POLITICS AND LENGTH OF TIME TO BANK FAILURE: 1986–1990

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This paper extends research on the savings and loan (S&L) industry to the banking industry in order to determine whether political influence affects the length of time from initial undercapitalization until ultimate bank failure. Results suggest that undercapitalized banks with representation on the House banking committee were allowed to remain open longer than were other undercapitalized banks. These results provide evidence that membership on relevant House committees matters.

I. INTRODUCTION

The 1980s and early 1990s mark a period of financial distress unparalleled in U.S. history since the Great Depression. From 1980–1992, 4,695 federally insured institutions with assets of $665 billion failed and were resolved at an estimated present-value cost of $165 billion (Barth and Jahera, 1994). Over the period, 1,142 savings and loans (S&Ls) failed. Resolving these savings and loans cost $127 billion. Additionally, resolving 1,503 failed banks cost $37 billion, and resolving 2,050 failed credit unions cost $452 million. S&Ls account for slightly over 76% of the $165 billion resolution costs. Banks account for approximately 22%. The S&L industry behavior during this time period understandably continues to generate great interest among economists.

Banking industry behavior has not received so much attention, perhaps because falling interest rates allowed banks to regain profitability before the industry experienced the magnitude of failures suffered by the S&Ls. The fact that banks can diversify their asset holdings in order to avoid some interest rate risk faced by S&Ls also may explain the lack of interest in banking industry behavior during this period. However, the banking industry is a much larger industry. If it ever reaches the crisis state the S&Ls faced in the 1980s, resolution costs would be significantly higher than they were for the S&L debacle. Therefore, it is very important to understand to what extent problems in the banking industry mimic those of the S&Ls.

This paper applies research on the S&L industry to the banking industry in order to determine whether political influence affects the length of time from initial undercapitalization until ultimate bank failure. Bennett and Loucks (1993) find evi-

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ABBREVIATIONS
FDIC: Federal Deposit Insurance Corporation
FDICIA: Federal Deposit Insurance Corporation Improvement Act
FHLBB: Federal Home Loan Bank Board
FRS: Federal Reserve System
FSLIC: Federal Savings and Loan Insurance Corporation
FTC: Federal Trade Commission
GAO: General Accounting Office
OCC: Office of the Comptroller of the Currency
S&L: Savings and Loan

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dence that insolvent S&Ls with political power, as measured by state representation on the Senate banking committee, were allowed to stay open longer than insolvent S&ls without such political power. This give rise to the question of whether failed banks in states with representation on congressional committees that oversee banking regulation were allowed to remain open longer than banks without such representation.

II. LITERATURE REVIEW

Analysts give several reasons for the S&L debacle and its severity: (i) During the late 1970s to early 1980s, rising interest rates exposed S&Ls to interest rate risk caused by a mismatch in duration and interest rate sensitivity of assets and liabilities. (ii) Regional economic conditions worsened. (iii) State and federal deregulation in the financial services industry allowed S&Ls to enter new loan markets at the same time capital requirements were lowered and the number of regulators decreased. (iv) Changes in federal tax laws that benefitted real estate investment in 1981 hindered it in 1986. (v) Existence of federal deposit insurance exacerbated the problems. (For further discussion of the S&L debacle, see Barth et al., 1985b; Kane, 1989; Barth, 1991; White, 1991; Barth and Brumbaugh, 1992b; and Cebula, 1993). Many of these factors affect the institutional structure within which banks, credit unions, and S&Ls operate. Congress controls these factors that affect the financial services industry's structure. Thus, the relationships among Congress, financial institutions, regulators responsible for protecting the safety and soundness of the financial system, and taxpayers are extremely important.

Becker (1983, p. 371) contends that pressure groups compete among one another for political favors and that "political equilibrium depends on the efficiency of each group in producing political pressure, the effect of additional pressure on their influ-

ence, the number of persons in different groups, and the deadweight costs of taxes and subsidies." Romer and Weingast (1991) and Bennett and Loucks (1993) apply this theory to the savings and loan industry to explain why delaying resolution of the failed S&Ls was advantageous to the stockholders, depositors, regulators, and politicians. They note that taxpayers were the only interest group that would have benefitted from early resolution of the thrift crisis. However, taxpayers did not realize the extent of the problems the S&Ls faced and were not a cohesive lobbying group. Thus, in the S&L industry, organized groups that pressured Congress to deal with the issues in the S&L industry favored delaying resolving the thrift industry problems, giving individual insolvent S&Ls another chance to "gamble for resurrection." The attitudes expressed towards the problems faced by the S&Ls also apply to the banking industry. The difference between the two industries is that the banking industry insolvency problems are not so severe as those experienced by S&Ls.

Weingast and Marshall (1988) assert that supporters of the relevant interest groups comprise the legislative committees. Legislators choose committee assignments that will benefit their constituency, thereby increasing their reelection chances. Weingast and Marshall also note that committee members have more power over the agencies under their committees' jurisdiction than do congressmen who do not have such oversight responsibility. Bennett and Loucks (1993), Moore (1992), Romer and Weingast (1991), Anderson et al. (1988), Moe (1985), Weingast (1984), Weingast and Moran (1983), and Faith et al. (1982) find evidence that agency decision making is related to membership on congressional committees and that congressional committee membership is related to constituent interests.

Analysts generally agree that committee membership in the House of Represen-

tatives matters. However, importance of committee assignments in the Senate remains in question. Grier and Munger (1993) and Grier et al. (1990) believe that because the institutional structure of the House is different from that of the Senate, committee membership in the Senate does not carry so much weight. They suggest that Senators have more individual power than do Representatives and that this decreases the marginal benefits of Senate committee membership.

The above studies offer mixed evidence of the importance of representation on the relevant House and Senate committees or subcommittees. Anderson et al. investigate bank failure rates during the Great Contraction. They are interested in the differences between the failure rates of Federal Reserve System (FRS) member banks and nonmember state banks. They observe that failure rates of nonmember banks were five times those of member banks. They also note that the large number of nonmember bank failures benefitted both the member banks and the Federal Reserve System. The member banks gained because they faced less competition after nonmember bank failures, and the Federal Reserve gained because it had relatively more power—that is, it controlled a greater percentage of the banks after the Great Contraction bank failures. Anderson et al. hypothesize that the member banks exercised their political power through state representation on either the Senate or House banking committees and encouraged the Federal Reserve to pursue restrictive monetary policy. They find that, ceteris paribus, nonmember bank failure rates in the early 1930s were significantly higher in states with representation on the House banking committee. They find no statistically significant relationship between membership on the Senate banking committee and nonmember bank failure rates.

Havrilesky and Gildea (1995), Havrilesky (1986, 1990, 1995) and Froyen

et al. (1993) investigate the relationship between the Administration, Congress, the banking industry, and the Federal Reserve. This series of articles presents evidence that the Administration, Congress, and the banking industry signal their desires for monetary policy to Federal Reserve members and "that, under certain conditions, these leaders respond" (Havrilesky and Gildea, p. 274). Havrilesky and Gildea consider selection of Federal Reserve bank presidents. They argue that the Administration can influence monetary policy by promoting selection of Federal Reserve bank presidents whose views on monetary policy are consistent with administration views. Their data on Federal Open Market Committee voting suggests that there are "subgroups of bank presidents with a bias towards contractionary or expansionary monetary policy and that these biases are correlated with the partisan orientation of the Administration that was in power when they were appointed" (Havrilesky and Gildea, p. 282).

In his article dealing with the Securities and Exchange Commission, Weingast does not directly consider separate roles for House and Senate committees that deal with securities industry oversight. He considers turnover in specific House and Senate subcommittees but does not directly test the hypothesis that relevant committee membership influences Securities and Exchange Commission decisions. Moe finds that the relevant congressional oversight committees' ideology influences the National Labor Relations Board decisions. Weingast and Moran find that relevant subcommittee membership in both the House and Senate influence the Federal Trade Commission's (FTC's) choice of cases to pursue. Faith et al. look at the relationship between the location of firms undergoing FTC antitrust investigations and oversight committee membership. They find that firms located in districts with representation on relevant House committees and/or subcommittees are

less likely to be involved in FTC suits. However, they find that membership on relevant Senate committees and/or subcommittees essentially is insignificant. Moore finds that constituent representation on relevant Senate subcommittees influences adjudication of anti-dumping cases by the International Trade Commission. Bennett and Loucks find that insolvent S&Ls in states with Senate banking committee representation are less likely to be resolved—i.e., more likely to continue in operation and less likely to become a candidate for a Federal Home Loan Bank Board (FHLBB) rescue program. However, Bennett and Loucks find no evidence that House banking committee membership affects the frequency of S&L resolution.

Several studies deal with the costs of resolving failed S&Ls (Benston, 1985, 1989; Barth et al. 1985a; Barth et al. 1986; Barth and Bradley, 1989; Barth et al. 1989; and Benston and Carhill, 1994). There is also work dealing with the regulators' role in the failure of both banks and S&Ls. In fact, regulators have been held accountable for the S&L debacle's severity in part because the incentive system federal deposit insurance creates pits the interests of the regulators, politicians, and managers and operators of S&LS against the interests of the taxpayers (see Kane, 1987, 1989; Barth, 1991; Barth et al., 1991; and Barth and Brumbaugh, 1992a, 1992b).

The argument is that federal deposit insurance creates a perverse incentive structure whereby the interests of regulators, politicians, and S&L executives are diametrically opposed to the interests of the taxpayers. Federal deposit insurance gives depositors little incentive to police activities of owners and managers of their depository institutions. Owners and managers, operating without fear of losing deposits, have an incentive to choose more risky investments and lower capital/asset ratios than they otherwise would. Regulators are supposed to protect the financial system's safety and soundness by limiting

these moral hazard and adverse selection problems in order to minimize taxpayers' exposure to deposit insurance claims. However, Kane (1989, p. 66) notes:

> FSLIC officials (acting under constraints imposed by the politicians to whom they report) adopted a strategy of denying the problem, suppressing critical information, granting regulatory forbearances, and extending expanded powers to troubled clients. They gambled on the possibility that time alone would cure the problem. They hoped that, with access to new powers and more funding, most of their decapitalized regulatees could and would simply grow out of the problem ... From the point of view of society, this gamble was a bad one ... [resulting in] conflicts between regulators' and politicians' reputations and career interests and the public good.

Cole (1993), the General Accounting Office (GAO, 1991a, 1991b, 1989, 1987, 1986), and Barth and Brumbaugh (1995) support Kane's view. Cole finds that having a federal charter is a significantly negative determinant of S&L closure. This evidence supports his hypothesis that federal regulators focused closure efforts on state-chartered institutions in an attempt to shift the blame for the thrift crisis to their state regulatory counterparts and to consolidate federal regulatory control over the S&Ls. He also finds that S&Ls located in Federal Home Loan District 9 were significantly more likely to be insolvent but somewhat less likely to be closed, a result that supports his hypothesis that pressure from political interests in the Southwest may have influenced regulators. The GAO questions both the timeliness and forcefulness of responses to insolvent S&Ls and banks (1991a, 1991b, 1989, 1987, 1986). In a 1993 statement to the Committee on Banking, Housing and Urban Affairs, (p. 4), Charles A. Bowsher, U.S. Comptroller General, stated, "In recent years, however, the corporate governance, market discipline, and bank supervision systems used

to manage and limit risk broke down all too frequently.... Furthermore, regulators provided limited deterrent to such behavior. They were often slow to take meaningful action to correct problems in weak institutions."

Barth and Brumbaugh assess the condition, regulation, seizure, and resolution of Madison Guaranty Savings and Loan Association, a state-chartered Arkansas S&L, in the 1980s. They state (1995, p. 17):

> The lengthy federal and state regulatory tolerance of the behavior and associated deteriorating performance of Madison reflected a systemic failure of the regulatory and supervisory system from top to bottom and from beginning to end. The one element that worked relatively well—the examination process—actually makes the remaining regulatory failures more striking ... federal and state decision makers, however, never took sufficiently strong or timely actions that would have been appropriate to contain, if not eliminate, the cost of Madison's failure.

Benston and Carhill, on the other hand, find that delays in closing insolvent thrifts did not substantially increase the cost of the S&L crisis. This is primarily because the interest rate reduction beginning in 1985 improved the position of many troubled thrifts. They find that promptly closing insolvent savings and loans probably would have increased the cost to taxpayers during the mid to late 1980s.

Additional research deals with regulators' behavior with respect to undercapitalized banks. Gilbert (1993, 1992, 1991) examines whether supervisors permitted banks to remain undercapitalized for long periods and whether undercapitalized banks engaged in behavior that made them more likely to fail. Gilbert (1991, pp. 17-20) recognizes that banking regulators have some discretion in enforcing banking laws:

> Supervisors generally try first to induce a bank to comply with banking regulations with less formal or severe

enforcement actions, like written or verbal agreements with the bank's officers and directors. Thus, considerable time can pass before supervisors feel the need to resort to more severe enforcement actions.

The impact on the bank insurance fund of these enforcement delays in the late 1980s caused the Treasury Department and Congress to consider mandating prompt corrective action on banking regulators. The Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991 required bank regulators to act promptly when dealing with undercapitalized banks. Gilbert (1992) discusses the reasoning behind the FDICIA passage. Undercapitalized banks have the incentive to take on more risk to gamble for resurrection, and the ability to add risk increases the longer the bank is allowed to operate with low capital. If supervisors do not deal promptly with undercapitalized banks, then the resulting increases in risk eventually will result in larger losses to the bank insurance fund. (For a more detailed examination of this issue see Barth and Bartholomew, 1992, on S&Ls, Brumbaugh and Litan, 1992, on commercial banks and S&Ls.) The FDICIA limits bank regulators' discretion and requires them to take corrective action promptly with undercapitalized banks in order to reduce the number of bank failures and reduce the impact on the bank insurance fund. Bank supervisors are required to prescribe allowed activities of undercapitalized banks and to close them down swiftly if their capital ratios are below threshold level.

Gilbert finds that bank supervisor actions prior to 1991 were consistent with the FDICIA's mandate and expects little impact from this law. However, Gilbert does not examine the impact of politics on bank supervisor behavior. If bank regulators treat banks that have political clout differently than they treat banks without clout, then the FDICIA may improve the supervision process.

The range of industries and the topics investigated in the existing literature are broad. Yet, no one has examined empirically the relationship between the length of time that failed banks were allowed to remain open and membership on the House and Senate banking committees, which have oversight responsibility for the banking industry. Does political power, as measured by state representation on the House and Senate banking committees, influence the length of time between initial undercapitalization and ultimate bank failure?

III. MODEL, DATA, AND EMPIRICAL RESULTS

The model in this paper posits that the length of time to bank failure is a function of political influence. Political influence is measured by membership on relevant congressional committees dealing with the banking industry: the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Banking, Finance, and Urban Affairs. This paper tests the hypothesis that ceteris paribus regulators allowed undercapitalized banks in states with representation on these committees to remain open longer than they did undercapitalized banks in states without such representation.

The dependent variable is the number of quarters from initial undercapitalization until final failure. During the study's time period, 1986–1990, regulators found banks to be undercapitalized when the ratio of primary capital to total assets fell below 5.5%. See Gilbert (1991, pp. 17–19) for a discussion of the primary capital ratio. Primary capital essentially is equity capital plus allowance for loan losses minus goodwill. The primary capital ratio is capital divided by the sum of total assets plus allowance for loan losses minus goodwill. Federal supervisory agencies set the minimum primary capital ratio for commercial banks at 5.5% in 1985. Banks with ratios below 5.5% were deemed undercapitalized and were required to in-

crease the ratio or face supervisory action. Actions against undercapitalized banks could include ousting officers, imposing fines, terminating deposit insurance, or shutting down banks if they were "judged insolvent (that is, with zero or negative net worth), or nonviable by their chartering agencies" (Gilbert, 1991, p. 17). The 5.5% minimum was in effect through the end of 1990, when it was replaced by new capital requirements based on risk.

A bank was classified as failed when it was closed by its chartering agency and entered receivership with the FDIC. Independent variables include those for political influence, demographics, bank specifics, and regulator and regional dummies. The model to be estimated is:

> Length of time to failure = f(bank assets, city population, cost to bank insurance fund of bank failure, change in bank assets, Senator from bank's home state on the Senate banking committee, number of representatives from bank's home state on the House banking committee, regulator identity, and region of the country).

The size of the bank, as measured by bank assets in the quarter when the bank first became undercapitalized, should have a positive effect on the number of quarters until failure. The reason is that regulators find shutting down larger bank organizations more complex and time consuming or that regulators "too big to fail" mentality may delay ultimate failure. One expects a negative relationship between asset growth and time to bank failure. As noted by Gilbert, regulators try to restrict asset growth of undercapitalized banks in order to protect the bank insurance fund. Therefore, they probably act more quickly to close undercapitalized banks with relatively rapid asset growth. One also expects a negative relationship between the ultimate cost to the bank insurance fund and the length of time to bank failure. Anticipations are that regulators will move quickly to close down banks that will have

TABLE 1

Regional Groups

East Coast	Connecticut, Delaware, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia
Rust Belt	Illinois, Indiana, Michigan, Ohio, Wisconsin
Farm Belt	Alabama, Arkansas, Idaho, Iowa, Kentucky, Minnesota, Mississippi, Missouri, Nebraska, Oregon, South Dakota, Tennessee
Oil Patch	Alaska, Colorado, Kansas, Louisiana, Montana, New Mexico, North Dakota, Oklahoma, Texas, Wyoming
West Coast	Arizona, California, Hawaii, Nevada, Utah, Washington

Source: James W. Christian, "Nationwide Expansion Hides Recession in Some Regions," *Savings Institutions*, February, 1987, 78–85.

a large impact on the bank insurance fund. These latter two variables—change in assets and ultimate cost to the bank insurance fund—are divided by the number of quarters between initial undercapitalization and bank failure in order to avoid simultaneity problems in the hazard model estimated below.

The population of the city where the bank is headquartered is included as an independent variable to control for differences in regulatory enforcement between large city and small city banks. A positive relationship is consistent with the assumption that large cities with larger populations have more political clout than do small cities with smaller populations. Including dummy variables for the bank regulators, the Office of the Comptroller of the Currency (OCC), the FDIC, and the FRS (the omitted variable), tests for differences in closure speed across these regulatory agencies. During the period of this study, closure could be ordered only by the bank's chartering agency, the OCC for federally chartered banks, or the states for state chartered banks. The primary federal regulator of state chartered banks was the FRS for banks belonging to the Fed and the FDIC for those not belonging to the Fed. Any difference in speed of bank closure between federal and state chartered banks will show up in the coefficients of these variables. (The bank regulator dummy variables for the OCC and the FDIC are the omitted variable in separate regressions not reported here. None of the regulator dummies are significant. Regressions run with dummy variables for state chartered or federally chartered banks also are statistically insignificant. These regressions are substantially similar to the regression reported in table 4 in other respects.)

Including regional dummy variables as independent variables controls for differing regulatory enforcement speed across different U.S. regions. The mid to late 1980s were a time of special hardship for state economies that depended on either oil or agriculture. Table 1 lists the states making up the five regional groups identified by Christian (1987). A positive relationship should exist between both the oil patch and farm belt dummy variables and time to bank failure, reflecting the greater number of problem banks that regulators had to deal with in these regions. The larger number of problem banks in these regions likely put greater strain on bank regulator's resources in these regions and

thus slowed down the failed banks clo-
sures in these states.

State representation on the Senate and
House banking committees should to have
a positive impact on time to bank failure.
If regulators are extra careful in dealing
with problem banks in states with political
clout, as measured by representation on
the relevant congressional committee,
ceteris paribus those states will tend to
have banks with relatively longer times to
bank failure.

The data set consists of 239 commercial
banks that Gilbert (1991) identifies as fail-
ing between 1986 and the end of 1990. He
studies banks that were undercapitalized
for more than four consecutive quarters
between 1985 and 1989. Observations used
in the study here consist of the subset of
these undercapitalized banks that failed
between 1986 and the end of 1990. These
failed banks that were undercapitalized
for a relatively long time period provide a
readily available data set with enough
variability to allow hypotheses testing.

The dependent variable—number of
quarters to bank failure—and the indepen-
dent variable—bank assets at the initial
time of undercapitalization—are from
Gilbert's 1991 study. Information on bank
assets at the time of failure, the ultimate
cost to the bank insurance fund from that
failure, and the regulatory agency oversee-
ing the undercapitalized bank are from
Gilbert's 1993 study. During the period
studied, 249 banks failed (Gilbert, 1991).
The analysis here drops 10 banks due to
missing observations from Gilbert (1993).
This gives 239 commercial banks with
complete data. Gilbert (1991) identifies 531
banks that had been undercapitalized for
more than four consecutive quarters dur-
ing the period. Forty-seven percent of
these banks failed and 28% recovered be-
fore the end of 1990. The remainder had
neither recovered nor failed by the end of
the period.

Gilbert's data are from FRS and FDIC
sources. The city population numbers are

from the 1980 census figures. Membership
information on the relevant congressional
committee is from various *Congressional
Directory* issues. When a change occurred
in committee makeup during the un-
dercapitalization period, the analysis here
uses the number of members for the ma-
jority of the time period. Finally, Christian
(1987) identifies the regional dummy vari-
ables.

Table 2 describes characteristics of the
239 failed commercial banks. The majority
come from oil producing states—Louisi-
ana, Oklahoma, and Texas. The failed
banks also are relatively small—only 37
banks had assets greater than 100 million
dollars at the time of initial un-
dercapitalization. Most banks in this study
failed within seven quarters of initial un-
dercapitalization, but regulators allowed a
substantial minority of the undercapital-
ized banks to remain open for more than
two years before closing down. Table 3
gives means and standard deviations of
the variables used in this study.

Table 4 presents the proportional haz-
ard model regression results. A duration
model is used since the dependent vari-
able is the number of quarters from initial
undercapitalization until ultimate bank
failure. (See Kiefer, 1988, for a discussion
of hazard models). The Chi-square indi-
cates that the estimated equation explains
a significant portion of the variation in the
number of quarters to bank failure for un-
dercapitalized banks. The coefficients on
cost per quarter and number of represen-
tatives from the relevant state on the
House banking committee are statistically
significant and have the hypothesized
sign. The negative coefficient on the cost
variable implies that regulators more
quickly closed banks that exerted a larger
impact on the bank insurance fund than
they closed banks whose shutdown would
more modestly effect the fund. This result
supports Gilbert's (1992) finding that reg-
ulators acted to protect the bank insurance
fund.

TABLE 2
Characteristics of 239 Failed Commercial Banks, 1986–1990, by State

State	Number of Banks in Sample	Number of quarters until Failure			Number of Failed Banks with Assets Greater than 100 Million
		5–7	8–10	11+	
Arizona	1	1	0	0	1
California	10	4	3	3	2
Colorado	7	5	1	1	2
Connecticut	1	1	0	0	0
Florida	4	4	0	0	0
Illinois	1	1	0	0	0
Indiana	2	2	0	0	0
Iowa	2	1	1	0	0
Kansas	4	4	0	0	0
Louisiana	24	16	6	2	5
Minnesota	4	1	3	0	0
Missouri	3	3	0	0	0
Montana	1	1	0	0	0
Nebraska	1	1	0	0	0
New Mexico	2	2	0	0	1
New York	2	1	0	1	2
North Dakota	1	0	1	0	0
Ohio	1	0	1	0	0
Oklahoma	27	20	6	1	4
Oregon	1	0	1	0	0
Pennsylvania	1	1	0	0	0
South Dakota	1	1	0	0	0
Texas	135	90	38	7	20
Virginia	1	0	1	0	0
West Virginia	1	0	1	0	0
Wyoming	1	1	0	0	0
Totals	239	161	63	15	37

The following states had no failed commercial banks in this sample: Alabama, Alaska, Arkansas, Delaware, Georgia, Hawaii, Idaho, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, Nevada, New Hampshire, New Jersey, North Carolina, Rhode Island, South Carolina, Tennessee, Utah, Vermont, Washington, and Wisconsin.

Source: R. Alton Gilbert, who originally obtained data from the Federal Reserve and the FDIC.

The positive coefficient on the number of House banking committee members from the relevant state indicates that regulators were slower to close down banks that failed in states having this political power. This result is consistent with previous studies that find membership on relevant congressional committees influencing regulatory behavior. The coefficient on Senate banking committee membership is not statistically significant. However, this result is consistent with Grier and Munger (1993) and Grier et al. (1990), who find that membership on the relevant House committee carries more weight than it does on a parallel Senate committee. The different impact of the two legislative branches also may be due to the numbers of congressional representatives on the committees. At any one time, no state had more than one Senator on the Senate banking committee while the House banking commit-

TABLE 3
Means and Standard Deviations of Variables

Variable	Mean	Standard Deviation
QUARTERS TO FAILURE	7.13	2.25
ASSETS	60,719,000	84,711,000
CITY POPULATION	273,250	662,100
COST	14,309,000	21,435,000
CHANGE IN ASSETS	−4,408,000	50,755,000
SENATE	.69	.48
HOUSE	1.59	1.21
OCC	.59	.49
FDIC	.35	.48
RUST BELT	.02	.13
FARM BELT	.05	.22
OIL PATCH	.84	.36
WEST COAST	.05	.21

tee had up to six representatives from a given state. The difference also may be due to House members' taking a more active interest in regulatory activities in their state.

The coefficients on other variables in the model are not statistically significant at the standard levels. Coefficients on assets, change in assets per quarter, and city population have the hypothesized sign. Analysis of possible collinearity between the bank assets variable and city population indicates that multicollinearity does not appear to pose a problem. The correlation between these two variables is 0.05. Also, dropping one or the other variable from the regression produces no change in sign or in significance of the remaining variables. No significant difference exists in the regulatory agencies' behavior in terms of closure speed of failing banks. Additionally, region has no significant impact on number of quarters to bank failure, other things equal.

IV. SUMMARY AND CONCLUSIONS

Failed banks in states with representation on the House banking committee were allowed to remain open longer than failed banks without such representation. Political power, as measured by representation on the relevant House committee, matters.

Earlier research shows that existence of deposit insurance may create an incentive structure where the taxpayer's interests differ from those of politicians and regulators and financial institutions' managers and operators. With the 1991 passage of the FDICIA, Congress began to address some of the root causes of the financial institutions' failures during the 1980s. The FDICIA improves the incentives for regulators, managers, owners, auditors, and depositors to protect insurance funds. It gives regulators a clear mandate to pursue prompt corrective action if they find that a financial institution is undercapitalized. It requires insured banks and S&Ls with assets of $150 million or more to give regulators information on their financial condition and management. It requires regulators to review the accounting principles under which financial institutions are regulated and requires institutions to be bound by generally accepted accounting principles. Additionally, the FDICIA re-

TABLE 4
Proportional Hazard Model Estimates

Variable	Coefficient	T-statistic
ASSETS	.01089	1.03
CITY POPULATION	.000239	0.23
COST PER QUARTER	−.000089	3.77***
CHANGE IN ASSETS PER QUARTER	−.00059	1.35
SENATE	−.2989	1.46
HOUSE	.2768	2.87***
OCC	.3171	1.10
FDIC	.2461	0.83
RUST BELT	−.8147	1.28
FARM BELT	−.0055	0.01
OIL PATCH	−.0355	0.10
WEST COAST	−.1949	0.39

***Significant at the 1 percent level
Log-rank test with 12 degrees of freedom: Chi-square 34.57***
Restricted log-likelihood: Chi-square 31.15***
Log-likelihood −1157.825
Number of observations 239

quires annual full-scope examinations for banks with assets greater than $100 million. These changes in regulation are meant to minimize taxpayer exposure to federal deposit insurance claims. The impact of the FDICIA on the relationship between politics and bank supervisor behavior is an area for further research.

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