TARP from the Banks' Perspective:

Evidence from Conference Calls

Using earnings conference calls, we investigate banks' views of the Troubled Asset Relief Program (TARP) to understand why TARP generated so few loans. We find that banks generally regarded TARP favorably and many mentioned using TARP funds to make loans. However, loan growth was well below the level expected of TARP banks given prior capital ratios, even among those that said they would use the funds to make new loans. Other banks highlighted that the funds would improve their capital ratios. We show that these perspectives are largely uncorrelated to their ex-ante financial characteristics, but reflect the evolving conditions during the crisis period. These shifts are consistent with a large decline in the fraction of banks that commented on the favorable pricing of the preferred stock. Our findings suggest that banks primarily used TARP funds to strengthen capital ratios, which may have been motivated by bank CEOs' career concerns. Moreover, we find that weak loan demand and evolving financial conditions contributed to the sluggish loan growth following the TARP injections.

Keywords: TARP, banks, conference calls, lending, capital, loan demand

1. Introduction

The purpose of TARP was to provide loanable funds to banks at a time when credit markets were impaired and banks were overwhelmed with bad assets. Philippon and Schnabl (2013)'s theoretical work concludes that the program's structure, which injected capital via preferred stock and warrants, was efficient, as long as the debt overhang problem was widespread enough to ensure sufficient participation. Song (2020) comes to a similar conclusion, although a possible outcome of his model is that the funds are not always lent out, as some banks find it optimal to retain TARP money as cash. Calomiris and Kahn (2015) argue that warrants reduced banks' incentive to recapitalize through public equity issuance.

Despite its theoretical soundness, TARP failed to spur substantial new lending. While most studies surveyed by Berger (2018) and Berger and Roman (2020) conclude that TARP helped to expand the country's credit supply, the magnitude of the increase was not large.[1] Taliaferro (2021) finds that only about 13 cents of each TARP dollar was used to support new loans. Lin, Liu, and Srinivasan (2024) find evidence that credit supply to relationship borrowers declined at some TARP banks. Hence, although by some metrics, such as the value of capital added to the banking system, TARP was a success, its effectiveness as a tool to counteract negative credit supply shocks may be limited.

Despite numerous studies of TARP, some key elements in the implementation of the program remain unclear. What opinion did banks hold regarding the value of TARP? What did banks intend to use the funds for? What role did loan demand play in supplying credit?

Our paper aims to provide insights into these questions using information from banks' quarterly conference calls. Existing studies show that conference calls enhance the dissemination

[1] See Taliaferro (2021); Li (2013); Berger and Roman (2015, 2017); Berger, Makaew and Roman (2019); Sheng (2016); Koetter and Noth (2015); Harris, Huerta and Ngo (2013); and Bassett, Demiralp and Lloyd (2020)

of firm information into the market and improve the accuracy of analysts' forecasts (e.g., Bowen, Davis and Matsumoto, 2002; Brown, Hillegeist and Lo, 2004; and Matsumoto, Pronk and Roelofsen, 2011). We argue that conference calls offer a unique window into commercial bankers' views on TARP during the financial crisis, especially as the Q3 2008 earnings calls were typically held within weeks of the passage of the TARP bill (Table 1) and most of the Q4 2008 calls were held shortly after the money was received.

Our analysis finds that the TARP discussions centered on four topics: (1) plans to lend the TARP funds if received; (2) the impact of TARP funds on the bank's capital ratios; (3) the cost of the preferred stock; and (4) the potential use of TARP funds for acquisitions. The fourth one, acquisitions, was much more likely to be mentioned in the October 2008 (Q3) conference calls. In discussing plans for lending the TARP funds, management frequently gave its opinion on the amount of loan demand in its market, which was declining for most banks after mid-2008. Among the banks that experienced positive loan demand, we sometimes read that demand was unusually high because the bank had gained market share as a result of retrenchment by its competitors. Thus, in our analysis of banks' views on TARP, we control for loan demand by creating four descriptive categories: negative, positive, neutral, and shifted positive demand.

Many banks said that they intend to use TARP funds to make loans, especially in the Q4 conference calls. Nearly all banks discussed capital ratios each quarter, and some emphasized that the TARP funds would strengthen their capital ratios. During the Q3 2008 calls, more than 40 percent of sample banks viewed the funds as inexpensive, but by mid-January, the pricing of the program was less appealing. Banks discussing acquisitions in Q3 2008 rarely revisited the topic in Q4 and only a few banks undertook any. We relate banks' perspectives on these four aspects of the TARP program to bank characteristics, changes in banks' financial conditions and CEO

compensation. We find that loan plans are not closely related to economic conditions, although banks with negative loan demand are less likely to voice such plans. While CEOs would not lie outright in a conference call, they might overstate their lending plans in response to criticism about the bailout and our evidence from CEO compensation variables suggests that this sometimes occurred. We find that plans to lend are positively related to participating in the TARP program.

Our main empirical analysis relates the banks' views on TARP to future loan growth. Consistent with Taliaferro (2021), we find that TARP banks made fewer loans in 2009 than expected. The low level of lending occurred even among TARP banks that said they would use the funds for lending. These banks were no more likely to expand lending than other banks. Among the banks that mentioned TARP-funded lending, we find that actual loan growth was higher if they experienced a shift in demand as their competitors pulled back. Some evidence indicates that CEOs' career concerns hampered loan growth. When focusing on banks that previously expressed plans to use TARP funds for new loans but actually lent less, we show that loan demand helps to explain why they failed to expand. Some evidence in these regressions suggests that lending plans were articulated to rebuff criticism of the industry.

We next consider how banks utilized the funds and find that TARP banks experienced a significant increase in their capital ratios. If banks viewed TARP capital in the same light as their pre-crisis capital, they would have levered up the funds with deposits and their capital ratios would remain unchanged. Thus, an important reason why lending was weaker than desired is that the program was often more useful for recapitalization than for credit supply.

In sum, the positive view of the program expressed in Q3 2008 conference calls reflected a combination of bankers' optimism about lending opportunities and their view that TARP was useful for raising capital ratios. As time went on, weakening loan demand and the decline in the Federal Funds rate reduced the expected profits from lending out TARP funds, leading more banks to highlight its

high cost and to use the funds to raise capital ratios. Bank CEOs' career concerns may have also hampered loan growth. Hence, our analysis of conference calls indicates that the program was only partly successful in addressing the challenges faced by the banking system in Fall 2008.

Our paper contributes to the literature examining the effectiveness of TARP. Bayazitova and Shivdasani, (2012) and Duchin and Sosyura (2012) consider bank participation in the program and find that stronger banks opted out while others were approved with the help of political connections. Flanagan and Purnanandam (2024) show that the funds were substantially less expensive than preferred stock issued to the private sector. Studies by Wilson and Wu (2012), and Cornett, Li and Tehranian (2013) find surprisingly early repayment of the TARP funds, which may reflect bank CEOs' concerns about compensation (Bayazitova and Shivdasani, 2012; Cadman, Carter and Lynch, 2012; Wilson and Wu, 2012; and Mucke, Pelizzon, Pezone and Thakor, 2024). Ivashina and Sharfstein (2010), Li (2013), and Puddu and Woelchli (2015) emphasize the low demand for loans at the time the program was created. Black and Hazelwood (2013), Duchin and Sosyura (2014), Chavaz and Rose (2019) and Berger, Roman and Sedunov (2020) suggest that TARP banks made riskier loans than normal, perhaps because ordinary standards would have further reduced the amount of lending from the program.

The remainder of the paper is structured as follows. Section 2 details the data and summary statistics. Section 3 discusses the methodology of our analysis. Section 4 presents the empirical results and Section 5 provides additional robustness checks. Finally, Section 6 concludes.

2. Data

Our sample contains 120 listed banks with earnings conference call transcripts for either the third or fourth quarter of 2008. Although the sample is not large, these banks were allocated approximately $150 billion of the $204.5 billion funds distributed through the Capital Purchase

Program (CPP) portion of TARP. Hence, they represent the majority of funds allocated under the program.

To construct our sample, we start with the 5,537 banks in the Bank Regulatory database on Wharton Research Data Services (WRDS) with Q4 2008 information. We then restrict the sample to publicly traded banks headquartered in the 50 U.S. states by matching the RSSD numbers to the Center for Research in Security Prices (CRSP) using the Federal Reserve Bank of New York's link table. Because only large, publicly traded banks hold quarterly earnings conference calls, we further restrict the sample to those with at least $1 billion in assets as of the end of 2006. These restrictions resulted in a group of 206 banks that were likely to have conference calls in late 2008.

We search for the transcripts of the 206 banks in data provided by Thompson Financial, Seeking Alpha (NASDAQ), Fair Disclosure, and Factiva. While most banks that hold conference calls do so each quarter, some are discontinued. In other cases, transcripts were unavailable.[2] As a result, our sample has 120 listed banks with earnings conference call transcripts for either the third or fourth quarter of 2008. Table 2 reports the time series of conference calls for our final sample. In some cases, the TARP funds were received in 2009, which means we require transcripts from 2010 for some of our analyses. Data collection information for 2010 is not included in Table 2 because those transcripts are only necessary for a fraction of the sample.

Having collected a set of transcripts, we read those for Q3 and Q4 2008 to determine what banks said about the TARP program. We found that discussions around TARP mainly included their plans for the funds, the cost, and whether loan demand was strong enough to deploy all of the funds. The discussions about loan demand were common in most quarters, which led us to collect

[2] Conference call dates and times are typically announced in advance, so we are able to determine if a call was ever held.

qualitative data on loan demand from all the quarters between 2007 and 2009 (and 2010 for banks that received TARP in 2009).

The conference call transcripts provide substantial data on TARP applications and acceptance decisions. This information is supplemented with data from the Department of the Treasury on the TARP program, with SEC filings, and with articles in Factiva and Nexis Uni. In all but two cases, we could readily determine if the company applied for TARP. Neither bank was listed by the Department of Treasury as a TARP recipient, but after a careful search, we coded the two banks as ones that did not apply.[3] Six banks in our sample were forced to take TARP funds and we refer to these banks as Forced TARP banks. A few of the banks merged or failed before 2009. They are included for as long as they contribute data to the sample.

We also use the Bank Regulatory data in WRDS to access quarterly reports filed with bank regulators, and ExecuComp, which provides compensation data for the larger firms in the sample (other firms' data are obtained from SEC proxy filings). Following Duchin and Sosyura (2012, 2014), Li (2013), and Chavaz and Rose (2019), we code political connection variables using data from the Federal Reserve and the House of Representatives. We use a state macro growth variable based on state economic conditions reported by the Federal Reserve Bank of Philadelphia. The information on analyst coverage is from I/B/E/S.

2.1 Summary Statistics and Univariate Analysis

Table 3 shows sample statistics for the three types of banks in our sample: Forced TARP, voluntary TARP and non-TARP banks. TARP funds went to 92 of the 120 sample banks (76.67%). The majority of sample banks are voluntary TARP banks. The forced TARP banks are the largest

[3] In one case (Amcore), an analyst said the bank would not be approved if it applied, implying that it did not apply. In the other case (West Coast Bancorp), management was asked several times in conference calls if it applied or intended to apply but the bank never answered directly, implying that it did not apply.

in the sample. The average size of the voluntary TARP banks is noticeably smaller, but still larger than the non-TARP banks at the 10% significance level. We note that all the firms in our sample are larger than the typical bank. Table 3 shows that the Tier 1 ratio is higher in non-TARP banks than in voluntary TARP banks. Consistent with their larger size, voluntary TARP banks pay a higher salary to their CEOs and the average number of analysts following these banks is greater. The statistics in Table 3 do not show a clear difference in the financial health of TARP and non-TARP banks: average capital is lower at the TARP banks and they have fewer core deposits, but their real estate loans are lower and they were less often the target of enforcement actions. This mixed picture reflects the diversity of the non-TARP group, which includes both weak banks that were rejected and healthy banks that did not take the money.

Statistics on participation in the program (TARP applications, approvals and take-downs) are shown in Figure 1. Only 14 banks in the sample did not apply to the program and only seven banks that were approved decided not to take the money. These figures indicate much higher participation in our sample than in the banking industry overall: Duchin and Sosyura (2012) and Bayazitova and Shivdasani (2012) report that about half of publicly traded banks did not issue preferred stock to the Treasury. The banks that did not apply to the program in our sample are a mix of banks that did not want the capital (and likely would have been approved if they applied) and some that did not apply lest they be rejected.

After reading the transcripts of the 2008 Q3 and Q4 calls, we created four indicator variables that describe banks' views of the TARP program. In addition, we classified loan demand based on comments in these conference calls. The Appendix provides details on the construction of conference call variables. Table 4 summarizes these variables, showing their average values

separately for the third and fourth quarters of 2008.[4] Internet Appendix Table IA1 provides correlation matrix of TARP and conference call variables.

Table 4 shows little evidence that banks viewed the CPP funds as inexpensive, despite the significant subsidy identified by Flanagan and Purnanandam (2024). Initially, before the Federal Reserve lowered the Federal Funds rate to zero, the 5% preferred dividend struck a large number of bank CEOs as inexpensive. Nonetheless, that group was less than half of the sample. During the Q4 2008 call, only a few banks (5.13%) said the funds were inexpensive, and the number that described TARP as expensive rose. Thus, despite the subsidy provided by the program, bankers viewed the dividend as too high relative to the rate on a loan.

None of the banks stated that they did not plan to lend out the funds. However, most banks did not state one way or the other whether they planned to make new loans with the TARP money. Notably, the fraction of banks that explicitly stated that they would make new loans increased substantially from the Q3 2008 to the Q4 2008 call. This may reflect banks' response to heightened scrutiny from politicians and the public rather than a change in lending plans.

While bank conference calls routinely include comments about bank capital ratios, few banks said how CPP funds would impact these ratios in the Q3 2008 discussions. If banks had planned to lever up the capital as usual, their ratios would have remained unchanged post-issuance. Thus, plans to use the funds to raise capital, which were more common in the Q4 2008 conference call, meant that the funds would not be levered up as usual. Not shown in the table, six of the 14 non-applicant banks stated they did not need additional capital. Notably, some banks that claimed they did not need the capital chose to accept it nonetheless.

[4] The samples in the two columns are less than 120 because, as can be seen in Table 2, transcripts are not available for two firms in Q3 2008 and a different set of three firms did not have transcripts for Q4 2008.

Finally, the last rows of Table 4 show data on the lending environment. At the time that TARP funds were disbursed, many of the banks believed that the demand was strong enough to lend out the funds. Our empirical analyses focus on two conference call variables: shifted loan demand and negative loan demand. The shifted loan demand variable is highly correlated with the positive demand indicator since most of the banks with positive demand experienced an increase in market share rather than a boost to the economies they served. In Figure IA1, we further break down loan demand variables into negative, positive, and neutral demand, and show the time series of the loan demand variables from Q3 2007 to Q4 2009. Demand was either positive or neutral for most banks when TARP was announced but demand often weakened over the following quarters.

3. Methodology

We relate statements from the conference calls to CEO compensation, public scrutiny, loan demand, and bank financial characteristics with the following regression:

$$CC_{ij} = \sum_j \beta_j \ Comp_{ij} + \sum_m \gamma_m LD_{im} + \sum_j \delta_j X_{ij} \ + \varepsilon_i \quad (1)$$

where CC_{ij} is a set of j variables created from the conference call that describe the bank's views on TARP; $Comp_{ij}$ is a set of indicator variables related to the CEO's compensation package and to public scrutiny of the bank measured in 2008; LD_m is a set of m variables related to the bank's loan demand, which are also obtained from the conference call transcript; and X_i is a set of j control variables.

Banks' views on the pricing and intended use of TARP funds influence both the participation decision (whether to apply) and the acceptance decision. Similar to Bayazitova and Shivdasani (2012) and Duchin and Sosyura (2012), we estimate two sets of regressions with the following specification:

$$Participate_i \ or \ Accept_i = \sum_j \beta_j \ CC_{ij} + \sum_j \beta_j \ Comp_{ij} + \sum_m \gamma_m LD_{im} + \sum_j \delta_j X_{ij} \ + \varepsilon_i \quad (2)$$

Participate is an indicator set to one for banks that applied to the program and zero if they did not, while *Accept* is a dummy variable that equal to one if a bank accepted TARP funds, and zero otherwise.

Most application decisions were made in October 2008, and the deadline to apply was November 14, 2008, so the *CC* and *LD* variables in the participation regression are based on the Q3 2008 conference calls while the control variables are as of September 30, 2008. For the regressions related to the acceptance of TARP funds, we note that TARP approval decisions were made in Q4 2008 and banks had about one month to decide whether to take the funds, so *CC* variables are from the Q4 2008 conference call. The sample for estimating participation decisions includes all non-TARP banks and all voluntary TARP banks, while the sample for estimating acceptance decisions only includes banks that received approval and were not forced to apply.

To assess how banks' views expressed in the conference calls relate to their subsequent lending, we consider four possible uses of the TARP funds: loans, bolstering capital, investments, and repayment of liabilities (shrinking). To illustrate these outcomes, we show four scenarios in Figure 2 that involve post-TARP balance sheets. Panel A of the figure shows the balance sheet prior to receiving TARP funds, where the bank has a leverage ratio of 8%. Assuming a risk weight of 100% for the loans and zero for the securities, its Tier 1 risk-based capital (RBC) ratio is 11.43%.[5] The next four panels (B-E) show two cases of expanded lending (panels B and C) and two cases with no loan growth (panels D and E).

In Scenario 1 (panel B) the bank does not lever the new funds, so loan growth is modest (loans expand by exactly the dollar amount of new capital). The lack of "normal" leverage in Scenario 1 raises the Tier 1 leverage ratio to 9.89% and the Tier 1 capital ratio increases by 2.58%

[5] The risk weights for Treasuries and insured MBS are zero in this period while those for other MBS and other securities were 20%. While the average risk weight was likely as close to 20% as zero for these assets, they are set to zero here for simplicity.

to 14.01%. Total risk-based capital also goes up by 2.58%. Thus, although TARP funds are used to make new loans, the bank is mainly using the money to improve its capital ratio.

In Scenario 2 (panel C), the TARP funds are levered in exactly the same way as in the pre-TARP period. As a result, the Tier 1 leverage ratio is unchanged at 8%. The funds for levering up come from new deposits and these two sources in combination lead to loan growth of more than 35%. Since all of the funds go into loans with a risk weight of 100%, the RWAs increase and the Tier 1 capital ratio falls to 10.65%. While such high loan growth is not expected, Scenario 2 provides a sense of what might be possible in later years if banks revert to historical norms (i.e., as in Berrospide and Edge, 2010).

In the remaining two scenarios, the bank uses the funds only to improve its capital ratios. In Scenario 3 (panel D), the funds are invested in securities, leaving the loan portfolio unchanged (assuming no runoff in existing loans) but lowering the percentage of high RWA in the asset base. These securities might be Treasury instruments or mortgage-backed securities (MBS) but given the low risk-free rate, banks likely preferred MBS investments. In the last scenario (panel E) the increase in the capital ratio from the TARP funds partially offsets the decline in equity from loan losses (+2.1% vs. -3.0%). The bank's response to losses involves shrinking, as in Peek and Rosengren (1995a and 1995b). Assuming that it desires to return to the pre-TARP leverage ratio, the bank uses TARP funds and asset sales to pay down debt. Because they are more liquid than loans, the asset shrinkage is executed by selling securities.

These scenarios motivate our empirical estimations. Banks that plan to lend out the TARP money are more likely to experience loan growth, as in Scenarios 1 and 2. We expect that banks that viewed the funds as inexpensive will lever up the funds and grow, as in Scenario 2. We expect that banks that raise their capital ratios without new lending, as in Scenarios 3 and 4, are more

likely to mention TARP's usefulness in boosting capital ratios. Because the focus for banks represented by Scenarios 3 and 4 is on improving capital ratios, they are more likely to invest the TARP proceeds into MBS. Thus, we also consider the relationship between banks' *CC* variables and securities holdings in our empirical analysis. The bank in Scenario 4 is struggling to maintain its financial health after suffering a loss on its loan portfolio. In this example, the bank shrinks both due to losses and from intentional sales of securities. Thus, a bank that mentions the usefulness of TARP funds in raising capital ratio may be one that chooses to shrink as a method of recapitalizing. This motivates our empirical analysis of the relationship between conference call variables and the likelihood of having negative asset growth in a quarter.

Previous research (e.g., Berger and Roman, 2015, 2017; Chavaz and Rose, 2019; and Bassett, Demiralp and Lloyd, 2020) analyzes loan growth with DID regressions but we find evidence against the parallel trends assumption in our sample. Therefore, we estimate the impact of TARP on loan growth with an alternative method that compares the actual lending to a target loan amount, where the target is a function of the amount of new capital added to the bank's balance sheet. In this analysis, we create a target loan amount, L_T, for each bank in the sample and compare its actual lending in the quarters after receiving TARP to the target. These target loan levels depend on the amount of preferred stock sold to the U.S. Treasury (typically 3% of RWA for the TARP banks) and how much capital is raised in the private market. This approach allows us to compare banks' actual lending with what they said they planned for the TARP funds. Another advantage of this approach is that it only considers lending changes after the funds are received, so it avoids problems with the assumption of parallel trends in the pre-TARP period.

We expect that banks that say they plan to lend will lever up the TARP funds and expand lending. Banks that did not receive TARP have a target of zero loan growth, and may even shrink

if they planned to use TARP to boost their capital ratios. To determine how banks' plans affect their lending, we estimate the following equation:

$$Meet\ Target_{ijt} = \beta_0 + \beta_1 TARP_i + \sum_j \theta_j CC_{ij} + \sum_j \gamma_j CC_{ij} \times TARP_i + \beta_2 LendingPlan_i \times$$

$$Shifted\ LD_{it} + \beta_3 LendingPlan_i \times Tier\ 1_{it} + \sum_j \beta_j LendingPlan_i \times Comp_{ij} + \sum_m \gamma_m LD_{imt} +$$

$$\sum_j \delta_j Comp_{ij} + \sum_j \delta_j X_{ijt} + \varepsilon_{it} \qquad (3)$$

In equation (3) the dependent variable for bank *i* is a dummy variable that equals one if the actual loan level at time *t* (one, two, three or four quarters after receiving the funds) reaches the forecast level based on variable leverage benchmarks. Here the *TARP* indicator variable is equal to one for bank *i* if it had TARP funds in the quarter after quarter 0. In equation (3) the control variables are based on the quarter before the CPP funds were received. Loan demand variables (LD_{imt}) are included to control for the possibility that banks face loan demand that is lower than expected at the time they opted for TARP. We expect that the *LendingPlan* variable will have a positive coefficient if the variable captures banks' plans but less so if CEOs are overemphasizing the extent of the plans. The interaction of the *LendingPlan* variable with compensation variables and the number of analysts would be negative if CEOs were less than forthcoming about the intent to lend. Given that using the CPP funds for capital means that the money is not used for lending, we expect the *BolsterCapital* variable to have a negative coefficient. The *TARP* variable is expected to be positive if extra capital helps banks to avoid shrinking.

We focus on two targets but include additional ones in the Internet Appendix. Our first target is very low and represents the bank in Scenario 1 of Figure 2 (panel B). In this scenario, if the bank raises 3% of RWA, the loan target is 3% above the loan level in the quarter before receiving TARP. As seen in Figure 2, such lending leaves the bank better capitalized than before the TARP program (holding all else constant). The second target is closer to that of Scenario 2 in

Figure 2 but is more conservative. Previous research indicates that an additional dollar of new capital is typically associated with about $10 of new assets, of which about $7 is in the form of loans. That level of leverage would imply more than 20% loan growth for TARP banks (about 7 times 3% of RWA). We expect that banks would be more conservative in levering up the funds during this period. Thus, our second target is one where we assume that the bank levers up to the highest possible point while remaining well-capitalized. In 2008, well-capitalized status required a total RBC capital ratio of at least 10%, Tier 1 RBC of at least 6%, and a Tier 1 leverage ratio of at least 5%. For each bank, we set L_T to the amount of loans that could be generated with the additional capital while remaining well-capitalized under the three measures. After calculating the potential loan growth under each of the three capital rules, we next identify the smallest value of loan growth among the three and use it for the target. We treat capital raised through public and private equity offerings symmetrically in calculating these targets. If a bank issued private equity and took TARP funds as well, we assume the same degree of leverage for each type of capital, regardless of whether it is private or comes from the government.[6]

Having calculated these target loan levels, we next construct an indicator variable for whether the bank meets the target level. We start by looking at the first full quarter after the TARP injection (typically Q1 2009) and gradually expand the scope by adding additional quarters (up to the fourth quarter after the TARP injection). For example, for quarter *t*, we calculate whether the cumulative change in total loans from the pre-TARP quarter to quarter *t* is as high as the target.[7] We define the pre-TARP quarter as the quarter immediately before the TARP injection or for non-TARP banks as Q3 2008.

[6] Loan growth is expected to be greater if it is supported by TARP funds rather than private capital because the TARP funds are subsidized. However, the extent of the difference is not known and therefore we do not adjust the target loan growth.
[7] If the period involves a merger, we adjust the calculation by using a pro-rata combination of the acquirer's and target's loans.

We further analyze loan growth by considering banks that failed to grow loans despite stated plans to do so. For this analysis we restrict the sample to banks with *LendingPlan* equal to one and run regressions where the dependent variable equals one if a bank's total loan volume in quarter *t* falls below its Q3 2008 level. We also estimate the regressions without banks that experienced a decline in their loan portfolios of at least 10%, as these banks sold off some loans and may have exited an unpromising business, even while making new loans to other borrowers.[8]

Banks that participated in the program but did not use the TARP funds for lending either paid down debt (and shrank) or invested the money in securities. We relate these choices to the comments in the conference calls with DID estimations, as in equation (4) below.

$$y_{it} = \beta_0 + \beta_1 TARP_i + \beta_2 POST_{it} \times TARP_i + \sum_j \beta_j CC_{ij} + \sum_j \beta_j CC_{ij} \times TARP_i + \sum_j \beta_j CC_{ij} \times TARP_i \times POST_{it} + \sum_j \beta_j CC_{ij} \times POST_{it} + \sum_j \beta_j \times Comp_{ij} \times POST_{it} + \sum_j \beta_j \times Comp_{ij} + \sum_m \gamma_m LD_{imt} + \sum_j \delta_j X_{ijt-1} + \delta_j TIME_t + \varepsilon_i \quad (4)$$

where the dependent variable is either an indicator set to one for banks that shrink in quarter *t*, or it is MBS as a percentage of assets. We set the *POST* variable to one for the quarters on and after Q1 2009. Control variables are lagged by one quarter and time-fixed effects, $TIME_t$, are included. Standard errors are clustered at the bank level. To examine how the balance sheet changes among banks that highlight the impact on capital ratios, we estimate equation (4) where the dependent variable is a capital ratio. In these estimations, we consider Tier 1 capital divided by RWA and the leverage ratio (Tier 1/assets).

[8] Note that these large declines in the loan book do not represent transactions in the government's Public Private Investment Program (PPIP) because the PPIP abandoned the Legacy Loans part of the TARP asset purchase plan and only targeted Legacy Securities sales. See Henken (2020).

4. Results

4.1 Bank characteristics and banks' perspectives on TARP

We first examine the relationship between banks' characteristics and their perspectives on TARP. Specifically, we analyze four key indicator variables derived from Q3 and Q4 2008 conference calls: *LendingPlan*, *Inexpensive, BolsterCapital* and *AcquisitionPlan*. Table 5 presents the results of our analysis. Models (1)–(4) examine the four CC variables from the Q3 2008 conference calls, where the financial variables, such as bank size, are measured as of Q3 2007 and the changes in financial variables are over the period Q3 2007 to Q3 2008. Models (5)–(8) present the estimations of banks' perspectives on TARP observed in the Q4 2008 conference calls, where the financial variables are measured at Q4 2007 and the changes in financial variables are over the period Q4 2007 to Q4 2008.

Model (1) of Table 5 shows that statements about lending plans in the Q3 call are more common among CEOs with compensation over $500,000 but other measures of career concerns are not significantly related to plans to lend. The number of analysts has a negative coefficient in model (1), which is contrary to the idea of rebuffing criticism by emphasizing new TARP-funded loans. In model (2), we find that CEOs with a greater incentive to take risk (with high delta compensation packages) are less likely to view TARP as inexpensive, as are those with a large amount of bonus-based compensation. CEOs with high excess pay and bonuses are less likely to highlight the benefits of TARP recapitalization (model (3)).

Banks experiencing negative loan demand in Q3 2008 were significantly less likely to mention plans to lend out TARP funds but banks with positive (shifted) loan demand were no more likely than others to mention lending plans. Only the derivatives variable is significant among the 2007 Q2 financial statement variables in column (1), whereas increases over the last year have

more explanatory power. In model (2), both healthy banks, as measured by Tier 1 capital, and weak banks, as measured by NPLs and high derivatives, avoided saying that TARP funds were inexpensive. Banks that grew recently, potentially with acquisitions, are less likely to discuss acquisitions in Q3 (model (4)), as are those with an increase in bad loans and real estate. Overall, the financial characteristics of a bank are not closely tied to banks' perspectives on TARP when it was first announced (e.g., their statements were not driven by specific bank types such as "bad banks"). This finding also challenges the idea that certain banks strategically emphasize particular keywords in their conference calls.

Turning to the Q4 2008 conference call variables, the high compensation variable that was significant in model (1) remains so in model (5) and with a slightly larger coefficient. This supports the idea that banks exaggerated lending plans, but other compensation variables are not significant in this quarter. High bonus CEOs now are more likely to highlight the low cost of the TARP funds, despite the funds increasing in relative cost compared to the previous quarter.

Banks that benefitted from shifts in loan demand emphasized the value of obtaining capital in model (6) but were no more or less likely to articulate lending plans. Negative loan demand reduced the already low likelihood of mentioning plans to acquire banks in Q4 2008 (model (8)).

Few variables from the Q3 2008 financial statements are significant in model (5), but changes over the past year indicate that banks engaged in retrenchment (those that already raised their capital ratios after taking write-downs) were less likely to mention lending plans. As in the previous quarter, both healthier banks (high ROA) and weaker banks (high and increasing LLPs) are less likely to mention the low cost of TARP funds (model (6)). Banks with high Tier 1 capital and wholesale debt are less likely to view TARP funds as a cost-effective source of capital in Q4 (model (7)), while those with increased write-downs and LLPs view the capital injection favorably.

In the Internet Appendix Table IA2, we find qualitatively similar results when using the financial variables as of the previous quarter and their change in the current quarter from the previous one.

4.2 Banks' Perspectives and TARP Applications and Acceptance

Table 6 shows the relationship between banks' perspectives on TARP and the decisions to apply for and later accept TARP funds. The first four columns include regressions of the probability of applying for TARP and the last four columns show regressions of the likelihood of accepting the money. Banks forced to take TARP and two firms that applied that have missing transcripts are excluded in the application regressions. In columns (5)-(8), the sample drops to 92 because seven banks' applications were rejected and one bank's transcript is missing. Because acquisitions were infrequently discussed by Q4, we do not include the variable in this analysis.

Model (1) of Table 6 shows that banks were more likely to apply to the program if they viewed the preferred stock as inexpensive. The coefficient indicates that if a bank considered TARP to be priced favorably in its Q3 2008 conference call, the probability that it applied for TARP money increases by 13 percentage points. Although the program was quite popular, especially in our sample of large banks, this result implies that participation would have been even greater if the cost were lower. The coefficient on *BolsterCapital* in Model (2) is positive and significant, indicating that banks were more likely to apply for TARP funds if they intended to use the funds to improve their capital ratios. The indicator for banks that explicitly stated an intention to lend the funds *(LendingPlan*) is significant with a coefficient of 0.23. This suggests that the TARP program design, at least as it was initially viewed, was successful in spurring banks to lend. The program's initial appeal was significantly greater among bank CEOs with high bonus compensation but lower among those with high deltas. The analyst coverage variable is significantly negative in all models in (1)-(4), suggesting that public criticism of the plan reduced

participation. Models (3) and (4) show a significantly higher number of applications from banks with unusually low loan demand whereas none of the application regressions show a positive impact from shifted loan demand. Unlike Bayazitova and Shivdasani (2012), we do not find that the Tier 1 ratio has a statistically significant effect on the application decision, although its coefficient is negative as expected. The political connections measure has a significant negative coefficient in models (3) and (4), which is contrary to expectations. In model (4), where all the *CC* variables are included, the coefficient on *LendingPlan* remains significantly positive.

Models (5)–(8) of Table 6 examine the factors that affected banks' decisions to take the TARP money once approved. Of the three *CC* variables, only *LendingPlan* has a significant coefficient. As seen in Table 1, between the time the banks applied for the funds and the time most banks accepted the funds, interest rates declined sharply, making the funds more expensive over time. This may explain why pricing affects the decision to apply more than the decision to accept the TARP money. Although the *BolsterCapital* variable is not significant in models (6) or (8), the Tier 1 capital variable has a significantly negative coefficient in all four acceptance regressions. Thus, banks that did not need the capital were less likely to take the TARP funds. None of the CEO compensation variables affect the acceptance of TARP funds once approved. Similar to the application process, higher scrutiny (log of the number of analysts) reduced acceptance of TARP funds. Bank size and Tier 1 capital have negative coefficients in the acceptance regressions while the negative loan demand indicator and LLPs (model (8)) have positive coefficients.

4.3 Loan Growth Estimations

To analyze loan growth, we focus on the four quarters after a bank receives its TARP funds and compare the actual loan growth to expected loan growth. For the non-TARP banks, which generally did not obtain any new capital, we focus on the quarters from Q1 2009 to Q4 2009.

Summary statistics related to these regressions are shown in Table 7. The estimates of equation (3) are shown in Table 8. The dependent variable, *Meets Target*$_{t,}$ equals one if in quarter *t,* a bank's cumulative increase in lending from the benchmark quarter (i.e., the quarter before receiving TARP funds) has reached or exceeded the forecast lending level, and zero otherwise. We expand the examination window from one quarter to four quarters after the TARP injection and report the results in separate columns. For the sake of brevity, we omit the results for the third quarter in the table. On the left side of the table (models (1)–(6)), we assume new capital is levered up with deposits or other debt and levered to the extent that the bank remains well-capitalized. A much more modest amount of lending is assumed on the right side, where the TARP funds are assumed to be lent out without any leverage. That is, a dollar in new capital (TARP or private) is turned into a dollar of new loans. In the odd columns, only TARP and control variables are considered, while CC variables and compensation and public scrutiny variables are included in the even columns.

All 12 of the regressions in Table 8 show a negative coefficient on the TARP variable, and the difference between TARP banks' lending and that of others is significant in most of them. For example, in column (1), the coefficient implies that TARP banks are 23% less likely to extend new loans while maintaining the minimum ratios associated with being well-capitalized. In the Internet Appendix Table IA3, we report results where we change the amount of leverage assumed for each new dollar of capital and find that the TARP coefficient largely remains negative and significant, particularly in the short term. We plot the gap between the target loan level and the actual for TARP banks in Figure IA2, along with the gap for other banks that raised private capital or had no new capital. The figure shows that the TARP banks lent far less than they could have while non-TARP banks also had subpar lending.

The coefficient on the *Inexpensive* indicator in Table 8 is negative in nearly every specification and statistically significant in a few of the models. When interacting with the TARP indicator in models (2)-(6), the positive coefficient is always significant and larger in magnitude than that of the *Inexpensive* indicator. Thus, the TARP banks that viewed the funds as attractively priced were somewhat more likely to use the funds for lending than other banks that mentioned the low price. However, this result only holds when we consider meeting the target based on moderate capital ratios and not in columns (7)-(12). We do not find any significant coefficients on the *BolsterCapital* variable or its interaction with TARP.

LendingPlan has a positive coefficient that is significant in model (2), which examines the second quarter of 2009 for most banks. This suggests that banks that stated an intention to lend out the funds did lend more, but the variable's interaction term with *TARP* is negative in model (2). *TARP* × *LendingPlan* indicates that the banks that took the government's money and claimed they did so to make new loans were no more likely to make the loans than other banks. To determine if *LendingPlan* represents real plans to make new loans or instead is more about public relations, we include additional interaction variables with *LendingPlan*. The positive and significant coefficient for the interaction term between shifted loan demand variable and lending plans suggests that plans to lend were more realistic when the loan demand held up. The coefficients on the negative loan demand indicator, state macro growth and NPLs also point to economic conditions as the reason why TARP's effect was less than expected. These findings point to the importance of loan demand in understanding lending behavior during the post-TARP quarters.

Several of the interactions of *LendingPlan* with compensation variables give support to the idea that lending plans were mentioned as a rebuff to criticisms of the banks. The high compensation variable and the bonus variable, when interacting with *LendingPlan*, have

significant negative coefficients, suggesting that the ones more motivated by career concerns that said they would lend were less likely to meet their targets than other highly compensated bank CEOs.

In sum, Table 8 provides several key insights into the program's ability to increase lending. First, TARP banks are, on average, more likely to miss their lending target compared to non-TARP banks, particularly when lending targets are based on well-capitalized scenarios. This reflects the fact that they obtained more capital and lent out far less than they could have while meeting regulatory ratios. Second, the pricing of the preferred stock was a factor in the weak lending, as were CEO career concerns. Finally, when examining stated lending plans, we find that banks experiencing increased loan demand are more likely to lend, indicating that loan demand plays an important role in shaping their lending decisions.

We examine plans to lend further in Table 9, where we investigate banks that said they would lend out TARP capital but did not even lend out as much as they had before they received the funds. Banks with lending plans are included in the sample starting from Q1 2009 and continuing until Q4 2009 or until their TARP funds are repaid, whichever comes first. Instead of benchmarking on the target loan amount as in Table 8, we compare the loan level at quarter t with the loan level at Q3 2008. The dependent variable is an indicator variable that equals one if the loan amount in quarter *t* falls below the Q3 2008 level, and zero otherwise. The independent variables are all from 2008 (Q3 2008 financial statement variables and 2008 proxy statements) except the loan demand variables, which are (1) from the Q3 and Q4 2008 conference calls and (2) average loan demands from the first quarter of receiving the TARP funds up to quarter *t*. The even regression specifications include state and quarter fixed effects while the odd ones do not.

We find that loan demand and its changes are significant factors in all four regression specifications. Banks that mentioned shifted demand in either Q3 or Q4 of 2008 were less likely to experience a decline in loans later on. This result suggests that a substantial number of banks said they would lend because they saw improvements in their loan market share, not just to put themselves in a better light. The negative coefficient on the average shifted variable implies that banks with continued high loan demand in the following quarters were less likely to renege on their commitment to loan growth. We also find that banks that were performing worse in September 2008, as measured by NPLs, are less likely to follow through on their stated lending plans. The state macro growth variable, which loses significance with the inclusion of state fixed effects, also indicates that failure to lend is higher when the situation in September 2008 is weak.

The evidence in Table 9 does not show a strong pattern of CEO posturing. Among the variables related to the CEO's compensation, only compensation above $500,000 in model (4) has a significant positive coefficient. In model (3), we find that the greater the scrutiny the more likely that the bank fails to make the promised loans. However, we note that the coefficients on high compensation and high scrutiny, while not significant in the other regressions, are consistently positive.

4.4 Other Changes to the Balance Sheet

Since banks were not obligated to lend out TARP funds, and many opted not to, we next examine how they used the funds. As in Figure 2, they could put it into securities (i.e., MBS), raise their capital ratios and/or shrink their asset base. We consider these choices in DID estimations, where the pre-TARP period includes quarters from Q3 2007 to Q2 2008, and the post-TARP period is from Q1 2009 to Q4 2009.

The first model in the table shows that TARP banks were less likely to shrink in the pre-TARP period, but were no different in the post period. TARP banks on average had higher Tier 1 ratios (column (4)) and were inclined to use the new capital to raise both regulatory ratios (Tarp x POST in columns (3) and (4)). The coefficients on *Inexpensive* and its interactions suggest that these TARP banks were actually more likely to shrink in the post period, but the sum of the four coefficients is quite small. This regression also shows that weak loan demand and higher NPLs motivated banks to shrink. Highly paid CEOs were also a factor in bank retrenchment: they were more likely shrink at some point and more likely in the post period to raise capital ratios. Banks with *BolsterCapital* were less likely to invest in MBS and more likely to have high Tier 1 leverage ratios, but not if they were TARP banks and neither had a change in the POST period. Banks that planned to lend were less likely to have high capital ratios and more likely to invest in MBS.

5. Robustness tests

5.1 Banks' Perspectives and TARP Decisions

We estimated several different specifications of the regressions related to TARP application and acceptance. For the sake of brevity, the results are not included in a table. First, we included additional control variables in all of the regressions in Table 6, based on the research in Bayazitova and Shivdasani (2012) and Duchin and Sosyura (2012). Due to the smaller size of our sample and the fact that all of our banks are larger than average, many of the additional control variables are insignificant, despite being significant in previous research. Nonetheless, our main findings remain quantitatively similar to those in Table 6. Second, we estimate the regressions in Table 6 using *CC* variables measured at alternative time periods (i.e., Q3 and/or Q4 2008), and find quantitatively similar results. Finally, we estimate logistic models instead of linear ones to

determine the impact of the *CC* and *LD* variables on applications and acceptance decisions. Our results from this analysis are not as robust but generally align with the findings in Table 6.

5.2 Banks' perspective and lending

Our analysis of the impact of TARP on loan growth differs from previous research that uses a DID framework. In the Internet Appendix Table IA4, we report results using that framework with two measures of the dependent variable: (1) loans are scaled by the previous quarter's loans, and (2) loans are scaled by the previous quarter's assets. In the first specification, we find that the TARP indicator is significantly positive but the *TARP* × *Post* variable is not significantly different from zero. When the dependent variable in the DID regressions is the loan change scaled by lagged assets, we find sharply different results. This is likely due to the scaling variable's correlation with the explanatory variables.[9] These findings suggest that bank characteristics significantly influence loan growth, potentially violating the assumptions of the DID framework.

The dependent variable in Table 8 is an indicator variable set to one if the bank's loans meet or exceed the amount expected of it given existing capital, TARP and capital regulations. An alternative approach would be to measure the percentage difference between the expected amount and the actual amount. In Internet Appendix Table IA5, we estimate regressions with this dependent variable and find similar results.

Although there are only six forced TARP banks in our sample, one concern is that their lending plans may differ substantially from other TARP banks. Moreover, two forced banks had business models not centered on lending and sometimes lacked discussions related to lending in their conference calls.[10] Given the significant amount of TARP funds allocated to them, their

[9] Welch (2022) points out that correlations between scaling variables and explanatory variables can lead to spurious conclusions in panel datasets.

[10] State Street and Bank of New York Mellon were missing information on loan demand in some of the quarters. In those cases, all of the loan demand variables were set to zero.

inclusion in the analysis may be unsuitable from a statistical perspective. To allay this concern, we conduct robustness tests where the sample excludes the forced TARP banks and find results confirming that the effects are not driven by forced banks.

In our analysis of actual lending compared to the target amount (Table 8), we assume banks could secure sufficient deposits to profitably lever up the new capital and achieve the target loan amount. If debt markets were frozen at the time and banks were more likely to suffer a run (Rose, 2023), this assumption would not hold, and our findings might instead reflect banks' inability to access cheap deposits. In untabulated results, we find that the TARP banks experienced positive deposit growth in the quarters after receiving the TARP funds, whether we measure the growth of all deposits or core deposits. The banks that did not receive TARP funds, which we previously noted were a mix of healthy and weak banks, had zero growth in early 2009 but positive growth over the entire year. Thus, the lack of access to deposit funds does not explain the low loan growth. Moreover, even assuming no leverage (so that the target is to simply lend out each dollar of TARP funds), we find that TARP banks are no more likely to meet their target loan amounts and some coefficients imply they are less likely.

5.3 Measures of loan demand

Our qualitative measures of loan demand are likely to be measured with noise, as they are constructed by reading the transcripts. Among the four indicator variables, the shifted demand variable is the most reliable, requiring both that the reader find a sentence about positive demand and a sentence giving a reason why it is unusually high. In untabulated estimations, we consider regressions where the only *LD* variable is the shifted demand variable. We continue to find that higher loan demand (as measured by the shifted loan demand variable) is associated with a significantly higher likelihood of applying for TARP. The demand variable does not affect

acceptance. Including only shifted demand in the loan growth regressions leads to similar estimates and significance without impacting the TARP indicator coefficient or its interactions.

6. Conclusion

A government program to jump-start the economy by buying preferred stock from banks and having it count as regulatory capital has the potential to mitigate the effects of a financial crisis. Theoretically, such a program helps recapitalize banks that have a debt overhang problem while discouraging excessive investment by banks that do not need the funds (Philippon and Schnabl, 2013). Empirically, the success of such a program depends on whether the capital is priced appropriately, whether the incentives of the banks to lend funds are aligned with the program, and the extent of loan demand in the economy.

When asked what they planned to do with the TARP funds if approved, only a fraction of the banks in our sample stated that they intended to make new loans. These banks were more likely to pay their CEOs more than $500,000 and less likely to face negative loan demand. Some banks indicated that the TARP capital would help raise their regulatory capital levels, and these banks were more likely to apply to TARP but no more inclined to take the funds than others. Loan demand was weak in many markets when TARP was initiated, but a few banks mentioned in their conference calls that diminished competition from larger banks allowed them to gain market share. Among the banks that said they planned to use TARP for new loans, the ones with shifted demand were more likely to actually make the loans.

We further show that TARP banks are more likely to miss their target loan growth compared to non-TARP banks. We find some evidence that CEO career concerns were a factor in the low level of loan growth and that their concern for their personal finances may have motivated

them to overstate their plans for lending out TARP funds. However, the less than straightforward descriptions of plans for TARP do not explain why banks that said they would lend failed to even maintain their pre-TARP loan levels. These declines in lending are more closely associated with worsening economic conditions between the time the program was announced and the funds were allocated. Finally, we show that TARP banks strengthened capital ratios after receiving the funds, which significantly contributed to the anemic level of credit supply.

When Treasury Secretary Paulson asked Congress to approve the TARP program, he argued that its passage would address the problem of frozen credit markets, not merely inject funds into the banking system.[11] While politicians and regulators hoped the program would boost credit supply, it offered only weak incentives to lend out the funds, especially in the face of rising uncertainty. Moreover, without restrictions on how the funds were to be used, banks pursued more profitable alternatives even if they initially planned to lend out the funds. Our analysis suggests that, despite being heavily subsidized, TARP was not considered inexpensive enough to generate many profitable loans in 2009. Banks' views shifted between Q3 and Q4 2008, likely due to the 5% dividend rate appearing high relative to the lower Federal Funds rate of 2009. Their view that new loans would only be profitable if TARP funds were levered up with cheaper deposits meant that the money would be used either for new loans or capital, but not both. Levering up might be a commonly pursued strategy in normal times, but in a period when losses were increasing, banks prioritized using TARP to strengthen their capital ratios. Few banks met the goal of levering up the funds at a rate consistent with well-capitalized status and typically did not even lend out TARP

[11] Testimony by Secretary Henry M. Paulson, Jr. before the House Committee on Financial Services Hearing on Turmoil in U.S. Credit Markets: Recent Actions regarding Government Sponsored Entities, Investment Banks and other Financial Institutions on September 24, 2008.

funds without leverage (i.e., a dollar of new TARP capital seldom translated to a dollar of additional lending).

Therefore, even if economists and regulators are pleased with its positive effects on the capital ratios of US banks, its success in unclogging the flow of capital impressed few Americans enough to ask Congress to approve a similar program in the future.

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Figure 1 TARP Applications, Approvals and Acceptances

This figure shows the breakdown of the sample between TARP banks and non-TARP banks in terms of whether they applied for funds, were approved and decided to issue CPP preferred stock.

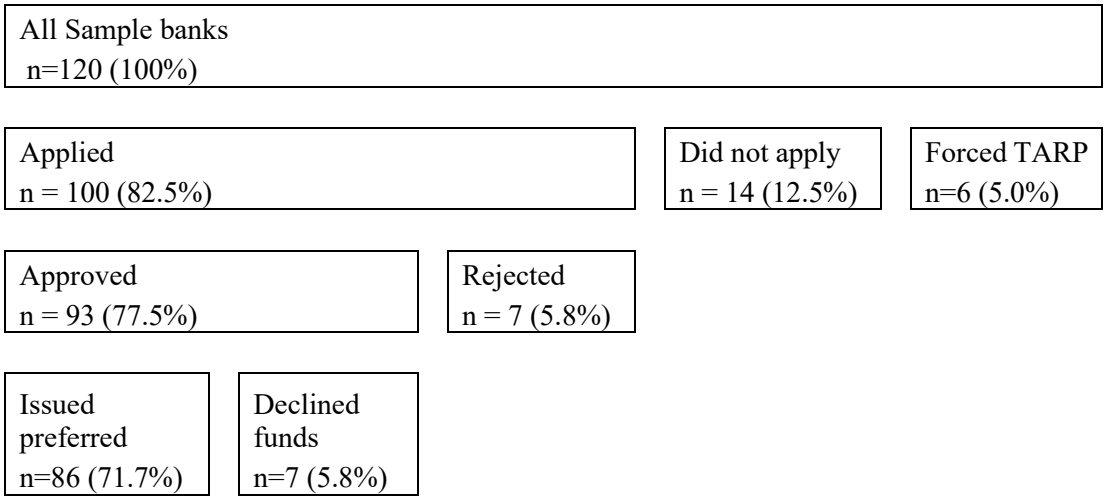

Figure 2 Scenarios Describing the Use of TARP Capital

This figure illustrates how a bank's balance sheet might change after receiving the TARP funds. Panel A shows the balance sheet before the program began and panels B-E show possible post-TARP balance sheets. For the sake of simplicity securities are assumed to have a risk weight of zero while loans have a weight of 100%. TARP injection is calculated as 3% of RWA.

A. Pre-TARP balance sheet
Leverage: 8
Tier 1: 11.43

A		L	
70	Loans	Deposits	90
20	Securities	Debt	2
10	Reserves/cash	Equity	8
100		100	

TARP is used to make new loans:

B. Scenario 1 Zero leverage of TARP
Leverage: 9.89
Tier 1: 14.01

A		L	
72.1	Loans	Deposits	90
20	Securities	Debt	2
10	Reserves/cash	Equity	8
		TARP	2.1
102.10		102.10	

C. Scenario 2 Same leverage as pre-TARP
Leverage: 8
Tier 1: 10.65

A		L	
94.83	Loans	Deposits	114.15
20	Securities	Debt	2
11.42	Reserves/cash	Equity	8
		TARP	2.1
126.25		126.25	

Lending does not expand:

D. Scenario 3 Zero loan growth
Leverage: 9.89
Tier 1: 14.43

A		L	
70	Loans	Deposits	90
22.1	Securities	Debt	2
10	Reserves/cash	Equity	8
		TARP	2.1
102.10		102.10	

E. Scenario 4 Asset shrinkage
Leverage: 7.97
Tier 1: 10.60

A		L	
67	Loans	Deposits	82
13.1	Securities	Debt	0
9	Reserves/cash	Equity	5
		TARP	2.1
89.10		89.10	

Table 1 TARP Timeline

Year	Date	Government	Sample Banks	Federal Funds
2008				
	9/19	Start of rescue plans		2.00%
	9/29	House votes against TARP bill		2.00%
	10/1	Revised bill proposed by Senate		2.00%
	10/3	Emergency Economic Stabilization Act of 2008		2.00%
	10/14	CPP announced	Forced banks agree to sell preferred	1.50%
	10/15		First Q3 2008 conference call	1.50%
	10/28		Forced banks receive funds	
	11/14	TARP application deadline	17 voluntary TARP banks receive funds	1.00%
	11/21		13 more banks receive funds	1.00%
	12/5		9 more banks receive funds	1.00%
	12/31		75 banks have received funds	0-0.25%
2009				
	1/15		First Q4 2008 conference call	0-0.25%
	1/31		89 banks have received funds	0-0.25%
	2/4	Treasury issues revised compensation rules		0-0.25%
	2/17	American Recovery and Reinvestment Act of 2009 signed		0-0.25%
	3/31		First repayment of TARP funds	0-0.25%
	5/15		All TARP banks in the sample have received funds	0-0.25%

Table 2 Conference Calls by Quarter

This table shows the number of conference call transcripts for each quarter. The sample has 120 bank holding companies, but some did not hold the conference each quarter. Some that held it did not have a corresponding transcript in any of the sources we searched. We obtained transcripts for conference calls held in 2010 for a subsample of firms that received TARP funds in 2009, but statistics for 2010 are not included in this table.

Quarter	Number of Transcripts	No call held	Held call but missing transcript
Q3 2007	104	8	8
Q4 2007	110	4	6
Q1 2008	115	1	4
Q2 2008	115	3	2
Q3 2008	118	0	2
Q4 2008	117	3	0
Q1 2009	113	6	1
Q2 2009	110	8	2
Q3 2009	108	8	4
Q4 2009	108	12	0

Table 3 Summary Statistics

This table shows summary statistics for explanatory variables used in the regressions in Tables 5 and 6. Values for control variables, which are defined in the Appendix, are as of September 30, 2008. The sample is divided into three groups: forced TARP banks, voluntary TARP banks and non-TARP banks, which are defined in the Appendix. Differences in means between voluntary TARP banks and non-TARP banks are marked with ***, **, and * when they are statistically significant at the 1%, 5%, and 10% levels, respectively.

Variable	Forced TARP (N=6) (1)	Voluntary TARP (N=86) (2)	Non-TARP (N=28) (3)	Difference
	Mean	Mean	Mean	(2)-(3)
Log(Assets)	20.56	15.90	15.34	0.56*
Tier 1 ratio(%)	9.75	9.64	10.76	-1.13**
ROA(%)	1.29	0.347	-1.85	2.19
Deposits(%)	50.68	70.84	70.94	-0.10
Wholesale debt(%)	1.64	1.02	0.29	0.72**
RE loans(%)	35.15	69.30	77.36	-8.06*
Derivatives(%)	0.33	0.002	0.00	0.002
NPLs(%)	2.07	1.87	2.58	-0.71*
LLPs(%)	1.39	1.02	1.24	-0.22
Write-downs(%)	-0.02	-0.17	-0.07	-0.10
PCI	0.87	0.49	0.48	0.01
CEO compensation>500k	1.00	0.86	0.67	0.20*
High bonus	0.00	0.16	0.19	-0.02
High delta	1.00	0.17	0.33	-0.16
High excessive pay	0.67	0.26	0.37	-0.11
Log(Analysts)	3.39	2.58	2.20	0.38**
State macro growth(%)	-0.36	-0.34	-0.32	-0.02

Table 4 Views Expressed about TARP in Q3 and Q4 2008 Conference Calls

This table presents views expressed in quarterly conference calls about the TARP program. The sample contains 120 banks, including 118 banks that have conference call transcripts in Q3 2008. For Q4 2008, a slightly different sample of 117 banks have transcripts. The table shows the mean values for the conference call indicator variables that are set to one if the bank expressed a view about the relative pricing of the CPP funds (inexpensive), indicated plans to use TARP funds for new loans (lending plan), acquisitions (acquisition plan), adding to capital (bolster capital); or if the bank expressed a view about loan demand (shifted (i.e., positive because of increased market share) or negative).

	Q3 2008 Conference call	Q4 2008 Conference call
N	118	117
Funds are inexpensive (*Inexpensive*)	42.37%	5.13%
Plan to use the funds to make new loans *(LendingPlan*)	26.27%	45.30%
Plan to acquire another bank (*AcquisitionPlan*)	32.20 %	17.09%
Would bolster our capital ratio (*BolsterCapital*)	22.03%	30.77%
Positive demand due to market share (*Shifted loan demand*)	24.58%	23.93%
Negative outlook for loan demand (*Negative loan demand*)	33.05%	41.03%

Table 5 Banks' Characteristics and Conference Call Variables

This table shows OLS regression estimations of bank characteristics and their changes on banks' views of TARP. The dependent variables *LendingPlan*, *Inexpensive*, *BolsterCapital* and *AcquisitionPlan* are from the Q3 2008 conference calls in models (1)-(4), and from the Q4 2008 conference calls in models (5)-(8). *LendingPlan* equals one if a bank states that it plans to lend out the TARP funds, and zero otherwise. *Inexpensive* equals one if a bank states that TARP is inexpensive. *BolsterCapital* equals one if a bank says TARP money would raise its capital ratio. *AcquisitionPlan* equals one if a bank says that it plans to use TARP money to make an acquisition. Banks' CEO compensation variables, including *CEO compensation>500K, High bonus, High delta,* and *High excessive pay,* as well as the analyst coverage variable *Log(Analysts)* are measured in 2008. Other control variables are measured as of the benchmark quarter, including *Log(assets), Tier 1 ratio, ROA, Deposits, Wholesale debt, RE loans, Write_downs, derivatives, NPLs, LLPs,* and *State macro growth*. The changes in these control variables are measured as the difference relative to the values in the benchmark quarter. In models (1)-(4), we include *shifted loan demand* and *negative loan demand* measured in Q3 2008, while in models (5)-(8), the loan demand variables are measured in Q4 2008. The Appendix provides detailed definitions of the variables. Robust standard errors corrected for heteroscedasticity are shown in parentheses. ***, **, and * indicate statistically significant at the 1%, 5%, and 10% level, respectively. Constant terms are not reported.

	2008Q3 (benchmarked on 2007Q3)				2008Q4 (benchmarked on 2007Q4)			
VARIABLES	(1) Lending Plan	(2) Inexpensive	(3) Bolster Capital	(4) Acquisition Plan	(5) Lending Plan	(6) Inexpensive	(7) Bolster Capital	(8) Acquisition Plan
CEO compensation>500k	0.22*	-0.00	-0.02	-0.13	0.36***	0.02	0.01	0.07
	(0.13)	(0.15)	(0.14)	(0.13)	(0.12)	(0.06)	(0.15)	(0.09)
High bonus	-0.05	-0.28**	-0.26***	-0.04	0.20	0.19**	-0.09	0.03
	(0.14)	(0.14)	(0.09)	(0.13)	(0.15)	(0.09)	(0.14)	(0.11)
High delta	0.01	-0.40***	-0.05	0.14	-0.13	0.05	-0.10	0.09
	(0.12)	(0.14)	(0.13)	(0.14)	(0.15)	(0.09)	(0.14)	(0.13)
High excessive pay	-0.08	-0.07	-0.20**	-0.13	0.05	0.03	0.04	0.04
	(0.10)	(0.12)	(0.08)	(0.11)	(0.11)	(0.05)	(0.10)	(0.08)
Log(Analysts)	-0.26*	0.14	0.06	0.11	-0.11	0.06	0.08	-0.10
	(0.14)	(0.15)	(0.12)	(0.12)	(0.13)	(0.04)	(0.14)	(0.12)
Shifted loan demand	-0.06	0.10	0.10	-0.15	0.03	-0.00	0.21*	-0.05
	(0.11)	(0.12)	(0.10)	(0.11)	(0.15)	(0.06)	(0.12)	(0.11)
Negative loan demand	-0.18*	0.03	-0.06	-0.17	-0.12	-0.01	-0.07	-0.18**
	(0.10)	(0.12)	(0.11)	(0.11)	(0.12)	(0.06)	(0.11)	(0.09)
Log (Assets)	0.05	0.02	-0.11	0.12	0.05	-0.06	-0.05	0.03
	(0.08)	(0.09)	(0.08)	(0.07)	(0.09)	(0.04)	(0.08)	(0.06)
Tier 1	-0.06	-0.09**	-0.01	-0.02	0.02	0.01	-0.09***	-0.03
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.01)	(0.03)	(0.03)
ROA	-0.30	3.85	1.82	7.99	-4.03*	-2.94**	-2.74	2.94
	(5.56)	(6.61)	(6.28)	(6.54)	(2.34)	(1.26)	(3.30)	(2.19)
Deposits	0.51	-0.40	0.12	1.02	0.59	-0.53	0.66	-0.62
	(0.88)	(1.14)	(0.89)	(0.99)	(0.93)	(0.40)	(0.93)	(0.65)
Wholesale debt	-2.63	-13.20	4.00	-8.51	-2.55	2.82	-13.04*	0.01
	(8.45)	(9.98)	(7.38)	(7.97)	(7.69)	(4.02)	(7.34)	(6.04)
RE loans	0.32	-0.08	0.10	0.44	0.53	0.07	-0.02	0.29
	(0.33)	(0.40)	(0.32)	(0.30)	(0.41)	(0.15)	(0.37)	(0.31)
Write_downs	-37.80	-23.00	-53.05	3.06	-22.84	9.97	-7.92	-13.79
	(37.58)	(42.55)	(35.17)	(32.59)	(26.75)	(10.30)	(23.40)	(21.79)
Derivatives	-646.67*	-823.95***	-5.44	-350.80	350.96***	10.76	-6.34	127.73
	(356.17)	(224.56)	(163.10)	(313.35)	(73.91)	(25.42)	(63.20)	(104.57)
NPLs	1.12	-23.84**	-5.07	-7.94	2.67	2.01	-10.00	8.37

	(9.82)	(11.04)	(10.09)	(8.31)	(8.71)	(3.43)	(7.44)	(5.39)
LLPs	20.87	21.42	31.53	-15.29	1.16	-12.06**	9.17	0.53
	(22.77)	(29.53)	(23.84)	(17.58)	(12.47)	(5.59)	(12.62)	(8.30)
State macro growth	37.86	58.47	49.10	19.13	74.22	19.35	-18.87	88.89***
	(29.47)	(36.52)	(30.40)	(33.22)	(45.51)	(17.78)	(39.04)	(29.86)
ΔLog (Assets)	0.12	-0.12	-0.29	-0.90***	0.44	0.06	-0.14	-0.56**
	(0.32)	(0.34)	(0.30)	(0.30)	(0.30)	(0.15)	(0.26)	(0.22)
ΔTier 1	0.03	-0.06	0.03	-0.00	0.09***	0.03*	-0.00	-0.01
	(0.05)	(0.06)	(0.05)	(0.05)	(0.03)	(0.02)	(0.03)	(0.02)
ΔROA	-2.76*	1.61	-0.04	0.64	-0.65	0.37	-0.03	-0.28
	(1.47)	(1.66)	(1.59)	(1.17)	(1.20)	(0.73)	(1.32)	(0.97)
ΔDeposits	0.53	0.40	-0.77	-0.26	0.51	-0.51	0.01	-0.51
	(1.03)	(1.14)	(1.09)	(1.07)	(1.29)	(0.37)	(1.24)	(0.80)
ΔWholesale debt	-18.08*	-6.10	-8.93	-6.43	-15.40	-0.29	-23.11*	-4.61
	(10.68)	(14.22)	(10.81)	(8.55)	(15.28)	(6.13)	(12.76)	(8.79)
ΔRE loans	-4.22**	-3.81*	-2.70	-4.18***	-3.17**	0.20	-3.27**	-1.33
	(1.67)	(1.92)	(1.89)	(1.43)	(1.57)	(0.56)	(1.50)	(1.13)
ΔWrite_downs	-1.17	-0.88	-7.19	-0.23	-18.64***	-1.69	14.10**	0.12
	(9.23)	(16.64)	(11.31)	(7.87)	(5.67)	(4.66)	(5.92)	(4.80)
ΔDerivatives	119.96	197.33***	48.45	76.02	-17.53	-5.31	70.88**	-29.39
	(76.93)	(52.27)	(50.43)	(57.62)	(29.06)	(8.56)	(27.02)	(24.09)
ΔNPLs	-6.48	-5.39	-6.41	-8.60*	3.01	2.65	-4.76	-2.37
	(4.85)	(6.27)	(4.92)	(4.68)	(3.47)	(2.70)	(5.52)	(1.99)
ΔLLPs	-1.35	11.96	13.49	6.88	-1.52	6.10*	11.92*	-5.50
	(9.44)	(12.50)	(10.47)	(8.68)	(6.92)	(3.50)	(6.82)	(4.51)
ΔState macro growth	20.48	26.10	33.76	3.49	-9.03	-4.12	3.36	49.86***
	(28.22)	(39.30)	(23.87)	(34.78)	(17.40)	(4.89)	(13.76)	(13.10)
Observations	117	117	117	117	116	116	116	116
Adjusted R2	0.04	-0.00	0.01	0.15	0.10	0.08	0.07	0.09

Table 6 Banks' Perspectives and TARP Participation Decisions (Apply and Accept TARP)

This table shows OLS regression estimations of the decision to apply for TARP funds (models (1)-(4)) and the decision to accept the funds after being approved (models (5)-(8)). The indicator variables *Inexpensive*, *BolsterCapital* and *LendingPlan* are from the Q3 2008 conference calls in models (1)-(4), and both the Q3 and Q4 conference calls in models (5)-(8). Banks' CEO compensation variables, including *CEO compensation>500K, High bonus, High delta,* and *High excessive pay,* as well as the analyst coverage variable *Log(Analysts)* are measured in 2008. Control variables are measured as of September 30, 2008, including *Log(Assets), Tier 1 ratio, ROA, Deposits, Wholesale debt, RE loans, Write_downs, derivatives, NPLs, LLPs, PCI*, and S*tate macro growth*. The Appendix provides detailed definitions of the variables. Robust standard errors corrected for heteroscedasticity are shown in parentheses. ***, **, and * indicate statistically significant at the 1%, 5%, and 10% level, respectively. Constant terms are not reported.

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Inexpensive	0.13**			0.07	-0.03			-0.05
	(0.05)			(0.06)	(0.05)			(0.05)
BolsterCapital		0.14**		-0.02		-0.00		-0.04
		(0.06)		(0.08)		(0.05)		(0.05)
LendingPlan			0.23***	0.22***			0.14**	0.16**
			(0.06)	(0.07)			(0.06)	(0.07)
CEO compensation>500k	0.06	0.06	0.11	0.10	-0.07	-0.07	-0.05	-0.04
	(0.08)	(0.08)	(0.08)	(0.08)	(0.04)	(0.05)	(0.04)	(0.04)
High bonus	0.17**	0.17**	0.21***	0.20**	-0.04	-0.04	-0.09	-0.08
	(0.08)	(0.08)	(0.08)	(0.08)	(0.05)	(0.05)	(0.06)	(0.05)
High delta	-0.19**	-0.19**	-0.24***	-0.24***	0.01	0.01	-0.06	-0.06
	(0.08)	(0.09)	(0.09)	(0.09)	(0.11)	(0.10)	(0.10)	(0.10)
High excess pay	-0.05	-0.05	-0.09	-0.07	-0.06	-0.05	-0.08	-0.10
	(0.12)	(0.12)	(0.12)	(0.12)	(0.06)	(0.07)	(0.07)	(0.07)
Log(Analysts)	-0.18*	-0.22**	-0.22**	-0.20**	-0.17*	-0.16*	-0.15**	-0.16**
	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.08)	(0.07)	(0.07)
Shifted loan demand	0.01	0.02	0.02	0.02	-0.01	-0.00	0.03	0.03
	(0.08)	(0.08)	(0.08)	(0.08)	(0.07)	(0.07)	(0.07)	(0.07)
Negative loan demand	0.18	0.16	0.22**	0.21*	0.24***	0.24**	0.25***	0.26***
	(0.12)	(0.11)	(0.11)	(0.12)	(0.09)	(0.09)	(0.08)	(0.09)
Log (Assets)	-0.03	0.00	-0.02	-0.03	-0.09**	-0.09**	-0.08*	-0.09*
	(0.05)	(0.05)	(0.05)	(0.06)	(0.04)	(0.04)	(0.04)	(0.04)
Tier 1	-0.03	-0.03	-0.03	-0.03	-0.06*	-0.06*	-0.07**	-0.08**
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
ROA	0.02	0.21	0.96	0.74	1.28	1.17	1.24	1.39
	(0.69)	(0.66)	(0.67)	(0.75)	(0.95)	(1.03)	(0.97)	(0.90)
Deposits	0.51	0.59	0.41	0.39	0.23	0.23	0.07	0.05
	(0.49)	(0.52)	(0.49)	(0.48)	(0.53)	(0.54)	(0.49)	(0.49)
Wholesale debt	6.81	4.80	4.81	5.46	-1.65	-1.55	-1.95	-2.36
	(4.59)	(4.60)	(4.33)	(4.37)	(3.45)	(3.56)	(3.26)	(3.32)
RE loans	-0.03	-0.02	-0.02	-0.03	-0.02	-0.03	-0.10	-0.12
	(0.26)	(0.27)	(0.26)	(0.26)	(0.17)	(0.18)	(0.18)	(0.18)
Write downs	-0.85	-0.97	-2.47	-2.12	-0.72	-0.04	2.99	3.09
	(3.61)	(3.78)	(3.60)	(3.62)	(6.04)	(6.80)	(5.74)	(6.15)
Derivatives	18.17	97.14	97.65	49.92	137.81	108.14	0.08	19.28
	(152.96)	(155.64)	(170.55)	(162.44)	(166.66)	(158.38)	(147.47)	(166.39)
NPLs	-4.43	-4.57	-4.80	-4.42	-5.83	-5.69	-6.74	-7.47
	(5.11)	(5.21)	(5.14)	(5.11)	(5.09)	(5.11)	(4.93)	(4.80)

LLPs	2.06	1.90	4.76	3.69	11.82	11.07	11.42	13.60*
	(6.66)	(6.83)	(6.30)	(6.68)	(7.38)	(7.56)	(7.15)	(6.87)
State macro growth	-11.67	-12.11	-11.37	-13.03	18.51	17.05	18.65	23.05
	(18.64)	(19.45)	(18.41)	(18.76)	(23.45)	(22.13)	(21.63)	(21.85)
PCI	-0.36	-0.39	-0.50*	-0.49*	0.16	0.16	-0.09	-0.15
	(0.29)	(0.30)	(0.28)	(0.28)	(0.18)	(0.18)	(0.16)	(0.18)
Observations	112	112	112	112	92	92	92	92
Adjusted R2	0.11	0.11	0.18	0.17	0.18	0.17	0.24	0.23

Table 7 Summary Statistics

This table reports the summary statistics for the variables in the forecast loan growth estimations (Table 8) at Gap=1Q. See the Appendix for detailed variable definitions.

Variable Name	Obs.	Mean	Median	Std. dev.
Meets target (well capitalized)	102	0.08	0.00	0.27
Meets target (zero leverage)	102	0.25	0.00	0.43
Inexpensive	102	0.43	0.00	0.50
BolsterCapital	102	0.39	0.00	0.49
LendingPlan	102	0.54	1.00	0.50
Negative loan demand	102	0.42	0.00	0.50
Shifted loan demand	102	0.04	0.00	0.20
Log(Assets)	102	16.05	15.66	1.72
Tier 1 ratio (%)	102	9.75	9.50	1.66
ROA	102	-0.003	0.02	0.06
Deposits	102	0.70	0.70	0.09
Wholesale debt	102	0.01	0.01	0.01
RE loans	102	0.70	0.74	0.17
Write-downs	102	-0.002	0.00	0.01
Derivatives	102	0.00	0.00	0.001
Other capital injection	102	0.19	0.00	0.39
NPLs	102	0.02	0.02	0.02
LLPs	102	0.01	0.01	0.01
CEO compensation>500K	102	0.82	1.00	0.38
High bonus	102	0.15	0.00	0.36
High delta	102	0.28	0.00	0.45
High excessive pay	102	0.34	0.00	0.48
Log(Analysts)	102	2.53	2.60	0.66
State macro growth	102	-0.004	-0.003	0.003

Table 8 Banks' Perspectives, TARP and Target Loan Growth

This table shows regression estimates of the effect of TARP and bank perspectives on target loan growth. The dependent variable equals one if the bank's loan level reaches the expected level (meets the target) and zero otherwise. In columns (1)-(6), we set the target such that banks lend out funds at the highest level that maintains well-capitalized status, while in columns (7)-(12), the target level is set so new loans that equal the total amount of TARP funds without levering up. TARP is a dummy variable that equals one if a bank is a TARP recipient-bank, and zero otherwise. We examine the effect in various estimation windows, e.g., Gap=1q refers to the first quarter after receiving TARP. For non-TARP banks, we focus on quarters from Q1 to Q4 2009. We drop banks in the quarters in which they repay TARP and thereafter. Loan demand variables are constructed based on quarterly conference calls and averaged across the examination window. We interact *LendingPlan* with *Shifted loan demand*, *Tier 1*, *CEO compensation>500K, High bonus, High delta, High excessive pay* and *Log(Analysts)*. Control variables are measured at the benchmark quarter (one quarter before receiving the TARP fund), while *Other capital injection* is measured in the same quarter. Robust standard errors clustered at the bank level are shown in parentheses. The constant terms are not reported.

	Target==Well-capitalized						Target=Zero leverage					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
VARIABLES	Gap=1q	Gap=1q	Gap=2q	Gap=2q	Gap=4q	Gap=4q	Gap=1q	Gap=1q	Gap=2q	Gap=2q	Gap=4q	Gap=4q
TARP	-0.23**	-0.37**	-0.33***	-0.34**	-0.31**	-0.26	-0.22	-0.40*	-0.28**	-0.21	-0.12	-0.10
	(0.09)	(0.14)	(0.10)	(0.14)	(0.12)	(0.19)	(0.14)	(0.23)	(0.13)	(0.25)	(0.12)	(0.40)
TARP x *Inexpensive*		0.41**		0.47**		0.42*		-0.04		0.24		0.40
		(0.18)		(0.21)		(0.22)		(0.31)		(0.36)		(0.48)
Inexpensive		-0.36*		-0.40**		-0.19		0.05		-0.22		-0.18
		(0.18)		(0.18)		(0.18)		(0.29)		(0.32)		(0.35)
TARP x *BolsterCapital*		-0.11		-0.07		-0.28		0.34		-0.01		-0.29
		(0.20)		(0.37)		(0.43)		(0.35)		(0.44)		(0.83)
BolsterCapital		0.13		0.08		0.48		-0.22		0.10		0.49
		(0.18)		(0.32)		(0.38)		(0.28)		(0.34)		(0.73)
TARP x *LendingPlan*		0.19		-1.02**		-0.71		0.17		-0.52		0.32
		(0.21)		(0.43)		(0.74)		(0.38)		(0.71)		(1.48)
LendingPlan		0.83		2.24***		0.71		0.09		0.97		-0.86
		(0.58)		(0.71)		(1.10)		(1.13)		(1.13)		(1.89)
Shifted loan demand x *LendingPlan*		0.77***		0.65		-0.72		1.36***		1.62**		-0.63
		(0.23)		(0.43)		(0.92)		(0.50)		(0.63)		(1.99)
Tier 1 x *LendingPlan*		-0.08		-0.09*		0.07		-0.08		-0.11		0.05
		(0.05)		(0.05)		(0.05)		(0.09)		(0.08)		(0.10)
CEO compensation>500K x *LendingPlan*		-0.36**		-0.44*		-0.62**		0.34		0.37		-0.25
		(0.15)		(0.23)		(0.24)		(0.27)		(0.37)		(0.40)

High bonus x *LendingPlan*		-0.44**		-0.46**		-0.56*		-0.16		0.15		-0.10
		(0.21)		(0.22)		(0.28)		(0.36)		(0.35)		(0.48)
High delta x *LendingPlan*		0.00		0.04		0.52*		-0.15		-0.25		-0.15
		(0.15)		(0.31)		(0.29)		(0.28)		(0.45)		(0.50)
High excessive pay x *LendingPlan*		-0.12		-0.16		-0.58**		0.13		-0.01		-0.14
		(0.14)		(0.20)		(0.23)		(0.24)		(0.30)		(0.47)
Log(Analysts) x *LendingPlan*		0.04		0.03		-0.02		0.11		0.06		0.12
		(0.11)		(0.13)		(0.22)		(0.23)		(0.23)		(0.43)
CEO compensation>500K		0.32***		0.29**		0.55***		-0.11		-0.13		-0.02
		(0.11)		(0.13)		(0.17)		(0.19)		(0.24)		(0.31)
High Bonus		0.29*		0.29*		0.35*		0.17		0.18		0.24
		(0.17)		(0.15)		(0.17)		(0.31)		(0.38)		(0.51)
High delta		0.04		0.07		-0.02		0.11		0.33		0.08
		(0.10)		(0.18)		(0.17)		(0.17)		(0.28)		(0.38)
High excessive pay		0.21*		0.28*		0.66***		-0.08		0.01		0.25
		(0.12)		(0.14)		(0.16)		(0.22)		(0.22)		(0.30)
Log(Analysts)		-0.02		-0.07		0.07		-0.28		-0.27		-0.08
		(0.12)		(0.11)		(0.14)		(0.17)		(0.18)		(0.26)
Negative loan demand	-0.15**	-0.14*	-0.12	-0.26**	-0.03	-0.40**	-0.05	0.07	-0.19	-0.09	-0.27	-0.33
	(0.07)	(0.08)	(0.12)	(0.12)	(0.15)	(0.16)	(0.11)	(0.13)	(0.16)	(0.21)	(0.24)	(0.34)
Shifted loan demand	0.42	-0.10	-0.16	-0.35	-0.86	0.26	0.45	-0.48	-0.48	-0.82*	-1.76**	-1.43
	(0.36)	(0.24)	(0.27)	(0.28)	(0.59)	(0.48)	(0.32)	(0.49)	(0.34)	(0.44)	(0.68)	(1.14)
Log(Assets)	0.03	0.01	0.12*	0.14**	0.10	0.04	0.08	0.15*	0.20**	0.25*	0.15*	0.23
	(0.04)	(0.05)	(0.07)	(0.06)	(0.08)	(0.09)	(0.05)	(0.08)	(0.08)	(0.13)	(0.08)	(0.18)
Tier 1	0.00	0.03	0.05	0.09*	0.04	0.07	0.04	0.06	0.07	0.12	0.15***	0.19**
	(0.03)	(0.04)	(0.04)	(0.05)	(0.06)	(0.05)	(0.05)	(0.06)	(0.07)	(0.08)	(0.05)	(0.09)
ROA	0.06	-0.49	-0.10	-0.85	-0.31	-4.29**	-1.21	-1.39	-2.74	-2.59	-2.03	-4.85
	(0.80)	(0.92)	(1.02)	(1.69)	(1.19)	(1.90)	(1.27)	(1.87)	(1.72)	(2.30)	(1.22)	(3.19)
Deposits	0.00	0.13	0.14	0.28	-0.81	0.78	-0.51	-0.71	0.14	-0.17	0.21	1.38
	(0.58)	(0.52)	(0.73)	(0.79)	(0.90)	(0.99)	(0.89)	(0.84)	(1.00)	(1.26)	(1.01)	(1.92)
Wholesale debt	-0.10	6.94	-5.51	4.34	-5.16	21.59*	-9.02	-2.26	-12.09	-6.71	-2.39	5.67
	(4.45)	(7.16)	(7.26)	(9.68)	(10.51)	(12.21)	(6.43)	(9.17)	(10.78)	(14.13)	(9.60)	(20.81)
RE loans	-0.26	0.18	-0.64*	-0.01	0.07	0.65	-0.06	0.60	0.10	0.39	0.31	0.34
	(0.24)	(0.29)	(0.34)	(0.37)	(0.58)	(0.47)	(0.31)	(0.39)	(0.56)	(0.69)	(0.60)	(0.80)

Write_downs	2.23	4.90	-11.96	-3.42	-4.85	-3.80	3.87	-0.85	25.06	10.99	-14.71	-10.50
	(4.26)	(5.49)	(13.38)	(14.71)	(15.13)	(11.27)	(10.68)	(8.62)	(23.91)	(25.74)	(11.13)	(17.86)
Derivatives	29.49	-0.61	-127.49	-173.80*	-56.47	-3.56	-54.08	-101.43	-169.29	-272.63	-75.92	-132.40
	(22.34)	(28.21)	(96.70)	(92.04)	(66.23)	(58.43)	(43.60)	(61.05)	(160.31)	(202.09)	(56.69)	(99.23)
NPLs	-3.77	-1.59	-1.07	1.77	-3.84	11.82	-13.03***	-14.52***	-9.13*	-7.25	-1.29	6.18
	(2.77)	(2.54)	(3.12)	(3.48)	(6.09)	(7.13)	(4.34)	(4.54)	(4.96)	(5.98)	(5.29)	(11.80)
LLPs	1.92	-2.10	0.93	-2.66	-4.28	-33.78**	2.45	-1.97	-13.89	-14.56	-18.36*	-36.72
	(4.84)	(4.68)	(6.71)	(7.67)	(12.07)	(12.12)	(6.90)	(10.99)	(9.17)	(12.71)	(10.46)	(21.46)
Other capital injection	-0.15	-0.07	-0.14	-0.13	0.23	0.15	0.07	0.16	0.05	0.17	0.43***	0.41
	(0.09)	(0.12)	(0.10)	(0.12)	(0.23)	(0.15)	(0.15)	(0.17)	(0.13)	(0.17)	(0.15)	(0.30)
State macro growth	-21.70	-32.24*	-30.15*	-39.71**	-8.12	-10.18	-23.88	-40.97	-40.19	-64.37**	-10.43	-17.82
	(18.31)	(17.56)	(16.77)	(17.46)	(12.92)	(10.17)	(23.55)	(28.80)	(25.69)	(31.34)	(13.93)	(18.82)
Observations	102	102	86	86	75	75	102	102	86	86	75	75
Adjusted R2	0.13	0.30	0.13	0.44	0.11	0.63	0.24	0.23	0.24	0.23	0.47	0.23
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table 9 Bank Characteristics and Failure to Meet Lending Plan

This table shows the results of OLS regression estimations of ex-ante and changes in bank characteristics on banks' failure to materialize their stated lending plans. Our sample period is from Q1 2009 to Q4 2009. The sample includes banks that stated any lending plans in either Q3 or Q4 2008. The dependent variables *Failure to meet the lending plan* equals one if a bank's total loan amount (adjusted for any acquisition) in a certain quarter *t* falls below the total loan amount in Q3 2008. Banks' CEO compensation variables, including *CEO compensation>500K, High bonus, High delta,* and *High excessive pay,* as well as the analyst coverage variable *Log(Analysts)* are measured in 2008. Control variables are measured as of September 30, 2008, including *Log(Assets), Tier 1 ratio, ROA, Deposits, Wholesale debt, RE loans, Write_downs, derivatives, NPLs, LLPs, PCI*, and S*tate macro growth*. The changes in these bank variables are measured as the difference between the value of quarter *t* and Q3 2008. Loan demand variables are *shifted loan demand*, and *negative loan demand* at 2008Q3/Q4, as well as the average value of these loan demand variables from the first quarter after receiving TARP fund till the quarter *t*. We also control for *Other capital injections,* and *State macro growth* in the regressions. The Appendix provides detailed definitions of the variables. Robust standard errors corrected for heteroscedasticity are shown in parentheses. ***, **, and * indicate statistically significant at the 1%, 5%, and 10% level, respectively. Constant terms are not reported.

	Failure to meet the lending plan=1, o.w.=0			
VARIABLES	(1)	(2)	(3)	(4)
Shifted loan demand 2008Q3/Q4	-0.33**	-0.23*	-0.33**	-0.20
	(0.15)	(0.13)	(0.15)	(0.12)
Negative loan demand 2008Q3/Q4	0.18	0.05	0.19	-0.01
	(0.13)	(0.13)	(0.14)	(0.13)
Average shifted loan demand	-0.66***	-0.09	-0.61**	0.20
	(0.23)	(0.23)	(0.27)	(0.22)
Average negative loan demand	0.01	0.07	0.04	0.12
	(0.10)	(0.13)	(0.12)	(0.13)
CEO compensation>500K	0.03	0.37	0.05	0.54**
	(0.19)	(0.24)	(0.21)	(0.24)
High Bonus	0.12	-0.26	0.09	-0.36
	(0.20)	(0.29)	(0.21)	(0.28)
High delta	-0.19	-0.05	-0.19	0.02
	(0.16)	(0.18)	(0.15)	(0.17)
High excessive pay	0.05	-0.10	0.08	-0.16
	(0.10)	(0.13)	(0.12)	(0.15)
Log(Analysts)	0.21	0.04	0.26*	0.05
	(0.13)	(0.21)	(0.13)	(0.23)
Log (Assets)	-0.04	-0.15	-0.10	-0.28**
	(0.06)	(0.12)	(0.07)	(0.12)
Tier 1	0.04	0.02	0.03	-0.02
	(0.06)	(0.08)	(0.06)	(0.08)
ROA	0.64	2.37	2.39	3.87*
	(1.30)	(2.26)	(1.68)	(2.25)
Deposits	-0.72	1.44	-1.05	1.40
	(0.61)	(1.71)	(0.67)	(2.06)
Wholesale debt	-8.11	16.28	-5.30	23.41**
	(5.72)	(12.38)	(6.59)	(10.98)
RE loans	-0.50	0.70	-0.32	1.22**
	(0.35)	(0.57)	(0.42)	(0.55)
Write_downs	1.79	-11.58	-0.34	-11.22
	(11.58)	(17.87)	(11.15)	(21.03)

Derivatives	14.53	197.10**	32.58	305.77***
	(58.61)	(90.40)	(67.05)	(81.10)
NPLs	8.52*	12.33**	11.07*	8.17
	(4.88)	(5.88)	(5.55)	(6.07)
LLPs	0.84	-1.14	3.86	6.90
	(7.23)	(11.91)	(8.99)	(11.48)
Other capital injection	0.06	-0.01	0.11	0.04
	(0.10)	(0.12)	(0.12)	(0.17)
State macro growth	22.82***	9.07	23.61**	16.62
	(8.34)	(11.11)	(9.21)	(14.53)
Observations	193	192	171	168
Adjusted R2	0.37	0.56	0.35	0.56
State FE	No	Yes	No	Yes
Quarter FE	No	Yes	No	Yes

Table 10 Bank Capital, Asset Growth and MBS Holdings

This table shows the results of DID regressions on banks' changes in other aspects after receiving TARP funds. In Model (1) the dependent variable is one for banks with a decline in assets in the quarter and zero otherwise. Other dependent variables are MBS holdings (models (2)), Tier 1 ratio (models (3)) or Tier 1 leverage ratios (model (4)). The pre-TARP period includes quarters from Q3 2007 to Q2 2008, and post-TARP quarters are from Q1 2009 to Q4 2009. TARP is a dummy variable that equals one if a bank is a TARP recipient-bank, and zero otherwise. Post is a dummy variable that equals one in the post-TARP quarters. Loan demand variables (*Negative loan demand* and *Shifted loan demand)* are constructed based on quarterly conference calls. If a conference call transcript is not available, the indicator variables are all set to zero. Banks' CEO compensation variables, including *CEO compensation>500K, High bonus, High delta,* and *High excessive pay,* as well as the analyst coverage variable *Log(Analysts)* are measured in 2008. Control variables are measured at quarter *t*-1, including *Log(Assets), Tier 1 ratio, ROA, Deposits, Wholesale debt, RE loans*, *Write downs, Derivatives, Other capital injections, NPLs, LLPs,* and *State macro growth.* See the Appendix for detailed definitions of variables. Robust standard errors clustered by bank are shown in parentheses. ***, **, and * indicate statistically significant at the 1%, 5%, and 10% level, respectively. Constant terms are not reported.

VARIABLES	(1) Shrink	(2) MBS (%)	(3) Tier 1 ratio (%)	(4) Tier 1 leverage ratio(%)
TARP	-0.18**	-2.55	0.05	0.47*
	(0.08)	(1.94)	(0.11)	(0.28)
TARP × Post	0.13	-0.91	0.47**	1.17***
	(0.13)	(1.53)	(0.19)	(0.31)
Inexpensive	0.17	1.21	0.03	-0.69**
	(0.15)	(3.55)	(0.10)	(0.29)
Inexpensive x TARP	-0.18	-1.62	-0.04	0.52
	(0.16)	(3.66)	(0.12)	(0.33)
Inexpensive x TARP x POST	0.62***	-2.04	-0.18	-0.14
	(0.23)	(2.02)	(0.31)	(0.50)
Inexpensive x POST	-0.52**	1.76	0.33	0.07
	(0.22)	(1.79)	(0.28)	(0.47)
BolsterCapital	-0.05	-12.93***	-0.36*	1.77***
	(0.18)	(3.46)	(0.18)	(0.31)
BolsterCapital x TARP	0.10	12.56***	0.30	-1.69***
	(0.18)	(3.64)	(0.19)	(0.35)
BolsterCapital x TARP x POST	-0.36	-1.14	-0.03	0.77
	(0.24)	(3.00)	(0.44)	(0.87)
BolsterCapital x POST	0.27	1.32	-0.00	-1.16
	(0.23)	(2.82)	(0.41)	(0.85)
LendingPlan	-0.16	8.18*	0.24	-1.29***
	(0.11)	(4.38)	(0.15)	(0.33)
LendingPlan x TARP	0.11	-6.75	-0.27*	1.13***
	(0.12)	(4.51)	(0.16)	(0.37)
LendingPlan x TARP x POST	0.09	0.09	-0.31	-0.75
	(0.19)	(2.60)	(0.37)	(0.67)
LendingPlan x POST	-0.18	0.72	0.20	0.79
	(0.18)	(2.26)	(0.32)	(0.64)
CEO compensation>500K x POST	-0.06	-2.14*	0.16	0.51**
	(0.08)	(1.08)	(0.15)	(0.23)
High bonus x POST	0.07	-1.47	-0.10	-0.14
	(0.09)	(0.90)	(0.17)	(0.22)

High delta x POST	0.10	-0.90	-0.26*	-0.28
	(0.09)	(1.18)	(0.16)	(0.23)
High excess pay x POST	-0.06	-0.48	0.05	-0.02
	(0.07)	(0.83)	(0.15)	(0.18)
Log(Analysts) x POST	0.02	0.72	-0.01	0.12
	(0.06)	(0.97)	(0.10)	(0.16)
Negative loan demand	0.08**	-0.40	0.08	0.12
	(0.04)	(0.53)	(0.07)	(0.10)
Shifted loan demand	-0.03	0.74	-0.16*	-0.05
	(0.05)	(0.67)	(0.10)	(0.09)
CEO compensation>500k	0.13**	1.73	-0.05	-0.49***
	(0.05)	(1.23)	(0.06)	(0.18)
High bonus	-0.05	-0.41	0.07	-0.05
	(0.06)	(1.28)	(0.07)	(0.19)
High delta	-0.08	1.52	0.20**	-0.28
	(0.06)	(1.40)	(0.10)	(0.24)
High excess pay	0.01	0.88	-0.08	-0.02
	(0.05)	(1.15)	(0.07)	(0.17)
Log(Analysts)	-0.04	0.40	0.02	0.40
	(0.06)	(1.40)	(0.07)	(0.25)
Log(Assets)	0.01	-0.60	0.02	-0.26**
	(0.02)	(0.58)	(0.06)	(0.12)
Tier 1	-0.01	0.70***	0.92***	0.49***
	(0.01)	(0.26)	(0.03)	(0.04)
ROA	-0.39	8.59	0.77	3.21
	(0.57)	(9.14)	(1.37)	(2.15)
Deposits	-0.25	-10.32	0.56	2.33**
	(0.24)	(7.54)	(0.64)	(1.16)
Wholesale debt	1.01	34.18	-2.18	34.29***
	(2.19)	(57.66)	(5.65)	(12.76)
RE loans	-0.11	-4.19	-0.06	0.69
	(0.13)	(3.17)	(0.25)	(0.76)
Write_downs	-0.35	51.40	-2.44	6.52
	(4.44)	(89.91)	(10.88)	(18.54)
Derivatives	-18.61	-1,202.73**	88.50	-40.59
	(19.85)	(512.10)	(67.25)	(114.82)
Other capital injection	-0.02	0.27	-0.07	0.17
	(0.06)	(0.87)	(0.09)	(0.18)
NPLs	4.32***	-34.38	-11.49***	-9.88*
	(1.60)	(32.08)	(4.24)	(5.55)
LLPs	1.65	41.89	-8.34	-5.17
	(3.06)	(52.01)	(8.96)	(12.39)
State macro growth	4.54	36.91	-30.63*	22.20
	(7.83)	(135.82)	(15.83)	(26.37)
Observations	936	936	936	936
Adjusted R2	0.17	0.24	0.83	0.60
Quarter FE	Yes	Yes	Yes	Yes

Appendix 1 Variable Definitions

Variables	Definition
A: Categories of banks	
Forced TARP	Belongs to the group of six banks that accepted TARP funds on the same day that the program was first announced.
Voluntary TARP	Belongs to the group of banks that accepted TARP funds and which were not Forced TARP banks.
Non-TARP	Belongs to the group of banks that did not issue preferred stock under the CPP program.
B: Conference call variables	
Inexpensive	A dummy variable that equals one if a bank says that the price of TARP is low in a given quarter's conference call and zero otherwise.
BolsterCapital	A dummy variable that equals one if, during a given quarter's conference call, a bank says TARP money would bolster its capital ratio, and zero otherwise.
LendingPlan	A dummy variable that equals one if, during a given quarter's conference call, the bank states that it plans to lend out the TARP capital if it receives the funds.
AcquisitionPlan	A dummy variable that equals one if, during a given quarter's conference call, the bank states that it plans to use the TARP capital for acquisitions if it receives the funds.
Negative loan demand	A dummy variable that equals one if, during a given quarter's conference call, the bank states that it perceives weak loan demand, and zero otherwise.
Shifted loan demand	A dummy variable that equals one if, during a given quarter's conference call, the bank explicitly states that its positive loan demand reflects demand from customers that previously would have borrowed from other banks, and zero otherwise.
C: Dependent variables	
Tier 1 ratio (%)	Tier 1 capital divided by RWA.
Tier 1 leverage ratio (%)	Tier 1 capital divided by assets.
Shrink	A dummy variable that equals 1 if the firm experiences a reduction in assets and zero otherwise
MBS(%)	MBS is divided by total assets.
Meets target	A dummy variable that equals one if a bank's loan growth between quarter *t* and the quarter before receiving new capital reached the forecast level and zero otherwise. The forecast loan growth assumes that the new capital (TARP or equity issued to private investors) is levered up with deposits or other debt. We use different leverage levels in our analyses. In Table 8, we use two degrees of leverage which achieve target loan growth at (1) the maximum loan amount that would allow the bank to remain well-capitalized in all three capital ratio categories, or (2) the amount that equals the total amount of TARP without levering up. In robustness tests, the forecast loan growth amount is set to equal 2, 5 or 8 times the amount of TARP funds.
D: Financial variables	
Log(Assets)	Logarithm of total assets.
ROA	Return on total assets.
Deposits	The dollar value of deposits, scaled by total assets.
Wholesale debt	Wholesale debt/total assets.
RE loans	Real estate loan/total loans.
Write-downs	The dollar value of realized and mark-to-market losses on trading assets from September 30, 2007 to September 30, 2008, scaled by average loans.
Derivatives	The notional value of a bank's derivatives contracts, scaled by total assets.

Other capital injection	A dummy variable that equals one if a bank receives capital injections from sources other than TARP, and zero otherwise.
NPLs	The dollar value of nonperforming loans, scaled by total loans.
LLPs	The dollar value of loan loss provisions, scaled by total loans.
PCI	Following Duchin and Sosyura (2012), the political connections index (PCI) is measured as the firms' average percentile rank in the sample calculated using four measures of political connections: (1) connection to the House Financial Services Subcommittee; (2) number of connected board members; (3) the amount spent on lobbying; and (4) contributions to Financial Services Subcommittee members.
CEO compensation>500k	The variable equals one if the CEO's annual compensation (reported in the 2008 proxy statement) is greater than $500,000, and 0 otherwise.
High bonus	A dummy variable that equals one if a CEO's bonus/salary in 2008 is in the top 25% of the sample.
High delta	A dummy variable that equals one if a CEO's delta in 2008 is in the top 25% of the sample. Delta is calculated following Coles and Naveen (2006).
High excess pay	A dummy variable that equals one if a CEO's excess pay in 2008 is in the top 25% of the sample. Following Bliss and Rosen (2001), we calculate excess pay as the residual from a regression of compensation on bank size and performance.
Log(Analysts)	The logarithm of the number of analysts covering a bank.
State macro growth (%)	State macro growth is calculated using changes in the Federal Reserve Bank of Philadelphia's state-coincident indexes weighted by the share of deposits of a given bank in a given state.

Appendix 2 Construction of the Conference Call Variables

Our conference call variables can be classified into two groups. The variables in the first group are related to banks' views of the TARP funds. The second group reflects banks' views of loan demand.

To create the set of variables related to TARP, we focus on banks' conference calls for Q3 and Q4 2008. We first use a computer algorithm to identify texts in the conference call transcripts related to TARP. We use keywords about TARP, such as "TARP", "CPP", "Capital Purchase Program", and "Troubled Asset Relief Program", to identify the parts of the conference call transcript where banks discussed the TARP program. We then manually read these paragraphs to categorize the nature of the comments and questions. We found that they mainly included banks' plans for the funds, the cost, and whether loan demand was strong enough to deploy all of the funds. The discussions about loan demand were common in most quarters, which led us to collect qualitative data on loan demand from all the quarters between 2007 and 2009 (and 2010 for banks that received TARP in 2009).

We created a conference call variable *Inexpensive*, to reflect banks' view of the cost of the TARP fund. It is set to one if, in the conference call, the management of the banks indicated that the TARP funds were inexpensive or the pricing was attractive. A large fraction of banks viewed TARP funds as a cheap source of capital in Q3 2008, whereas in Q4 2008, more banks stated that the TARP funds were costly.

We also created a set of variables to reflect the banks' plans for the TARP funds. We group these into three main categories: *LendingPlan*, *BolsterCapital*, and *AcquisitionPlan*. *LendingPlan* is set to one if a bank states that it plans to lend out the TARP capital. *BolsterCapital* is an indicator that is turned on if a bank says TARP money would improve its capital ratio. *AcquisitionPlan* identifies the group of banks that planned to use the TARP capital for acquisitions.

To create the loan demand variables, we searched each transcript's pdf file using Acrobat for phrases that we found were commonly used in discussions about loan demand. These searches involved reading the sentence containing the relevant phrase and then reading the sentences before and after that sentence to understand the context. We first searched on the phrase "loan demand" and when it was not found, then searched on the word pipeline. Transcripts that did not refer to either were searched for discussions about general economic conditions in the bank's market or discussions about expected loan growth. In all cases, other parts of the transcript were read to determine if the sentence was representative of the entire discussion. This would not necessarily have been the case if the discussion was about one aspect of the bank's business. For example, if the demand was described as very healthy in the credit card business but the bank's portfolio mainly included mortgage and home equity loans then the comments on credit card demand were not used as the sole basis of the variable coding and the search continued. When the main basis for loan demand coding was information about expected loan growth, we mainly found that predicted loan growth in the single digits implied neutral demand. A forecast of negative loan growth was also the basis for setting the negative demand dummy equal to one. Positive demand was often described by the bank as double-digit loan growth or given as a reason for expanded hiring of loan officers or for opening a facility that focused on loan production. The shifted loan demand indicator

was set to one only when the positive demand indicator was set to one and we also found that the bank explicitly stated that their loan growth would be high from clients that previously banked with another (typically larger) institution.

Below are examples of how the indicators were coded.

Inexpensive
"CPP money is a relatively inexpensive form of capital…", "today it's very well priced and timely capital" "the Capital Purchase program... is a source of very inexpensive capital", "the program is the most cost-effective source of capital available"

Lending Plan
"real opportunity to really do something in terms of just starting some lending…", "if we do get the capital, there is a few specific niche lending and deposit initiatives", "So where we see the TARP money is to support strong organic growth.", "…with that additional capital…support the balance sheet and to fund our loan growth", "There's several plans…[for]the TARP money but we think that the loan demand will certainly be good enough to feed that", "our intent is to use the funds to help support lending activity…", "we are supporting our communities by lending…consistent with the intent of the CPP" .

Bolster Capital
"The new capital is expected to increase our total risk-based capital ratio upward of 16%", "This funding gives us a foundation and generates additional lending to our customers and then also builds our capital reserves", "the bank's already strong capital ratios would strengthen dramatically with participation in this program".

Acquisition Plan
"…there are going to be some acquisition opportunities…and this is a relatively inexpensive way to raise capital for acquisition…", "we have looked in detail at acquiring three institutions…we will think about the use of this capital in the same way…", "the motivation for us to consider [TARP]…is to prepare ourselves for hopefully some [acquisition] opportunities going forward", "We hope to use [TARP] to…acquire deposit bases…of failed institutions from the FDIC on cheap terms"

Positive loan demand due to shifted demand:
First Merchants Q3 2008:
"Brian Martin, Analyst: "…I guess away from the credit side for a minute, just the -- can you comment a little bit just on the loan pipeline and kind of what you guys are seeing and maybe just give a little color where your Indianapolis footings are right now, before you close a transaction of Lincoln and maybe just kind of some expectations for that market, as you go forward and fold them in.
Michael Rechin, CEO: Sure, Brian, it's Mike. The -- you talk about the environment itself. Loan demand is probably as strong as I can remember it. And it clearly then, all of us knowing the general economic conditions, isn't reflective necessarily of economic vitality, but somewhat I think of the fact that all financial institutions have really modified their appetite. Some of the larger

super regionals seemingly, not willing to lend at all, although that would just be my opinion. It does manifest itself in our bankers seeing more opportunities. That won't reflect itself, Mike Stewart is here with me. That won't reflect itself in our earning asset growth meeting that demand level, because of our own appetite to refine our underwriting and to add continued balance to the portfolio."

Negative loan demand:
Sun Bancorp Q3 2008:
"Bruce Dansbury, COO: Okay. Thanks, Tom. Well, clearly the economic climate and external influences continued to impact our credit quality. What we saw previously as a weakness in the residential real estate market has now spread to the overall economy, and we are seeing a slowdown affecting more of our commercial borrowers. Those experiencing the greatest impact are companies closely associated with the residential real estate market and consumer spending. Reduced consumer demand appears to be the rule of the day. Evidence of these economic challenges is reflected in our increased loan loss provision and increased level of nonaccrual loans, as well as our loan chargeoffs."

Internet Appendix

Table IA1 Correlation of banks' perspectives variables

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
[1]*TARP*	1						
[2]*Inexpensive*	0.25***	1					
[3]*LendingPlan*	0.47***	0.24***	1				
[4]*AcquisitionPlan*	0.19**	0.02	0.14	1			
[5]*BoostCapital*	0.29***	0.20**	0.30***	0.06	1		
[6]*Negative demand*	-0.16*	-0.01	-0.004	-0.15	-0.06	1	
[7]*Shifted demand*	0.13	0.05	0.14	-0.05	-0.06	-0.39***	1

Table IA2 Banks' Characteristics and Conference Call Variables

This table follows the same specifications as in Table 5 but benchmarks on the last quarter. Specifically, in columns (1)-(4), the benchmark quarter is 2008Q2, while in columns (5)-(8), the benchmark quarter is 2008Q3.

	2008Q3 (benchmarked on 2008Q2)				2008Q4 (benchmarked on 2008Q3)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Lending Plan	Inexpensive	BolsterIn Capital	Acquisition Plan	Lending Plan	Inexpensive	Bolster Capital	Acquisitio n Plan
CEO compensation>500k	0.19	-0.04	-0.01	-0.15	0.34**	0.06	0.01	0.04
	(0.11)	(0.13)	(0.13)	(0.13)	(0.13)	(0.07)	(0.14)	(0.09)
High bonus	-0.09	-0.32**	-0.35***	-0.11	0.21	0.14	-0.20	0.04
	(0.17)	(0.15)	(0.10)	(0.13)	(0.15)	(0.09)	(0.13)	(0.11)
High delta	0.09	-0.32**	0.02	0.21	-0.03	0.07	-0.07	0.08
	(0.14)	(0.15)	(0.14)	(0.14)	(0.15)	(0.09)	(0.15)	(0.14)
High excessive pay	-0.10	-0.04	-0.19**	-0.10	0.04	0.03	0.02	-0.00
	(0.11)	(0.13)	(0.10)	(0.11)	(0.11)	(0.05)	(0.11)	(0.09)
Log(Analysts)	-0.14	0.25	0.16	0.13	-0.07	0.08*	0.12	-0.07
	(0.16)	(0.15)	(0.13)	(0.14)	(0.14)	(0.05)	(0.14)	(0.12)
Shifted loan demand	-0.09	0.10	0.11	-0.16	0.02	-0.04	0.20	-0.06
	(0.12)	(0.13)	(0.09)	(0.12)	(0.15)	(0.06)	(0.13)	(0.11)
Negative loan demand	-0.20**	0.07	0.00	-0.18*	-0.17	-0.01	-0.05	-0.15*
	(0.10)	(0.11)	(0.10)	(0.10)	(0.12)	(0.05)	(0.11)	(0.09)
Log (Assets)	0.00	-0.06	-0.18**	0.10	0.09	-0.07*	-0.11	0.05
	(0.09)	(0.08)	(0.08)	(0.07)	(0.09)	(0.04)	(0.08)	(0.07)
Tier 1	-0.03	-0.09**	-0.03	-0.01	0.04	0.02*	-0.05	-0.03
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.01)	(0.04)	(0.03)
ROA	-2.67	1.69	1.51	1.28	-0.22	-1.38	1.07	0.08
	(2.70)	(2.83)	(3.17)	(1.98)	(1.65)	(1.19)	(1.41)	(1.16)
Deposits	0.58	-0.21	-0.48	0.62	0.91	-0.56	0.63	-0.69
	(0.71)	(0.94)	(0.75)	(0.91)	(0.88)	(0.34)	(0.92)	(0.62)
Wholesale debt	2.39	-7.81	4.30	-5.19	-6.93	4.31	-5.21	-1.21
	(8.71)	(8.60)	(6.38)	(7.08)	(8.11)	(3.22)	(7.77)	(6.66)
RE loans	0.20	0.07	0.09	0.35	0.23	0.09	-0.05	0.25

	(0.39)	(0.44)	(0.35)	(0.35)	(0.42)	(0.14)	(0.30)	(0.26)
Write_downs	9.85	-5.68	-0.76	39.61	0.66	23.94**	11.84	-1.08
	(24.94)	(31.37)	(22.64)	(24.42)	(26.30)	(11.16)	(21.94)	(17.60)
Derivatives	166.05***	183.24**	117.13*	-17.38	354.15***	-22.33	-29.37	29.55
	(61.02)	(72.21)	(61.16)	(73.55)	(95.28)	(33.02)	(90.44)	(127.36)
NPLs	-6.53	-12.60**	-5.65	-6.26	8.53	1.96	-7.41	1.91
	(5.70)	(6.24)	(4.76)	(5.35)	(6.38)	(2.15)	(4.95)	(3.07)
LLPs	-3.21	-4.11	14.56	5.45	-2.96	3.03	21.76***	-3.95
	(13.63)	(15.26)	(13.52)	(12.41)	(7.84)	(3.71)	(7.57)	(5.09)
State macro growth	12.66	35.15	33.76	-2.92	-17.45	14.13	3.15	49.68**
	(25.33)	(31.70)	(23.02)	(28.33)	(31.86)	(10.84)	(26.29)	(23.17)
ΔLog (Assets)	0.30	1.57	0.99	-1.09	0.44	-0.01	-0.34	-0.33
	(0.76)	(0.99)	(0.72)	(0.80)	(0.32)	(0.14)	(0.30)	(0.27)
ΔTier 1	0.02	-0.06	0.03	0.02	0.10**	0.03	0.03	-0.00
	(0.11)	(0.13)	(0.09)	(0.12)	(0.04)	(0.02)	(0.03)	(0.03)
ΔROA	-0.65	4.98**	1.41	0.84	-1.09	1.25**	-1.76	0.58
	(2.78)	(2.02)	(2.88)	(1.91)	(1.56)	(0.63)	(1.67)	(1.12)
ΔDeposits	1.14	2.05	1.78	0.36	0.73	0.45	-0.86	0.66
	(2.00)	(2.26)	(2.20)	(2.20)	(1.62)	(0.61)	(1.62)	(1.27)
ΔWholesale debt	-12.02	-18.26	-43.58*	-6.63	-6.17	6.41	10.48	-19.79
	(19.50)	(27.72)	(22.78)	(17.50)	(23.14)	(11.38)	(22.31)	(22.62)
ΔRE loans	-10.74***	-11.32**	-9.33**	-3.54	-3.92	-1.40	1.16	-3.00
	(3.90)	(4.82)	(3.76)	(4.35)	(4.15)	(1.75)	(4.16)	(2.65)
ΔWrite_downs	-4.10	-4.82	-10.24	-19.16	-37.67	-26.98*	21.53	4.12
	(22.18)	(23.93)	(19.33)	(19.16)	(31.37)	(15.59)	(24.86)	(20.46)
ΔDerivatives	-900.68***	-454.68	-282.32	-20.90	-796.50***	41.22	284.76	-163.26
	(229.40)	(312.08)	(227.77)	(298.10)	(166.31)	(65.70)	(171.49)	(234.95)
ΔNPLs	-6.39	-1.53	-8.64	-6.27	2.22	5.60	-0.50	-0.60
	(9.91)	(10.40)	(9.45)	(11.17)	(7.02)	(3.93)	(7.36)	(3.17)
ΔLLPs	20.64	59.73***	30.89*	-1.99	-3.93	-4.41	-9.23	-4.10
	(18.95)	(16.54)	(17.99)	(19.15)	(12.55)	(4.51)	(12.30)	(7.87)
ΔState macro growth	60.37	12.66	61.79*	-10.16	-2.68	-7.09	-3.76	43.18**
	(50.86)	(52.12)	(34.41)	(48.57)	(24.51)	(5.87)	(17.27)	(17.85)
Observations	118	118	118	118	117	117	117	117
Adjusted R2	0.01	0.04	0.07	0.09	0.03	0.16	0.06	0.02

Table IA3 Alternative assumptions regarding the degree to which capital is levered up

We use the same specification as in Table 8 and alter the target degree of leverage of the TARP funds.

	Meet target (Target loan change as of the amount of new capital)								
	8x			5x			2x		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	Gap=1q	Gap=2q	Gap=4q	Gap=1q	Gap=2q	Gap=4q	Gap=1q	Gap=2q	Gap=4q
TARP	-0.37**	-0.32**	-0.26	-0.37**	-0.22	-0.21	-0.46***	-0.25	-0.00
	(0.14)	(0.14)	(0.19)	(0.14)	(0.18)	(0.26)	(0.17)	(0.21)	(0.32)
TARP x *Inexpensive*	0.41**	0.44**	0.42*	0.41**	0.64***	0.84**	0.15	0.58**	0.46
	(0.18)	(0.20)	(0.22)	(0.18)	(0.21)	(0.35)	(0.28)	(0.28)	(0.38)
Inexpensive	-0.36*	-0.38**	-0.19	-0.36*	-0.60***	-0.55**	-0.16	-0.49*	-0.28
	(0.18)	(0.17)	(0.18)	(0.18)	(0.19)	(0.25)	(0.28)	(0.24)	(0.30)
TARP x *BolsterCapital*	-0.11	-0.07	-0.28	-0.11	-0.26	-0.61	0.11	-0.34	-0.39
	(0.20)	(0.33)	(0.43)	(0.20)	(0.36)	(0.50)	(0.27)	(0.42)	(0.61)
BolsterCapital	0.13	0.08	0.48	0.13	0.21	0.77*	-0.04	0.33	0.39
	(0.18)	(0.29)	(0.38)	(0.18)	(0.29)	(0.44)	(0.23)	(0.32)	(0.55)
TARP x *LendingPlan*	0.19	-1.04**	-0.71	0.19	-0.86*	-0.95	0.46	-0.67	-1.65
	(0.21)	(0.40)	(0.74)	(0.21)	(0.45)	(0.88)	(0.33)	(0.67)	(1.14)
LendingPlan	0.83	2.38***	0.71	0.83	2.15***	0.75	-0.92	0.98	0.92
	(0.58)	(0.68)	(1.10)	(0.58)	(0.74)	(1.32)	(1.07)	(1.00)	(1.78)
Shifted loan demand x *LendingPlan*	0.77***	0.65	-0.72	0.77***	0.64	1.63	0.53	1.11**	0.82
	(0.23)	(0.39)	(0.92)	(0.23)	(0.40)	(1.60)	(0.31)	(0.45)	(1.97)
Tier 1 x *LendingPlan*	-0.08	-0.11**	0.07	-0.08	-0.12**	0.09	0.03	-0.03	0.08
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.06)	(0.09)	(0.07)	(0.09)
CEO compensation>500K x *LendingPlan*	-0.36**	-0.44*	-0.62**	-0.36**	-0.26	-0.55	-0.07	-0.10	-0.41
	(0.15)	(0.24)	(0.24)	(0.15)	(0.26)	(0.35)	(0.23)	(0.39)	(0.34)
High bonus x *LendingPlan*	-0.44**	-0.44**	-0.56*	-0.44**	-0.68**	-0.82*	0.01	-0.01	-0.02
	(0.21)	(0.21)	(0.28)	(0.21)	(0.26)	(0.45)	(0.30)	(0.31)	(0.44)
High delta x *LendingPlan*	0.00	0.04	0.52*	0.00	-0.28	0.12	0.06	0.07	0.39
	(0.15)	(0.31)	(0.29)	(0.15)	(0.34)	(0.42)	(0.29)	(0.42)	(0.45)
High excessive pay x *LendingPlan*	-0.12	-0.13	-0.58**	-0.12	0.02	-0.47*	0.08	-0.09	-0.47
	(0.14)	(0.19)	(0.23)	(0.14)	(0.21)	(0.27)	(0.24)	(0.26)	(0.42)
Log(Analysts) x *LendingPlan*	0.04	0.05	-0.02	0.04	0.05	-0.02	0.07	-0.02	0.10
	(0.11)	(0.13)	(0.22)	(0.11)	(0.14)	(0.30)	(0.19)	(0.23)	(0.38)
Negative loan demand	-0.14*	-0.24*	-0.40**	-0.14*	-0.20	-0.35*	-0.14	-0.31*	-0.43

	(0.08)	(0.12)	(0.16)	(0.08)	(0.13)	(0.20)	(0.11)	(0.17)	(0.25)
Shifted loan demand	-0.10	-0.34	0.26	-0.10	-0.54*	-0.18	0.41	-0.29	-0.88
	(0.24)	(0.27)	(0.48)	(0.24)	(0.27)	(0.59)	(0.36)	(0.32)	(1.04)
Other controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	102	86	75	102	86	75	102	86	75
Adjusted R2	0.30	0.47	0.63	0.30	0.44	0.43	0.14	0.35	0.41
State FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Table IA4: TARP and Loan Growth (DID)

This table shows DID regressions where the dependent variable is loans scaled by lagged loans (columns (1)-(2)) or by lagged assets (columns (3)-(4)). All other specifications are the same as Table 10.

	L_t/L_{t-1}(%)		L_t/TA_{t-1}(%)	
VARIABLES	(1)	(2)	(3)	(4)
TARP	1.15***	1.03**	2.35	3.20
	(0.41)	(0.49)	(1.99)	(2.83)
TARP × Post	0.15	0.39	6.36***	7.31***
	(0.52)	(0.66)	(2.19)	(2.71)
Inexpensive		-0.13		-5.30**
		(0.56)		(2.19)
Inexpensive x TARP		0.70		4.37
		(0.64)		(2.82)
Inexpensive x TARP x POST		-1.75		-4.11
		(1.11)		(4.05)
Inexpensive x POST		0.81		3.25
		(0.98)		(3.82)
BolsterCapital		1.29		16.75***
		(0.85)		(3.96)
BolsterCapital x TARP		-0.89		-15.29***
		(0.91)		(4.34)
BolsterCapital x TARP x POST		4.19***		9.53
		(1.10)		(6.18)
BolsterCapital x POST		-4.50***		-11.53*
		(0.93)		(5.94)
LendingPlan		-0.93		-10.67**
		(0.59)		(4.55)
LendingPlan x TARP		0.55		8.70*
		(0.66)		(4.96)
LendingPlan x TARP x POST		-3.22***		-7.33
		(1.09)		(5.38)
LendingPlan x POST		3.72***		8.00
		(0.96)		(5.17)
CEO compensation>500K x POST		0.94*		1.64
		(0.50)		(1.48)
High bonus x POST		0.70		0.01
		(0.60)		(1.92)
High delta x POST		0.23		0.21
		(0.61)		(1.69)
High excessive pay x POST		0.62		-2.04
		(0.51)		(1.63)
Log(Analysts) x POST		0.02		-1.20
		(0.44)		(1.35)
Negative loan demand	-1.01***	-1.12***	-0.69	-0.94
	(0.22)	(0.22)	(0.90)	(0.96)
Shifted loan demand	0.93***	0.93***	0.96	1.19
	(0.33)	(0.34)	(1.20)	(1.22)
CEO compensation>500k	-0.59*	-0.96***	-2.70	-3.18*
	(0.35)	(0.32)	(1.70)	(1.63)
High bonus	0.36	0.09	-0.07	0.20

	(0.41)	(0.38)	(1.53)	(1.75)
High delta	0.88	0.86	-3.19	-3.36
	(0.56)	(0.63)	(2.06)	(2.25)
High excessive pay	0.19	-0.13	-0.70	0.57
	(0.31)	(0.34)	(1.50)	(1.44)
Log(Analysts)	0.12	0.09	1.73	2.24
	(0.43)	(0.40)	(2.20)	(2.08)
Log(assets)	-0.14	-0.14	-1.65	-1.52
	(0.20)	(0.20)	(1.10)	(1.07)
Tier 1	0.03	0.05	-1.89***	-1.80***
	(0.07)	(0.08)	(0.37)	(0.38)
ROA	5.08	4.25	15.47	14.51
	(4.32)	(4.36)	(17.61)	(18.54)
Deposits	1.13	1.37	5.23	7.02
	(2.25)	(2.33)	(11.60)	(11.34)
Wholesale debt	0.32	4.00	123.28	145.24
	(19.32)	(19.82)	(104.63)	(105.03)
RE loans	2.27**	2.30**	26.67***	28.35***
	(1.02)	(1.03)	(6.72)	(6.62)
Write_downs	5.49	-0.74	109.55	67.69
	(37.01)	(36.35)	(172.23)	(167.41)
Derivatives	-34.15	-45.36	-2,995.44**	-2,788.26**
	(232.24)	(257.77)	(1,420.49)	(1,387.99)
Other capital injection	0.97*	0.91*	2.06	2.36
	(0.50)	(0.52)	(1.64)	(1.72)
NPLs	-46.65***	-39.36***	-17.21	-9.02
	(9.95)	(10.54)	(41.11)	(43.57)
LLPs	-22.24	-22.77	46.40	31.95
	(29.68)	(30.56)	(99.04)	(103.79)
State macro growth	-50.72	-61.37	340.28	372.81
	(59.95)	(63.05)	(256.66)	(267.68)
Observations	936	936	936	936
Adjusted R2	0.32	0.32	0.35	0.37
Quarter FE	Yes	Yes	Yes	Yes

Table IA3 Alternative dependent variable

We use the same specification as in Table 8 and replace the dependent variable with the difference between actual loan growth amount and target loan growth amount as forecasted by different benchmark leverages, scaled by loan amount in the benchmark quarter. For banks that received TARP funds in Q4 2008 and non-TARP banks, the benchmark quarter is Q3 2008, while for other banks, it is the quarter before the TARP injection date.

	$\frac{L_{it} - L_{Tit}}{L_{i0}}$					
	Target=well-capitalized			Target=zero leverage		
	(1)	(2)	(3)	(7)	(8)	(9)
VARIABLES	Gap=1q	Gap=2q	Gap=4q	Gap=1q	Gap=2q	Gap=4q
TARP	-0.28***	-0.20**	-0.14	-0.07	0.03	0.12
	(0.06)	(0.08)	(0.13)	(0.07)	(0.09)	(0.13)
TARP x *Inexpensive*	-0.01	-0.03	0.06	0.09	0.07	0.02
	(0.09)	(0.11)	(0.19)	(0.13)	(0.13)	(0.18)
Inexpensive	0.04	0.04	0.02	-0.04	-0.02	0.10
	(0.10)	(0.08)	(0.14)	(0.15)	(0.09)	(0.13)
TARP x *BolsterCapital*	0.05	0.09	0.12	0.05	-0.02	0.27
	(0.11)	(0.21)	(0.34)	(0.15)	(0.26)	(0.32)
BolsterCapital	-0.07	-0.14	-0.01	-0.06	-0.05	-0.16
	(0.10)	(0.15)	(0.29)	(0.13)	(0.18)	(0.27)
TARP x *LendingPlan*	-0.16	-0.43	-0.70	-0.17	-0.40	-0.88*
	(0.16)	(0.30)	(0.56)	(0.19)	(0.37)	(0.51)
LendingPlan	0.17	0.70	0.65	0.49	1.26**	1.11
	(0.40)	(0.45)	(0.82)	(0.50)	(0.55)	(0.80)
Shifted loan demand x *LendingPlan*	0.76***	0.90***	0.37	0.52**	0.68*	0.67
	(0.12)	(0.28)	(0.83)	(0.24)	(0.37)	(0.77)
Tier 1 x *LendingPlan*	-0.02	-0.04*	0.04	-0.05	-0.08**	0.01
	(0.03)	(0.02)	(0.04)	(0.05)	(0.03)	(0.04)
CEO compensation>500K x *LendingPlan*	-0.02	-0.00	-0.16	-0.05	-0.06	-0.15
	(0.11)	(0.16)	(0.23)	(0.12)	(0.22)	(0.21)
High bonus x *LendingPlan*	0.01	0.02	-0.05	-0.06	-0.07	-0.10
	(0.13)	(0.13)	(0.24)	(0.16)	(0.14)	(0.22)
High delta x *LendingPlan*	0.04	0.10	0.50*	0.10	0.22	0.56**
	(0.11)	(0.20)	(0.27)	(0.13)	(0.27)	(0.26)
High excessive pay x *LendingPlan*	0.04	0.00	-0.25	0.06	-0.04	-0.23
	(0.08)	(0.09)	(0.17)	(0.09)	(0.11)	(0.17)
Log(Analysts) x *LendingPlan*	0.07	0.03	-0.10	0.05	-0.01	-0.09
	(0.07)	(0.08)	(0.17)	(0.08)	(0.11)	(0.18)
Negative loan demand	-0.01	-0.06	-0.21*	-0.02	-0.09	-0.25*
	(0.04)	(0.08)	(0.11)	(0.05)	(0.10)	(0.12)
Shifted loan demand	0.06	-0.13	0.19	0.36	0.05	0.10
	(0.14)	(0.14)	(0.37)	(0.24)	(0.18)	(0.38)
Other controls	Yes	Yes	Yes	Yes	Yes	Yes
Observations	102	86	75	102	86	75
Adjusted R2	0.49	0.51	0.42	-0.00	0.09	0.33
State FE	Yes	Yes	Yes	Yes	Yes	Yes

Figure IA1 Banks' Perspectives on Loan Demand by Quarter

This figure shows the time series variation in loan demand among the sample banks by plotting the fraction of banks in each of four categories. Banks that indicated that they faced a strong amount of demand for loans were categorized as having positive demand (the blue section of the bar) while banks that indicated weak demand were categorized as belonging to the negative demand group (green). Banks that expressed some demand for loans from their customers but not strong demand were included in the neutral group (purple). A small group of banks did not have a conference call transcript in the relevant quarter, either because they did not hold a conference call or because the transcript was missing (gold).

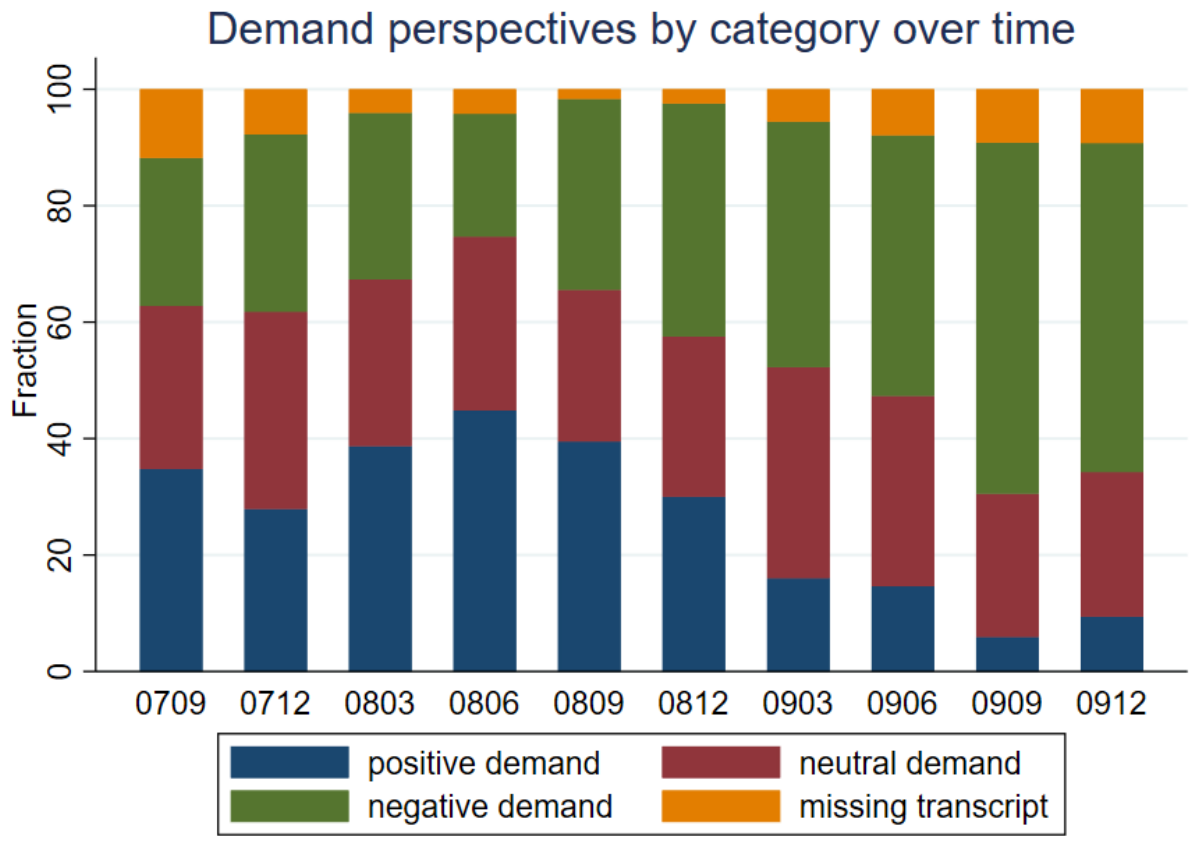

Figure IA2 Loan Growth Relative to Target Growth

This figure shows the difference between the actual level of loans in quarter t after receiving the TARP funds and the forecast level, scaled by assets in the benchmark period. For most TARP banks and for all non-TARP banks, the benchmark period is set to September 30, 2008. Banks that received TARP funds after 2008 have a later benchmark period. The non-TARP banks are split between those that raised equity capital from the private capital markets and those that did not. For non-TARP banks that raised capital, the levering up of capital is assumed to be at the same rate as that of TARP capital. The degree of leverage of TARP capital is the maximum amount that would leave the bank well-capitalized by all regulatory definitions.