Politics, regulation, and bank payouts

Rüdiger Fahlenbrach, Minsu Ko, and René M. Stulz*

June 2025

ABSTRACT

We investigate the impact of politics on banks through the lens of payouts. From 1977 to 2023, large banks, but not large industrial firms, have lower payouts under Democratic presidents. After the Global Financial Crisis, regulators favored repurchases for large banks, which increased their importance, and large banks permanently shifted the composition of their payouts. The greater flexibility of repurchases makes them more sensitive to shifts in politics than dividends. Large banks increased repurchases following the first election of Donald Trump and their stock-price reaction to both elections of Donald Trump is larger than for small banks and industrial firms.

Keywords: Banks, politics, regulation, payout policy, dividends, repurchases

JEL classification: G21, G28, G35

*Fahlenbrach is Swiss Finance Institute Senior Chair at Ecole Polytechnique Fédérale de Lausanne, Switzerland, and affiliated with the European Corporate Governance Institute (ECGI) and the Swiss Finance Institute. Ko is Senior Lecturer at Monash University, Australia. Stulz is the Everett D. Reese Chair of Banking and Monetary Economics, Fisher College of Business, Ohio State University, and affiliated with the National Bureau of Economic Research (NBER) and ECGI. Fahlenbrach acknowledges financial support from the Swiss Finance Institute. We are grateful for conversations with Harry DeAngelo and Hamid Mehran. We thank Peter Cziraki, Jonathan Cohn, Andrei Gonçalves, Huyen Nguyen (discussant), participants at a seminar at Ohio State, and participants at the Münster Banking Workshop for helpful feedback. Stulz is at times retained by financial institutions or their attorneys as a consultant or as an expert. Address correspondence to René M. Stulz, Fisher College of Business, The Ohio State University, 806 Fisher Hall, Columbus, OH 43210, stulz.1@osu.edu, Tel.: +1 614 292 1970; fax: +1 614 292 2359.

1. Introduction

A long literature focuses on the influence of politics on corporate financial policies (see, for instance, Jensen, 1991; Roe, 1996; and Rajan and Zingales, 2003). The banking sector is ideal for studying how politics influences financial policies, because heavy regulation gives national governments many levers to shape banking policies (Calomiris and Haber, 2015). We investigate the impact of politics and regulation on banks through the lens of bank payout policy from 1977 to the present. Changes in the party in control of the presidency affect the government's attitude towards large banks. Democratic presidents lead administrations that are more likely to increase regulations on banks, while Republican presidents set a more deregulatory tone. Hence, with Democratic presidents, banks are more likely to face explicit and implicit constraints on their payout policies than with Republican presidents. In addition, since a bank's equity value is the present value of its future payouts, we expect that the relaxation of constraints on payouts resulting from the unexpected election of a Republican president increases the value of bank stocks. We find strong support for these predictions for large banks.

Banks differ in the attention they receive from politicians as well as the attention they receive from regulators. When politicians are unhappy with banks, they have congressional hearings with a lineup of CEOs from the largest banks, not community banks. Community banks tend to have broad support among politicians, while large banks tend to be more controversial. We consider banks that have more than $50 billion of assets (called large banks in the following) to be more tightly regulated, and we expect them to be most affected by changes in political winds. We find that the payout rate of large banks is higher under Republican administrations than under Democratic administrations when compared to the payout rate of other banks.

We demonstrate that it is plausible to attribute the difference in large bank payouts to the role of politics and regulation. In particular, we show that the effect of politics on bank payouts is stronger when the political party affiliation of the president aligns with the one of the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs. In such a constellation, politically desired changes in bank supervision and regulation, whether requiring legislation or not, are easier to implement. Further, we show

that the effect cannot be attributed to differences in the economic climate, since large industrial firms do not have higher payouts under Republican administrations. Since our result holds when we also control for expected future bank performance, the higher payouts of large banks when the president is a Republican are unlikely to be explained by an expected improvement in economic climate that disproportionally benefits large banks. We also show that the effect holds when we control for financial regulation uncertainty.

The impact of politics and regulation on the composition and the level of large bank payouts is particularly striking when we analyze payout policy changes across bank size groups after the Global Financial Crisis (GFC). During and after the GFC, there was considerable debate about large banks having been reluctant to cut dividends in 2008, which arguably made them financially weaker (see, for instance, Hirtle, 2016; Rosengren, 2010; Acharya, Gujral, Kulkarni, and Shin, 2022; Cziraki, Laux, and Lóránth, 2024).[1] After the GFC, the most tightly regulated banks, pushed by regulators, sharply increased the fraction of their payouts made in the form of repurchases relative to dividends. The regulatory intent was to exploit the greater flexibility of repurchases to make bank payouts more responsive to shocks.

As discussed by Hirtle (2016), the post-GFC regulations for large banks limited their ability to pay dividends. Large banks faced restrictions if they wanted their dividend payout rate to exceed 30% of net income but did not face such restrictions if they wanted to increase their payout rate beyond 30% of net income using repurchases. We show that, as expected, the distribution of the dividend payout rate is quite different during the 2010s than before. A statistical test for bunching shows that there is an abnormal number of large banks with a dividend payout rate close to the threshold of 30% for the period 2011-2016. The 30% threshold becomes less binding after 2016.

Turning to repurchases, Floyd, Li, and Skinner (2015) find that repurchases increase for banks in the 2000s, but that aggregate bank dividends are higher than aggregate bank repurchases every year in their sample period. We show that the importance of repurchases increases after the GFC. After 2011, aggregate

[1] However, we show that while dividends of banks of all sizes were sticky during the GFC, the total payouts of large banks fell sharply because of the decrease in repurchases. The literature and policymakers who focused mostly on dividend payouts during the GFC have hence underestimated the responsiveness of large banks' payouts to adverse shocks.

net repurchases for our sample of banks exceed aggregate net dividends every year before the COVID-19 crisis when regulators restricted repurchases of banks. In 2019, net repurchases are 68% of the record-breaking bank net payouts in that year. Hence, the greater flexibility of repurchases works both on the downside, when banks cut payouts, and on the upside, when banks increase payouts.

To provide further evidence of the causal impact of politics and regulation on banks, we conclude with an examination of the impact of the elections of Donald Trump and the election of Joe Biden on large banks. These elections were surprises in the sense that the ex-ante probability of the winner being elected was only slightly higher than a coin toss in 2020 and 2024 and much lower than a coin toss in 2016. We find that the stock-price reaction of large banks to the election in 2016 is more positive than for small banks or industrial firms. Subsequent to his election, President Trump appointed a vice-chair for supervision of the Federal Reserve Board, Randal Quarles, who was described as "the man loosening bank regulation".[2] This vice-chair effectively replaced Dan Tarullo who upon appointment "set out to tighten the way the Fed's 2,800 bank regulators and supervisors around the country oversee 5,800 financial institutions".[3] Many regulatory changes took place after 2016. These regulatory changes made it easier and more advantageous for banks subject to the Comprehensive Capital Analysis and Review (CCAR banks), which includes stress tests, to make payouts.[4] We use a difference-in-differences design where large banks subject annually to the CCAR are treated banks and non-CCAR banks are non-treated banks. We find a large treatment effect for the repurchase payout rate. After the election of Joe Biden to the presidency in 2020, the regulatory environment for banks turned more restrictive, and bank equity prices suffered. We show that Joe Biden's election had an adverse impact on banks compared to industrial firms. The successor of Randall Quarles was Michael Barr. He led the Federal Reserve to seek higher capital requirements for large banks with the so-called Basel endgame that was strongly opposed by banks. The American Banker reacted to the election

[2] See, e.g., "Meet the Man Loosening Bank Regulation, One Detail at a Time," by Jeanna Smialek, New York Times, Nov 29, 2019.
[3] See "Daniel K. Tarullo, a star regulator at the Fed" by Sewell Chan, New York Times, Jun 3, 2010.
[4] CCAR was introduced by the Federal Reserve in 2009. It is a regulatory framework that applies to large U.S. banks. It includes stress tests and an assessment of included banks' capital plans.

of Donald Trump in 2024 with an article titled "Trump win likely to delay Basel III, imperil Biden bank regulation."[5] Michael Barr stopped being vice chair for supervision in February 2025. We find that large banks experienced extremely high abnormal returns on November 7, 2024, compared to other banks or industrial firms. Under our hypotheses, we expect more large bank payouts in the future compared to smaller bank payouts, everything else equal.

The fact that larger banks are more likely to be affected by changes in national politics than smaller banks allows us to identify the effect of politics and regulation on large bank payouts using smaller banks as controls. Hence, our identification relies on the determinants of payout rates for large banks to be the same as for the other banks but for the impact of politics and regulation. We provide suggestive evidence that the identifying assumption can be maintained and also control, as described, for several economic variables that capture potential differences between large and small banks.

In addition, we carry out several analyses that provide tighter identification, for different subsets of the data. For much of the post-GFC period, large banks were subject annually to CCAR which included the Dodd-Frank stress tests and examined the banks' capital plans. These capital plans included payout plans. The submission of a capital plan was mandatory for banks with assets larger than $50 billion between 2012 and 2016, which allows us to examine the effects of heightened regulations using a sharp regression discontinuity design (RDD). The RDD results show that banks decreased dividends when they were under increased scrutiny by regulators. As additional evidence for the importance of the CCAR regulation in constraining payouts, we show that banks announce repurchase plans immediately after passing the stress tests.

If politics and regulations only affected the timing of bank payouts, the classic analysis of payout irrelevance given a firm's investment policy would still hold (Miller and Modigliani, 1961). However, there are at least three reasons to believe that politics and regulations that constrain bank payouts reduce the value of banks. First, for given assets, a bank that has retained more profits has lower leverage and hence lower

[5] "Trump win likely to delay Basel III, imperil Biden bank regulation" by Ebrima Santos Sanneh, *American Banker*, Nov. 6, 2024.

ability to capitalize on its deposit franchise (DeAngelo and Stulz, 2015). Second, the value of a bank depends on the present value of the safety net subsidies the bank is eligible for, and profit retention decreases their present value. Third, politicians and regulators often push banks to take actions that may benefit political goals but are not in the interest of shareholders (Calomiris and Haber, 2015; Huang and Thakor, 2024). For instance, banks may be pushed to make loans of a specific type or at a specific location. It would be harder to push banks if they have less retained earnings.

Politics and regulation could affect bank value through channels other than their impact on payouts. They could directly influence banks' expected profits and growth opportunities by restricting or expanding the activities that banks are allowed to pursue. For example, much of bank deregulation over the years has enabled banks to engage in new activities, such as interstate banking (e.g., Jayaratne and Strahan, 1998). We reduce concerns about such an omitted variable problem affecting our conclusions on the importance of politics for payouts by controlling for current and future bank income in our payout regressions.

Our paper contributes to the payout literature, to the banking regulation literature, and to the literature on the role of politics in finance. There is a vast payout literature, but in that literature, almost no study investigates bank payouts. For instance, the most recent review paper on dividend policy we know of (Leary and Nukala, 2024) does not discuss bank dividend policy at all and has no references on bank dividend policy. A notable exception is Floyd, Li, and Skinner (2015) who examine payout policy of banks and industrial firms from 1980 through the GFC and until 2012. They argue that "banks use dividends to signal financial strength while agency costs of free cash flow better explain industrial payouts." In contrast to our paper, they do not focus on how payout policies are affected by regulation and politics and do not distinguish between payout policies of large banks and other banks. A few studies investigate bank payouts during the GFC (Rosengren, 2010; Hirtle, 2016; Acharya, Gujral, Kulkarni, and Shin, 2022; Cziraki, Laux, and Lóránth, 2024). A key fact emphasized by these studies is that dividends did not fall much in 2008. Acharya, Le, and Shin (2017) explain this phenomenon as a transfer of value from creditors to shareholders and point out that it weakens the banking system generally as bank creditors are often other banks. We

show that payouts fell for large banks already in 2008 relative to other banks because of the fall in their repurchases (see also Hirtle, 2016).

The traditional reason for banks to be excluded from corporate finance studies of payout policy is that government actions affect bank payout and capital policies directly but do not directly affect the payout and capital policies of industrial firms. The federal government cannot prohibit a producer of widgets from making payouts until its equity capital meets some minimum threshold. However, in the case of banks, bank supervisors can force a bank to reinvest profits in the bank to increase its equity capital rather than pay these profits out to shareholders. Bank supervisors and regulators have many other powers that can be used to limit the discretion of banks. As a result, there is a large literature showing that banks benefit from impacting the actions of supervisors and regulators through lobbying or by proximity to politicians. For instance, Duchin and Sosyura (2012) show that banks with ties to congressmen on banking committees were more likely to receive TARP funds during the GFC; Yue, Zhang, and Zhong (2022) show that banks in the state of a senator on the Senate Banking Committee are less likely to be the subject of enforcement actions; and Lambert (2019) shows that banks that lobby are less likely to be the subject of enforcement actions. This literature focuses on individual banks' political connections while we focus on changes in the aggregate regulatory environment. Politicians can also push banks to make loans to favored constituencies. Such directed lending, which has been examined extensively, especially in the context of emerging countries (e.g., Dinç, 2005), can indirectly affect bank payout and capital policies. For instance, Huang and Thakor (2024) examine the impact on banks of changes in the party of the governor in U.S. states. They argue that Democratic governors are more likely to influence the lending of state-chartered banks than Republican governors. They find state-chartered banks protect themselves from politicians at the state level influencing their credit policies by changing their charter or by increasing payouts so that they have less capital and hence less degrees of freedom in making less profitable but socially favored loans. While Huang and Thakor (2024) find an effect of politics on the smaller state-chartered banks, we focus on the impact of politics on the large federally chartered banks. Huang and Thakor (2024) do not find an effect of state-level politics on large banks.

Our study is also related to studies of payout restrictions put in place during the COVID-19 crisis. In 2020, regulators in a number of countries restricted payouts quickly after the start of the COVID-19 crisis. Fringuellotti and Kroen (2024) find, using high frequency data, that the restrictions decreased bank equity value as well as bank CDS spreads and bond yields for U.S. banks. In other words, shareholders incurred losses but banks' creditworthiness increased. Marsh (2023) also finds an adverse shareholder wealth effect of payout restrictions using lower frequency data and shows that the decrease in value is positively related to bank size among banks subject to stress tests. A negative impact of restrictions of payouts on bank values has been found for European banks (e.g., Andreeva, Bochmann, and Schneider, 2023; Matyunina and Ongena, 2022).

Our analysis proceeds as follows. In Section 2, we describe the data and how we construct our sample. In Section 3, we highlight important changes in the composition and level of payouts of banks of different sizes over our sample period from 1977 to 2023 that we then explain through changes in politics and regulation in the remainder of the paper. In Section 4, we present evidence of the impact of politics and regulation on payout policy over our sample period. In Section 5, we analyze the effect of higher regulatory scrutiny after the GFC on payout policy, focusing on banks subject to the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR). We then use three recent surprise presidential elections as an unexpected shock to the regulatory environment. We examine the election's effect on the stock prices of banks subject to different regulatory scrutiny. Finally, we carry out a dynamic difference-in-differences analysis in changes in payout policy around the first Trump administration in 2016. We conclude in Section 6.

2. Data Sources, Sample Selection, and Data Definitions

We describe in Section 2 how we construct the sample from different data sources and define our main payout policy variables.

2.1. Sample selection

Our sample consists of banks subject to regulations on commercial banks from 1977 to 2023. To obtain the list of such banks, we proceed differently for the period 1977 to 1992 than for the period 1993 to 2023. For years since 1993, we include all banks in the CRSP-FRB link table provided by the Federal Reserve Bank of New York with non-missing Tier 1 capital ratios. We restrict the sample to banks with a non-missing Tier 1 capital ratio to filter out entities not subject to depository bank regulations (e.g., insurance companies or pure investment banks). For years before 1993, we cannot use the same definition because the start year of the CRSP-FRB link tables is 1985, and the Tier 1 capital ratio is generally missing before 1993. From 1977 to 1992, we include banks with a Standard Industrial Classification (SIC) code from 6020 to 6029 (commercial banks) or equal to 6199 (financial services). The start year of the sample is 1977, because net payouts are not widely available before 1977.

We merge the above sample with CRSP and S&P's Compustat. We exclude banks not incorporated in the U.S. (Compustat acronym FIC), banks with missing data for total assets (AT), common stock dividends (DVC), and market capitalization (CSHO and PRCC_F). We restrict the sample to banks with common stock traded on NYSE, AMEX, and Nasdaq. Our final sample consists of 1,228 unique banks and 13,617 bank-years. For most regressions, we use the sample of banks for the period 1993 to 2023 due to the structural shift in the composition of payouts in 1993 as described in Section 3 and some control variables only becoming available in 1993. This sample consists of 1,088 unique banks and 11,090 bank-years.

We compare in several tests and figures banks with industrial corporations from 1993 to 2023. To create the sample of industrial corporations, we start with all firms in the merged CRSP-Compustat data and exclude financial firms and utilities. We then apply the same filters as above, resulting in a sample of 9,213 industrial firms (83,366 firm-years).

We obtain bank-specific data items from holding company data provided by the Federal Reserve Bank of Chicago, SNL Financial, or Compustat, in that order. The variables are the Tier 1 capital ratio, loan loss provisions, and the net interest margin. We obtain common financial and accounting variables from Compustat. We describe these variables in Appendix Table A1.

We obtain additional data on dividend announcement dates from OptionMetrics and repurchase program announcement dates from SDC Platinum. We retrieve data on financial regulation uncertainty and economic policy uncertainty from the data library of Baker, Bloom, and Davis (2016).[6] Finally, in part of our analysis, we use publicly available data from the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) as well as the Dodd-Frank Act stress tests to back out planned capital actions, following Schneider, Strahan, and Yang (2023).

2.2. Definition of payout variables

We create the payout variables as follows. We measure dividends as cash dividends for common stock (DVC). We follow Fama and French (2001) and Floyd, Li, and Skinner (2015) to measure share repurchases as the increase in common treasury stock (TSTKC). If a firm employs the retirement method, which we infer from zero treasury stock in the current and prior year, we calculate repurchases as the purchase of common and preferred stock (PRSTKC) minus any reduction in the value of preferred stock. Depending on availability, we use redemption (PSTKRV), liquidating (PSTKL), or par value (PSTK) for the value of preferred stock. Net repurchases are equal to repurchases minus the issuance of stock (SSTK). If either calculation yields a negative value, we set net repurchases to zero. We observe negative values, i.e. stock issues that exceed repurchases, in 26% of all bank years. Total net payout is defined as the sum of dividends and net share repurchases. We use the 2023 Consumer Price Index to adjust dollar payouts for inflation. In the regression analyses, we generally scale payouts with lagged assets instead of corporate income because a ratio based on income has undesirable properties (e.g., due to negative income or close-to-zero income). We winsorize all continuous variables at the 1% and 99% levels, respectively, in the regression analyses.

[6] https://www.policyuncertainty.com/

3. The level and composition of bank payouts

In this section, we document how the level and composition of payouts change over our sample period. In subsequent sections, we show how regulation and politics help explain the changes documented in this section. We first show data for aggregate payouts. We then turn to payout rates in different time periods and for different bank size groups. We end with a comparison of payout rates between banks and industrial firms.

3.1. Aggregate payouts

Figure 1 shows the evolution of total dollar payouts (solid black line), dividends (red dashed line), and share repurchases (blue dotted line) for sample banks between 1977 and 2023 (in 2023 dollars). Total aggregate payouts increased steadily during the early sample period. Using 2023 dollars, payouts were $8 billion in 1977 and reached $15 billion in 1992. The increase in payouts picked up pace in 1993 and continued until the GFC, with a small decrease during the recession of 2001. Payouts peaked at $123 billion in 2007. With the GFC of 2008-2009, payouts fell to a low of approximately $21 billion in 2009, and increased steadily thereafter. Payouts did not attain their 2007 level again until 2017. Payouts reached record highs during the years of the first Trump presidency. The highest aggregate payouts during the sample period are in 2019, with approximately $234 billion in aggregate payouts for the banking sector. The trends displayed in Figure 1 align well with those of Figure 3 of Floyd, Li, and Skinner (2015), who show similar statistics for banks (using a slightly different sample selection approach) between 1980 and 2012.[7]

As for net share repurchases, we observe a structural break in 1993. Aggregate net repurchases were less than $1 billion until 1992 and started to increase immediately afterwards. Aggregate net repurchases stayed lower than dividends until the GFC. The 2010s saw a dramatic increase in net repurchases. Aggregate

[7] There are level differences due to a different definition of commercial banks. Floyd, Li, and Skinner (2015) defined banks as firms with an SIC code equal to 6020 (commercial banks). Their sample omits a subset of commercial banks with different SIC codes. For example, Citigroup never had an SIC code of 6020. We post results with the same definition as Floyd, Li, and Skinner (2015) in Online Appendix Figure OA1 and find alignment in both level and composition of payouts for the overlapping time period. The structural break in 1993 is also observable with this alternative definition.

share repurchases became larger than aggregate dividends for the first time in 2011 and stayed larger until banks were forced to cut them during COVID-19. The growing importance of repurchases is especially apparent after the end of the sample period of Floyd, Li, and Skinner (2015) in 2012. After the end of their sample period, repurchases exceed dividends every year until 2020. In 2018, the dollar amount of repurchases is roughly twice the dollar amount of dividends. The figure shows that the record aggregate payout levels between 2017 and 2019 are mostly explained by a spike in net repurchases between 2017 and 2019.

3.2. *Payout rates*

The different panels of Table 1 show averages for different payout rates, by period and size group. We report payout rates computed relative to lagged assets. We first describe statistics for all banks, reported in Column 1 of each panel. Banks pay out, on average, a relatively constant percentage of lagged assets after 1977 (between 0.30% per year before 1993 and 0.55% per year before the GFC, Panel A). The average ratio of dividends over assets (Panel B) is always larger than the average ratio of net repurchases over assets (Panel C), which is very different from the aggregate payouts shown in Figure 1, where net repurchases exceed dividends after 2011. The average ratio of net repurchases as a percentage of total net payouts (Panel D) is always below one-third. Finally, we demonstrate in Panel E that banks pay out on average about 51% of net income throughout our sample, but they pay out more of net income in crisis periods and less in good times. The evidence confirms the well-established fact that banks are reluctant to adjust dividends downwards in crisis periods, so that their dividend payout rate measured relatively to net income increases sharply as net income falls.

We now turn to payout rates for banks of different sizes. To determine the size thresholds, we proceed as follows. Since the Dodd-Frank Act was enacted in 2010, regulators have used asset values in nominal dollars to determine banks subject to the stress tests. Therefore, we employ nominal asset values in the post-2010 period. For the pre-2010 period, there were no nominal regulatory thresholds, so we take the post-2010 threshold levels, but adjust them for inflation using the 2010 Consumer Price Index. Columns 2 to 4

of Table 1 show summary statistics by size group. Large banks (assets ≥ $50 billion) have, on average, a net payout rate of 0.60%, whereas medium ($10 billion ≤ assets < $50 billion) and small banks (assets < $10 billion) have total net payout rates of 0.51% and 0.44%, respectively (Panel A). It is also noteworthy that the average fraction of payouts consisting of repurchases is almost 50% higher for large banks compared to small and medium banks as shown in Panel D.

Table 1 shows stark differences before and after the GFC in the payout behavior of banks. To provide context for the changes in payout behavior, we further investigate payout decisions during crisis periods. In Table 2, we estimate regressions of the different payout rates on their determinants and three crisis year indicator variables (one each for 2008, 2009, and 2020). We show separate results for the total payout rate, dividend payout rate, and repurchase payout rate. For each of the different payout rates, we show two results. Odd columns show results for the entire sample, and even columns show results with an interaction between an indicator variable of assets above $50 billion and each crisis year to examine whether the large banks and other banks exhibit different payout behaviors.[8]

Surprisingly, we find that the net payout rates in the total banking sector in Column 1 are not statistically significantly different during the three crisis years of 2008, 2009, and 2020. The crisis coefficients are also economically small. It is only in Column 2 that we uncover important differences, when we use an indicator variable for large banks. Large banks tend to pay out more in normal times. The coefficient on the large bank indicator variable of 11.5 indicates that large banks pay out on average 11.5 basis points more than other banks. The effect is economically meaningful, given that other banks pay out on average 48 basis points of their assets. However, during the crisis years, the large banks cut back significantly on their payouts, reducing them in 2008 by 10 basis points, in 2009 by 32 basis points, and in 2020 by 29 basis points. The two latter coefficients are economically important, given that the average payout rate of large banks in our sample is 71 basis points between 1993 and 2023 (Panel A of Table 1). In Column 4, we

[8] The results are quantitatively and qualitatively similar if we use the three size groups of assets < 10bn, 10bn ≤ assets < 50bn, and assets ≥ 50bn instead of the large bank indicator variable, in that the important differences are driven by the largest banks. We chose to report the results using only the large bank indicator variable to reduce the dimensionality of the table from 12 to 6 columns.

observe that large banks do not have on average a higher dividend payout rate than other banks. Surprisingly, given that we measure the payout rate using lagged assets, dividend payout rates actually increased in 2008, and only the large banks, and only in 2009, reduced dividend payout rates (see also Cziraki, Laux, and Lóránth, 2024). The coefficient of -10 is about 1/4 of the average dividend payout rate of the large banks. In Column 6, we report the results for the net repurchase rate and show that large banks are significantly different from smaller banks. Even after controlling for known determinants of the repurchase payout rate, we see that large banks have a significantly larger repurchase rate (11.5 basis points). In 2008, both smaller banks and large banks decrease their repurchase rate, but the effect for large banks is economically very important, at 21.0 basis points, while it is much smaller for the other banks (3.5 basis points). During 2009, the large banks cut their repurchases by 22.4 basis points, which is 22.4/45.1 = 49.7% of the repurchase rate in 2007. The effect is also significant in 2020, when the regulator encouraged banks to stop repurchases after the outbreak of COVID-19 and they did so on March 15, amounting to a total reduction of 29.8/69.1 = 43% in the repurchase payout rate compared to the level in 2019.[9]

Overall, we show in Table 2 compelling evidence that repurchases react very quickly to crises, but only for the large banks, while the dividend payout rates computed as a fraction of assets are surprisingly unaffected by crises.[10] The greater flexibility of repurchases is two-faced. It makes it possible for banks to cut payouts rapidly in crises, but it also enables them to increase payouts rapidly when regulators become more open to payouts as we show in Section 5.3. It is therefore not the case that a greater use of repurchases makes banks unambiguously more resilient.

[9] Large banks voluntarily announced that they would stop repurchases on March 15th, encouraged by the Fed. Most banks stopped repurchases from this date onward. The formal ban of repurchases from the Fed only came on June 25th. For more details, and an analysis of the consequences of the ban of repurchases, see Fringuellotti and Kroen (2024).

[10] Using net income as a denominator, we find that dividend / net income ratios dramatically increase during crises, while repurchase / net income ratios do not. The economic interpretation is of course the same.

3.3. Changes in payout patterns before and after the GFC

We investigate changes in levels and volatility of payouts across size groups from before the GFC to after the GFC. In Figure 2, we show the differences between large and more regulated banks and smaller banks and analyze equally weighted payout rates (net payouts / lagged assets) starting after the structural break of 1993. Panel A shows net payout rates, Panel B dividend payout rates, Panel C net repurchase rates, and Panel D net repurchases as a fraction of net payouts. In all four panels, we show three separate lines for banks with assets above $50 billion (solid red line), assets between $10 billion and $50 billion (orange dashed line), and below $10 billion (green dotted line). The last two columns of Table 1 of the corresponding panels can be used to assess whether the differences in Figure 2 are statistically significantly different between the size groups.

Starting from 1996 and until the onset of the GFC, large banks have the highest payout rates (Panel A). They reduce their payout rates the most during the GFC, which is driven both by dividends and share repurchases. After the GFC, Panel A shows that payout rates start increasing again, until they reach pre-crisis levels in 2018 (approximately 1% of assets for the largest size groups, and 0.38% of the smallest size group).

Panel B shows that large and medium-sized banks have similar dividend payout rates prior to the financial crisis and they are much larger than the rate of small banks (see also Panel B, Table 1). Panel B also clearly indicates a structural break in the data – dividend payout rates settle on a lower level of about 0.4% of lagged assets for all three size groups after the GFC. This suggests a fundamental change in the role of dividends in payout policy for the large banks after the GFC.

Panel C shows that the large increases in payout rates for the large banks we document in Panel A are mostly driven by a dramatic increase in the net repurchase rates, which reach record levels in 2018 and 2019. It is striking that in the years before the GFC the net repurchase payout rate of large banks does not stand out compared to the net repurchase payout rate of medium banks and that it is not much larger than the payout rate of small banks (see also Panel C of Table 1). In contrast, after the GFC, small and medium banks keep their net repurchase rate at the pre-GFC level, while that payout rate increases sharply for large

banks. As a consequence, the fraction of net payouts that comes from net repurchases (Panel D) has increased to well above 40% for the large banks, reaching a record level of 61% in 2018.

To summarize, Figure 2 shows that the role of dividends and repurchases in the dividend policy of large banks changes after the GFC, but it does not change for small and medium banks. As a result, when large bank payouts increase during the Trump presidency, they do so through an increase in repurchases rather than an increase in dividends.

We now turn our attention to the second moment of payouts. In Table 3, we show how the volatility of net payouts and the volatility of the components of net payouts evolve during our sample period and demonstrate more formally that the volatility of the net repurchase rate is higher than the volatility of the dividend rate. We do so for the three bank size groups.[11] We focus in Table 3 on the standard deviations of payout rates by size group and split the sample into pre- and post-GFC periods. We remove the three crisis-years from the sample to focus on normal times. We first calculate the yearly standard deviation within each size group, then take an average of standard deviations over time. The standard errors are calculated when we take time-series averages. The size group is assigned using a bank's previous year total assets.

Panel A of Table 3 shows that the volatility of the total payout rate for banks with more than $50 billion in assets increased after the GFC, while it did not increase for small or medium banks. The volatility of the net payout rate of large banks (Column 2) is statistically and economically significantly higher than that of medium and small banks after the GFC (Columns 3 and 4). When we separate net payouts into dividends and net repurchases in Panels B and C, we find that the evolution of payout rates shows very different patterns. As expected given the evidence in Figure 2, the volatility of the dividend payout rate is approximately 1/2 of the volatility of the total net payout rate. The volatility of the dividend payout rate of large banks significantly decreases from 0.23% before to 0.16% after the GFC. While there are no differences in the volatility of the dividend payout rate between the three groups before the GFC, the

[11] In Online Appendix Table OA1, we carry out the same analysis for payouts standardized by net income and find economically stronger results. As explained in Section 2, we focus on results with total assets in the denominator because net income can be negative and small, leading to undesirable distributional properties.

differences become economically large and statistically strongly significant after the GFC. Large banks have a much lower volatility of dividend payout rates than medium and smaller banks after the GFC. Panel C describes the changes in the volatility of the net repurchase rate. It is higher than the volatility of the dividend rate (0.36 vs. 0.24). The second row of Panel C shows that there was no difference in the net repurchase rate volatility across different size groups before the GFC. In the third row, we demonstrate that large banks have significantly higher repurchase rate volatilities after the GFC when compared to medium and small banks.

3.4. *Comparison of payouts of industrials versus payouts of commercial banks*

In Figure 3, we show that the change in payout policy of large banks is unique and that we do not observe similar changes in the payout policy of industrial firms. To compare payout policies of banks and industrial firms, we measure the payout rate relative to operating income rather than assets because banks have typically much higher asset sizes than industrial firms. Starting with dividends, the average bank in general has a higher dividend payout rate (dividends / operating income) than the average industrial firm (Panel C). The higher dividend payout rate holds for the equally weighted average for the whole sample period. In contrast, we see from Panel A that when we look at the aggregate dividend payout rate of banks, it starts as expected with dividend payouts being higher for banks than industrial firms. However, after the GFC, the aggregate dividend payout rate of banks is lower than the aggregate payout rate of industrials. This evolution reflects that the dividend payout rate of large banks falls after the GFC relative to the dividend payout rate of medium and small banks. Both figures also show the reluctance of banks to cut dividends during the financial crisis, indicated by the large spike in payout rates. Turning to the net repurchase payout rate, we see that the equally weighted average does not visibly increase after the GFC, but that the aggregate net repurchase payout rate increases considerably. As a result, while the net repurchase rate of banks is low compared to industrials before the GFC, the aggregate repurchase rate of banks during the Trump years is similar to the aggregate repurchase rate of industrials.

Overall, Figures 2 and 3 as well as the size comparisons of Tables 1 to 3 hint at important changes in the payout policies of large U.S. banks compared to other banks and compared to industrial firms over the last thirty years. In the following, we show that politics and regulation help understand these changes.

4. Politics, regulatory uncertainty, and bank payouts

Calomiris and Haber (2015) show how politics and bank regulation have interacted for centuries. We expect the political and regulatory pressures that limit payouts to weaken when political support for tight bank regulation falls. These pressures can be direct or indirect. For instance, regulators could directly limit the payout rate for banks of a given size. They could also increase capital requirements and indirectly limit payouts, as such increases generally force banks to retain more profits. Regulators can affect payouts through regulations they promulgate, but also in other ways. For instance, supervisors can order a bank to limit a bank's payouts on safety and soundness grounds or they can advise it to do so. Republican administrations tend to have a deregulatory agenda or pro-shareholder agenda compared to Democratic administrations. As a result of such an agenda, bank regulators and supervisors may reduce direct pressures on payout rates as well as indirect pressures arising from capital requirements. Any weakening in capital requirements would allow for larger payouts unless payouts are directly constrained.

During our sample period 1977-2023, we observe twenty-four years of Republican presidents and twenty-three years of Democratic presidents. We first analyze whether the payout rate of the most tightly regulated banks is higher under Republican presidents than Democratic ones. To capture the interaction between the presidency and congressional oversight, we then categorize each presidency into one of four pairs: (D, D), (D, R), (R, D), and (R, R), where the first letter represents the president's party and the second represents the party of the Senate Banking Committee chair. This allows us to test whether the effect of politics on bank payouts is stronger when both are from the same party.

Table 4 shows regression results of banks' net payout rates on lagged determinants. We present the results for different sample periods, depending on the availability of explanatory variables. All regressions include bank and year fixed effects. We cluster the standard errors by bank. For better readability of the

table, we express the dependent variable in basis points. The determinants are the log of assets, lagged ROA, Tobin's q, total equity over assets, and the standard deviation of ROA. These variables are commonly used in the payout literature for non-financial firms.[12] Additionally, we include contemporaneous and future ROA to account for the ability to pay out of income and for expectations of future profitability.[13]

Columns 1 and 2 show results for the entire sample period, 1977 to 2023. The main coefficient of interest in Column 1 is the indicator variable Democratic president interacted with the indicator variable for large bank. We find that under a Democratic president, large banks have a 11.1 basis points lower net payout rate. Relative to the mean net payout rate of large banks of 60 basis points, it is an economically significant decrease in payouts. The coefficients of the control variables go in the expected direction, in line with prior research on the determinants of payout rates in industrial firms (see, e.g., Kahle and Stulz, 2021, and the references therein). We see that the net payout rate increases with the past and current return on assets, Tobin's q, and total equity. It falls with the standard deviation of ROA.

For the regressions in Column 2, we include the three pairs (D, D), (D, R), and (R, D). The pair (R, R) is the omitted base group. The results in Column 2 show that when the president and the chair are both Democratic, large banks have 21.7 basis point lower net payout rates relative to (R, R). The coefficient on the interaction of (D, R) and large bank is not significantly different from zero. Together, these results indicate that the effect of a democratic president on net payouts is more pronounced if the senate banking chair is also democrat.

In Columns 3 and 4, we include in addition to the politics variables the financial regulation uncertainty categorical subindex of the Economic Policy Uncertainty Index of Baker, Bloom, and Davis (2016). We do so to examine whether the difference in payouts under Republican and Democratic presidents is merely due to differences in financial regulation uncertainty. We would expect that in times of higher financial

[12] We use two proxies for bank capital. For regressions that include bank-years prior to 1993, we use total equity / lagged assets since Tier-1 capital is generally not available before 1993. For regressions on the post-1993 sample, we use Tier-1 capital.

[13] For instance, future ROA would capture expected changes in profitability that affect large banks but not small banks. An example of such potential changes is an expected increase in trading income that would affect banks with important trading operations but not others.

regulation uncertainty, banks are more reluctant to make large payouts as they might be forced to hold more capital. The sample period starts in 1985, the first year for which the financial regulation uncertainty index is available.

In Column 3, we find a strong negative correlation of regulation uncertainty with net payouts for large banks. The economic significance is sizeable. Whenever the financial regulatory uncertainty is above the median of the time series, large banks have a 15.7 basis points lower payout rate. In Column 4, we include both the financial regulation uncertainty variable and the three pairs (D, D), (D, R), and (R, D) to test whether there is an effect of politics beyond financial regulation uncertainty. The statistical and economic significances of the indicator variables do not change. Banks pay out 23.6 basis points less when president and senate banking chair are democrats.

We now turn in Columns 5 to 8 to the period 1993-2023. We can add two additional control variables because of data availability. These variables are loan loss provisions and the net interest margin. We also replace the total equity ratio with the Tier-1 capital ratio. The main variable of interest in Column 5 is the indicator variable for Democratic president interacted with the large bank indicator variable. Under a democratic president, large banks have 19.3 basis points lower net payout rates. Relative to the mean payout rate of large banks of 71 basis points, the decrease in payouts is economically significant. Regarding the additional control variables, we find that net payouts increase with the net interest margin and fall with loan loss provisions. The other control variables have signs and economic magnitudes that mirror those we reported in Column 1.

In Column 6, we examine the political alignment between president and senate chair, and its impact on large banks' payouts. When the president and the chair are both Democratic, large banks pay out 31.6 basis points less compared to when the president and the chair are both Republican. The decrease in payouts is economically very large, since the mean payout rate of large banks is 71 basis points.

In Column 7, we include the indicator variable for high financial regulation uncertainty, and find a strong negative correlation of regulation uncertainty with payouts for large banks. The economic significance is sizeable. Whenever the financial regulatory uncertainty is high, the large banks have a 22.1

basis points lower payout rate. In Column 8, we include the pairs (D, D), (D, R), and (R, D) and in addition the high financial regulation uncertainty variables. We continue to find an economically meaningful and statistically negative effect of (D, D) on payouts, beyond the statistically and economically negative effect of high financial regulation uncertainty.

Overall, the results of Table 4 indicate that the large banks that receive the most political attention and regulatory scrutiny have economically meaningful lower payout rates under Democratic presidents and in times of higher financial regulation uncertainty.

We report additional results of the payout regressions in the Online Appendix, which all highlight the robustness of our results. In Online Appendix Table OA2, we estimate the payout regressions separately for small, medium, and large banks. We find an increasing impact of politics and regulation for larger groups. In Online Appendix Table OA3, we interact all explanatory variables with an indicator variable equal to one if the bank has more than $50 billion in assets. We continue to find a strong negative coefficient for the indicator variable for a Democratic president and for high financial uncertainty on payout policy for large banks. In addition, we find support for the identifying assumption that the bank characteristics that determine payout policy are similar across large and other banks. Bank characteristics continue to have strong explanatory power for the payout policy of small and medium-sized banks. Except for contemporaneous ROA, loan loss provisions, and the net interest margin, where we observe an incremental effect of large banks in the same direction as the effect reported in Table 4, none of the bank characteristics interacted with a large bank indicator is significant. Hence, we believe that our identifying assumption, that the payout policy of large and small banks is governed by the same underlying forces (except for politics), can be reasonably maintained.

In Online Appendix Tables OA4, we estimate regressions separately for the dividend payout rate and repurchase payout rate. We show that the economic magnitude of the coefficients of interest is generally stronger for share repurchases than for dividends, although both show significantly negative coefficients. The results in Table 4 do not qualitatively change when we exclude the GFC and the COVID-19 crisis periods, as shown in Online Appendix Table OA5. Finally, we show in Online Appendix Table OA6 that

the results hold up if we do not include contemporaneous or future net income as a proxy for changes in expected future net income in the regressions.

In Table 5, we contrast the results for banks with corresponding results for industrial firms. It could be that economic sentiment is more bullish during Republican administrations, so that payouts increase across the board, and that these increases are larger for large firms, perhaps because they generally are under higher regulatory scrutiny under Democratic presidents and are more affected by regulation uncertainty. We change the size thresholds to assets lower than 10 billion and assets of at least 10 billion, because industrial companies tend to have lower asset values. Note that with these thresholds, we classify the same fraction of firm-years as large for banks in Table 3 (712 / 11090 = 6.42%) and for industrial firms in Table 4 (5405 / 83366 = 6.48%). Also, it is unclear why industrial firms' payouts should be strongly associated with financial regulation uncertainty. We therefore use the broader Economic Policy Uncertainty Index of Baker, Bloom, and Davis (2016) for industrial firms as our main specification, but for transparency also report results with the financial regulation uncertainty index.

Table 5 reports the regression results. In stark contrast to the result for banks, Column 1 shows an economically small and statistically insignificant coefficient for the interaction term of Democratic president and large industrial firm. The payout rate of the largest industrial firms is unaffected by the political party of the president. The interaction between the large firm indicator and the indicator for high economic policy uncertainty is not significantly different from zero (Column 2). In Column 3, we observe a similar non-result for the interaction of the high financial regulation uncertainty indicator variable and the large industrial firm indicator variable. In Column 4, we include the Democratic president as well as the high economic policy uncertainty variables, both interacted with the large firm indicator variable. We obtain the same insignificant result on both interaction variables. Politics seems to play no role for the payout policies of industrial firms. Regarding the control variables, we observe that older and larger firms and firms with more cash have significantly higher net payouts, while firms with high R&D expenditures, large capital expenditures, large advertisement costs, and those that incur losses pay out less. Firms with a higher Tobin's q, asset tangibility, and profitability pay out more. These results are consistent with the large

literature on payouts of industrial firms (e.g., Kahle and Stulz, 2021; Lee, Shin, and Stulz, 2021; Ma, 2019; Michaely and Moin, 2022).

5. Unexpected regulatory changes and their impact on banks' equity values and payout policies

In Section 5.1, we first present evidence of the impact of regulatory changes after the GFC on payout policy, focusing on banks subject to the Federal Reserve's Comprehensive Capital Analysis and Review (CCAR). In Section 5.2, we make use of the surprise wins of Donald Trump over Hillary Clinton, Joe Biden over Donald Trump, and Donald Trump over Kamala Harris in the presidential elections in November 2016, 2020, and 2024 to carry out event studies of how large bank stock returns react to unexpected changes in the political and regulatory environment, relative to smaller banks and industrial firms.[14] Finally, in Section 5.3., we show that large banks' net payouts increase sharply following the election of Donald Trump in 2016.

5.1. Political regime, regulatory uncertainty, and bank payouts

In response to the Global Financial Crisis, bank regulation and supervision underwent dramatic changes, first with the Supervisory Capital Assessment Program (SCAP) in 2009, followed by the implementation of CCAR, an annual supervisory stress test for banks with assets above $50 billion, administered by the Federal Reserve. With the CCAR, regulators sought to ensure that banks have enough capital to absorb losses under an economic and financial downturn to continue lending (for details, see e.g., Schneider, Strahan and Yang, 2023). Under CCAR, each bank must propose a capital distribution plan incorporated into the stress test. These programs and stress tests provide clear evidence of the significant control that politicians and regulators exert over large banks and their policies, allowing for a more direct analysis of political influence on bank payouts.

[14] The election of George W. Bush in 2000 does not lend itself easily to an event study because the outcome of the election was not known for a very long time. The elections of Ronald Reagan, George Bush, and Barack Obama were not close.

Hirtle (2016) emphasizes that the Federal Reserve's CCAR program has encouraged participating banks to make more of their capital distributions through share repurchases. Under the CCAR program, bank holding companies (BHCs) planning to make dividend payments exceeding 30 percent of after-tax net income receive particularly close scrutiny, but there is no additional scrutiny related to share repurchases (Board of Governors of the Federal Reserve System, 2013).[15,]

Figure 4 reports histograms of the dividends / net income ratio (in percent) for sample banks with assets above $50 billion (adjusted with 2010 CPI) for different time periods. In Panel A, we find a wide distribution in the dividend payout ratio, with a median ratio of 37%, for the time period 1993-2007. Panel B examines the time period 2011-2016, during which banks with assets larger than $50 billion were subject to CCAR. We observe a marked shift to the left of the distribution, with the vast majority of sample banks not distributing more than 30% of net income through dividends.[16] Banks appear to have chosen to avoid the strict scrutiny that would have come to them had they broken the 30% threshold set by the Federal Reserve Board. Using a fuzzy bunching method proposed by Alvero and Xiao (2023), we show this formally in Panel C of Figure 4. We compare the empirical cumulative distribution function (CDF) of the dividend / net income payout ratio and a counterfactual CDF estimated outside the payout rate window of [25%, 35%]. The empirical CDF lies above the counterfactual CDF around 30%, indicating that banks bunch their dividend payout ratio right below the 30% threshold. The fuzzy bunching estimator indicates that there would be 21.9 bank years between 25% and 30%, should the distribution not have bunching. It is fewer than the 29 actual observations by 24%, and the difference is statistically significant at the 1% level with bootstrapped standard errors.

[15] "The Federal Reserve expects that capital plans will reflect conservative common dividend payout ratios. In particular, requests that imply common dividend payout ratios above 30 percent of projected after-tax net income available to common shareholders in either the BHC baseline or supervisory baseline will receive particularly close scrutiny" (page 23, Board of Governors of the Federal Reserve System, 2013). In all of the following analyses, we include 12 bank-years that were subject to the Capital Plan Review (CapPR) in 2012 and 2013 in the group of CCAR banks, because they were essentially subject to the same regulatory scrutiny. CapPR temporarily existed from 2012 to 2013 and applied to banks with assets above $50 billion but not subject to CCAR. CapPR was eventually merged into CCAR in 2014.

[16] Note that we use GAAP net income. This may not be the exact standard that supervisors applied.

Panel D shows the histogram for the period 2017-2023, after the election of Donald Trump and his appointment of Randal Quarles in October 2017 as the Federal Reserve's vice chairman for supervision and regulation, an open critic of several aspects of post-Dodd Frank banking regulation. The 30% threshold seems to have been much less binding during this time period.[17] In fact, as we show in Online Appendix Figure OA2, there is no statistical evidence of bunching in 2017.

Next, we quantitatively measure the effect of regulation on bank payout policy through a regression discontinuity design (RDD). From 2012 to 2016, there existed a sharp discontinuity in regulatory burden when banks exceeded $50 billion of statutory assets.[18] When banks passed the threshold of $50 billion in statutory assets, they were required to submit annual capital plans for CCAR.[19] This setting provides a natural experiment to measure how much regulation affects banks' payout policy.

Specifically, we regress the payout rates on an indicator variable equal to one for a bank with statutory assets larger than $50 billion, and zero otherwise. The dependent variables are payouts scaled by net income because the post-GFC regulations for CCAR banks were imposed on the basis of net income. Control banks are banks with less than $50 billion in assets within a certain bandwidth. Gelman and Imbens (2018) suggest using estimators based on local linear or quadratic polynomials by including interactions between a treated indicator variable and running variables in the regression. Therefore, we include the squared interaction between the treated indicator variable and the asset distance from the threshold. In Online Appendix Table OA7, we show the results based on the linear model, which is qualitatively the same. We restrict banks to

[17] Online Appendix Figure OA3 shows the same Figure but omits 2020. Doing so removes the extreme values in the histogram due to the drop in net income during to the COVID-19 crisis.

[18] Statutory assets refer to the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y–9C) for the four most recent quarters immediately prior to the quarter of the CCAR exercise. The CCAR exercise quarter is the 3rd calendar quarter until 2014 and has changed to 4th calendar quarter in 2015.

[19] We do not include 2011 in the sharp RDD because the CCAR exercise in 2011 included 19 banks subject to SCAP in 2009, without consideration of current asset size. Furthermore, CIT Group in 2016 was not officially included in CCAR, even though their assets were above 50 billion dollars. CIT Group's 2015 annual report specifies that "The FRB will conduct a separate supervisory stress test using data submitted by CIT in a format specified by the FRB. We will participate in the CCAR process in 2016, (…) We expect that upon full implementation of the CCAR process in 2017, (…)". We classify CIT Group in 2016 as a treated firm since they were subject to the enhanced regulatory burden. Except for CIT Group in 2016, the $50 billion threshold was binding for all bank holding companies from 2012 to 2016.

those close to the thresholds with two different bandwidths. The first bandwidth covers ±50% of assets around the threshold, and the second one is based on the data-driven bandwidth selection proposed by Imbens and Kalyanaraman (2012). Their method leads to different bandwidths for the net payout rate, the dividend payout rate, and the repurchase rate, because the optimal bandwidth depends on the volatility of the dependent variable. We include time-fixed effects to control macro-economic conditions, and do not include firm-fixed effects because they are perfectly correlated with the treatment dummy.[20]

Table 6 presents the results of the RDD analysis. The first two columns show results for the net payouts / net income, Columns 3 and 4 show results for dividends / net income, and Columns 5 and 6 show results for net repurchases / net income. For each payout rate, we show the results with a fixed bandwidth of ±50% of assets around the threshold (odd columns) and with the data-driven bandwidth (even columns). The main coefficient of interest is the indicator variable *Treat.* It measures by how much banks just above the threshold change their payouts (in percentage of net income). The results differ depending on the type of payouts, but are consistent within each payout rate across the different specifications. Total payouts (Columns 1 and 2) are not significantly different for treated banks. However, being treated has strong statistically and economically significant negative effects on dividend payout rates (Columns 3 to 4). The coefficient of -67.505 in Column 4 indicates that banks decrease the dividend payouts by 68% of net income when they are subject to higher regulations. The strong effect on dividends contrasts with the effect on net repurchases in Columns 5 to 6, where we observe positive but insignificant treatment effects and lower economic significance. Online Appendix Figure OA5 shows plots of dividend rates and repurchase rates against statutory assets. Overall, the results indicate that the regulator's imposition of capital plans on large banks made those banks more cautious regarding dividend payouts, but it did not have a significant effect on banks' repurchase policy and total payout policy.

[20] One of the key assumptions in the RDD setting is that firms do not have full control over the treatment forcing variable (McCrary, 2008), i.e. banks cannot adjust assets to choose to be treated or not. Online Appendix Figure OA4 indicates that there is no visible bunching before the $50 billion asset threshold, suggesting that the assumption can be maintained.

In Figure 5, we examine the timing of changes to payout policy at banks with more than $50 billion in assets, relative to the announcement of the stress test results. Panel A displays changes in dividends per share, and Panel B displays the announcement of new share repurchase programs. We can infer from both panels the importance of regulation for banks subject to CCAR. Banks submit capital plans (capital issuance, repurchases, and dividends) together with the numbers for the stress tests, and the Federal Reserve announces whether it approves the capital plan at the announcement of the stress test results. Note that most banks increase their dividends per share in the quarter following the CCAR announcements (it takes some time until the board has approved dividend increases). Announcement of new open market share repurchase programs are made immediately after the CCAR results have been announced and capital plans have been approved.

Finally, Figure 6 presents a time series plot of the actual payouts and planned payouts of CCAR banks. Schneider, Strahan, and Yang (2023) demonstrate how under some assumptions a bank's nine-quarter ahead capital plan can be backed out from a comparison of the CCAR stress test results and the results of a second stress test exercise, the Dodd-Frank Act Stress Test or DFAST.[21] Banks initially submit capital plans for nine quarters, but most of them submit revised plans in the following year's CCAR. Therefore, we compare in Figure 6 actual net payouts for four quarters and planned nine-quarter net payouts multiplied by 4/9. Figure 6 shows the results. We see a sharp increase in planned payouts starting in 2017, the year after the election of Donald Trump. Actual payouts are always larger than planned payouts. However, planned payouts (black dashed line) and actual payouts (red solid line) are quite close to each other and evolve in lock step before 2018, although net income (green dashed-dotted line) fluctuates. Hence, as also noted by Schneider, Strahan, and Yang (2023), planned payouts have strong predictive power for actual payouts, and

[21] The Fed manages both stress tests, and uses the same proprietary model for the nine-quarter ahead path of regulatory capital ratios. Under CCAR, each bank must propose its own capital distribution plan incorporated into the stress test, whereas DFAST uses a standardized capital distribution plan that holds dividends at their current level and sets net repurchases to zero. The publicly disclosed results for the capital ratios built from these models allow researchers, under some assumptions, to back out the proposed capital plan. The individual bank-level results for both CCAR and DFAST are available from 2013 to 2019, so we restrict the sample period in Figure 6. For details, see Schneider, Strahan, and Yang (2023), Appendix 2.

show the impact of regulation on bank payouts during a period of enhance oversight. However, in 2018 and 2019, when the political regime changed, the gap between actual payouts and planned payouts widens and banks pay out much more than planned.

Overall, Figures 4-6 and Table 6 show the extraordinary influence of politics and regulation on the payout policy of the largest U.S. banks post GFC, in particular on their dividend policy.

5.2. Bank announcement returns to the Trump and Biden presidential elections

As Schwert (1981) points out, the main difficulty with measuring the effects of regulatory change on security prices is identifying when the market first anticipates the effects of the change in regulation on firms. Regulatory change is often a lengthy process, and it is not obvious how to identify date zero. Changes in the party of the president eventually affect regulation, but tracking these effects is difficult. Perhaps more importantly, much of the future regulatory benefits or costs for bank shareholders of a change in the party of the president are likely to be anticipated. If the election outcome is not a surprise, these effects of the change in political regime on shareholders will be incorporated over time even before the election.

The surprise elections of Donald Trump, Joe Biden, and Donald Trump as 45th, 46th, and 47th president of the United States are rare opportunities to evaluate the impact of changes in the future political and regulatory environment of banks. Wagner, Zeckhauser, and Ziegler (2018), in their study of the stock price impact of Donald Trump's win in 2016, report that on the morning of the election day, Donald Trump's chances to win were 17% on Betfair (an online betting exchange) and 28% on FiveThirtyEight (a well-known website focused on opinion poll analysis). There were also widely recognizable ex ante differences in the approach to banking regulation between Donald Trump and his opponent.[22] The elections of Joe

[22] For example, in an interview with The Hill in October 2015, Donald Trump called the 2010 Dodd-Frank Wall Street reform law a "disaster" that has stifled economic growth, indicating that he may repeal it. "Under Dodd-Frank, the regulators are running the banks. The bankers are petrified of the regulators. And the problem is that the banks aren't loaning money to people who will create jobs." https://thehill.com/homenews/campaign/256851-trump-economic-bubble-about-to-burst/

Biden in 2020 and Donald Trump in 2024 were somewhat less surprising, as Biden's chances to win were 60% in the 2020 election, and Trump's chances to win were 58% in the 2024 election, according to Betfair, but still nowhere close to certain. Both in 2020 and 2024, the approaches to bank regulation of Biden and Trump were vastly different so that one would expect a significant impact of the election outcome on bank equity values. We hypothesize that banks are more exposed to politics and regulation than industrial firms and that large banks benefit the most from an anticipated laxer regulation. Since a bank's equity value is the present value of its future payouts, changes in politics that increase expected future payouts translate into an increase in bank equity value.

Our event studies are based on a single event that potentially affects all stocks in the economy, and stock returns have patterns of cross-sectional correlation generated by economic factors driving those returns (see, e.g., Becker, Bergstresser, and Subramanian, 2013; Cohn, Gillan, and Hartzell, 2016; Cohn, Johnson, Liu, and Wardlaw, 2024; Eckbo, Nygaard, and Thorburn, 2022; Schwert, 1981). Cohn, Johnson, Liu, and Wardlaw (2024) point out that contemporaneous events, such as negative size premiums in the mid-2010s, may lead to high false positive results. They suggest addressing concerns of cross-sectional correlation and contemporaneous events by using generalized least squares with times-series standard errors of estimates. We follow their suggestion. Specifically, we use the daily returns in 2015 to calculate the covariance matrix of each subset of banks / industrials and the time series of estimates. Because the large number of small banks and industrial firms makes the covariance matrix singular, we use 100 principal components of daily returns (Cohn, Johnson, Liu, and Wardlaw, 2024; Giglio and Xiu, 2021) for those groups. In Online Appendix Table OA8, we show that the results are robust when we use generalized least squares without depending on time-series standard errors.

Panel A of Table 7 shows the event study results for the 2016 Trump election. We provide results for three different subsets of firms, using three methods to calculate excess returns. Column 1 shows announcement returns for banks with assets greater than $50 billion, and Column 2 has results for all other banks. In comparison, we show results for non-financial, non-utility industrial firms in Column 3. The last two columns show whether the differences in announcement returns are statistically significantly different

between different groups. In row 1, we show excess returns over the risk-free rate. In row 2, we tabulate Fama and French (2015) five-factor adjusted returns, and in row 3, we analyze q5-factor adjusted returns (Hou, Mo, Xue, and Zhang, 2021). The results are robust across these different return measures.

Column 1 of Panel A of Table 7 shows that large banks had excess returns of 3.73%, and other banks had excess returns of 0.75%, while industrial firms had insignificant excess returns on November 9th. The excess returns of the large banks are statistically and economically significantly larger than those of other banks and industrial firms. In the second row, we employ Fama-French 5 factor adjusted returns. Large banks continue to have significantly positive announcement returns (2.57%). These returns are significantly larger than those of other banks and industrial firms. Using the q5-factor adjusted returns shows the same results.

Wagner, Zeckhauser, and Ziegler (2018) study the stock market reaction of the Russell 3000 firms on Nov 9, 2016, and find that high-tax firms, firms with large deferred tax liabilities (DTLs), and those with domestically focused operations gained relative to other firms. [23] In Online Appendix Table OA9, we show that the results we report in Table 7 are unaffected by an inclusion of those variables in a regression framework.

Our results suggest that the market reassessed the expected regulation or the enforcement of existing regulation of the banking sector in 2016 and believed that large banks, still subject to post-GFC strict regulatory scrutiny, would significantly benefit under a Trump administration.

The surprise wins of Joe Biden in 2020 and of Donald Trump in 2024 changed expectations about the regulatory environment twice more, and in opposite directions. Panel B shows reactions of banks to the election of Joe Biden in 2020, and Panel C to the election of Donald Trump in 2024. In both elections, there was considerable uncertainty about who the winner would be. Panel B shows that banks of all size groups performed worse than industrial firms, across all different return specifications. However, contrary to

[23] Wagner, Zeckhauser, and Ziegler (2018) find that Fama-French 5 factor-adjusted returns for industrial firms were indistinguishable from zero on Nov 9.

expectations and to the results in Panel A, we do not find an incremental negative effect for large banks; all banks are similarly negatively affected.

In Panel C of Table 7, we report estimates of abnormal returns for the 2024 election. As is immediately obvious across all return specifications, large banks made extremely large gains compared to industrials. Large banks with assets in excess of $50 billion earned 8.23% on average on November 6, while industrials earned 1.60%. The difference in average return between the large banks and industrials is highly significant, across all return specifications. Banks with assets of less than $50 billion in 2023 had abnormal excess returns of 5.37%, significantly lower than the excess returns of the large banks. The difference between large banks and other banks is insignificant for the Fama and French five-factor adjusted return specifications.

The evidence presented shows that elections impact bank stocks differently from industrial firms and that this is especially the case for large banks. Given all the levers that politicians and regulators can use to control banks, it is perhaps not surprising that the present value of dividends would depend on the party of the president since Republicans are more focused on deregulation than Democrats. Stock prices are the present value of future payouts, so that bank stock prices increase if the change in the political regime makes it likely that banks will be able to increase payouts. We examine whether this was the case with the Trump presidential election in 2016. [24]

5.3. Bank payouts after the Trump presidential election in 2016

We next turn to a dynamic difference-in-differences analysis of the evolution of the three different payout rates for banks and industrial firms around the election year of Donald Trump's first presidency. In Table 8, we include the four years prior to the election of Donald Trump and the four years post-election, and report how payouts evolve for large banks (industrials) relative to all other banks (industrials) across time. The base year is 2016, the last year of the presidency of Barack Obama. The large indicator equals

[24] We cannot perform this analysis for the Biden election. There were restrictions on payouts in 2020 because of the COVID-19 crisis.

one if banks' assets are above $50 billion or if industrial firms' assets are above $10 billion at the beginning of 2016. We include the same control variables as in Table 4 for banks and the same control variables as in Table 5 for industrial firms.

Focusing on banks first and reporting net payouts, dividends, and repurchases in Columns 1, 2, and 3, we observe that in the years before the election of Donald Trump, large and small banks did not differ much in their payout behavior relative to the base year 2016. The interaction terms *Year n* x *Large* are economically small and statistically insignificant for the years 2013, 2014, and 2015. We observe a very different picture after the election of Donald Trump. The interaction terms of *Large* with the years 2017, 2018, and 2019 are economically and statistically important for net payouts in Column 1, and vary between 44 basis points in 2017, and 33 basis points in 2018. The effect is driven almost uniquely by an increase in net repurchases (Column 3).

The economically large and statistically significant coefficient (44 basis points) on the interaction term *Year 2017* x *Large* in Column 1 is particularly important, because it shows that large banks' payout rates, driven by banks' share repurchase rates, already increased before any confounding effect of increased payouts due to the repatriation of foreign earnings following the Tax Cuts and Jobs Act (TCJA) could have materialized. Albuquerque, Bennett, Lisowsky, and Wang (2024), Hanlon, Hoopes, and Slemrod (2019), and Kahle and Stulz (2021) all show evidence for increases in share repurchases following the TCJA, from 2018 onwards. Indeed, we see the impact of the TCJA on the payout rate and share repurchase rate of industrial firms in Columns 4 to 6 of Table 8. Column 4 shows that the largest industrial firms, which are more likely to be multinationals and have international operations with foreign earnings subject to repatriation, experienced very high payout rates in 2018 (136 basis points) and 2019 (148 basis points), driven by large increases in the repurchase rate (Column 6, 129 basis points in 2018 and 99 basis points in 2019) and to a much lesser extent by the dividend rate (Column 5, 7 basis points in 2018 and 49 basis points in 2019). However, the payout rates of large industrial firms did not react in the year 2017. The coefficient on the repurchase payout rate is 5 basis points in 2017 and is statistically insignificant, compared to the 44 basis points for large banks.

To support the conjecture that the large increases in payouts of banks in the years 2018 and 2019 are not driven by the TCJA, but more likely by changes in the political and regulatory stance towards banks, we provide additional evidence. We examine the earnings call transcripts for the 10 banks with more than $250 billion in assets in January 2018, during which they report their Q4 2017 results. The Q4 2017 results incorporate the impact of the TCJA concerning non-recurrent taxes, which are taxes on repatriation and the impact on deferred tax assets and liabilities. Six banks (JPMorgan Chase, Citigroup, Bank of America, Goldman Sachs, Morgan Stanley, and Capital One) report a decrease in earnings because of the Act. Four banks (Wells Fargo, US Bancorp, PNC, and BNY Mellon) report an increase in earnings. None of the affected banks mentions that the Act has implications for its payout policy. The executives of the largest banks of our sample discuss cash repatriation and mention that there is not going to be a large inflow because the foreign entities have regulatory requirements for liquidity. Only Citigroup and Goldman Sachs incur a repatriation tax of around $3 billion, but their share repurchases stay at the same level or decrease in 2018, respectively. The bottom line from this is that the Act is a non-issue for bank payouts for these ten biggest banks.

Overall, the results in Table 8 and our additional evidence are therefore strongly suggestive of a changed repurchase behavior of the largest banks following the election of Donald Trump.

6. Conclusion

In this paper, we investigate the role of politics on financial policies through the lens of bank payout policies. Banks provide an ideal setting to study political influence on financial policies, as regulations give governments multiple levers to shape banking policies. We argue and test that bank payouts are more constrained under Democratic administrations than under Republican administrations since Republican administrations are generally focused on deregulation while Democratic administrations are not. We also argue that politics affect large banks more than other banks. We find strong support for these predictions as large bank payouts are indeed lower under Democratic administrations. Since we find these results using smaller banks as controls, our results are specific to the differential impact of politics on large versus other banks.

We investigate other potential explanations for our findings and reject them. We also show that the unexpected elections of President Trump had large differential effects on the returns of large banks compared to other banks or industrials. We also find that large bank repurchases increased dramatically during the first term of President Trump, while regulations passed under Democratic administrations, intent on decreasing dividends, have had a significant impact on dividend payments after the GFC. All these results, and others, are strongly supportive of an impact of politics on bank payout policy and bank value that arises because of changes in the extent to which banks are explicitly or implicitly constrained in making payouts.

References

Acharya, Viral V., Hanh Le, and Hyun Song Shin. 2017. "Bank capital and dividend externalities." *The Review of Financial Studies* 30: 988-1018.

Acharya, Viral V., Irvind Gujral, Nirupama Kulkarni, and Hyun Song Shin. 2022. "Dividends and bank capital in the global financial crisis of 2007–2009." *Journal of Financial Crises* 4: 1-39.

Albuquerque, Ana M., Benjamin Bennett, Petro Lisowsky, and Zexi Wang. 2024. "The effect of the Tax Cuts and Jobs Act on payout policies: The role of corporate governance." Working paper.

Alvero, Adrien, and Kairong Xiao. 2023. "Fuzzy bunching." Working paper.

Andreeva, Desislava, Paul Bochmann, and Julius Schneider. 2023. "Evaluating the impact of dividend restrictions on euro area bank market values." Working paper, European Central Bank.

Baker, Scott R., Nicholas Bloom, and Steven J. Davis. 2016. "Measuring Economic Policy Uncertainty." *The Quarterly Journal of Economics* 131: 1593-1636.

Becker, Bo, Daniel Bergstresser and Guhan Subramanian. 2013. "Does shareholder proxy access improve firm value? Evidence from the Business Roundtable's challenge." *The Journal of Law & Economics* 56: 127-160.

Board of Governors of the Federal Reserve System. 2013. "Comprehensive Capital Analysis and Review 2014: Summary instructions and guidance."

Calomiris, Charles W., and Stephen Haber. 2015. *Fragile by design: The political origins of banking crises and scarce credit*. Princeton, NJ: Princeton University Press.

Cohn, Jonathan B., Stuart L. Gillan, and Jay C. Hartzell. 2016. "On enhancing shareholder control: A (Dodd-) Frank assessment of proxy access." *The Journal of Finance* 71: 1623-1668.

Cohn, Jonathan B., Travis L. Johnson, Zack Liu, and Malcolm Wardlaw. 2024. "Past is prologue: Inference from the cross section of returns around an event." Working paper.

Cziraki, Peter, Christian Laux, and Gyongyi Lóránth. 2024. "Understanding bank payouts during the crisis of 2007-2009." *The Review of Corporate Finance Studies* 13: 191-234.

DeAngelo, Harry, and René M. Stulz. 2015. "Liquid-claim production, risk management, and bank capital structure: Why high leverage is optimal for banks." *Journal of Financial Economics* 116: 219-236.

Dinç, I. Serdar. 2005. "Politicians and banks: Political influences on government-owned banks in emerging markets." *Journal of Financial Economics* 77: 453-479.

Duchin, Ran, and Denis Sosyura. 2012. "The politics of government investment." *Journal of Financial Economics* 106: 24-48.

Eckbo, B. Espen, Knut Nygaard, and Karin S. Thorburn. 2022. "Valuation effects of Norway's board gender-quota law revisited." *Management Science* 68: 4112-4134.

Fama, Eugene F., and Kenneth R. French. 2001. "Disappearing dividends: changing firm characteristics or lower propensity to pay?" *Journal of Financial Economics* 60: 3-43.

Fama, Eugene F., and Kenneth R. French. 2015. "A five-factor asset pricing model." *Journal of Financial Economics* 116: 1-22.

Floyd, Eric, Nan Li, and Douglas J. Skinner. 2015. "Payout policy through the financial crisis: The growth of repurchases and the resilience of dividends." *Journal of Financial Economics* 118: 299-316.

Fringuellotti, Fulvia, and Thomas Kroen. 2024. "Payout restrictions and bank risk-shifting." IMF working paper.

Gelman, Andrew, and Guido Imbens. 2018. "Why high-order polynomials should not be used in regression discontinuity designs." *Journal of Business & Economic Statistics* 37: 447-456.

Giglio, Stefano. and Dacheng Xiu. 2021. "Asset pricing with omitted factors." *Journal of Political Economy* 129: 1947-1990.

Hanlon, Michelle, Jeffrey L. Hoopes, and Joel Slemrod. 2019. "Tax reform made me do it!" *Tax Policy and the Economy* 33: 33-80.

Hirtle, Beverly. 2016. "Bank holding company dividends and repurchases during the financial crisis." Staff report, Federal Reserve Bank of New York.

Hou, Kewei, Haitao Mo, Chen Xue, and Lu Zhang. 2021. "An augmented q-factor model with expected growth." *Review of Finance* 25: 1-41.

Huang, Sheng, and Anjan V. Thakor. 2024. "Political influence, bank capital, and credit allocation." *Management Science* 70: 8134-8162.

Imbens, Guido, and Karthik Kalyanaraman. 2012. "Optimal bandwidth choice for the regression discontinuity estimator." *The Review of Economic Studies* 79: 933-959.

Jayaratne, Jilith, and Philip E. Strahan. 1998. “Entry restrictions, industry evolution, and dynamic efficiency: Evidence from commercial banking.” *The Journal of Law and Economics* 41: 239-274.

Jensen, Michael C. 1991. “Corporate control and the politics of finance.” *Journal of Applied Corporate Finance* 4: 13-34.

Kahle, Kathleen, and René M. Stulz. 2021. “Why are corporate payouts so high in the 2000s?” *Journal of Financial Economics* 142: 1359-1380.

Lambert, Thomas. 2019. “Lobbying on regulatory enforcement actions: Evidence from US commercial and savings banks.” Management Science 65: 2545-2572.

Leary, Mark, and Vasudha Nukala. 2024. “Corporate dividend policy.” *Handbook of Corporate Finance*: 126-175.

Lee, Dong Wook, Hyun-Han Shin, and René M Stulz. 2021. “Why does equity capital flow out of high Tobin’s q industries?”. *The Review of Financial Studies* 34: 1867-1906.

Ma, Yueran. 2019. “Nonfinancial firms as cross-market arbitrageurs.” *The Journal of Finance* 74: 3041-3087.

Marsh, W. Blake. 2023. “Supervisory stringency, payout restrictions, and bank equity prices.” *Journal of Banking and Finance* 154: 106936

Matyunina, Alexandra, and Steven Ongena. 2022. “Bank capital buffer releases, public guarantee programs, and dividend bans in COVID-19 Europe: an appraisal.” *European Journal of Law and Economics* 54: 127-152.

McCrary, Justin. 2008. “Manipulation of the running variable in the regression discontinuity design: A density test.” *Journal of Econometrics* 142: 698-714.

Michaely, Roni, and Amani Moin. 2022. “Disappearing and reappearing dividends.” *Journal of Financial Economics* 143: 207-226.

Miller, Merton H., and Franco Modigliani. 1961. “Dividend policy, growth, and the valuation of shares.” *The Journal of Business* 34: 411-411.

Rajan, Raghuram G., and Luigi Zingales. 2003. The great reversals: the politics of financial development in the twentieth century. *Journal of Financial Economics* 69: 5-50.

Roe, M.J., 1996. *Strong managers, weak owners: The political roots of American corporate finance*. Princeton, NJ: Princeton University Press.

Rosengren, Eric S. 2010. "Dividend policy and capital retention: A systemic 'first response'." Speech to the "Rethinking Central Banking" conference.

Schneider, Thomas, Philip E. Strahan, and Jun Yang. 2023. "Bank Stress Testing: Public Interest or Regulatory Capture?" *Review of Finance* 27: 423-467.

Schwert, G. William. 1981. "Using financial data to measure effects of regulation." *Journal of Law and Economics* 24: 121-158.

Yue, Heng, Liandong Zhang, and Qinlin Zhong. 2022. "The politics of bank opacity." *Journal of Accounting and Economics* 73: 101452.

Wagner, Alexander F., Richard J. Zeckhauser, and Alexandre Ziegler. 2018. "Company stock price reactions to the 2016 election shock: Trump, taxes, and trade." *Journal of Financial Economics* 130: 428-451.

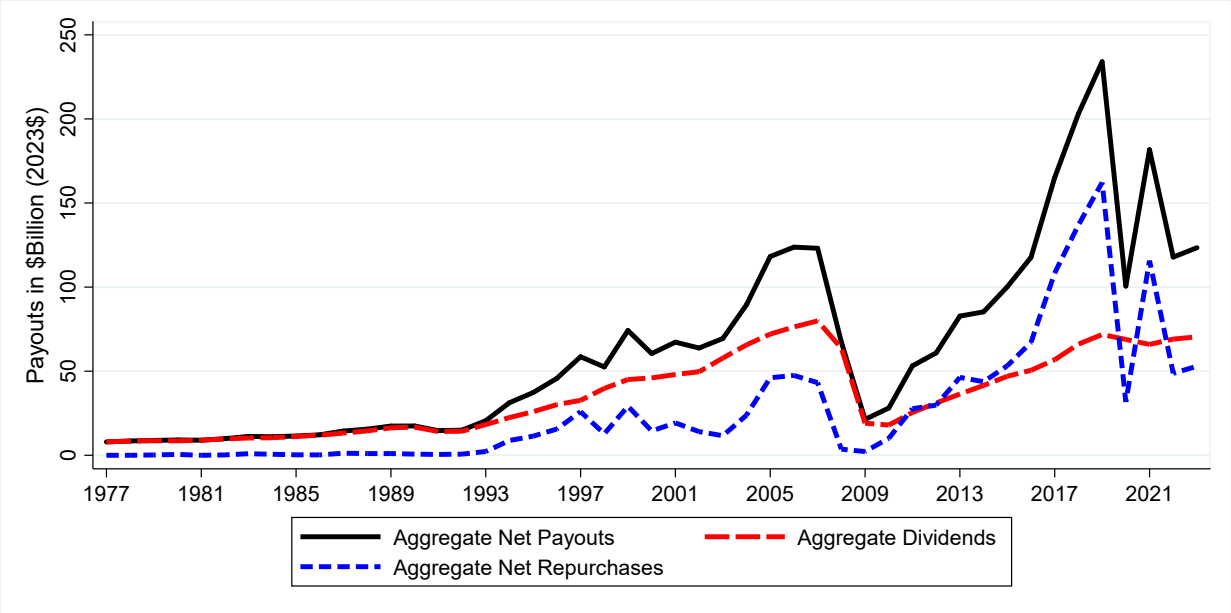


Figure 1. Aggregate real net payouts of banks

This figure depicts aggregate real net payouts (in 2023 dollars) from 1977 to 2023 for banks. For years before 1993, the sample is defined as banks with SIC codes equal to 6020, 6021, 6029, and 6199. For the post-1993 period, the sample consists of banks in the CRSP-FRB link tables provided by the Federal Reserve Bank of New York with non-missing Tier 1 capital ratios. Section 2.1 provides additional details on the construction of the sample, and Section 2.2 provides details on the definition of the payout variables.

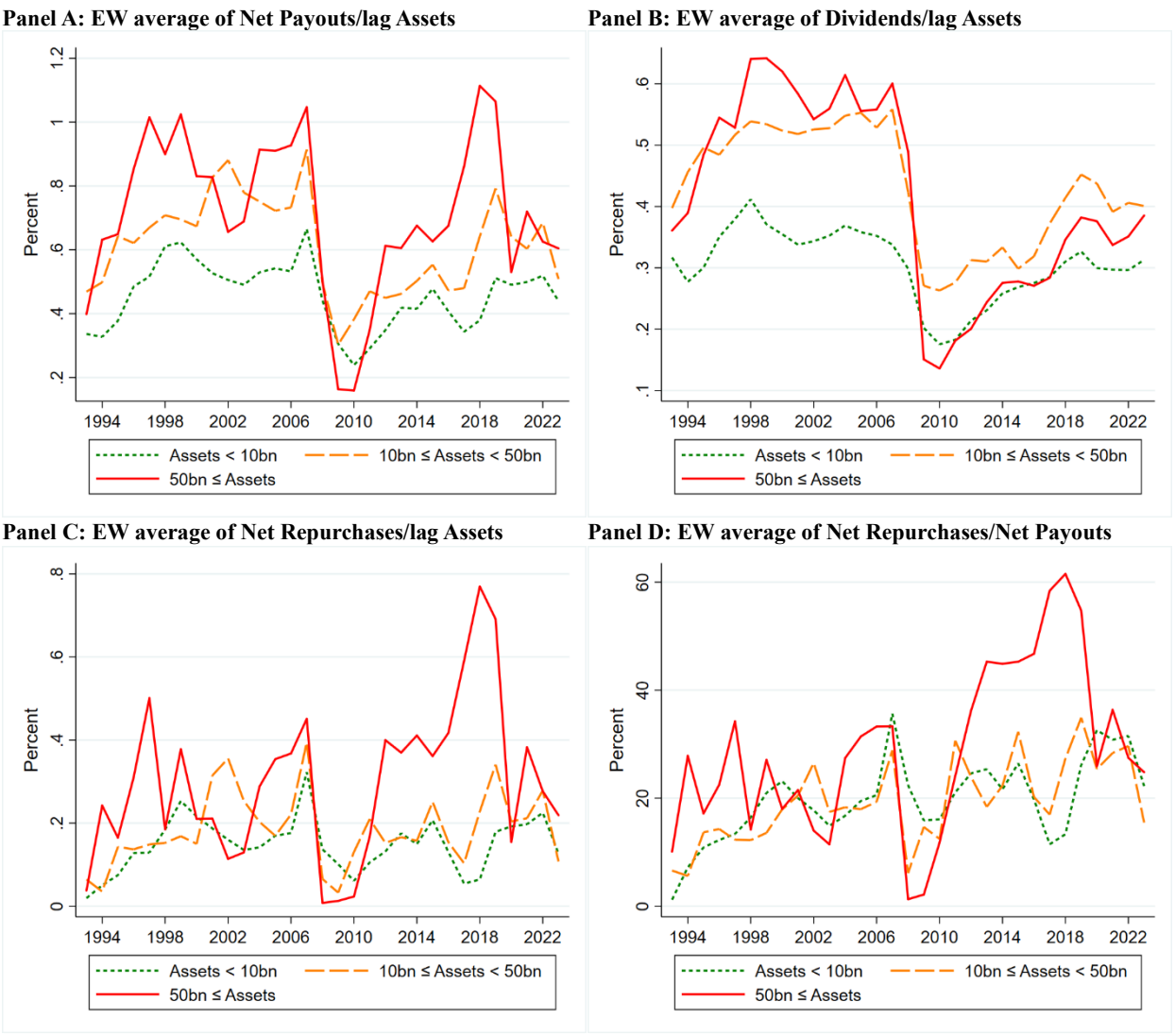
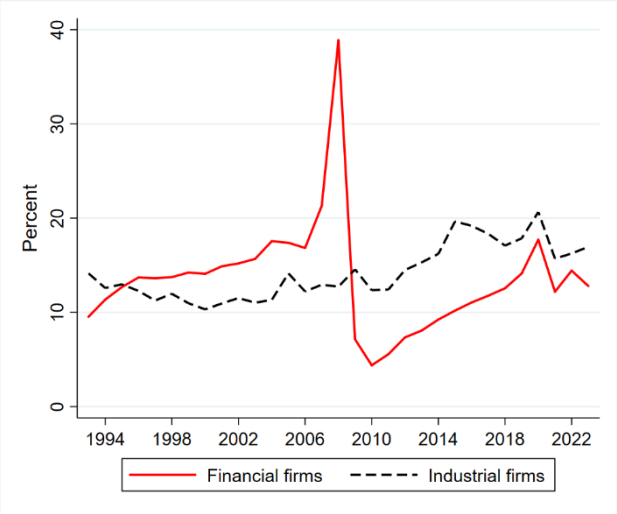


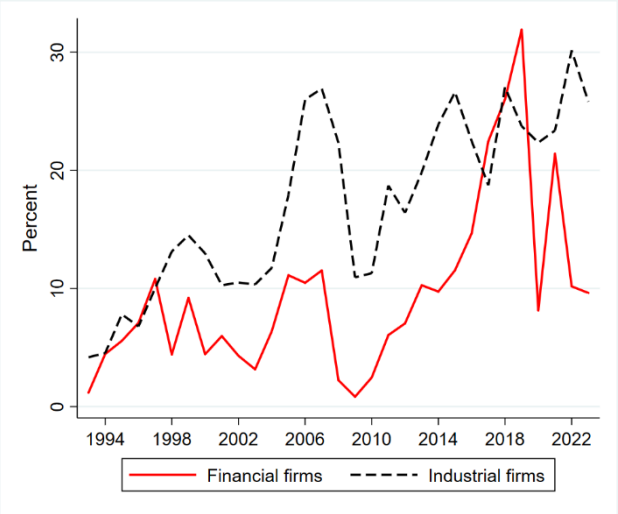
Figure 2. Equally weighted average payout ratios of banks in different asset size groups

The figure shows equally weighted average payout ratios from 1993 to 2023 for a sample of commercial banks. The sample consists of all banks in the CRSP-FRB link tables provided by the Federal Reserve Bank of New York with non-missing Tier 1 capital ratios. Section 2.1 provides additional details on the construction of the sample, and Section 2.2 provides details on the definition of the payout variables. Panel A shows total net payout ratios, Panel B dividend payout ratios, Panel C net repurchase payout ratios, and Panel D the ratio of net repurchase over net payouts. We show ratios for three size groups, created based on lagged assets. The first group (green dotted line) consists of banks with assets smaller than $10 billion. The second group (orange dashed line) consists of banks with assets between $10 billion and $50 billion. The third group consists of banks with assets larger than $50 billion. These thresholds correspond to size thresholds used to determine the degree of regulatory scrutiny for banks after the GFC. We employ nominal assets to determine the size group for each bank in the post-2010 period. For the pre-2010 period, we adjust the threshold level using the 2010 Consumer Price Index. Prior to averaging, we winsorize numbers at the 1% and 99% level, respectively.

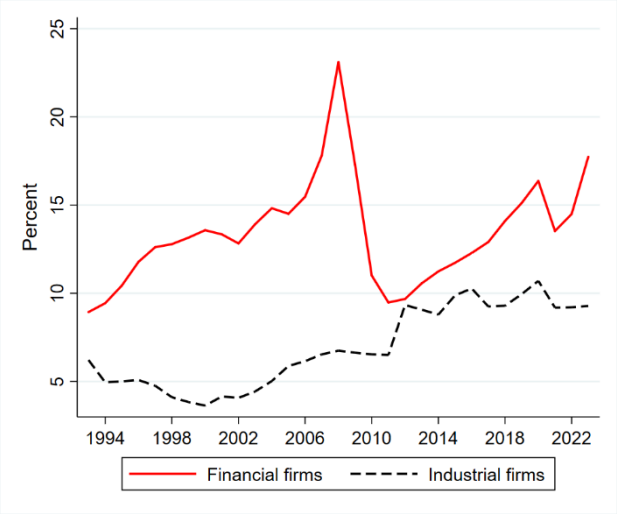
Panel A: Sum(Dividends)/Sum(Operating Income)



Panel B: Sum(Net Repurchases)/Sum(Operating Income)



Panel C: EW average of Dividends/Operating Income



Panel D: EW average of Net Repurchases/Operating Income

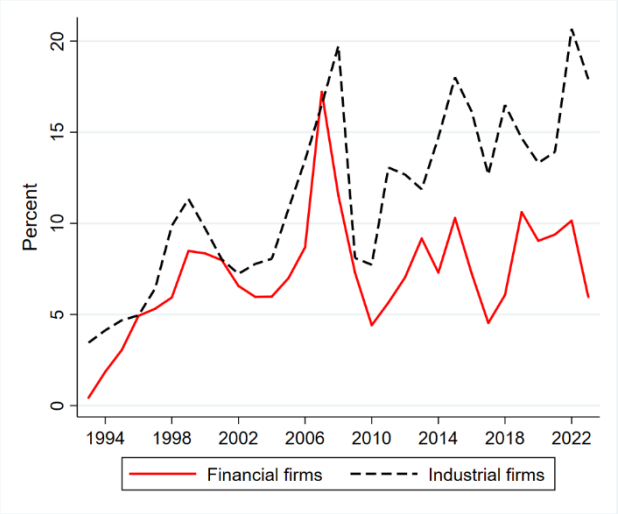
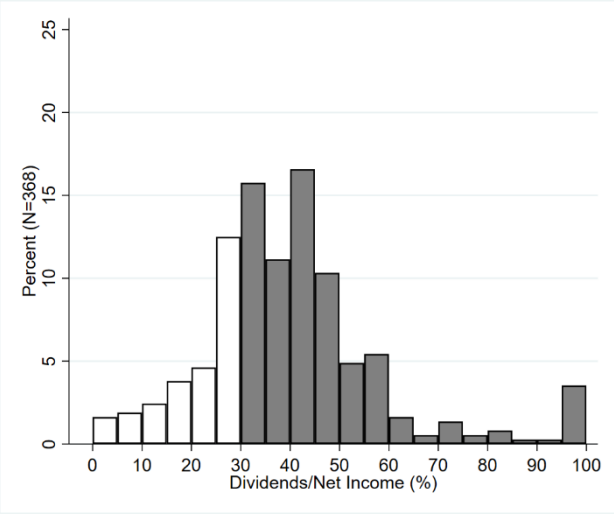


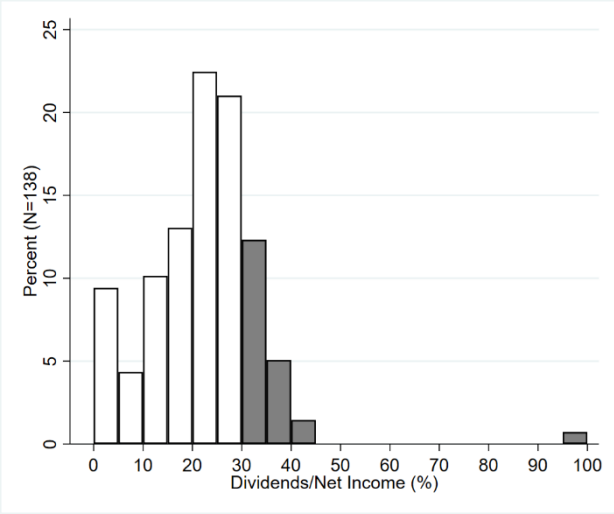
Figure 3. Relation between payouts and operating income: Banks vs. Industrial firms

The figure compares payouts over operating income for banks and industrial firms. The sample of banks consists of all banks in the CRSP-FRB link tables provided by the Federal Reserve Bank of New York with non-missing Tier 1 capital ratios. Section 2.1 provides additional details on the construction of the bank sample. We define industrial firms using Standard Industrial Classification (SIC) codes (SIC < 6000 or 7000 ≤ SIC). We exclude utilities (4900 ≤ SIC < 4950). For Panels A and B, we first sum payouts and operating income (Compustat OIBDP) and then form a ratio of the two sums. For Panels C and D, we take the equally weighted average of firm-year payouts over operating income. To reduce noise from negative or small denominators in Panels C and D, we first exclude firm-years with negative operating income and then winsorize each firm-specific ratio at the 1% and 99% level, respectively.

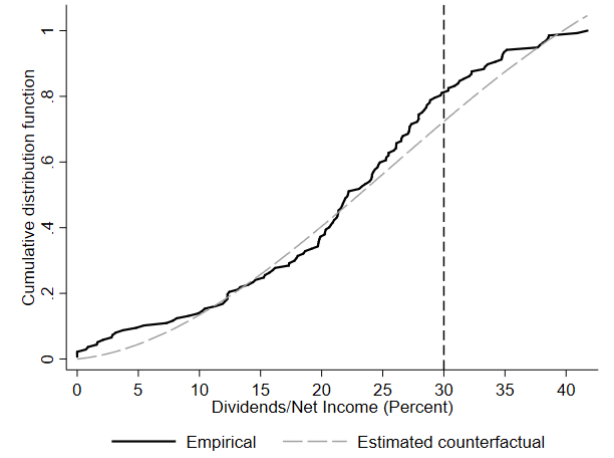
Panel A. Histogram of Dividends/Net Income of banks above $50 billion in assets (2010 CPI) from 1993 to 2007



Panel B. Histogram of Dividends/Net Income of CCAR banks from 2011 to 2016



Panel C. Empirical and counterfactual CDF of Dividends / Net Income of CCAR banks from 2011 to 2016



Panel D. Histogram of Dividends/Net Income of CCAR banks since 2017

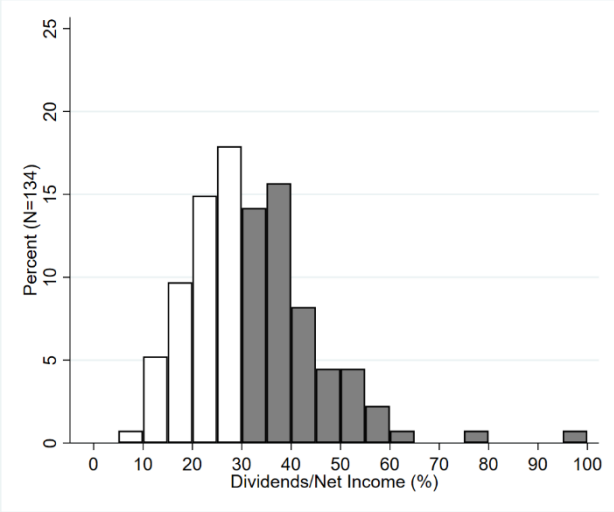
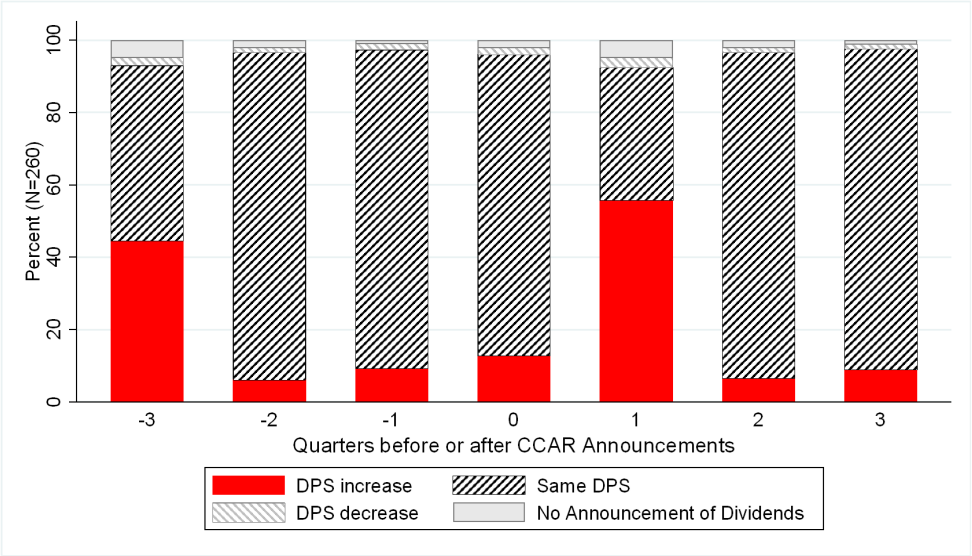


Figure 4. Histogram and cumulative distribution function of dividends as percentage of net income

The figure presents histograms and a cumulative distribution function of dividends over net income for large banks or CCAR banks. Panel A includes banks with assets of at least $50 billion (adjusted with the 2010 CPI). Panels B, C, and D use banks subject to CCAR. A bank-year is categorized as belonging to the CCAR bank group if the bank is subject to examination by CCAR in March or June of the same year. Panels A, B, and D are histograms of dividends over net income. We drop observations with negative net income. For bank-years where Dividends/Net Income exceeded 100%, their values were rescaled to 100%. Highlighted bars represent bank-years with Dividends/Net Income greater than or equal to 30%. Panel C presents fuzzy bunching results following Alvero and Xiao (2023). The sample is CCAR banks from 2011 to 2016. Specifically, we compare the cumulative distribution function (CDF) of the empirically observed dividends over net income of CCAR banks and the counterfactual CDF estimated with third-order polynomials without the window [25%, 35%]. We drop observations with negative net income and one observation with a higher than 100% payout ratio (Morgan Stanley in 2012).

Panel A. Changes in Dividends Per Share (DPS) around announcements of passing CCAR



Panel B. Announcements of new repurchase programs around announcement of passing CCAR

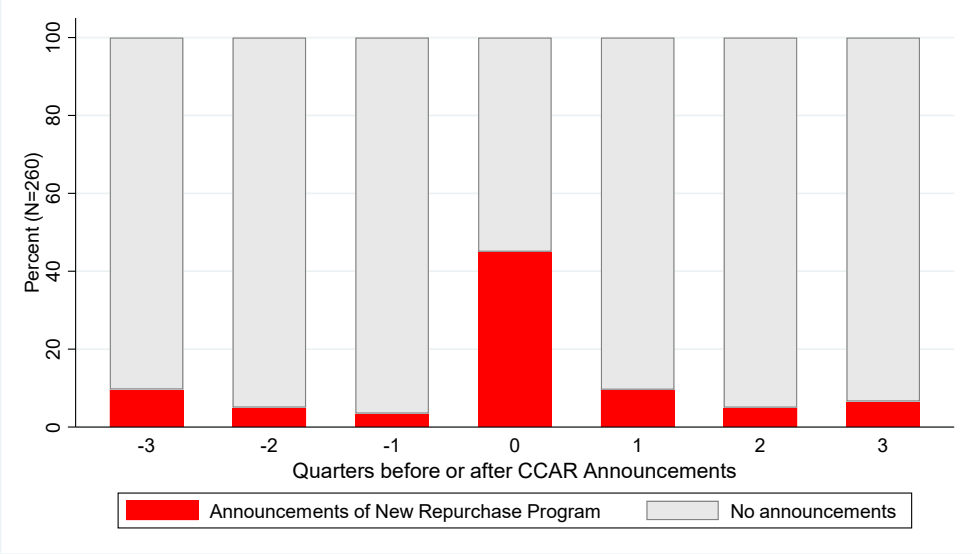


Figure 5. Changes in payouts by quarters before or after passing CCAR

The figure categorizes bank-quarters into groups based on their announcements of payout changes before or after passing CCAR, from 2011 to 2023. Bank-quarters are grouped according to the quarter when CCAR results were published. Results were announced at the end of March from 2011 to 2013 and at the end of June from 2014 to 2023. Panel A classifies bank-quarters into four groups based on how their announced dividends-per-share changed compared to previous announcements, utilizing the declaration date of dividends. Special dividends are excluded, and the first declaration is used if there were multiple declarations within a quarter. Panel B classifies bank-quarters into two groups depending on whether there were announcements of new repurchase programs in SDC Platinum.

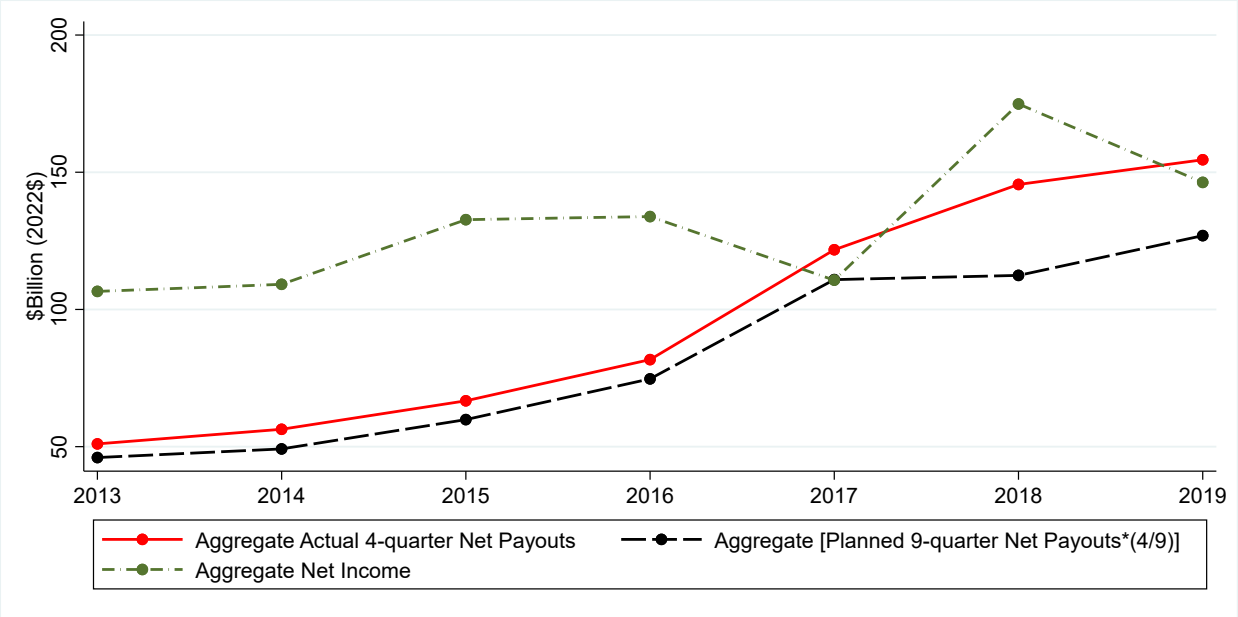


Figure 6. Actual payouts versus planned payouts

The figure presents time series of aggregate actual payouts, planned payouts, and net income of CCAR banks. The sample period spans from 2013 to 2019, during which both DFAST and CCAR results for individual banks were made public. Planned payouts of CCAR banks are calculated by comparing DFAST and CCAR results (Schneider, Strahan, and Yang, 2023). Banks initially submit plans for nine quarters, but most of them submit revised plans in the following year's CCAR. Therefore, we compare actual net payouts for four quarters and planned nine-quarter net payouts multiplied by 4/9. Subsequently, we aggregate actual and planned payouts within a year.

Table 1. Payout rates by time period and size group

The table shows the evolution of payout rates by time period and size group. Panel A shows the net payout rate, Panel B the dividend payout rate, Panel C the net repurchase payout rate, Panel D net repurchases over net payouts, and Panel E net payout over net income. Banks with zero net payouts are dropped in Panel D, and banks with non-positive net income are dropped in Panel E. Column 1 shows averages for all banks. In Columns 2 to 4, we divide sample banks into groups depending on their asset size. Large banks are those with asset values above $50bn. Medium banks are those with asset values larger than $10bn and smaller than $50bn, and small banks are those with asset values below $10bn. We use nominal assets after 2010, and real assets before 2010. We report pooled averages within each subperiod and size group. We report differences between the respective payout rate of large and medium and large and small banks in the two last columns. We use a *t*-test to assess statistically significant differences. Statistically significant differences at the 1%, 5%, and 10% level are denoted by ***, **, and *, respectively. Each payout variable is winsorized at the 1% and the 99% level, respectively.

Panel A: Net Payouts / Lag Assets

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1977~1992	0.30	0.25	0.31	0.31	-0.05***	-0.06***
1993~2007	0.55	0.82	0.70	0.52	0.12***	0.30***
2008~2009	0.37	0.32	0.40	0.37	-0.08	-0.06
2010~2016	0.39	0.53	0.47	0.37	0.05	0.16***
2017~2019	0.50	1.01	0.65	0.41	0.37***	0.61***
2020	0.53	0.53	0.64	0.49	-0.11*	0.04
2021~2023	0.54	0.65	0.60	0.49	0.05	0.16***
1977~2023	0.46	0.60	0.51	0.44	0.10***	0.16***
1993~2023	0.50	0.71	0.61	0.46	0.10***	0.25***

Panel B: Dividends / Lag Assets

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1977~1992	0.28	0.24	0.29	0.29	-0.05***	-0.04***
1993~2007	0.37	0.55	0.51	0.35	0.04**	0.20***
2008~2009	0.26	0.31	0.35	0.25	-0.04	0.06
2010~2016	0.24	0.23	0.31	0.23	-0.08***	0.00
2017~2019	0.33	0.34	0.42	0.31	-0.08***	0.03
2020	0.34	0.38	0.44	0.30	-0.06	0.08**
2021~2023	0.33	0.36	0.40	0.30	-0.04**	0.06***
1977~2023	0.32	0.37	0.38	0.30	-0.01	0.07***
1993~2023	0.33	0.41	0.43	0.31	-0.02	0.10***

Panel C: Net Repurchases / Lag Assets

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1977~1992	0.02	0.01	0.01	0.02	-0.01	-0.01
1993~2007	0.17	0.26	0.19	0.16	0.07***	0.10***
2008~2009	0.11	0.01	0.05	0.12	-0.04	-0.11**
2010~2016	0.15	0.31	0.17	0.13	0.13***	0.17***
2017~2019	0.17	0.68	0.23	0.10	0.45***	0.59***
2020	0.19	0.15	0.20	0.19	-0.05	-0.04
2021~2023	0.20	0.29	0.20	0.18	0.10**	0.11***
1977~2023	0.14	0.23	0.13	0.13	0.11***	0.10***
1993~2023	0.16	0.30	0.19	0.15	0.12***	0.15***

Panel D: Net Repurchases / Net Payouts

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1977~1992	3.25	2.64	3.04	3.46	-0.41	-0.82
1993~2007	17.46	23.09	16.15	17.24	6.94***	5.85***
2008~2009	17.59	1.76	10.28	19.39	-8.52**	-17.64***
2010~2016	23.33	36.53	22.98	22.16	13.55***	14.37***
2017~2019	22.54	58.26	27.04	16.92	31.22***	41.34***
2020	30.15	25.91	25.40	32.59	0.52	-6.67
2021~2023	27.50	29.57	24.47	28.34	5.10	1.23
1977~2023	16.98	23.06	14.23	16.96	8.83***	6.10***
1993~2023	20.04	29.54	20.31	19.19	9.23***	10.35***

Panel E: Net Payouts / Net Income

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1977~1992	39.03	52.23	40.98	36.23	11.26***	16.00***
1993~2007	51.38	64.04	54.29	50.38	9.75***	13.66***
2008~2009	96.71	66.40	90.61	98.94	-24.21	-32.55
2010~2016	52.64	48.20	53.04	52.93	-4.84	-4.73
2017~2019	47.88	78.02	53.23	43.23	24.79***	34.79***
2020	55.84	64.60	61.46	52.50	3.14	12.10
2021~2023	49.93	52.86	53.14	47.91	-0.28	4.96
1977~2023	51.03	58.81	50.31	50.52	8.51***	8.30***
1993~2023	53.51	60.75	55.26	52.73	5.49***	8.02***

Table 2. Payout rates during crises

The table presents regression results for three different payout rates on indicator variables for crisis periods and lagged determinants of payouts for banks from 1993 to 2023. "1(Year *n*)" equals one if the dependent variable is measured in year *n*. "1(Assets≥50bn)" equals one if the lagged assets of the bank are at least $50 billion, utilizing lagged nominal assets for the post-2010 period and lagged real assets adjusted with the 2010 CPI for the pre-2010 periods. Definitions of all control variables can be found in Appendix Table A1. All continuous variables are winsorized at the 1% and 99% levels. Numbers in parentheses represent *t*-statistics, with standard errors clustered by firm. Significance levels are denoted by *, **, and ***, indicating significance at the 10%, 5%, and 1% levels, respectively. To enhance readability, coefficients are multiplied by a hundred, except for Tobin's q.

	(1)	(2)	(3)	(4)	(5)	(6)
	Net Payouts / Lag Assets		Dividends / Lag Assets		Net Repurchases / Lag Assets	
1(Year 2008)	2.191	2.754*	6.256***	5.811***	-4.487***	-3.462**
	(1.39)	(1.71)	(7.17)	(6.68)	(-3.23)	(-2.45)
1(Year 2009)	-0.951	0.616	1.863**	2.378***	-3.304**	-2.266
	(-0.52)	(0.32)	(2.21)	(2.74)	(-2.11)	(-1.39)
1(Year 2020)	0.273	3.167*	0.714	0.810	-0.273	2.609*
	(0.15)	(1.83)	(1.09)	(1.13)	(-0.17)	(1.70)
1(Assets≥50bn)		11.514*		-0.210		11.489**
		(1.80)		(-0.09)		(2.05)
1(Year 2008)		-10.123**		10.489***		-21.003***
x 1(Assets≥50bn)		(-2.16)		(3.21)		(-5.42)
1(Year 2009)		-32.330***		-9.716***		-22.392***
x 1(Assets≥50bn)		(-5.94)		(-2.86)		(-4.89)
1(Year 2020)		-29.786***		-0.807		-29.806***
x 1(Assets≥50bn)		(-4.32)		(-0.48)		(-4.26)
Log(Assets)	6.909***	6.490***	2.769***	2.793***	4.125***	3.691***
	(5.01)	(4.77)	(3.29)	(3.23)	(3.46)	(3.19)
Lagged ROA	5.355***	5.364***	4.279***	4.246***	0.961	1.005
	(4.71)	(4.73)	(7.83)	(7.78)	(1.09)	(1.14)
Contemporaneous	5.916***	5.810***	3.030***	3.064***	2.809***	2.666***
ROA	(8.14)	(8.07)	(9.37)	(9.47)	(4.61)	(4.43)
Future ROA	-3.230***	-3.130***	-0.289	-0.274	-2.965***	-2.879***
	(-5.24)	(-5.10)	(-1.07)	(-1.01)	(-5.53)	(-5.41)
Tobin's q	1.566***	1.564***	1.069***	1.067***	0.419***	0.418***
	(10.71)	(10.73)	(14.13)	(14.10)	(3.71)	(3.72)
Std(ROA)	-4.837***	-4.902***	-4.637***	-4.629***	-0.302	-0.382
	(-2.74)	(-2.78)	(-6.18)	(-6.15)	(-0.20)	(-0.26)
Tier 1 Capital Ratio	3.271***	3.280***	0.434***	0.443***	2.631***	2.632***
	(11.71)	(11.74)	(3.31)	(3.39)	(10.88)	(10.85)
Loan Loss Provisions	-4.323***	-4.124***	-1.236*	-1.208*	-3.390***	-3.216***
/ Lag Assets	(-2.79)	(-2.68)	(-1.70)	(-1.66)	(-2.72)	(-2.61)
Net Interest Margin	1.913**	1.956**	1.528***	1.526***	0.518	0.557
	(2.06)	(2.10)	(3.12)	(3.11)	(0.69)	(0.75)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	No	No	No	No	No	No
Adj. R-squared	0.45	0.45	0.73	0.73	0.25	0.25
N of firm-years	11090	11090	11090	11090	11090	11090

Table 3. Payout volatility

The table shows the volatility of bank-level payout rates. Panel A shows the volatility of the net payout rate, Panel B the volatility of the dividend payout rate, and Panel C the volatility of the net repurchase payout rate. To calculate volatility, we use the yearly standard deviations. Then, we calculate the time-series mean of standard deviations for each time-period and report it in the table. The standard errors are calculated off the time-series mean. We divide sample banks into subsamples depending on their asset size. Large banks are those with asset values above $50bn. Medium banks are those with asset values larger than $10bn and smaller than $50bn, and small banks are those with asset values below $10bn. We use nominal assets after 2010, and real assets before 2010. Each payout variable is winsorized at the 1% and the 99% level, respectively, before calculating standard deviations. We report differences between the volatility of large and medium and large and small banks in the two last columns, and differences between the post-GFC and pre-GFC period in the last row of each panel. We use a *t*-test to assess statistically significant differences. Statistically significant differences at the 1%, 5%, and 10% level are denoted by ***, **, and *, respectively.

Panel A: Std (Net Payouts / Lag Assets)

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1993-2023 without crises	0.454	0.496	0.451	0.433	0.045	0.063**
1993-2007	0.465	0.462	0.449	0.454	0.012	0.008
2010-2019 and 2021-2023	0.441	0.536	0.453	0.410	0.083*	0.126***
Post GFC - Pre GFC	-0.023	0.074*	0.004	-0.044	0.070	0.119**

Panel B: Std (Dividends / Lag Assets)

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1993-2023 without crises	0.242	0.201	0.241	0.239	-0.040***	-0.038***
1993-2007	0.255	0.234	0.238	0.250	-0.004	-0.016
2010-2019 and 2021-2023	0.227	0.164	0.245	0.228	-0.081***	-0.064***
Post GFC - Pre GFC	-0.028***	-0.069***	0.007	-0.022**	-0.077***	-0.048***

Panel C: Std (Net Repurchases / Lag Assets)

	(1)	(2)	(3)	(4)		
	All banks	Large banks	Medium banks	Small banks	(2) – (3)	(2) – (4)
1993-2023 without crises	0.358	0.417	0.366	0.335	0.051	0.082**
1993-2007	0.352	0.363	0.362	0.344	0.001	0.019
2010-2019 and 2021-2023	0.364	0.479	0.371	0.324	0.107**	0.155***
Post GFC - Pre GFC	0.011	0.116**	0.010	-0.020	0.106	0.136**

Table 4. Effects of politics on payouts of banks

The table presents regression results for banks' net payout rate on lagged determinants of payouts, current and future profitability, the party of the current year's president, and a measure of financial regulation uncertainty."1(Democrat President)" takes the value of one if the president at year-end belongs to the Democratic party and zero if he belongs to the Republican party. In even-numbered columns, we add indicator variables for the party affiliation of the president and party affiliation of the senate banking chair: "1(DD)" equals one if the president and the senate banking chair both belong to the Democratic party. "1(DR)" equals one if the president belongs to the Democratic party and the senate banking chair belongs to the Republican party. "1(RD)" equals one if the president belongs to the Republican party and the senate banking chair belongs to the Democratic party. "1(RR)" is the omitted base group. "1(High Financial Uncertainty)" takes a value of one if the year-end financial regulation index is above the median of the respective sample period. We present results with interactions between the indicator variables for politics/regulation and the indicator variable for large banks, which is equal to one if the bank has more than $50 billion of assets, and zero otherwise. We use nominal lagged assets for post-2010 periods and real lagged assets for pre-2010 periods (2010 CPI). All control variables are defined in Appendix Table A1. All continuous variables are winsorized at the 1% and 99% levels. Numbers in parentheses represent *t*-statistics, with standard errors clustered by firm. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. To enhance readability, coefficients are multiplied by 100, except for Tobin's q.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Dependent variables	Net Payouts / Lag Assets							
Sample period	1977 to 2023		1985 to 2023		1993 to 2023			
1(Democrat President)	-11.054***				-19.300***			
x 1(Assets≥50bn)	(-2.96)				(-4.30)			
1(DD)		-21.748***		-23.601***		-31.639***		-23.291***
x 1(Assets≥50bn)		(-4.96)		(-4.75)		(-6.21)		(-3.81)
1(DR)		-6.712		-10.661		-10.337		-5.976
x 1(Assets≥50bn)		(-0.99)		(-1.51)		(-1.41)		(-0.73)
1(RD)		-13.247***		-15.316***		-14.136**		-7.058
x 1(Assets≥50bn)		(-3.39)		(-3.05)		(-2.31)		(-0.93)
1(High Fin. Uncertainty)			-15.676***	-6.285**			-22.050***	-11.031**
x (Assets≥50bn)			(-5.19)	(-2.16)			(-6.32)	(-2.56)
1(Assets≥50bn)	8.876**	14.583***	11.676***	19.826***	14.262**	19.392***	15.922***	20.751***
	(2.20)	(2.84)	(2.60)	(3.38)	(2.12)	(2.62)	(2.58)	(2.89)
Log(Assets)	1.719	1.593	2.172	2.190	10.074***	10.191***	10.187***	10.260***
	(0.94)	(0.87)	(1.06)	(1.07)	(4.77)	(4.84)	(4.87)	(4.89)
Lagged ROA	3.110***	3.097***	3.002***	3.009***	2.841**	2.872**	2.876**	2.843**
	(3.41)	(3.41)	(3.19)	(3.21)	(2.40)	(2.44)	(2.44)	(2.41)
Contemporaneous	5.691***	5.620***	5.333***	5.344***	4.968***	4.965***	4.860***	4.942***
ROA	(8.69)	(8.58)	(8.13)	(8.12)	(6.94)	(6.92)	(6.82)	(6.90)
Future ROA	-0.717	-0.699	-0.734	-0.683	-1.075*	-1.083*	-1.113*	-1.082*
	(-1.34)	(-1.31)	(-1.30)	(-1.21)	(-1.68)	(-1.70)	(-1.75)	(-1.70)
Tobin's q	1.093***	1.107***	1.131***	1.148***	0.951***	0.953***	0.964***	0.947***
	(5.49)	(5.57)	(5.97)	(5.99)	(5.24)	(5.23)	(5.33)	(5.20)
Std(ROA)	-4.175***	-3.878**	-4.634***	-4.316**	-2.584	-2.279	-2.417	-2.256
	(-2.60)	(-2.41)	(-2.75)	(-2.55)	(-1.45)	(-1.28)	(-1.37)	(-1.27)
Total Equity / Lag Assets	3.067***	3.093***	3.108***	3.124***				
	(10.64)	(10.80)	(10.62)	(10.70)				
Tier 1 Capital Ratio					3.642***	3.677***	3.681***	3.695***
					(12.45)	(12.67)	(12.68)	(12.78)
Loan Loss Provisions					-5.095***	-5.059***	-4.994***	-5.106***
/ Lag Assets					(-2.96)	(-2.96)	(-2.97)	(-3.00)
Net Interest Margin					4.583***	4.595***	4.476***	4.553***
					(3.81)	(3.85)	(3.75)	(3.83)
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.48	0.48	0.47	0.47	0.47	0.48	0.47	0.48
N of firm-years	13617	13617	12177	12177	11090	11090	11090	11090

Table 5. Effects of politics on payouts of industrial firms

The table presents regression results for industrial firms' net payout rate on lagged determinants of payouts, current and future profitability, the party of the current year's president, a measure of financial regulation uncertainty, and economic policy uncertainty. "1(Democrat President)" takes the value of one if the president at year-end belongs to the Democratic Party and zero if he belongs to the Republican Party. "1(High Financial Uncertainty)" and ("1(Economy Policy Uncertainty)") take a value of one if the year-end financial regulation uncertainty index (economy policy uncertainty index) is above the median of the sample period. The sample period is from 1993 to 2023. We define large firms by using nominal lagged assets for post-2010 periods and real lagged assets for pre-2010 periods (2010 CPI). Definitions of control variables can be found in Appendix Table A1. All continuous variables are winsorized at the 1% and 99% levels. Numbers in parentheses represent *t*-statistics, where standard errors are clustered by firm. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. To enhance readability, coefficients are multiplied by 100, except for Tobin's q.

	(1)	(2)	(3)	(4)
	Net Payouts / Lag Assets from 1993 to 2023			
1(Democrat President)	2.398			2.743
x 1(Assets≥10bn)	(0.17)			(0.19)
1(Econ Policy Uncertainty)		4.458		4.678
x 1(Assets≥10bn)		(0.28)		(0.30)
1(High Fin Reg Uncer-			6.133	
tainty) x 1(Assets≥10bn)			(0.53)	
1(Assets≥10bn)	14.787	13.123	12.477	11.460
	(0.60)	(0.55)	(0.52)	(0.43)
Log(Assets)	36.846***	36.871***	36.866***	36.870***
	(7.39)	(7.39)	(7.39)	(7.39)
Lagged ROA	0.519***	0.518***	0.518***	0.519***
	(4.06)	(4.06)	(4.06)	(4.06)
Contemporaneous ROA	1.673***	1.673***	1.673***	1.673***
	(13.49)	(13.49)	(13.49)	(13.49)
Future ROA	1.028***	1.028***	1.028***	1.028***
	(9.70)	(9.70)	(9.70)	(9.70)
Tobin's q	0.267***	0.267***	0.267***	0.267***
	(9.78)	(9.77)	(9.77)	(9.77)
Asset Tangibility	0.627**	0.628**	0.628**	0.628**
	(2.11)	(2.11)	(2.11)	(2.11)
R&D / Lag Assets	-1.653***	-1.653***	-1.653***	-1.653***
	(-4.46)	(-4.46)	(-4.46)	(-4.46)
SGA / Sales	0.003	0.003	0.003	0.003
	(0.07)	(0.07)	(0.07)	(0.07)
Advertisement / Sales	-2.511*	-2.511*	-2.510*	-2.510*
	(-1.67)	(-1.67)	(-1.67)	(-1.67)
Market Leverage	-5.134***	-5.135***	-5.135***	-5.135***
	(-22.41)	(-22.41)	(-22.41)	(-22.41)
Capex / Lag Assets	-4.676***	-4.677***	-4.677***	-4.677***
	(-14.29)	(-14.29)	(-14.30)	(-14.29)
Cash / Lag Assets	0.427***	0.427***	0.427***	0.427***
	(3.88)	(3.88)	(3.88)	(3.88)
1(Accounting Loss)	-45.728***	-45.716***	-45.716***	-45.716***
	(-10.25)	(-10.25)	(-10.25)	(-10.25)
Log(Firm Age)	68.005***	68.167***	68.140***	68.150***
	(7.91)	(7.93)	(7.92)	(7.93)
Firm fixed effects	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes
Adj. R-squared	0.39	0.39	0.39	0.39
N of firm-years	83366	83366	83366	83366

Table 6. Regression discontinuity design analysis around regulatory threshold

The table presents results of regressions of different payout rates on a treatment indicator variable equal to one if a bank's statutory assets exceeded the threshold of $50 billion, and zero otherwise and lagged control variables. The sample period is 2012 to 2016, when banks were subject to CCAR based on a binding statutory asset threshold. Banks with negative net income are dropped from the sample. Statutory assets refer to the total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y–9C) for the four most recent quarters prior to the CCAR exercise quarter. We use either ±50% of assets around the threshold as a bandwidth (odd columns) or the data-driven bandwidth proposed by Imbens and Kalyanaraman (2012) (even columns). Definitions of control variables can be found in Appendix Table A1. Numbers in parentheses represent *t*-statistics. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Net Payouts / Net Income		Dividends / Net Income		Net Repurchases / Net Income	
Bandwidth	25bn ≤ Assets ≤ 75bn	Imbens and Kalyana-raman (2012)	25bn ≤ Assets ≤ 75bn	Imbens and Kalyana-raman (2012)	25bn ≤ Assets ≤ 75bn	Imbens and Kalyana-raman (2012)
1(Treat)	-4.115	47.245	-85.341**	-67.505**	26.328	35.410
	(-0.04)	(1.24)	(-2.36)	(-2.36)	(0.39)	(1.53)
Assets-50bn	6.307	-0.660	7.758**	7.135**	-1.053	-0.835
	(0.64)	(-0.30)	(2.02)	(2.36)	(-0.15)	(-0.80)
1(Treat)	-18.888	-6.668	-7.708	-10.196*	-2.326	0.879
x (Assets-50bn)	(-0.98)	(-1.43)	(-1.02)	(-1.80)	(-0.17)	(0.75)
$(\text{Assets-50bn})^2$	0.237	-0.023	0.235*	0.201*	0.014	-0.012
	(0.73)	(-0.48)	(1.86)	(1.92)	(0.06)	(-0.84)
1(Treat)	0.283	0.247**	-0.209	-0.073	0.145	0.012
x $(\text{Assets-50bn})^2$	(0.50)	(2.11)	(-0.95)	(-0.42)	(0.35)	(0.79)
Lagged ROA	4.307	2.984	0.550	5.683	3.662	0.135
	(0.34)	(0.40)	(0.11)	(1.41)	(0.39)	(0.06)
Contemporaneous	-8.898	-18.968	-8.443	4.753	2.137	-14.423***
ROA	(-0.41)	(-1.63)	(-0.98)	(0.69)	(0.13)	(-4.15)
Future ROA	2.542	-6.914	9.776	12.949*	-2.645	-7.744**
	(0.12)	(-0.70)	(1.14)	(1.99)	(-0.17)	(-2.32)
Tobin's q	-2.640	0.450	-1.043	-2.413**	-1.906	-0.180
	(-0.69)	(0.37)	(-0.69)	(-2.12)	(-0.68)	(-0.49)
Std(ROA)	15.378	11.661	-20.944**	-27.866***	31.620*	8.152***
	(0.60)	(1.48)	(-2.08)	(-3.60)	(1.69)	(3.27)
Tier 1 Capital Ratio	-0.210	2.686**	-2.345**	-2.991***	1.621	3.354***
	(-0.08)	(2.60)	(-2.33)	(-3.88)	(0.87)	(11.89)
Loan Loss Provisions	-110.814**	-40.973***	-21.681	-31.001*	-83.250**	-2.347
/ Lag Assets	(-2.11)	(-2.92)	(-1.05)	(-1.99)	(-2.17)	(-0.56)
Net Interest Margin	32.678*	17.950***	9.922	10.789*	20.991	3.181
	(1.71)	(2.88)	(1.32)	(1.85)	(1.51)	(1.55)
Firm fixed effects	No	No	No	No	No	No
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.29	0.17	0.52	0.70	0.28	0.12
N of firm-years	59	177	59	51	59	1598

Table 7. Stock returns around the presidential elections since 2016

The table provides the average abnormal returns (in percent) on election day for the presidential elections since 2016. We show results for three samples. Column 1 shows results for banks with assets of more than $50 billion. Column 2 shows results for the banks with assets smaller than $50 billion. Column 3 shows results for all industrial firms. The election days were November 8th, 2016 (Panel A), November 3rd, 2020 (Panel B), and November 5th, 2024 (Panel C). We show three sets of results for each election, using excess returns over the risk-free rate, Fama-French 5-factor adjusted returns (Fama and French, 2015), and q5-factor adjusted returns (Hou, Mo, Xue, and Zhang, 2021), respectively. Factor loadings are calculated using daily data from the previous year. Following Cohn, Johnson, Liu, and Wardlaw (2024), we calculate the standard errors based on the volatility of the time series of estimates in the previous year. We use generalized least squares to calculate the average returns for pre-periods and event date returns. For non-large banks and industrial firms, we use 100 principal components of daily returns, instead of their original returns, to calculate the covariance matrix. The last two columns tabulate the statistical significance of the difference in mean between large banks and other banks (Column 4) and large banks and industrial firms (Column 5). Numbers in parentheses represent standard errors. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively. "Not sig." in the last three columns indicate that differences are not statistically significant at the 10% level.

Panel A: Abnormal returns on Nov 9, 2016

	(1)	(2)	(3)		
	Banks with Assets≥50billion	Banks with Assets<50billion	Industrial Firms	(1) – (2)	(1) – (3)
Excess returns	3.733***	0.748***	-0.074	(***)	(***)
	(0.79)	(0.11)	(0.11)		
FF5-adjusted returns	2.573***	0.772***	-0.187***	(***)	(***)
	(0.33)	(0.10)	(0.03)		
q5-adjusted returns	2.615***	0.823***	-0.225***	(***)	(***)
	(0.38)	(0.10)	(0.04)		
Number of firms	30	354	2479		

Panel B: Abnormal returns on Nov 4, 2020

	(1)	(2)	(3)		
	Banks with Assets≥50billion	Banks with Assets<50billion	Industrial Firms	(1) – (2)	(1) – (3)
Excess returns	-3.009***	-2.074***	0.112***	Not Sig.	(***)
	(0.70)	(0.16)	(0.04)		
FF5-adjusted returns	-1.856***	-2.266***	-0.187***	Not Sig.	(***)
	(0.30)	(0.13)	(0.03)		
q5-adjusted returns	-3.376***	-2.768***	-0.363***	Not Sig.	(***)
	(0.41)	(0.15)	(0.03)		
Number of firms	31	310	2453		

Panel C: Abnormal returns on Nov 6, 2024

	(1)	(2)	(3)		
	Banks with Assets≥50billion	Banks with Assets<50billion	Industrial Firms	(1) – (2)	(1) – (3)
Excess returns	8.228***	5.365***	1.601***	(***)	(***)
	(0.92)	(0.32)	(0.14)		
FF5-adjusted returns	3.125***	3.411***	-0.224***	Not Sig.	(***)
	(0.45)	(0.23)	(0.05)		
q5-adjusted returns	8.111***	4.799***	-0.389***	(***)	(***)
	(0.55)	(0.27)	(0.05)		
Number of firms	37	211	2789		

Table 8. Dynamic difference-in-difference: payout rates around the first Trump presidency

The table presents results of regressions of the payout rate on interaction terms between an indicator variable for large firms and yearly indicator variables as well as controls. The sample period is from 2013 to 2020, covering 4 years before and after the first inauguration of president Trump. We present the results separately for banks (Columns 1 to 3) and industrial firms (Columns 4 to 6). For banks, "1(Large)" equals one if lagged nominal assets are at least $50 billion at the beginning of year 2016. For industrial firms, "1(Large)" equals one if lagged nominal assets are at least $10 billion at the beginning of year 2016. "1(Year *n*)" equals one if the firm-year is in year *n*. Year 2016, the year before the Trump inauguration, is the benchmark year. For control variables in Columns 1 to 3, we include log assets, lagged, contemporaneous, and future ROA, Tobin's q, Tier 1 capital ratio, volatility of ROA, loan loss provisions, and net interest margin. For those in Columns 4 to 6, we include log assets, lagged, contemporaneous, and future ROA, Tobin's q, asset tangibility, R&D costs, SG&A costs, advertisement costs, capital expenditures, cash holdings, log (firm age), and an indicator variable equal to one if the firm experienced an accounting loss. The coefficients on control variables are omitted for brevity. Definitions of control variables can be found in Appendix Table A1. All continuous variables are winsorized at the 1% and 99% levels. Numbers in parentheses represent *t*-statistics, where standard errors are clustered by firm. *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively. To enhance readability, coefficients are multiplied by a hundred.

	(1)	(2)	(3)	(4)	(5)	(6)
	Banks			Industrial firms		
	Net Payouts / Lag Assets	Dividends / Lag Assets	Net Repurchases / Lag Assets	Net Payouts / Lag Assets	Dividends / Lag Assets	Net Repurchases / Lag Assets
1(Year 2013)	-9.161	0.872	-10.033	22.049	-48.149***	70.198*
x 1(Large)	(-1.19)	(0.31)	(-1.49)	(0.49)	(-2.68)	(1.76)
1(Year 2014)	1.425	1.709	-0.284	44.982	-21.960	66.942**
x 1(Large)	(0.18)	(0.93)	(-0.04)	(1.31)	(-1.53)	(2.21)
1(Year 2015)	-6.039	0.425	-6.464	0.868	-11.223	12.091
x 1(Large)	(-0.91)	(0.23)	(-1.10)	(0.03)	(-0.80)	(0.46)
1(Year 2017)	43.676***	1.136	42.541**	5.125	-0.308	5.433
x 1(Large)	(2.64)	(0.90)	(2.55)	(0.17)	(-0.02)	(0.22)
1(Year 2018)	32.892***	2.130	30.762***	135.889***	6.732	129.157***
x 1(Large)	(2.73)	(1.27)	(2.69)	(3.08)	(0.43)	(3.28)
1(Year 2019)	39.849***	4.351*	35.499***	148.006***	49.348*	98.658**
x 1(Large)	(2.84)	(1.73)	(2.78)	(3.12)	(1.66)	(2.48)
1(Year 2020)	-24.514**	3.125	-27.639**	54.920	31.829*	23.091
x 1(Large)	(-1.99)	(1.34)	(-2.43)	(1.40)	(1.69)	(0.68)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R-squared	0.47	0.70	0.36	0.52	0.49	0.46
N of firm-years	2683	2683	2683	16395	16395	16395

Appendix

Table A1. Variable definitions

The table explains how we construct the dependent variables and control variables. All fractions are expressed in percentage terms, except for Tobin's q.

Variables	Description
Dividends	Dividends for common stocks (DVC)
Net Repurchases	Maximum value of share repurchases minus stock issuance and zero. We use Fama and French (2001) and Floyd, Li, and Skinner (2015) to measure share repurchases as the increase in common treasury stock (TSTKC). If a firm employs the retirement method, which we infer from zero treasury stock in the current and prior year, we calculate repurchases as the purchase of common and preferred stock (PRSTKC) minus any reduction in the value of preferred stock. Depending on availability, we use redemption (PSTKRV), liquidating (PSTKL), or par value (PSTK) for the value of preferred stock. Net repurchases are equal to repurchases minus the issuance of stock (SSTK). If either calculation yields a negative value, net repurchases are set to zero.
Net Payouts	Dividends plus net repurchases
Planned 9-quarters Net Payouts	Implied payout plans of CCAR banks. They are calculated by comparing DFAST and CCAR results as in Schneider, Strahan, and Yang (2023) Appendix 2.
Statutory assets	The total consolidated assets as reported by a bank holding company on its Consolidated Financial Statements for Bank Holding Companies (FR Y–9C) for the four most recent quarters immediately prior to the quarter of the CCAR exercise. The data in the CCAR exercise quarter is used for the CCAR for the following year. The CCAR exercise quarter is the 3rd calendar quarter until 2014 and the 4th calendar quarter since 2015.
Log(Assets)	Log of real assets (AT x 1000000 x Inflation factor). The inflation factor is calculated with the 2023 CPI.
Return-on-assets (ROA)	Net income (NI) divided by lagged assets (AT)
Tobin's q	The market value of assets divided by the book value of assets. The market value of assets is defined as assets (AT) minus book equity (CEQ) plus market equity (CSHO*PRCC_F).
Total Equity / Lag Assets	Shareholders' Equity (SEQ or CEQ, depending on availability) divided by lagged assets (AT)
Tier 1 Capital Ratio	Depending on availability, we use data from the Chicago Fed (BHCK7206), SNL Financial (var_133175), or Compustat (CAPR1), in that order
Std(ROA)	Standard deviation of yearly operating income/lagged assets for the previous five years
Loan Loss Provisions / Lag Assets	Provisions for loan losses divided by lagged assets. Depending on availability, we use data from the Chicago Fed (BHCK4230), SNL Financial (var_132652), or Compustat (PCLC, (NIINT-NIIPL)), in that order
Net Interest Margin	Depending on availability, we use data from the Chicago Fed (BHCK4074), SNL Financial (var_133372), or Compustat (NIM), in that order
Asset Tangibility	Net PPE (PPENT) divided by assets
R&D / Lag Assets	R&D (XRD) divided by lagged assets. If R&D is missing, it is set equal to 0
SGA / Sales	SG&A (XSGA) divided by sales (SALE)
Advertisement / Sales	Advertising expenses (XAD) divided by sales (SALE); XAD set to zero if missing
Market Leverage	Total debt (DLC + DLTT) divided by the market value of assets (assets (AT) - book equity (CEQ) + market equity (CSHO*PRCC_F))
Capex / Lag Assets	Capital expenditures (CAPX) divided by lagged assets

Cash / Lag Assets	Cash and short-term investments (CHE) divided by lagged assets
1(Accounting Loss)	Indicator variable equal to one if (IB + XIDO) < 0, and zero otherwise. IB is net income excluding extraordinary items and discontinued operations, and XIDO is extraordinary items and discontinued operations.
Log(Firm Age)	Log of years since first CRSP listing
1(Democrat President)	Indicator variable equal to one if the US president at the end of the current year belongs to the Democratic Party, and zero otherwise
1(DD)	Indicator variable equal to one if both the US president and the chair of the US Senate Committee on Banking, Housing, and Urban Affairs belong to the Democratic Party at the end of the current year, and zero otherwise
1(DR)	Indicator variable equal to one if the US president belongs to the Democratic Party and the chair of the US Senate Committee on Banking, Housing, and Urban Affairs belongs to the Republican Party at the end of the current year, and zero otherwise
1(RD)	Indicator variable equal to one if the US president belongs to the Republican Party and the chair of the US Senate Committee on Banking, Housing, and Urban Affairs belongs to the Democratic Party at the end of the current year, and zero otherwise
1(High Financial Regulation Uncertainty)	Indicator variable equal to one if the year-end financial regulation uncertainty index is above the median of the sample period, and zero otherwise. The financial regulation uncertainty index is a categorical uncertainty index of economic policy uncertainty (Baker, Bloom, and Davis, 2016). The data is available free of charge at: https://www.policyuncertainty.com/categorical_epu.html
1(High Economic Policy Uncertainty)	Indicator variable equal to one if the year-end economic policy uncertainty index is above the median of the sample period, and zero otherwise. The economic policy uncertainty comes from Baker, Bloom, and Davis (2016). The data is available free of charge at: https://www.policyuncertainty.com/
1(Large)	Indicator variable equal to one if a firm-year belongs to the large group. The threshold for "Large" is $50 billion for banks and $10 billion for industrial firms. We use nominal assets for post-2010 periods and real assets for the pre-2010 periods (2010 CPI).