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# Research Finds Correlation between Political Connections, Federal Reserve Loans

*Huntsman School Press Release*



Banks that have better political connections and invest money in lobbying are more likely to get emergency loans from the Federal Reserve System, according to research done by a Huntsman professor.

One might expect lobbyists and politically-connected companies to win favor in the nation's capital, but the Federal Reserve is a non-partisan entity, independent of political considerations. Ben Blau, an associate professor in the Finance and Economics Department, said he was surprised to discover the correlation when he did a study of 677 banks and their dealings with the Federal Reserve during the recent financial crisis.

"In theory there should not be any political incentive for the Federal Reserve to provide emergency relief to banks that are politically active or connected," he said.

His research found, however, that some 15 percent of the banks that got loans had politically-connected employees, compared to 1.5 percent of those who could boast no such advantage. Blau found those who borrowed from the Fed were five times as likely to spend money on lobbyists and ten times more likely to employ politically-connected individuals than banks that did not borrow from the Fed.

Blau said it's possible that if a bank is more politically-active, it is also more prone to seeking government help, and that may explain the correlation.

"I think the most compelling explanation for why this happened was politically-connected banks were buying what they perceive as synthetic insurance," he said, explaining they may have believed they would be able to fall back on emergency Federal loans in hard times.

"If political connections somehow represent perceived insurance to banks and they believe that if times get rough the government will provide them with some bailout, then they might be more open to engaging in financially risky behavior," he said. "And yet, often, it is that very mindset that leads a bank to getting in trouble and eventually seeking emergency loans."

Blau said he did a paper a few years ago with Huntsman professors Tyler Brough and Diana Thomas that established an even stronger correlation between banks that had connections and invested in lobbying efforts, and banks that got help

from the Troubled Asset Relief Program or TARP. Blau said he expected, however, when it came to the Federal Reserve there would be no such correlation.

Blau's working paper is already posted on the website of the [Mercatus Center at George Mason University](#). The research has sparked the interest of several national publications that have cited it or quoted him, including Bloomberg, American Banker and Politico.