

Political Ideology and CEO Performance under Crisis

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Abstract

Management quality is known to influence depository institution performance, but less understood are the characteristics of managers themselves that influence performance. We empirically examine how the political ideology of a credit union's CEO influences their decision making and performance during the financial crisis. Our results indicate that the return on assets of credit unions run by conservative CEOs are 22 basis points lower during the crisis, relative to liberal CEOs. Returns are shown to be lower as a direct result of conservative credit unions applying conservative accounting practices during the crisis. Conservative CEOs make larger discretionary provisions for loan losses than their counterparts, despite similar loan quality.

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1. Introduction

Managers of depository institutions play an important role in establishing the organizational culture, which can affect firm decision making and performance. Cultural differences across banks have been increasingly identified by regulators as contributing to unethical behavior that led to financial instability and billions of dollars in fines subsequent to the financial crisis of 2008. Culture, though, is a nebulous concept (Thakor, 2016), not easily measured, and its effect on bank performance is not necessarily well understood. Principles of bank management (Koch and MacDonald, 2014) teach us that differences in credit culture influence lending activity and the assessment of risk. According to Koch and MacDonald

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(2014), a values driven or conservative approach emphasizes credit quality and bank safety over higher returns. Other cultures may focus on maximizing current profits or market share.¹

Culture is closely related to a bank's management quality, which is one of the six areas in the acronym (CAMELS) that regulators use to regularly monitor bank's conditions.² Like culture, management quality is difficult to empirically measure and is instead assessed by regulators during on-site exams via confidential interviews with management.³ This study examines whether variation in decisions and outcomes at credit unions during the financial crisis can be explained by CEO traits related to management quality and culture, two areas that are of interest to regulators.

Previous research (Ellul and Yerramilli, 2013; Erkens, Hung, and Matos, 2012; Fahlenbrach, Prilmeier, and Stulz, 2012) has shown that poor bank performance during the crisis was driven by risk-seeking policies prior to the crisis. Ho, Huang, Lin, and Yen (2016) directly link risk seeking behavior to differences in CEO traits, where overconfident bank CEOs took on more risk by growing loan portfolios and increasing leverage relative to other banks in the pre-crisis period.⁴ Subsequently, this resulted in more non-performing loans and lower overall returns during the crisis. Our paper contributes to this literature that examines the effects of managerial traits on depository institution performance during the crisis by considering an additional dimension of management quality and culture, which is reflected in managers'

¹Koch and MacDonald (2014) describe a credit culture that maximizes current profits as moderately aggressive and that which maximizes market share as aggressive.

² The other CAMELS components include measures of capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk. The OCC, FDIC, and Federal Reserve use all six components in their evaluation of banks, whereas the NCUA applies the first five to credit unions.

³Typical statistical models (e.g. FDIC SCOR model, Federal Reserve FIMS model) used to understand risk exposure control for CAEL -- for a discussion of the FDIC's Statistical Camel Off-Site Rating (SCOR) model see Collier, Forbush, Nuxoll, and O'Keefe (2003), and for more details on the Federal Reserve's Financial Institutions Monitoring System (FIMS) model see Cole, Cornyn, and Gunther (1995).

⁴ The measure of a CEO's overconfidence is based on a CEO's delay in the exercise of deep in-the-money stock options.

political ideologies.⁵ We utilize political contributions data from the Federal Elections Commission to identify a credit union CEO's political ideology. Differences in political ideology are shaped by differences in key personality traits and have been found to influence managerial behaviors and outcomes in several non-depository institution settings (Christensen, Dhaliwal, Boivie, and Graffin, 2015; Hong and Kostovetsky, 2012; Hutton, Jiang, and Kumar, 2014; Hutton, Jiang, and Kumar, 2015, Di Giuli and Kostovetsky, 2014). We expect that the effects of conservative managerial traits are more salient during the financial crisis, as conservative CEOs faced a strong psychological need to create order to ensure the safety and soundness of their institutions in the face of unprecedented uncertainty.

Credit unions provide a natural context for such a study as their smaller size tends to make their shared culture stronger than that of larger organizations (Van den Steen, 2010a). In addition, credit unions are unique in that they are non-profit financial cooperatives, member owned, and democratically operated.⁶ This implies that the interests of depositors and shareholders are one and the same, unlike those of commercial banks (Macey and O'Hara, 2003). The interests of the credit union are determined by their members, who must have a common bond based on shared occupation, association, and/or geography. A common bond creates a strong degree of homogeneity of interests among a credit union's members, board of directors, and CEO. Shared beliefs in an organization lead to a stronger culture and fewer agency problems (Van den Steen, 2010b) – i.e. there is a better alignment of incentives between stakeholders with fewer conflicts over decision making.

⁵ Jost (2006) discusses the history of the use of the term ideology. Like Jost (2006), we adopt a definition of ideology that he describes as “an interrelated set of moral and political attitudes that possess cognitive, affective, and motivational components.”

⁶ Credit Union Membership Access Act, Pub. L. No. 105-219 (1998). A credit union's CEO is approved by their board of directors, who are members and volunteers elected by the membership. Members each have an equal vote regardless of their level of deposits.

Outside forces imposed by a board of directors can constrain a commercial bank CEO's decision making and potentially resolve agency problems.⁷ Large banks in the United States with stronger corporate governance mechanisms are shown by Peni and Vähämaa (2012) to outperform (higher return on assets and Tobin's q) their counterparts during the period 2005-2008, with the effect magnified during the financial crisis of 2008.⁸ Bank holding companies with more experienced board members, where board members serve on three or more boards, have also been found by Elyasiani and Zhang (2015) to improve performance (higher returns and lower risk) for the period 2001-2010. Similar to Peni and Vähämaa (2012), they find the experience of the board has a stronger effect on returns during the crisis years (2008-2010), though in this period a more experienced board had less of an effect on risk. Banks with chief risk officers who reported directly to the board, rather than the CEO, also outperformed their counterparts during the crisis (Aebi, Sabato, and Schmid, 2012).

In the commercial bank setting it is inherently challenging to isolate the effects of individual CEO characteristics from constraints imposed by the board on decisions. Credit unions have boards made up of unpaid volunteers, therefore the perception (DeYoung, Goddard, McKillop and Wilson, 2016) is that managers of credit unions are subject to less monitoring and constraint in their decision making. Faced with fewer constraints and agency issues to overcome, decisions made at credit unions in response to shocks to the financial system likely reflect the closely aligned institutional culture to CEO's personal ideologies.

⁷ Beltratti and Stulz (2012) is a notable exception in that they find that banks with shareholder friendly boards performed worse during the crisis. Their sample consisted of 503 banks from 32 countries with 63 banks from the United States.

⁸ The measure of strength of governance is based on firm-specific factors covering the areas of auditing practices, the board of directors, director education, and executive compensation among others (Brown and Caylor, 2009).

We find that observed differences in the political ideologies of credit union CEOs prior to the financial crisis explains variations in decisions and performance during the crisis. Using a difference-in-difference framework, we find that the return on assets of credit unions managed by conservative CEOs were 22 basis points lower than their liberal counterparts during the financial crisis (2008-2009), relative to the difference in their returns prior to the crisis. We further show that the channel reducing returns is due to conservative behavior during the crisis by credit unions led by CEOs with conservative ideologies. Credit unions managed by conservative CEOs use more conservative accounting practices, evidenced by larger discretionary provisions for loan losses when controlling for similar observed loan quality. This difference in provisioning reduces returns by 15 basis points during the crisis. These results contribute to the literature by highlighting that decisions made by depository institutions during the financial crisis were influenced by differences in traits associated with CEO ideologies.

The remainder of the paper is organized as follows. Section 2 reviews the relevant literature on personality, political ideology, and decision making. Section 3 describes construction of our proxy measure for a CEO's conservatism based on Federal Elections Commission (FEC) records of previous personal political contributions. In Section 4 we examine the effects of conservatism on returns during crisis, while in Section 5 we look at the channel that led to lower returns and show the cause to be conservative behavior of credit unions run by conservative CEOs. We then provide concluding thoughts in Section 6.

2. Personality, political ideology, and decision making

2.1 Managerial heterogeneity and business outcomes

Recent studies in the accounting and finance literatures demonstrate that manager-specific characteristics help to explain a variety of decisions and business outcomes. Brochet and Welch (2011) show that the previous work experience of top executives affects the discretion they use in their financial reporting of impairments to goodwill following an acquisition. Earnings forecasts have also been shown to be affected by differences in experience. Forecasts are made less frequent and narrower among managers with careers in accounting and finance, with those with military experience also reporting narrower forecasts (Bamber, Jiang, and Wang, 2010). Benmelech and Frydman (2015) find that firms with CEOs who have military experience display more conservative corporate policies (investment, R & D) and behave more ethically. The effect of this during times of crisis is that firms of CEOs that have a military background outperform their counter parts (Benmelech and Frydman, 2015).

Differences in managers' demographic characteristics also play a role (Bertrand and Schoar, 2003; Bamber, Jiang, and Wang, 2010) in corporate decisions and performance. Bertrand and Schoar (2003) find that CEOs that have an MBA produce higher returns on their firms' assets, when controlling for differences in firm-specific characteristics. They also examine the effects of CEOs' age and find that older CEOs tend to favor lower investment and leverage, behaviors they consider to be more financially conservative. The age of managers also contributes to less frequent forecasts of earnings (Bamber, Jiang, and Wang, 2010).

Differences in political ideology have also been shown (Christensen, Dhaliwal, Boivie, and Graffin, 2015; Hong and Kostovetsky, 2012; Hutton, Jiang, and Kumar, 2014; Hutton, Jiang, and Kumar, 2015, Di Giuli and Kostovetsky, 2014) to explain corporate decision making and outcomes. These studies use the pattern of partisan political contributions to identify managers' political affiliation and ideology. Managers who are Democrats tend to be more socially

responsible, or liberal in decision making. Hong and Kostovetsky (2012) show that mutual fund managers who are net contributors to the Democratic Party are more likely to underweight stocks of socially irresponsible firms (e.g. guns and defense, tobacco, and natural resources) in their portfolios, relative to other fund managers. In addition, firms run by Democrats are more socially responsible (Di Giuli and Kostovetsky, 2014) and are subject to less litigation on civil rights, labor, and environmental matters (Hutton, Jiang, and Kumar, 2015). Companies with Republican managers tend to have more conservative corporate behaviors. Hutton, Jiang, and Kumar's (2014) find that Republican CEOs operate less levered firms with investments in corporate assets that are less risky. Their estimates further indicate that firms run by Republican managers have a higher return on assets. Risk aversion may also explain why firms with Republican managers are less likely to avoid corporate taxes (Christensen, Dhaliwal, Boivie, and Graffin, 2015). Together, results of these studies suggest that Republican managers tend to be more risk averse.

2.2 Personality traits and ideology

Underlying many of the differences in managerial characteristics are key personality traits. Personality traits play an important role in determining how individuals respond to stimuli by shaping one's attitudes and behaviors (Denissen and Penke, 2008). Psychologists classify an individual's core or higher-order personality traits across five dimensions (openness to experience, conscientiousness, extraversion, agreeableness, emotional stability) referred to as the Big Five. These core traits are established early in life and can be traced, in part, to genetic factors (see Verhulst et al., 2012 for discussion). Individual traits tend to be stable over time, as there is a tendency of individuals to choose environments (friendships, marriages, workplaces) that compliment one's traits. When faced with situations that are psychologically similar, an

individual behaves consistently over time and across settings (Sherman, Nave, and Funder, 2010). Studies have shown this consistency extends to decisions at home and the workplace, tying managers' personal debt (Cronqvist, Makhija, and Yonker, 2012), tax avoidance (Chyz, 2013), and criminal behavior (Davidson, Dey, and Smith, 2015) to their firms' corporate decisions in these areas. Differences in personality traits explain why responses to similar stimuli differ by individual and contribute to differences in education, health, and career outcomes (Caspi, Roberts, and Shiner, 2005).

An individual's political ideology, whether they identify themselves as conservative or liberal, has also been shown (Gerber, Huber, Doherty, Dowling and Ha, 2010; Mondak and Halperin, 2008) to be associated with the traits of openness to experience, conscientiousness, and emotional stability. Individuals with an openness to experience exhibit characteristics of being imaginative, creative, and curious with a tendency towards unconventional ways of thinking. Individuals who are more open to experience (Gerber, Huber, Doherty, Dowling and Ha, 2010; Mondak and Halperin, 2008) are more likely to self-identify as being liberal, rather than conservative, and are more likely to identify as Democrats rather than Republicans (Mondak and Halperin, 2008; Verhulst, Eaves, and Hatemi, 2012). Conscientious individuals are described as being responsible, attentive, and careful, while feeling a need for order and an intolerance for uncertainty. Conscientious individuals more likely identify as conservative (Gerber, Huber, Doherty, Dowling, and Ha, 2010; Mondak and Halperin, 2008) and Republican (Mondak and Halperin, 2008; Verhulst, Eaves, and Hatemi, 2012). Emotional stability is a trait that reflects an individual's predisposition towards negative emotions (Caspi, Roberts, and Shiner, 2005). Emotionally stable individuals are faced with less anxiety and guilt and are more likely to identify as conservative (Gerber, Huber, Doherty, Dowling, and Ha, 2010) and Republican

(Verhulst, Eaves, and Hatemi, 2012).⁹ Differences in these traits also contribute (Gerber, Huber, Doherty, Dowling, and Ha, 2010; Verhulst, Eaves, and Hatemi, 2012) to differences in attitudes towards economic and social policies along the same ideological dimensions. Less emotionally stable individuals, for example, are shown (Verhulst, Eaves, and Hatemi, 2012) to support liberal economic policies that provide a safety net to those in need.

Our personality traits also determine how we respond to stressful events with coping mechanisms that are either emotion-focused or problem-focused (Lazarus and Folkman, 1984). Emotion-focused coping includes behaviors that regulate the emotions caused by stress, whereas problem-focused coping involves behaviors that attempt to alter or find a solution to a stressful situation. Coping responses are associated with dispositional differences in personality traits. Conscientious individuals are less likely to use emotion-coping skills, such as escape avoidance and disengagement (O'Brien and DeLongis, 1996; Watson and Hubbard, 1996), and are more likely to use problem-focused coping skills that include deliberate action and planning (Penley and Tomaka, 2002; Watson and Hubbard, 1996). Emotionally stable individuals are prone to less anxiety and respond (O'Brien and DeLongis, 1996; Watson and Hubbard, 1996) similarly to stress with coping actions that are problem-focused. Openness though has a relatively weak relation to coping behaviors, with results (McCrae and Costa, 1986; O'Brien and DeLongis, 1996; Watson and Hubbard, 1996) showing both positive and negative associations to emotion-focused responses. Based on their differences in personality traits one would expect conservatives and Republican individuals tend to respond to stressors differently than their liberal and Democratic counterparts, with conservative and Republicans taking more deliberate and observable actions.

⁹ Mondak and Halperin (2008) find that emotional stability is associated with identifying as being conservative and Republican in one of the three years they examine.

In the context of the financial crisis and the management of credit unions, we believe it is this difference in personality traits, coping mechanisms and attitudes that during the crisis led to a distinct response by credit unions led by conservative (Republican) CEOs, relative to their liberal and non-partisan counterparts. Credit unions were significantly impacted by both the crisis and recession. A decline in home prices, combined with rising unemployment rates, led to higher default rates on mortgage loans, credit unions' largest asset. From the beginning of 2008 to year-end 2009 credit union member bankruptcies doubled from 158,114 to 323,733, loan charge-offs increased from 0.51 percent to 1.21 percent, the return on average assets declined from 0.63 percent to 0.18 percent, and net worth declined from 11.41 percent to 9.9 percent (NCUA, 2010). The magnitude of this crisis, the worst in our CEOs' adult lifetimes, provides a natural experiment to test our assertion that management's ideology affects decision making and performance during crises.¹⁰ The conservative ethos is to rely on one's self and to not rely on government safety nets (Verhulst, Eaves, and Hatemi, 2012). Therefore when faced with the financial crisis and their tendency to fear that life is changing for the worse (Jost, Glaser, Kruglanski, and Sulloway, 2003), conservative led credit unions took deliberate action to set aside more provisions for subsequent loan losses than their counterparts, which affected their institutions' performance during the financial crisis of 2008-2009.

3. Proxy measure of management ideology

Our empirical analysis examines the treatment effect of the financial crisis on credit unions that were managed by conservatives in the period prior to the crisis. Differences in personal ideology are associated with differences in core beliefs and methods of coping, which result in variations in judgment and decisions during crises. In the context of the firm, we

¹⁰ Hutton, Jiang, and Kumar (2014) also use the September 2008 Lehman Brothers bankruptcy as a natural experiment to evaluate investment behavior of conservative managers due to the increase in uncertainty.

believe a CEO's ideology not only directly influences their own business decisions, but also shapes a corporate culture that influences their employees' decisions (Davidson, Dey, and Smith; 2015)¹¹. Corporate cultures, in general, change slowly over time (for discussion see Peni and Vähämaa, 2012). We therefore measure the ideology prevalent at each credit union based on the ideologies of their CEOs in the four-year period (2004-2007) prior to the crisis. Our sample consists of 11,831 unique CEOs included in the directory information contained in December NCUA call reports. The personal ideologies of CEOs are not directly observable, therefore we construct a proxy measure based on the pattern of individual political contributions to candidates of the Democratic and Republican Parties. Our approach, similar to Hong and Kostovetsky, (2012), interprets CEOs as having a conservative ideology if they primarily gave to the Republican Party, whereas they are liberal if they primarily gave to the Democratic Party.

3.1 Political Contribution Data

Data on individual political contributions are publicly available from the Federal Election Commission (FEC).¹² Political candidates, candidate committees, political parties and political action committees are required by law to provide an itemized record of contributors who give \$200 or more in total per calendar year.¹³ Included in the "contributions by individual" record are the contributor's self-reported full name (first and last without initials), address, employer, and occupation. Also included are the contribution date, the amount, and aggregate year to date total contributions. A separate data file includes each candidates' party affiliation, which is

¹¹ Davidson, Dey, and Smith, (2015) find that different characteristics of CEOs may have an effect on fraudulent practices at their firm via either channel. CEOs convicted of prior legal infractions are also more likely to commit fraud at their firm, while there is no effect on other employees' behavior (propensity channel). Firms run by "unfrugal" CEOs though are more likely to have employees who commit fraud, despite their being no difference in CEO's behavior in this regard (corporate channel).

¹² The records are available for download at <http://www.fec.gov/finance/disclosure/ftpdet.shtml>.

¹³ Prior to 1989 contributions of \$500 or more were required to be reported.

merged with contributions to identify partisan contributions to candidates. We matched contributions data from the FEC database with data from the December Credit Union Call Reports using CEO name and credit union name.¹⁴

Our measure of a CEOs' political ideology is based on the pattern of their "lifetime" contributions to candidates, as ideology is relatively stable over time. The challenge is that we lack the complete employment history of our CEOs, thus our measure is based on a CEO's lifetime contributions while employed with the same credit union.¹⁵ Lifetime contributions include those made during the 1979-1980 election cycle through the 2005-2006 election cycle. We purposely use contribution data prior to the period we examine to identify pre-treatment characteristics of ideology and eliminate the possibility of including contributions that may have been made in response to the financial crisis. While the direction of any potential bias is ambiguous, a CEO's political contributions during the financial crisis could be correlated with their credit union's performance during the period. Basing our analysis on pre-crisis contributions avoids the potential for endogeneity.

Approximately 3.3% (390) of our sample of 11,831 CEOs contributed to political candidates or candidate campaign committees.¹⁶ The aggregate amount of their contributions totaled \$624,662, which was split between candidates of the Republican Party (62.5%),

¹⁴ We used a combination of SASs fuzzy matching and manual reviews. Many matches were a perfect match and for those that were not (typically involving abbreviations) we conducted a manual review to find the matching credit union and eliminate cases that contained the relevant strings but were not credit unions.

¹⁵ We impose this restriction on previous employment as it is impossible for us to identify whether individuals with the same name, but a different employer in an earlier period are the same contributors in question. The contributor in an earlier period is not necessarily the CEO.

¹⁶ This is significantly less than the 29% of mutual fund managers (Hong and Kostovetsky, 2012) and the 70% of managers of firms in the Russell 3000 (Di Giuli and Kostovetsky, 2014) that made partisan contributions. Compensation of credit union CEO's though is significantly lower than these other managers. The median total compensation for credit union CEOs was \$176,371 in 2008 (Bankston, 2008), whereas median compensation of fund (equity) managers was \$456,000 in 2007 (CFA Institute, 2007), and median compensation was 2,885,000 for CEOs of the Russell 3000 in 2010 (Tonello and Reda, 2015).

Democratic Party (37.4%), and third-party candidates (0.1%). The observed pattern of partisan contributions by credit union CEOs is consistent with those of trade groups that represent commercial banks and credit unions. During the 2005-2006 election cycle, the American Bankers Association made 63.2% of their \$3,009,397 in political contributions to Republican candidates, while the Credit Union National Association (CUNA) made 54.0% of their \$2,696,968 in contributions to Republicans.¹⁷ This pattern is also consistent with political contributions of CEOs from other industries. Di Giulia and Kostovetsky (2014) report that CEOs of the 3000 largest publicly traded firms in the United States (Russell 3000) made 59% of their contributions to Republicans. In our dataset, the mean (median) number of contributions and their amount by CEO was 3.23 (2) and \$1,602 (\$503), respectively.

Most of the 390 credit union CEOs (83%) that made political contributions gave exclusively to candidates of one party – 205 CEOs gave only to Republicans, 119 gave only to Democrats, and one gave only to a third-party candidate.¹⁸ Contribution amounts were similar across the two parties, with the mean (median) level of contributions from CEOs giving only to Republicans equal to \$921 (\$500) and those giving to Democrats equal to \$1,064 (\$500). Of the remaining sixty-five CEOs that gave to multiple parties, sixty-four gave to both the Republican and Democratic Parties, and one CEO made contributions to Republicans and a third-party.

The mean and median contributions of the group with mixed contributions were higher at \$4,747 and \$2,250. Looking at the pattern of mixed contributions, we find six of our CEOs gave exactly the same amount to Democrats as they did Republicans, whereas thirty-three CEOs gave more to Republicans and twenty-six gave more to Democrats. The data shows a slightly

¹⁷ Data is from the Center for Responsive Politics which is available online at <https://www.opensecrets.org/industries/contrib.php?ind=F03&Bkdn=DemRep&cycle=2006>

¹⁸ Di Giuli and Kostovetsky (2014) find a similar pattern of exclusive giving among CEOs of firms in the Russell 3000.

stronger ideological affinity among CEOs who gave primarily to Republicans. For each dollar this group of CEOs gave to Democrats, they also gave \$2.51 to Republicans based on the median CEO's contributions, whereas the typical CEO that contributed more to Democrats contributed \$1.63 to Democrats for each dollar they contributed to Republicans

3.2 Proxy measures of CEO and credit union ideologies

Based on their contributions, we define as conservative the 238 CEOs who either gave exclusively or more to Republican candidates, and as liberal the 145 CEOs who gave exclusively or more to Democrats.¹⁹ The vast majority of our CEOs are defined as having a non-partisan or unidentified ideology. These CEOs include the six who gave equally to both parties and those who did not give at all. Each CEO's ideology is used to classify the ideology prevalent at each credit union in the years prior to the crisis (2004-2007). We define conservatively managed credit unions as those that had at least one CEO during the pre-crisis period whose life-time personal contributions were predominately made to candidates of the Republican Party, and did not have a CEO who primarily gave to Democratic Party candidates. These conservative credit unions represent our treatment group, i.e. the set of credit unions we believe to be uniquely influenced by the crisis. Our primary control group is made up of liberal credit unions. Credit unions defined as liberal had CEOs who satisfied the exact opposite conditions, i.e. at least one CEO that contributed primarily to candidates of the Democratic Party, and was not led by a CEO that gave primarily to Republicans. Based on their pre-crisis leadership and these criteria, 223 credit unions are classified as conservative, 136 as liberal, and the remaining 7,435 have what we

¹⁹ Others (Di Giuli and Kostovetsky, 2014; Hutton et al. 2014) have used a continuous measure of ideology based on the pattern of giving. We chose to use an indicator based measure of ideology (Hong and Kostovetsky, 2012) given 83% of our CEOs gave exclusively to one party and those who did not had strong partisan giving as we discuss. This also avoids the need to arbitrarily code the ideology of CEOs that do not give – the vast majority of our CEOs.

refer to as a non-partisan or unidentified ideology. Credit unions with a non-partisan ideology will be used as alternative control group in our robustness checks.

4. Conservatism and the effects on returns

4.1 Identification and Estimation Strategy

Figure 1 shows that in the period leading up to the 2008 financial crisis, credit unions led by conservative CEOs had returns similar to their liberal counterparts, but the returns of the two groups subsequently diverged. In 2008, returns at conservative credit unions fell 77 basis points and became negative, whereas returns at their liberal counterparts decreased by only 53 basis points. This divergence grew in 2009 as returns continued downward for conservative credit unions and began to improve for liberals. Return on assets reverted to pre-crisis levels in 2010. To determine the role ideology played in divergence in returns during the crisis (2008-2009), we need to identify what would have happened to returns of credit unions if they had not been managed by conservative CEOs, i.e. the true counterfactual. Here we use a difference-in-difference estimation approach to compare returns, prior to and during the crisis, for our groups of conservative and liberal credit unions. Using this approach, the difference in returns between periods for liberal credit unions represents what would have happened to returns among conservative credit unions during the crisis if they had not been managed by conservative CEOs. By comparing the difference in returns between periods and groups we are able to identify the effect of the CEO's conservative ideology during crisis.

[Insert Figure 1 about here]

The divergence in 2008 returns on assets illustrated in Figure 1 could potentially be explained by differences in observed time-varying conditions between conservative and liberal credit unions. It is possible the shock created by the financial crisis, along with differences in the

credit unions' pre-existing financial conditions (size, asset and liability management, solvency, productivity), contributed to the divergence in returns, rather than the conservatism of managers' personal ideologies during the crisis. Unobserved heterogeneity may also play a role, as unobserved factors specific to a credit union (e.g. political ideology and risk aversion of members, strength of board oversight) may be correlated with managers' ideology, which would confound identification of the effect from being conservative. We assume these unobserved institutional differences in credit unions do not vary over the short period of time examined. Accordingly, we use a two-way fixed effects model to control for time invariant credit union specific factors (observed and unobserved), with covariates added to control for differences in time varying observed factors.

The linear regression framework for this approach is specified in equation 1 by a two-way fixed effects model as follows:

$$y_{it} = \alpha T_{it} + \beta x_{it} + \delta_t + \theta_i + \varepsilon_{it} \quad (1)$$

where, x_{it} represents a matrix of covariates that vary by credit union $i = 1:N$ and time $t = 1:T$, with time and credit union fixed effects given by δ_t and θ_i , respectively. The time period covered by the baseline model includes the years 2007-2009. An indicator variable, T_{it} , is equal to one if credit union i meets our definition of conservative and the year is 2008 or 2009 (i.e. the crisis period). Our estimate of the treatment effect, α , captures the average difference in the return on assets between conservative and liberal credit unions during the crisis, relative to the difference between the two groups for the baseline year 2007. Similarity in the trends of pre-crisis returns is crucial for identification of the effect of conservatism during the crisis, as this allows us to determine what would have happened had these credit unions not been led by conservatives. While returns in Figure 1 appear similar in the periods prior to the crisis, we formally test

whether returns differed in the pre-crisis periods using a similar specification and data from 2006-2007.

Our model estimates include clustered standard errors to allow for the presence of heteroscedasticity and the correlation of errors over time for credit unions within the same state. Controlling for panel-robust, or cluster-robust standard errors has been noted by Cameron and Miller (2015) to be important in fixed effects models, and particularly relevant in determining the statistical significance of treatment effects in difference-in-difference settings (see Bertrand, Duflo, and Mullainathan, 2004).

Included in the model specification is a credit union specific fixed effect that captures differences in observed factors, such as geographic location (rural/urban, red/blue states), field of membership (labor union/industry affiliation), and charter type, which are time-invariant for a given credit union. The time varying controls included in our model specification of returns are drawn from measures used in previous studies and primarily reflect differences in the management of assets and liabilities, which vary across credit unions and time. At different points in the business cycle, Ely (2014) shows that various categories of credit union loans either outperform or underperform others. Ely (2014) finds the loan shares of unsecured loans (including credit cards) and auto loans have no effect on returns for the pre-crisis period 2004-2007, relative to the share of real estate loans. Yet for the period 2008-2011, the effect differs across loan type, with the share of unsecured loans contributing to lower returns than the share of real estate loans, and the share of auto loans contributing to higher returns. Our specification includes separate loan shares for credit card debt, unsecured loans, and car loans (new and used), with real estate loans as the omitted category.

Two variables are included in the specification to control for the mix of assets between liquid assets (cash and securities), loans, and other investments, with the latter category omitted to avoid multi-collinearity. Typically one would expect liquid assets to offer lower returns, yet given the crisis period examined here, it is plausible that credit unions with more liquidity and fewer loans could outperform. Our model also includes the loan to deposit ratio to capture the relation between asset and liability management. Core deposits have a low cost of funds, therefore, the more loans are supported by deposits the stronger net interest margins and earnings will be. Returns may also be affected by a credit union's risk management practices. Goddard, McKillop, and Wilson (2008) suggest a high ratio of net worth to total assets may indicate a credit union's choice to forgo higher earnings in exchange for lower risk. However, Goddard, McKillop, and Wilson (2008) note that higher capitalization reduces insurance expenses, which may lead to higher returns, and they empirically find mean returns on credit union assets are in fact higher for the period 1993-2004. To control for exposure to interest rate risk, we include the share of net long-term assets to total assets. In the pre financial crisis period (2004-2007), Ely (2014) found that this measure is associated with lower returns, whereas in the period after (2008-2011) it increased returns.

Our specification also controls for differences in scale across credit unions, which may affect returns. The NCUA controls for scale by developing peer groups for performance comparisons based on each credit union's total assets. Economies of scale may allow larger credit unions to lower their average expenses and offer a wider array of services that increase profitability through opportunities to earn non-interest income.²⁰ Ely's (2014) estimates show larger credit unions earn higher returns in the periods 2004-2007 and 2008-2011. Similar to Ely

²⁰ Navy Federal Credit union is systemically relevant with 73 billion in assets as of December 2015.

(2014), we use the natural logarithm of total assets to control for size. The number of credit union members is an alternative measure of scale. Glass and McKillop (2006) empirically demonstrate that a higher penetration of members within a common bond lowers expenses among credit unions. They note that this result is likely due to a reduction of asymmetric information from lower self-selection effects. We use a ratio of current members to potential members identified by the credit union's common bond as a measure of productivity. We control for differences in local economic conditions by the unemployment rate in the geographic area where each credit union is headquartered. The unemployment rate is measured using BLS data at the Metropolitan Statistical Area (MSA) or county level, depending on whether the credit union is within a MSA.²¹

Each of the financial ratios we use is derived from end of year call report (5300) data reported to the NCUA and formulas from the NCUA's financial performance reports. All financial data is adjusted to real 2014 dollars. In addition, we adjust the data to account for the significant impact that mergers can have on financial statement items. Similar to previous studies (DeYoung and Roland, 2001; Esho, Kofman, and Sharpe, 2005) for credit unions that merge within our period of analysis, we combine financial data in pre-merger periods to construct pro-forma ratios that will be consistent across all periods included in our analysis. That is to say, two credit unions that merge in 2007 would have a single combined return on assets for 2006, which would equal their combined net incomes for the year divided by their combined average total assets. In Table 1 we report summary statistics of the mean and standard error of our covariates for both conservative and non-conservative credit unions prior to the crisis. We

²¹ We also considered, similar to Ely (2014), whether the local banking environment had an impact on performance and found inclusion of a Herfindahl–Hirschman Index of deposit concentration and/or measure of local deposits were never statistically significant in any of our specifications.

also report the normalized difference for each covariate, which is used to assess the balance between groups (Imbens, 2015).²² Covariate balance is important in difference-in-difference models, as imbalance can result in estimates that are sensitive to model specification (Imbens and Rubin, 2015) and increase the possibility of unobserved differences influencing the variation in returns seen between periods and groups. Our conservative and liberal groups are well balanced, with each variable less than the 0.25 cutoff recommended by Imbens and Rubin (2015), other than the share of share of auto loans which is .28.

[Insert Table 1 about here]

4.3 Effect on returns of being conservative during crisis

In Table 2 (Column1) we report the effect conservative-led management had on the difference in credit union returns during the crisis (2008-2009), relative to the previous year (2007), while controlling for differences in asset and liability management. The coefficient of -0.22 indicates that returns among conservative credit unions were lower than their liberal counterparts by 22 basis points as a result of the crisis, with the effect statistically significant at the 5% level. In order to identify the effect as being due to the crisis and conservatism, we need similarity in the trends of returns prior to the crisis. We use the period 2006-2007 to evaluate whether there is a difference in returns, between conservative and liberal credit unions in 2006, relative to 2007. Estimates in column 2 indicate there is similarity in the trends, as we fail to reject the null that the coefficient is statistically different than zero.²³

²² The normalized difference for covariate X_k is equal to $\Delta_{X,k} = \frac{\bar{X}_{cons,k} - \bar{X}_{non-cons,k}}{\sqrt{(S_{X,cons,k}^2 + S_{X,non-cons,k}^2) / 2}}$ where we have

the difference in the mean of covariate X_k between conservative and liberal credit unions in the numerator and their standard deviations in the denominator.

²³ One could also view this as a falsification test, i.e. if we believe conservative credit unions only behave differently under crisis than using two periods in which there wasn't a crisis we should find there to be no observed effect.

[Insert Table 2 about here]

The coefficients of our covariates in column 1 are in line with previous findings, and consistent with expectations. More solvent credit unions earned higher returns. Examining the mix of assets, a higher share of assets in loans led to lower returns in relation to the share in investments (omitted category), as delinquencies and charge-offs rose during the period. Liquid assets (cash and securities), however did not have an effect on returns. With regards to the mix of loans, we find a higher share of unsecured loans actually outperformed real estate loans (omitted category) in the period examined, whereas credit card loans and auto loans performed similarly to real estate. The negative effect of housing on returns is also captured in the negative coefficient for the share of long-term assets, which are comprised primarily of fixed residential mortgages. We find that credit unions with higher loans relative to deposits also performed better, while not surprisingly weaker local economic conditions as measured by unemployment reduced returns.

4.4 Robustness and falsification tests for returns

Our results suggest that the performance of credit unions led by conservative CEOs differs from those led by liberals during crisis. A natural question raised by this finding is whether it is conservative CEOs who are in fact performing uniquely during crisis, rather than their liberal counterparts. To test this assertion we examine the sensitivity of our estimated treatment effect to using an alternative control group that consists of a sample of credit unions managed by CEOs with a non-partisan ideology. If during crisis credit unions run by liberals are no different than their non-partisan counterparts then our estimate of the treatment effect should remain robust when comparing (Table 3, columns 1-2) the returns of our treated group (conservatives) to those of our alternative control (non-partisan). In addition, we should find that

there is no difference in returns between a treated group we believe is unaffected (liberals) by the crisis, relative to our alternative control group (non-partisan). This latter set of estimates (Table 3, columns 3-4) can be thought of as a traditional falsification test as it uses two groups we believe behaved similarly.

The population of credit unions with a non-partisan ideology differs significantly from our conservative credit unions in terms of their characteristics. Balance in our covariates between groups is achieved by using nearest neighbor matching on the set of observations with common support. The common support is found by eliminating observations from each group where there are few similar observations to match with in the other group. Similarity is measured via a propensity score, where the propensity score is the probability of being conservative, controlling for observed covariates. The propensity score is estimated with stepwise probit regression on a pre-crisis cross-section of conservative and unidentified credit unions. Credit unions with propensity scores less than the first percentile of scores among conservatives are trimmed, as are observations with scores above the ninety-ninth percentile for those with unidentified ideologies. This elimination makes our results less sensitive to the choice of matching algorithm (Dehejia and Wahba, 2002). We match with replacement each of our conservative credit unions with the closest observation from the population of non-partisan credit unions.²⁴ After trimming and matching we have a well-balanced sample of 220 conservative and 191 non-partisan credit unions where our covariates have normalized differences well below 0.25

The results in Table 3 (column 1) indicate that conservatives also performed differently than credit unions led by CEOs with a non-partisan ideology in the crisis, relative

²⁴ The match is based on minimizing the standardized Euclidian distance between two vectors of covariates.

to 2007. The returns of credit unions led by conservatives are 16 basis points lower during the crisis, relative to the difference in returns between their counterparts with a non-partisan ideology. Estimates in column 2 reveal a similarity of pre-treatment trends between the two groups. The results from our falsification test (Table 3) indicate that there are no differences in the returns of credit unions led by liberal CEOs relative to credit unions led by non-partisan CEOs, either during the crisis (column 3) or during the pre-treatment period (column 4). Our sensitivity analysis reveals that based on differences in ideology, conservatives behave differently than other credit unions during crisis.

[Insert Table 3 about here]

5. Conservative management in crisis

5.1 Channel to lower returns

Our estimates indicate that in terms of the returns on assets, credit unions with conservative CEOs performed significantly worse during the financial crisis than their counterparts. Returns were lower by 22 basis points when controlling for similarity of assets and other measures. In this section we investigate the channel that led to these lower returns and suggest a causal mechanism linked to conservative behavior explains the difference.

With seemingly similar assets and liabilities (see Table 1), we look to variation of income statement items to uncover the source of lower returns. Net income in the call report is made up of four main components, interest income, interest expense, non-interest income, and non-interest expense, with each consisting of several sub-components. Each of the 23 income statement items represents a potentially different channel to lower returns. Therefore we re-estimate equation 1 using each of the separate items measured relative to average assets as the dependent variable to isolate the channel of the treatment effect. We find that three of these

items were significantly impacted, in a statistical sense, among conservatives during the crisis (see Table 4).²⁵ The 22 basis point reduction in returns among conservatives during the crisis is attributed to their provisions for loan losses that are 15 basis points higher, employee compensation and benefits that are 5 basis points higher, and interest expenses that are 1 basis point higher. We focus our discussion on the channel with the largest observed effect, which is the provision for loan losses.

[Insert Table 4 about here]

5.2 Discretionary provisions for loan losses

Loan loss provisions reflect the current period change in managers' expectations of their loan portfolios' credit losses that are probable in the future. The probable impairment of loans is an estimate that requires judgment, therefore generally accepted accounting principles (GAAP) allow credit union managers discretion in determining the amount that is recorded each period. This implies that conditioning on the same loan portfolio fundamentals, managers may set aside different levels of provisions due to variation in their sentiment toward economic events. Managers who overstate their provisions are in affect understating their earnings, which reflects a more cautious or conservative approach toward evaluating loan impairment (Balla and Rose, 2011) and allows for the ability to absorb greater unexpected losses without failing. We posit that conservative managers, given their cautious nature and dislike for uncertainty, engage in active coping during the financial crisis by overstating provisions for loan losses relative to their counterparts.

To investigate this we use a strategy similar to Beatty, Ke, and Petroni (2002) and Cohen, Cornett, Marcus, and Tehranian (2014) to determine the discretion that credit unions apply to

²⁵ Results for each of the statistically insignificant items not reported are available upon request.

their provisions for loan losses. The strategy uses fundamentals of the credit union's loan portfolio to specify the portion of provisions that are non-discretionary, with the residuals reflecting discretionary provisions. We model the expected level of provisions for loan losses using a specification (Beatty, Ke, and Petroni, 2002; Cohen, Cornett, Marcus, and Tehranian, 2014) that controls for variation in credit unions' size and solvency, loan performance, mix of loan categories, and economic environment.²⁶

Credit unions that are larger in size (natural log of total assets) are better able to bear risk as are more solvent (net worth/total assets) credit unions, which all else equal implies less of a need for provisions. We use three measures in our specification to control for the impairment associated with non-performing loans – the change in the share of loans that are non-performing, the previous period's share of allowances for loan losses to average assets, and the share of non-performing loans in fixed-rate mortgages. One might expect the need for provisions to rise from an increase in the share of loans that are non-performing in a portfolio. This though would not occur if provisions had been previously set aside to account for a probable change in performance. Past provisions are accounted for on the balance sheet in the previous period as allowances made for loan losses. A higher share of allowances relative to assets would suggest there is less need for current provisions, when conditioning on a change in loan performance. Changes in the performance of different loan categories though are not equal as variation in the performance of unsecured credit is expected through the stages of the business cycle, while the precipitous decline seen in the performance of mortgages during the crisis was unprecedented. Fixed-rate mortgages are the credit union industry's largest asset (20% of assets in 2007) and as

²⁶ Beatty, Ke, and Petroni (2002) and Cohen, Cornett, Marcus, and Tehranian, (2014) include in their specifications of provisions for loan losses by banks: size, the change in non-performing loans, lagged allowances, various asset categories, and region indicators.

such their performance is a bellwether of overall performance. An increase in the share of non-performing loans made up of mortgages would indicate a clear need for additional provisions.

The mix of assets in the loan portfolio also influences the risk of probable losses associated with the economic downturn. We include the loan shares in several different loan categories to control for variation in credit risk – separate shares in auto loans, credit cards, and unsecured credit are included with real-estate as the omitted category. Another measure was added to control for variation in loan origination. Indirect loans, i.e. loans that were arranged by a third party (e.g. auto dealer, furniture store), historically have had higher default rates than other loans during downturns. This may be a result of adverse selection, as third parties fail to adequately screen risks at the point of sale and origination of the loan. Therefore, when credit unions hold a larger share of indirect loans in their loan portfolios, we expect provisions to be higher. The ratio of loans to total assets is also included in the specification to control for a credit union's concentration in lending. Credit unions with a high concentration in loans have net worth that is more sensitive to changes in the performance of the loan portfolio, which might result in higher provisions to counteract.

The final set of measures control for local variation in the economic environment. These measures include indicator variables for four of the five NCUA regions, the unemployment rate at the MSA or county level (rural areas) where appropriate, and membership penetration. A higher membership penetration may reduce information asymmetries and the need for provisions as a share of loans.

Our model of expected provisions is estimated separately by year for cross-sections of all credit unions.²⁷ The residuals from these models' estimates represent abnormal accruals that are

²⁷ We do not report the results from the first-stage. A complete table of results is available upon request.

not explained by fundamentals and are the discretionary component of loan loss provisions. Positive residuals indicate a discretionary provision that is viewed as evidence of credit unions behaving conservatively in their accounting practices. The second step then models the discretionary provisions (our residuals) using the same specification in equation 1, where the treatment effect captures whether credit unions led by conservative CEOs made larger, i.e. more conservative, discretionary provisions during the crisis, relative to their counterparts. Results reported in Table 5 (column 1) indicate conservative credit unions increased their discretionary provisions by 18 percent of average loans, relative to their liberal counterparts during the crisis (2008-2009). Column 2 shows there is no statistically significant difference in discretionary provisions prior to the crisis, which indicates a similarity in pre-treatment trends.

[Insert Table 5 about here]

5.3 Robustness and falsification tests for discretionary provisions

Similar to the analysis of returns, we consider the effect on discretionary provisions when using the alternative control group of matched non-partisan credit unions. Comparing conservative to non-partisan credit unions, we find (Table 6, column 1) that conservatives have provisions that are 22 percent higher as a share of their loans during the crisis, relative to their non-partisan counterparts. An effect that is statistically significant at the 5% level and similar in magnitude as to the comparison with liberals. Column 2 indicates a similarity in the pre-treatment trends for discretionary provisions. Implementing the falsification test, where we compare liberals (fake treated group) to the matched non-partisans, we find there to be no difference in their discretionary provisions during the crisis (column 3) or prior. These results suggest that conservative led credit unions behave differently than other credit unions during the

crisis by acting conservatively in using greater discretion to add to their provisions for loan losses.

[Insert Table 6 about here]

5.4 Loan portfolio performance comparisons

Credit unions managed by conservative CEOs used more discretion in setting aside provisions for loan losses during the crisis, which contributed to higher provisions and lower earnings relative to their counterparts. We attribute the relative increase in provisions by conservatives to be due to their heightened perceptions following the financial crisis and recession of the potential risks to their loan portfolios. The difference in behavior we do not believe is driven by observed differences in loan performance, as measured by the charge-off rate. Credit unions are to charge-off loans when there is a high probability of loss, such as non-performing loans more than six months past due, loans in foreclosure, or loans in bankruptcy (NCUA, 2013). If relative differences in current loan performance were driving the relative difference in provisions, then we would find that loan portfolios at conservative credit unions had higher charge-off rates than their counterparts during the crisis.

We model the net charge-off rate using the same specification in equation 1, where interest is in the treatment effect of being conservative during the crisis on loan performance. Column 1 of Table 7 indicates that conservative credit unions had net charge-off rates that were not statistically significantly different than their liberal counterparts during the crisis. The results further indicate there were no differences in loan portfolio performance between conservative versus non-partisan credit unions (Table 7, column 2) and liberal versus non-partisan credit unions (Table 7, column 3). No differences were found in the pre-treatment trends for any of the

three pairings.²⁸ It appears from these results that the relative change in provisions is influenced by the crisis and conservative led credit unions perceptions of future loan performance, rather than observed changes in current performance. It is this difference in perception that we believe is consistent with a difference in their ideology.

[Insert Table 7 about here]

6. Conclusion

We report results demonstrating that credit unions managed by conservative CEOs had returns similar to their liberal counterparts in the period prior to the 2008 financial crisis, but the returns of the two groups subsequently diverged. During the crisis (2008-2009) returns were lower by 22 basis points among credit unions managed by conservative CEOs. Our empirical results suggest this heterogeneity in credit union performance during the crisis is tied in large part to variation in CEO ideology that affects organizational culture. Differences in accounting choices that are consistent with differences in CEOs' ideologies help to explain the differences in returns. Specifically, we find credit unions led by ideologically conservative CEOs accrued relatively higher discretionary provisions for loan losses during the crisis, thereby increasing expenses and reducing returns relative to their counterparts. We do not observe a difference in net charge-off rates between conservative and non-conservative led credit unions during the crisis. We interpret this as evidence that personality traits of conservative CEOs influenced culture and decision maker outlooks on the future.

Individuals respond to similar stressors, such as the financial crisis, differently depending on their key traits. Our results are consistent with conservative led credit unions behaving uniquely during crisis due to discomfort from uncertainty and a need for more deliberate

²⁸ These results are not reported and are available upon request.

responses to re-establish order. Provisions for loan losses are a natural channel for their response as generally accepted accounting practices require credit union executives to use substantial judgment when making provisions. During the crisis, conservative led credit unions use discretion to present a more conservative view of financial position through larger loan-loss provisions. The implication being that personal traits of leaders of depository institutions can explain heterogeneity in observed performance. Further, lower returns on assets in a short window of time may not be a clear indication of worse performance as it may be an indication of greater caution in financial reporting during crisis.

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Table 1: Summary statistics of conservative and non-conservative credit unions pre-crisis (2007)

	(1)	(2)	(3)	(4)	(5)
	Conservative	Liberal	Normalized difference	Non- Partisan	Normalized difference
Net Worth/Total Assets (%)	11.34 (3.68)	11.56 (3.57)	-0.04	11.65 (3.57)	-0.06
Loans/Total Assets (%)	71.61 (13.00)	71.29 (13.40)	0.02	71.30 (13.40)	0.02
Member Percent	27.47 (24.31)	28.87 (25.06)	-0.04	26.76 (25.06)	0.02
Cash & Short Term Investments/Total Assets (%)	15.21 (9.40)	13.92 (8.77)	0.10	15.51 (8.77)	-0.02
Size	19.26 (1.57)	19.43 (1.50)	-0.08	19.04 (1.50)	0.10
Unsecured Loan Share (%)	5.37 (6.17)	5.90 (10.19)	-0.04	5.04 (10.19)	0.04
Credit Card Loan Share (%)	4.51 (4.47)	4.30 (4.02)	0.03	4.70 (4.02)	-0.03
Auto Loan Share (%)	39.85 (17.44)	32.53 (17.82)	0.28	38.49 (17.82)	0.06
Net Long Term Assets/Total Assets (%)	26.63 (14.71)	29.28 (17.26)	-0.12	26.33 (17.26)	0.02
Loans/Deposits (%)	84.66 (19.27)	84.90 (17.21)	-0.01	83.71 (17.21)	0.04
Unemployment (%)	4.48 (1.23)	4.55 (0.92)	-0.04	4.56 (0.92)	-0.05
Observations	223	136		192	

This table presents in columns 1-3 the mean and standard deviation (in parenthesis below), along with the normalized difference, between conservative and liberal credit unions for the year 2007. Conservative credit unions are defined as having had at least one CEO in the period (2004-2007) who in the past made contributions primarily to candidates in the Republican Party, and did not have a CEO who primarily gave to Democratic Party candidates. Liberal credit unions meet

the exact opposite conditions. Column 4 provides the mean and standard deviation for a matched sample of non-partisan credit unions, where the match was made with propensity score matching and replacement using the nearest neighbor. The normalized difference in column 5 compares conservative to the sample of matched non-partisan credit unions. Variable definitions and formulas are found in the NCUA's financial performance reports.

Table 2: Impact of conservatism on returns during and prior to the crisis

	(1)	(2)
α Treatment Effect	-0.2174** (0.1018)	0.0464 (0.0823)
Net Worth/Total Assets (%)	0.5944*** (0.0655)	0.5546*** (0.0442)
Loans/Total Assets (%)	-0.0242* (0.0137)	0.0123 (0.0173)
Member Percent	0.0027 (0.0055)	-0.0047 (0.0031)
Cash & S.T. Investments/Total Assets (%)	-0.0021 (0.0083)	0.0343 (0.0225)
Size	4.0025*** (0.6809)	3.2685*** (0.8260)
Unsecured Loan Share (%)	0.0636*** (0.0138)	0.0041 (0.0307)
Credit Card Loan Share (%)	-0.0061 (0.0366)	0.0056 (0.0555)
Auto Loan Share (%)	-0.0048 (0.0088)	-0.0093 (0.0114)
Net Long Term Assets/Total Assets (%)	-0.0044 (0.0107)	0.0109 (0.0091)
Loans/Deposits (%)	0.0191** (0.0074)	0.0041 (0.0161)
Unemployment (%)	-0.0204 (0.0286)	-0.1653 (0.1033)
Constant	-83.5712*** (12.5510)	-69.6163*** (15.8677)
Observations	1059	712
Adjusted R ²	0.580	0.609

This table presents the difference-in-difference (DID) estimates of the treatment effect from being led by a conservative credit union on the annual return on average assets, relative to those of liberal credit unions. The treatment effect in column 1 reflects the DID in returns in the crisis years (2008-2009) between conservative and liberal credit unions, relative to those in 2007. Column 2's value of the treatment effect represents a test of similarity in pre-crisis trends in returns between conservative and liberal credit unions between the years 2006 and 2007. Each specification includes time and credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Table 3: Robustness and falsification check of returns

	(1)	(2)	(3)	(4)
	Conservative and Non-Partisan		Liberal and Non-Partisan	
α Treatment Effect	-0.1569** (0.0753)	0.0060 (0.0729)	0.0297 (0.0709)	-0.0031 (0.0611)
Net Worth/Total Assets (%)	0.6457*** (0.0537)	0.5974*** (0.0407)	0.6127*** (0.0418)	0.4755*** (0.0812)
Loans/Total Assets (%)	-0.0444*** (0.0103)	-0.0193 (0.0167)	-0.0016 (0.0166)	-0.0001 (0.0142)
Member Percent	0.0073** (0.0033)	-0.0022 (0.0034)	0.0019 (0.0039)	-0.0059** (0.0023)
Cash & S.T. Invest/Total Assets (%)	-0.0039 (0.0073)	0.0224 (0.0197)	-0.0012 (0.0068)	0.0100 (0.0152)
Size	3.9470*** (0.6198)	3.3087*** (0.8717)	3.4726*** (0.6431)	2.7315*** (0.6930)
Unsecured Loan Share (%)	0.0604*** (0.0109)	-0.0534** (0.0237)	-0.0372 (0.0419)	0.0344 (0.0306)
Credit Card Loan Share (%)	0.0097 (0.0327)	-0.0343 (0.0410)	0.0045 (0.0564)	-0.0623*** (0.0196)
Auto Loan Share (%)	-0.0104 (0.0074)	-0.0109 (0.0119)	-0.0067 (0.0088)	-0.0239 (0.0149)
Net L.T. Assets/Total Assets (%)	-0.0081 (0.0086)	0.0042 (0.0050)	-0.0122*** (0.0044)	-0.0015 (0.0063)
Loans/Deposits (%)	0.0316*** (0.0063)	0.0223 (0.0204)	0.0033 (0.0114)	-0.0035 (0.0105)
Unemployment (%)	-0.0119 (0.0226)	-0.1140 (0.1013)	0.0093 (0.0396)	0.0511 (0.1006)
Constant	- 81.9048*** (11.5464)	- -69.0214*** (15.8007)	- 72.7923*** (12.7991)	- -56.1755*** (13.6063)
Observations	1227	822	976	654
Adjusted R ²	0.614	0.615	0.551	0.352

This table presents a robustness and falsification check of the treatment effect on returns reported in Table 2. The difference-in-difference (DID) estimate of the treatment effect from being led by a conservative credit union on the annual return on average assets, relative to those of a matched sample of non-partisan credit unions is used to test for robustness. The treatment effect in column 1 reflects the DID in returns in the crisis years (2008-2009) between conservative and non-partisan credit unions, relative to those in 2007. Column 2's value of the treatment effect represents a test of similarity in pre-crisis trends in returns between conservative and non-partisan credit unions between the years 2006 and 2007. Columns 3-4 present the estimates of our falsification test, which compare the DID in returns between liberal

and non-partisan credit unions for the pre-post crisis years (column 3), and the pre-crisis years (column 4). Each specification includes time and credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Table 4: Exploration of Net Income Components

	(1)	(2)	(3)
α Treatment Effect	0.1507*	0.0531**	0.0115*
	(0.0831)	(0.0222)	(0.0066)
Net Worth/Total Assets (%)	-0.3396***	-0.0170	-0.0040
	(0.0653)	(0.0184)	(0.0030)
Loans/Total Assets (%)	0.0264**	0.0024	0.0021**
	(0.0120)	(0.0044)	(0.0008)
Member Percent	-0.0040	0.0009	0.0000
	(0.0041)	(0.0012)	(0.0003)
Cash & S.T. Investments/Total Assets (%)	0.0127*	-0.0015	0.0007*
	(0.0071)	(0.0039)	(0.0004)
Size	-2.6856***	-0.1758	-0.0764*
	(0.5392)	(0.1265)	(0.0417)
Unsecured Loan Share (%)	-0.0476***	-0.0170***	-0.0034***
	(0.0132)	(0.0025)	(0.0007)
Credit Card Loan Share (%)	0.0494*	0.0128**	0.0028
	(0.0279)	(0.0057)	(0.0029)
Auto Loan Share (%)	0.0115	0.0009	0.0025***
	(0.0091)	(0.0028)	(0.0009)
Net Long Term Assets/Total Assets (%)	0.0122*	-0.0010	0.0008*
	(0.0068)	(0.0018)	(0.0004)
Loans/Deposits (%)	-0.0176**	0.0007	-0.0005
	(0.0068)	(0.0017)	(0.0004)
Unemployment (%)	0.0692*	0.0119	0.0018
	(0.0391)	(0.0086)	(0.0021)
Constant	54.8083***	5.3042**	1.4891*
	(10.2902)	(2.3245)	(0.8298)
Observations	1059	1059	1059
Adjusted R ²	0.509	0.105	0.126

This table presents the difference-in-difference (DID) estimates of the treatment effect from being led by a conservative credit union on various components of net income, relative to those of liberal credit unions. The dependent variable in column 1 is the ratio of provisions for loan losses to average assets, whereas column 2 represents the ratio of employee compensation and benefits to average assets, and column 3 is the ratio of loan servicing expense to average assets. The treatment effect in each column reflects the DID in returns in the crisis years (2008-2009) between conservative and non-partisan credit unions, relative to those in 2007. Each specification includes time and credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Table 5: Impact of conservatism on discretionary provisions during and prior to crisis

	(1)	(2)
α Treatment Effect	0.1796** (0.0796)	-0.0714 (0.1078)
Net Worth/Total Assets (%)	-0.3949*** (0.0837)	-0.7003*** (0.0863)
Loans/Total Assets (%)	0.0056 (0.0160)	-0.0046 (0.0171)
Member Percent	0.0019 (0.0056)	0.0048 (0.0036)
Cash & S.T. Investments/Total Assets (%)	0.0062 (0.0099)	-0.0338 (0.0300)
Size	-2.7932*** (0.7017)	-4.5014*** (1.2676)
Unsecured Loan Share (%)	-0.1115*** (0.0144)	-0.0939*** (0.0341)
Credit Card Loan Share (%)	-0.0018 (0.0549)	-0.0635 (0.0796)
Auto Loan Share (%)	0.0099 (0.0158)	0.0145 (0.0139)
Net Long Term Assets/Total Assets (%)	0.0151 (0.0111)	-0.0137 (0.0107)
Loans/Deposits (%)	-0.0176** (0.0077)	-0.0254 (0.0160)
Unemployment (%)	-0.0163 (0.0348)	0.2157** (0.1026)
Constant	59.5376*** (13.4184)	97.6125*** (24.8660)
Observations	1057	710
Adjusted R ²	0.304	0.719

This table presents the difference-in-difference (DID) estimates of the treatment effect from being led by a conservative credit union on discretionary provisions for loan losses as a share of average loans, relative to those of liberal credit unions. Discretionary provisions are defined as the difference between the actual provision and what is predicted based on the mix of loan categories and loan performance. The treatment effect in column 1 reflects the DID in discretionary provisions in the crisis years (2008-2009) between conservative and liberal credit unions, relative to those in 2007. Column 2's value of the treatment effect represents a test of similarity in pre-crisis trends in discretionary provisions between conservative and liberal credit unions between the years 2006 and 2007. Each specification includes time and credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Table 6: Robustness and falsification check of discretionary provisions

	(1)	(2)	(3)	(4)
	Conservative and Non-Partisan		Liberal and Non-Partisan	
α Treatment Effect	0.2249** (0.0878)	-0.0160 (0.1023)	0.1000 (0.0684)	0.0521 (0.0596)
Net Worth/Total Assets (%)	-0.4566*** (0.0694)	-0.7394*** (0.0943)	-0.4135*** (0.0590)	-0.3415*** (0.0656)
Loans/Total Assets (%)	0.0209 (0.0136)	0.0121 (0.0267)	0.0037 (0.0103)	0.0111 (0.0118)
Member Percent	-0.0006 (0.0034)	0.0004 (0.0038)	0.0106* (0.0056)	0.0010 (0.0031)
Cash & S.T. Invest./Total Assets (%)	0.0159** (0.0063)	-0.0279 (0.0224)	0.0050 (0.0080)	-0.0051 (0.0099)
Size	-3.0468*** (0.7467)	-3.9422*** (1.4037)	-2.6399*** (0.5417)	-1.8634*** (0.6862)
Unsecured Loan Share (%)	-0.1080*** (0.0116)	-0.0669 (0.0404)	0.0446 (0.0378)	-0.0393** (0.0181)
Credit Card Loan Share (%)	-0.0091 (0.0542)	-0.0558 (0.0513)	-0.0377 (0.0715)	-0.0270 (0.0410)
Auto Loan Share (%)	0.0127 (0.0132)	0.0203 (0.0154)	0.0059 (0.0105)	0.0393*** (0.0132)
Net L.T. Assets/Total Assets (%)	0.0239*** (0.0075)	-0.0052 (0.0052)	0.0182*** (0.0052)	0.0018 (0.0038)
Loans/Deposits (%)	-0.0267*** (0.0061)	-0.0280 (0.0251)	-0.0057 (0.0087)	-0.0127* (0.0065)
Unemployment (%)	-0.0387 (0.0299)	0.1937* (0.1049)	-0.0195 (0.0341)	0.0400 (0.0919)
Constant	64.0072*** (14.1273)	85.1516*** (26.4313)	54.8376*** (10.6685)	38.8424*** (14.1404)
Observations	1218	815	969	649
Adjusted R ²	0.356	0.676	0.252	0.226

This table presents a robustness and falsification check of the treatment effect on discretionary provisions reported in Table 5. The difference-in-difference (DID) estimate of the treatment effect from being led by a conservative credit union on discretionary provisions, relative to those of a matched sample of non-partisan credit unions is used to test for robustness. The treatment effect in column 1 reflects the DID in returns in the crisis years (2008-2009) between conservative and non-partisan credit unions, relative to those in 2007. Column 2's value of the treatment effect represents a test of similarity in pre-crisis trends in discretionary provisions between conservative and non-partisan credit unions between the years 2006 and 2007. Columns 3-4 present the estimates of our falsification test, which compare the DID in discretionary provisions between liberal and non-partisan credit unions for the pre-post crisis years (column 3), and the pre-crisis years (column 4). Each specification includes time and

credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Table 7: Impact of conservatism on loan performance

	(1)	(2)	(3)
α Treatment Effect	0.0499 (0.0693)	0.0852 (0.0732)	0.0237 (0.0514)
Net Worth/Total Assets (%)	-0.3229*** (0.0593)	-0.3475*** (0.0514)	-0.2851*** (0.0443)
Loans/Total Assets (%)	-0.0018 (0.0096)	0.0023 (0.0123)	-0.0096 (0.0110)
Member Percent	-0.0026 (0.0020)	-0.0023 (0.0017)	-0.0032 (0.0027)
Cash & S.T. Investments/Total Assets (%)	0.0071 (0.0063)	-0.0089 (0.0191)	-0.0125 (0.0221)
Size	-3.2758*** (0.5600)	-3.3147*** (0.6248)	-2.7252*** (0.5209)
Unsecured Loan Share (%)	0.0625** (0.0236)	0.0579** (0.0237)	0.0348 (0.0244)
Credit Card Loan Share (%)	0.0709** (0.0268)	0.0211 (0.0268)	-0.0003 (0.0431)
Auto Loan Share (%)	0.0232** (0.0114)	0.0133 (0.0127)	0.0045 (0.0097)
Net Long Term Assets/Total Assets (%)	0.0064 (0.0060)	-0.0038 (0.0156)	-0.0028 (0.0159)
Loans/Deposits (%)	-0.0113** (0.0056)	-0.0237*** (0.0066)	-0.0078 (0.0103)
Unemployment (%)	0.0520* (0.0303)	0.0558* (0.0328)	0.1117*** (0.0365)
Constant	66.7910*** (10.7298)	69.1204*** (12.0437)	57.0602*** (10.4897)
Observations	1059	1227	976
Adjusted R ²	0.553	0.491	0.407

This table presents the difference-in-difference (DID) estimates of the treatment effect on the net charge-off rate as a share of average loans, between the crisis years (2008-2009) and the year 2007. The treatment effect in column 1 reflects the DID in returns between conservative and liberal credit unions. In column 2 the difference is measured between conservative and a matched sample of non-partisan credit unions, and column 3 compares liberal to non-partisan led credit unions. Each specification includes time and credit union level fixed effects, which are omitted to save space. Standard errors clustered at the state level appear in parentheses. *, **, and *** indicate coefficients are statistically different from zero at the 10%, 5%, and 1% level, respectively.

Figure 1: Credit Union Return on Assets by CEO Political Ideology

