

# FINANCIAL CONDITION AND PERFORMANCE OF SAVINGS AND LOANS: A RETROSPECTIVE LOOK AT MUTUAL TO STOCK CONVERSIONS

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## Abstract

During the 1980s and into the 1990s, in response to a changing financial and legislative climate in the United States, mutual thrift institutions converted to stock-type organizations in record numbers. While firms that have an initial public offering (IPO) generally experience very high initial returns after an IPO, the experience in the 1990s was that converting thrifts experienced extraordinarily high initial returns resulting in a degree of controversy. While many studies have examined these high initial returns, this current research focuses on the potential changes in financial strategy that may result from a change in organizational form. The essence of the argument is that by changing the organizational form, the agency relationship between owners and managers is altered. The relationship change may result in change in the overall financial strategy and performance of the institution. The empirical methodology provides an examination of financial variables before and subsequent to the reorganization to determine any significant changes. Overall, the empirical results do not find any significant changes related to the change from the mutual form of ownership to the stock form of ownership. These findings have implications for any industry where both forms of ownership are present such as the insurance industry.

**Key words:** Savings and Loan, Financial Institutions, Mutual Organization.

**JEL Classification:** G21.

## 1. Introduction

During the 1980s and early 1990s, in response to a changing financial and legislative climate, mutual thrifts converted to stock-type organizations in record numbers. The rate of conversions escalated after 1982, subsided in 1989, and then began increasing again in 1990. In 1970, 15% of thrift institutions with 20% of industry assets were stock institutions. By 1987, 37% of the institutions were stock-type organizations with 62% of industry assets. While firms that have an initial public offering (IPO) generally experience very high initial returns after an IPO, the experience in the 1990s was that converting thrifts experienced extraordinarily high initial returns.

While the windfalls associated with thrift IPOs earned a great deal of attention in recent years, both among academics and regulators, another issue to be considered is the longer-term financial strategy and performance of converted institutions. The objective of this study is to examine the financial strategy and performance since converting from mutual to stock form for all conversions during the 1992-1993 time period. This retrospective study will compare the financial characteristics of those firms that converted from mutual to stock form relative to the thrift industry as a whole. The sample period reflects a relatively "clean" time period for the thrift industry. By the early 1990s, the significant problems facing that industry in the United States had largely been eliminated and some degree of stability had been restored. While there have been early studies on the financial characteristics of converted thrifts, the current work will add to the level of understanding by examining the more recent experience. Given the significant changes in the regulatory as well as operating environment, such a reexamination is in order.

## 2. Background

With regard to the IPO issue, the underpricing effect is generally more severe for mutual thrifts than other firms because pre-conversion net worth is distributed to the initial shareholders on a pro-rata basis, since no founding shareholders exist to claim it. Since neither existing deposi-

tors nor anybody else receives the proceeds from the sale of stock in the converting thrift, the proceeds simply become an addition to the thrift's assets. As a result, the investors in mutual-to-stock thrift conversions by acquiring a claim on the entire thrift also receive a claim on the funds raised by the offering itself.

Examining 170 firms that converted from mutual to stock form between 1979 and 1986, Jordan, Verbrugge and Burns (1988), conclude that there are significant positive returns to initial shareholders in the 8.6% to 9.6% range from the initial offering to first closing price. Pettigrew, Page, Jahera and Barth (1997), using mutual to stock converted firms for the time period of 1992-1993, find that the one day excess return is 27.3%. Pettigrew, Page, Jahera and Barth suggest that the reason for the significant increase in the one day abnormal return is the condition of the thrift industry. The 1980s represented a very turbulent time for the thrift industry. Numerous conversions were done to bring the institution to solvency. However, in the Pettigrew et al. study, all but one of the converting thrifts were well-capitalized institutions prior to conversion. The average tangible capital-to-total asset ratio for the thrifts prior to conversion was 7.5%. After conversion, the average increased to 10.8%. The minimum tangible capital requirement was 1.5% and gradually increased to 3.0% in the early to mid-1990s. It would thus appear that thrift institutions were not converting just to satisfy this minimum regulatory capital standard.

With regard to financial differences, a number of studies have considered the mutual-stock dichotomy in the thrift industry with many focusing on expense preference. For example, Akella and Greenbaum (1988) and Verbrugge and Jahera (1981) empirically find evidence of expense preference behavior among the mutual institutions. More recently, Gropper and Beard (1995), in a study relating insolvency to expense preference, find evidence that mutuals do tend to exhibit greater expense preference spending when insolvency is considered. However, several other studies do not share that same conclusion. Blair and Placone (1988) and Mester (1989) observed few differences in expense preference behavior when comparing mutuals to thrifts.

In an early study of the performance characteristics of converted savings and loans, Hadaway and Hadaway (1981) found that while capital adequacy improved with conversion, there was little evidence of any improvement in operating efficiency or profitability. Another conclusion was that converted thrifts were more aggressively managed than mutuals. The time period under study in the Hadaway work was 1974-1978.

Verbrugge and Goldstein (1981) examined mutual versus stock thrifts to compare profitability, risk-taking and operational efficiency. Their sample consisted of California thrifts with data from 1974 to 1976. They concluded that mutuals appeared more risk averse than stock institutions, and also, like Hadaway and Hadaway and others, that mutuals tended toward expense preference behavior more than did the stock thrifts. They further concluded that stock associations earned a higher return on assets, a finding consistent with the additional risk they assumed.

### 3. Methodology

The study is based upon 154 thrift institutions that converted from mutual-to-stock between January 1, 1992 and December 31, 1993. All the companies included in this study meet the following criteria: (1) an initial public offering that exceeded \$10 million; (2) available financial income and condition data from the Office of Thrift Supervision. The financial condition and performance ratios studied are: (1) tangible capital to assets (2) return on assets, (3) return on equity, (4) percent of junk bonds held, (5) percent of total mortgage loans held, (6) percent of direct investment and (7) percent of below investment grade bonds held.

The methodology compares firm financial ratios in the years before and following conversion to the corresponding ratios in the year of conversion (year 0, or the base year). For example, an (0, 1) event window represents the change in the return on equity ratio from the end of year 0 to the end of year 1, the change concurrent with the amendment's passage. To examine the strategy and condition both pre- and post-conversion, we examine changes three years post and three years prior to the year of conversion. In addition, we examine the year to year changes in the set of financial ratios selected for study.

The test methodology is similar to that used by Meulbroek et al. (1990) and Pugh, Page, and Jahera (1992) in their tests of managerial myopia for industrial firms, except that we test actual changes in ratios rather than the percentage changes. We compare the ratios for the years following the base year to the base year, using the changes in the ratios relative to the base year. The simple changes in the financial ratios are given by,

$$\text{Simple change} = (RT_t - RT_0),$$

where:  $RT_t$  = ratio for firms that converted in year  $t$ ,

$RT_0$  = ratio for firms that converted in base year.

Since market-wide and industry-wide effects may influence each firm's financial condition and performance ratios, we create alternative control samples from the population of thrifts. This industry control should be affected by the same market and industry factors that affect the conversion firm. The ratio for the control sample is the simple average of the financial performance ratio of each control sample member.

Further, we present both cumulative and year-to-year changes for all those institutions that remained of the stock form for the entire sample period. This is also done for those that remained mutual institutions for the entire period.

#### 4. Hypothesis & Expectations

The hypotheses to be tested relate to the change in financial strategy and performance for those firms converting in 1992 and 1993 as compared to the industry as a whole. Given the evidence from earlier research, the hypotheses to be tested relate to a higher expected industry-adjusted profitability, greater operational efficiency and less tendency toward expense-preference behavior. As a word of caution, the significant regulatory changes as well as competitive changes that have affected the savings and loan industry make it difficult to theorize as to the direction of the changes with conversion. Certainly, the null hypothesis would be that there would be no changes significantly different from overall industry changes in the selected financial ratios. However, earlier research does suggest that a conversion may result in less aversion to risk that should be manifested in financial strategy of the firm in terms of its loan mix, capital ratios, and other relevant variables.

#### 5. Empirical Results

Table 1 offers insight into the degree to which many institutions have changed organizational form as well as charter type. The firms listed in this table had more than one change during the 1990 to 1998 time period. Further research is directed at examining the reasons for such change. That is, are such institutions merely "shopping" for more favorable regulatory oversight or are there other reasons for the changes. Certainly, a factor in an institution's decision to convert to stock form or to change in any other manner must be the overall financial condition and performance of the firm. The immediate focus of this paper is on those that converted from the mutual to stock form.

Table 1

Charter and Ownership Changes of Sample Institutions

Year of Conversion	Final Name of Institution	State	Changes
1990	Gilmer S&LA	TX	SMS&L – FSB – SS&L
1990	Batavia Savings Bank, FSB	IL	SSSB – S&L – FSB
1991	Southwest Virginia Savings Bank, FSB	VA	FSSB – M – S
1992	First FSB of Siouxland	IA	FMS&L – S – SB
1992	Logansport Savings Bank, FSB	IN	SMS&L – FSB – S
1993	Kankakee Federal Savings Bank	IL	FMS&L – S – SB
1993	Park View Federal Savings Bank	OH	FMS&L – S – SB
1993	First Federal SB of Belvidere	IL	FMS&L – S – SB
1993	Bay Ridge Federal Savings Bank	NY	FMS&L – SB – S

Table 1 (continuous)

Year of Conversion	Final Name of Institution	State	Changes
1993	Bank West	MI	FMS&L – SB – S
1993	Fidelity Federal Savings Bank	MD	FMS&L – SB – S
1993	Investors FS	KS	SMS&L – F – S
1993	Equality S&LA	MO	SMS&L – S – F
1993	Jefferson S&LA	MO	SMS&L – S – F
1993	Liberty Savings Bank	MO	SMS&L – S – F
1993	Advantage Bank, FSB	WI	SMS&L – S – FSB
1993	The Long Island Savings Bank, FSB	NY	FSSB – M – S
1994	First Federal Savings Bank	TX	FMS&L – S – SB
1994	Grinnell Federal Savings Bank	IA	FMS&L – SB -- SS&L
1994	Standard Federal Bank for Savings	IL	FMS&L – SB – S
1994	Cecil Federal Savings Bank	MD	FMS&L – SB – S
1994	The Cameron S&LA, F.A.	MO	SMS&L – F – S
1994	Pioneer S&LA, F.A.	NY	SMS&L – F – SSB
1994	First Savings Bank of Little Falls, FSB	NJ	SMS&L – S – FSB
1994	1st Savings Bank, FSB	MO	SMS&L – FSB – S
1994	Mutual Savings Bank, FSB	MO	SMS&L – FSB – S
1994	Perry County Savings Bank, FSB	MO	SMS&L – FSB – S
1995	Fort Thomas FS&LA	KY	SMS&L – F – SSB
1995	Forrest City Bank, N.A.	AR	SMS&L – FS – SB
1995	Macon Building and Loan Association, F.A.	MO	SMS&L – S – F
1995	St. Francois County Bank, FSB	MO	SMS&L – S – FSB
1995	Pulaski Bank, A Federal Savings Bank	MO	SMS&L – S – FSB
1998	Southern Missouri Bank & Trust Co.	MO	SMS&L – S – FSB

Definitions: **F** – Federal; **FS** – Federal Stock; **FSB** – Federal Savings Bank; **FSSB** – Federal Stock Savings Banks; **FMS&L** – Federal Mutual Savings and Loan; **M** – Mutual; **S** – Stock; **SB** – Savings Bank; **SSB** – Stock Savings Bank; **SSSB** – State Stock Savings Bank; **S&L** – Savings and Loan; **SS&L** – Stock Savings and Loan; **SMS&L** – State Mutual Savings and Loan.

Table 2 presents the changes in the selected financial ratios as measured relative to the base year (year of conversion) while Table 3 presents the year-to-year changes in the same set of ratios. T-statistics are presented in parentheses and the sample size is given below. It is of interest to note that those converting institutions exhibited significantly lower tangible capital to asset ratios in the years prior to the conversion. This, of course, suggests that one motivation is the enhanced ability the stock form offers to raise capital. Return on assets is likewise lower in the pre-conversion period relative to the base year to a significant degree. However, the post-conversion period likewise reveals significantly lower return on assets. These findings are quite similar to those for return on equity. In terms of financial strategy, the conversion did not appear to signal any significant change in the percent of junk bonds in the institutions' portfolios. This appears somewhat contrary to the belief that conversion leads institutions toward a greater tolerance toward risk in their portfolio. Further examination of portfolio changes indicates that the percent of mortgage loans held declined as one neared conversion. Post-conversion, the percent of mortgage loans increased relative to the base year but such increases were significant only for the two-year period. Direct investment in Table 3 was declining from year to year up to conversion and then continued to decline for two of the three post-conversion years. The percent of below investment grade bond holdings does not change significantly until the second year after the conversion. Certainly, this increase does reflect some greater tolerance for risk. However, given the decline in direct investment, one cannot conclude that overall risk has declined. Any change in overall risk would be a function of the entire portfolio mix of the institution. A final

variable of interest is the growth in assets. The converting institutions demonstrate significant growth in all but one of the periods examined. This is understandable given the additional influx of equity capital that allows for continued growth.

Table 2

## Changes Relative to Base Year (Year of Conversion to Stock)

	Pre-Conversion			Year of Conversion	Post-Conversion		
	-3 Years	-2 Years	-1 Year		+1 Year	+2 Years	+3 Years
Tangible Capital	-4.72 (-18.95)* 76	-4.09 (-27.44)* 153	-3.34 (-21.90)* 154	0	0.08 (0.70) 153	-0.07 (-0.40) 143	0.15 (0.48) 63
Return on Asset	-0.54 (-5.84)* 76	-0.54 (-8.64)* 153	-0.32 (-5.75)* 154	0	0.06 (1.31) 153	-0.13 (-2.40)* 143	-0.29 (-2.73)* 63
Return on Equity	-2.59 (-1.80)*** 76	-4.67 (-3.15)* 153	-2.17 (-1.57) 154	0	0.32 (0.54) 153	-1.35 (-1.95)** 143	-3.94 (-2.79)* 63
Percent Junk Bonds	0.01 (1.00) 76	-0.04 (1.20) 153	0.002 (0.37) 154	0	0.002 (0.55) 153	0.003 (0.65) 143	0.0002 (0.02) 63
Percent Total Mortgage Loans	6.24 (4.78)* 76	4.00 (5.42)* 153	1.27 (2.26)** 154	0	0.57 (1.09) 153	1.46 (2.04)** 143	0.87 (0.72) 63
Percent Direct Investment	0.17 (2.09)** 76	-10 (-2.61)* 153	0.04 (2.08)** 154	0	0.06 (0.51) 153	-0.09 (-3.42)* 143	-0.11 (-3.56)* 63
Percent Bond	-0.01 (-0.04) 76	0.03 (0.34) 153	-0.01 (-0.27) 154	0	0.08 (1.51) 153	0.29 (2.58)* 143	0.59 (2.28)** 63
Growth in Assets	108.14 (2.31)** 76	85.27 (3.31)* 153	3.85 (3.12)* 154	0	5.53 (5.97)* 153	7.74 (8.17)* 143	4.78 (3.77)* 63

Notes: t-values are in parentheses. Sample size in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 3

## Year to Year Changes in Selected Financial Ratios

	Pre-Conversion		Year of Conversion	Post-Conversion		
	-2 Years	-1 Year		+1 Year	+2 Years	+3 Years
Tangible Capital	0.14 (1.63) 76	0.73 (8.25)* 153	3.34 (21.89)* 154	0.08 (0.70) 153	-0.14 (-1.19) 143	0.001 (0.003) 63
Return on Asset	0.001 (0.01) 76	0.22 (4.61)* 153	0.31 (5.75)* 154	0.06 (1.31) 153	-0.21 (-5.51)* 143	-0.29 (-3.12)* 63
Return on Equity	-1.21 (-0.71) 76	2.46 (1.67)*** 153	2.17 (1.57) 154	0.32 (0.54) 153	-1.86 (-4.48)* 143	-2.87 (-2.75)* 63
Percent Junk Bonds	-0.003 (-1.00) 76	-0.04 (-1.31) 153	-0.002 (-0.37) 154	0.002 (0.55) 153	0.00003 (0.02) 143	-0.01 (-1.59) 63
Percent Total Mortgage Loans	-1.67 (-2.24)** 76	-2.77 (-5.57)* 153	-1.27 (-2.26)** 154	0.56 (1.09) 153	0.090 (1.80)*** 143	-0.55 (-0.83) 63
Percent Direct Investment	-0.07 (-1.89)** 76	-0.06 (-1.89)** 153	-0.04 (-2.08)** 154	0.06 (0.51) 153	-0.16 (-1.30) 143	-0.04 (-2.50)** 63

Table 3 (continuous)

	Pre-Conversion		Year of Conversion	Post-Conversion		
	-2 Years	-1 Year		+1 Year	+2 Years	+3 Years
Percent Bond	0.003 (0.19) 76	-0.04 (-1.08) 153	0.01 (0.27) 154	0.08 (1.51) 153	0.22 (2.19)** 143	0.32 (1.96)* 63
Growth in Assets	1.42 (1.89)*** 76	-0.06 (-1.89)*** 153	3.66 (5.07)* 154	5.53 (5.97)* 153	7.47 (8.17)* 143	4.78 (3.77)* 63

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 4

## Changes Relative to Base Year for Stock Associations: 1992

	-2 Years	-1 Year	1992 Stock Associations	+1 Year	+2 Years	+3 Years
Tangible Capital	-0.57 (-4.30)* 766	-0.47 (-5.72)* 826	0	0.66 (10.85)* 701	0.80 (7.05)* 595	1.17 (6.22)* 458
Return on Asset	-0.59 (-9.98)* 766	-0.47 (-6.12)* 826	0	0.05 (1.01) 701	-0.28 (-4.97)* 595	-0.36 (-2.21)** 498
Return on Equity	-12.92 (-2.56)* 766	-28.95 (-1.56) 826	0	-26.00 (-1.03) 701	-4.89 (-5.26)* 595	-7.35 (-2.10)** 498
Percent Junk Bonds	-0.05 (-3.56)* 766	0.03 (1.20) 826	0	0.02 (1.62) 701	-0.04 (1.87)** 595	0.03 (2.12)** 498
Percent Total Mortgage Loans	1.52 (3.55)* 766	1.38 (4.92)* 826	0	-0.46 (-8.45)* 701	-0.02 (-0.05) 595	-0.54 (-0.93) 498
Percent Direct Investment	0.20 (4.21)* 766	0.11 (3.82)* 826	0	-0.14 (-3.90)* 701	-0.22 (-5.08)* 595	-0.22 (-3.34)* 498
Percent Bond	0.56 (3.57)* 766	0.10 (1.43) 826	0	-0.03 (-0.32) 701	0.25 (1.72)*** 595	0.62 (3.15)* 498
Growth in Assets			0			

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 5

## Year to Year Changes in Selected Financial Ratios Stock Associations: 1992

	-1 Year	1992 Stock Associations	+1 Year	+2 Years	+3 Years
Tangible Capital	-0.09 (-0.40) 900	0.47 (5.72)* 826	0.66 (10.85)* 701	-0.001 (-0.004) 607	0.08 (0.37) 531
Return on Asset	0.05 (0.51) 900	0.47 (6.12)* 826	0.05 (1.01) 701	-0.34 (-6.27)* 607	-0.10 (-0.64) 531
Return on Equity	3.43 (0.09) 900	28.95 (1.56) 826	-26.00 (-1.03) 701	-4.61 (-5.76)* 607	-2.85 (-0.90) 531
Percent Junk Bonds	-0.02 (-0.81) 900	-0.03 (-1.20) 826	0.02 (1.62) 701	0.02 (1.28) 607	-0.01 (-1.09) 531

Table 5 (continuous)

	-1 Year	1992 Stock Associations	+1 Year	+2 Years	+3 Years
Percent Total Mortgage Loans	-0.29 (-0.90) 900	-1.38 (-4.91)* 826	-0.46 (-1.44) 701	0.84 (2.48)* 607	-0.26 (-0.59) 531
Percent Direct Investment	-0.03 (-0.82) 900	-0.11 (-3.83)* 826	-0.14 (-3.90)* 701	-0.06 (-2.45)* 607	-0.02 (-0.42) 531
Percent Bond	-0.42 (-2.83)* 900	-0.10 (-1.43) 826	-0.03 (-0.32) 701	0.23 (1.79)*** 607	0.24 (2.15)** 531
Growth in Assets					

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 6

## Changes Relative to Base Year in Mutual Associations: 1992

	-2 Years	-1 Year	1992 Mutual Associations	+1 Year	+2 Years	+3 Years
Tangible Capital	-0.69 (14.86)* 755	0.29 (1.23) 794	0	-1.78 (-4.14)* 717	-1.66 (-2.06)** 593	1.91 (8.82)* 533
Return on Asset	-0.47 (-17.26)* 755	0.12 (0.59) 794	0	-0.12 (-0.47) 717	0.35 (2.37)** 593	-0.24 (-8.21)* 533
Return on Equity	4.93 (0.45) 755	7.67 (0.71) 794	0	-0.78 (-0.40) 717	-3.41 (-1.72)*** 593	-3.93 (-5.05)* 533
Percent Junk Bonds	0.01 (2.75)* 755	0.005 (2.73)* 794	0	0.002 (0.99) 717	0.001 (1.44) 593	0.0003 (0.38) 533
Percent Total Mortgage Loans	3.19 (10.82)* 755	2.97 (9.31)* 794	0	-2.30 (-8.55)* 717	0.15 (0.43) 593	-0.008 (-0.02) 533
Percent Direct Investment	0.04 (2.05)** 755	-0.01 (-0.57) 794	0	0.06 (1.17) 717	0.15 (1.21) 593	-0.02 (-1.81)*** 533
Percent Bond	0.11 (3.25)* 755	0.05 (2.51)* 794	0	0.02 (0.73) 717	0.08 (1.80)*** 593	0.05 (1.44) 533
Growth in Assets			0			

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

As evidence of the changes the overall industry groups were experiencing, Table 4 through Table 6 show the cumulative changes and year-to-year changes (centered around both 1992 and 1993) for those institutions that remained of the stock form and of the mutual form for the entire sample period. To a large degree the changes mirror those of the institutions that converted in 1992 and 1993. An exception is for the percent of mortgage loans held where the stock industry group exhibited relative declines in the post-1992 periods while the converting institutions showed increases. The remaining ratios are all quite similar in direction. A comparison of the mutual industry group results in Tables 6 and 7 reveal like results. Tables 8-10 replicate these four tables using 1993 as the base year for measuring changes. Again, the results do not demonstrate any significant results that suggest major strategy changes for the converting institutions. There are only several changes that are weakly significant over time.

Table 7

## Year to Year Changes in Selected Financial Ratios Mutual Associations: 1992

	-1 Year	1992 Mutual Associations	+1 Year	+2 Years	+3 Years
Tangible Capital	-2.22 (-6.28)* 994	-0.29 (-1.23) 794	-1.78 (-4.14)* 717	-0.52 (-1.16) 598	-0.40 (-3.22)* 533
Return on Asset	0.40 (2.13)** 994	-0.12 (-0.59) 794	0.12 (-0.47) 717	0.59 (3.15)* 598	-0.15 (-3.11)* 533
Return on Equity	-6.89 (-0.49) 994	-7.67 (-0.71) 794	-0.78 (-0.40) 717	-4.72 (-6.04)* 598	-2.39 (-10.37)* 533
Percent Junk Bonds	-0.01 (-0.87) 994	-0.005 (-2.73)* 794	0.002 (0.99) 717	0.001 (1.32) 598	-0.001 (-1.93)** 533
Percent Total Mortgage Loans	-2.09 (-7.88)* 994	-2.97 (-9.31)* 794	-2.30 (-8.55)* 717	2.38 (10.89)* 598	-0.66 (-3.73)* 533
Percent Direct Investment	0.02 (0.76) 994	0.01 (0.57) 794	0.06 (1.17) 717	0.11 (1.32) 598	-0.07 (-1.39)* 533
Percent Bond	0.14 (1.30) 994	-0.05 (-2.51)* 794	0.02 (0.73) 717	0.08 (2.45)* 598	-0.03 (-0.91) 533
Growth in Assets					

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 8

## Changes Relative to Base Year for Stock Associations: 1993

	-3 Years	-2 Years	-1 Year	1993 Stock Associations	+1 Year	+2 Years
Tangible Capital	-1.36 (-9.04)* 644	-1.24 (-14.51)* 695	-0.66 (10.85)* 701	0	-0.001 (-0.004) 607	0.35 (1.53) 510
Return on Asset	-0.69 (-1.71)* 644	-0.46 (-8.70)* 695	-0.05 (-1.01) 701	0	-0.34 (-6.27)* 607	(-0.41) (-2.57)* 510
Return on Equity	17.86 (0.64) 644	20.43 (0.81) 695	25.99 (1.03) 701	0	-4.61 (-5.76)* 607	-6.70 (-1.98)** 510
Percent Junk Bonds	0.03 (1.60) 644	0.01 (0.62) 695	0.02 (-1.62) 701	0	0.02 (1.28) 607	0.008 (0.52) 510
Percent Total Mortgage Loans	1.69 (3.30)* 644	1.74 (4.30)* 695	0.46 (1.45) 701	0	0.84 (2.48)* 607	0.06 (0.12) 510
Percent Direct Investment	0.34 (5.63)* 644	0.24 (5.02)* 695	0.14 (3.90)* 701	0	-0.06 (2.45)* 607	-0.09 (-1.66)*** 510
Percent Bond	3.59 (4.54)* 644	0.14 (1.33) 695	0.03 (0.32) 701	0	0.23 (1.79)*** 607	0.48 (2.62)* 510
Growth in Assets						

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 9

## Year to Year Changes in Selected Financial Ratios Stock Associations: 1993

	-2 Years	-1 Year	1993 Stock Associations	+1 Year	+2 Years
Tangible Capital	-0.09 (-0.40) 900	0.48 (5.72)* 826	0.66 (10.85)* 701	-0.001 (-0.004) 607	0.08 (0.37) 531
Return on Asset	0.05 (0.51) 900	0.47 (6.12)* 826	0.05 (1.01) 701	-0.34 (-6.27)* 607	-0.10 (-0.64) 531
Return on Equity	3.43 (0.10) 900	28.95 (1.56) 826	-25.96 (-1.03) 701	-4.61 (-5.76)* 607	-2.85 (-0.90) 531
Percent Junk Bonds	-0.02 (-0.81) 900	-0.03 (-1.20) 826	0.02 (1.62) 701	0.02 (1.28) 607	-0.01 (-1.09) 531
Percent Total Mortgage Loans	-0.29 (-0.90) 900	-1.38 (-4.92)* 826	-0.46 (-1.44) 701	0.84 (2.48)* 607	-0.26 (-0.59) 531
Percent Direct Investment	-0.03 (-0.82) 900	-0.11 (-3.82)* 826	-0.14 (-3.90)* 701	-0.06 (-2.45)* 607	-0.02 (-0.42) 531
Percent Bond	-0.42 (-2.83)* 900	(-0.10) (-1.43) 826	-0.03 (-0.32) 701	0.23 (1.79)*** 607	0.24 (2.15)** 531
Growth in Assets					

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 10

## Changes Relative to Base Year for Mutual Associations: 1993

	-3 Years	-2 Years	-1 Year	1993 Mutual Associations	+1 Year	+2 Years
Tangible Capital	-1.60 (-25.84)* 635	0.88 (1.48) 665	1.78 (4.14)* 717	0	-0.52 (-1.16) 598	1.02 (5.01)* 533
Return on Asset	-0.54 (-17.73)* 635	0.08 (0.61) 665	0.12 (0.47) 717	0	0.59 (3.15)* 598	-0.34 (-16.25)* 533
Return on Equity	-6.16 (-7.23)* 635	-3.65 (-3.41)* 665	0.78 (0.40) 717	0	-4.72 (-6.04)* 598	-4.92 (-16.09)* 533
Percent Junk Bonds	0.01 (2.51)* 635	0.002 (0.84) 665	-0.002 (-0.99) 717	0	0.001 (1.32) 598	0.0004 (0.59) 533
Percent Total Mortgage Loans	4.83 (12.41)* 635	4.94 (11.12)* 665	2.30 (8.55)* 717	0	2.38 598	1.95 (7.38)* 533
Percent Direct Investment	0.02 (1.71)*** 635	-0.04 (-0.85) 665	-0.06 (-1.17) 717	0	0.11 (1.32) 598	-0.03 (-1.78)*** 533
Percent Bond	0.07 (1.82)*** 635	0.05 (1.71)*** 665	-0.02 (-0.73) 717	0	0.08 (2.45)* 598	0.05 (1.84)*** 533
Growth in Assets						

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

Table 11

## Year to Year Changes in Selected Financial Ratios Mutual Associations: 1993

	-2 Years	-1 Year	1993 Mutual Associations	+1 Year	+2 Years
Tangible Capital	-2.22 (-6.28)* 994	-0.29 (-1.23) 794	-1.78 (-4.14)* 717	-0.52 (-1.16) 598	0.40 (3.22)* 533
Return on Asset	0.40 (2.13)** 994	-0.12 (-0.59) 794	-0.12 (-0.47) 717	0.59 (3.15)* 598	-0.15 (-3.11)* 533
Return on Equity	-6.89 (-0.49) 994	-7.67 (-0.71) 794	-0.78 (-0.40) 717	-4.72 (-6.04)* 598	-2.39 (-10.37)* 533
Percent Junk Bonds	-0.01 (-0.87) 994	-0.005 (-2.73)* 794	0.002 (0.99) 717	0.001 (1.32) 598	-0.0005 (-1.93)** 533
Percent Total Mortgage Loans	-2.09 (-7.88)* 994	-2.97 (-9.31)* 794	-2.30 (-8.55)* 717	2.38 (10.89)* 598	-0.66 (-3.73)* 533
Percent Direct Investment	0.02 (0.76) 994	0.01 (0.57) 794	0.06 (1.17) 717	0.11 (1.32) 598	-0.07 (-1.39) 533
Percent Bond	0.14 (1.30) 994	-0.05 (-2.51)* 794	0.02 (0.73) 717	0.08 (2.45)* 598	-0.03 (-0.91) 533
Growth in Assets					

Notes: t-values are in parentheses. Sample size is in the third row. \* Denotes significance at the 1% level of significance. \*\* Denotes significance at the 5% level of significance. \*\*\* Denotes significance at the 10% level of significance.

## 6. Conclusions

These empirical results do not appear to indicate that conversion in and of itself results in significant changes in either financial strategy or financial performance. While conversion certainly does alter the agency relationship, the results suggest that any alteration does not appear to influence overall financial strategy. And certainly, a number of the sample institutions underwent multiple changes that may impact their financial condition and performance.

As other financial organizations explore changes in organizational form, it is important to understand whether other changes in strategy or performance will appear subsequent to conversion. For instance, while the savings and loan industry saw many institutions convert, more recently, the insurance industry has had a number of large firms convert to the stock form of organization. Clearly, managers who plan for an organizational change should consider whether the form of organization itself will lead to other operational changes that can impact performance. The results of this research suggest otherwise. There are many directions for further research to take including examination of other industries such as the insurance industry.

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