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Making Minds Matter

The Review of Corporate Finance Studies

The Politics of the Paycheck Protection Program

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Does partisanship influence loan allocation through the Paycheck Protection Program (PPP)? We examine the 2020 Presidential campaign contributions made by lenders' employees as a partisanship measure and leverage the PPP's phased implementation under both the Trump and the Biden administrations. We find that partisan misalignment increases lending, particularly to small and first-time PPP borrowers, as well as those in Republican areas. Misalignment is also associated with higher payroll coverage for small businesses. Our findings are consistent with Republican-leaning lenders viewing the PPP's 2021 phase as a legacy policy of the prior administration, shedding new light on the partisan-alignment phenomenon in finance. (*JEL* D72, G21, G28, G32, G38, H12, H81)

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Authors have furnished an Internet Appendix, which is available on the Oxford University Press Web site next to the link to the final published paper online.

The COVID-19 outbreak triggered an unprecedented economic freeze that left millions of businesses in dire need of liquidity (Bartik et al. 2020a). The government aid response around the world was immediate and unprecedented. In the United States, as a centerpiece of the Coronavirus Aid,

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Relief, and Economic Security (CARES) Act of 2020, the Paycheck Protection Program (PPP) aimed to provide financial assistance to businesses that were hit hardest by the freeze. The PPP provided a temporary source of liquidity for small businesses, initially authorizing $659 billion in forgivable loans and guarantees. PPP's first phase ran between April and August 2020. As a follow-on response to the outbreak, in January 2021, the Consolidated Appropriations Act (CAA) of 2021 included $284 billion in additional forgivable loans for a second PPP phase.

In this paper, we examine whether lenders' partisanship plays a role in shaping lending within the PPP, which was carried out during a period of intense political polarization in the United States.[1] Although the Small Business Administration (SBA) issued loan guarantees and ultimately determined loan forgiveness, PPP loans were processed and delivered through the nation's financial system. Without the deployment of private lenders, it would have been impossible to distribute billions of dollars in loans to millions of borrowers within a few months. While lenders were bound by the borrower eligibility rules outlined in the PPP, they retained discretion in processing and approving applications.[2] Both their capacity—such as the ability to meet capital and liquidity requirements set by federal regulators—and their willingness to engage in PPP lending were critical factors. This willingness may have stemmed from a desire to maintain existing client relationships or, potentially, from partisan motivations. For instance, lenders may derive utility from supporting policies of an administration aligned with their political leanings, or they may share beliefs or preferences with the administration regarding the PPP's objectives.[3] Whether, and to what extent, partisan alignment influenced PPP implementation is the focus of this paper.

Isolating the effect of partisanship on PPP fund allocation decisions is empirically challenging for two main reasons. First, partisan alignment between a lender and the ruling administration could correlate with other (omitted) factors of proximity between lenders and the administration. Second, the need for PPP funds or the severity of the pandemic may be directly affected by changes in government policies or political uncertainty surrounding the presidential election. We address these challenges by

[1] In 2019, 82 percentage points separated Republicans' (89%) and Democrats' (7%) average job approval ratings of for President Trump, which was the largest degree of political polarization in any presidential year measured by Gallup until then (see Jones 2020). By 2021, a new record of 84 percentage points separated Republicans' (8%) and Democrats' (92%) average job approval ratings of President Biden. Coibion et al. (2020) report large-scale survey evidence of the effects of political polarization on economic expectations: both Republicans and Democrats expect their preferred candidate to win with a very high probability, and they expect the economy to perform poorly when the opposing party's candidate wins.

[2] SBA guidance allowed all loans to be processed by all lenders under delegated authority and relying on borrower certifications to determine borrower eligibility and the use of loan proceeds.

[3] Although the bills had strong bipartisan support, this does not necessarily imply that lenders indeed supported the PPP in a bipartisan manner. According to some polls, Democrats and Independents were more likely to believe that the loans were being distributed unfairly, whereas Republicans were less likely to share this view (see, e.g., Maine Democratic Party 2020).

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leveraging the phased implementation of the PPP around the 2020 presidential election. While both of the economic relief packages under the PPP were enacted during the Trump administration, the disbursement of loans in the program's second phase occurred under the Biden administration. This shift in partisan alignment between PPP lenders and the administration in charge began in early 2021, following the close 2020 presidential election. Therefore, the transition between administrations during the PPP's rollout provides a unique opportunity to identify whether partisan (mis)alignment between lenders and the governing administration affected lending decisions.

The question we raise in this context is whether and how Republican-leaning lenders behaved differently than their Democrat-leaning counterparts, controlling for other observable differences between the two groups. Did Republican-leaning lenders perceive the second phase under the Biden administration, with whom they were not aligned, as a less appealing part of their portfolio, leading to reduced enthusiasm in PPP lending compared to Democrat-leaning lenders? This "contemporaneous-alignment" view suggests a negative association between partisan misalignment and PPP lending. Such an association may exist because lenders derive disutility from engaging with an administration from the opposing camp or they disagree with the administration in control about the objectives and risks of the program or the broader economic outlook.[4] Conversely, did Republican-leaning lenders view the second phase of the PPP still as a policy of the Trump administration, with which they were more aligned, and extend more loans than their Democrat-leaning counterparts did? This "legacy-policy" view suggests a positive association between partisan misalignment and PPP lending.

To establish our results, we construct a balanced panel data set by aggregating partisan PPP lenders' lending activities to calendar weeks spanning both phases of PPP. We obtain PPP data from the SBA. Our sample consists of 2,551 lenders over 38 weeks (18 weeks in 2020 and 20 weeks in 2021) who extend an average (median) of 42.9 (6) loans per week amounting to $3.6 million ($141 thousand). To measure lender partisanship, we adopt a "bottom-up" (employee-level) approach using campaign contributions made by a lender's employees. Specifically, we use lender employees' individual contributions to political action committees (PACs) and candidates in the 2020 election cycle.[5] This approach has the advantage of reflecting the underlying partisan support of people that constitute the organization. For the

[4] See Kempf and Tsoutsoura (2024) for more on the "partisan utility" and "partisan belief" mechanisms through which partisan alignment may influence agents' decisions.

[5] Measuring partisanship using data from the 2020 cycle is ideal for this study for three reasons. First, our identification strategy exploits the outcome of the 2020 election cycle as an exogenous shock; therefore, it is most appropriate to use contributions made during this same cycle rather than earlier ones. Second, campaign contributions are not necessarily persistent over time, so relying on data from previous cycles may not accurately capture partisanship during the 2020 election. Third, individual contribution records from the 2020 cycle include a large number of small-donor contributions by employees, enabling us to examine the detailed record of individual contribution data to identify the partisanship of lender employees.

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election cycle we study, we can also include small individual contributions (below $200) since ActBlue and WinRed (crowdfunding platforms for political donations) required identity disclosure. This process allows us to address potential concerns about data scarcity on campaign contributions made by individual employees. Most lenders lean Republican, with 67% of their employees supporting the Republican Party and candidates. For robustness purposes, we also measure lender partisanship using a "top-down" approach using campaign contributions made by lenders as legal entities. Approximately 70% of lenders contribute to the campaigns of Republicans.

In a difference-in-differences research design, we find that Republican-leaning lenders engaged in greater PPP lending during the program's second phase—that is, under the Biden administration. The effect is economically meaningful: a Republican-leaning lender in the 75th percentile of the partisanship distribution increases its weekly lending volume by 24.3% more in the PPP's second phase compared to a neutral lender in the 25th percentile and increases its number of new loans by 9.8% more.

This positive relationship between partisan misalignment and PPP lending is consistent with the "legacy-policy" view. Several explanations may be driving this finding, although we cannot fully disentangle them. One possible explanation is that Republican-leaning lenders viewed the PPP as a legacy of the Trump administration and, motivated by a desire to preserve political capital and maintain connections with their Republican co-partisans, increased their lending even under a politically misaligned administration. Another, nonmutually exclusive, explanation is that the effect of partisan alignment on lending may depend on who ultimately bears the credit risk. In contrast to previous study settings in which lenders assume this risk, PPP loans are forgivable, thus placing the cost of default on the administration in charge. This distinction suggests that the partisan alignment's effect on lending may hinge on whether the lender or the government assumes the credit risk. When it is the lenders, partisanship may offer them benefits that offset costs or shape their risk perceptions, thereby creating a divide between the behaviors of politically aligned and misaligned lenders. When it is the government, the cost-benefit calculation changes. Consequently, misaligned lenders may adopt lending strategies that are more aggressive.

We conduct additional tests to ensure our results genuinely reflect partisanship rather than other potential mechanisms that could produce a positive correlation between partisan misalignment and PPP lending. We find that the partisanship of rank-and-file employees—those with direct discretion in granting loans—have a significant impact on the volume and number of PPP loans. The relationship is also primarily driven by loans granted to small and first-time borrowers under the program ("first-draw loans"). These are cases in which the loan officers are more likely to have had leeway in verifying eligibility and reviewing the documentation supplied in support of the requested loan amount. Furthermore, our results indicate that partisan

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misalignment during the program's second phase is associated with a relatively higher allocation of PPP funds in counties that are typically considered Republican strongholds. Republican-leaning lenders expanded their PPP lending more significantly in counties with a larger fraction of white population, lower personal income per capita, and a workforce less suited to teleworking. Republican-leaning lenders also mainly directed loans to borrowers in Republican-voting states. If anything, these important tests are in line with these lenders seeing the PPP as a legacy of the Trump administration and looking to maintain ties with their co-partisans.

Does partisan misalignment ultimately matter? To shed some light on this question, we investigate the aggregate and real effects. First, by collapsing our data set at the county level, we document that the effect of partisan misalignment translates meaningfully at the county level: a county with Republican-leaning lenders (with an average 78.4% Republican-leaning employees at the 75th percentile) experiences a weekly PPP lending volume growth rate that is 32.26% higher than a county with a "neutral" lender (defined as a lender with 50.5% Republican-leaning employees at the 25th percentile), and its number of new loans increases by 12% more countywide. Second, with county-level weekly unemployment insurance (UI) data, we present evidence that partisan misalignment is associated with higher PPP payroll coverage for small businesses. This result underscores that partisan misalignment has real effects that go beyond its direct effects on PPP loan origination.

Our findings hold significant implications for both research and policy. First, we contribute to the literature on political polarization and finance, providing evidence that partisan misalignment may actually incentivize lending activities within the PPP context rather than holding loans back. These findings complement prior work on political polarization in banking by suggesting a new dimension to consider: who ultimately bears the risk may matter for the partisan-alignment phenomenon. In the PPP context, it is the government that assumes the credit risk, while banks make the decisions to grant credit. Second, we show the importance of accounting for small donor contributions by employees in measuring lender partisanship, which may better capture the intensity of political engagement and influence within organizations. Last, we add to the growing body of literature on politics and banking by uncovering novel evidence of "more benign" effects of political economy factors on small business lending in the context of one of the largest economic relief packages in recent history.

1. Literature Review

Our paper contributes to several strands of the economics and finance literature. First, it is related to work on the political economy of government aid programs. Several studies examine whether electoral politics affects the

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spatial allocation of government funds: Fishback et al. (2003) focus on funds under the New Deal in the 1930s; Boone et al. (2014), under the American Recovery and Reinvestment Act of 2009; Duchin and Hackney (2021) and Berger et al. (2023), under the first PPP phase in 2020; and Ha (2023), under the second PPP phase in 2021. Unlike these papers that examine the aggregate spatial allocation of funds across states or counties, our analysis operates at the lender level. We focus specifically on the political motivation behind lending decisions in a highly polarized political context, uncovering that partisan misalignment between lenders and the administration positively influences support for small businesses during both PPP phases.

Second, our paper adds to the literature on the relation between economic behaviors and partisanship, including that of loan officers (Dagostino et al. 2023), credit analysts (Kempf and Tsoutsoura 2021), entrepreneurs (Engelberg et al. 2023), professional money managers (Cassidy and Vorsatz 2021), judges (Chen 2020), and central bankers (Ioannidou et al. 2023).[6] One of the closest papers to our line of inquiry is Kempf et al. (2023), who find that ideological alignment between US banks and foreign governments is an important factor behind the allocation of cross-border syndicated loans to corporations. In a similar spirit, we infer the partisan leanings of lenders using their political contributions to candidates running in the 2020 presidential election to identify whether partisan alignment shapes PPP fund allocations. We expand on this study by measuring partisanship through the individual contributions of lender employees to political candidates. This approach is crucial, as aggregated individual contributions contribute to the "bottom-up" partisanship of organizations. Additionally, our measures of partisanship consider small, individual contributions (under $200) because both major platforms for individual contributions, ActBlue and WinRed, required identity disclosure during the election cycle we examine (Bouton et al. 2022; Cagé 2024). This inclusion represents an improvement over much of the existing literature on politics and finance, which often overlooks these smaller contributions. Including them allows us to capture a more comprehensive view of partisanship and further mitigate concerns about data scarcity. Interestingly, our results also contrast with prior studies that show that partisan misalignment negatively impacts lending and offer explanations centered on partisan utility or partisan beliefs (e.g., Dagostino et al. 2023; Kempf et al. 2023). Instead, our results indicate that partisan misalignment between lenders and the administration increases PPP lending, consistent with the idea that Republican-leaning lenders may have still viewed the program's second phase as part of the Trump administration's agenda. As a result, they may have increased their PPP lending to preserve or even enhance

[6] See Kempf and Tsoutsoura (2024) for a survey of the literature on political polarization and finance.

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their political capital under the new, misaligned administration. Our findings thus complement these prior studies on political polarization and banking.

Third, our paper belongs to the broader literature on politics and credit.[7] Within this literature, our paper is most closely related to studies documenting the influence of banks' political connections on loan renegotiations (Agarwal et al. 2018), mortgage lending (Chavaz and Rose 2019), consumer lending (Akey et al. 2021), and corporate lending (Lambert et al. 2023) in the United States. Our paper documents the effects of politics on small business lending (PPP loans), while contributing to our understanding of the mechanisms behind the partisan-alignment phenomenon.

Last, our paper is connected to a rapidly growing literature on the determinants of PPP allocation (Balyuk et al. 2021; Cororaton and Rosen 2021; Li and Strahan 2021; Granja et al. 2022; Chernenko and Scharfstein 2024) and its impacts on the US economy (Bartik et al. 2020a, 2020b; Chetty et al. 2020; Hanson et al. 2020; Humphries et al. 2020; Meier and Smith 2020; Bartlett and Morse 2021; Autor et al. 2022b; Chodorow-Reich et al. 2022; Elenev et al. 2022; Granja et al. 2022). We join this literature by presenting novel evidence on the extent to which lenders' partisan alignment with the administration influences PPP fund allocation and produces real effects.

2. Background and Data

2.1 PPP timeline

Our empirical strategy leverages the phased implementation of the PPP around the closely contested presidential election of 2020. Below, we outline the timeline of the PPP under both the Trump and Biden administrations. For a detailed description of the PPP rounds and their targeting, we refer to prior work on the PPP (e.g., Autor et al. 2022a).

- **Phase 1 ("Trump").** President Trump signed into law the establishment of the PPP as part of the CARES Act on March 27, 2020. The program launched just days later, on April 3, 2020, with an initial allocation of $349 billion aimed at providing forgivable loans and guarantees to small businesses impacted by the COVID-19 pandemic. Demand for the funds was intense, and the initial allocation was exhausted by April 16, marking the end of the first PPP round. In response, Congress approved an additional $310 billion on April 24, 2020, launching the program's second round, which continued until August 8, 2020, when applications were halted again.
- **Phase 2 ("Biden").** The 2020 U.S. presidential election occurred on November 3, 2020, resulting in Biden's election as president a few days later. The PPP received further support later in the year when, on

[7] See Lambert and Volpin (2018) for a survey of the literature on political economy and (bank) finance.

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December 27, 2020, the CAA was signed into law, granting an additional $284 billion. Under the new administration, the program reopened for a third round on January 11, 2021. Following President Biden's inauguration on January 20, the administration implemented new guidelines on February 22 to expand access to smaller and minority-owned businesses, aiming to make PPP support more equitable. The application deadline was initially set for March 31, 2021, but was extended to May 31. However, the PPP's funds were nearly depleted by May 4, with the program officially ending on May 31, 2021.

Loans from the initial two PPP rounds were issued in phase 1 and available to businesses that fit the PPP's definition of a small business, which typically required having fewer than 500 employees. The third round, initiated in phase 2, targeted businesses that had not previously received a PPP loan. Additionally, it offered "second-draw" loans to businesses that had already taken a PPP loan, had fewer than 300 employees, and could demonstrate a significant revenue decline in 2020. Notably, approximately 75% of the funding from this third round was allocated to these second-draw loans.

2.2 Variable definitions and sources

2.2.1 PPP lending. We obtain PPP data from the SBA, which provides information on business and loan characteristics. The characteristics of the businesses that received loans under the program are their name, location, legal status (e.g., sole proprietorship or corporation), reported number of employees, and industry classification (six-digit NAICS). The loan characteristics consist of the loan amount in dollars, the date when the loan was approved, and the processing method indicating first- or second-draw loans. We use loan-level data released by the SBA in January 2022.

The original PPP data set from the SBA provides a unique identifier for the originating lender, lender names, and location information. To construct our sample, we start with the whole population of PPP loans and lenders, and then we exclude 21 loans for which the lender identifier is missing and 2,477 loans with approval dates outside the three PPP rounds. Our final sample consists of 11,467,324 loans and 5,374 lenders. To identify the lender types, we manually match the PPP lenders based on their names and locations to the banks and bank holding companies (BHCs) in Call Reports and FRY-9C from 2019–2021. We first check whether a PPP lender can be matched to a bank included in Call Reports. If not, we then check whether the lender can be matched to a BHC covered in FRY-9C. We categorize the lenders that have a match in this step as "Banks." For the unmatched lenders, we categorize the lenders whose names include "Credit Union," "Farm Credit," "Agricultural

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Table 1
PPP lender sample

Year	Number of PPP loans		Total loan amount ($m)		Number of PPP lenders	
All	11,467,324	100.00%	796,496.56	100.00%	5,374	100.00%
2020	5,136,366		525,765.08		5,298	
2021	6,330,958		270,731.48		5,153	
With employee contributions	9,151,484	79.80%	705,591.09	88.59%	2,548	47.41%
With corporate PAC contributions	2,903,213	25.32%	268,793.48	33.75%	59	1.10%
Banks	8,144,108	71.02%	719,592.16	90.34%	4,245	78.99%
2020	4,600,836		501,578.65		4,212	
2021	3,543,272		218,013.51		4,148	
With employee contributions	7,240,105	63.14%	662,723.55	83.20%	2,155	40.10%
With corporate PAC contributions	2,703,594	23.58%	264,790.28	33.24%	55	1.02%
Credit Unions	405,326	3.53%	16,598.76	2.08%	958	17.83%
2020	212,931		10,511.75		940	
2021	192,395		6,087.01		851	
With employee contributions	239,618	2.09%	9,955.48	1.25%	338	6.29%
With corporate PAC contributions	1232	0.01%	47.89	0.01%	2	0.04%
Others	2,917,890	25.45%	60,305.64	7.57%	171	3.18%
2020	322,599		13,674.68		146	
2021	2,595,291		46,630.96		154	
With employee contributions	1,671,761	14.58%	32,912.06	4.13%	55	1.02%
With corporate PAC contributions	198,387	1.73%	3,955.32	0.50%	2	0.04%

The table reports the total numbers, total loan amounts, and total lender counts of the PPP loans covered in the different samples. "All" represents the original PPP loan sample obtained from the SBA website, dropping loans with missing lender identifiers or originating dates after the PPP end date. "Year" represents the loans originated in the first PPP phase (in either 2020 or 2021). "With employee contributions" is the sample of the lenders' employees who made individual contributions to Republican or Democratic presidential and congressional candidates as well as party PACs in the 2020 election cycle. "With corporate PAC contributions" is the sample of the lenders with valid campaign contributions from their affiliated corporate PACs to Republican- or Democratic-party PACs in the 2020 election cycle. The coverages of the latter two samples—in terms of the number of loans, total loan amounts, and covered lender—relative to the "All" sample are reported in the percentage's column. The statistics for three subsamples—"Banks," "Credit Unions," and "Others"—are also included in the ^^^subsequent rows. These three subsamples include the PPP loans for which the lenders are banks, credit unions, and other financial firms, respectively.

Credit," "ACA," "CU," and "FCU," as "Credit Unions." All the rest, we categorize as "Others."[8]

Table 1 shows the breakdown of the PPP loan sample based on the lender type. The overall PPP loan sample covers almost $800 billion in originated loans. Banks serve as the major disseminators of PPP funds: they constitute 78.99% of all PPP lenders providing 71.02% of all loans and 90.34% of the total dollar amount. Institutions other than banks and credit unions ("Others") stepped up significantly more in the second PPP phase, in 2021.

To construct our dependent variables, we use the aggregated PPP loan dollar amount originated by a lender in a given period and the number of new PPP loans originated by a lender in a given period. The dependent

[8] The three most active PPP lenders categorized as "Others" are Prestamos CDFI; Harvest Small Business Finance, LLC; and Capital Plus Financial, LLC. These three financial firms extended 45.6% of the PPP loans in this category.

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variables constructed are respectively labeled *Value of loans* and *Number of loans*. The baseline sample consists of lender-week observations.

2.2.2 Lender partisanship. Individuals and corporations can make contributions toward the election of a candidate in a number of ways. They can contribute directly to a candidate, to a political party, or to a PAC. A PAC is a committee that raises and spends money to elect or defeat candidates. Most PACs represent businesses (e.g., Bank of America PAC), associations (e.g., American Bankers Association PAC), or ideological causes (e.g., EMILY's List PAC). An organization's PAC solicits money from its employees or members and directs the money in PAC's name to candidates and political parties. Other types of PACs include "leadership PACs," which allow politicians to raise money apart from their own campaigns to help other politicians (e.g., Majority Cmte PAC). There are limits on the amount that can be contributed. For instance, in the 2020 election cycle, an individual donor could contribute $2,800 per election to a candidate and $5,000 per year to a PAC, while a PAC could contribute up to $5,000 per election to a candidate and up to $35,500 per year to a political party committee.[9]

To measure lenders' partisanship, we obtain information on contributions by individual donors and PACs to presidential and congressional political campaigns during the 2020 election cycle.[10] Employing contributions from the 2020 cycle is consistent with our empirical strategy and, importantly, allows the inclusion of small donor contributions in the analysis. Moreover, partisanship may change over time, and contributions from previous cycles may not correlate that strongly with the current cycle.[11]

We source data on campaign contributions from the Center for Responsive Politics as part of its "Open Secrets" database. We capture the political support for Republicans as the ratio of campaign contributions to Republican PACs and Republican candidates to total campaign contributions. The time span is the 2020 election cycle (2019–2020). We use both campaign contributions made by individuals that are employed by the lenders and campaign contributions made by lenders as legal entities. This procedure means that we

[9] Following a 2010 U.S. Court of Appeals decision, a new type of PAC was created, a "super PAC." Super PACs make no contributions to candidates or parties, but they can spend money directly on actions that specifically target an election, such as running ads or sending mail to voters. There are no restrictions on the amount or sources of the funds spent.

[10] We include campaign committees for all party-affiliated or leadership PACs, strong ideological PACs, congressional candidate PACs, and candidate PACs for three candidates involved in the presidential election (Donald Trump, Joseph Biden, and Kamala Harris; Mike Pence did not have a candidate campaign committee registered in the 2020 election cycle).

[11] Partisanship, although generally stable for individuals over time, can shift in response to major life events, political realignments, or changes in salient issues (see, e.g., Page and Jones 1979; Gerber et al. 2010). For firms, partisanship is less persistent, often varying across election cycles due to changes in executive leadership or strategic responses to evolving policy environments. For instance, Hutton et al. (2014) find that Republican-leaning CEOs implement distinct corporate policies, but these patterns tend to shift with leadership transitions. Hassan et al. (2019) show that firms adjust their political donation behavior in response to electoral outcomes.

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rely on both "bottom-up" (employee-level) and "top-down" (lender-level) approaches to capture lender partisanship. Most studies use only one of these approaches (e.g., Duchin et al. 2023; Kempf et al. 2023). Although our preferred approach is the "bottom-up" one—given its better data coverage and its closer reflection of the underlying partisanship of the individuals who constitute the organization (i.e., its employees and leadership)—we also use the "top-down" approach in our robustness checks to mitigate concerns associated with relying on one measure taken in isolation.

Regarding the "bottom-up" approach, we use the detailed record of individual contributions data to identify lender employee partisanship. The individual contributions record for the 2020 election cycle has the advantage of including a vast number of small donors (defined as those contributing less than $200), since the major individual contribution platforms (ActBlue and WinRed) started to request all donors disclose their identities, including their employers. ActBlue was created in 2004 to help Democrats raise money and now dominates Democratic fundraising, while WinRed was launched in 2019 on the Republican side (Bouton et al. 2022; Cagé 2024). We have over 80 million valid records of individual contributions in the 2020 cycle.[12] We run fuzzy match commands to compare the employer and lender names using various methods, including "big-ram," and "token," and manually read through all possible matches.[13] We can identify over half a million records for which the donor's employer is a PPP lender. We drop invalid or duplicate records and contributions made to independent PACs (not political ideological) or third-party candidates. In total, we can match over 23,873 employees working for 2,548 lenders, covering 47.41% of PPP lenders (Table 1). We aggregate the contribution amounts to either Republican or Democratic candidates and leadership or ideological PACs[14] and calculate the fraction of the contribution going to Republican candidates and PACs. Figure 1, panel A shows the distribution of employee partisanship. Most individuals demonstrate one-sided support to either Republicans or Democrats. The 23,873 employees contribute on average $3,135 (median $500) to party PACs and candidates, of which 45.3% (untabulated statistic) goes to Republican candidates or Republican Party PACs.

[12] Considering these small campaign contributions is critical to mitigate measurement concerns about data scarcity when relying on partisanship measures aggregating at the organization level contributions from employees.

[13] Many banks share similar words in their names, which complicates the identification of specific entities. Self-reported employer names by individual donors include unstandardized company names. Therefore, an individual employee may be matched to multiple banks in the same election cycle. We use the donor's location information and the lenders' headquarters and branches to identify the correct matches. We also manually search more than 3,000 potential employees' profile in LinkedIn, news releases, and lender information webpages for ambiguous matches. See Internet Appendix B for more detail on the manual matching process.

[14] Popular party PAC recipients for employee contributions in the 2020 cycle include "Republican National Cmte," "Trump Make America Great Again Cmte," and "Democratic Congressional Campaign Cmte."

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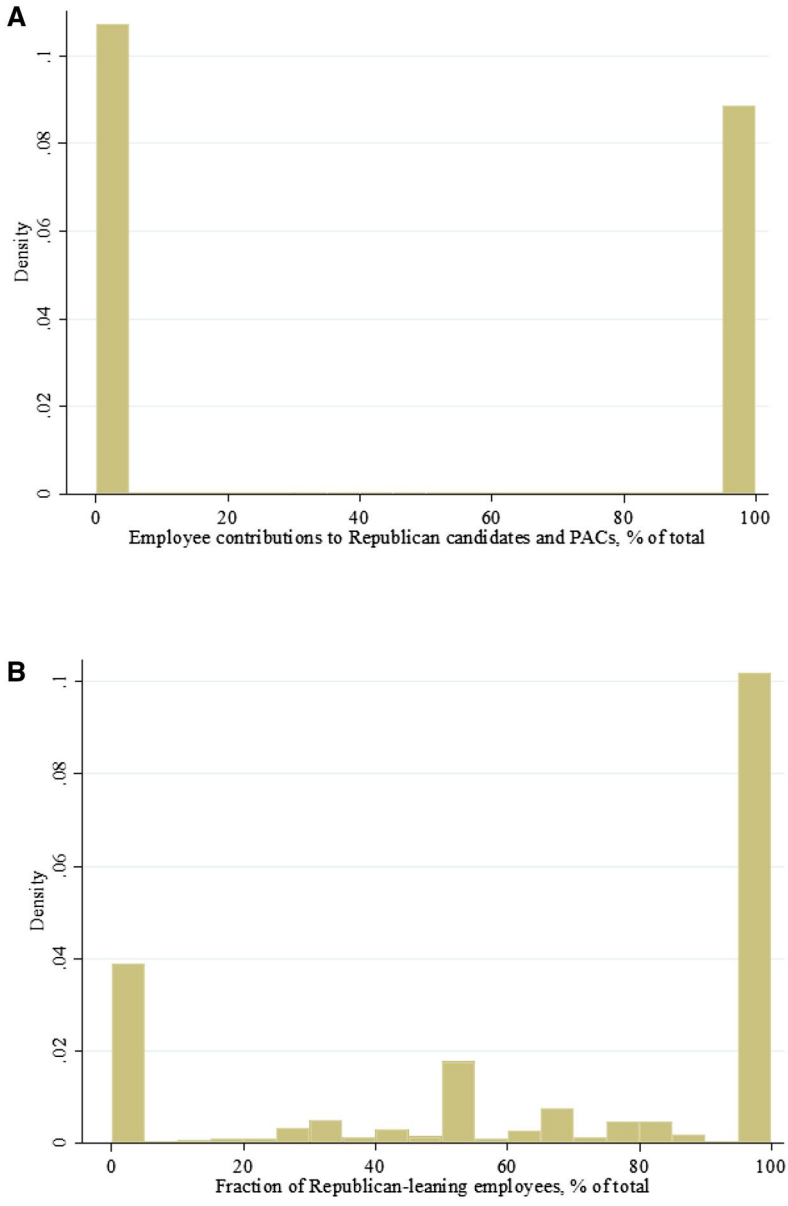


Figure 1
Distribution of lender employee contributions to Republicans

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Next, we aggregate employee partisanship at the lender level. As most individuals support only one party, we consider an employee to be Republican-leaning if the fraction of her contribution amount going to Republicans is > 50% of the total amount going to both Republicans and Democrats. We then calculate the proportion of Republican-leaning employees in the 2020 election cycle for each PPP lender (the variable is labelled *Employee contributions to Republicans*). Figure 1, panel B also shows the distribution of the fraction of Republican-leaning employees measured at the lender level. A substantial fraction of the lenders is Republican leaning (with the measure value close to one), while a number of lenders have diverse employee partisanship. On average, a lender has 67% Republican-leaning employees of all politically active employees. In Table 1, we report the breakdown of contributing lenders with employee contributions in the 2020 election cycle. Notably, the "bottom-up" measure of partisanship allows us to cover a majority of the PPP loan sample, accounting for > 9.1 million PPP loans (79.80% of the overall sample) and covering > $705 billion in loan volume (88.59% of the total loan amount).

For robustness, we also aggregate employee partisanship at the lender level based on the employees' contributed dollar amounts. We calculate each employee's contribution fraction to Republicans of the total amount to both parties and then take the average across all individual contributors employed by the same lender. We use the simple average (*Employee contributions to Republicans (average value)*) or the weighted average based on the total contributed dollar amount (*Employee contributions to Republicans (weighted value)*). We obtain values for these two partisanship measures that are consistent with *Employee contributions to Republicans*.

In addition to the "bottom-up" approach, we construct a measure of partisanship based on the "top-down" approach for robustness purposes; that is, we use lender contributions from the lender's corporate PAC to Republican or Democratic Party leadership and ideological PACs.[15] We do not include contributions to candidates since lenders generally do not contribute directly

Figure 1
Continued
This figure shows the density distributions of Republican-leaning employees in PPP lenders in the 2020 election cycle. In panel A, the distribution plots the fraction of employee contributions to Republicans over total contributions to either Democratic or Republicans at the individual employee level. The data cover 23,873 employees in 2,548 PPP lenders and are based on the employees' individual contributions to various political party and ideological PACs and candidates from 2019–2020. 100% indicates the employee contributes only to Republican PACs and candidates, while 0% indicates contributions only to Democrats. In panel B, the histogram shows the employee partisanship aggregated at the lender level and describes the fraction of Republican-leaning employees for each lender. An employee is Republican leaning if her fraction of contributions to Republicans is > 50%. *Source: Authors' calculation*.
A. Distribution of Republican contribution fractions by lender employees (individual level)
B. Distribution of fractions of Republican-contributing employees (lender level)

[15] Popular leadership PAC recipients for bank contributions in the 2020 election cycle include "Building Leadership & Inspiring New Enterprise" and "Democratic Congressional Campaign Cmte."

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to presidential candidates.[16] Lenders tend to contribute to congressional candidates in connection to their potential power in congressional subcommittees or in influencing policies affecting their local areas rather than based on partisanship. We manually compare all of the lender names (and their BHC names if applicable) to the PAC names active in the 2020 cycle. In total, we identify 59 PPP lenders contributing via their affiliated corporate PACs to 253 various party leadership PACs during the 2020 election cycle. Although the number of matched lenders with corporate PAC contributions seems very limited (only 1.10% of all lenders in Table 1), the sample covers some of the most active PPP lenders, providing over a quarter of all PPP loans and over a third of the total dollar volume. Table 1 also shows that 55 of 59 contributing lenders are banks. On average, a lender contributes $145,490 (median $37,100) to party PACs, of which 70% goes to Republican PACs. We calculate the proportion of the contribution dollars that go to Republican PACs of the total amount going to either Republican or Democratic PACs as the first partisanship measure (labelled *Lender contributions to Republicans*). If the measure takes the value of 100%, the lender does not contribute to Democratic PACs at all and only to Republican PACs. Figure 2 shows the distribution of the measure. Notably, the distribution is similar to the distribution of employee contributions reported in Figure 1 (panel B).[17]

2.2.3 Other determinants of PPP lending. Since many other factors are likely related to PPP lending, we control for a host of other political and institutional factors as well as bank and regional characteristics in our analysis.

First, we address the potential confounding effect of lenders' political connections on their PPP lending behaviors by using a direct proxy of potential change in political connections around 2020. We capture the exogenous change in the connected senators' political power by measuring the ascension of Senate committee chairs in the 2020 elections. We hand collect the Senate committee assignment information from the Congressional Directory for the 116th and 117th Congresses and cross-check the chairs and ranking members. As Democrats gained majority control of the Senate in the 2020 elections, all Senate committee chairs were rotated from Republican to Democratic Senators (one exception is the Budget Committee chair, which shifted to Independent Bernie Sanders). Following Akey et al. (2021), we include

[16] In 2020, only one bank in our sample contributed to Trump, and none contributed to other presidential candidates. In contrast, individuals more commonly contribute directly to presidential candidates than their employer corporate PACs do.

[17] For robustness purposes, we ensure that our results are not driven by a subset of individuals switching partisanship in the 2020 election cycle or by small contributions made via WinRed or ActBlue. To address this concern, we reconstruct our partisanship measures based on contributions from the 2018 electoral cycle and excluding small contributions. We do not find any evidence suggesting that our results are sensitive to these measurement concerns. We thank the referee for encouraging us to explore these potential issues.

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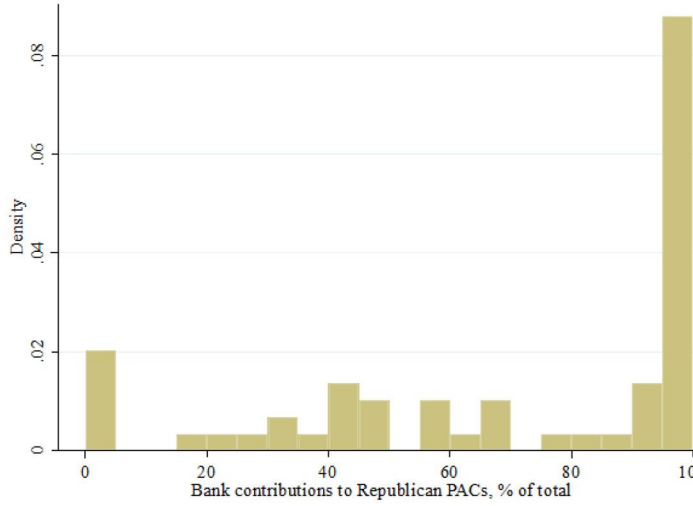


Figure 2
Distribution of lender contributions to Republicans
The figure shows the density distribution of the proportion of lender PAC contributions to Republican PACs of total contributions to both Republican and Democratic PACs in the 2020 election cycle. The data cover 59 PPP lenders and are based on their corporate PAC contributions to 253 various political party PACs from 2019–2020. 100% indicates the bank corporate PAC contributes only to Republican PACs, while 0% indicates contributions only to Democratic PACs. *Source: Authors' calculation*.

two turnover events in which the previous Democratic ranking member or vice chair left the committee for the 117th Congress for relatively exogenous reasons (Table 2).[18] We validate every rotation by checking news coverage and Ballotpedia. We construct a dummy variable, *Powerful politician*, indicating whether the PPP lender headquarter state is in the state whose senator took a committee chair for exogenous reasons in year 2021.

Second, we control for the political environment at the lender headquarter state. We collect the state governor party affiliations and the number of seats held by the two parties in the state house and senate as reported by the National Conference of State Legislatures. We construct a dummy variable, *Republican state*, indicating whether both the governor and state legislative control are Republican in the PPP lender headquarter state.[19]

Third, we control for how lenders handle PPP applications. Borrowers may have switched to other lenders in 2021 if a lender did not treat them well in the first phase in 2020. To capture this factor, we download the consumer

[18] For completeness, Table IA1 in Internet Appendix A also provides a full list of the Senate committee chairpersonships of the 117th Congress.

[19] For most states, the executive and legislative bodies are controlled by the same party. In 20% of the cases, the state control is recorded as "divided" when the governor does not belong to the same party as that controlling the state legislature. This variable is stable over the years 2020 and 2021 except for New Hampshire and Montana, which changed from Republican controlled to divided.

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Table 2
117th Congress Senate committee chair ascensions

Committee	Name	State	Party	Previous chair	Reason
Judiciary	Richard J. Durbin	Illinois	D	Lindsey Graham, of South Carolina	Previous ranking member stepped down
Indian Affairs	Brian Schatz	Hawaii	D	John Hoeven, of North Dakota	Previous vice chair retired

The table reports the two exogenous Senate committee chair turnovers in which the previous ranking member who was vice chair left the committee for relatively exogenous reasons. The two events are as follows. First, Dick Durbin (D, Illinois) took over as the chair of the Judiciary Committee. The previous lead Democrat in the committee, Dianne Feinstein, announced that she would not seek the chairmanship in the next Congress in November 2020 and subsequently left the Judiciary Committee in 2021. Second, Brian Schatz (D, Hawaii) became the chairman of the Committee on Indian Affairs. The previous Democratic vice chair, Tom Udall, retired in 2020 and became U.S. Ambassador to New Zealand in 2021.

complaints record from the Consumer Financial Protection Bureau (CFPB) from 2020 to July 2024 and match the company names to the PPP lenders. We also search the consumers' narratives of the issues and identify those related to PPP if the narrative contains "ppp," "paycheck loan," "paycheck program," or "paycheck protection." In total we have 446 PPP-related complaints matched to 37 lenders. We thus construct a variable, *Number of PPP complaints*, being the total number of PPP-related complaints for each lender.[20]

Fourth, we control for bank characteristics. We obtain balance sheet and income statement information from Call Reports and matched the information to the previous calendar quarter. The controls include *Bank size*, *Bank ROA*, *Bank NPL*, *Bank Tier1 ratio*, and *Bank core deposit.* Naturally, the controls are available only for PPP lenders classified as "Banks."

Last, we gather county-level data on sociodemographic conditions and on vulnerability to pandemic-induced lockdowns and social distancing as well as state-level data on political conditions. To proxy for racial and income disparities in PPP applications, we collect county-level racial, income, and population characteristics from the Census Bureau[21] and the Bureau of Economic Analysis. The variable *Minority county* captures the fraction of the nonwhite population in a given county. *Income per capita* enters as the log level of per-capita income in thousands of dollars in a given county, while *Population* is the county population (also in log). Furthermore, to proxy for the resilience of an industry to a pandemic, we rely on teleworkability measures, which are based on detailed survey information on occupations as classified by Dingel and Neiman (2020). Their indices capture the share of jobs in a given industry

[20] To address any reverse causality concerns arising from PPP complaints over all rounds, we construct an alternative measure of the number of PPP complaints that covers only the first two PPP rounds in 2020. The results remain robust (see Subsection 3.3).

[21] We use County Characteristics Resident Population Estimates, 2019 and 2021 releases, reported by the U.S. Census Bureau, Population Division.

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that can be done at home and are aggregated at the two-digit industry level using either the employment or the wage share. Industries with a higher share of teleworkable jobs are likely to suffer less from the pandemic or associated social-distancing measures. To properly evaluate the teleworkability of the local workforce, we gather the employment numbers for each NAICS industry from the Bureau of Economic Analysis. *Local workforce teleworkability* is the weighted average of the Occupational Information Network–derived work-from-home score from Dingel and Neiman (2020), weighted by the number of employed under each NAICS code in a given county. To further capture the political environment at the state level, we construct two variables measuring the political ideology of the citizens and the local government sourced from Richard Fording's website (https://rcfording.wordpress.com). The variable *State citizen liberal score* is the revised 2016 citizen ideology series following Berry et al. (1998), while the *State government liberal score* is the 2017 state government ideology measure following Berry et al. (1998). Higher (lower) values of these political ideology variables indicate more liberal (conservative) values and positions in a state.

2.2.4 Employment. For our analysis on the real effects, we collect the weekly UI claims from 14 state labor department websites, which we supplement with data from the Opportunity Insights Economic Tracker (https://tracktherecovery.org). The country-week initial UI claims signal increases in local unemployment in the timeliest possible way based on available statistics. The dependent variable *UI claims rate* is the weekly number of initial claims per 100 people in the 2019 county labor force. Initial claims data reflect the number of initial claims approved by the state. The approved claims measure is distinct from the number of claims filed as it includes only claims that were ultimately accepted, not all claims submitted.

2.3 Summary statistics

Table 3 presents the summary statistics for the key variables on PPP lending, lender partisanships, and lender and location characteristics for the main analysis. For the sake of brevity, the summary statistics for all other variables are relegated to Tables IA2 and IA3 in Internet Appendix A. We construct the lender-week panel data set by aggregating PPP lenders' lending activities to calendar weeks. In this baseline sample, we keep only the lenders with nonmissing partisanship measures using either the "bottom-up" or "top-down" approach. We then transform the sample to a balanced panel data set by replacing the loan amount and number with zeroes if the lender is not active during that week. As a result, the panel data set consists of 38 weeks (18 in 2020 and 20 in 2021) and 2,551 lenders. Eventually, we have 96,938 lender-week observations in the baseline sample, with an average (median) loan amount of $3.6 million ($141 thousand) and 42.9 (6) loans in a week

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Table 3
Summary statistics

	Obs.	Mean	S.D.	Perc. 25	Median	Perc. 75
PPP lending						
Value of loans ($thousand)	96,938	3,646.189	13,849.381	3.250	141.119	1,033.095
Number of loans	96,938	42.879	133.170	1	6	25
Value of loans (log 1+)	96,938	9.784	5.880	8.087	11.857	13.848
Number of loans (log 1+)	96,938	2.067	1.740	0.693	1.946	3.258
Lender Partisanship						
Employee contributions to Republicans	96,824	0.669	0.398	0.333	1	1
Employee contributions to Republicans (average value)	96,824	0.669	0.396	0.333	0.957	1
Employee contributions to Republicans (weighted value)	96,824	0.679	0.419	0.200	0.998	1
Number of contributing employees	96,824	5.002	14.554	1	2	3
Lender contributions to Republicans	2,242	0.700	0.346	0.432	0.912	1
Other determinants of PPP lending						
Powerful politician	96,938	0.056	0.230			
Republican state	96,900	0.458	0.498			
Number of PPP complaints in CFPB	96,938	0.014	0.116	0	0	0
Number of PPP complaints (log 1+)	96,938	0.010	0.081	0	0	0
Bank size (log 1+)	81,630	13.412	1.464	12.432	13.203	14.131
Bank ROA (%)	81,630	2.190	1.988	0.922	1.542	3.234
Bank NPL (%)	81,529	0.807	0.984	0.189	0.503	1.021
Bank Tier1 ratio (%)	81,630	10.252	2.507	8.666	9.710	11.136
Bank core deposits (%)	81,579	61.683	18.541	50.773	64.937	75.162
Local workforce teleworkability	117,116	0.271	0.051	0.242	0.270	0.298

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Minority majority county	119,016	0.057	0.232			
Income per capita ($thousand)	117,116	51.429	14.442	43.031	48.659	56.313
Population (log)	119,016	10.274	1.482	9.293	10.158	11.133
Employment						
UI claims rate	48,093	0.861	0.981	0.288	0.502	0.970

The table presents the summary statistics for the key variables of the baseline panel sample (lender-week level) except for the county-level variables. The sample keeps only those PPP lenders with PAC or employee contributions in the 2020 election cycle. All variables are winsorized at the 1st and 99th percentiles. *Value of loans* is the aggregated loan dollar amount originated in a calendar week by a given lender. *Number of loans* is the number of new PPP loans originated in a week by a given lender. *Value of loans (log 1+)* is the natural logarithm of *loan amount* plus one. *Number of loans (log 1+)* is the natural logarithm of number of new loans plus one. *First draw loans* are the PPP loans extended to new borrowers in 2020 or in 2021 with the processing method identified as "PPP." *Second draw loans* include PPP loans extended in 2020 and those to previous borrowers in 2021 with the processing method identified as "PPS." *Loans to small (big) borrowers* are the PPP loans extended to borrowers with reported numbers of employees under (at least) 20. *Employee contributions to Republicans* is the fraction of employees contributing more than half to Republican PACs or candidates in a given lender during the 2020 election cycle. *Employee contributions to Republicans (average value)* is the simple average for a given lender of each employee's contribution fraction to Republican candidates and PACs of their contribution to either party (fraction of total). *Employee contributions to Republicans (weighted value)* is the weighted average for a given lender of each employee's contribution fraction to Republican candidates and PACs of their contribution to either party, weighted by the individual's total contribution amount. *Number of contributing employees* is the number of contributing employees in the 2020 election cycle in a lender. *Lender contributions to Republicans* is the fraction of the total contributions made from a lender's corporate PAC to Republican leadership PACs or party PACs of the total contributions to either party in the 2020 election cycle. *Powerful politician* is a dummy indicator of whether the lender headquarter state is either Illinois or Hawaii. *Republican state* is a dummy variable that takes the value of one if the lender headquarter is in a state controlled by Republican in 2020 and zero otherwise. *Number of PPP complaints in CFPB* is the number of consumer complaints mentioning PPP since 2020 from the CFPB. *Number of PPP* complaints (log 1+) is the natural logarithm of the number of PPP complaints plus one. *Rank-and-file employee (Executive) contributions to Republicans (number)* is the fraction of the rank-and-file employees (executives) in a given lender contributing more than half of their total donations to Republican PACs or candidates during the 2020 election cycle. *Number of contributing rank-and-file employees (executives)* is the number of contributing rank-and-file employees (executives) in the 2020 election cycle in a lender. *Bank size* is the natural logarithm of one plus the bank's total assets in the previous quarter. *Bank ROA (%)* is quarterly net income × 4 / total assets × 100, lagged one quarter. *Bank NPL (%)* is loans past due 90 days or more and nonaccruals over total loans × 100, lagged one quarter. *Bank Tier1 (%)* is tier one capital over total loans × 100, lagged one quarter. *Bank core deposits (%)* is the sum of the transactions deposits and all other savings deposits that are included in total nontransaction accounts, excluding MMDAs, over total deposits × 100, lagged one quarter. The county-level characteristics are at the county-week level. *Local workforce teleworkability* is the weighted average of the Occupational Information Network–derived work-from-home score from Dingel and Neiman (2020), weighted by the number of employments under each NAICS code for a given county. *Minority majority county* is a dummy variable that takes a value of one if the nonwhite population in a given county is over 50% of the total population and zero otherwise. *Income per capita* is county personal income per capita in $thousands. *Population (log)* is the natural logarithm of the county population. *UI claims rate* is the weekly number of UI initial claims at the county level per 100 people in the 2019 labor force from Opportunity Insights Economic Tracker.

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(Table 3). On average, five employees in a lender firm make campaign contributions, and 67% of such employees support Republicans. Similarly, approximately 70% of total corporate PAC contributions to leadership PACs are directed toward Republicans.

3. Results

3.1 Identification strategy

To examine the effect of lenders' partisan alignment with the administration on PPP lending, we run difference-in-differences regressions at the lender-week level:

$$Y_{it} = \beta Post_t \times Political\ \ Shock_i + \gamma X_{it} + \mu_i + \mu_t + \varepsilon_{it}. \quad (1)$$

We index the lender by i and the week by t. Y_{it} is either the total amount or the total number of loans (in log) originated by lender i in week t. The data span the two PPP phases (cf. Subsection 2.1): from 2020W14 to 2020W32 for the first phase ("Trump") and from 2021W2 to 2021W22 for the second phase ("Biden"). $Post_t$ is a dummy variable that takes a value of one for the weeks that belong to the second PPP phase and a value of zero otherwise. $Political\ Shock_i$ is a variable measuring lenders' partisanship during the 2020 presidential election. $X_{i,t}$ is a vector of lender-level control variables. μ_i and μ_t denote lender and week fixed effects, respectively. $\varepsilon_{i,t}$ is the error term. Standard errors are clustered at the lender headquarter state level and are robust to heteroskedasticity. The parameter of interest is β, which captures the effect of partisan misalignment on PPP lending. If partisan misalignment between the lenders and the administration has a positive (negative) effect on PPP lending, we expect $\beta>0$ ($\beta<0$).

The key identifying assumption in a difference-in-differences design is that of parallel trends. Identification relies on the assumption that the outcome would have behaved similarly across treated (Republican-leaning lenders) and control (Democratic-leaning and neutral lenders) groups absent the treatment. In our setting, this assumption translates into maintaining that the PPP lending would have evolved similarly across the treated and the control groups if Trump emerged as the winner of the 2020 presidential election. We provide evidence in support of this assumption in the next subsection.

3.2 Partisan alignment and PPP lending

Table 4 presents the difference-in-differences regression results from estimating Equation (1). The dependent variable in columns (1) and (2) is the total value of the PPP lending originated in a week, while that in columns (3) and (4) is the number of PPP loans originated. We interact $Post_t$ with our main independent variable of interest, *Employee contributions to Republicans*. It captures the leaning of the lender employees toward Republican relative to

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Table 4
Partisan alignment and PPP lending

	(1)	(2)	(3)	(4)
	Value of loans		Number of loans	
Post × Employee contributions to Republicans	0.8130***	0.3646**	0.2407***	0.1469***
	(3.9192)	(2.0272)	(4.2029)	(3.0268)
Post × Powerful politician	0.0760	−0.1712	0.0336	−0.0127
	(0.4882)	(−0.9263)	(0.6274)	(−0.2259)
Republican state	−0.8615	−1.1012*	−0.1759	−0.2372
	(−1.4162)	(−1.9524)	(−0.9451)	(−1.2813)
Post × Republican state	0.4582**	0.3634**	0.1108	0.1054
	(2.2804)	(2.0721)	(1.3866)	(1.4608)
Post × Number of PPP complaints	−1.8228***	1.1696*	−0.4757**	−0.1519
	(−3.4060)	(1.7896)	(−2.3330)	(−0.6369)
Bank size		−1.6374***		−0.6567***
		(−3.4237)		(−4.2262)
Post × Bank size		−0.5168***		−0.0636***
		(−6.3490)		(−2.9121)
Bank ROA		0.0329		0.0219***
		(1.1992)		(2.8348)
Bank NPL		−0.0300		−0.0345*
		(−0.4159)		(−1.8872)
Bank tier1 ratio		−0.1004*		−0.0418***
		(−2.0070)		(−2.9161)
Bank core deposits		−0.0064		−0.0019
		(−1.0750)		(−1.3516)
Lender FE	Y	Y	Y	Y
Week FE	Y	Y	Y	Y
Adj. R-sq	.546	.564	.705	.733
N	96,786	81,414	96,786	81,414

This table documents the effects of lenders' partisanship on PPP lending. The difference-in-differences regression is specified in Equation (1) in the lender-week panel data set. The dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*. The measure for lenders' partisanship is based on employee contributions to Republican (fraction of Republican-leaning employees). All variables are defined in the note to Table 3. *t*-statistics are in parentheses. Robust standard errors are clustered at the lender headquarter state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

Democratic candidates, ranging between zero and one; a higher value for this variable indicates that the lender is more likely to lean Republican. We also interact $Post_t$ with the following controls: $Powerful\ politician_i$, $Republican\ state_{i,t}$, $Number\ of\ PPP\ complaints_i$, and $Bank\ size_{it}$. Interacting these controls allows us to account for differential effects across these bank- or bank-state characteristics.[22] For instance, small firms and banks could have exclusive windows that could have differential effects on small (Republican-leaning) versus large (neutral or Democratic-leaning) banks. All of the regressions include lender and week fixed effects, while columns (2) and (4) control for further bank characteristics.

Regarding the results, the estimated coefficient on the interaction term of interest β is positive and statistically significant at the 1% level in most columns. These results suggest that when the Biden administration took office

[22] In the regressions, the time invariant lender-level controls are absorbed by the lender fixed effects.

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following the 2020 presidential election, the Republican-leaning lenders engaged more actively in PPP lending during the program's second phase. The economic magnitude is also meaningful. Consider column (2). A Republican-leaning lender (defined as having 100% Republican-leaning employees at the 75th percentile) has an average weekly lending volume growth rate in the second phase 24.3% (0.3646×0.667) higher than a "neutral" bank does (defined as having 33.3% Republican-leaning employees at the 25th percentile). In column (4), the average number of new loans is 9.8% (0.1469×0.667) higher. Overall, these results, showing a positive relationship between partisan misalignment and PPP lending, support the idea that Republican-leaning lenders viewed the PPP's second phase as a legacy of the Trump administration. As a result, they may have increased their PPP lending to preserve or even enhance their political capital under the new administration.[23] However, these findings are inconsistent with a "contemporaneous-alignment" view typically portrayed in the literature: Democrat-leaning lenders are better aligned with the Biden administration but they do not lend as vigorously as Republican-leaning lenders do despite sharing the beliefs of their co-partisans in the government.

Regarding the controls, they generally display the expected sign across most columns, although they are not always statistically significant at conventional levels. The interaction with *Republican state* is positive in sign and statistically significant at the 5% level in columns (1) and (2) but fails to be statistically significant at the 10% level in columns (3) and (4). This result may suggest that there is more lending during the program's second phase in states where the lender's headquarters is controlled by Republicans. The lenders with a lower number of PPP-related CFPB complaints tend to lend more, although the coefficient is not stable when the bank characteristics are also controlled for. Smaller banks (that are typically Republican-leaning, see below) also tend to lend more in the second phase, and this relationship appears to be more stable than those with the other interaction variables. Importantly, the inclusion of these controls does not change our results on partisan misalignment.

Figure 3 plots the estimated coefficients for the total value of PPP loans over the weeks covered by the program, supporting the validity of the parallel trends assumption. We estimate the difference-in-differences regression from Equation (1), replacing dummy variable $Post_t$ with a set of weekly dummy variables. The base period is the final week of the second PPP, ending August 8, 2020. Each dot represents the coefficient on the interaction between

[23] Another, nonmutually exclusive, explanation for our findings is that the lending effects of misalignment between lenders and the government depend on who ultimately bears the credit risk. Unlike prior work, in the context of the PPP—in which loans are forgivable—the government assumes the credit risk. This structure may have incentivized Republican-leaning lenders to adopt lending strategies that were more aggressive, potentially to affect an ideologically distant administration. Unfortunately, with the available data, we cannot disentangle and directly test this explanation.

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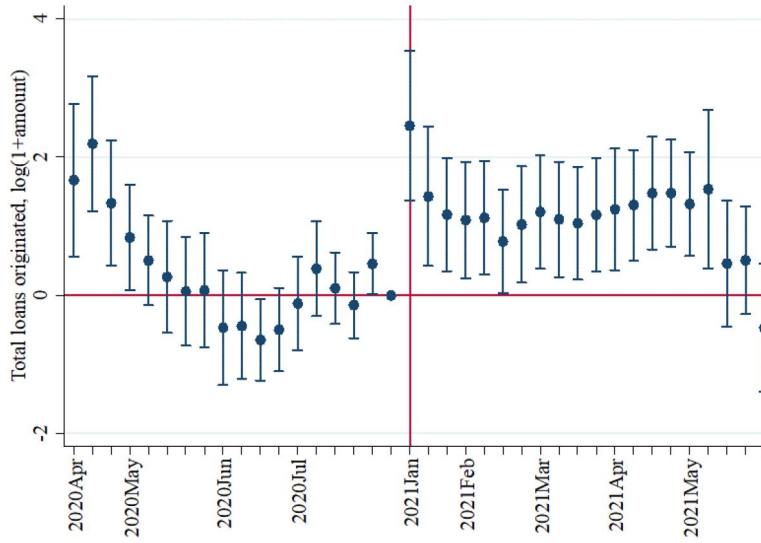


Figure 3
Parallel trends
This figure shows the effects of lenders' partisanship on PPP lending over the weeks during the PPP. The difference-in-differences regression is specified in Equation (1) in the lender-week panel data set, where we replace *Post* with a set of week dummy variables. The graphs plot the size of the coefficients of the interaction terms between *Employee contributions to Republicans* and the weekly dummy variables as well as the 95% confidence intervals. The vertical red line indicates the change in administration. The base level is set to be the last week of the second PPP round, ending on August 8, 2020. We include *Powerful politician, Republican state, Number of PPP complaints*, and their interaction terms with *Post* as well as lender and weekly dummy variables. All variables are defined in the notes to Table 3. The robust standard errors are clustered at the lender headquarter state level. The variables are winsorized at the 1st and 99th percentiles. *Source: Authors' calculation.*

Employee contributions to Republicans and a weekly dummy, capturing the relative effect on loan value. The lines indicate 95% confidence intervals. The figure shows that the weekly loan amount by the Republican- versus the Democratic-leaning and neutral lenders evolve in parallel prior to the presidential election. While the Republican-leaning lenders respond more strongly at the onset of PPP, the lending patterns across the groups remain similar for most of the second round. A noticeable increase in loan originations by the Republican-leaning lenders emerges in the weeks following the election and persists through the final month of the third round. We also arrive at a similar conclusion of parallel pretrends when using the number of loans as the outcome variable and when controlling for bank characteristics (Figure IA1 in Internet Appendix A).

3.3 Robustness

We assess the robustness of our findings through a series of additional checks, all reported in the Internet Appendix A for brevity. We first verify that our results hold when using alternative measures of lender partisanship, including

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the "top-down approach" (Table IA4 and Figure IA2). We then show that our results are robust to the use of Poisson regressions to account for the count-like nature of the outcome variables (Table IA5, panels A and B, and Figure IA3), to the potential nonlinearity in the effects of bank size (Table IA6, panels A and B), to the inclusion of additional bank characteristics (C&I loans, small business loans, and C&I commitments) interacted with $Post_t$ (Table IA7, panel A), to the inclusion of time-invariant bank characteristics interacted with $Post_t$ (Table IA7, panel B), to the use of alternative definitions of the dummy variable *Powerful politician* using the full list of Senate committee chairmanships (Tables IA8, panels A and B), and to the use of CFPB complaint data limited to the first two PPP rounds (Table IA9). Finally, we address concerns about preexisting differences across the Republican-leaning banks, on the one hand, and the Democratic-leaning and neutral banks, on the other hand. We test for differences in means across several bank characteristics (Table IA10, panels A and B) and implement a propensity score matching procedure based on these characteristics (Table IA11). Our results remain robust: Republican-leaning lenders engaged in more PPP lending following the 2020 presidential election and the transition to the Biden administration, even within a matched sample of banks with similar preelection characteristics.

3.4 Mechanisms and other explanations

Thus far, we have shown that partisan misalignment is associated with increased lending in the PPP context, in contrast with prior studies on the partisan-alignment relationship in finance. The positive effect of partisan misalignment on PPP lending that we document is consistent with the idea that Republican-leaning lenders, likely viewing the PPP's 2021 phase as a legacy policy, increased their lending to preserve political capital. Our baseline specification controls for bank characteristics, political and institutional factors, and lender and time fixed effects, addressing some concerns about confounding dynamics. Nonetheless, alternative explanations for this positive relationship remain. We now turn to a discussion of potential mechanisms and explore these further.

3.4.1 Loan officers versus executives. One potential mechanism through which Republican-leaning lenders may have increased lending during the program's second phase is via loan officers, whose political views could have influenced their loan approval decisions once Biden took office. Alternatively, the mechanism could involve executives who are incentivized to maintain relationships with key clients.

To test for the influence on marginal loans of loan officers, we first reconstruct our lenders' partisanship measures based on lender employee contributions by breaking the employees down by job titles. We utilize the

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Table 5
Loan officers versus executives

A. Rank and file employees	(1) Value of loans	(2) Number of loans
Post × Rank-and-file employee contributions to Republicans	0.2917*	0.1293***
	(1.7345)	(2.7853)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.567	.735
N	67,911	67,911
B. Executives	Value of loans	Number of loans
Post × Executive contributions to Republicans	0.2053	0.0996*
	(1.0229)	(1.7457)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.575	.746
N	39,837	39,837

This table documents the effects of partisanship based on different sets of employees on PPP lending. The difference-in-differences regression is specified in Equation (1). The dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*. In panel A, the measure for partisanship is the fraction of Republican-leaning *rank-and-file* employees of all contributing rank-and-file employees. In panel B, the measure for partisanship is the fraction of Republican-leaning lender executives. Executives include employees whose titles are CXOs, president, chairman, board director, managing director, executive, or senior/executive vice president; all the rest are rank-and-file employees. The set of control variables includes all control variables in column 2 of Table 4. All variables are defined in the notes to Tables 3 and IA2. *t*-statistics are in parentheses. Robust standard errors are clustered at the lender state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

occupation information from the individual contribution filings and supplement the information by manually looking up over 3,000 individuals with ambiguous occupations and employers on LinkedIn, on bank information webpages, or in press releases. We categorize a bank employee as an "executive" if her title or reported occupation is bank executive, chairman, president, board director, managing director, CEO, CFO, COO, CTO, CIO, or senior/executive vice president. Otherwise, we categorize the employee as "rank-and-file." Of 23,873 contributing employees, 3,539 are bank executives working for 1,255 PPP lenders and 20,334 rank-and-file employees working for 2,098 lenders during the sample period. We recalculate the variable, *Employee contributions to Republicans*, using only the rank-and-file employees or the executives and reestimate Equation (1).

Table 5 presents the results. Panel A shows that the estimated coefficient on the variable of interest, *Rank-and-file employee contributions to Republicans*, is positive and statistically significant at conventional levels in both columns. The economic effect is also of the same order of magnitude as it is in Table 4 (columns (2) and (4)). However, the estimated coefficient on the variable *Executive contributions to Republicans* is also positive but lower in magnitude and significant only at the 10% level in column (2). Nevertheless, these

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results should be interpreted with caution, as panels A and B rely on different samples. Another issue is that there are fewer executives than rank and-file employees; therefore, executive contributions to Republicans could be measured with greater noise than is involved with the rank-and-file employee contributions, which could bias the estimated coefficients for executive contributions toward zero. We thus estimate the regressions in the small intersection at which both the rank-and-file employee partisanship and executive partisanship measures are nonmissing, which is roughly a third of the full sample (see Table IA12 in Internet Appendix A). We also observe that rank-and-file employee partisanship has a larger effect size on PPP lending than executive partisanship does, although both lose statistical significance. Given that the results are qualitatively consistent in both Tables 5 and IA12, one can say that rank-and-file employees seem to play a more significant role in the observed increases in PPP lending.

These findings suggest that the partisanship of those directly involved in PPP loan origination—namely, loan officers—drives our main results, consistent with the influence of partisan alignment at the operational level rather than top-down, lender-wide strategic considerations.

3.4.2 Small versus large borrowers. Chernenko et al. (2023) show that, conditional on applying to a bank, PPP loan approval odds are strongly positively correlated with a firm's number of employees. Smaller firms, for example, may have gaps or mistakes in their applications, which would create scope for loan officers' preferences and decisions to affect outcomes. To investigate whether loan officers are more likely to be influenced by their personal judgment when processing loan applications, we split our loan sample based on borrower size and categorize those with less than 20 employees as "small borrowers" and the rest as "big borrowers." We then decompose our original dependent variables for loans to small or big borrowers ($-amount and number).

Table 6 presents the results. In panel A, we find that the effects of lenders' partisanship on PPP lending to small borrowers are both statistically and economically comparable to our baseline results in Table 4, columns (2) and (4). By contrast, in panel B, we find that the effects of lenders' partisanship on PPP lending to large borrowers are insignificant. Panel C reports the z-statistics comparing the estimated coefficients from panels A and B, which are (somewhat) significant in both columns. In Table IA13 in Internet Appendix A, we verify (and confirm) the robustness of these results to alternative cutoffs to define small borrowers.

Overall, these results indicate that lenders' partisanship primarily influences marginal loans to small borrowers, consistent with the idea that such loans are more likely to be shaped by the personal discretion of loan officers. Indeed, these loans typically have less standardized and timely information

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Table 6
Small versus large borrowers

A. To small borrowers	(1) Value of loans	(2) Number of loans
Post × Employee contributions to Republicans	0.3677**	0.1491***
	(2.1217)	(3.1071)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.558	.728
N	81,414	81,414
B. To big borrowers	Value of loans	Number of loans
Post × Employee contributions to Republicans	0.0204	−0.0156
	(0.1592)	(-0.9819)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.534	.651
N	81,414	81,414
C. Coefficients in panels A and B compared		
Z-stat.	1.612	3.258
P value	.107	.001

This table documents the effects of partisanship on PPP lending to small and big borrowers. The difference-in-differences regression is specified in Equation (1). In panel A, the dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*, but these are restricted to loans to small borrowers with less than 20 employees. In panel B, the dependent variables include only loans to big borrowers with at least 20 employees. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). The set of control variables include all control variables in column 2 of Table 4. All variables are defined in the notes to Tables 3 and IA2. t-statistics are in parentheses. Robust standard errors are clustered at the lender state level. Variables are winsorized at the 1st and 99th percentiles. The symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. In panel C, z-statistics are the difference of the coefficients in the same column from panels A and B / the square root of the sum of the variances of the two estimated coefficients.

available, giving officers more leeway in interpreting eligibility criteria or evaluating supporting documentation.

3.4.3 First-draw versus second-draw loans. As described in Subsection 3.1, the program's second phase permitted second-draw loans. These loans are largely predetermined, as they depend on the number of firms that received a PPP loan in the first two rounds and are eligible for a second draw. Firms qualifying for a second-draw loan are likely to be in urgent need of liquidity. Moreover, they are familiar with the process and have much of the necessary paperwork ready, having already been through the process in phase 1. We therefore expect that it would be unusual for a lender to deny a valid second-draw application from a firm previously approved by the lender.

We address this possibility by decomposing the dependent variables on PPP lending depending on whether a loan is first or second draw. The first

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Table 7
First- versus second-draw loans

A. First-draw loans	(1) Value of loans	(2) Number of loans
Post ×Employee contributions to Republicans	0.7581***	0.2453***
	(3.3974)	(3.9382)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.521	.691
N	81,414	81,414
B. Second-draw loans	Value of loans	Number of loans
Post ×Employee contributions to Republicans	0.1771	−0.0051
	(1.0562)	(-0.1382)
Controls	Y	Y
Lender FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.548	.728
N	81,414	81,414
C. Coefficients in panels A and B compared		
Z-stat.	2.082	3.458
P value	.037	<.001

This table documents the effects of partisanship on PPP lending in two different batches. The difference-in-differences regression is specified in Equation (1). In panel A, the dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*, but these are restricted to first-draw loans, including all loans originating in 2020 and first-draw loans only in 2021. In panel B, the dependent variables include only second-draw loans, including all loans originating in 2020 and second-draw loans only in 2021. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). The set of control variables includes all control variables in column 2 of Table 4. All variables are defined in the notes to Tables 3 and IA2. t-statistics are in parentheses. Robust standard errors are clustered at the lender state level. In panel C, z-statistics are the difference of the coefficients in the same column from panels A and B, over the square root of the sum of the variances of the two estimated coefficients. Variables are winsorized at the 1st and 99th percentiles.
$^{*}p < .1$; $^{**}p < .05$; $^{***}p < .01$.

set of these measures considers only borrowers' first-draw loans, which include all loans from 2020 and only first-draw loans from 2021 (according to the processing method variable recorded by the SBA). These measures capture lending to first-time borrowers. The second set of measures considers only borrowers' second-draw loans, which also include all loans from 2020 and only second-draw loans from 2021 (according to the processing method variable recorded by the SBA). These measures capture lending to borrowers in 2020 and repeated lending to the same set of borrowers in 2021.

Table 7 contains the results. In panel A, we find that the effects of lenders' partisanship on PPP lending to first-draw borrowers are positive and statistically significant at the 1% level. This result contrasts with panel B, where lenders' partisanship is not associated with PPP lending to second-draw borrowers. Panel C reports the estimated coefficients from panels A and B via z-statistics, which are highly significant in both columns.

We also test whether the effects for first-draw loans are stronger for small borrowers. To do so, we further decompose the dependent variables on PPP

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Table 8
Two-way split of PPP loans originated: First- versus second-draw loans to small versus large borrowers

Processing method	(1)	(2)	(3)	(4)
	First-draw loans		Second-draw loans	
A. To small borrowers	Value of loans	Number of loans	Value of loans	Number of loans
Post × Employee contributions to Republicans	0.7891***	0.2434***	0.1598	−0.0086
	(3.6425)	(3.9714)	(0.9948)	(-0.2418)
Controls	Y	Y	Y	Y
Lender FE	Y	Y	Y	Y
Week FE	Y	Y	Y	Y
Adj. R-sq	.516	.687	.537	.723
N	81,414	81,414	81,414	81,414
B. To big borrowers	Value of loans	Number of loans	Value of loans	Number of loans
Post × Employee contributions to Republicans	0.0175	0.0093	0.0467	−0.0107
	(0.1341)	(0.5037)	(0.3804)	(-0.7042)
Controls	Y	Y	Y	Y
Lender FE	Y	Y	Y	Y
Week FE	Y	Y	Y	Y
Adj. R-sq	.532	.673	.534	.649
N	81,414	81,414	81,414	81,414

This table documents the effects of partisanship on PPP lending in two different batches and to two different set of borrowers. The difference-in-differences regression is specified in Equation (1). In columns 1 and 2 of panel A (B), the dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*, but these are restricted to first-draw loans to small (big) borrowers, including all loans originating in 2020 and first-draw loans only in 2021 to borrowers with less than (at least) 20 employees. In columns 3 and 4 of panel A (B), the dependent variables include only second-draw loans to small (big) borrowers, including all loans originating in 2020 and second-draw loans only in 2021 to borrowers with less than (at least) 20 employees. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). The set of control variables includes all control variables in column 2 of Table 4. All variables are defined in the notes to Tables 3 and IA2. t-statistics are in parentheses. Robust standard errors are clustered at the lender state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

lending on whether a loan is extended toward small borrowers (that is, those with < 20 employees). Table 8 shows the results. As expected, in panel A, columns (1) and (2), the effects of lenders' partisanship on PPP lending to first-draw and small borrowers are positive and statistically significant at the 1% level, while the effects of lenders' partisanship are insignificant in panel B and the remaining columns of panel A.

Together, these results indicate that lenders' partisanship affects only first-time, small borrowers. This result is consistent with the idea that only first-draw loans are subject to personal discretion, and thus loan officer partisanship, while second-draw loans are unaffected by such bias. Importantly, the significance of first-draw loans in our setting does not contradict a legacy-policy-based explanation for our results.

3.4.4 Republican versus Democratic counties. Our findings thus far suggest that Republican-leaning lenders engage in greater PPP lending once Biden came into power and they do so when loan officers have more discretion (small

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and second-draw loans). We now ask where they direct the credit supply. Did they lend more in Republican-leaning counties, which would also be suggestive of legacy effects?

To answer this question, we collapse our data at the lender-county-week level and fill the missing observations with zeros to form a balanced panel data set. We use the PPP loan project county information from the SBA to identify the loan location and match to 5-digit Federal Information Processing Standards codes. This collapsing results in over 7 million observations. We then run the following regression:

$$Y_{ict} = \beta Post_t \times Political\ \ Shock_i + \gamma X_{it} + \mu_{ic} + \mu_{c\tau} + \mu_t + \varepsilon_{ict}, \qquad (2)$$

where i denotes a lender, c denotes a county, and t denotes a week. Y_{ict} is either the total amount of loans (in log) or the total number of loans (in log) originated in county c by lender i in week t. μ_{ic} represents lender × county fixed effects and $\mu_{c\tau}$ county × PPP round fixed effects, which absorb any county-year-level sociodemographic controls. μ_t represents week fixed effects. This specification allows us to mitigate unobservable demand-side effects. The remaining variables are defined as before, and the remaining Greek symbols are parameters to be estimated (the treatment effect being given by β). We provide the summary statistics for the additional variables at the lender-county-week level in Table IA14 in Internet Appendix A.

Table 9 presents the results of estimating Equation (2).[24] Our main findings carry through in this analysis. Using the estimated coefficient in column (2), a Republican-leaning lender (defined as having 100% Republican leaning employees at the 75th percentile) has an average weekly lending volume growth rate in the second phase 5.9% (0.0801 × 0.733) greater than does a "neutral" bank (defined as having 26.7% Republican-leaning employees at the 25th percentile) across counties. Its growth rate in average number of new loans is 1% (0.0147 × 0.733) greater across counties (column (4)).

We further explore this idea by looking in Table 10 at the cross-sectional heterogeneity of the partisanship-PPP lending relationship. In panel A, we focus on county-level sociodemographic characteristics, while in panel B we consider state-level characteristics of the political environment. In panel A, the estimated coefficients on the triple interaction terms are negative and statistically significant at the 1% level in all columns. These results indicate that Republican-leaning lenders expanded their PPP lending more significantly during the program's second phase, particularly in counties with a larger fraction of white population, lower personal income per capita, and a workforce less suited to teleworking. These counties often align with Republican strongholds, which supports the notion that partisanship influenced the PPP lending patterns—a legacy reflecting the policies of the

[24] In Table IA15 of Internet Appendix A, we use Poisson regressions to account for the count-like nature of the outcome variables, which exhibit masses at zero. The results remain materially unchanged compared to those reported in Table 9.

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Table 9
Republican versus Democratic counties

	(1)	(2)	(3)	(4)
	Value of loans		Number of loans	
Post × Employee contributions to Republicans	0.5479***	0.0801**	0.0720***	0.0147***
	(18.3709)	(2.5570)	(20.1410)	(3.9262)
Post × Powerful politician (headquarter state)	−0.3205***	−0.2194**	−0.0436***	−0.0259**
	(-3.6003)	(-2.4660)	(-4.4683)	(-2.5424)
Republican state (headquarter)	0.1019	0.1474	0.0152	0.0222
	(0.5983)	(0.9675)	(0.6594)	(1.0864)
Post × Republican state (headquarter)	−0.3017***	−0.2126***	−0.0419***	−0.0283***
	(-9.1133)	(-6.7804)	(-8.2937)	(-6.6199)
Post × Number of PPP complaints	−0.0021	0.1652***	−0.0016	0.0199***
	(-0.1961)	(8.2595)	(-0.8880)	(7.1442)
Bank size		0.4869***		0.0686***
		(7.4635)		(7.7426)
Post × Bank size		−0.1027***		−0.0126***
		(-12.0179)		(-12.0595)
Bank ROA		−0.0597***		−0.0078***
		(-9.3516)		(-7.7539)
Bank NPL		0.0892***		0.0107***
		(4.7123)		(4.1378)
Bank tier1 ratio		0.1185***		0.0171***
		(18.2131)		(15.3725)
Bank core deposits		−0.0022***		−0.0004***
		(-2.9289)		(-3.7399)
Lender × county FE	Y	Y	Y	Y
County × PPP round FE	Y	Y	Y	Y
Week FE	Y	Y	Y	Y
Adj. R-sq	.375	.413	.478	.527
N	7,373,900	6,048,597	7,373,900	6,048,597

This table documents the effects of partisanship on PPP lending at the lender-county level. The difference-in-differences regression is specified in Equation (2) in the lender-county-week panel data set. The dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). All variables are defined in the note to Table IA14. t-statistics are in parentheses. Robust standard errors are clustered at the state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

Trump administration.[25] In panel B, the estimated coefficients on the triple interaction terms display the expected signs and are statistically significant at the 1% level across all columns. The results suggest that, irrespective of the

[25] Although we examine in Table 10 the relationship between partisanship and PPP lending across counties in terms of racial disparities, the variable *Minority ratio* is a relatively crude proxy for capturing such differences. This situation raises the concern that our results could still be explained by the possibility that Republican-leaning banks underlent to minority-owned firms in the first two rounds and merely increased their lending to such firms in the third round. To address this concern, Table IA16 in Internet Appendix A uses measures of county-level racial composition that are more refined (i.e., shares of Black, Asian, and Hispanic populations) and yields similar results. Moreover, in Table IA17, we use borrower-level racial information from the original PPP data. While racial or ethnic information is available for only approximately 30% of loans, our core results hold. Following Howell et al. (2024)—who use a machine-learning approach to estimate the probability that a business owner is a minority—we further draw on data generously provided by the referee for incorporated borrowers in four states (i.e., Florida, Georgia, Louisiana, and North Carolina). Again, we find no evidence that Republican-leaning lenders increased lending to minority-owned businesses in 2021 relative to their Democratic counterparts (untabulated results). Together, these results indicate that our findings are unlikely to be driven by Republican-leaning banks compensating in the third round for prior underlending to minority borrowers.

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Table 10
Republican versus Democratic counties: Further cross-sectional heterogeneity

A. Interactions with sociodemographic characteristics and teleworkability

	(1) Value of loans	(2) Number of loans	(3) Value of loans	(4) Number of loans	(5) Value of loans	(6) Number of loans
Post × Employee contributions to Republicans	0.1740***	0.0295***	0.4202***	0.0564***	0.8009***	0.1051***
	(3.9280)	(5.3392)	(6.7904)	(6.1195)	(9.6122)	(8.1112)
Post × Employee contributions to Republicans × Minority ratio	−0.4708***	−0.0741***				
	(−3.8138)	(−4.4987)				
Post × Employee contributions to Republicans × Income per capita			−0.0065***	−0.0008***		
			(−7.0339)	(−5.4295)		
Post × Employee contributions to Republicans × Local workforce teleworkability					−2.3230***	−0.2909***
					(−10.0989)	(−7.6687)
Controls	Y	Y	Y	Y	Y	Y
Lender × county FE	Y	Y	Y	Y	Y	Y
County × PPP Round FE	Y	Y	Y	Y	Y	Y
Week FE	Y	Y	Y	Y	Y	Y
Adj. R-sq	.412	.525	.412	.526	.412	.526
N	6,034,309	6,034,309	5,947,516	5,947,516	5,947,516	5,947,516

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B. Interactions with state-level political conditions

	(1) Value of loans	(2) Number of loans	(3) Value of loans	(4) Number of loans	(5) Value of loans	(6) Number of loans
Post × Employee contributions to Republicans	−0.0170	0.0036	0.7288***	0.0895***	0.3561***	0.0463***
	(−0.4418)	(0.6961)	(7.9120)	(7.0145)	(5.5628)	(5.0368)
Post × Employee contributions to Republicans × Republican state	0.2132***	0.0244***				
	(4.0950)	(3.5741)				
Post × Employee contributions to Republicans × State citizen liberal score			−0.0126***	−0.0015***		
			(−7.4289)	(−5.9590)		
Post × Employee contributions to Republicans × State gov. liberal score					−0.0074***	−0.0008***
					(−4.6112)	(−3.5175)
Controls	Y	Y	Y	Y	Y	Y
Lender × county FE	Y	Y	Y	Y	Y	Y
County × PPP Round FE	Y	Y	Y	Y	Y	Y
Week FE	Y	Y	Y	Y	Y	Y
Adj. R-sq	.414	.527	.412	.525	.412	.525
N	6,048,597	6,048,597	6,021,782	6,021,782	6,021,782	6,021,782

This table documents the effects of partisanship on PPP lending at the lender-county level. The dependent variables are *Value of loans (log 1+)* and *Number of loans (log 1+)*. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). In panel A, the interaction terms are further interacted with three county-level demographic characteristics. *Minority ratio* is 1 - white-only population / total population in 2019. *Income per capita* is county income per capita in $thousands in 2019. *Local workforce teleworkability* is the weighted average of the Occupational Information Network–derived work-from-home score from Dingel and Neiman (2020), weighted by the number of employees under each NAICS code for a given county in 2019. Panel B shows the cross-sectional variations across the ideological bias in the local state. *Republican state* is a dummy variable that takes the value of one if the given county is in a state controlled by Republicans in 2020 and zero otherwise. *State citizen liberal score* is the revised 2016 citizen ideology series following Berry et al. (1998). *State government liberal score* is the 2017 state government ideology measure following Berry et al. (1998). The set of control variables includes all control variables in column 2 of Table 9. All other variables are defined in the note to Table IA14. t-statistics are in parentheses. Robust standard errors are clustered at the state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

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measures used across columns, Republican-leaning lenders primarily directed loans to borrowers in Republican states. Again, this result is consistent with a legacy-policy view.

3.5 Aggregate and real effects of partisan misalignment

3.5.1 PPP lending effects at the county level. We now assess the aggregate effects of our results on PPP loan origination by examining whether the effect of misalignment aggregates at the county level. With county-level weekly data, we run the following regression:

$$Y_{ct} = \beta Post_t \times Political\ \ Shock_c + \gamma X_{ct} + \mu_c + \mu_t + \varepsilon_{ct}, \tag{3}$$

where subscripts, variables, and parameters are defined similarly as before. The dependent variable Y_{ct} is the aggregated PPP lending originating in county c in week t. *Political Shock*$_c$ is constructed at the county level. Specifically, we focus on the employee contributions of lenders originating PPP loans in each county. For each county c, we calculate the weighted average of these lenders' partisanship, using their PPP lending activity in the county as weights. For lender i, let *Political Shock*$_i$ represents its employees' partisanship, and $TotalLoan_{ic}$ represents the total dollar value of PPP loans that lender i originated in county c. The total PPP loans originating in county c is then given by $TotalLoan_c = \sum_i TotalLoan_{ic}$. We average all active lenders' partisanship in each county as follows:

$$Political\ \ Shock_c = \frac{\sum_i (PoliticalShock_i \times TotalLoan_{ic})}{TotalLoan_c}. \tag{4}$$

Essentially, *Political Shock*$_c$ measures the average partisanship of PPP lenders active in each county, weighted by their aggregated PPP loan volumes in the county. However, this measure is time invariant as it calculates a weighted average of the partisanship of all PPP lenders that have ever issued loans in the county, assigning higher weights to lenders with a larger market share in PPP lending.

Table 11 presents the results, for which the dependent variable is the aggregate PPP lending within a county in each week. Our measure of lender partisanship at the county-level is the time-invariant variable *Political Shock*$_c$.[26] In column (1), a county with Republican-leaning lenders (defined as having an average 78.4% Republican-leaning employees at the 75th percentile) experience a growth rate in weekly PPP lending of 32.26% (1.1563 × 0.279) higher than that of a "neutral" lender (defined as having an average 50.5% Republican-leaning employees at the 25th percentile). For the number of PPP loans originated in column (2), the effect is 12%.

[26] We do not use the moving average measure of lender partisanship as it uses the lagged dependent variable in the calculation.

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Table 11
PPP lending effects at the county level

	(1) Value of loans	(2) Number of loans
Post × Employee contributions to Republicans	1.1563***	0.4327***
	(5.5174)	(3.6381)
Post × Powerful politician	−0.4716***	0.0680
	(−3.1154)	(1.2093)
Republican state	0.0440	−0.2444***
	(0.2315)	(−3.1568)
Post × Republican state	0.1283	0.1180
	(0.7712)	(1.6545)
Post × Number of PPP complaints	−0.7685***	−0.1637***
	(−9.5956)	(−5.6932)
Teleworkability	1.0439	−0.1452
	(0.7274)	(−0.3329)
Minority majority county	0.4131	0.4267**
	(1.1889)	(2.4292)
Income per capita	−0.0242	−0.0033
	(−1.4362)	(−0.8239)
Population	−7.0858**	−4.4070**
	(−2.6103)	(−2.5342)
County FE	Y	Y
Week FE	Y	Y
Adj. R-sq	.626	.872
N	117,116	117,116

This table documents the effects of partisanship on PPP lending at the county-week level. The difference-in-differences regression is specified in Equation (3) in the county-week panel data set. The dependent variables *Value of loans (log 1+)* and *Number of loans (log 1+)* measure the aggregated PPP loans originating within a given county in each week. The partisanship measures are based on employee contributions (fraction of Republican-leaning employees). *Employee contributions to Republicans* is the weighted average of the fraction of Republican-leaning employees, weighted by the total PPP volume originating with each lender in the given county throughout the sample period. All variables are defined in the notes to Tables 3 and IA3. t-statistics are in parentheses. Robust standard errors are clustered at the state level. Variables are winsorized at the 1st and 99th percentiles.
*$p < .1$; **$p < .05$; ***$p < .01$.

Interestingly, column (2) shows that the Republican states received fewer loans during the first PPP phase in 2020, although column (1) does not reveal significant differences in the aggregate value of PPP loans. At first glance, this result challenges the presidential-particularism explanation offered by Ha (2023), who focuses solely on the second PPP phase in 2021 and finds that the Biden administration disproportionately directed lending toward Democratic counties. However, by examining both phases of the program and leveraging within-county variation—unlike Ha (2023)—our empirical strategy uncovers a more nuanced pattern. Specifically, the initial gap observed in 2020 narrows after the Biden administration took office in 2021, as reflected in the positive and marginal significance of the interaction terms in column (2).

These results are important because they demonstrate that lenders whose partisanship became misaligned with that of the administration during the PPP's second phase engaged more actively in the program, with these effects being tangible at the county level.

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3.5.2 Employment effects at the county level. The PPP was intended to support small businesses and their employees. Our findings show that partisan misalignment increased loan origination during the PPP's second phase. But what are the real effects of this misalignment? To what extent did it help save more jobs? We address these questions by estimating the additional number of workers who would rely on UI in the absence of partisan misalignment during the PPP's second phase.

With the county-level weekly UI data, we run Equation (3) with the dependent variable Y_{ct} as the weekly number of UI initial claims rate (labeled *UI claims rate)*. To capture temporal changes, we also construct a measure using the moving average of the partisanship of PPP lenders who issued loans in the past four weeks within a given county. Let $LoanValue_{ics}$ denote the total PPP lending dollar value originating with lender i in county c during week s. For each lender i, the total PPP lending dollar value over the past four weeks before week t in county c is calculated as $TotalLoan_{ict} = \sum_{s=t-1}^{t-4} LoanValue_{ics}$. This equation allows us to construct a time-varying county-level partisanship measure for PPP lenders, capturing contributions by lender employees to Republicans, as a moving average:

$$Political\ \ Shock_{ct} = \frac{\sum_i (PoliticalShock_i \times TotalLoan_{ict})}{TotalLoan_{ct}}. \tag{5}$$

Table 12 shows the results of the effects of partisan misalignment on the UI claims rate. Partisan misalignment is associated with lower unemployment. In column (1), the estimated coefficient on the interaction term of interest is negative in sign and statistically significant at conventional levels. A county with Republican-leaning lenders (with average 78.4% Republican-leaning employees at the 75th percentile) experienced a decrease in average weekly UI rate from 2020–2021 of 0.27 (0.9839 × 0.279) larger than a "neutral" bank (defined as having 50.5% Republican leaning employees at the 25th percentile). This result is economically meaningful as it represents 31.5% of the sample mean of the UI rate. In column (2), we use the moving average measure of lender partisanship. The estimated coefficient on the interaction term of interest is again negative in sign and statistically significant at conventional levels. The decrease in the UI rate in counties with Republican-leaning lenders (defined as having 79.3% Republican-leaning employees at the 75th percentile) is 0.2 (0.5824 × 0.345) larger than a "neutral" bank (defined as having 44.8% Republican-leaning employees at the 25th percentile), which is meaningful as it corresponds to 23.2% of the sample mean. In the last column, we include *county* × *PPP round fixed effects* to absorb potential county-level demand shocks. The result remains largely the same as in column (2). Overall, this evidence using county-level, weekly UI data suggests that partisan misalignment is associated with higher PPP payroll coverage for small businesses. This finding is remarkable because it underscores that partisan

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Table 12
Employment effects at the county level

	(1)	(2)	(3)
		UI claims rate	
Post × Employee contributions to Republicans	−0.9839*		
	(−1.9538)		
Employee contributions to Republicans, moving average		0.0767	0.7358**
		(1.1280)	(2.5482)
Post × Employee contributions to Republicans, moving average		−0.5824*	−0.5472*
		(−2.0487)	(−1.8935)
Post × Powerful politician	0.7401***	0.6581**	
	(3.1049)	(2.8013)	
Post × Republican state	0.0946	0.0855	
	(0.2550)	(0.2169)	
Post × Number of PPP complaints	−0.1062	−0.0377	
	(−1.0540)	(−0.3595)	
Teleworkability	0.7510	0.7097	
	(0.8390)	(0.7623)	
Minority majority county	−0.4479**	−0.3514*	
	(−2.2372)	(−1.8790)	
Income per capita	0.0162	0.0153	
	(1.1548)	(1.0604)	
Population	−3.9495	−5.1068	
	(−0.5730)	(−0.7199)	
County FE	Y	Y	N
County × PPP round FE	N	N	Y
Week FE	Y	Y	N
Adj. R-sq	.665	.621	.748
N	48,074	44,026	43,650

This table documents the effects of partisanship on county unemployment at the county-week level. The difference-in-differences regression is specified in Equation (3) in the county-week panel data set. The dependent variable is the UI claims rate, which is the number of initial claims per 100 people in the 2019 county labor force. The partisanship measure is based on employee contributions (fraction of Republican-leaning employees). In column 1, *Employee contributions to Republicans* is the weighted average of fractions of Republican-leaning employees, weighted by the total PPP volume originating with each lender in the given county throughout the sample period. In columns 2 and 3, *Employee contributions to Republican, moving average* is the weighted average of the fraction of Republican-leaning employees, weighted by the total PPP volume originating with each lender during the previous 4 weeks in the given county. All variables are defined in the notes to Tables 3 and IA3. t-statistics are in parentheses. Robust standard errors are clustered at the state level. Variables are winsorized at the 1st and 99th percentiles.
$^{*}p < .1$; $^{**}p < .05$; $^{***}p < .01$.

misalignment has real effects that extend beyond its direct effects on PPP loan origination.

4. Conclusion

Initially authorized for $659 billion in business loans, the PPP ultimately grew into an $800-billion program, an unprecedented scale in U.S. history (Autor et al. 2022a). The program has faced significant criticism regarding the allocation of funds. This paper represents the first systematic attempt to examine whether partisan alignment influenced PPP aid allocation, a crucial issue in the politically polarized context of its implementation.

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Our findings show that partisan alignment significantly affects PPP loan allocation, revealing how political affiliations within financial institutions shape lending decisions in government aid programs. Specifically, we exploit the program's phased rollout to demonstrate that partisan misalignment between lenders and the administration resulted in increased loan origination during the PPP's second phase, particularly benefiting small and first-time PPP borrowers as well as those in Republican-leaning areas. The effects of partisan misalignment at the bank level are also evident at the aggregate (county) level. We further show the real effects: partisan misalignment is associated with higher payroll coverage for small businesses through PPP loans.

Combined, our results suggest that politically misaligned lenders may respond to legacy programs of a former administration with heightened engagement under a new administration, potentially to maintain or bolster their political capital. A complementary explanation, which we cannot fully disentangle, relates to who ultimately bears the credit risk. Since PPP loans are forgivable, the administration in charge bears the cost of defaults, allowing misaligned (Republican-leaning) lenders to adopt more aggressive lending strategies. These findings paint a rather "benign" picture of political polarization in finance, challenging the notion that partisan-misaligned behavior in financial institutions always leads to negative outcomes. Therefore, the findings carry significant implications for the effectiveness of government aid programs and provide new insights into the intersection of politics and finance, particularly regarding the partisan-alignment phenomenon.

Code Availability

The replication code and data are available in the Harvard Dataverse at https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/PG8CLJ

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