**Internet Appendix for “Local public corruption and bank lending activity in the United States”**

This Internet Appendix presents and discusses results of additional robustness tests and further analysis that we briefly discuss but do not tabulate in our paper titled “Local public corruption and bank lending activity in the United States”.

**Estimations with Average-based Yearly Frequency Data**

In the main manuscript, we present results from models that employ both quarterly and yearly frequency data. For the yearly frequency data, we use the 4th quarter observations of each year as in Berger and Udell (2004). Here, we provide estimations using an alternative way to obtain yearly frequency bank data. To this end, we follow Casu et al. (2013) and average the quarterly data on an annual frequency to build a dataset of yearly observations. Then, we replicate the tables of the main analysis of the paper (i.e. Tables 5-10 of the manuscript) that use the yearly convictions-based measure of corruption. The results from this exercise are available in Tables IA.1-IA.5. These results are generally consistent with the findings in the manuscript.

*Insert Tables IA.1-IA.5 here*

**Alternative Clustering of Standard Errors**

We take into account that the main measure of local public corruption – i.e. the yearly corruption-related convictions in a state deflated by the state’s population – has both yearly and state variation. To this end, we follow Smith (2016) and re-estimate all the models of the main analysis by clustering standard errors by both state and year. The findings from these estimations are consistent with the results of the main analysis in the manuscript. In Table IA.6, we present the estimations for the baseline models (i.e. equations (1), (2) and (3)) of the main manuscript. We present results from models that employ quarterly (Panel A) and yearly (Panel B) frequency data. The findings are consistent with the ones of the analysis in the main manuscript.

*Insert Table IA.6 here*

**Perceptions-Based Measures of Local Public Corruption: Estimations that use the Cross-sectional Average of the data**

The three perception-based measures of public corruption are available at one point in time (i.e. they are time-invariant). Hence, we also perform estimations that use the cross-sectional average of the rest bank and state variables for the whole sample. The results from these cross-sectional estimations are available in Table IA.7.

*Insert Table IA.7 here*

In the first six models of Table IA.7, we present the results from the models that investigate the individual effect of the three perception-based measures of public corruption on the two proxies of lending activity. Since these are cross-sectional regressions without a time dimension we do not use bank-, state- and year-fixed effects. We, however, are able to use region dummies. We find that two out of the three perceptions-based measures of corruption display a negative and significant association with public corruption (see models 1-4 of Table IA.7). Hence, these findings provide evidence in support of hypothesis **H1**.

We also estimate models that test for hypotheses **H2** and **H3***.* In these estimations, we use state-fixed effects instead of regional dummies. Hence, we drop the state variables from the models and retain the interaction between public corruption and bank characteristics. We find evidence in support of hypothesis **H3**. In models 8, 9 and 10 of Table IA.7, we find a positive and significant effect of the interaction between the proxy of monitoring effort (*SAL EX / TE*) and two of the perception-based measures of local public corruption.

**Alternative Conviction-based Measures of Local Public Corruption**

Campante and Do (2014) posit that the local public corruption measure that is based on yearly convictions scaled by population could exhibit some noise in terms of its time variation. Additionally, Tirole (1996) points to the relative stability of the level of local public corruption over time. Therefore, we perform estimations with two alternative measures of the conviction-based measure as is the case in other studies that focus on local corruption in the US (see, for example, Dass et al. 2016). These are the time-series average of the conviction-based state-level corruption (*MEAN COR*) and the national rank of this cross-time average (*RANK COR*). Note that a higher value of the rank variable denotes more local public corruption. Since these indices are both state-specific and time-invariant, the models that use them as explanatory variables do not include bank- or state-fixed effects. Instead, following Campante and Do (2014), we use region-level fixed effects. The results from these estimations are available in Table IA.8.

*Insert Table IA.8 here*

In model 1 of Table IA8, the average of the cross-time local public corruption (*MEAN COR*) has a negative and significant relationship at the 1% level with the natural log of total loans (*Ln Loans*). We find similar results in model 2 of Table IA.8 when we employ total loans deflated by total assets (*TL/TA*) as a dependent variable. These findings provide additional empirical support to hypothesis **H1** that predicts a negative relationship between local public corruption and lending activity. In models 3 and 4 of Table IA.8, we add to the specification the interaction terms between average local public corruption (*MEAN COR*) and the two proxies for relationship lending and monitoring effort. These terms are time-variant since they are interactions between time-variant variables (the relationship lending and the monitoring effort proxies) and a time-invariant variable (the average local public corruption variable). Hence, these interaction terms can be identified in the presence of bank- and state-fixed effects. Therefore, in models 3 and 4 of Table IA.8, we include also bank- and state-fixed effects and drop the average corruption variable, which is time-invariant and state-specific. In model 3 of Table IA.8, we find that the interaction term between the ratio of salary expenses to total non-interest expenses (*SAL EX / TE*) and the mean local public corruption (*MEAN COR*) has a positive and significant relationship at the 10% level with the natural log of total loans (*Ln Loans*). This provides some evidence in support of **H3,** which posits that strong monitoring effort is useful in terms of bank lending activity in areas where local public corruption is high. However, the coefficient of the interaction between the relationship-based lending proxy (*COR DEP / TA*) and average local public corruption (*MEAN COR*) is not significantly different from zero in models 3 and 4 of Table IA.8. The models that use the national rank of this cross-time average local public corruption (*RANK COR)* also provide some evidence regarding the negative effect of public corruption on lending (see models 5-8 of Table IA.8). Using yearly frequency data produces similar results. These are available upon request.

**Results from Lending Growth Estimations**

We also estimate models that use the growth of lending activity as the dependent variable. To this end, we follow Gallemore and Jacob (2019) and define lending growth as the natural logarithm of the ratio of total loans scaled by lagged total loans. The results from these estimations are available in Table IA.9. Panel A shows the results from models that use quarterly frequency data while Panel B depicts the findings from models that use yearly frequency data.

*Insert Table IA.9 here*

In model 1 of Panel A of Table IA.9, we find a negative and significant association at the 1% level between local public corruption and the growth in lending activity. The relationship remains significant at the 1% level in model 2 of Panel A of Table IA.9 when we cluster standard errors by state and year. We find similar results in the corresponding models 1 and 2 of Panel B of Table IA.9 when we use annual frequency data. Overall, these findings provide empirical support to hypothesis **H1** in terms of the effect of local public corruption on the growth of lending activity. We also find support for hypothesis **H3** regarding the moderating effect of monitoring effort in the relationship between local public corruption and the growth in lending activity (see models 3 and 4 of Panel A and Panel B of Table IA.9). We find similar – albeit slightly weaker in terms of significance – results when we measure lending growth as the change (Δ) in the natural logarithm of total loans over the previous quarter (or previous year in the case of the estimations that use annual frequency data).

**Further Analysis: Heterogeneity by Bank Size**

Size could induce banks to behave differently in terms of their lending strategies. Large banks tend to concentrate on large corporate borrowers and are more geographically diversified which makes it easier for them to lend to distant customers (Berger et al. 2005; Strahan 2017). On the other hand, smaller banks focus primarily on local small business lending (Berger et al. 2005; Chen et al. 2017). Consistent with this notion, empirical evidence shows that local public corruption mostly affects smaller firms (Schiffer and Weder 2001; Beck and Demirguc-Kunt 2006). Given that smaller banks grant loans primarily to smaller local firms, we expect the negative effect of local public corruption on lending activity to be more evident for smaller banks. Additionally in comparison with large banks, smaller banks tend to rely more, on relationship-based lending technologies to overcome information asymmetry issues due to their focus on small business lending (Berger et al. 2005; Berger and Black 2011). In more detail, smaller banks collect more ‘soft’ information on the creditworthiness of borrowers, due to the *‘character approach’* that they adopt which favors non-financial-based criteria to make credit decisions and which is derived through several personal interactions with borrowers (Cole et al. 2004). If local public corruption induces information asymmetry in the local credit market, then it would be rational to expect that the mediating effects of relationship-based lending and monitoring effort on the association between public corruption and lending activity is more apparent for smaller banks.

The sample of this study contains all US commercial banks (both large and small banks). Hence, we can investigate whether local public corruption and the mediating effects of relationship-lending and monitoring exhibit a differential effect on the lending activity of different bank size groups. To this end, we divide the sample based on the percentile of a bank’s total assets by year-quarter. Then, we classify banks with a level of total assets larger than the 75th percentile in each year-quarter as large banks, while we consider the remaining ones as small banks. The findings from this exercise are available in Table IA.10.

*Insert Table IA.10 here*

Panel A of Table IA.10 depicts the results from the models that use the smaller banks subsample while Panel B of Table IA.10 shows the findings from the specifications that employ the larger banks subsample. The results of the models of Panel A and Panel B of Table IA.10 show that the association between local public corruption and lending activity – i.e. hypothesis **H1** – is more evident for smaller banks. In models 1 and 4 of Panel A of Table IA.10, local public corruption has a negative and significant relationship at the 1% level with the natural log of total loans *(Ln Loans)* and the total loans to total assets ratio *(TL/TA).* The corresponding models 1 and 4 of Panel B of Table IA.10 show that the relationship between local public corruption and the two variables that proxy for lending activity is also negative but significant at the 1% level only when the dependent variable is the total loans to total assets ratio *(TL/TA)*. Thus, the negative relationship between local public corruption and lending activity seems more apparent for smaller banks.

The models of Table IA.10 also show that the mediating effects of relationship-based lending and monitoring on the association between local public corruption and lending activity – i.e. hypotheses **H2** and **H3** – are more noticeable for the smaller banks subsample. In model 3 of Panel A of Table IA.10, we find that the interaction between the monitoring effort proxy, i.e. the ratio of salary expenditures to total non-interest expenditures *(SAL EX /TE),* with local public corruption is positive and significant at the 1% level. In the same model, the individual effect of local public corruption on the natural log of total loans is negative and significant at the 1% level. We obtain similar results in model 6 of Panel A of Table IA.10 when the dependent variable is the ratio of total loans to total assets *(TL/TA).* These findings denote that, for smaller banks, intensive monitoring effort alleviates the negative effects of local public corruption on lending activity. However, for the larger banks’ subsample the coefficient of the interaction between the monitoring proxy *(SAL EX / TE),* and local public corruption is not significantly different from zero (see models 3 and 6 of Panel B of Table IA.10). Similarly, we find some evidence only for the smaller banks’ subsample that the negative effect of local public corruption on lending activity weakens at higher levels of relationship-based lending. In model 5 of Panel A of Table IA.10, the interaction between the proxy of relationship lending, i.e. the core deposits to total assets ratio *(COR DEP/TA),* and public corruption is positive and significant at the 5% level. In the same model, the individual effect of corruption on the total loans to total assets ratio *(TL/TA)* is negative and significant at the 1% level. Yet, for the larger subsample, the coefficient of the interaction between relationship lending *(COR DEP/TA)* and local public corruption is positive but weakly significant at the 10% level (see model 5 of Panel B of Table IA.10). These findings show that the benefits of relationship lending, in terms of alleviating the negative effect of local public corruption on lending activity, are more pronounced for smaller banks. Note that we find similar results, available upon request, when we employ yearly frequency data.

**Further Analysis: Heterogeneity by Period and Geographic Focus of Banks**

The US banking industry experienced a strong deregulatory wave in the 1990s. The major piece of legislation that deregulated the US banking industry is the *Riegle-Neal* Act of 1994 that abolished regulatory restrictions on interstate banking and interstate branching. A recent study by Levine et al. (2016) shows that, in the post-deregulation period, US banks still exhibit a large concentration of their assets near their headquarters. However, it is interesting to test whether, in this period, the US banks could more easily evade the potential negative effects of state-level economic and institutional conditions, including those of local public corruption. Thus, we opt for a further test that compares the association between local public corruption and lending activity in the pre-deregulation period and the post-deregulation period. To this end, we divide our sample into two periods: 1985-1993 and 1994-2013. Panel A of Table IA.11 shows the findings of the specifications that employ the 1985-1993 subsample, while Panel B of Table IA.11 depicts the results from the models that use the subsample of the 1994-2013 period.

*Insert Table IA.11 here*

The findings of the models of Panel A and Panel B of Table IA.11 show that the direct relationship between local public corruption and bank lending activity is negative and significant at least at the 5% level both in the pre-deregulation and in the post-deregulation period (see models 1 and 4 of Panel A and Panel B of Table IA.11). These findings are consistent with the observation that, in the post-deregulation period, US banks concentrate the large majority of their assets around their headquarters (Levine et al. 2016).

Regarding the mediating effects of relationship lending and monitoring effort, the models of Table IA.11 reveal some interesting findings. Models 2 and 5 of Panel A of Table IA.11 show that the interaction between the relationship lending proxy, the core deposits to total assets ratio *(COR DEP / TA),* and local public corruption is positive and significant at the 1% level. In the same models, the individual effect of local public corruption on the two proxies of lending activity (*Ln Loans* and *TL /TA*) is negative and significant at the 1% level. However, the corresponding models for the post-deregulation period (1994-2013) do not report a significant mediating effect of the relationship-lending proxy in the association between local public corruption and lending activity (see models 2 and 5 of Panel B of Table IA.11). Hence, we find support to hypothesis **H2** only in the pre-deregulation period.

Regarding the mediating effect of bank monitoring effort on the relationship between local public corruption and lending activity, i.e. hypothesis **H3**, the specifications of Table IA.11 reveal that this is significant only in the post-deregulation period. In the models of Panel A of Table IA.11, which refer to the pre-deregulation period, the coefficient of the interactions between the monitoring effort proxy, i.e. the ratio salary expenditures to total non-interest expenditures *(SAL EX / TE),* and local public corruption are not significantly different from zero (see models 3 and 6 of Panel A of Table IA.11). On the contrary, we find that monitoring effort significantly restrains the negative effect of local public corruption on lending activity in the post-deregulation period (See models 3 and 6 of Panel B of Table IA.11).

Together, these results regarding the mediating effects of relationship lending and monitoring effort point to the increase of competition in the US banking industry in the post-deregulation period (Stiroh and Strahan 2003, Berger et al. 2018). The increase in competition stemming from the deregulation of geographic restrictions enables borrowers to more easily switch to other banks with the latter having no prior experience with the former (i.e. the ‘switching’ borrowers). In addition, the post-deregulation led to an increase in the supply of credit towards segments of the credit market that exhibit high information asymmetry as, for example, the entrepreneurial and small business segments (Black and Strahan 2002; Rice and Strahan 2010; Chu 2018). Given that banks in the post-deregulation period face a wider pool of borrowers and higher information asymmetry in the credit market, and to the extent that local public corruption aggravates such information asymmetry issues, then monitoring could be a particularly useful tool for banks in areas that exhibit high public corruption.

We also conduct an additional test for the post-deregulation period by taking advantage of the branch location data that are available in the *Summary of Deposits* section of the Federal Deposit Insurance Corporation (FDIC). We identify the banks that have branches in more than one state and define them as multi-state banks, while we define the rest as single-state banks. The sample we obtain is smaller than the one of the main analysis as branch location data from the FDIC are only available from the beginning of 1994 (i.e. since deregulation). It is noteworthy that the data reveal that the majority of US banks operate in a single state even after deregulation. Next, we test our main hypothesis **H1** regarding the adverse effect of local public corruption on lending activity separately for multi-state and single-state banks. We expect the effects of local public corruption on bank lending activity to be more evident for single-state banks. The results of this test are available in Table IA.12.

*Insert Table IA.12 here*

In model 1 of Table IA.12, which refers to the single-state banks’ subsample, we find that local public corruption exerts a negative and significant effect at the 1% level on the natural log of total loans (*Ln loans).* Similarly, in model 2 of Table IA.12, we find that the relationship between local public corruption and total loans deflated by total assets (*TL/TA*) for single-state banks is also negative and significant at the 1% level. For multi-state banks, however, we do not find a significant relationship between local public corruption and the lending activity proxies (see models 3 and 4 of Table IA.12). These findings show that the adverse effect of local public corruption on lending activity is more apparent for banks that operate in a single state. Hence, these results provide empirical support to hypothesis **H1** for single-state banks. Overall, the findings of this exercise lend empirical support to our expectation that the association between local public corruption and bank lending activity would be more evident for banks that operate in a single state. Note that we find similar results, available upon request, when we employ yearly frequency data.

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**Table IA.1** Replication of Table 5 “The relationship between local public corruption and bank lending activity: baseline estimations” using yearly averaged data

This table shows results from regressing bank lending activity on state-level public corruption after controlling for bank- and state-level characteristics (models 2, 3, 5 and 6). Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln Loans | Ln Loans | Ln Loans | TL/TA | TL/TA | TL/TA |
|  |  |  |  |  |  |  |
| *STATE COR* | -0.0293\*\*\* | -0.0145\*\*\* | -0.0209\*\*\* | -0.00800\*\*\* | -0.00770\*\*\* | -0.00912\*\*\* |
|  | (0.00788) | (0.00422) | (0.00413) | (0.00152) | (0.00151) | (0.00147) |
| *L.ROA* |  | 0.661\*\* | 0.538\*\* |  | 0.0938 | 0.0615 |
|  |  | (0.324) | (0.271) |  | (0.0864) | (0.0744) |
| *L.CASH RATIO* |  | -0.490\*\*\* | -0.493\*\*\* |  | -0.238\*\*\* | -0.233\*\*\* |
|  |  | (0.0463) | (0.0462) |  | (0.0133) | (0.0134) |
| *L.SIZE* |  | 0.891\*\*\* | 0.891\*\*\* |  | 0.00320 | 0.00378\* |
|  |  | (0.00774) | (0.00774) |  | (0.00210) | (0.00212) |
| *L.E/TA* |  | -0.00166 | -0.00146 |  | -0.00359\*\*\* | -0.00335\*\*\* |
|  |  | (0.00118) | (0.00116) |  | (0.000310) | (0.000312) |
| *INCOME* |  |  | 0.476\*\*\* |  |  | 0.172\*\*\* |
|  |  |  | (0.0469) |  |  | (0.0167) |
| *UNEMP* |  |  | -0.00577\*\*\* |  |  | 0.00101\*\* |
|  |  |  | (0.00116) |  |  | (0.000472) |
| *POP* |  |  | -0.405\*\*\* |  |  | -0.205\*\*\* |
|  |  |  | (0.0632) |  |  | (0.0212) |
| Constant | 10.64\*\*\* | 0.674\*\*\* | -1.648\*\* | 0.537\*\*\* | 0.549\*\*\* | 0.564\*\*\* |
|  | (0.0179) | (0.0916) | (0.698) | (0.00367) | (0.0247) | (0.205) |
|  |  |  |  |  |  |  |
| Observations | 215,630 | 201,538 | 201,538 | 215,630 | 201,538 | 201,539 |
| R-squared | 0.449 | 0.816 | 0.817 | 0.224 | 0.246 | 0.242 |
| Number of banks  Bank FE  State FE  Year FE | 14,001  YES  YES  YES | 13,069  YES  YES  YES | 13,069  YES  YES  YES | 14,001  YES  YES  YES | 13,069  YES  YES  YES | 13,069  YES  YES  YES |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln loans | TL/TA | Ln loans | TL/TA | Ln loans | TL/TA |
|  |  |  |  |  |  |  |
| *STATE COR* | -0.0211\*\*\* | -0.00894\*\*\* | -0.0197\*\*\* | -0.00868\*\*\* |  |  |
|  | (0.00412) | (0.00149) | (0.00564) | (0.00159) |  |  |
| *L.LLP/TL* |  |  | -0.407 | -0.0248 | -0.182 | 0.0417 |
|  |  |  | (0.528) | (0.0825) | (0.485) | (0.0717) |
| *L.LLP/TL\*STATE COR* |  |  | -0.331 | -0.0443 | -0.337 | -0.0563 |
|  |  |  | (1.066) | (0.166) | (1.035) | (0.143) |
| *COIN* | 0.000936 | 0.000424\* |  |  |  |  |
|  | (0.000735) | (0.000232) |  |  |  |  |
| *L.ROA* | 0.533\*\* | 0.0696 | 0.361 | 0.0584 | 0.399\* | 0.0917 |
|  | (0.270) | (0.0766) | (0.268) | (0.0799) | (0.230) | (0.0745) |
| *L.CASH RATIO* | -0.495\*\*\* | -0.239\*\*\* | -0.495\*\*\* | -0.238\*\*\* | -0.530\*\*\* | -0.256\*\*\* |
|  | (0.0462) | (0.0133) | (0.0462) | (0.0133) | (0.0217) | (0.00644) |
| *L.SIZE* | 0.890\*\*\* | 0.00335 | 0.892\*\*\* | 0.00370\* | 0.901\*\*\* | 0.00797\*\*\* |
|  | (0.00773) | (0.00211) | (0.00775) | (0.00212) | (0.00324) | (0.000791) |
| *L.E/TA* | -0.00149 | -0.00357\*\*\* | -0.00159 | -0.00357\*\*\* | -0.00245\*\*\* | -0.00397\*\*\* |
|  | (0.00116) | (0.000311) | (0.00113) | (0.000308) | (0.000558) | (0.000138) |
| *INCOME* | 0.448\*\*\* | 0.139\*\*\* | 0.473\*\*\* | 0.151\*\*\* |  |  |
|  | (0.0528) | (0.0180) | (0.0473) | (0.0170) |  |  |
| *UNEMP* | -0.00499\*\*\* | 0.00101\* | -0.00558\*\*\* | 0.000672 |  |  |
|  | (0.00131) | (0.000520) | (0.00117) | (0.000475) |  |  |
| *POP* | -0.397\*\*\* | -0.173\*\*\* | -0.404\*\*\* | -0.176\*\*\* |  |  |
|  | (0.0629) | (0.0211) | (0.0633) | (0.0210) |  |  |
| Constant | -1.332 | 0.662\*\*\* | -1.629\*\* | 0.520\*\*\* | 0.628\*\*\* | 0.531\*\*\* |
|  | (0.890) | (0.245) | (0.696) | (0.194) | (0.0386) | (0.00954) |
|  |  |  |  |  |  |  |
| Observations | 201,538 | 201,538 | 201,538 | 201,538 | 200,805 | 200,805 |
| R-squared | 0.817 | 0.248 | 0.817 | 0.248 | 0.977 | 0.749 |
| Number of banks  Bank FE  State FE  Year FE  State\* Year FE | 13,069  YES  YES  YES  NO | 13,069  YES  YES  YES  NO | 13,069  YES  YES  YES  NO | 13,069  YES  YES  YES  NO | 13,069  YES  NO  NO  YES | 13,069  YES  NO  NO  YES |

**Table IA.2A** Replication of Table 6 “The relationship between local public corruption and bank lending activity: accounting for loan demand” using yearly averaged data

This table shows results from regressing bank lending activity on state-level public corruption after controlling for bank- and state-level characteristics and accounting for loan demand. Models 1 and 2 show the results from including the quarterly coincident index (*COIN*) which serves as a proxy for local loan demand. Models 3 and 4 show the findings from the interaction term between the local public corruption variable and the ratio of the lagged loan loss provisions over total loans (*LLP/TL*), which serves as proxy for the quality of the loan portfolio. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.2B** Replication of Table 7 “The relationship between local public corruption and bank lending activity: accounting for loan demand” using yearly averaged data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) |
| VARIABLES | Ln Commercial Loans | Ln Real Estate Loans | Ln Agric  Loans | Ln Indiv.  Loans |
|  |  |  |  |  |
| *STATE COR* | -0.0226\*\*\* | -0.0320\*\*\* | -0.00281 | 0.0160\* |
|  | (0.00754) | (0.00598) | (0.0129) | (0.00840) |
| *L.ROA* | -0.0287 | 0.737\* | 7.552\*\*\* | 1.224 |
|  | (0.170) | (0.379) | (0.769) | (0.871) |
| *L.CASH RATIO* | -0.232\*\*\* | -0.480\*\*\* | -0.655\*\*\* | -0.0308 |
|  | (0.0754) | (0.0629) | (0.109) | (0.0724) |
| *L.SIZE* | 0.851\*\*\* | 0.908\*\*\* | 0.701\*\*\* | 0.569\*\*\* |
|  | (0.0137) | (0.0108) | (0.0223) | (0.0131) |
| *L.E/TA* | 0.00623\*\*\* | -0.00604\*\*\* | -0.00345 | -0.0104\*\*\* |
|  | (0.00142) | (0.00158) | (0.00282) | (0.00134) |
| *INCOME* | 1.245\*\*\* | 0.723\*\*\* | 0.747\*\*\* | 1.824\*\*\* |
|  | (0.126) | (0.0724) | (0.151) | (0.0976) |
| *UNEMP* | 0.00175 | -0.00300\* | -0.0245\*\*\* | -0.0230\*\*\* |
|  | (0.00285) | (0.00182) | (0.00442) | (0.00289) |
| *POP* | -1.699\*\*\* | -0.588\*\*\* | -1.018\*\*\* | -1.923\*\*\* |
|  | (0.159) | (0.0883) | (0.203) | (0.120) |
| Constant | 3.012\*\* | -4.598\*\*\* | 2.279 | -0.451 |
|  | (1.430) | (0.684) | (1.954) | (1.060) |
|  |  |  |  |  |
| Observations | 136,667 | 200,961 | 164,241 | 201,045 |
| R-squared | 0.298 | 0.779 | 0.106 | 0.239 |
| Number of banks  Bank FE  State FE  Year FE | 12,934  YES  YES  YES | 13,029  YES  YES  YES | 10,897  YES  YES  YES | 13,056  YES  YES  YES |

This table shows results from regressing bank lending volume classified by different types of loans on state-level public corruption after controlling for bank- and state-level characteristics (models 1, 2, 3 and 4). Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.3** Replication of Table 8 “The relationship between local public corruption and bank lending activity: the mediating role of relationship-based lending” using yearly averaged data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) |
| VARIABLES | Ln loans | Ln loans | TL/TA | TL/TA |
|  |  |  |  |  |
| *STATE COR* | -0.0363\*\*\* |  | -0.0252\*\*\* |  |
|  | (0.0125) |  | (0.00398) |  |
| *L.COR DEP/TA* | -7.50e-05 | 0.000552\*\*\* | -0.000861\*\*\* | -0.000463\*\*\* |
|  | (0.000714) | (0.000201) | (0.000232) | (7.41e-05) |
| *STATE COR\* L.COR DEP/TA* | 0.00120 | -0.000217 | 0.00130\*\*\* | 0.000592\*\*\* |
|  | (0.000903) | (0.000393) | (0.000292) | (0.000145) |
| *L.ROA* | 0.528\*\* | 0.484\*\*\* | 0.0840 | 0.0896\*\*\* |
|  | (0.268) | (0.0647) | (0.0828) | (0.0238) |
| *L.CASH RATIO* | -0.497\*\*\* | -0.534\*\*\* | -0.233\*\*\* | -0.253\*\*\* |
|  | (0.0468) | (0.0135) | (0.0133) | (0.00497) |
| *L.SIZE* | 0.892\*\*\* | 0.903\*\*\* | 0.00229 | 0.00722\*\*\* |
|  | (0.00799) | (0.00164) | (0.00220) | (0.000604) |
| *L.E/TA* | -0.00142 | -0.00231\*\*\* | -0.00363\*\*\* | -0.00402\*\*\* |
|  | (0.00116) | (0.000212) | (0.000313) | (7.81e-05) |
| *INCOME* | 0.472\*\*\* |  | 0.154\*\*\* |  |
|  | (0.0468) |  | (0.0169) |  |
| *UNEMP* | -0.00569\*\*\* |  | 0.000561 |  |
|  | (0.00117) |  | (0.000478) |  |
| *POP* | -0.401\*\*\* |  | -0.178\*\*\* |  |
|  | (0.0631) |  | (0.0209) |  |
| Constant | -1.642\*\* | 0.606\*\*\* | 0.529\*\*\* | 0.543\*\*\* |
|  | (0.696) | (0.0205) | (0.193) | (0.00756) |
|  |  |  |  |  |
| Observations | 201,538 | 200,805 | 201,538 | 200,805 |
| R-squared | 0.817 | 0.977 | 0.249 | 0.749 |
| Number of banks  Bank FE  State FE  Year FE  State\*Year FE | 13,069  YES  YES  YES  NO | 13,069  YES  NO  NO  YES | 13,069  YES  YES  YES  NO | 13,069  YES  NO  NO  YES |

This table shows the role of relationship- based lending (CORE DEP/TA) in the association between bank lending volume (Ln Loans and TL/TA) and state-level public corruption after controlling for bank- and state-level characteristics. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.4** Replication of Table 9 “The relationship between local public corruption and bank lending outcomes: the mediating role of monitoring effort” using yearly averaged data

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) |
| VARIABLES | Ln loans | Ln loans | TL/TA | TL/TA |
|  |  |  |  |  |
| *STATE COR* | -0.0855\*\*\* |  | -0.0335\*\*\* |  |
|  | (0.0276) |  | (0.0105) |  |
| *L.SAL EX/TE* | 0.0182 | 0.0174\*\*\* | 0.0114\* | 0.0110\*\*\* |
|  | (0.0168) | (0.00200) | (0.00607) | (0.000738) |
| *STATE COR\* L.SAL EX/TE* | 0.0629\*\* | 0.0550\*\*\* | 0.0239\*\* | 0.0210\*\*\* |
|  | (0.0273) | (0.00504) | (0.0103) | (0.00186) |
| *L.ROA* | 0.539\* | 0.497\*\*\* | 0.0686 | 0.0782\*\*\* |
|  | (0.278) | (0.0645) | (0.0860) | (0.0238) |
| *L.CASH RATIO* | -0.496\*\*\* | -0.531\*\*\* | -0.240\*\*\* | -0.258\*\*\* |
|  | (0.0459) | (0.0134) | (0.0133) | (0.00492) |
| *L.SIZE* | 0.897\*\*\* | 0.906\*\*\* | 0.00670\*\*\* | 0.0109\*\*\* |
|  | (0.00811) | (0.00158) | (0.00229) | (0.000583) |
| *L.E/TA* | -0.00197\* | -0.00286\*\*\* | -0.00383\*\*\* | -0.00423\*\*\* |
|  | (0.00114) | (0.000212) | (0.000309) | (7.82e-05) |
| *INCOME* | 0.471\*\*\* |  | 0.150\*\*\* |  |
|  | (0.0467) |  | (0.0168) |  |
| *UNEMP* | -0.00597\*\*\* |  | 0.000557 |  |
|  | (0.00115) |  | (0.000473) |  |
| *POP* | -0.392\*\*\* |  | -0.171\*\*\* |  |
|  | (0.0633) |  | (0.0211) |  |
| Constant | -1.840\*\*\* | 0.536\*\*\* | 0.420\*\* | 0.544\*\*\* |
|  | (0.698) | (0.0195) | (0.198) | (0.0194) |
|  |  |  |  |  |
| Observations | 201,538 | 200,805 | 201,538 | 200,527 |
| R-squared | 0.818 | 0.977 | 0.252 | 0.750 |
| Number of banks  Bank FE  State FE  Year FE  State\*Year FE | 13,069  YES  YES  YES  NO | 13,069  YES  NO  NO  YES | 13,069  YES  YES  YES  NO | 13,069  YES  NO  NO  YES |

This table shows the role of bank monitoring (L.SAL EX/TE) in the association between bank lending volume (Ln Loans and TL/TA) and state-level public corruption after controlling for bank- and state-level characteristics. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.5** Replication of Table 10 “The relationship between local public corruption and bank lending activity: instrumental variable estimations” using yearly averaged data

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln Loans | Ln Loans | Ln Loans | TL/TA | TL/TA | TL/TA |
|  |  |  |  |  |  |  |
| *STATE COR* | -0.360\*\* | -0.326\*\*\* | -0.296\*\*\* | -0.172\*\*\* | -0.125\*\*\* | -0.159\*\*\* |
|  | (0.158) | (0.0840) | (0.0740) | (0.0375) | (0.0323) | (0.0295) |
| *L.ROA* | 0.538\*\* | 0.927\*\*\* | 0.895\*\*\* | 0.0758 | 0.296\*\*\* | 0.327\*\*\* |
|  | (0.236) | (0.318) | (0.316) | (0.0693) | (0.0996) | (0.0996) |
| *L.CASH RATIO* | -0.505\*\*\* | -0.399\*\*\* | -0.359\*\*\* | -0.245\*\*\* | -0.207\*\*\* | -0.192\*\*\* |
|  | (0.0253) | (0.0382) | (0.0383) | (0.00743) | (0.0129) | (0.0131) |
| *L.SIZE* | 0.892\*\*\* | 0.932\*\*\* | 0.932\*\*\* | 0.00363\*\*\* | 0.0106\*\*\* | 0.0112\*\*\* |
|  | (0.00322) | (0.00682) | (0.00691) | (0.000838) | (0.00183) | (0.00185) |
| *L.E/TA* | -0.000828 | 0.00482\*\*\* | 0.00590\*\*\* | -0.00334\*\*\* | -0.00210\*\*\* | -0.00163\*\*\* |
|  | (0.000590) | (0.000962) | (0.000965) | (0.000146) | (0.000291) | (0.000297) |
| *INCOME* | 0.570\*\*\* | 0.418\*\*\* | 0.569\*\*\* | 0.204\*\*\* | 0.125\*\*\* | 0.168\*\*\* |
|  | (0.0441) | (0.0851) | (0.0793) | (0.0120) | (0.0329) | (0.0327) |
| *UNEMP* | -0.00935\*\*\* | 0.000643 | 0.00264 | -0.000768\* | 0.00436\*\*\* | 0.00520\*\*\* |
|  | (0.00178) | (0.00198) | (0.00195) | (0.000461) | (0.000777) | (0.000783) |
| *POP* | -0.578\*\*\* | -0.372\*\*\* | -0.625\*\*\* | -0.248\*\*\* | -0.148\*\*\* | -0.225\*\*\* |
| First Stage  *CAPIS1920* | (0.0439)  -1.9204\*\*\*  (0.1776) | (0.105) | (0.0902)  -12.267\*\*\*  (2.434) | (0.0128)  -1.9204\*\*\*  (0.1776) | (0.0403) | (0.0372)  -12.267\*\*\*  (2.434) |
| *FOIA* |  | -0.0732\*\*\*  (0.0066) | -0.0810\*\*\*  (0.0066) |  | -0.0732\*\*\*  (0.00665) | -0.0810\*\*\*  (0.0065) |
| Observations | 200,553 | 44,050 | 44,050 | 200,553 | 44,050 | 44,050 |
| R-squared  UIT p-value  WIT  with critical value  OIT p-value | 0.801  0.000  116.84  16.38 | 0.810  0.000  121.31  16.38 | 0.808  0.000  81.619  19.93  0.336 | 0.134  0.000  116.84  16.38 | 0.186  0.000  121.31  16.38 | 0.142  0.000  81.621  19.93  0.100 |
| Number of banks  Bank FE  State FE  Year FE  Region FE | 12,340  YES  NO  YES  YES | 2,995  YES  YES  YES  NO | 2,995  YES  NO  YES  YES | 12,340  YES  NO  YES  YES | 2,995  YES  YES  YES  NO | 2,995  YES  NO  YES  YES |

This table shows the results from regressing bank lending activity on the predicted state-level public corruption after controlling for bank- and state-level characteristics (models 1, 2, 3 and 4). The instruments of these 2SLS-IV estimations are the state-capital isolation in 1920 (CAPIS1920) and the transition to strong Freedom of Information Act (FOIA) laws in each state. The CAPIS1920 variable ranges from 0 to 1 with lower values representing a more isolated state-capital. FOIA is a dummy variable that takes the value of one for the years beyond the seventh year after a state has transitioned from weak to strong freedom of information act (FOIA) laws while it takes the value of zero up to the seventh year after the transition. The instrument is constructed only for those states that experienced a weak to strong transition in terms of FOIA laws and thus, in these estimations, our sample is restricted to these states only. UIT is the under-identification LM test by Kleibergen and Paap, WIT is the Wald F-statistic of the weak identification test, which must be higher than its critical value to reject the null. OIT is the p-value of the Hansen over identification test. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.6** The relationship between local public corruption and bank lending activity: alternative clustering of the standard errors

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Panel A | | | | | | Panel B | | | | | |
| Frequency of data | Quarterly | | | | | | Yearly | | | | | |
|  | (1) | (2) | (3) | (4) | (5) | (6) | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln loans | Ln loans | Ln loans | TL/TA | TL/TA | TL/TA | Ln loans | Ln loans | Ln loans | TL/TA | TL/TA | TL/TA |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *STATE COR* | -0.0211\*\* | -0.0471\*\*\* | -0.0426\*\*\* | -0.0105\*\*\* | -0.0208\*\*\* | -0.0223\*\*\* | -0.0243\*\*\* | -0.0955\*\*\* | -0.0372\*\* | -0.0107\*\*\* | -0.0350\*\*\* | -0.0254\*\*\* |
|  | (0.00831) | (0.0121) | (0.0134) | (0.00375) | (0.00498) | (0.00574) | (0.00884) | (0.0210) | (0.0155) | (0.00379) | (0.00709) | (0.00595) |
| *L.SAL EX/TE* |  | 0.0473\*\*\* |  |  | 0.0187\*\*\* |  |  | 0.0191\*\*\* |  |  | 0.00690\*\*\* |  |
|  |  | (0.00623) |  |  | (0.00232) |  |  | (0.00481) |  |  | (0.00159) |  |
| *L.SAL EX/TE\*STATE COR* |  | 0.0319\*\*\* |  |  | 0.0126\*\*\* |  |  | 0.0432\*\*\* |  |  | 0.0148\*\*\* |  |
|  |  | (0.00901) |  |  | (0.00345) |  |  | (0.0110) |  |  | (0.00339) |  |
| *L.COR DEP/TA* |  |  | -0.00179\*\*\* |  |  | -0.000767\*\*\* |  |  | -0.000603 |  |  | -0.000689\*\*\* |
|  |  |  | (0.000361) |  |  | (0.000143) |  |  | (0.000409) |  |  | (0.000152) |
| *L.COR DEP/TA\*STATE COR* |  |  | 0.00176\*\* |  |  | 0.000963\*\*\* |  |  | 0.000972 |  |  | 0.00111\*\*\* |
|  |  |  | (0.000817) |  |  | (0.000351) |  |  | (0.000827) |  |  | (0.000323) |
| Constant | 3.382\*\*\* | 3.265\*\*\* | 3.372\*\*\* | 2.247\*\*\* | 2.201\*\*\* | 2.246\*\*\* | 2.406\*\* | 2.225\*\* | 2.412\*\* | 2.110\*\*\* | 2.045\*\*\* | 2.117\*\*\* |
|  | (0.982) | (0.982) | (0.973) | (0.434) | (0.434) | (0.429) | (1.027) | (1.027) | (1.025) | (0.449) | (0.449) | (0.446) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Observations | 651,585 | 651,579 | 651,585 | 651,585 | 651,579 | 651,585 | 201,537 | 201,536 | 201,537 | 201,537 | 201,536 | 201,537 |
| R-squared | 0.845 | 0.846 | 0.845 | 0.236 | 0.241 | 0.237 | 0.800 | 0.801 | 0.800 | 0.235 | 0.239 | 0.236 |
| Number of banks  Bank FE  State FE  Time FE  Control variables  Clustering | 14,277  YES  YES  YES  YES  state-year | 14,277  YES  YES  YES  YES  state-year | 14,277  YES  YES  YES  YES  state-year | 14,277  YES  YES  YES  YES  state-year | 14,277  YES  YES  YES  YES  state-year | 14,277  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year | 13,069  YES  YES  YES  YES  state-year |

This table shows results from regressing bank lending activity on state-level public corruption after controlling for bank- and state=level characteristics and using state-year clustering of standard errors. Models 2,3,5 and 6 of Panel A and Panel B include the mediating role of bank monitoring (SAL EX/TE) and relationship-based lending (CORE DEP/TA). Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| VARIABLES | Ln Loans | TL/TA | Ln Loans | TL/TA | Ln Loans | TL/TA | Ln Loans | TL/TA | Ln Loans | TL/TA | Ln Loans | TL/TA |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| *DJ* | -0.148\*\*\* | -0.126\*\*\* |  |  |  |  |  |  |  |  |  |  |
|  | (0.0320) | (0.0115) |  |  |  |  |  |  |  |  |  |  |
| *INVINT* |  |  | -0.00118\* | -0.00131\*\*\* |  |  |  |  |  |  |  |  |
|  |  |  | (0.000703) | (0.000260) |  |  |  |  |  |  |  |  |
| *BL* |  |  |  |  | 0.00343 | -0.00149 |  |  |  |  |  |  |
|  |  |  |  |  | (0.00340) | (0.00131) |  |  |  |  |  |  |
| *SAL EX/TE* |  |  |  |  |  |  | 0.101\* | -0.00350 | 0.651\* | 0.266\*\*\* | 0.0898 | 0.0485\* |
|  |  |  |  |  |  |  | (0.0591) | (0.0140) | (0.336) | (0.0866) | (0.0728) | (0.0268) |
| *CORE DEP/TA* |  |  |  |  |  |  | -0.00469 | -0.00323\*\*\* | -0.0229\*\* | -0.00430 | -0.000625 | -0.00257\*\*\* |
|  |  |  |  |  |  |  | (0.00310) | (0.000917) | (0.0102) | (0.00308) | (0.00308) | (0.000986) |
| *DJ \* SAL EX/TE* |  |  |  |  |  |  | 0.0562 | 0.121\*\*\* |  |  |  |  |
|  |  |  |  |  |  |  | (0.172) | (0.0403) |  |  |  |  |
| *DJ\*CORE DEP/TA* |  |  |  |  |  |  | 0.00117 | 0.000718 |  |  |  |  |
|  |  |  |  |  |  |  | (0.00683) | (0.00189) |  |  |  |  |
| *INVINT\*SAL EX/TE* |  |  |  |  |  |  |  |  | 0.00814\* | 0.00342\*\*\* |  |  |
|  |  |  |  |  |  |  |  |  | (0.00494) | (0.00129) |  |  |
| *INVINT\*CORE DEP/TA* |  |  |  |  |  |  |  |  | -0.000289\* | -2.20e-05 |  |  |
|  |  |  |  |  |  |  |  |  | (0.000162) | (4.83e-05) |  |  |
| *BL\*SAL EX/TE* |  |  |  |  |  |  |  |  |  |  | 0.0119 | 0.00125 |
|  |  |  |  |  |  |  |  |  |  |  | (0.0196) | (0.00716) |
| *BL\*CORE DEP/TA* |  |  |  |  |  |  |  |  |  |  | -0.00114 | -0.000178 |
|  |  |  |  |  |  |  |  |  |  |  | (0.000862) | (0.000268) |
| Constant | -0.889\*\*\* | 0.302\*\*\* | -0.835\*\*\* | 0.328\*\*\* | -0.836\*\*\* | 0.353\*\*\* | -0.485\*\*\* | 0.500\*\*\* | -0.496\*\*\* | 0.508\*\*\* | -0.490\*\*\* | 0.501\*\*\* |
|  | (0.0842) | (0.0248) | (0.0899) | (0.0278) | (0.0819) | (0.0245) | (0.0845) | (0.0198) | (0.0819) | (0.0197) | (0.0825) | (0.0209) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Observations  Number of banks | 14,163  14,163 | 14,163  14,163 | 14,451  14,451 | 14,451  14,451 | 14,058  14,058 | 14,058  14,058 | 14,124  14,124 | 14,124  14,124 | 14,412  14,412 | 14,412  14,412 | 14,020  14,020 | 14,020  14,020 |
| R-squared  Region dummies  State dummies  Bank control variables  State control variables | 0.941  YES  NO  YES  YES | 0.165  YES  NO  YES  YES | 0.940  YES  NO  YES  YES | 0.159  YES  NO  YES  YES | 0.939  YES  NO  YES  YES | 0.157  YES  NO  YES  YES | 0.944  NO  YES  YES  NO | 0.249  NO  YES  YES  NO | 0.945  NO  YES  YES  NO | 0.248  NO  YES  YES  NO | 0.943  NO  YES  YES  NO | 0.246  NO  YES  YES  NO |

**Table IA.7** The relationship between local public corruption and bank lending activity: cross-sectional average estimations that use perception-based measures of local public corruption.

The table shows the results from regressing bank lending activity on perception-based corruption after controlling for bank- and state-level characteristics. In models 1, 2, 7 and 8 the corruption perception variable (DJ) is the one developed by Dincer and Johnston (2014) with higher values denoting a higher level of perceived local public corruption. In models 3,4, 9 and10 the corruption perception variable is the inverse of the state integrity index in 2015 (INVINT). Originally higher values (0-100 scale) of the state integrity index denote freedom from corruption. Therefore, we use the inverse of the state integrity in order for higher values to denote a higher level of perceived local public corruption. In models 5,6,11 and12 is the third perception-based corruption measure developed by Boylan and Long (2003). This measure is based on the feedback from a survey of the state house reporters about the corruption in each state. The survey was conducted in 1999 and the index (BL) ranges from one (low corruption) to seven (high corruption). Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses.

**Table IA.8** The relationship between local public corruption and bank lending activity: estimations that use alternative conviction-based measures of local public corruption

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| VARIABLES | Ln loans | TL/TA | Ln loans | TL/TA | Ln loans | TL/TA | Ln loans | TL/TA |
|  |  |  |  |  |  |  |  |  |
| *MEAN COR* | -0.0554\*\*\* | -0.0395\*\*\* |  |  |  |  |  |  |
|  | (0.00302) | (0.00126) |  |  |  |  |  |  |
| *RANK COR* |  |  |  |  | -0.000322\*\*\* | -0.000280\*\*\* |  |  |
|  |  |  |  |  | (3.17e-05) | (1.32e-05) |  |  |
| *L.COR DEP/TA* |  |  | -0.000974 | -0.000550 |  |  | -0.000494 | 0.000341 |
|  |  |  | (0.00120) | (0.000403) |  |  | (0.00744) | (0.00211) |
| *L.SAL EX/TE* |  |  | 0.0400\*\* | 0.0168\*\* |  |  | 0.0677 | 0.0329 |
|  |  |  | (0.0172) | (0.00689) |  |  | (0.0915) | (0.0336) |
| *MEAN COR\*L.SAL EX/TE* |  |  | 0.0589\* | 0.0197 |  |  |  |  |
|  |  |  | (0.0314) | (0.0123) |  |  |  |  |
| *MEAN COR\*L.COR DEP/TA* |  |  | -0.00161 | -2.74e-05 |  |  |  |  |
|  |  |  | (0.00319) | (0.00102) |  |  |  |  |
| *RANK COR\*L.SAL EX/TE* |  |  |  |  |  |  | 0.000185 | 0.000171 |
|  |  |  |  |  |  |  | (0.00140) | (0.000534) |
| *RANK COR\*L.COR DEP/TA* |  |  |  |  |  |  | 1.51e-05 | 1.41e-05 |
|  |  |  |  |  |  |  | (0.000117) | (3.35e-05) |
| Constant | -0.719\*\*\* | 0.411\*\*\* | 3.254\*\*\* | 2.187\*\*\* | -0.730\*\*\* | 0.402\*\*\* | 3.266\*\*\* | 2.199\*\*\* |
|  | (0.0154) | (0.00572) | (0.609) | (0.240) | (0.0154) | (0.00575) | (0.613) | (0.240) |
|  |  |  |  |  |  |  |  |  |
| Observations | 650,648 | 650,648 | 651,579 | 651,579 | 650,648 | 650,648 | 651,579 | 651,579 |
| R-squared | 0.945 | 0.193 | 0.846 | 0.241 | 0.944 | 0.192 | 0.846 | 0.241 |
| Number of banks | 14,277 | 14,277 | 14,277 | 14,277 | 14,277 | 14,277 | 14,277 | 14,277 |
| Bank FE  State FE  Quarter-Year FE | NO  NO  YES | NO  NO  YES | YES  YES  YES | YES  YES  YES | NO  NO  YES | NO  NO  YES | YES  YES  YES | YES  YES  YES |
| Region FE  Control variables | YES  YES | YES  YES | NO  YES | NO  YES | YES  YES | YES  YES | NO  YES | NO  YES |

This table shows results from regressing bank lending activity on alternative state-level conviction-based measures of public corruption after controlling for bank and state level characteristics. Models 1-4 show the results from including the MEAN COR as an alternative measure of public corruption which is the time-series average of the conviction-based state-level corruption. Models 5-8 demonstrate the findings from using RANK COR as an alternative measure of public corruption which is the national rank of this cross-time average. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table** **IA.9** The relationship between local public corruption and bank lending activity: lending growth estimations

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Panel A | | | | Panel B | | | |
|  | Quarterly | | | | Yearly | | | |
|  | (1) | (2) | (3) | (4) | (1) | (2) | (3) | (4) |
| VARIABLES | Loan growth | Loan growth | Loan growth | Loan growth | Loan growth | Loan growth | Loan growth | Loan growth |
|  |  |  |  |  |  |  |  |  |
| *STATE COR* | -0.0211\*\*\* | -0.0211\*\*\* | -0.0542\*\*\* | -0.0542\*\*\* | -0.0233\*\*\* | -0.0233\*\*\* | -0.0857\*\*\* | -0.0857\*\*\* |
|  | (0.00310) | (0.00787) | (0.0113) | (0.0137) | (0.00346) | (0.00856) | (0.0198) | (0.0183) |
| *L.COR DEP/TA* |  |  | -0.00168\*\*\* | -0.00168\*\*\* |  |  | -0.00113\* | -0.00113\*\*\* |
|  |  |  | (0.000510) | (0.000305) |  |  | (0.000584) | (0.000362) |
| *STATE COR\* L.COR DEP/TA* |  |  | 0.000949 | 0.000949 |  |  | -0.000221 | -0.000221 |
|  |  |  | (0.000687) | (0.000696) |  |  | (0.000843) | (0.000689) |
| *L.SAL EX/TE* |  |  | 0.0458\*\*\* | 0.0458\*\*\* |  |  | 0.0161\* | 0.0161\*\*\* |
|  |  |  | (0.0134) | (0.00560) |  |  | (0.00845) | (0.00421) |
| *STATE COR\* L.SAL EX/TE* |  |  | 0.0267\* | 0.0267\*\*\* |  |  | 0.0400\*\*\* | 0.0400\*\*\* |
|  |  |  | (0.0150) | (0.00780) |  |  | (0.0151) | (0.00858) |
| *L.ROA* | 0.139 | 0.139 | 0.224 | 0.224 | 0.910\*\*\* | 0.910\*\*\* | 0.938\*\*\* | 0.938\*\*\* |
|  | (0.159) | (0.146) | (0.209) | (0.182) | (0.324) | (0.266) | (0.348) | (0.277) |
| *L.CASH RATIO* | -0.584\*\*\* | -0.584\*\*\* | -0.566\*\*\* | -0.566\*\*\* | -0.451\*\*\* | -0.451\*\*\* | -0.435\*\*\* | -0.435\*\*\* |
|  | (0.0258) | (0.0186) | (0.0260) | (0.0188) | (0.0289) | (0.0251) | (0.0294) | (0.0261) |
| *L.SIZE* | -0.0164\*\*\* | -0.0164\*\*\* | -0.0132\*\*\* | -0.0132\*\*\* | -0.0638\*\*\* | -0.0638\*\*\* | -0.0599\*\*\* | -0.0599\*\*\* |
|  | (0.00431) | (0.00323) | (0.00452) | (0.00312) | (0.00500) | (0.00382) | (0.00535) | (0.00384) |
| *L.E/TA* | -0.00548\*\*\* | -0.00548\*\*\* | -0.00626\*\*\* | -0.00626\*\*\* | -0.00255\*\*\* | -0.00255\*\*\* | -0.00334\*\*\* | -0.00334\*\*\* |
|  | (0.000622) | (0.000522) | (0.000624) | (0.000505) | (0.000914) | (0.000840) | (0.000905) | (0.000833) |
| *INCOME* | 0.342\*\*\* | 0.342\*\*\* | 0.345\*\*\* | 0.345\*\*\* | 0.369\*\*\* | 0.369\*\*\* | 0.380\*\*\* | 0.380\*\*\* |
|  | (0.0284) | (0.0608) | (0.0281) | (0.0610) | (0.0331) | (0.0581) | (0.0330) | (0.0588) |
| *UNEMP* | -0.00250\*\*\* | -0.00250 | -0.00300\*\*\* | -0.00300 | -0.00621\*\*\* | -0.00621\*\*\* | -0.00676\*\*\* | -0.00676\*\*\* |
|  | (0.000929) | (0.00215) | (0.000928) | (0.00212) | (0.00105) | (0.00236) | (0.00106) | (0.00234) |
| *POP* | -0.611\*\*\* | -0.611\*\*\* | -0.605\*\*\* | -0.605\*\*\* | -0.594\*\*\* | -0.594\*\*\* | -0.597\*\*\* | -0.597\*\*\* |
|  | (0.0443) | (0.0983) | (0.0441) | (0.0982) | (0.0502) | (0.0929) | (0.0502) | (0.0936) |
| Constant | 2.863\*\*\* | 2.871\*\*\* | 2.733\*\*\* | 2.739\*\*\* | 2.646\*\*\* | 2.664\*\*\* | 2.475\*\*\* | 2.485\*\* |
|  | (0.522) | (0.932) | (0.518) | (0.923) | (0.591) | (1.002) | (0.588) | (1.000) |
|  |  |  |  |  |  |  |  |  |
| Observations | 651,585 | 651,585 | 651,579 | 651,579 | 201,537 | 201,537 | 201,536 | 201,536 |
| R-squared | 0.198 | 0.198 | 0.205 | 0.205 | 0.190 | 0.190 | 0.194 | 0.194 |
| Number of banks  Bank FE  State FE  Year-Quarter FE  Year FE  Clustering | 14,277  YES  YES  YES  NO  bank | 14,277  YES  YES  YES  NO  state-year | 14,277  YES  YES  YES  NO  bank | 14,277  YES  YES  YES  NO  state-year | 13,069  YES  YES  NO  YES  bank | 13,069  YES  YES  NO  YES  state-year | 13,069  YES  YES  NO  YES  bank | 13,069  YES  YES  NO  YES  state-year |

This table shows results from regressing bank lending growth classified by different types of loans on state-level public corruption after controlling for bank- and state-level characteristics (models 1 and 2). Models 3 and 4 include the mediating role of bank monitoring (SAL EX/TE) and relationship-based lending (CORE DEP/TA). Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\* respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Panel A: Banks of lower asset size class** | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln loans | Ln loans | Ln loans | TL/TA | TL/TA | TL/TA |
|  |  |  |  |  |  |  |
| *STATE COR* | -0.0183\*\*\* | -0.0290\*\*\* | -0.0540\*\*\* | -0.00801\*\*\* | -0.0155\*\*\* | -0.0223\*\*\* |
|  | (0.00368) | (0.0105) | (0.013) | (0.00157) | (0.00402) | (0.00543) |
| *L.COR DEP/TA* |  | -0.00360\*\*\* |  |  | -0.00140\*\*\* |  |
|  |  | (0.000753) |  |  | (0.000236) |  |
| *STATE COR\*L.COR DEP/TA* |  | 0.000927 |  |  | 0.000622\*\* |  |
|  |  | (0.000805) |  |  | (0.000303) |  |
| *L.SAL EX/TE* |  |  | 0.0508\*\*\* |  |  | 0.0209\*\*\* |
|  |  |  | (0.0165) |  |  | (0.00688) |
| *STATE COR\*L.SAL EXP/TE* |  |  | 0.0439\*\*\* |  |  | 0.0176\*\*\* |
|  |  |  | (0.0154) |  |  | (0.00644) |
| Constant | 4.721\*\*\* | 4.494\*\*\* | 4.536\*\*\* | 2.911\*\*\* | 2.829\*\*\* | 2.836\*\*\* |
|  | (0.713) | (0.716) | (0.710) | (0.275) | (0.274) | (0.272) |
|  |  |  |  |  |  |  |
| Observations | 490,255 | 490,255 | 490,251 | 490,255 | 490,255 | 490,251 |
| R-squared | 0.795 | 0.796 | 0.797 | 0.266 | 0.268 | 0.272 |
| Number of banks | 11,419 | 11,419 | 11,419 | 11,419 | 11,419 | 11,419 |
| Bank FE | YES | YES | YES | YES | YES | YES |
| State FE | YES | YES | YES | YES | YES | YES |
| Year-Quarter FE | YES | YES | YES | YES | YES | YES |
| Control variables | YES | YES | YES | YES | YES | YES |
| **Panel A: Banks of higher asset size class** | (1) | (2) | (3) | (4) | (5) | (6) |
| VARIABLES | Ln loans | Ln loans | Ln loans | TL/TA | TL/TA | TL/TA |
|  |  |  |  |  |  |  |
| *STATE COR* | -0.0140\* | -0.0331 | -0.0186 | -0.0118\*\*\* | -0.0216\*\*\* | -0.0151\*\*\* |
|  | (0.00734) | (0.0212) | (0.0144) | (0.00281) | (0.0063) | (0.00513) |
| *L.COR DEP/TA* |  | 0.000749 |  |  | 1.24E-05 |  |
|  |  | (0.000839) |  |  | (0.000294) |  |
| *STATE COR\*L.COR DEP/TA* |  | 0.00157 |  |  | 0.000814\* |  |
|  |  | (0.00162) |  |  | (0.000455) |  |
| *L.SAL EX/TE* |  |  | 0.0493\*\*\* |  |  | 0.0175\*\*\* |
|  |  |  | (0.015) |  |  | (0.00494) |
| *STATE COR\*L.SAL EXP/TE* |  |  | 0.00402 |  |  | 0.00354 |
|  |  |  | (0.0143) |  |  | (0.00552) |
| Constant | -2.940\*\* | -3.029\*\* | -3.062\*\*\* | -0.574 | -0.578 | -0.617 |
|  | (1.179) | (1.208) | (1.176) | (0.462) | (0.467) | (0.461) |
|  |  |  |  |  |  |  |
| Observations | 161,267 | 161,267 | 161,265 | 161,267 | 161,267 | 161,265 |
| R-squared | 0.832 | 0.832 | 0.832 | 0.141 | 0.141 | 0.144 |
| Number of banks | 5,372 | 5,372 | 5,372 | 5,372 | 5,372 | 5,372 |
| Bank FE | YES | YES | YES | YES | YES | YES |
| State FE | YES | YES | YES | YES | YES | YES |
| Year-Quarter FE | YES | YES | YES | YES | YES | YES |
| Control variables | YES | YES | YES | YES | YES | YES |

**Table IA.10** The relationship between local public corruption and bank lending: heterogeneity by bank size

Panel A: shows the results from regressing bank lending activity on state-level public corruption (models 1 and 4) for banks that have size below the 75th percentile. Also, it shows the conditioning effect of relationship-based lending (models 2 and 5) and bank monitoring (models 3 and 6) in the relationship between bank lending and state-level public corruption for the same group of banks. Panel B: shows the results from regressing bank lending outcomes on state-level public corruption (models 1 and 4) for banks that have size above the 75th percentile. Also, it shows the conditioning effect of relationship-based lending (models 2 and 5) and bank monitoring (models 3 and 6) in the relationship between bank lending activity and state-level public corruption for the same group of banks. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Panel A: Pre-deregulation (1985-1993)** | (1) | | (2) | | (3) | | (4) | | (5) | | (6) | |
| VARIABLES | Ln Loans | | Ln loans | | Ln loans | | TL/TA | | TL/TA | | TL/TA | |
|  |  | |  | |  | |  | |  | |  | |
| *STATE COR* | -0.00790\*\*\* | | -0.0316\*\*\* | | -0.00642 | | -0.00255\*\* | | -0.0176\*\*\* | | -0.00294 | |
|  | (0.00292) | | (0.0091) | | (0.00757) | | (0.00116) | | (0.00284) | | (0.00219) | |
| *L.COR DEP/TA* |  | | -0.00315\*\*\* | |  | |  | | -0.00106\*\*\* | |  | |
|  |  | | (0.000585) | |  | |  | | (0.000194) | |  | |
| *STATE COR\*L.COR DEP/TA* |  | | 0.00188\*\*\* | |  | |  | | 0.00121\*\*\* | |  | |
|  |  | | (0.000687) | |  | |  | | (0.000203) | |  | |
| *L.SAL EXP/TE* |  | |  | | 0.0445\*\*\* | |  | |  | | 0.0166\*\*\* | |
|  |  | |  | | (0.0094) | |  | |  | | (0.00389) | |
| *STATE COR\*L.SAL EXP/TE* |  | |  | | -0.00143 | |  | |  | | 0.000671 | |
|  |  | |  | | (0.00848) | |  | |  | | (0.00233) | |
| Constant | 3.398\*\*\* | | 3.166\*\*\* | | 3.326\*\*\* | | 1.907\*\*\* | | 1.839\*\*\* | | 1.880\*\*\* | |
|  | (0.986) | | (0.985) | | (0.994) | | (0.390) | | (0.387) | | (0.389) | |
| Observations | 299,557 | | 299,557 | | 299,556 | | 299,557 | | 299,557 | | 299,556 | |
| R-squared | 0.618 | | 0.619 | | 0.619 | | 0.063 | | 0.065 | | 0.067 | |
| Number of banks | 13,801 | | 13,801 | | 13,801 | | 13,801 | | 13,801 | | 13,801 | |
| Bank FE | YES | | YES | | YES | | YES | | YES | | YES | |
| State FE | YES | | YES | | YES | | YES | | YES | | YES | |
| Year-Quarter FE | YES | | YES | | YES | | YES | | YES | | YES | |
| Control variables | YES | | YES | | YES | | YES | | YES | | YES | |
| **Panel B: Post-deregulation (1994-2013)** | (1) | | (2) | | (3) | | (4) | | (5) | | (6) | |
| VARIABLES | Ln loans | | Ln loans | | Ln loans | | TL/TA | | TL/TA | | TL/TA | |
| *STATE COR* | -0.0162\*\*\* | | -0.0216\* | | -0.0516\*\*\* | | -0.00737\*\*\* | | -0.0121\*\*\* | | -0.0215\*\*\* | |
|  | (0.00401) | | (0.0116) | | (0.0133) | | (0.00173) | | (0.00463) | | (0.00561) | |
| *L.COR DEP/TA* |  | | -4.28E-05 | |  | |  | | -0.000108 | |  | |
|  |  | | (0.000681) | |  | |  | | (0.000231) | |  | |
| *STATE COR\*L.COR DEP/TA* |  | | 0.000436 | |  | |  | | 0.000382 | |  | |
|  |  | | (0.00088) | |  | |  | | (0.000351) | |  | |
| *L.SAL EXP/TE* |  | |  | | 0.0307\* | |  | |  | | 0.0137\*\* | |
|  |  | |  | | (0.0167) | |  | |  | | (0.00657) | |
| *STATE COR\*L.SAL EXP/TE* |  | |  | | 0.0425\*\*\* | |  | |  | | 0.0170\*\* | |
|  |  | |  | | (0.0158) | |  | |  | | (0.00666) | |
| Constant | | -4.601\*\*\* | | -4.590\*\*\* | | -4.704\*\*\* | | -1.260\*\*\* | | -1.246\*\*\* | | -1.305\*\*\* | |
|  | | (0.867) | | (0.868) | | (0.874) | | (0.345) | | (0.345) | | (0.346) | |
| Observations | 352,028 | | 352,028 | | 352,023 | | 352,028 | | 352,028 | | 352,023 | |
| R-squared  Number of banks | 0.828  9,496 | | 0.828  9,496 | | 0.829  9,496 | | 0.163  9,496 | | 0.163  9,496 | | 0.168  9,496 | |
| Bank FE | YES | | YES | | YES | | YES | | YES | | YES | |
| State FE | YES | | YES | | YES | | YES | | YES | | YES | |
| Year-Quarter FE | YES | | YES | | YES | | YES | | YES | | YES | |
| Control variables | YES | | YES | | YES | | YES | | YES | | YES | |

**Table IA.11** The relationship between local public corruption and bank lending: heterogeneity by time (pre-deregulation and post-deregulation periods)

Panel A: shows the results from regressing bank lending activity on state-level public corruption (models 1 and 4) for banks that belong to the pre-deregulation period (1985-1993). Also, it shows the conditioning effect of relationship-based lending (models 2 and 5) and bank monitoring (models 3 and 6) in the relationship between bank lending and state-level public corruption for the same group of banks. Panel B: shows the results from regressing bank lending outcomes on state-level public corruption (models 1 and 4) for banks that belong to the post-deregulation period (1994-2013). Also, it shows the conditioning effect of relationship-based lending (models 2 and 5) and bank monitoring (models 3 and 6) in the relationship between bank lending activity and state-level public corruption for the same group of banks. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.

**Table IA.12** The relationship between local public corruption and bank lending activity: heterogeneity by single-state vs multi-state banks

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | (1-Single) | (2-Single) | (3-Multi) | (4-Multi) |
| VARIABLES | Ln loans | TL/TA | Ln loans | TL/TA |
|  |  |  |  |  |
| *STATE COR* | -0.0164\*\*\* | -0.00760\*\*\* | -0.0265 | -0.00579 |
|  | (0.00405) | (0.00175) | (0.0164) | (0.00735) |
| *L.ROA* | 1.249\*\*\* | 0.694\*\*\* | 1.557\*\* | 0.859\*\*\* |
|  | (0.467) | (0.186) | (0.687) | (0.307) |
| *L.CASH RATIO* | -0.751\*\*\* | -0.282\*\*\* | -0.493\*\*\* | -0.264\*\*\* |
|  | (0.0671) | (0.0157) | (0.150) | (0.0577) |
| *L.SIZE* | 0.992\*\*\* | 0.0190\*\*\* | 0.878\*\*\* | 0.0102 |
|  | (0.00823) | (0.00302) | (0.0307) | (0.0111) |
| *L.E/TA* | -0.0112\*\*\* | -0.00394\*\*\* | 0.0176\*\*\* | 0.00187 |
|  | (0.00205) | (0.000411) | (0.00565) | (0.00133) |
| *INCOME* | 0.106\*\*\* | 0.0236 | 0.0746 | -0.00132 |
|  | (0.0388) | (0.0151) | (0.116) | (0.0609) |
| *UNEMP* | 0.00122 | 0.000706 | 0.00521 | 0.00238 |
|  | (0.00138) | (0.000559) | (0.00536) | (0.00258) |
| *POP* | 0.166\*\* | 0.0779\*\*\* | -0.333 | -0.157 |
|  | (0.0714) | (0.0281) | (0.354) | (0.186) |
| Constant | -4.703\*\*\* | -1.214\*\*\* | 4.715 | 2.891 |
|  | (0.879) | (0.349) | (4.699) | (2.422) |
|  |  |  |  |  |
| Observations | 340,620 | 340,620 | 11,408 | 11,408 |
| R-squared | 0.818 | 0.163 | 0.775 | 0.209 |
| Number of banks  Bank FE  State FE  Year-Quarter FE | 9,476  YES  YES  YES | 9,476  YES  YES  YES | 558  YES  YES  YES | 558  YES  YES  YES |

This table shows results from regressing bank lending activity on state-level public corruption after controlling for bank and state-level characteristics. Models 1 and 2 include banks that operate in a single state only, while models 3 and 4 include banks that operate in multiple states. Table 1 presents full definition and measurement details of all variables. Significance at the 10%, 5% and 1% levels is represented by \*, \*\*, and \*\*\*, respectively. Robust standard errors are in parentheses. The prefix (L.) denotes lagged variables.