Who Directs the Fed?

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Abstract

During the financial crisis, questions arose concerning links between the Federal Reserve and the business community. This paper provides the first in-depth study of one mechanism creating such links: Reserve Bank directorships. By law, each Reserve Bank is governed by a nine member board consisting of three banking representatives and six representatives of the public. Member banks elect six directors, the remaining directors are appointed by the Board of Governors. The representation of private interests on Reserve Bank boards may clearly benefit the public. However, it may also benefit individual director employers, which may not be consistent with the goals of Federal Reserve governance. To shed some light on this issue, I examine who sits on Federal Reserve Bank boards and the market reaction to the appointments of executives of publicly-traded companies over the period 1990-2009. I document that banking representatives are more likely to be chosen from large banks. Furthermore, the average stock price reaction to the appointment of a firm's officer to a Reserve Bank board is positive only for banks. I discuss potential explanations for these findings.

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"*Although the Federal Reserve considers the principal business affiliation and experience of directors in the selection process, directors are not supposed to be champions of any special interest or constituency. Once becoming a director, an individual is expected, like members of the Board of Governors, to act objectively and in the public's best interest.*" (Board of Governors of the Federal Reserve System 2001, p. 5)

"Finally, the act charges each board of directors with administering the affairs of the Reserve bank "fairly and impartially and without discrimination in favor of or against any member bank or banks."" Board of Governors of the Federal Reserve System (2001), p. 15

1 Introduction

The Federal Reserve played an important role in responding to the current financial crisis (see e.g. Allen and Carletti 2010). It may play an even more important role in future crises, because the Dodd-Frank Act of 2010 expands the supervisory powers of the Fed. However, some argued that the Fed's response to the crisis was tainted by conflicts of interest. Kelly and Hilsenrath (2009) and Hilsenrath and Fitzpatrick (2010) singled out the Federal Reserve Bank of New York and its relationship with Goldman Sachs in particular. Because of the criticism the Fed received, Section 1109 of the Dodd-Frank Act specifies that the Government Accountability Office must conduct a review of the Fed's governance.

To date, not much has been written about the governance of the Federal Reserve System. Because of its complexity, it is difficult to evaluate the governance of the Federal Reserve System as a whole. Thus, this study analyzes only one aspect of the governance of the Federal Reserve: Federal Reserve Bank boards of directors.

I cannot examine whether Fed performance improves with changes in board structure and composition using a standard governance approach, because the structure of Federal Reserve Bank boards is fixed. Moreover, there are no clear performance criteria that can be used to assess whether Fed governance is effective because the Federal Reserve has multiple responsibilities. This is a problem that affects most central banks, as the recent literature on central bank governance highlights (see e.g. Adams, Roszbach et al., 2010; Anone, Laurens et al. 2009; Crowe and Meade, 2007; Hasan and Mester, 2008). Thus I exploit the fact that Fed directors typically work full-time for a private company during their terms. Instead of asking whether Fed performance varies with the types of directors it has, I ask the opposite question, namely do employers of Fed directors benefit from these directorships? I argue that the answer to this question may help us better understand the governance of the Federal Reserve since Fed directors are supposed to represent all members of the public equally.

A key concern of the founders of the Federal Reserve System was independence from government. The structure of its governance reflects this concern through decentralization and

a blend of private and public characteristics. Regional representation occurs through the 12 Federal Reserve Banks, which are charged with carrying out the day-to-day operations of the Federal Reserve System. They carry out many of the System's responsibilities for supervising banks and provide valuable input into the monetary policy making process. However, while the Federal Reserve Banks perform important functions for the government, they are not owned by the government. Instead, each of the Federal Reserve Banks is a separately incorporated not-for-profit that is privately owned by the member banks in its district.[3] Thus, as is the case with any other corporation, the activities of each Federal Reserve Bank are supervised by a board of directors.

The structure of the board of directors is determined by the Federal Reserve Act of 1913. Each board consists of nine directors. Three of the directors, the class C directors, are appointed by the Board of Governors to represent the public "with due but not exclusive consideration to the interests of agriculture, commerce, industry, services, labor and consumers" (Federal Reserve Act, Section 4.12). Six of the directors are elected by member banks in the district. Three of these six directors, the class B directors, are supposed to represent the public; the remaining three class A directors represent member banks.[4]

The reason private interests are supposed to be represented on Federal Reserve Bank boards is to benefit the public's interest. Since the Federal Reserve's actions affect the public, it is only right that the public can have some influence on the Federal Reserve's actions. The public can play a role, for example, in providing information that helps minimize the regulatory burden, as well as inform monetary policy. Gildea (1992) provides evidence that Reserve Bank presidents' FOMC votes are influenced by local conditions in Reserve Bank districts. He argues that such a regional influence reflects the fact that the presidents are chosen by the Reserve Bank directors of which 6 represent the general public in the district. According to Hilsenrath and Fitzpatrick (2010), some Fed directors worry that provisions in the Dodd-Frank Act restricting the activities of Fed directors will lead to the loss of banking expertise in decisions facing the Fed which also suggests that the information Fed directors provide may be valuable.

In allowing for the explicit representation of private interests through Federal Reserve Bank directorships, the Federal Reserve System is not unique among central banks, but it may

[3] The stock of the Federal Reserve Banks does not carry with it the usual control and financial interests associated with stock in for-profit corporations. This stock is merely a legal obligation that goes along with membership. Thus, although the Reserve Banks are owned by the member banks, the Reserve Bank boards are not responsible for acting only in their interests.

[4] The boards of the branches are appointed by the Head Offices and the Board of Governors.

be the most extreme.[5] As the first quote before the introduction describes, individuals from the private sector are supposed to act in the interest of the public "like members of the Board of Governors" (Board of Governors, 2001, p. 5). However, in contrast to members of the Board of Governors, directors of Reserve Banks are not full-time employees of the Federal Reserve System. They continue to work for their employers while serving as directors. Thus, as with any link between business and political or regulatory bodies, a key question is whether businesses benefit from these links and how.

Ex ante, it is not clear that it is in a firm's interest to have one of its officers serving on a Federal Reserve Bank board. Federal Reserve directors are expected to provide input into all activities of the Federal Reserve System and such directorships are considered to be a form of public service. By accepting a Reserve Bank directorship, directors commit a portion of time they are normally supposed to devote to maximizing the value of their primary employers to the affairs of the Federal Reserve. On the other hand, there are also reasons why such directorships could be valuable to directors' employers. The appointment of an officer to the board of the Federal Reserve Bank could enhance the reputation of the firm. It could also act as a constraint on the firm in the sense that the firm may be held to higher standards and be less likely to engage in activities that destroy value. The firm may also benefit if its officer establishes valuable networks and learns from the directorship experience. Finally, the firm could benefit if a director is able to use his position to obtain preferential treatment or information other firms cannot obtain.

Examining the costs and benefits of Federal Reserve directorships is particularly interesting when directors are bank officers. It should strike any governance scholar as startling that the governance of the Federal Reserve Banks is heavily influenced by the very institutions, the member banks, which the Federal Reserve Banks are involved in supervising. Clearly there are benefits to such an arrangement, for example, the Reserve Banks gain valuable information from bank officers. However, this situation could also lead to conflicts of interest. It is possible, for example, that class A directors could use their positions to influence the supervisory policy making process in favor of their institutions. Although Federal Reserve Bank boards are generally not directly involved in any supervisory decisions, this was a concern during the financial crisis, as I discuss later.

My data contains information about directors and director elections for the 12 Federal Reserve Banks from 1990 to 2009. I ask several questions. First, how representative of the public do Fed directors appear? Second, are the directors typically high- or low-level

[5] See Adams, Roszbach and Spagnolo, 2010.

employees? If the costs of Fed directorships in terms of employee time are too high, one might expect that directors would be lower level employees. Third, what do director elections look like? Are they typically contested? If so, then this would suggest that there are benefits to Fed directorships.

Fourth, what firm characteristics, if any, are related to the likelihood that an employee is elected to the board of a Fed? While I cannot determine the universe of potential candidates for Fed directorships for non-banking firms, with few exceptions class A directors are executives of banks. Thus, I can compare the characteristics of banks represented on Fed boards to the characteristics of banks in the industry to see how representative they are.

Fifth, do employers of Fed directors appear to benefit from having an employee sitting on a Fed board? It is difficult to examine this issue using standard panel data analysis since the election to a Fed board will be endogenous in performance regressions. Moreover, non-bank Fed directors may work for firms for which performance data is not readily available, such as private companies, law firms, universities or non-profit organizations. Thus, I examine this issue using an event study methodology around election dates for the subset of publicly-traded employers. Finally, I ask whether there is any evidence that banks represented on Fed boards appear to gain from these directorships.

My main findings are as follows. Perhaps surprisingly, there are few contested elections for Reserve Bank directorships. However, this appears to have been a feature of Fed director elections since the inception of the Federal Reserve System (Bopp, 1937). Consistent with the findings in Bopp (1937), elections for class A directorships are relatively more contested, particularly in small bank elections.

As a result of consolidation, the number of banks nominating and electing directors is decreasing over time, but this trend is particularly strong for the large banks. This means that individual large banks are gaining more influence over the selection process. Large banks are more likely to be represented on Reserve Bank boards, but past performance is not always related to the likelihood of election. The event study evidence suggests that Federal Reserve Bank directorships add value, but primarily in the case of banks. Finally, I find some evidence that banks with Fed directorships are less likely to cease operating than other banks in the industry. This is consistent with Faccio, Masulis and McConnell (2006) who find that politically connected firms are more likely to be bailed out by governments in times of financial distress. However, it is difficult to infer causality from this evidence, thus I view it as suggestive only.

There are several plausible explanations for the event study evidence. Perhaps the leading two are that Federal Reserve directorships either a) enhance firms' reputations or b) are a source of preferential information or treatment. Since banks nominate and elect both class A and B directors, it may be the case that a Federal Reserve directorship is a stronger reputational signal in the case of a bank than it is in the case of other firms. Bankers are likely to be better at evaluating other bankers than non-bankers. Thus, the information in the election may be a better signal about the ability (or influence) of the candidate in the case of a bank officer. On the other hand, as e.g. Havrilesky (1994) argues, the banking industry is the private interest group that can gain the most from ties to the Federal Reserve. Thus the stock price reaction may simply reflect the market's belief that banks can gain from their directorships.

While I try to distinguish between these two explanations, it is difficult to pin down exactly what determines the stock price reaction. It is also possible that both effects are at work. Nevertheless, I believe the arguments in favor of argument b) are more persuasive. First, it is not necessarily clear that the characteristics that might make an officer a good representative of banks as a Federal Reserve director would also make him a good manager of his own bank. Second, since Federal Reserve directors tend to work for the largest banks and publicly traded banks are very large, it is hard to imagine that directorships could provide so much additional reputational information to generate stock price reactions of the magnitude I document here. Regardless of the explanation it is interesting that few elections are contested. Examining the process by which nominations for directorships are determined is a potentially interesting area for future research, although data on this issue might be difficult to find. The only prior study I am aware of on this issue is Bopp (1937), who documents nomination procedures in only a few Reserve Banks.

The question whether the Federal Reserve Bank boards adequately represent the public has been debated at least since the 1960s. Several studies have examined the background of Federal Reserve Bank directors. Miller (1961), Havrilesky, Yohe et al. (1973), U.S. House (1976) and U.S. House (1990) all argue that big business and banking interests dominate Reserve Bank boards. Havrilesky, Yohe et al. (1973) found that class A directors represented large member banks disproportionately during the period 1950-1970. The 1976 U.S. House study helped convince Congress to pass the Federal Reserve Reform Act of 1977, which, among other things, directed the Reserve Banks to consider the interests of agriculture, labor and consumers on their boards. Nevertheless, U.S. House (1990) found that 48% of

class B directors in 1990 were former bank officers, directors or employees and that women and minorities were underrepresented on Reserve Bank boards.[6]

These studies conclude that the Federal Reserve Bank boards cannot possibly represent the public interest. However, they rely primarily on simple summary statistics of directors' industry backgrounds to reach their conclusions. The only study to examine employers' characteristics, Havrilesky, Yohe et al. (1973), only examined cross-sectional data on bank assets for class A directors. Thus, none of these studies address the possibility that, for example, officers from large banks may be represented because they have greater ability and more experience than officers of smaller banks. Nor do these studies directly examine whether Federal Reserve directorships add value to directors' employers. In this study, I provide the first systematic analysis of these issues. For example, I examine whether employees of better performing banks are more likely to be Fed directors. If so, this would suggest that even if they come from relatively larger banks the class A directors that are elected are the most qualified to represent the banking community.

Prior literature on political and regulatory connections of businesses examines connections established through electoral campaign contributions (e.g. Kroszner and Stratmann, 1998), former political positions of board members (Agrawal and Knoeber 2001; Goldman, Rocholl et al. 2009), previous and subsequent industry employment by regulators (Dal Bo 2006), friendships with politicians (Fisman 2001) and positions in government (Faccio 2006; Faccio, Masulis et al. 2006). This paper highlights another channel through which businesses may exert political or regulatory influence: links to central banks. As in Faccio (2006), Fisman (2001) and Goldman, Rocholl, and So (2009), I find positive abnormal returns around announcement dates when links between businesses and governmental entities are established. Duchin and Sosyura (2010) provide evidence that banks with Fed directorships were more likely to receive TARP funds during the financial crisis. They argue that connections to the Fed may be particularly valuable in crisis times. My paper provides complementary evidence by providing an in-depth look at how directors are elected and which directors are elected, as well as some evidence of the consequences of being elected over a period of 20 years. Such evidence is important to assess potential selection biases that may arise by using Fed directorships as exogenous variables.

More broadly my paper contributes to the literature on corporate boards. Many studies examine the number of directorships directors hold (see e.g. the review in Adams, Hermalin

[6] Although some members of Congress made an attempt in the 1980s to increase the number of class C directors to promote greater diversity in the boardroom, the attempt failed.

and Weisbach, 2010), but they often ignore non-profit directorships. The evidence in this paper suggests that non-profit directorships can be value-relevant.

This study is particularly timely, not only because of the Fed's role in the financial crisis, but also because of increasing consolidation in the banking industry. The fact that the banking industry is becoming more concentrated means that member banks are becoming more powerful in the director selection process. For example, in 1996 a group of 91 banks could name nominees for a class A director of the Federal Reserve Bank of New York. By 2002, this group contained only 80 members. In 1996 a group of 8 banks could name nominees for a class A director of the Federal Reserve Bank of New York, but in 2000 this group contained only 7 banks. As the number of banking institutions shrinks, the influence each individual bank has over the nomination process gets bigger. And, as the banking industry becomes more consolidated, the largest banks gain more influence. Thus, it is more important than ever to document whether such power has any detrimental effects.

This study may help inform the debate about potential reform to the governance of the Federal Reserve. Senator Dodd's reform bill of November 10, 2009 proposed to strip banks of their power to select Federal Reserve Bank directors. Although the Dodd-Frank Act of 2010 does not contain such a provision, it does restrict class A directors from having a say in the selection of Fed presidents. Furthermore, the Dodd-Frank Act specifies that the Government Accountability Office must conduct a review of the Fed's governance.

My results are consistent with the idea that private interest representation on Federal Reserve Bank boards may lead to regulatory capture in the case of banks. But, they are also consistent with other explanations, such as enhanced reputation and a better relationship with the Federal Reserve. One might argue that it is unrealistic that employers do *not* benefit from these directorships. For example, these benefits may simply be a form of implicit compensation to both the director and the employer since the compensation of Federal Reserve Bank directors is minimal. As of 1995, they receive an annual retainer of $2000 and daily meeting fees of $200. Chairmen receive only slightly more. In comparison, the average annual compensation (including equity-based pay, but without meeting fees) for a director of an S&P 1500 company during 1996-2003 was $92,049 (Adams and Ferreira, 2008). However, this does not explain why banks appear to benefit more from Fed directorships than non-financial firms. Furthermore, the number of companies that will ever benefit directly from such directorships is limited. Since it is not clear that the nominee selection process is democratic, it seems likely that more companies would have liked to have the opportunity to be represented on Fed boards than have been over the past 20 years. Clearly more research is

needed to determine the effectiveness of the governance of the Federal Reserve Banks, but this study suggests that some reform may be necessary to ensure that Reserve Bank directors are more representative of the broader public, as originally intended in the Federal Reserve Act.

The rest of this paper is structured as follows. In Section 2, I describe Federal Reserve Bank board structure and responsibilities in more detail. In Section 3, I discuss potential private benefits directors' employers may gain from Fed directorships. In Section 4, I describe the data. In Section 5, I provide details about class A and B director elections. In Section 6, I examine which banks obtain Fed directorships. In Section 7, I present the results of the event study around the election or appointment to a Fed board for all classes of directors. In Section 8, I examine potential consequences of Federal Reserve directorships for banks. Section 9 concludes.

2 Federal Reserve Bank Boards-Structure and Responsibilities

As described above, Federal Reserve Bank boards consist of three classes of three directors each. Directors cannot be members of Congress and class B and C directors cannot be officers, directors or employees of a bank. In addition, class C directors are prohibited from holding shares in a bank and must have resided in the Reserve Bank District for at least two years prior to their appointment. The directors serve staggered terms of three years each and generally serve at most two terms. Each year the Board of Governors designates two of the class C directors chairman (and Federal Reserve Agent) and vice chairman of the board. The chairman is supposed to be a person of tested banking experience and acts as the liaison between the Federal Reserve Bank board and the Board of Governors. The terms of the chairman and vice chairman are renewable.

For the purposes of election, the member banks in the district are grouped by capital into three groups: small (group three), medium (group two) and large (group one). Each group elects one class A and one class B director on a rotating basis. Each member bank in the group is allowed to nominate a candidate for each position, who, following the Federal Reserve Reform Act of 1977, must be chosen without discrimination on the basis of race, creed, color, sex or national origin. In some districts, groups appoint a nominating committee which recommends candidates for election. Each member bank has exactly one vote in the election, except when it is a subsidiary of a bank holding company. In this case, only one member bank in the holding company is allowed to nominate and vote.

The responsibilities of the Reserve Bank directors are extensive. They range from supervising the Reserve Banks to making recommendations on monetary policy. Because Reserve Bank directorship is considered a form of public service, directors are expected to avoid participation in partisan political activities.

In the supervision of the Reserve Banks, directors have the same duties as directors of any banking association and are charged with administering the affairs of the Bank fairly and impartially and "without discrimination in favor of or against any member bank or banks" (Federal Reserve Act Section 4.8). They appoint the Reserve Bank President and Vice-President and determine their salaries (subject to the Board's approval) and appoint all officers of the Bank.[7] They review the Reserve Bank's budget and are responsible for internal audits.

The directors play a role in monetary policy because they are responsible for setting the discount rate (also subject to Board approval). They also select the District's representative to the Federal Advisory Council, which confers with the Board four times a year on business conditions. Finally they advise Reserve Bank Presidents on regional business conditions prior to each FOMC meeting, as well as interact extensively with policy makers on a less formal basis (U.S. House, 1990).

The 25 branches of the Federal Reserve Banks are also governed by boards. However, these boards are not elected. Instead, the majority of branch directors are appointed by the corresponding Reserve Banks and the rest are appointed by the Board of Governors. The chairman of the branch board is selected from the latter group. The size of the branch boards varies between five and seven directors and directors serve two- or three-year terms depending on the size of the branch board. The branch boards are responsible for representing interests in their area and providing economic data to the district Reserve Bank that is used in evaluating the region's economic conditions. Both because the role of branch boards is less important than the role of the Head Office boards and it is more difficult to obtain data on branch directors, this study focuses only on the directors of the Reserve Banks.

3 Private Benefits of Reserve Bank Directorships

To fulfill their duties, as the two quotes prior to the Introduction describe, Fed directors are supposed to act objectively and without favoring any particular bank. In order to understand whether the governance of the Federal Reserve Banks is effective, it is therefore

[7] Since the passage of the Dodd-Frank Act in June, 2010, class A directors are no longer allowed to help select Reserve Bank presidents. During the time period of my sample they were still involved in the selection.

important to understand whether there are any private benefits that accrue only to Fed directors' employers, particularly in the case of banks. Some private benefits need not be against the public interest. For example, because of the importance of the position, it seems clear that directors' reputations as individuals will increase once they accept a Reserve Bank directorship. This may also enhance the reputation and value of directors' employers, because it may serve as a signal that the employer will now be held to a higher standard of conduct. In the literature on corporate boards, Perry and Peyer (2005) document such value increases for employers when managers obtain corporate directorships. If nominees are proposed on the basis of their merit, then even if their employers' values increase because of the directorship the public may still benefit because of a commitment to better governance at directors' employers.

It is debatable whether other potential private benefits are in the public interest or not. In a series of papers, Havrilesky (1990, 1994) suggests one important benefit all private interests can gain from connections to the Fed is the ability to influence monetary policy. He highlights that this is particularly valuable to banks because they bear the initial impact of open market policy. While the ability to influence monetary policy need not necessarily be a *private* benefit that would accrue only to a directors' employer, knowledge of the future direction policy is likely to take could give directors' employers an advantage over other firms in their industries.

Some argue that although the law gives Fed directors important responsibilities they have little power in practice. For example, Miller (1961) argued that Reserve Bank directors' power was waning because the Federal Reserve Banks themselves were becoming less important relative to the Board of Governors. This would suggest that Fed directors have little power to influence the policy making process in favor of their employers. However, both Havrilesky (1990) and Gildea (1992) provide evidence that suggests that Fed directors can and do influence monetary policy. Havrilesky (1990) shows that monetary policy appears sensitive to the directives of the Federal Advisory Council, which is a committee of 12 bankers who are elected by the Federal Reserve Bank boards. Gildea (1992) shows that the FOMC votes of Fed presidents reflect local conditions in the district and attributes this at least in part to the fact that the class A and B directors of the Reserve Bank boards are local.

Several papers argue that the Fed has an informational advantage over the private sector (e.g. Romer and Romer, 2000 and Peek, Rosengren et al., 1999 and 2003) which is useful for forecasting variables that influence monetary policy. Thus, even if directors have limited power to directly influence monetary policy, their employers may benefit if directors

have access to valuable information that enables them to better understand the state of the economy. In addition, Peek, Rosengren et al. (2003) argue that the informational advantage of the Fed consists in knowledge of bank health for banks that are not publicly-traded. It seems likely that such information would be particularly valuable to banks.

In the case of banks, a final potential private benefit to directors' employers is the ability to influence the supervisory process in general and obtain preferential treatment in supervision in particular. As I describe below, many questions arose during the financial crisis about the Fed's treatment of banks, particularly Goldman Sachs, that were connected to it through Reserve Bank directorships.

In September, 2008, Goldman Sachs converted from an investment bank to a commercial bank holding company whereupon it was one of only nine banks that received direct capital injections from the U.S. Treasury in October of 2008. Goldman also received full repayment of American International Group's debt of $8.1 billion once the government bailed AIG out. Prior to the intervention by the U.S Government, American International Group was negotiating with banks to reduce its debt burden. The New York Fed opened an $85 billion credit line for AIG when it became clear AIG was running out of cash. Less than a week after the New York Fed took over the negotiations with the banks, it instructed AIG to repay its counterparties in full (Teitelbaum and Son 2009). Although Goldman was not the only institution to receive full repayment, the situation looked like Goldman was getting preferential treatment because the chairman of the New York Fed, Stephen Friedman, was a former chairman of Goldman Sachs and a Goldman Sachs director at the time. This impression was heightened when Stephen Friedman led the board's search for a successor to the president of the New York Fed at the time, Timothy Geithner, which resulted in the appointment of a former Goldman Sachs chief economist, William Dudley, in January of 2009.[8,9]

Although Federal Reserve Bank boards are generally not directly involved in any supervisory decisions, the media argued that this may have occurred in the case of Stephen Friedman (see, e.g. Kelly and Hilsenrath, 2009). Kelly and Hilsenrath argued that as a director of Goldman Sachs, Friedman was motivated to influence the bailout of Goldman, which also led to a personal gain since he held shares in Goldman. They also argued that Goldman Sachs

[8] Although Fed directors are prohibited from holding directorships in or stock in bank holding companies, Friedman continued to buy Goldman stock during the course of these events, which also gave the appearance that he may have been able to influence Fed actions in favor of Goldman. When questions about his stock purchases were raised in the Wall Street Journal (Kelly and Hilsenrath, 2009), Friedman resigned from his position as New York Fed chairman in May, 2009.

[9] William Dudley worked for Goldman Sachs until 2007 (Pittman, Sterngold, Son, 2009).

indirectly influenced the selection of the New York Fed president through Friedman, with the implication that this could provide benefits to Goldman.[10]

Another issue that received some attention during the crisis was the way in which the U.S Government's Troubled Asset Relief Program (TARP) funds were allocated to financial institutions. Duchin and Sosyura (2010) provide evidence that suggests that banks with political connections were more likely to receive TARP funding. One measure of political connections they use is an indicator for whether a bank's employee holds a Federal Reserve Bank or branch directorship. Although holding a Fed directorship is not an exogenous event, their evidence suggests that banks with Fed directorships may have obtained preferential treatment in the TARP program.

4 Data

I describe my data sources in Section 4.1 and provide summary statistics for director characteristics and some employer characteristics in Section 4.2. Section 5 analyzes director elections and Section 6 provides more information about the banks and bank holding companies (BHCs) in my sample.

4.1 Data Sources

My data consists of data on elections of directors for the 12 Federal Reserve Banks from 1990 to 2009. I collected data on the names of all directors, their employers, the employers' locations, the directors' class and the expiration dates for the directors' terms from Federal Reserve Bulletins for the years 1990-2009. The total number of directorship (director-year) observations for this 20-year period is 2160.[11] I ensured that directors' names were spelled consistently. To the extent possible I also ensured that company names were spelled consistently. However I am unable to account for name changes because of mergers.

To characterize directors' employers, I match them manually by name, city and state to CRSP, Compustat, the Reports of Condition and Income (Call Reports) for banks and FR

[10] The media attention surrounding these events led Friedman to resign from his directorship in May 2009. Following the attention the Federal Reserve received as a result of these incidents, Treasury Secretary Geithner requested a review of the Federal Reserve' structure and governance. This request was initially rejected by the Federal Reserve Board out of concerns that a government-led review could compromise the Federal Reserve System's independence (Torres and Schmidt, 2009). However, Section 1109 of the Dodd-Frank Act specifies that the Government Accountability Office must conduct a review of the Fed's governance. Moreover, Fed governor Elizabeth Duke is conducting an internal study on the roles of regional Fed directors (Torres and Schmidt, 2009).

[11] Of the 2160 directorships, 715 are class A, 705 are class B and 715 are class C directorships. The remaining 25 are vacancies.

Y-9C data for bank holding companies (BHCs). I verified uncertain matches using the internet and the director's name. I classify an employer as a bank if it appears in the Call reports and a BHC if it appears in the Y-9C data. For each bank and BHC I also collect information on its parent holding company (the high holder). I classify banks without a parent as stand alone. I identify unique banks based on their regulatory id (rssd9001).

4.2 **Summary Statistics for Directors and Employers**

-Insert Table 1 about here-

Given that Fed directors are supposed to represent the public, it is perhaps surprising that in a 20-year period only 539 unique individuals held these directorships, ranging from 43 individuals in San Francisco to 54 in New York. Together these individuals fill 207 class A, 175 class B and 170 class C director positions.[12]

To provide some information on the types of individuals holding FRB directorships, I classify directors according to their titles. I classify directors as top managers if their title suggests they are the primary decision-maker in their companies, e.g. if their title suggests they are the CEO, chairman, owner or managing partner. High-level executives are presidents, vice-presidents, chief financial or chief operating officers, partners or co-chairs, etc.. I classify directors as academics if they are professors. Retired directors are directors whose titles contain the words "past", "former" or "retired". All other directors fall into the category of "other". Panel A of Table 1 shows summary statistics at the directorship level for director types and their tenure for the 3 different classes of directors. I show tenure only for those directors whose terms do not overlap with the beginning or end of the sample period.[13] Panel A shows that the highest proportion of top managers occurs for class A directorships. The highest proportion of academics, retired and "other" directors occurs for class C directors. Class A directors also have the shortest average tenure of all classes of directors (2.73 as opposed to 3.18 for class B and 3.44 for class C). This suggests that class A directorships may be more contested than the other directorships.[14]

Panel B of Table 1 shows summary statistics for the 325 unique individuals whose terms do not overlap with the beginning or end of the sample period. On average, individuals

[12] The total number of classes they fill is greater than the number of individuals because 14 individuals switched classes.
[13] Federal Reserve Bulletins do not contain election dates which would enable me to determine tenure for directors appointed prior to 1991.
[14] All differences between classes in Panel A of Table 1 are statistically significant at greater than the 10% level.

are elected (for class A and B) or appointed (for class C positions) more than once.[15] Thirteen percent of directors in districts with branches were branch directors in the year prior to their appointment to an FRB board.[16] On average an individual will serve for 4.51 years and chair and vice chair tenure is on average roughly 1.5 years.

-Insert Table 2 about here-

Because some directors switched employers, a total of 595 employers, ranging from 42 in Dallas to 57 in Richmond had employees represented on FRB boards from 1990-2009. There are 216 unique banks and BHCs with employees on FRB boards during this period of which 145 are banks and 71 are BHCs. Panel A of Table 2 shows that employers are publicly-traded in 34% of firm-years and are either a bank or BHC in 33% of firm-years. Between 1991 and 2008, companies will be represented by an employee for 3.67 years on average. However, this average increases to 3.9 for BHCs if I consider representation of a subsidiary bank to count as representation for the parent BHC.[17] The maximum number of years a BHC is represented is 13. This occurs for Northern Trust Corporation which was represented on the FRB of Chicago's board by 3 different executives with tenures from 1991-1996, 2001-2006 and 2009 onwards. Panel C of Table 2 shows characteristics of banks for all years in which employers are banks. In only 8% of bank-years are banks stand alone. In most bank-years banks are national banks (63%) and members of the Federal Reserve (98%).

5 Elections of Federal Reserve Bank Directors

I used a variety of sources to gather information about the election for each class A and B director, such as the group of banks electing the director, whether the election was contested and the date the director was elected (for directors employed by publicly-traded firms). Prior to each election, each Federal Reserve Bank communicates with the banks in its district by mailing them several circulars at different points in time. These may include some or all of a call for nominations, the recommendations of nominating committees, a nomination circular containing the names of nominees and a ballot and a circular announcing the results of the election.

I obtained these circulars in several stages. In 2002, I contacted each of the Federal Reserve Banks and asked them to provide me with all circulars concerning elections between

[15] For the 3 individuals who were elected/appointed 4 times at least one election/appointment was to fill an unexpired term of a previous director.
[16] Boston, Philadelphia and New York from 2009 on have no branches.
[17] This method also accounts for the fact that BHC executives are often also executives of subsidiary banks, so both employers can be considered to be represented.

1990 and 2001 they sent to their member banks. Some Federal Reserve Banks provided me with such information, but in some cases I was unable to obtain sufficient material. To complete the data, I filed a Freedom of Information Act Request with the Board of Governors asking for additional election information. While some Federal Reserve Banks responded to this FOIA request, others did not.[18] In 2006, I contacted the heads of research departments at each of the Reserve Banks describing my project to obtain additional information. Some banks provided me with additional information following this request. Because my original data set covered only the years 1990 to 2001, I updated the data until 2009 using circulars and press releases posted on Federal Reserve Bank websites.

A total of 522 class A and B directors were elected to FRB boards between 1989 and 2008 for terms between 1990 and 2009. For these elections, I have at least one type of circular for 280 elections (138 class A and 142 class B).[19] In addition, I have circulars for elections of 16 class A and 17 class B directors that took place prior to the sample period for directors on an FRB board in 1990.[20] Because few Reserve Banks post circulars on their websites my coverage of elections post 2002 is less complete than prior to 2002 (84.98 % of the sample). However, there was an increase in information available in 2008 and 2009, so the observations from 2009 make up 4.15% (13 observations) of my election sample. Because the amount of information I obtained varies by bank, my coverage of elections also varies across districts. I was unable to obtain any information for Boston from any source, thus Boston is excluded from the analysis of elections. Otherwise I have at least 25 observations per district except for St. Louis and Kansas (18 and 23 observations, respectively). I have the most information for Dallas (41 elections), New York (32 elections) and Atlanta (31 elections).

Banks elect class A and B directors on a rotating basis. Thus, banks in a group vote only once every three years for a director of each class. Each Federal Reserve district uses its own rotation and group classification scheme. In some districts a group will elect both a class A and a class B director in the same year. In others, the elections of the class A and B directors may be staggered, as in Dallas from 2000-2008. While any bank in a group is allowed to nominate a bank, except when they are affiliated with the same BHC, some districts rely on the recommendations of nominating committees for nominees. This occurred in 52 or 16.6% of elections, primarily in Atlanta (35 times) and Richmond (12 times) but also on occasion in New York (2 times), Philadelphia (2 times) and Minneapolis (1 time).

[18] Since Federal Reserve Banks are technically non-governmental organizations, they are not required to comply with an FOIA request.
[19] Most elections involve electing one class A and one class B director so a circular will usually provide information for both classes of directors.
[20] I am able to obtain some additional information on the size of the group of banks electing directors from .

Elections without nominating committees typically proceed as follows. First the Reserve Bank sends a call for nominations to member banks. This call indicates the A and B directors whose terms are expiring (unless only one director is being elected), whether they are eligible and willing to stand for reelection or not, the division of banks into groups for the purpose of the elections, the group that is eligible to elect a director of a given class, the procedures for nominating candidates and the timeline for the election. Nominations are generally due back within a month from the date of the call for nominations. Several days after the nomination period closes the Reserve Bank sends an election circular to banks indicating the nominees for each director position, along with a brief bio on the candidates and information on who nominated the candidate. By law, ballots close 15 days after the date of the election circular. At this point the Reserve Bank sends a circular announcing election results to member banks. In general, Reserve Banks send the election material to all member banks even if they are not entitled to vote in the election.

From the circulars I obtain information about the number of directors up for election, whether directors are filling an unexpired term of a previous director, the number of nominees for each position, the group electing the director (group one (large), two (medium) or three (small)), the size cutoffs for the groups and the number of banks nominating and voting on a candidate.[21] For BHCs only one member bank is allowed to participate in the election, thus the number of voting banks may be different than the number of banks in a group. By law, officers or directors of member banks in a group can only be nominated by other banks in the same group, thus I also collect information about whether the class A directors are nominated by their employers or other banks.

-Insert Table 3 about here-

Panels A and B of Table 3 shows summary statistics for class A and B elections, respectively. Although generally two directors are elected on a given date, in 20 (25) elections only one class A (class B) director is elected which will be useful for the event study in Section 7. Class A directors are less likely to fill an unexpired term of a previous director (5% as opposed to 16% for class B directors) which suggests that class A directors are more likely to complete their terms.

If FRB directorships add value to employers because it enhances the reputation of the firm or provides valuable networks, one might expect director elections for all classes of directors to be hotly contested. The number of nominees is constrained only by the number of

[21] I am able to infer information about the groups electing directors for more than 313 elections because this information is often provided in the call for nominations which will not contain other information about elections.

banks allowed to participate in an election, which may be quite large. Perhaps surprisingly, but consistent with Bopp (1937), I find that elections are not often contested. Of 299 director positions with data on the number of nominees, 240 (80.27%) are uncontested. However, class A positions are more often contested than class B positions. Class A positions are contested in 47 out of 149 (31.54%) cases with up to 4 candidates nominated (4 instances). Class B positions are contested in only 12 out of 150 cases (8%) with at most 3 nominees (in 2 instances). These numbers are similar to those in Bopp (1937) who finds that in 240 elections from 1925 to 1934, 73.33% of elections are uncontested with 75 (62.5%) of class A elections uncontested and 101 (84.17%) of class B elections uncontested. Bopp argues that the reason so few elections are contested is because banks with power are effectively able to control the nomination process. This would be interesting to examine in future research. Unfortunately, data on the nomination process is not easy to obtain.

In Panel C of Table 3, I provide summary statistics for the number of banks (voting and non-voting) in each group and the thresholds of capital and surplus used to divide banks into groups. What is clear from Panel C is that the group of large banks contains on average far fewer banks than the other groups. Although the division of banks into groups is designed to ensure that the big banks do not dominate directorship positions, the fact that there are fewer banks in group 1 means that large banks may be more likely to obtain an FRB directorship than small banks. I examine this in more detail in Table 4 where I examine factors related to the number of other nominees using simple OLS regressions.

-Insert Table 4 about here-

In columns I-II of Table 4, I examine the relationship between the number of other nominees for a director position and dummy variables indicating the class of the director position, whether a nominating committee exists and whether the position is for an unexpired term. Consistent with expectations, the number of other nominees is lower when a nominating committee exists. In columns III, I add the group electing the director to the specification in column II. The coefficient is positive and highly significant which indicates that the number of other nominees is highest for group 3 (small banks). In column IV, I replace the group with the number of banks in the group. The coefficient indicates that the number of nominees increases as the number of banks in the groups increases. In column V, I add district fixed effects to the specification in column III with St. Louis the omitted category. I omit the nominating committee dummy, since it is almost exactly collinear with the district fixed effects. The previous results are robust to including district fixed effects.

Tables 3 and 4 suggest that FRB directorships may be more valuable to banks than to other types of companies. They also suggest that although mechanisms are in place to limit the power of the big banks, the unequal size of the groups electing directors may diminish the chances of small banks to have Fed representation.

-Insert Table 5 about here-

Because my sample period coincides with a period of intense M&A activity in banking, it is possible that the distribution of banks across groups is a result of consolidation. For example, if large banks undertake more M&A activity of similar size banks, the number of large banks will be smaller than the number of small banks if size cutoffs are not revised frequently. I examine this issue in Table 5 using simple OLS regressions. In column I, I regress the number of banks in the group on a year dummy and the group electing. The coefficient on the group electing is positive and significant which suggests that unequal group size is not driven primarily by a reduction in group sizes over time due to consolidation. In columns II-IV, I perform separate regressions of the number of banks in the group on a time trend and district effects by group. The coefficient on year indicates that, if anything, the reduction in group size is largest for the smallest banks over time.

In columns V-VIII, I examine whether group size cutoffs have changed over time after controlling for district effects. The results suggest that all size cutoffs have increased over time. An increase in the upper bound for group 2 and 3 banks makes it harder for them to be classified as group 1 or 2 banks as they grow in size. Thus, it is not clear that banks can easily switch categories. However, because the number of banks is decreasing in each group over time, the chance each bank has to obtain an FRB directorship appears to be growing.

6 Which Bankers Get Elected to the Board of a Federal Reserve Bank?

In Section 5, I provide some evidence suggesting that large banks may have more power in FRB elections than small banks. I examine this issue in more detail here by examining the characteristics of banks elected to FRB directorships. Previous studies of Federal Reserve Bank boards (e.g. Havrilesky, Yohe and Schirm, 1973) argued that large banks were disproportionately represented. There are reasons why this argument warrants a closer look. First, the distribution of bank assets is exceedingly skewed. Thus, it may be difficult to properly account for this skewness using simple summary statistics. Second, even if large banks are disproportionately represented, the bankers who are elected may be in the best position to represent the banking community. It is plausible that officers of large banks have more experience, ability and vision and so are better able to represent the banking

community than officers from small banks. Since it is impossible to collect personal characteristics of all bank officers who could be potential candidates for class A directorships, I use the performance of the bank as a proxy for the quality of its officers, even if these officers are not CEOs.

To examine the characteristics of banks whose officers are elected to the board of a Reserve Bank, I construct an "industry" data set of banks and match it to my sample of FRB directors to see which banks in the industry have FRB representation. My analysis is complicated by the fact that the industry consists of banks and BHCs and it is not clear what the appropriate comparison group is for a subsidiary of a BHC with an FRB directorship. For simplicity, I split the analysis. I compare banks with FRB directorships to other banks, regardless of whether they are subsidiaries of BHCs or not and I compare BHCs with employees of the parent holding company on the board of a Reserve Bank to other BHCs.

6.1 **Comparison of Directorship Banks to the Industry of Banks**

I construct my bank industry data set using year end (December) Call Report data from 1987-2009. I restrict the sample to headquarter establishments and domestic banks with nonnegative assets, employees, salaries and capital ratios. I define the capital ratio to be the ratio of Tier 1 capital to assets. I also restrict the sample to banks whose return on assets (ROA) and return on equity (ROE) are between -1 and 1. Table 6 provides definitions of all variables I use in terms of Call Report item numbers and the approximation for capital ratios when Tier 1 capital is unavailable (1990-1995).[22] Finally, I match the Call Report data to the Chicago Fed's Bank Merger Data by merging on survivor id (idrssd) and year. I define the number of acquisitions to be the number of times a bank occurs as a surviving entity in the merger data in a given year. If a bank does not appear as a surviving entity in a given year, I define the number of acquisitions that year to be 0. I end with a sample of 231,937 bank-year observations, but the number of observations varies in my regressions due to incomplete data for some variables.

-Insert Table 6 about here-

A total of 275 class A elections resulting in the election of a bank employee (181) or a BHC employee (94) took place during my sample period. I am able to match all but one bank to the bank industry data on bank idrssd and election year.[23] Table 6 compares summary statistics of size variables (assets and employees), capital structure variables (deposits/assets,

[22] Capital ratios are missing for almost all banks in 1994 and 1995 because the data items necessary to approximate Tier 1 capital are almost always missing.
[23] One bank did not appear in either the call data or the National Information data set in the election year.

characteristics of the loan portfolio and capital ratio), performance measures (ROA, ROE, fraction of nonperforming loans) and organizational variables (Federal Reserve membership, national bank indicator, standalone bank indicator, salary per employee) and the number of acquisitions for banks with employees elected to FRB boards (Panel A) and those without FRB directorships (Panel B).

From Table 6, it is apparent that banks with FRB directorships (henceforth directorship banks) are significantly different from the typical bank in the industry along several dimensions. Directorship banks are larger, both in terms of assets and employees and they make more acquisitions. They are more likely to be members of the Federal Reserve and national banks. This is not surprising given that the Federal Reserve supervises member banks and national banks, along with the OCC. Directorship banks are also less likely to be standalone banks. On average, directorship banks do not have different capital structures from the typical industry bank, except that they have a lower ratio of agricultural loans, and they do not outperform other banks. The latter finding is somewhat surprising since one might expect directorship bankers to be more skilled than other bankers. However, large banks may have different performances than small banks, thus it is important to control for assets and other bank characteristics when analyzing the relationship between elections and performance, as I do in the industry data set in Table 7.

-Insert Table 7 about here-

The dependent variable in Table 7 is a dummy variable equal to one in a given year if an employee of the bank was elected to an FRB board in that year. If class A elections are democratic, one might expect banks to elect the “best” candidate. Since it is not possible to collect individual employee characteristics for the industry of banks, I use bank characteristics such as bank size (as measured by the natural logarithm of assets or employees) and performance (ROA, ROE and the fraction of nonperforming loans) to proxy for the quality of the bank’s employees. To the extent that these are measures of quality I would expect both size and performance to be positively related to the likelihood of election.

Since the Federal Reserve approves bank merger applications, I also examine the relation between being elected and the number of acquisitions a bank makes in a given year. If Fed directors have any influence over the supervisory process, one might expect banks that make more acquisitions to benefit more from a FRB directorship. I also control for capital structure using the ratio of loans to assets and the capital ratio. I do not control for the capital ratio in all regressions since missing data on capital ratios during this time period decreases the number of observations substantially. Finally, I control for national bank status and

subsidiary status. Columns I-V report results from OLS regressions. Columns VI-X report marginal effects of the corresponding probit regressions. All specifications include year and district dummies and all standard errors are corrected for heteroskedasticity and group correlation at the bank level.

In Column I, I use ROA and the fraction of nonperforming loans as performance measures. In Column II, I use ROE instead of ROA. I use year-end accounting data for the election year since most directors are elected close to the fiscal year end. To ensure that this is not driving the results, I lag all variables except for national bank and subsidiary status for the specification in Column I in Column III. In Column IV, I include the capital ratio and in Column V, I substitute Ln(Employees) for Ln(Assets). I also include the ratio of total salaries to the number of employees as a measure of employee quality. To the extent that the labor market for bank employees is competitive one might expect banks with better employees to have higher per employee salary costs.

Although directorship banks have on average more acquisitions, after controlling for size and other bank characteristics the number of acquisitions is not related to the likelihood of election in Table 7. This may be because banks with more acquisitions are not more likely to seek election. But, it may also be that the number of acquisitions is a poor proxy for the need to gain favorable supervisory treatment in merger approvals. Unfortunately, the bank merger data does not contain detailed information on deal characteristics, thus it is difficult to analyze other dimensions of merger activity that could be associated with regulatory approval.

The effect of performance is weak. The coefficient on ROA (ROE) is positive and significant at the 10% level in only one of the probit specifications and the sign on the fraction of nonperforming loans is generally negative, as one would expect, but never significant. In addition, Salary per employee is negative and significant (at the 10 and 5% level) in both the OLS and probit specifications, which suggests that the directorship banks do not necessarily have more skilled employees.

The most important factors related to the likelihood of election are bank size, in terms of both assets and employees, national bank and subsidiary status. The coefficients on these variables are significant at greater than the 1% level in all specifications. There is also some evidence that having relatively more loans is negatively related to being elected. However, the coefficients on Loans/Assets are significant at the 10% level at most.

The results in Tables 6 and 7 are not consistent with the idea that the domination of FRB directorships by large banks that prior authors mention is driven by the fact that those banks are better performers and that they are therefore best able to represent the banking

community. However, this sample represents only one part of the banking industry, thus I examine what drives the elections of BHC employees before I draw any final conclusions.

6.2 **Comparison of Directorship BHCs to the Industry of BHCs**

I construct my BHC industry data set using year end (December) FR Y-9C data from 1987-2009. I restrict the sample to domestic BHCs and to top tier BHCs from 1990 on.[24] I also restrict the sample to BHCs with nonnegative assets, employees, salaries and Tier 1 capital ratios and whose ROA and ROE are between -1 and 1. I define the Tier 1 capital ratio to be the percentage of Tier 1 capital in risk-weighted assets. The definition is slightly different from my definition of capital ratios for banks because I obtain data on capital ratios for the period prior to 1997 from Benjamin Mandel at the New York Fed. During this period Tier 1 capital data is missing for BHCs. Furthermore the approximations of capital ratios for banks cannot be directly applied to BHCs. Table 8 provides definitions of all variables I use in terms of FR Y-9C item numbers. I also match the FR Y-9C data to the Chicago Fed's BHC Merger Data by merging on survivor id (idrssd) and year. I define the number of acquisitions to be the number of times a BHC occurs as a surviving entity in the merger data in a given year. If a BHC does not appear as a surviving entity in a given year, I define the number of acquisitions that year to be 0. I end with a sample of 49,508 BHC-year observations, but the number of observations varies in my regressions due to incomplete data for some variables.

-Insert Table 8 about here-

I am able to match only 81 of the 94 directorship BHCs to the BHC industry data on BHC idrssd and election year because of complications due to acquisitions. Table 8 compares summary statistics of size variables (assets and employees), capital structure variables (deposits/assets, characteristics of the loan portfolio and Tier 1 capital ratio), performance measures (ROA, ROE, fraction of nonperforming loans) and the number of acquisitions for banks with employees elected to FRB boards (Panel A) and those without FRB directorships (Panel B).

From Table 8, it is apparent that directorship BHCs are significantly different from the typical BHC in the industry along more dimensions than was the case for banks. As with banks, directorship BHCs are larger, both in terms of assets and employees and they make more acquisitions. However, they have lower Salary per Employee, Deposits/Assets and Tier 1 capital ratios. Their loan portfolios also appear to be different in that they have relatively lower fractions of agricultural, consumer and real estate loans but relatively greater fractions

[24] The variable that identifies top tier BHCs (bhck9802) does not exist prior to 1990.

of consumer loans. Although ROA and the fraction of nonperforming loans are not significantly different from the typical BHC, they do seem to outperform the industry in terms of ROE.

-Insert Table 9 about here-

In Table 9, I mirror the analysis I did in Table 7 for banks for the BHC industry data set using the same specifications and all controls that are defined for BHCs. Although directorship BHCs have on average more acquisitions, after controlling for size and other BHC characteristics the number of acquisitions is significantly negatively related to the likelihood of election in Table 9. However, the lagged number of acquisitions has a positive sign and is insignificant, thus it is possible that the negative result is driven by the fact that acquisitions in the current year take up too much time of the BHC's top executives for them to also seek election to a Fed board.

However, unlike for banks, performance seems to be more related to the likelihood of election. The coefficient on the fraction of nonperforming loans is negative and significant at the 5% level across all specifications and the coefficients on ROA and ROE are always positive and the coefficients on ROA are significant at greater than the 10% level in four out of five probit specifications.

The results in Tables 6-9 confirm that class A FRB directorships are dominated by large banks. There is some evidence consistent with the idea that banking institutions with FRB directorships are better performers and that they are therefore best able to represent the banking community. However, the evidence is not exceedingly strong since it holds primarily for BHCs which represent a smaller portion of class A directorships than banks do. Of course, the performance of the bank may be a poor proxy for the ability of the elected banker. However, 152 or 84.44% class A directors in the bank sample and 70 out of 81 or 86.42% class A directors in the BHC sample are top managers of the bank. Thus, one might expect there to be some correlation between ability and bank performance. It is also possible that performance is not a good indicator of someone who is best able to represent the banking community. What *is* clear from the results is that not all types of banks are equally represented on FRB boards.

7 Do FRB Directorships Add Value?

In this Section, I examine whether FBR directorships add value to directors' employers. As the literature on board memberships suggests, a directorship may be beneficial to the individual but detrimental to his employer, because it diverts the individual's attention

away from the employer. On the other hand, the link between organizations established by the board membership can be valuable to the employer because it may enhance its reputation, it may be a source of information, networks and resources. The literature on political connections and regulatory capture suggests that such links are particularly valuable when one party to the link is a governmental or regulatory body. Since banks have the most to gain from the Fed, I examine whether Fed directorships appear to be particularly valuable for banks.

It is difficult to examine valuation effects of Fed directorships using standard panel data analysis since, as the results from Section 6 suggest, performance may be a factor contributing to the election to a Fed board. This means that the election to a Fed board will be endogenous in performance regressions. Moreover, non-bank Fed directors may work for firms for which performance data is not readily available, such as private companies, law firms, universities or non-profit organizations. Thus, I examine the performance impact of obtaining a Fed directorship for the subset of publicly-traded employers using an event study methodology around election dates for A and B directors and appointment dates for C directors. In the case of subsidiaries of publicly-traded BHCs, I consider the stock price reaction for the parent BHC. In Section 7.1, I examine the average market reaction to a Fed directorship. In Section 7.2, I examine variation in the stock market return with firm and district characteristics.

7.1 **The Market's Reaction to FRB directorships**

The most important part of any event study is determining the date on which the market learns the information. If there are no other nominees for a directorship, then it is natural to assume that the date the market learns that an officer of a firm has been elected a Federal Reserve director is the date of the nomination circular. However, this is not necessarily clear for several reasons. First, the date of the nomination circular is the mailing date, not the receipt date. Second, all official documents concerning director elections from the Federal Reserve Banks are sent only to banks in their district, i.e. they are not made publicly available. Thus, it is not clear exactly how quickly the market as a whole learns that an officer has been nominated. If the market is only semi-strong efficient, then it may be difficult to detect a stock price reaction on the nomination date. Since elections may also be contested, I also examine the stock price reaction around the election date at which point all uncertainty regarding the outcome of the election is resolved. An additional advantage of the election date is that it is announced in advance so there is no uncertainty regarding receipt dates.

In addition to my sample of circulars, I conduct a Factiva search to obtain press releases by FRBs and newspaper articles concerning director elections. I define the nomination date to be the date of the nomination circular listing the name of the elected director as a nominee. If this information was missing, I use the date of the call for nominations because it indicates whether directors are eligible for reelection. In districts with nomination committees I define the nomination date to be the date of the nominating committee circular.

I define the election date to be the date of the election indicated in the nomination circular. If I did not have the nomination circular, I define the election date to be the date of the circular announcing election results if available or the date of news releases from FRBs or newspaper articles announcing election results. Because I am also interested in seeing whether the market reacts to the appointment of class C directors, I augment the election dates by the appointment dates for class C directors from press releases by the Board of Governors which I obtained from my 2002 FOIA request and the Board's website. In my sample, the total number of election/appointments for directors working for publicly-traded companies is 275 of which 171 are for class A and B directors. Because of missing circulars, I end with a sample of 116 nomination dates (76 class A and 40 class B) and 237 election/appointment dates (104 class A, 58 class B and 75 class C).[25] Since directors can be reelected, the number of stocks with nomination dates is 64 for class A and 27 for class B. The number of stocks with election dates is 86 for class A, 40 for class B and 53 for class C. Thirty-eight of the 104 class A stocks belong to the parent holding company.

I obtain stock returns from CRSP and conduct the event study using both a market model and a constant mean return model with a 255 day estimation period ending 46 days prior to the announcement date. Because of the nature of director elections there are several concerns that may arise. First, as is the case in most event studies involving the election of directors it is relatively rare for any of the event dates to concern the election or appointment of a single director. In event studies of elections of directors to the boards of publicly-traded corporations (see Yermack (2006) for a summary of this literature), the event date is generally the date of the proxy statement in which the nominees for election are announced. Of course, there is much more information in the proxy statement than just the information pertaining to the election of an individual director. While this information could contaminate the stock price reaction, papers in this literature usually argue that it does not have a systematic effect on the results. The case of Federal Reserve directorships is similar because in most district-

[25] Of the 168 election dates for class A and B directors, 117 are the actual election dates from circulars. The rest are other types of election dates.

level elections one class A and one class B director are elected on the same day. Although it is unclear whether the news that an additional director is elected or appointed will have a systematic effect on the stock price reaction, I conduct several robustness checks to take account of the fact that abnormal returns may not be independent across stocks within districts. In this Section, I examine the stock price reaction around election dates on which only one director, i.e. only a class A or a class B director, was elected in a district (sole elections). Since no other director is elected, the assumption that abnormal returns are independently distributed is reasonable. In Section 7.2, I also examine the robustness of results by restricting myself to dates on which only one director of a publicly-traded company was elected/appointed in a district.

Although one may also worry about correlation in abnormal returns across districts, I do not believe this is a problem because each Reserve Bank has its own election schedule. As a result, 94% of nomination dates and 91.04% of election dates in the event study sample are unique to a district. Two districts shared a common nomination date in 6 instances, but this was unsystematic, i.e. it was not always the same two districts. Similarly, two (three) districts shared a common election date 15 (2) times, but again this was unsystematic.

-Insert Table 10 about here-

Panel A of Table 10 shows the results of the event study for 3 different event dates, the nomination date, the election date and the election date for sole elections. I examine the cumulative abnormal returns (CARs) starting 30 days prior to the election date because information about directorships may be revealed to the market at the time that nominations are being made, typically a month prior to the election. It is less clear what the pre-event window should be for the nomination date. I choose 30 days prior simply for consistency's sake and show results for four different event windows: (-30, -2), (-1,0), (-1,1), (2, 30).

Although there are some differences in the results across types of dates for the period prior to the event date, the results for the window (-1,1) are consistent across the three types. The stock price reaction is always positive and significant at greater than the 10% level in this window, regardless of how I model normal returns. The results for sole elections are stronger than for the other date types both in terms of significance and magnitudes. Using the market model, I estimate the average CAR for sole elections to be 0.98% in the (-1,1) window. In comparison, the average CAR for all elections is 0.42%.

These results suggest that companies appear to benefit from Fed directorships on average. To see whether there is a differential effect across classes, I restrict the sample to banks or BHCs, i.e. class A directorships, in Panel B. The results are similar to those in Panel

A. The stock price reaction is positive and significant at greater than the 10% level across all date types. However, the magnitudes of the (-1, 1) CARs are always larger than their counterparts in Panel A. For example, the election date CAR for all companies is 0.42%, whereas the election date CAR for banks and BHCs is 0.99%. The results for sole elections are even more striking. The sole election date CAR for banks and BHCs is 2.86% as compared to the CAR of 0.98% for all companies. Thus, Panel B suggests not only that Fed directorships add value to banks and BHCs, but also that the positive effects in Panel A are driven entirely by the banks and BHCs. The average reaction for class B and C directors is actually negative. I examine this in more detail in the next Section.

7.2 **Variation in the Stock Price Reaction**

To shed some light on the source of the average positive stock price reaction to Federal Reserve directorships, I analyze variation in the stock price reaction as a function of several factors. I match the CARs to director, district and financial characteristics. I obtain financial characteristics for class B and C directorships from Compustat. I use financial characteristics from the Call and FR Y-9C data for the class A directorships. If the parent is publicly-traded, I use the financial characteristics of the parent.[26]

The most important director characteristic I examine is whether a director is a class A director. There are two main reasons why one might expect the stock price reaction to be different for banks than for nonbanks. First, since the Federal Reserve Banks are involved in bank supervision, it is natural to believe that banks can gain the most from their directorships. Second, bankers may be the most qualified to evaluate other bankers. Thus, the signal that a banker has been elected by other bankers to represent the banking community may be a better reputational signal than the signal that a nonbanker has been elected by bankers.

To examine whether the results make sense overall, I examine whether the stock price reaction differs if the district has a nominating committee in a given year.[27] If so, I expect information concerning the nominated candidate to be more widely available. In addition, elections are unlikely to be contested, so the stock price reaction should be smaller in district-years with nominating committees.

[26] The results are similar if I use the financial characteristics of the directorship bank instead of those of the parent for those banks whose parent is publicly-traded.

[27] I also examine whether the reaction is different if the director is elected for the first time. The first term dummy variable is always negative and insignificant in the tables in this Section, so I omit it because my sample is relatively small. These results are available upon request.

To examine if directors' employers may benefit from obtaining privileged information or potentially having influence on policy, I examine the stock price reaction when the president of the Fed sits on the FOMC committee in a given year or if the director is elected during the financial crisis, i.e. 2008 or 2009. If the president of the Fed sits on the FOMC committee, then the board of that Reserve Bank is likely to have better information since it provides input prior to FOMC meetings. It is possible that companies can benefit from this information.[28] Since the president of the New York Fed has a permanent seat on the FOMC committee, I also examine whether the stock price reaction is different for the district of New York. Finally, I examine whether firm and size as proxied by Ln(Assets) and performance, as proxied by ROA, is related to the stock price reaction.

-Insert Table 11 about here-

In Table 11, I present OLS regressions of the CAR(-1,0) around the nomination date on the above factors.[29] In Columns I-VI, I use the market model to estimate CARs. In Columns VII-VII, I use the constant mean return model. I correct all standard errors for potential heteroskedasticity using White robust standard errors.

Column I of Table 11 shows the results of regressing the CAR(-1, 0) on the class A dummy in the full sample. The coefficient is positive but not significant. If there are multiple nominees, then the nomination date may not contain any news. Thus, I restrict the sample to sole elections for which I have the nomination date in Columns II-VI. I end with 21 observations. The regression in Column II shows that the average reaction around sole nomination dates is positive and significant at the 10% level for class A directors and negative and significant at the 5% level for class B directors, consistent with the results in Table 10.

In Columns III-VI, I include the nominating committee dummy. Because the sample is so small, I add the three district-level variables one at a time in Columns III-V and include firm-level variables in Column VI. The coefficient on the nominating committee dummy is always negative, but significant at the 10% level only in Column IV. However, it is negative and significant at the 5% level in three out of four specifications using constant mean return CARs. Thus, the results are consistent with the idea that there is less news in nominations proposed by nomination committees and serve as a robustness check that the results make sense.

[28] I also examine the effect of a dummy indicating the president sits on the FOMC committee in the following year. I do not find much of an effect in any of my analyses. It is possible that there are counterbalancing forces at work-on the one hand the board gains more information, but on the other hand it may have to work harder which detracts from directors' employers' primary goals.

[29] All CAR regressions are similar if I use the CAR(-1,1) instead of the CAR(-1,0).

The coefficient on the FOMC dummy is positive and significant at the 5% level. This is consistent with the idea that a benefit of Fed directors may have an informational advantage. However, none of the other district-level variables is significant. Although the sample of sole nominations is small, it is noticeable that across specifications the coefficient on the class A dummy is always positive and significant at greater than the 10% level.

-Insert Table 12 about here-

In Table 12, I examine the same factors as in Table 11 using the election date. Columns I-VII use market model CARs; Columns VIII-XIV use constant mean return CARs. In Column I, I regress CARs on a class A dummy. In Column II, I regress CARS on a class B and class C dummy to further distinguish between the effects of class B and class C directors. As the results from Table 10 suggest, the average positive stock price reaction is driven entirely by the class A directorships. The average reaction for B and C directors is negative and significant at greater than the 10% level.

In Column III, I add the nominating committee dummy, the FOMC dummy and the financial crisis dummy. While the signs on the coefficients are consistent with those in Table 11, they are not significant. Because class C director appointments are all announced at the same time, it is possible that there is less news in the appointment date of class C directors than in the election dates of class A and B directors. Thus, I restrict the sample to class A and B directors only in Columns IV-VII to further analyze the effects of the district level variables and firm characteristics. Column IV replicates Column III for A and B directors. In this specification, the coefficient on the FOMC dummy is positive and significant at the 5% level. In Column V, I replace the FOMC dummy with a New York dummy, but as in Table 11, the New York dummy is not significant. In Column VI, I omit the New York dummy and analyze whether there is a differential effect of the financial crisis for class A directors by including the interaction between this dummy and the class A dummy. The coefficient on the financial crisis dummy is negative and significant at the 10% level, while the interaction term is insignificant. This suggests that the stock price reaction is negative for class B directors elected during the financial crisis, but not for class A directors. In Column VII, I include firm characteristics, but nothing is significant in this specification. As in Table 11, the class A dummy is significantly positive across all but one specifications. The results in Columns VIII to XIV are broadly consistent with those in Columns I-VII, except they are generally slightly less significant.

I conduct several robustness checks of the results in Tables 11 and 12. First, I restrict the samples to the set of dates on which only one director employed by a publicly-traded firm

is nominated or elected in a district. This ensures that there is no correlation in stock returns for A and B directors nominated or elected on the same date. This does not affect Columns II-VI (or VIII-XII) of Table 11, but restricts the number of observations in Column I (and VII) to 96. However, the results are similar for this specification. In Table 12, the number of observations drops to 183 in Columns I-III, 115 in Columns IV-VI and 111 in Column VII. The results are very similar to those I report except that the class A dummy is significant at the 5% level instead of the 1% level in Columns I, III and IV and the class B dummy is significant at the 5% level in Column II. The FOMC dummy is still significant at the 5% level. However the financial crisis dummy is no longer significant in Column VI. On the other hand, the coefficient on the nominating committee dummy is now significant at the 10% level across all specifications.

Second, I examine whether my results are driven by confounding news announcements. Since I use two different event dates, the nomination date and the election date, and the results are fairly consistent across the types of dates, I believe it is unlikely that they could be driven by confounding news. Nevertheless, I conduct a Factiva search to see if there are any confounding news announcements in the 5 day window (-4, -3, -2, -1, 0) around the election date. I drop 70 observations with news announcements that I deem may have the potential to affect stock prices and rerun the specifications in Table 12. The results are generally consistent with the reported results except that the coefficient on the class A dummy generally loses a significance level.

-Insert Table 13 about here-

Finally, I restrict my sample to sole elections/appointments. In this sample, only one director is elected or appointed, so the stock price reaction cannot be affected by news concerning other candidates. I end with a sample of 34 observations which is small but may nevertheless be informative. In Table 13, I report the results of similar analyses as in Tables 11 and 12. Consistent with the prior results the coefficient on the nominating committee dummy is negative and significant at the 1% level, the coefficient on the class A dummy is negative and significant at greater than the 5% level across all but one specifications and the coefficients on the class B and C dummies are negative and significant at the 5% level for class B directors. However, the FOMC dummy is not significant.

The results that can be considered consistent across Tables 11-13 are the negative effect of a nominating committee, the negative effect of class B and C dummies and the positive effect of the class A dummy. Thus, Fed directorships appear to add value only to class A directors. Employers of class B and C directors do not appear to gain from Fed

directorships, perhaps because a Fed directorship is a time-consuming form of public service. In addition, there is some evidence suggesting that directorships may add value when the Fed president currently sits on the FOMC committee.

The interesting question is whether the positive stock price reaction for class A directors can be fully explained by the reputation argument. One argument against the reputation story is that banks whose officers get elected to Federal Reserve directorships are amongst the largest banks in the district, as I describe in Section 6. Large banks presumably already have strong reputations so it is hard to imagine that the Federal Reserve directorships can enhance their reputations by much. Moreover, the banks I examine in the event study are the publicly-traded banks and are even larger than average. Overall all years, average assets of class A banks or BHCs is 38.3 billion. Average assets of banks or BHCs in the election date event study sample are 78.4 billion. For these very large banks, it is even harder to imagine that reputation can be the main explanation for the stock price reaction. It is difficult to design a test to rule out the reputation argument. It is also possible that the stock price reaction for banks reflects both the market's expectation of gains from regulatory capture or information, as well as reputation effects. To gain further insight into factors driving the stock price reaction for banks, in Table 14 I analyze variation in the CAR(-1,0) with several firm specific factors that could be related to regulatory capture, reputation or both.

I examine the effect of FOMC membership, the New York indicator and the financial crisis dummy. These indicate the potential to gain from being on a better-informed board and the potential to have greater influence and, except possibly for the New York indicator, they seem less directly related to reputation. It is difficult to see why a bank's reputation should improve because one of its employees is elected to the board of a Fed when the president of the Fed happens to sit on the FOMC committee, for example. I also construct additional variables which may proxy for informational benefits, namely the within-sample tenure of the reserve bank president and the within-sample number of times that president sat on the FOMC committee up to an including the current year.[30] The rationale for looking at these variables is that the director may learn more if he serves on a board with an experienced president. Finding a positive relationship between these variables and the CARs would suggest that regulatory capture and information benefits may partly account for the positive average CARs for banks.

[30] For president appointed after 1990 and leaving office before 2009, the measure of tenure will be exact. The average values (standard deviations) of tenure and number of FOMC memberships in the class A event study sample are 4.76 and 2.135 (3.29 and 1.75).

Tables 6 and 8 suggest that banks and BHCs elected to Fed boards have more acquisitions than the typical bank in the industry. Since the Federal Reserve approves merger applications, acquisition activity may also be a good proxy of incentives to obtain regulatory capture. As a measure of acquisition activity, I use the yearly total number of acquisitions in the holding company or bank, i.e. I attribute subsidiary acquisitions to the holding company. The reason for this is that the average number of mergers at the parent holding company level is low (the mean is only 0.05 in Panel B of Table 8) and will not capture all acquisitions that the management of the BHC will be involved in.

I also examine the effect of performance, bank size and capital ratios although it is not clear how to use them to differentiate the regulatory capture from the reputation story. For example, a negative relation between CARs and bank performance could mean that the market believes that banks that appear to be performing poorly are actually better than it seems. It could also mean that poorly performing banks have more to gain from informational benefits of Fed directorships. Finally, I control for the nominating committee dummy.

-Insert Table 14 about here-

In Columns I-IV of Table 14, I regress market-model CAR(0,-1) on financial characteristics, acquisition activity, the nomination committee dummy and the district-level variables. I include the capital ratio in Column III along with a bank dummy to account for slight differences in the definitions of the capital ratio for banks and BHCs.[31] In Columns V-VII, I replicate the specifications in Columns I, III and IV using the sample restricted to election dates on which only one director of a publicly-traded company is elected in a district. I omit the New York dummy from the restricted sample because it includes only three New York elections. Columns VIII-XIV replicate the results for constant mean return CARs. All standard errors are corrected for potential heteroskedasticity.

As in the previous tables, the coefficient on the nominating committee dummy is negative but not significant. Across all columns the coefficient on Ln(Assets) is negative and significant at greater than the 10% level in most specifications, primarily in the restricted sample and the constant mean return models. The coefficient on nonperforming loans is always positive and significant at greater than the 5% level. The results suggest that relatively larger banks appear to benefit less from Fed directorships. One reason may be that they have less to gain in terms of reputation.

[31] I also ran regressions with consistent definitions of capital ratios across banks and BHCs, i.e. I define the capital ratio for BHCs to be Tier 1 capital/assets=bhck8274/bhck2170, and the results were similar, except that I lose more observations.

The coefficient on total acquisition activity is always positive and significant at greater than the 5% level. The coefficients on the district-level variables are generally not significant in the full sample, except that the coefficient on the number of FOMC committee memberships is positive and significant at the 5% level in Column XI. However, the coefficient on the FOMC dummy is always positive and significant at greater than the 5% level in the restricted sample and the number of FOMC memberships is also significant in the restricted constant mean return model. Thus, the results are consistent with the idea that the market perceives that banks can obtain benefits other banks cannot from Fed directorships, although other explanations may also be consistent with the results.[32] It is noticeable that the coefficient on the financial crisis dummy are negative and significant at greater than the 10% level in Columns XII-XIV. This would seem to contrary to the idea that directorship banks benefit from connections to the Fed. However, there are only five banks during the crisis in this specification, all of which received TARP funds from the Fed. Thus, a possible explanation is that conditional on the expectation that the bank will receive TARP funds anyhow, it is value-decreasing to have a high-level executive on the board of a Fed during the crisis period since it takes time away from the bank when it is needed the most.

8 Consequences of FRB directorships

The event study evidence shows quite clearly that FRB directorships add value to directors' employers, but only in the case of banks. Because the stock price reaction for banks varies not only with individual characteristics of the banks but also with characteristics of the Reserve Banks, the evidence also suggests that one source of this value might be private benefits that banks can obtain from the Fed, for example in the form of better information or potential supervisory leniency. However, this evidence is indirect. In this Section, I try to provide direct evidence that Fed directorships may affect outcomes for banks. This is difficult to do because obtaining a Fed directorship will be endogenous in most outcome regressions because of reverse causality. It is also difficult to measure outcomes that are directly influenced by the Fed.

The outcome I choose to study is bank closures for Fed member banks. This is an event in which the Fed will always be involved either because the closure is the result of a merger or because it is the result of a failure. Furthermore, if a bank is closed, its employee cannot be elected a Fed director, so that holding a Fed directorship may be less endogenous in

[32] If I control for a dummy indicating the parent is public rather than the directorships bank, I obtain similar results and the coefficient on this dummy is not significant.

a closure regression than in other outcome regressions. Of course, the expectation that a bank may close in the future may still influence the likelihood that a bank's employee obtains a Fed directorship. I try to account for this by looking at the period *after* directorship banks' Fed board service ends and also by looking at closures several years after Fed board service ends.

Even if banks close as the result of a merger, I argue that closure can be considered a failure from the point of view of bank management since the acquirer chooses not to continue operating the bank under its current charter. Thus, I expect bank managers to take actions to avoid closure including using their influence with their Fed if they have any. If Fed directorships increase banks' influence with the Fed, I expect that the likelihood a bank closes will be lower if one of its employees had a Fed directorship, ceteris paribus. One reason may be because they receive assistance from the Fed or the government which helps them avoid failure. This argument is consistent with Faccio, Masulis and McConnell (2006) who show that political connections are positively correlated with the likelihood of receiving bailout funds from governments. It is also consistent with Duchin and Sosyura (2010) who show that banks with Fed directorships were more likely to receive TARP funds during the recent financial crisis.

I measure bank closures for the bank industry sample I use in Section 7.1 in two ways. First, I use the Chicago Fed merger data. This data describes the dates banks cease to exist either because of mergers or failure. I define a nonsurvivor dummy to be equal to 1 in a given year if a bank in my industry sample appears as a nonsurviving entity in the bank merger data in the following year. The Fed merger data has a separate code indicating bank closures due to failure with government assistance. I do not use this as my primary measure of bank closure for two reasons. First, as I discuss above, I want to capture all events that can be considered failures form the point of view of bank management. Second, no bank in the 20 year period in my sample that ever had a Fed directorship closes because of failure with government assistance, so having a Fed directorship at any point is a perfect predictor of non-failure. As an alternate measure of closure, I define a dummy which is equal to 1 if a bank's idrssd disappears from my industry sample in the following year. With this measure I lose year 2009 data since the unavailability of the 2010 Call Report data means I cannot determine whether an institution disappears the following year.

After restricting my industry sample to Federal Reserve member banks, I end with a sample of 84,842 bank-year observations. The number (percent) of banks that are classified as nonsurvivors is 4,734 (5.58%). The number of banks I classify as disappearing entities is slightly more, 4,899, even though the sample is smaller. Thus, the two measures are not

identical. In the full sample, the number of banks with Fed directorships that close after Fed board service is the same using both measures, 32. Once I control for various financial characteristics of banks in my regressions, the number of directorship banks that close is reduced to 24.

-Insert Table 15 about here-

In Columns I-V of Table 15, I regress my two measures of bank closure on bank financial characteristics, year and district dummies. Columns VI-X report marginal effects of the corresponding probit regressions. All standard errors are corrected for heteroskedasticity and group correlation at the bank level.

It is difficult to obtain data for all years because of the length of my panel, so I estimate a simple model of bank closure. As explanatory variables, I include size (Ln(Assets)), a measure of balance sheet composition, Loans/Assets, two measures of performance, the fraction of nonperforming loans and ROA, and the capital ratio. I also include the number of acquisitions and a dummy indicating whether the bank is standalone as additional proxies for size and the national bank dummy since state law may affect the closure of state banks even if they are Federal Reserve members. The main explanatory variable is a post fed board indicator which I define to be one for directorship banks in all years after a bank completed its service on a Fed board.

In Columns I-III, I use the nonsurvivor dummy as a dependent variable. The coefficient estimates in Columns I and II are generally consistent with expectations. Better capitalized banks and better performing banks are less likely to be nonsurvivors. Banks that make many acquisitions and standalone banks are also less likely to be nonsurvivors. Most importantly, the coefficient on the post fed board indicator is negative and significant at greater than the 1% level. To further account for the fact that expectations about survival may affect the election to a Fed board, in Column III I delete all observations on directorship banks prior to the 5th year after their Fed board service ends.[33] The coefficient on post fed board is still significant at greater than the 1% level.

In Columns IV and V, I replicate the specifications in Columns II and III using my alternate dependent variable. The results are similar to the previous results. The results of the probit regressions are also similar. Thus, Table 15 suggests that one potential private benefit of Fed directorships to banks may be assistance in avoiding failure. An alternate interpretation may be that the financial characteristics of banks I examine here and in Section 7 are not the

[33] I chose 5 at random. The results are similar with numbers less than 5. If I increase the number results are also similar, but I lose more observations.

best indicators of bank quality and that the election to a Fed board captures unobservable measures of quality. However, it is unclear what these measures of quality can be.

The analysis in Table 15 focuses only on the industry sample of member banks. I cannot replicate this analysis using my industry sample of BHCs because no directorship BHC is ever classified as a nonsurvivor in the BHC merger data. Although, this fact suggests similar conclusions for BHCs, namely that directorships help prevent failure, only 45 BHCs are classified as nonsurvivors in my sample of top tier BHCs which makes it difficult to draw any conclusions concerning private benefits.

9 Conclusion

The governance of many organizations has come under increasing scrutiny in recent years. Central banks are no exception. Particularly following recent scandals in Italy and elsewhere, people are beginning to question the optimal design of central banks. Like corporations, many central banks around the world have one or more boards of directors (see Frisell, Roszbach and Spagnolo, 2006). While these boards' responsibilities may vary, their members clearly have an important role. Thus, key governance questions are who these directors are and whether they may have any conflicts of interest. This paper examines one aspect of governance for the 12 Federal Reserve Banks of the Federal Reserve System of the United States, namely the representation of private interests on such boards.

The reason private interests are represented on Reserve Bank boards is to help ensure that the Federal Reserve System represents various stakeholders in a fair manner. Perhaps a sufficient, although not necessary, condition to ensure the consideration of all stakeholders is that directors are drawn from different industries, backgrounds and ethnicities. Accordingly, the Federal Reserve System emphasizes the importance of diversity in director selection in various ways. For example, its rules concerning the division of directors into three classes help ensure that there is a balance of representation of different commercial and non-commercial sectors on the board. In addition, its guidelines on director selection emphasize director diversity.

My results suggest that such guidelines may not be sufficient to ensure equal *formal* representation of all stakeholders. I show that large, but not necessarily better-performing banks are more likely to be represented on Federal Reserve Bank boards. Moreover, the stock price reaction to Federal Reserve directorships is positive for publicly-traded employers that are banks, but not for publicly-traded employers that are non-banks. There are several potential explanations for these findings, but I argue that they can be partially explained by

the fact that the market believes that banks gain from these directorships. Although Federal Reserve Bank boards are not supposed to favor one bank over any other, as the second quote before the Introduction describes, the results suggest that some banks do gain through their directorships while those banks without directorships cannot. The evidence that directorships banks are less likely to fail is consistent with the idea that directorships banks have private benefits. Although clearly more research is needed to determine the costs and benefits of Federal Reserve Bank directorships, I conclude from the results that to ensure its goal of equal representation, the Federal Reserve System may wish to modify its governance structure.

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Table 1: Summary Statistics for Federal Reserve Bank Directorships

The data consists of data on Federal Reserve Bank directors from 1990-2009 from Federal Reserve Bulletins. There were 25 vacancies during this period which resulted in 2135 directorships (director-year observations). Accounting for 14 directors who switched classes, the directors filled a total of 207 class A, 175 class B and 170 class C positions. Information about directors' titles is missing for 13 observations. Top manager is a dummy which is equal to 1 if the director's title suggests that the director is the primary decision-maker (e.g. CEO, chairman, owner or managing partner). High level manager is a dummy which is equal to 1 if the director holds a position such as "president", "vice president", "cfo", "partner"or "co-chair". Academic is a dummy which is equal to 1 if the director is a professor. Retired is a dummy which is equal to 1 if the director's title contains the words "retired", "past" or "former". Other is a dummy which is equal 1 if the director is not retired and not otherwise classified. Tenure data is calculated only for directors whose name first appears in or after 1991 and last appears in 2008, i.e. their terms do not overlap with the beginning or end of the sample period. For class C directors, Chair (Vice Chair) tenure indicates the number of years a director holds the position as chairman (vice chairman) of the board of the Federal Reserve Bank. In panel B, the data is restricted to the individual director level and to directors whose terms did not overlap with the beginning or end of the sample period. The number of times an individual is elected/appointed is the number of times an individual was elected for class A and B directors and is equal to the number of times a director was appointed for class C directors. Branch director indicates directors who were directors of a Federal Reserve Branch in the year immediately prior to their election to a Federal Reserve Bank board. Since there are no branches in Boston, Philadelphia or New York after 2009, this variable is missing for those districts/district-years.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: directorship-level					
Class A directorships-Representatives of the banking industry elected by member banks					
Top manager	715	0.84	0.37	0	1
High level manager	715	0.14	0.35	0	1
Academic	715	0.00	0.00	0	0
Retired	715	0.01	0.08	0	1
Other	715	0.01	0.10	0	1
Tenure (years)	525	2.73	1.54	1	7
Class B directorships-Representatives of the public elected by member banks					
Top manager	695	0.57	0.50	0	1
High level manager	695	0.30	0.46	0	1
Academic	695	0.02	0.15	0	1
Retired	695	0.06	0.24	0	1
Other	695	0.05	0.22	0	1
Tenure (years)	466	3.18	1.75	1	8
Class C directorships-Representatives of the public appointed by the Board of Governors					
Top manager	712	0.51	0.50	0	1
High level manager	712	0.28	0.45	0	1
Academic	712	0.04	0.20	0	1
Retired	712	0.07	0.26	0	1
Other	712	0.09	0.29	0	1
Tenure (years)	474	3.44	1.80	1	8
Chairman tenure (years)	154	1.90	0.94	1	5
Vice-Chair tenure (years)	154	1.69	0.83	1	5
Panel B: individual director-level for directors who served their entire terms between 1991 and 2008					
Number of times elected/appointed	325	1.71	0.68	1	4
Branch director	264	0.13	0.34	0	1
Total tenure (years)	325	4.51	1.78	1	8
Total chair tenure	87	1.54	1.42	0	5
Total Vice-Chair tenure	87	1.56	1.15	0	5

Table 2: Summary Statistics for Companies Represented on Federal Reserve Bank Boards

The data consists of data on employers of Federal Reserve Bank directors from 1990-2009 from Federal Reserve Bulletins. There were 25 vacancies during this period which resulted in 2135 directorships (director-year observations). I determined if a company was publicly-traded by matching the name, city and state of the employer to CRSP. I determined if a company was a bank or bank holding company (BHC) by matching employer information to the Call report and Y-9C data available from the Federal Reserve Bank of Chicago and checking uncertain matches using institution searches in the National Information Center databases and the internet. I classify an institution as a bank if it appeared in the Call data and a BHC if it appeared in the Y9-C data. Bank or BHC is a dummy which is equal to 1 if a director's employer is a bank or a BHC. The number of times an employee is elected/represented is the number of times any employee is either elected or appointed by the Board of Governors to a Federal Reserve Bank director position. Data on elections at the company level may be missing if a director was not elected while employed for a company but moved to that company later. Number of years represented is the number of years a company has any employee sitting on the board of a Federal Reserve Bank. Number of times employee of high holder is elected is equal to the number of times any employee of a parent bank or BHC, including employees of subsidiaries, is elected to a Federal Reserve Bank director position. Data on banks is from the Call reports. I classify banks as stand alone if their high holder id indicated they were not held by another institution (their rssd9001=rssd9348). I classify banks as national banks if they have an OCC registration number.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: All non-vacant directorships					
Publicly-traded	2135	0.34	0.47	0	1
Bank or BHC	2135	0.33	0.47	0	1
Panel B: Unique companies appearing between 1991 and 2008					
Bank or BHC	389	0.37	0.48	0	1
Number of times employee elected/appointed	350	1.56	0.67	1	4
Number of years represented	389	3.67	1.97	1	9
Panel C: Data for unique banks or BHCs appearing between 1991 and 2008					
Number of times employee elected	133	1.32	0.52	1	3
Number of times employee of high holder is elected	142	1.46	0.71	1	6
Number of years represented	147	3.33	1.66	1	7
Number of years high holder is represented	147	3.90	2.11	1	13
Panel D: Data for all bank-years					
Stand alone bank	461	0.08	0.28	0	1
National bank	461	0.63	0.48	0	1
Federal Reserve member	461	0.98	0.15	0	1

Table 3: Summary Statistics for Class A and B Director Elections

The data consists of the subsample of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. The sources of the data are circulars the FRB sent to banks in their district concerning director elections and consist of a combination of calls for nominations, the recommendations of nominating committees, a nomination circular containing the names of nominees and a ballot and circulars announcing the results of the elections. I obtained the circulars from Federal Reserve Banks directly, through a 2002 FOIA request and from the websites of Federal Reserve Banks. Due to the lack of information available on websites, my coverage of elections prior to 2002 (84.98% of sample of 313 elections) is better than after 2002. Panel A of Table 3 shows summary statistics for elections of class A directors and panel B shows summary statistics for elections of class B directors. Panel C shows summary statistics for the groups electing directors. Sole election is dummy variable which is equal to 1 if only one director is elected in the election. This is equal to 1 if only 1 director is nominated or multiple directors are nominated but only one type of director is elected or any election news source mentions only the name of one director. Fill unexpired term is dummy variable which is equal to 1 if the director was elected to fill an unexpired term of a previous director. The number of other nominees is the number of other nominees for the same position, so the total number of candidates is 1 plus the number of other nominees. Ties to nominating bank is a dummy variable equal to 1 if the director's own bank is listed among the banks nominating the director. Banks are divided into 3 groups-large (group 1), medium (group 2) and small (group 3) for the purposes of election. Number of banks in group is the number of banks in the group entitled to nominate and elect director. Number of banks voting is the number of banks entitled to vote in the election. Only one bank in a BHC is entitled to vote, which means the number of voting banks will generally be smaller than the number of banks in the group. I set Number of banks voting equal to Number of banks in the group when the circulars did not identify voting banks separately (in 197 of 319 cases). Banks must have capital and surplus greater than the lower bound of capital and surplus for groups 1 and 2. Banks must have capital and surplus smaller than the upper bound of capital and surplus for groups 2 and 3.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: Class A elections-Representatives of the banking industry elected by member banks					
Sole election	154	0.13	0.34	0	1
Fill unexpired term	154	0.05	0.22	0	1
Number of other nominees	149	0.45	0.76	0	3
Number of banks nominating elected director	154	9.34	8.08	1	42
Ties to nominating bank	154	0.85	0.36	0	1
Panel B: Class B elections-Representatives of the public elected by member banks					
Sole election	159	0.11	0.31	0	1
Fill unexpired term	159	0.16	0.37	0	1
Number of other nominees	150	0.09	0.33	0	2
Number of banks nominating elected director	159	7.01	6.64	1	46
Panel C: Summary statistics for groups of banks electing directors					
Group 1: Large banks					
Number of banks in group	108	34.19	23.80	7	126
Number of banks voting	108	32.07	23.02	6	126
Lower bound of capital and surplus	121	1.43E+08	2.93E+08	4000000	1.00E+09
Group 2: Medium size banks					
Number of banks in group	105	113.86	67.09	17	299
Number of banks voting	105	108.94	65.24	14	299
Lower bound of capital and surplus	117	6.66E+06	7.86E+06	1500000	3.00E+07
Upper bound of capital and surplus	117	1.30E+08	2.84E+08	4000000	1.00E+09
Group 3: Small banks					
Number of banks in group	106	183.63	97.41	38	520
Number of banks voting	106	177.46	97.33	38	509
Upper bound of capital and surplus	115	7.31E+06	8.49E+06	1500000	3.00E+07

Table 4: OLS Regressions of the Number of Other Nominees on Director Type and Election Characteristics

This table shows OLS regressions of the number of other nominees for class A and B director elections on director type and election characteristics. The data consists of the subsample of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. Table 3 describes the data in more detail. Number of other nominees is the number of other nominees for the same position, so the total number of candidates is 1 plus the number of other nominees. Class A is a dummy variable equal to 1 if the director being elected is a class A director. Nominating Committee is a dummy variable equal to 1 if the nominees for the election were proposed by a nomination committee. Fill unexpired term is dummy variable which is equal to 1 if the director was elected to fill an unexpired term of a previous director. Group electing is either 1, 2 or 3 depending on whether the electing banks are the large banks (group 1), medium banks (group 2) or small banks (group 3). Number of banks in group is the number of banks in the group entitled to nominate and elect director. The FRB of Atlanta usually used a nominating committee, so I omit the nominating committee dummy when I include district effects in column V. I have no election data for Boston. The FRB of St. Louis is the omitted district in column V. Standard errors are not corrected for heteroskedasticity as the purpose of this table is to document trends. Absolute values of t-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Number of other nominees				
	I	II	III	IV	V
Class A	0.36***	0.35***	0.35***	0.34***	0.36***
	[5.27]	[5.23]	[5.30]	[5.26]	[5.81]
Nominating committee		-0.25***	-0.27***	-0.24***	
		[2.62]	[2.84]	[2.65]	
Fill unexpired term		0.06	0.07	0.07	0.09
		[0.46]	[0.56]	[0.58]	[0.79]
Group electing			0.12***		0.12***
			[2.84]		[3.15]
Number of banks in group				9.3e-4***	
				[2.62]	
Atlanta					-0.69***
					[4.34]
Boston					-
Chicago					-0.63***
					[3.88]
Cleveland					-0.37**
					[2.30]
Dallas					-0.26*
					[1.69]
Kansas City					-0.02
					[0.08]
Minneapolis					-0.59***
					[3.67]
New York					-0.62***
					[3.70]
Philadelphia					-0.70***
					[4.31]
Richmond					-0.68***
					[4.07]
San Francisco					-0.23
					[1.43]
Constant (St. Louis omitted district)	0.09*	0.13**	-0.1	1.1e-3	0.30**
	[1.95]	[2.48]	[1.05]	[0.02]	[1.99]
Observations	299	299	299	283	299
R-squared	0.085	0.107	0.13	0.129	0.26

Table 5: OLS Regressions of the Number of Banks in Group and Capital Limits on Time

This table shows OLS regressions of the number of banks in group and the capital limits for dividing banks into groups on a year trend. The data consists of the subsample of available data on elections of class A and B directors on the board of a Federal Reserve Bank during 1990-2009. Table 3 describes the data in more detail. Number of banks in group is the number of banks in the group electing the director. Group electing is either 1, 2 or 3 depending on whether the electing banks are the large banks (group 1), medium banks (group 2) or small banks (group 3). Upper bound is the amount of capital and surplus used to determine groups 2 and 3. Lower bound is the amount of capital and surplus used to determine groups 1 and 2. Banks must have capital and surplus greater than the lower bound of capital and surplus for groups 1 and 2. Banks must have capital and surplus smaller than the upper bound of capital and surplus for groups 2 and 3. The regressions in Columns II-VIII are at the group level indicated in the row at the bottom of the table. I have no election data for Boston. The FRB of St. Louis is the omitted district in columns II-VIII. Kansas city was dropped from the regression in column IV due to insufficient data. Standard errors are not corrected for heteroskedasticity as the purpose of this table is to document trends. Absolute values of t-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Number in group				**Dependent variable: Upper bound**		**Dependent variable: Lower bound**	
	I	II	III	IV	V	VI	VII	VIII
Year	-5.18***	-0.91***	-3.93***	-7.07***	2.13e+5***	2.78e+06***	2.0e+5***	6.82e+06***
	[8.33]	[4.49]	[9.80]	[12.34]	[9.47]	[7.50]	[9.93]	[5.53]
Group electing	75.42***							
	[17.53]							
Atlanta		7.17	25.98**	55.19***	2.88e+06***	2.78e+07**	2.84e+06***	3.2e+07
		[1.39]	[2.26]	[3.49]	[4.40]	[2.33]	[4.39]	[0.91]
Boston		-	-	-	-	-	-	-
Chicago		20.07***	112.99***	172.02***	1.17e+06*	3.8e+07***	9.14e+05	3.04e+07
		[3.97]	[9.84]	[10.68]	[1.79]	[3.29]	[1.46]	[0.91]
Cleveland		-9.31*	-23.26**	-40.74**	1.52e+06**	5.26e+07***	1.48e+06**	6.01e+07*
		[1.81]	[2.06]	[2.53]	[2.28]	[4.48]	[2.32]	[1.70]
Dallas		41.03***	71.09***	110.91***	-9.96e+05	-2.04e+07*	-9.94e+05	-3.17e+07
		[8.60]	[6.37]	[7.26]	[1.58]	[1.77]	[1.59]	[0.97]
Kansas City		94.82***	170.47***	-	-2.06e+06***	-2.32e+07*	-1.44e+06**	-4.08e+07
		[11.20]	[9.69]		[2.77]	[1.91]	[2.18]	[1.17]
Minneapolis		18.36***	16.32	1.91	-5.17e+05	-1.24e+07	-4.0e+05	-7.54e+06
		[3.56]	[1.43]	[0.12]	[0.78]	[1.05]	[0.62]	[0.21]
New York		-12.25**	-53.87***	-60.70***	2.6e+07***	9.59e+08***	2.56e+07***	8.62e+08***
		[2.49]	[4.53]	[3.90]	[40.41]	[78.55]	[38.52]	[25.66]
Philadelphia		6.43	-49.95***	-88.73***	1.56e+06**	-8.17e+06	1.46e+06**	-1.64e+07
		[1.24]	[4.42]	[5.67]	[2.45]	[0.71]	[2.33]	[0.48]
Richmond		0.8	18.36	-40.65**	9.92e+05	9.49e+06	9.9e+05	2.41e+07
		[0.15]	[1.57]	[2.47]	[1.46]	[0.78]	[1.50]	[0.65]
San Francisco		-2.35	-17.08	-25.58	5.5e+06***	8.81e+07***	5.0e+06***	1.02e+08***
		[0.46]	[1.48]	[1.62]	[8.40]	[7.37]	[7.70]	[2.88]
Constant	10,305.65***	1,842.95***	7,954.86***	14,297.31***	-4.22e+08***	-5.52e+09***	-3.96e+08***	-1.36e+10***
(St. Louis omitted district)	[8.30]	[4.55]	[9.94]	[12.50]	[9.40]	[7.48]	[9.87]	[5.52]
Group electing	All	Group 1	Group 2	Group 3	Group 3	Group 2	Group 2	Group 1
Observations	319	108	105	106	115	117	117	121
R-squared	0.54	0.827	0.913	0.907	0.979	0.995	0.98	0.946

Table 6: Summary Statistics of Employers of Class A Directors Prior to Election-The Case of Banks

Panel A of Table A shows summary statistics of financial characteristics of banks whose employees were elected as class A directors in the year of election. Panel B shows summary statistics for all other banks. The data consists of Call Report data from the FRB of Chicago for the years 1987-2009. I merge this data to the Chicago Fed bank merger data by merging on survivor idrssd and year. I restrict the set of banks to domestic banks (rssd9170 is not equal to 0) and headquarter establishments (rssd9241 equal to 1). Capital ratio is the ratio of tier 1 capital to assets. Tier 1 capital data (rcfd8274) is missing prior to 1996. I use Ken Kuttner's approximation (see http://www.chicagofed.org/digital_assets/others/banking/financial_institution_reports/regulatory_capital.pdf) to define Tier 1 capital for 1990-1993, i.e. Tier 1 capital = rcfd3230 + rcfd3839 + rcfd3632 + rcfd3000 + rcfd3778 + rcfd0297 - rcfd3163 if rcon9804 is not equal to 51, otherwise it is Tier 1 capital (as above) + rcfd3284. Rcfd0297 is missing in 1994 and 1995, so Capital ratio is missing for those years. I define assets, employees, salaries and capital ratio to be missing if they are non-positive. I define ROA and ROE to be missing if they are smaller than or equal to -1 or greater than or equal to 1. Number of acquisitions is the number of times the bank appears as a surviving entity in a given year in the bank merger data. Federal Reserve member is a dummy equal to 1 if rssd9422 is equal to 1. National bank is a dummy equal to 1 if the bank has an OCC registration number (rssd9055). No parent is a dummy equal to 1 if the bank has no high holder (rssd9348 is missing). For all other data items, I provide the Call report data items I use to construct the variable in parentheses after each variable in panel A. Assets and salaries per employee are denominated in thousands. ***, **, * indicate differences in means between Panel A and Panel B are statistically significant at the 1, 5, and 10% respectively.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: Banks with Employees Elected to Federal Reserve Bank Boards					
Assets (rcfd2170)	180	3.8e+6 ***	1.26e+07	10371.00	9.03e+07
Employees (riad4140)	180	1099.36***	3489.43	7.00	27300.00
Salary per employee (riad4135/riad4150)	180	0.03	0.01	0.01	0.06
Deposits/Assets ((rcon2200+rcfn2200)/rcfd2170)	23	0.74	0.09	0.49	0.88
Loans/Assets (rcfd2122/rcfd2170)	180	0.59	0.15	0.05	0.89
Fraction agricultural loans (rcfd1590/rcfd2122)	180	0.07**	0.15	0.00	0.65
Fraction consumer loans (rcfd1975/rcfd2122)	180	0.14	0.11	0.00	0.60
Fraction C&I loans (rcfd1766/rcfd2122)	180	0.19	0.14	0.01	0.92
Fraction real estate loans (rcfd1410/rcfd2122)	180	0.55	0.22	0.00	0.95
ROA (income/average assets=riad4340/rcfd3368)	180	0.01	0.01	-0.03	0.04
ROE (income/equity=riad4340/rcfd3210)	180	0.12	0.07	-0.21	0.37
Fraction nonperforming loans ((rcfd1403+rcfd1407)/rcfd2122)	180	0.01	0.02	0.00	0.11
Capital ratio	132	0.10	0.03	0.05	0.30
Number of acquisitions	180	0.16***	0.97	0.00	12.00
Federal Reserve member	180	0.98***	0.13	0.00	1.00
National bank	180	0.64***	0.48	0.00	1.00
No parent	180	0.11***	0.31	0.00	1.00

Table 6 (continued)

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel B: Bank Universe (excluding Panel A data)					
Assets	231178	674890.70	1.33e+07	1.00	1.75e+09
Employees	229505	172.16	2236.32	1.00	213967.00
Salary per employee	229387	0.03	0.28	0.00	128.00
Deposits/Assets	4209	0.72	0.17	0.00	1.12
Loans/Assets	231141	0.58	0.17	0.00	1.35
Fraction agricultural loans	227739	0.09	0.15	0.00	1.00
Fraction consumer loans	227738	0.15	0.14	0.00	1.41
Fraction C&I loans	228671	0.17	0.12	0.00	1.18
Fraction real estate loans	228670	0.57	0.22	0.00	1.53
ROA (income/average assets)	229933	0.01	0.02	-1.00	1.00
ROE (income/equity)	228537	0.09	0.11	-1.00	0.99
Fraction nonperforming loans	229076	0.02	0.03	0.00	1.00
Capital ratio	166667	0.11	0.08	0.00	1.03
Number of acquisitions	231757	0.06	0.48	0.00	51.00
Federal Reserve member	231757	0.37	0.48	0.00	1.00
National bank	231757	0.27	0.44	0.00	1.00
No parent	231757	0.27	0.44	0.00	1.00

Table 7: Factors Related to the Likelihood of Election-The Case of Banks

This table shows OLS and probit regressions of Bank employee elected to FRB board on financial characteristics in the universe of banks from 1987-2009. Bank employee elected to FRB board is a dummy variable equal to 1 in the year the employee of a bank was elected to the board of a FRB. The maximum number of observations for which the dependent variable is equal to 1 is 180. The sample and variables are defined in Table 6. Columns I-V report OLS regressions. Columns VI-X report marginal effects from probit regressions. All characteristics except National bank and No parent are lagged one period in Columns III and VIII. All specifications include year and district dummies. The constant term is included in all regressions but not reported. All coefficients are multiplied by 1000. The number of observations varies because of missing data on data items (especially capital ratio) and because of perfect predictability of the dependent variable in Columns VI-X. All standard errors are corrected for heteroskedasticity and group correlation at the bank level. Absolute values of t- and z-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: Bank employee elected to FRB board									
	I	II	III	IV	V	VI	VII	VIII	IX	X
Ln(Assets)	0.44***	0.43***	0.45***	0.44***		0.15***	0.15***	0.16***	0.16***	
	[3.59]	[3.53]	[3.52]	[3.17]		[5.07]	[4.92]	[5.20]	[4.50]	
Loans/Assets	-1.19*	-1.19*	-1.40*	-1.1	-1.20*	-0.44	-0.46	-0.56*	-0.39	-0.37
	[1.80]	[1.78]	[1.95]	[1.55]	[1.66]	[1.48]	[1.52]	[1.77]	[1.17]	[1.27]
ROA	1.5		-0.58	1.32	2.5	1.50*		-0.14	0.85	0.42
	[0.71]		[0.79]	[0.46]	[0.86]	[1.82]		[0.63]	[0.67]	[0.41]
Fraction nonperforming loans	-0.24	1.09	-1.6	-1.89	-2.04	-0.48	0.39	-1.67	-1.65	-1.77
	[0.14]	[0.51]	[0.72]	[1.07]	[1.13]	[0.35]	[0.39]	[0.80]	[0.80]	[0.96]
Number of acquisitions	0.01	0.02	0.21	0.01	-0.01	-0.03	-0.02	6.76e-04	-0.03	-0.04
	[0.03]	[0.07]	[0.80]	[0.03]	[0.04]	[0.43]	[0.38]	[0.02]	[0.37]	[0.43]
National bank	1.23***	1.25***	1.28***	1.33***	1.30***	0.60***	0.61***	0.62***	0.63***	0.55***
	[5.34]	[5.34]	[5.15]	[5.02]	[4.90]	[6.58]	[6.59]	[6.39]	[5.94]	[5.88]
No parent	-0.48***	-0.47***	-0.52***	-0.52***	-0.48***	-0.39***	-0.38***	-0.43***	-0.43***	-0.37***
	[3.42]	[3.34]	[3.43]	[3.20]	[2.94]	[3.23]	[3.14]	[3.23]	[2.95]	[2.94]
ROE		6.07e-04					0.00*			
		[1.55]					[1.87]			
Capital ratio				0.94	1.06				0.42	0.41
				[1.10]	[1.16]				[0.87]	[0.86]
Ln(Employees)					0.52***					0.15***
					[3.48]					[4.79]
Salary per employee					-0.07*					-15.32**
					[1.92]					[2.42]
Regression type	OLS	OLS	OLS w. lagged financials	OLS	OLS	Probit	Probit	Probit w. lagged financials	Probit	Probit
Observations	228849	227054	211145	165522	165335	221636	220044	203962	158315	158135
R-squared	0.001	0.001	0.002	0.002	0.002					

Table 8: Summary Statistics of Employers of Class A Directors Prior to Election-The Case of BHCs

Panel A of Table A shows summary statistics of financial characteristics of BHCs whose employees were elected as class A directors in the year of election. Panel B shows summary statistics for all other BHCs. The data consists of FR Y-9C from the FRB of Chicago for the years 1987-2009. I merge this data to the Chicago Fed BHC merger data by merging on survivor idrssd and year. I restrict the set of BHCs to domestic BHCs (rssd9170 not equal to 0) and from 1990 on to top tier BHCs (bhck9802 is equal to 1 or 3). Tier 1 capital ratio is 100*Tier 1 capital / risk-weighted assets. Risk-weighted assets = bhcka223. Tier 1 capital data (bhck8274) is missing prior to 1996. Prior to 1996 I use data on the Tier 1 capital ratio from Benjamin Mandel at the Federal Reserve Bank of New York. I define assets, employees, salaries and capital ratio to be missing if they are non-positive. Number of acquisitions is the number of times the BHC appears as a surviving entity in a given year in the BHC merger data. For all other data items, I provide the FR Y-9C data items I use to construct the variable in parentheses after each variable in panel A. Assets and salaries per employee are denominated in thousands. ***, **, * indicate differences in means between Panel A and Panel B are statistically significant at the 1, 5, and 10% respectively.

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
Panel A: BHCs with Employees Elected to Federal Reserve Bank Boards					
Assets (bhck2170)	81	7.93E+07***	2.29E+08	1.51E+05	1.35E+09
Employees (bhck4140)	81	18900.47***	45599.52	73.00	267220.00
Salary per employee (bhck4135/bhck4150)	81	0.02*	0.01	0.01	0.04
Deposits/Assets ((bhdm6631+bhdm6636+bhfn6631+ bhfn6636)/rcfd217)	75	0.73***	0.11	0.33	0.91
Loans/Assets (bhck2122/bhck2170)	81	0.63	0.10	0.36	0.79
Fraction agricultural loans (bhck1590/bhck2122)	81	0.01***	0.02	0.00	0.09
Fraction consumer loans (bhck1975/bhck2122)	81	0.16***	0.08	0.01	0.38
Fraction C&I loans (bhck1766/bhck2122)	81	0.21**	0.10	0.02	0.46
Fraction real estate loans (bhck1410/bhck2122)	81	0.54***	0.18	0.15	0.93
ROA (income/average assets=bhck4340/bhck3368)	81	0.01	0.00	-0.01	0.02
ROE (income/equity=bhck4340/bhck3210)	81	0.13**	0.07	-0.32	0.27
Fraction nonperforming loans ((bhck5525+bhck5526)/bhck2122)	73	0.01	0.01	0.00	0.04
Tier 1 capital ratio	70	10.59***	2.75	6.28	18.40
Number of acquisitions	81	0.17***	0.44	0.00	2.00
Panel B: BHC Universe (excluding Panel A data)					
Assets	34790	4.34E+06	4.71E+07	7.85E+03	2.22E+09
Employees	34790	1127.36	8537.75	1.00	409720.00
Salary per employee	34788	0.03	0.02	0.00	1.81
Deposits/Assets	26302	0.81	0.10	0.00	1.05
Loans/Assets	34790	0.62	0.14	0.00	1.18
Fraction agricultural loans	34685	0.04	0.09	0.00	0.83
Fraction consumer loans	34787	0.12	0.11	0.00	1.00
Fraction C&I loans	34787	0.18	0.11	0.00	1.00
Fraction real estate loans	34788	0.63	0.19	0.00	1.06
ROA (income/average assets)	32087	0.01	0.01	-0.27	0.81
ROE (income/equity)	34450	0.10	0.10	-0.99	0.99
Fraction nonperforming loans	30478	0.01	0.02	0.00	0.84
Tier 1 capital ratio	27688	13.46	6.12	0.00	99.74
Number of acquisitions	49427	0.05	0.32	0.00	21.00

Table 9: Factors Related to the Likelihood of Election-The Case of BHCs

This table shows OLS and probit regressions of BHC employee elected to FRB board on financial characteristics in the universe of BHCs from 1987-2009. BHC employee elected to FRB board is a dummy variable equal to 1 in the year the employee of a BHC was elected to the board of a FRB. The maximum number of observations for which the dependent variable is equal to 1 is 81.The sample and variables are defined in Table 8. Columns I-V report OLS regressions. Columns VI-X report marginal effects from probit regressions. All characteristics are lagged one period in Columns III and VIII. All specifications include year and district dummies. The constant term is included in all regressions but not reported. All coefficients are multiplied by 1000. The number of observations varies because of missing data on data items (especially Tier 1 capital ratio) and because of perfect predictability of the dependent variable in Columns VI-X. All standard errors are corrected for heteroskedasticity and group correlation at the BHC level. Absolute values of t- and z-statistics are in parentheses. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Dependent variable: BHC employee elected to FRB board									
	I	II	III	IV	V	VI	VII	VIII	IX	X
Ln(Assets)	4.90***	4.65***	4.72***	4.93***		0.71***	0.65***	0.72***	0.70***	
	[5.57]	[5.51]	[5.43]	[5.86]		[12.34]	[12.48]	[12.31]	[10.34]	
Loans/Assets	1.54	0.55	1.19	0.74	-0.2	1.44**	1.29**	1.28*	1.29	0.98
	[0.64]	[0.24]	[0.47]	[0.25]	[0.07]	[2.08]	[2.00]	[1.76]	[1.60]	[1.24]
ROA	11.51		23.15	28.74	8.8	5.60**		7.91***	13.77*	6.46
	[0.95]		[1.50]	[1.53]	[0.41]	[2.53]		[3.13]	[1.78]	[0.78]
Fraction nonperforming loans	-16.55**	-19.33**	-25.25**	-16.63*	-20.71**	-28.31***	-23.62**	-43.11***	-26.74**	-27.40**
	[2.12]	[2.27]	[1.97]	[1.68]	[1.99]	[2.81]	[2.56]	[2.88]	[2.22]	[2.34]
Number of acquisitions	-2.45**	-2.25**	2.91	-2.40**	-2.38**	-0.43**	-0.40**	0.11	-0.43**	-0.41**
	[2.44]	[2.34]	[0.97]	[2.42]	[2.42]	[2.56]	[2.55]	[0.98]	[2.44]	[2.48]
ROE		0.00*					1.07e-03			
		[1.66]					[1.02]			
Tier 1 capital ratio				-0.04	-0.04				-0.02	-0.02
				[1.19]	[1.04]				[0.75]	[0.84]
Ln(Employees)					4.99***					0.69***
					[5.97]					[10.83]
Salary per employee					-15.15					-2.49
					[1.62]					[0.59]
Regression type	OLS	OLS	OLS w. lagged financials	OLS	OLS	Probit	Probit	Probit w. lagged financials	Probit	Probit
Observations	29063	30320	25274	27711	27710	28052	29392	24348	26717	26716
R-squared	0.015	0.015	0.016	0.015	0.015					

Table 10: Event Study of Election or Appointment to Federal Reserve Bank Boards

This table shows the market reaction of companies' stock to news that an employee has been elected, in the case of class A and B directors, or appointed, in the case of class C directors, to the board of a FRB. I examine the reactions for parent company stock if the parent of the class A employer is publicly-traded. The event studies are conducted around 3 different types of dates. The first is the nominating date. This date concerns elections of class A and B directors only. In district-years with nominating committees, this date is the date of the nominating committee circular. In other district-years, this date consists of the date of the nomination circular listing candidates for election. If this information was missing, then the date of the call for nominations was used as it indicates whether directors are eligible for reelection. The election date is the date of the election or appointment. This date is from circulars or, in the case of class C directors, the board of governors (BOG). If this information was unavailable, the date is the date of the circular announcing election results or the date of news releases from FRBs or the date of newspaper articles announcing election results. Sole election dates consist of a subset of election or nomination dates for which only one director was elected, appointed or nominated. Table 3 indicates sources for circulars. Newspaper articles and news releases were obtained from a Factiva search. Information from the BOG was obtained from a 2002 FOIA request and the BOG website. Cumulative abnormal returns are calculated over 4 windows (-30, -2), (-1,0), (-1,1), (2, 30). Abnormal returns are calculated using both a value-weighted market model and a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. The standardized cross-sectional test is from Boehmer, Musumeci, and Poulsen (1991). Panel A (B) shows the results for all firms (banks or BHCs only). *, ** and *** indicate significance at the 10%, 5% and 1 % level using a one-tailed test respectively.

	Value-Weighted Market Model						*Constant Mean Return Model*	
Event Window	*Mean CAR*	*Positive: Negative*	*Patell Z*	*Stand. Cross-Sectional Z*	*Portfolio Time-Series (CDA) t*	*Generalized Sign Z*	*Mean CAR*	*Patell Z*
Panel A: All Companies								
Event date=Nomination date for class A and B directors only (116 Observations)								
(-30,-2)	-2.34%	50:63	-2.217**	-2.537***	-2.196**	-0.648	-4.64%	-4.473***
(-1,0)	0.32%	55:58	1.695**	1.442*	1.132	0.294	0.27%	1.514*
(-1,+1)	0.53%	63:50**	2.056**	1.705**	1.540*	1.802**	0.27%	1.395*
(+2,+30)	-0.06%	56:57	-0.127	-0.165	-0.058	0.483	0.92%	0.398
Event date=Election Date (237 Observations)								
(-30,-2)	-0.10%	113:124	0.411	0.431	-0.137	-0.108	-0.35%	-0.462
(-1,0)	0.12%	114:123	0.347	0.327	0.609	0.022	0.21%	0.793
(-1,+1)	0.42%	124:113*	1.529*	1.543*	1.813**	1.322*	0.58%	2.355***
(+2,+30)	0.33%	117:120	0.011	0.012	0.463	0.412	0.30%	0.006
Event date=Sole Election Date (34 Observations)								
(-30,-2)	0.37%	18:16	-0.021	-0.019	0.22	0.499	0.16%	-0.549
(-1,0)	0.81%	14:20	1.873**	1.447*	1.822**	-0.873	0.90%	2.451***
(-1,+1)	0.98%	16:18	2.147**	1.649**	1.787**	-0.187	1.17%	2.584***
(+2,+30)	-1.37%	17:17	-0.497	-0.473	-0.807	0.156	-2.40%	-1.467*
Panel B: Banks or BHCs Only								
Event date=Nomination Date Banks or BHCs Only (73 Observations)								
(-30,-2)	-2.96%	27:46**	-2.391***	-2.902***	-2.231**	-1.712**	-4.55%	-3.671***
(-1,0)	0.38%	34:39	1.548*	1.303*	1.1	-0.07	0.42%	1.574*
(-1,+1)	0.53%	39:34	1.489*	1.23	1.242	1.102	0.72%	1.982**
(+2,+30)	0.20%	35:38	0.278	0.381	0.147	0.164	0.27%	0.377
Event date=Election Date Banks or BHCs Only (104 Observations)								
(-30,-2)	-0.76%	44:60	-0.391	-0.431	-0.729	-1.054	-1.07%	-0.778
(-1,0)	0.74%	57:47*	2.010**	1.677**	2.687***	1.499*	0.65%	1.553*
(-1,+1)	0.99%	63:41***	2.300**	2.122**	2.951***	2.677***	0.99%	2.306**
(+2,+30)	0.65%	47:57	0.581	0.698	0.626	-0.465	0.74%	0.811
Event date=Sole Election Date Banks or BHCs Only (14 Observations)								
(-30,-2)	-0.85%	7:7	-0.844	-0.591	-0.336	0.094	-3.38%	-1.641*
(-1,0)	2.54%	8:6	3.110***	1.973**	3.815***	0.629	2.81%	3.451***
(-1,+1)	2.86%	8:6	2.871***	1.682**	3.503***	0.629	3.38%	3.370***
(+2,+30)	2.08%	7:7	0.8	0.645	0.821	0.094	-1.87%	-0.361

Table 11: Cross-sectional Analysis of CAR (-1,0) Around Nomination Date For Class A and B Directors

This table shows OLS regressions of cumulative abnormal returns (CARs) from day -1 to 0 around nomination dates for class A and B directors on firm characteristics. Table 10 describes the dates in more detail. In columns I-VI, CARs are calculated using the market model. In columns VII-XII CARs are calculated using a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. The sample is restricted to elections in which only one director is nominated or elected in columns II-VI and VIII-XII. Class A is a dummy variable equal to 1 if the director being elected is a class A director. Nominating Committee is a dummy variable equal to 1 if the nominees for the election were proposed by a nomination committee. FOMC is a dummy variable equal to 1 if the president of the Federal Reserve Bank sits on the FOMC committee. New York is a dummy variable equal to 1 if the director is nominated to the board of the New York Fed. Financial crisis is a dummy variable equal to 1 if the director was nominated in 2008 or 2009. For class B directors financial data is from Compustat. ROA=Compustat item NI divided by AT for class B directors. For class A directors financial data is from call or FR Y-9C data. See Tables 6 and 8 for descriptions of financial data items for class A directors. Assets are denominated in thousands in both cases. All standard errors are corrected for heteroskedasticity. Absolute values of t-statistics are in parentheses. *, ** and *** indicate significance at the 10%, 5% and 1 % level.

	Dependent variable: CAR (-1,0) Market model						**Dependent variable: CAR (-1,0) Constant mean return model**					
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Class A	9.91e-04	0.02*	0.04**	0.03*	0.05**	0.04**	3.2e-03	0.04**	0.06***	0.05***	0.06***	0.07***
	[0.15]	[1.78]	[2.63]	[2.08]	[2.53]	[2.71]	[0.37]	[2.45]	[3.95]	[3.23]	[3.91]	[4.04]
Nominating committee			-0.02	-0.03*	-0.01	-0.02			-0.03**	-0.04**	-0.03	-0.03**
			[1.61]	[1.94]	[0.80]	[1.42]			[2.61]	[2.62]	[1.50]	[2.15]
FOMC			0.02*						0.02*			
			[1.98]						[1.94]			
Financial crisis					0.04					-0.02		
					[1.64]					[0.97]		
New York				-0.02							0.03	
				[0.95]							[1.25]	
Ln(Assets)						3.89e-03						4.06e-03*
						[1.26]						[1.30]
ROA						0.14						0.23**
						[1.47]						[2.26]
Constant	1.97e-03	-0.01**	-0.03***	-0.01	-0.04**	-0.09	-6.08e-05	-0.03**	-0.04***	-0.02	-0.05**	-0.11*
	[0.36]	[2.43]	[2.99]	[0.73]	[2.12]	[1.56]	[0.01]	[2.33]	[2.96]	[1.29]	[2.17]	[2.05]
Sample type	Full	Sole elections					Full	Sole elections				
Observations	116	21	21	21	21	21	116	21	21	21	21	21
R-squared	0	0.108	0.435	0.342	0.481	0.393	0.001	0.241	0.533	0.481	0.509	0.56

Table 12: Cross-sectional Analysis of CAR (-1,0) Around Election or Appointment Date For Class A and B and C Directors

This table shows OLS regressions of cumulative abnormal returns (CARs) from day -1 to 0 around election dates for class A and B directors and appointment dates for class C directors on firm characteristics. Table 10 describes the dates in more detail. In columns I-VII, CARs are calculated using the market model. In columns VIII-XIV CARs are calculated using a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. The sample is restricted to elections of class A and B directors only in columns IV-VII and VIII-XIV. Class A is a dummy variable equal to 1 if the director being elected is a class A director. Class B and Class C dummies are defined accordingly. Nominating Committee is a dummy variable equal to 1 if the nominees for the election were proposed by a nomination committee. FOMC is a dummy variable equal to 1 if the president of the Federal Reserve Bank sits on the FOMC committee. New York is a dummy variable equal to 1 if the director is nominated to the board of the New York Fed. Financial crisis is a dummy variable equal to 1 if the director was elected/appointed in 2008 or 2009. For class B directors financial data is from Compustat. ROA=Compustat item NI divided by AT for class B directors. For class A directors financial data is from call or FR Y-9C data. See Tables 6 and 8 for descriptions of financial data items for class A directors. Assets are denominated in thousands in both cases. All standard errors are corrected for heteroskedasticity. Absolute values of t-statistics are in parentheses. *, ** and *** indicate significance at the 10%, 5% and 1 % level.

Table 12 (continued)

	Dependent variable: CAR (-1,0) Market model							Dependent variable: CAR (-1,0) Constant mean return model						
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV
Class A	0.01***		0.01***	0.02***	0.02***	0.01**	4.42e-03	0.01*		0.01*	0.01**	0.01**	0.01	7.5e-04
	[2.64]		[2.62]	[2.96]	[2.75]	[2.25]	[0.36]	[1.76]		[1.88]	[2.02]	[2.01]	[1.49]	[0.06]
Class B		-0.01***							-0.01*					
		[2.73]							[1.69]					
Class C		-0.01*							-0.01					
		[1.86]							[1.37]					
Nominating committee			-0.01	-0.01	-0.01	-0.01	-0.01			-0.01	-0.01	-0.01	-0.01	-0.01
			[1.43]	[1.33]	[1.26]	[1.23]	[1.36]			[1.45]	[1.36]	[1.22]	[1.33]	[1.45]
FOMC			4.22e-03	0.01**						0.01	0.01*			
			[1.02]	[2.00]						[1.50]	[1.94]			
Financial Crisis			-4.96e-03	-7.62e-04	-1.75e-04	-0.01*				-2.91e-05	4.67e-03	4.15e-03	-4.27e-03	
			[0.58]	[0.07]	[0.02]	[1.68]				[0.00]	[0.34]	[0.31]	[0.39]	
New York					2.75e-03							0.01		
					[0.51]							[1.53]		
Financial Crisis *Class A						0.03							0.02	
						[1.29]							[0.76]	
Ln(Assets)							-8.26e-03							-5.62e-04
							[0.44]							[0.29]
ROA							-0.04							-0.07**
							[1.61]							[2.21]
Constant	-3.7e-03	0.01**	-0.00*	-0.01***	-0.01	-0.01	0.02	-1.38e-03	0.01*	-4.26e-03	-0.01*	-0.01	-2.32e-03	0.02
	[1.51]	[2.16]	[1.67]	[2.71]	[1.54]	[1.26]	[0.41]	[0.53]	[1.78]	[1.33]	[1.84]	[1.15]	[0.51]	[0.38]
Sample type	Full	Full	Full	Class A and B only				Full	Full	Full	Class A and B only			
Observations	237	237	237	162	162	162	153	237	237	237	162	162	162	153
R-squared	0.03	0.035	0.042	0.072	0.048	0.057	0.041	0.014	0.015	0.029	0.049	0.034	0.03	0.035

Table 13: Cross-sectional Analysis of CAR (-1,0) Around Election or Appointment Date For Class A and B and C Directors-The Case of Sole Elections

This table shows the market reaction of companies' stock to news that an employee has been elected, in the case of A and B directors, or appointed, in the case of C directors, to the board of a FRB in the case of elections/appointment news involving only one director. Table 10 describes the dates in more detail. In columns I-VI (VII-XII) CARs are calculated using the market model (constant mean return model). In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. The sample is restricted to elections of class A and B directors only in columns IV-VII and VIII-XIV. Class A, B and C, Nominating committee, FOMC, New York and Financial crisis are dummy variables defined as in Table 12. For class B and C directors financial data is from Compustat. ROA=Compustat item NI divided by AT for class B and C directors. For class A directors financial data is from call or FR Y-9C data. See Tables 6 and 8 for descriptions of financial data items for class A directors. Assets are denominated in thousands. All standard errors are corrected for heteroskedasticity. Absolute values of t-statistics are in parentheses. *, ** and *** indicate significance at the 10%, 5% and 1 % level.

	Dependent variable: CAR (-1,0) Market model						**Dependent variable: CAR (-1,0) Constant mean return model**					
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Class A	0.03**		0.05***	0.05***	0.05**	0.05	0.03**		0.06**	0.06***	0.06***	0.06*
	[2.17]		[2.75]	[2.69]	[2.78]	[1.41]	[2.05]		[2.70]	[2.92]	[2.88]	[1.87]
Class B		-0.04**						-0.04**				
		[2.52]						[2.05]				
Class C		-0.02						-0.03				
		[1.59]						[1.68]				
Nominating committee			-0.05***	-0.05***	-0.05**	-0.05**			-0.06***	-0.06***	-0.06***	-0.06**
			[2.81]	[2.67]	[2.97]	[2.72]			[2.85]	[3.34]	[2.93]	[2.65]
FOMC			2.48e-04						8.51e-04			
			[0.02]						[0.06]			
Financial crisis				0.01						2.62e-03		
				[0.65]						[0.10]		
New York					-2.10e-03						-3.94e-04	
					[0.16]						[0.03]	
Ln(Assets)						2.47e-04						6.86e-04
						[0.06]						[0.14]
ROA						-0.09						-0.1
						[1.07]						[0.88]
Constant	-3.97e-03	0.03*	-1.53e-03	-3.51e-03	-5.25e-04	-1.98e-04	-4.44e-03	0.03*	-1.77e-03	-1.77e-03	-1.17e-03	-0.01
	[0.86]	[1.97]	[0.18]	[0.67]	[0.07]	[0.00]	[0.68]	[1.92]	[0.18]	[0.28]	[0.14]	[0.08]
Observations	34	34	34	34	34	33	34	34	34	34	34	33
R-squared	0.158	0.172	0.419	0.434	0.42	0.435	0.138	0.143	0.41	0.41	0.409	0.423

Table 14: Cross-sectional Analysis of CAR (-1,0) Around Election Date For Class A Directorships

This table shows OLS regressions of cumulative abnormal returns (CARs) from day -1 to 0 around election dates for class A directors on firm characteristics. 44 of the sample firms are banks and 60 are BHCs. Table 10 describes the dates in more detail. In columns I-VII, CARs are calculated using the market model. In columns VIII-XIV CARs are calculated using a constant mean return model. In both cases the estimation period is 255 days ending 46 days prior to the first day in the event window. Nom. com. is a dummy variable equal to 1 if the nominees for the election were proposed by a nomination committee. Total acq. is the yearly sum of all acquisitions by banks or BHCs which list the sample bank or BHC as a high holder including the parent company. Frac. NPL is the fraction of nonperforming loans. FOMC is a dummy variable equal to 1 if the president of the Federal Reserve Bank sits on the FOMC committee. New York is a dummy variable equal to 1 if the director is nominated to the board of the New York Fed. Financial crisis is a dummy variable equal to 1 if the director was elected in 2008 or 2009. Pres. Tenure is the within-sample tenure of the Federal Reserve Bank president. # fomc is the within-sample number of times the president of the FRB has sat on the FOMC committee up to and including the current year. Financial data is from call or FR Y-9C data. See Tables 6 and 8 for descriptions of financial data items. Capital ratio is as in Table 6, multiplied by 100, for banks and as in Table 8 for BHCs. Bank is a dummy variable equal to 1 if the sample firm is a bank. The number of observations varies because of missing data on capital ratios. The sample is restricted to election dates on which only one director of a publicly-traded company was elected in a district in columns V-VII and XII-XIV. The coefficients on Ln(Assets) and Total acq. are multiplied by 1000 across all columns. All standard errors are corrected for heteroskedasticity. Absolute values of t-statistics are in parentheses. *, ** and *** indicate significance at the 10%, 5% and 1 % level.

Table 14 continued

	Dependent variable: CAR (-1,0) Market model							Dependent variable: CAR (-1,0) Constant mean return model						
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV
FOMC	0.01		0.01		0.02**	0.02**		0.01		0.01		0.02**	0.02**	
	[1.34]		[1.19]		[2.03]	[2.20]		[1.49]		[1.23]		[2.04]	[2.10]	
Financial crisis	2.7e-03	4.6e-03	2.99e-04	4.78e-03	-0.03	-0.04	-0.02	-3.44e-03	1.16e-03	-0.01	-7.03e-04	-0.04*	-0.06**	-0.04*
	[0.10]	[0.18]	[0.01]	[0.18]	[1.26]	[1.64]	[1.13]	[0.10]	[0.04]	[0.20]	[0.02]	[1.68]	[2.08]	[1.83]
New York		-4.59e-03							0.01					
		[0.61]							[0.98]					
Pres. tenure				-1.76e-04			-7.53e-04				-1.03e-3			-1.38e-03
				[0.15]			[0.46]				[0.94]			[0.95]
# FOMC				2.01e-03			0.01				0.01**			0.01**
				[0.84]			[1.63]				[2.35]			[2.64]
Total acq.	1.45***	1.28**	1.39**	1.43***	1.33**	1.32*	1.46**	1.61***	1.53***	1.42**	1.68***	1.49**	1.41**	1.74***
	[2.85]	[2.49]	[2.44]	[2.82]	[2.22]	[1.90]	[2.57]	[3.16]	[2.95]	[2.62]	[3.30]	[2.45]	[2.10]	[2.92]
ROA	0.12	0.27	0.05	0.23	-0.46	-0.76	-0.43	-0.39	-0.21	-0.48	-0.29	-1.07*	-1.50*	-1.14**
	[0.20]	[0.53]	[0.07]	[0.43]	[0.99]	[1.21]	[1.07]	[0.56]	[0.35]	[0.59]	[0.43]	[1.80]	[1.99]	[2.43]
Ln(Assets)	-3.62	-2.88	-4.7	-3.69	-4.08*	-5.39*	-5.07*	-4.43*	-4.32*	-5.13	-5.2**	-4.87*	-5.61*	-6.4**
	[1.56]	[1.31]	[1.40]	[1.52]	[1.78]	[1.68]	[1.93]	[1.83]	[1.81]	[1.53]	[2.08]	[1.97]	[1.74]	[2.35]
Frac. NPL	0.88***	0.97**	0.89**	0.96***	0.97**	1.10***	1.13**	0.82**	0.83**	0.87**	0.90**	0.87**	1.10***	1.05**
	[2.73]	[2.60]	[2.49]	[2.72]	[2.25]	[2.82]	[2.31]	[2.54]	[2.20]	[2.45]	[2.57]	[2.01]	[2.91]	[2.25]
Nom. Com.	-3.16e-03	-3.13e-03	-2.24e-03	-1.76e-03	-0.01	-0.01	-0.01	-0.01	-4.03e-03	0-4.58e-03	-2.65e-03	-0.01	-0.01	-4.92e-03
	[0.48]	[0.46]	[0.35]	[0.27]	[1.09]	[0.93]	[0.90]	[0.75]	[0.55]	[0.62]	[0.37]	[0.89]	[0.74]	[0.59]
Capital ratio			-6.14e-4			-5.4e-04				-5.89e-04			-1.45e-04	
			[0.36]			[0.33]				[0.34]			[0.09]	
Bank			-0.01			-0.01				-4.88e-03			-0.01	
			[0.79]			[1.06]				[0.62]			[1.26]	
Constant	0.04	0.04	0.07	0.04	0.06*	0.09	0.07*	0.06*	0.06*	0.08	0.07*	0.07**	0.1	0.09**
	[1.25]	[1.04]	[1.08]	[1.17]	[1.67]	[1.42]	[1.73]	[1.69]	[1.71]	[1.27]	[1.82]	[2.02]	[1.55]	[2.28]
Sample type	Full	Full	Full	Full		Restricted		Full	Full	Full	Full		Restricted	
Obs	104	104	95	104	78	71	78	104	104	95	104	78	71	78
R-squared	0.188	0.17	0.179	0.175	0.263	0.335	0.255	0.198	0.179	0.199	0.208	0.27	0.361	0.3

Table 15: The Likelihood of Going Out of Business After Fed Board Service -The Case of Federal Reserve Member Banks

This table shows OLS and probit regressions estimating the likelihood of nonsurvival as a function of financial characteristics in the universe of Federal Reserve member banks from 1987-2009. Nonsurvivor next year is a dummy variable equal to 1 in a given year if the bank is listed as a nonsurviving entity in the Chicago Fed bank merger data in the following year. Institution disappears following year is a dummy variable equal to 1 in a given year if the bank's high holder idrssd id no longer appears in the bank universe the following year. This variable is defined to be missing for 2009. Post fed board is a dummy variable equal to one for all years after Fed board service for directorship banks. The sample and variables are defined in Table 6. Columns I-V report OLS regressions. Columns VI-X report marginal effects from probit regressions. In columns III, V, VIII and X observations on banks that were ever represented on a FRB board are retained only if it is 5 years or more after the last year in which a bank employee served as a FRB director. All specifications include year and district dummies. The constant term is included in all regressions but not reported. All standard errors are corrected for heteroskedasticity and group correlation at the bank level. ***, **, * indicate significance at the 1, 5 and 10% level, respectively.

	Nonsurvivor next year			**Institution disappears following year**		**Nonsurvivor next year**			**Institution disappears following year**	
	I	II	III	IV	V	VI	VII	VIII	IX	X
Post fed board	-0.02***	-0.02***	-0.03***	-0.03***	-0.03***	-0.02***	-0.02***	-0.02**	-0.02***	-0.03**
	[3.50]	[3.68]	[3.42]	[3.58]	[3.31]	[2.71]	[2.81]	[2.46]	[2.76]	[2.41]
Ln(Assets)	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***	0.01***
	[8.44]	[7.00]	[7.31]	[7.29]	[7.66]	[8.71]	[7.10]	[7.43]	[7.45]	[7.86]
Loans/Assets	-3.52e-03	-0.01	-0.01	-0.01	-0.01	-1.2e-03	-4.11e-03	-0.01	-0.01	-7.7e-03
	[0.50]	[1.06]	[1.32]	[1.30]	[1.50]	[0.18]	[0.61]	[0.83]	[0.84]	[1.02]
ROA	-0.79***	-0.80***	-0.81***	-0.90***	-0.91***	-0.74***	-0.74***	-0.75***	-0.78***	-0.79***
	[7.72]	[7.78]	[7.82]	[7.72]	[7.76]	[8.24]	[8.41]	[8.40]	[8.07]	[8.06]
Fraction nonperfor-ming loans	0.47***	0.49***	0.49***	0.67***	0.67***	0.30***	0.30***	0.30***	0.38***	0.38***
	[6.55]	[6.63]	[6.55]	[7.26]	[7.18]	[6.14]	[6.02]	[5.94]	[6.40]	[6.34]
Capital ratio	-0.15***	-0.14***	-0.14***	-0.11***	-0.11***	-0.21***	-0.19***	-0.19***	-0.13***	-0.13***
	[6.07]	[5.65]	[5.59]	[3.98]	[3.91]	[4.73]	[4.51]	[4.47]	[3.58]	[3.53]
Number of acquisitions		-1.07e-03***	-0.01***	-4.32e-03***	-4.91e-03***		-0.01***	-0.01***	-4.21e-03**	-4.94e-03***
		[3.88]	[4.04]	[3.35]	[3.78]		[2.87]	[2.96]	[2.47]	[2.71]
National bank		-2.87e-03	-3.66e-03*	-2.68e-03	-3.5e-03		-2.29e-03	-2.98e-03	-2.3e-03	-3.04e-03
		[1.33]	[1.66]	[1.19]	[1.51]		[1.17]	[1.49]	[1.08]	[1.40]
No parent		-0.02***	-0.03***	-0.03***	-0.03***		-0.02***	-0.02***	-0.02***	-0.03***
		[10.83]	[10.92]	[11.06]	[11.12]		[9.97]	[10.05]	[10.20]	[10.26]
Sample type	full	full	5 years after FRB directorship	full but no 2009 data	5 years after	full	full	5 years after	full but no 2009 data	5 years after FRB directorship
Observations	59268	59268	57830	56974	55574	59268	59268	57830	56974	55574
R-squared	0.015	0.017	0.018	0.02	0.017					

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