

Two Empirical Essays on Mutual Thrift Conversions

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# TWO EMPIRICAL ESSAYS ON MUTUAL THRIFT CONVERSIONS

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In our first essay, we study initial returns and long-run performance of a unique sample of recently converted mutual-to-stock thrifts. Since the average converted thrift is underpriced, we are able to characterize investor behavior in a way that is not possible with the typical IPO. In particular, we find that after removing large returns cumulative excess returns are positive for the first 12 months after the IPO. Beginning in the second year, the average firm undergoes a significant price correction that lasts for approximately 18 months which produces negative cumulative abnormal returns for up to five years post-issue. Differences in risk-adjusted returns also indicate negative long-run returns, with poor performance concentrated in the second and third years following the IPO. The return differences are most pronounced among the small thrifts in our sample, and are broadly consistent with investor overreaction at the time of the IPO that continues for six to twelve months before prices begin reverting back to fundamental value.

In our second essay, we examine full conversions, MHCs and second-stage conversions for significant differences in agency costs across ownership structures and possible implications for second-stage conversions. Full conversions undertake more lending risk and are more efficient with respect to asset utilization. All ownership structures experience over-capitalization following the IPO. MHCs and second-stage conversions return temporary greater valuation to shareholders. Large mutual thrifts that are inefficient with respect to asset utilization are more likely to choose a MHC. In

addition, MHCs that report lower price-to-book and are more costly to operate choose second-stage conversions. Publicly traded thrifts that report higher price-to-book and greater ROAA are acquired. Small MHCs with high asset utilization and higher operating costs are more likely to choose second-stage conversions. Large MHCs that report lower price –to-book are more likely to choose second-stage conversions. Small publicly traded thrifts that are acquired report lower interest income to average assets but higher price-to-book while large publicly traded thrifts report both greater interest income to average assets and price-to-book.