor lending record appeared to continue after these credit unions received TARP funds. Credit unions with TARP money had lower reported loan growth after the TARP investments than eligible credit unions that did not get TARP funds. This is startling since the credit unions selected were ostensibly picked because they would provide much needed loans to the credit unions' "underserved communities," according to the program's goals.

There is mixed evidence that credit union regulators and U.S. Treasury officials picked stronger credit unions to receive taxpayer funds. Thus, regulators and U.S. Treasury officials may have been lax in weeding out problematic investments. The credit unions selected had significantly lower tangible net worth ratios, a measure of credit union capital. Yet, the selected credit unions did tend to have lower provisions for loans losses and fewer non-performing assets.

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Table 1: Summary Statistics of Credit Union’s Eligible for the Troubled Asset Relief Program’s (TARP) Community Development Capital Initiative (CDCI)

Variables of Interest	Mean	Median	Min	Max	Standard Deviation
TARP Investment	\$1,456,479	\$720,500	\$7,000	\$9,278,000	\$2,001,221
TARP Dummy	0.2652	0	0	1	0.4427
House Financial Services (HFS) Committee Dummy	0.0497	0	0	1	0.4427
House Financial Services (HFS) Seniority Rank Index	0.0253	0	0	0.8810	0.1329
Dummy for Any Political Donations in 2008 and 2010 Election Cycle	0.0718	0	0	1	0.2589
Total Political Donations in 2008 and 2010 Election Cycles Divided by Total Assets	0.00%	0.00%	0.00%	0.03%	0.00%
Total Loans Divided by Total Deposits	71.53%	74.91%	4.30%	140.40%	23.10%
Change in Total Loans Divided by Total Deposits from 6-30-10 to 12-31-11	-2.17%	-3.88%	-14.87%	10.17%	14.11%
Total Loans Divided by Total Assets	62.58%	66.09%	34.63%	84.80%	19.74%
Change in Total Loans Divided by Total Assets from 6-30-10 to 12-31-11	-2.23%	-3.23%	-13.03%	7.92%	10.85%
Tangible Net Worth Divided by Total Assets	10.14%	8.85%	-3.00%	44.90%	5.79%
Non-Performing Loans Divided by Total Assets	2.37%	1.16%	0.00%	19.87%	3.21%
Provision for Loan Losses Divided by Total Assets	0.57%	0.23%	-0.55%	13.84%	1.28%
Net Charge Offs Divided by Total Assets	0.53%	0.22%	-0.14%	8.75%	1.11%
Total Assets in \$000s	\$51,909	\$10,426	\$125	\$1,698,992	\$144,505

The Troubled Asset Relief Program (TARP) investment is in dollars. All TARP investments in credit unions were made between September 17, 2010, and September 30, 2010. Details of the TARP investments were obtained from transaction reports are published by the U.S. Treasury on financialstability.gov. The CDCI program closed to new investments on September 30, 2010. The TARP dummy variable equals one if the eligible credit union received Community Development Capital Initiative (CDCI) funds from the TARP. The House Financial Services (HFS) Committee dummy equals one if the credit union is headquartered in the district of a House Financial Services Committee (HFS) member at the time of the investment. Otherwise, that dummy variable equals zero. With the House Financial Services (HFS) Committee seniority index, credit unions lying outside a HFS member’s district have a value of zero for this index. Higher seniority committee members have higher seniority indexes scores. The seniority index score ranges between zero and one. Membership information and seniority information was gathered from the House Financial Services Committee’s website and individual member’s websites on October 13, 2010. The dummy for political donations equals one when any of the employees of the credit union have made monetary donations to federal candidates and federally registered political action committees PACs in the 2008 or 2010 election cycles. That data was collected from opensecrets.org. The total dollar value of political donations during the 2008 and 2010 federal elections by all credit union employees was scaled by the credit union’s total assets. Tangible net worth is total net worth less total intangible assets. Non-performing loans for credit unions are classified as loans that are more than two months past due. Net charge offs are year to date loans charged off less loan recoveries year to date. Accounting data is taken from the June 30, 2010, credit union call report unless otherwise noted. Changes in deposit ratios use June 30, 2010, as its starting value and the December 31, 2011, deposit ratios as its ending value.

Table 2: Correlation Coefficients of the Factors Associated with Credit Unions Receiving TARP Investments

	HFS	HFS_Sen	DON	DONTA	LD	CHLD	LTA	CHLTA	TNW	NPTA	PLL	NCO	LNTA
HFS	1	0.833***	0.035	(0.022)	0.149**	(0.066)	0.119	(0.104)	0.131*	0.063	(0.026)	(0.010)	0.051
HFS_Sen		1	0.058	-0.018	0.166**	(0.063)	0.126*	(0.109)	0.159**	0.024	(0.023)	(0.013)	0.077
DON			1	0.397***	0.005	0.012	0.019	0.009	0.038	(0.124)*	(0.037)	(0.041)	0.338***
DONTA				1	(0.019)	0.038	(0.008)	0.042	0.000	0.008	0.035	0.023	(0.012)
LD					1	(0.468)***	0.881***	(0.406)***	0.059	0.109	0.060	0.017	.368***
CHLD						1	(0.399)***	0.936***	(0.134)*	0.157**	(0.009)	(0.040)	(0.165)**
LTA							1	(0.410)***	(0.177)**	0.141*	0.117	0.054	0.335***
CHLTA								1	0.039	0.176**	0.007	(0.031)	(0.203)***
TNW									1	(0.138**)	(0.208***)	(0.131*)	(0.129**)
NPTA										1	0.201***	0.111	(0.207***)
PLL											1	0.551***	(0.096)
NCO												1	(0.153**)
LNTA													1

The correlation coefficients are listed above. The Pearson correlation coefficient has a two-tailed statistical significance at the 1 percent, 5, percent, or 10 percent level if the coefficient has ***, **, or *, respectively, next to it. HFS is the House Financial Services Committee dummy which equals one if the credit union lies in a HFS member's district and zero otherwise. HFS_Sen stands for the House Financial Services (HFS) Committee seniority index. This index is zero for credit unions outside of a HFS member's district and it ranges between zero and one for banks inside a HFS member's district. DON stands for the donation dummy which equals 1 if any credit union employee made a federal election donation in the 2008 or 2010 election cycles. DONTA is the dollar value of political donations made by credit union employees scaled by total assets. LD stands for the loan-to-deposit ratio which is total loans divided by total deposits. CHLD stands for the change in the credit union's total loans divided by total deposits from June 30, 2010, to December 31, 2011. LTA stands for total loans divided by total assets. CHLTA stands for the change in the credit union's total loans divided by total assets from June 30, 2010, to December 31, 2011. TNW denotes the tangible net worth ratio. The denominator of this ratio is the credit union's net worth less intangible assets and the numerator is the credit union's total assets. NPTA stands for non-performing assets divided by total assets. PLL denotes the provisions for loan losses divided by total assets. The numerator of NCO, the net charged off loans ratio, is the net charged off loans less recoveries. The denominator of NCO is total assets. LNTA is the natural log of the credit union's total assets.

Table 3: T-Tests of Means of Eligible Credit Unions Participating and Not Participating in the Troubled Asset Relief Program (TARP)

	(A)	(B)	(A) - (B)		
	Mean for TARP Recipients (Y = 1)	Mean for Eligible Credit Unions Not Receiving TARP (Y = 0)	Difference	T-value	2-Tailed Significance
House Financial Services (HFS) Committee Dummy	0.1042	0.0301	0.0741	2.036	0.043
House Financial Services (HFS) Seniority Rank Index	0.0655	0.0107	0.0548	2.481	0.014
Dummy for Any Political Donations in 2008 and 2010 Election Cycle	0.0625	0.0752	-0.0127	-0.290	0.772
Total Political Donations in 2008 and 2010 Election Cycles Divided by Total Assets	0.0000	0.0000	0.0000	-0.621	0.536
Total Loans Divided by Total Deposits	67.78%	72.91%	-5.13%	-1.321	0.186
Change in Total Loans Divided by Total Deposits from 6-30-10 to 12-31-11	-3.59%	-1.38%	-2.21%	-0.977	0.330
Total Loans Divided by Total Assets	58.22%	63.21%	-4.99%	-1.438	0.152
Change in Total Loans Divided by Total Assets from 6-30-10 to 12-31-11	-4.99%	-0.92%	-4.07%	-2.380	0.018
Tangible Net Worth Divided by Total Assets	9.36%	10.42%	-1.06%	-1.078	0.282
Non-Performing Loans Divided by Total Assets	1.54%	2.66%	-1.12%	-2.100	0.037
Provision for Loan Losses Divided by Total Assets	0.29%	0.67%	-0.38%	-1.798	0.074
Net Charge Offs Divided by Total Assets	0.40%	0.58%	-0.18%	-0.990	0.323
Total Assets in \$000s	\$43,363	\$54,994	-\$11,631	-0.477	0.634
Number of Observations	48	133			

T-statistics that are significant at the 10 percent level or below are in bold.

Table 4: T-Tests of Means of Credit Unions Participating in TARP Which Are Headquartered Inside and Outside of House Financial Services (HFS) Committee Members' Districts

	(A)	(B)	(A) - (B)		
	Mean for TARP Recipients in HFS Member's Districts (HFS = 1)	Mean for TARP Recipients Not in HFS Member's Districts (HFS = 0)	Difference	T-value	2-Tailed Significance
Dummy for Any Political Donations in 2008 and 2010 Election Cycle	0.000	0.070	-6.98%	-0.599	0.552
Total Political Donations in 2008 and 2010 Election Cycles Divided by Total Assets	0.000	0.000	0.00%	-0.474	0.637
Total Loans Divided by Total Deposits	86.87%	65.54%	21.33%	2.179	0.035
Change in Total Loans Divided by Total Deposits from 6-30-10 to 12-31-11	4.94%	1.84%	3.10%	1.302	0.199
Total Loans Divided by Total Assets	72.60%	56.55%	16.05%	1.706	0.095
Change in Total Loans Divided by Total Assets from 6-30-10 to 12-31-11	-11.16%	-4.27%	-6.90%	-1.558	0.126
Tangible Net Worth Divided by Total Assets	13.34%	8.90%	4.44%	2.563	0.014
Non-Performing Loans Divided by Total Assets	3.71%	1.29%	2.42%	3.323	0.002
Provision for Loan Losses Divided by Total Assets	0.52%	0.26%	0.26%	1.611	0.114
Net Charge Offs Divided by Total Assets	0.58%	0.37%	0.21%	1.06	0.295
Total Assets in \$000s	\$21,486	\$45,907	-\$24,420	-0.893	0.376
Number of Observations	5	43			

T-statistics that are significant at the 10 percent level or below are in bold.

Table 5: Logistic Regression of the Factors Related to Eligible Credit Unions Receiving TARP Investments

The dependent variable equals 1 if the eligible credit union receives TARP funds, and it equals 0 if the credit union does not receive TARP funds.						
Intercept or Independent Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Predicted Sign
House Financial Services (HFS) Committee Dummy	2.278 <i>0.007</i>	2.273 <i>0.007</i>	2.292 <i>0.007</i>			+
House Financial Services (HFS) Seniority Rank Index				4.238 <i>0.009</i>	4.566 <i>0.009</i>	+
Total Loans Divided by Total Deposits	-2.449 <i>0.014</i>		-2.334 <i>0.020</i>		-2.476 <i>0.015</i>	+
Total Loans Divided by Total Assets		-2.094 <i>0.033</i>		-2.353 <i>0.017</i>		+
Tangible Net Worth Divided by Total Assets	-9.771 <i>0.036</i>	-11.270 <i>0.025</i>	-11.621 <i>0.022</i>	-10.487 <i>0.029</i>	-13.252 <i>0.014</i>	+
Non-Performing Loans Divided by Total Assets	-20.955 <i>0.054</i>	-17.922 <i>0.111</i>	-16.582 <i>0.138</i>	-20.075 <i>0.056</i>	-14.473 <i>0.176</i>	-
Provision for Loan Losses Divided by Total Assets		-63.951 <i>0.114</i>	-71.914 <i>0.102</i>		-69.953 <i>0.090</i>	-
Net Charge Offs Divided by Total Assets			6.403 <i>0.771</i>			-
Ln(Total Assets) in \$000s	0.184 <i>0.087</i>	0.175 <i>0.101</i>	0.195 <i>0.076</i>	0.169 <i>0.093</i>	0.188 <i>0.085</i>	+
Intercept	-0.047 <i>0.967</i>	0.160 <i>0.889</i>	0.124 <i>0.916</i>	0.101 <i>0.930</i>	0.427 <i>0.713</i>	none
Number of Observations	181	181	181	181	181	
Number of Dependent Variables Equal to 1	48	48	48	48	48	
Pseudo R-squared	0.114	0.131	0.136	0.119	0.147	

All accounting data is from June 30, 2010 call reports, which were available prior to the TARP investments into credit unions. The Pseudo R-squared statistics are calculated using the method of Cox and Snell (1992). P-values are reported below coefficients in italics. Coefficients that have p-values of 10 percent or less are in bold font.

Table 6: Logistic Regression of the Factors Related to Eligible Credit Unions Receiving TARP Investments Including *Ex Post* Lending Performance and Political Donations

The dependent variable equals 1 if the eligible credit union receives TARP funds, and it equals 0 if the credit union does not receive TARP funds.						
Intercept or Independent Variable	Model 6	Model 7	Model 8	Model 9	Model 10	Predicted Sign
House Financial Services (HFS) Committee Dummy	2.224 <i>0.008</i>	2.250 <i>0.008</i>	2.009 <i>0.017</i>		1.938 <i>0.022</i>	+
House Financial Services (HFS) Seniority Rank Index				4.174 <i>0.017</i>		+
Dummy for Any Political Donations in 2008 and 2010 Election Cycles	-1.072 <i>0.186</i>	-1.066 <i>0.191</i>	-0.929 <i>0.253</i>	-0.951 <i>0.254</i>		+
Total Political Donations in 2008 and 2010 Election Cycles Divided by Total Assets					-28894.960 <i>0.503</i>	+
Total Loans Divided by Total Deposits	-2.799 <i>0.008</i>	-2.718 <i>0.012</i>				+
Change in Total Loans Divided by Total Deposits from 6-30-10 to 12-31-11	-2.459 <i>0.188</i>	-2.335 <i>0.202</i>				+
Total Loans Divided by Total Assets			-3.256 <i>0.004</i>	-3.382 <i>0.003</i>	-3.162 <i>0.005</i>	+
Change in Total Loans Divided by Total Assets from 6-30-10 to 12-31-11			-5.596 <i>0.018</i>	-5.558 <i>0.017</i>	-5.598 <i>0.016</i>	+
Tangible Net Worth Divided by Total Assets	-7.592 <i>0.101</i>	-9.471 <i>0.064</i>	-10.168 <i>0.050</i>	-11.956 <i>0.031</i>	-10.139 <i>0.049</i>	+
Non-Performing Loans Divided by Total Assets	-19.357 <i>0.078</i>	-15.108 <i>0.182</i>	-13.233 <i>0.246</i>	-10.794 <i>0.319</i>	-12.289 <i>0.273</i>	-
Provision for Loan Losses Divided by Total Assets		-70.991 <i>0.104</i>	-65.776 <i>0.133</i>	-68.430 <i>0.099</i>	-65.020 <i>0.116</i>	-
Net Charge Offs Divided by Total Assets		3.863 <i>0.862</i>				-
Ln(Total Assets) in \$000s	0.270 <i>0.030</i>	0.127 <i>0.028</i>	0.241 <i>0.049</i>	0.233 <i>0.054</i>	0.209 <i>0.071</i>	+
Intercept	-0.622 <i>0.597</i>	-0.403 <i>0.741</i>	-0.042 <i>0.974</i>	0.258 <i>0.837</i>	0.160 <i>0.895</i>	none
Number of Observations	181	181	181	181	181	
Number of Dependent Variables Equal to 1	48	48	48	48	48	
Pseudo R-squared	0.126	0.148	0.169	0.179	0.165	

This regression uses data on political contributions and loan growth data which was not available to Treasury officials and regulators approving the TARP investments. The Pseudo R-squared statistics are calculated using the method of Cox and Snell (1992). P-values are reported below coefficients in italics. Coefficients that have p-values of 10 percent or less are in bold font.

**Table 7, Panel A:
Marginal Effects of the Logistic Regressions of Factors Related to Eligible Credit Unions Receiving TARP Investments**

The dependent variable equals 1 if the eligible credit union receives TARP funds, and it equals 0 if the credit union does not receive TARP funds.						
Intercept or Independent Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Predicted Sign
House Financial Services (HFS) Committee Dummy	0.411	0.433	0.395			+
House Financial Services (HFS) Seniority Rank Index				0.846	0.781	+
Total Loans Divided by Total Deposits	-0.442		-0.402		-0.423	+
Total Loans Divided by Total Assets		-0.399		-0.470		+
Tangible Net Worth Divided by Total Assets	-1.762	-2.145	-2.000	-2.093	-2.266	+
Non-Performing Loans Divided by Total Assets	-3.780	-3.412	-2.854	-4.006	-2.475	-
Provision for Loan Losses Divided by Total Assets			-12.379		-11.964	-
Net Charge Offs Divided by Total Assets			1.102			-
Ln(Total Assets) in \$000s	0.033	0.033	0.034	0.034	0.032	+

Marginal effects are calculated at the independent variables' average values from table 1.

**Table 7, Panel B:
Marginal Effects of the Logistic Regressions of the Factors Related to Eligible
Credit Unions Receiving TARP Investments Including *Ex Post* Lending
Performance and Political Donations**

The dependent variable equals 1 if the eligible credit union receives TARP funds, and it equals 0 if the credit union does not receive TARP funds.						
Intercept or Independent Variable	Model 6	Model 7	Model 8	Model 9	Model 10	Predicted Sign
House Financial Services (HFS) Committee Dummy	0.470	0.147	0.391		0.096	+
House Financial Services (HFS) Seniority Rank Index				0.811		+
Dummy for Any Political Donations in 2008 and 2010 Election Cycles	-0.226	-0.070	-0.181	-0.185		+
Total Political Donations in 2008 and 2010 Election Cycles Divided by Total Assets					-0.076	+
Total Loans Divided by Total Deposits	-0.591	-0.177				+
Change in Total Loans Divided by Total Deposits from 6-30-10 to 12-31-11	-0.519	-0.152				+
Total Loans Divided by Total Assets			-0.633	-0.657	-1.979	+
Change in Total Loans Divided by Total Assets from 6-30-10 to 12-31-11			-1.088	-1.080	0.125	+
Tangible Net Worth Divided by Total Assets	-1.603	-0.618	-1.978	-2.324	-1.028	+
Non-Performing Loans Divided by Total Assets	-4.088	-0.986	-2.574	-2.098	-0.291	-
Provision for Loan Losses Divided by Total Assets		-4.634	-12.792	-13.301	-0.370	-
Net Charge Offs Divided by Total Assets		0.252				-
Ln(Total Assets) in \$000s	0.057	0.008	0.047	0.045	2.269	+
Intercept		-0.026	-0.008	0.050		none

Marginal effects are calculated at the independent variables' average values from table 1.