

Embracing Market Liberalism? Community
Embeddedness and Mutual Savings and Loan Conversions
to Stock Company Form

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Beginning in the mid-1970s, mutual savings and loan associations in the United States converted *en masse* to for-profit, stock corporations. These conversions represented a dramatic abandonment of the institutionalized templates savings and loans associations (SLAs) had used for over a century to organize their core activities. They were responses, in part, to deregulation, the incursion of market logics into a subsector historically segregated from commercial banking, and the increased prevalence there of multiple organizing logics. They reflected a growing reorientation among regulators and managers from Main Street and a traditionally local, community-based focus to Wall Street, national securities markets, growth and the exploitation of new opportunities. They involved a wholesale transfer of property rights in SLAs from depositor-owners to a new class of independent shareholders. And they partly dismantled decentralized and cooperative forms of small stakeholder capitalism that had emerged in the US alongside the corporation during the nineteenth and twentieth centuries (Schneiberg 2007).

Yet, mutuals neither defected nor responded uniformly to deregulation, market logics or changing economic conditions. Conversions had a marked geography, with mutuals in many places proving more resistant the call of the market and for-profit corporate forms. In this paper, we use event history analysis of over 3700 mutual SLAs to determine whether conversions to stock company form depended on the embeddedness of mutuals in their communities and character of those communities, including their stability, vitality and collective efficacy. Specifically, we ask: do conversions and the susceptibility to market logics they imply rest on the detachment of mutuals from community, social disorganization or the erosion of networks and social capital, and the transformation of American communities into impersonal societies of strangers?

In analyzing these relations, we link analyses of organizational form and the economics of organization (Haveman and Rao 1997; Haveman, Rao and Parachuri 2007; Hsu and Hannon 2005; Hansmann 1995), with arguments in economic sociology about the centrality of social structure and embeddedness in economic life (Grannovetter 1985; Uzzi 1997; Portes and Manning 1986), and research in sociology and political science about community and social disorganization, civic association and social capital (Sampson 1987, 1999; Sampson et al. 2005; Massey and Denton 1991; Skocpol and Fiorina 1999; Kaufman 2002; Gamm and Putnam 1999; Putnam 2000). In so doing, we contribute to a central agenda in economic and organizational sociology: understanding how *social structures* sustain certain kinds of economic activity and *forms of ownership and economic organization*, and, understanding more specifically, the community and social structural foundations for different forms of capitalist economic organization, including mutual and cooperative enterprise. This agenda is particularly relevant as firms and industries are increasingly subject to the call of the market—to exhortations, demands and legal or regulatory encouragement to align their structures and strategies with market logics and the demands of deregulated competitive settings.

We contribute as well to the analysis of innovation and institutional change. For organizational scholars, innovation and transformation rest fundamentally on institutional heterogeneity, the transposition or translation of models across fields, and the presence of multiple, competing logics (Czarniawska and Sevon 1996; Clemens 1997; Djelic 1998; D’Aunno et al. 2000; Scott et al. 2000; Seo and Creed 2002; Campbell 2004; Washington and Ventresca 2004; Morrill 2006; Schneiberg and Clemens 2006; Crouch 2005; Lounsbury 2007). Multiple logics constitute resources for politics and institutional

entrepreneurship, for recombination, hybridization or layering, or the defection from one model to another (Stark 1996; Sabel and Zeitlin 1997; Stryker 2000; Lawrence, Hardy & Phillips 2002; Rao et al. 2003; Schneiberg 2005; Boxenbaum and Battilana 2005; Greenwood and Suddaby 2006; Kraatz and Block 2007). Yet scholars have also stressed that innovation and the spread of new practices across fields are “lumpy,” with organizational level factors and local activities shaping when, where and in what forms multiple logics and innovative practices have effects or “take.” We advance this agenda by showing how organizational innovations in response to deregulation and heterogeneity are mediated by the characteristics of organizations and their local contexts and communities. Local conditions and social structures represent tangible foundations for templates or logics, shaping the extent to which competing logics can find expression, leverage and thus credibility to organizational actors in their day to day practice.

Part I describes organizational form in the savings and loan industry and the institutional context for conversions. Part II lays theoretical foundations analyzing conversions and community embeddedness. We draw on economic and institutional conceptions of organization to describe mutual and stock forms, and to develop hypotheses linking mutuals and conversions to their community contexts. Part III describes our methods, data and measures. To analyze the effects of social contexts on organizational form, we created a time-series data set of 3764 mutual SLAs that linked data on their form, lending profiles and other characteristics with county-level data on the characteristics of the communities in which mutuals were based. To our knowledge, this is only nationwide data set on organizations, forms and community contexts. In Part IV, we present results of our analyses, and we conclude with the implications of our results.

I. MUTUAL AND STOCK FORMS IN THE US SAVINGS AND LOAN FIELD

Mutuals are membership-based, mutual-benefit associations that eliminate the distinction between owners, on the one hand, and consumers or producers, on the other. Mutuals and cooperatives unite these roles. They abolish the independent investor-stockholder and replace market relations between a firm and consumers or producers with an ownership relation, assigning property rights in the firm, residual claims to profits, and decision making authority to its consumers- or producer-owners. Mutuals and cooperatives represent strategies of self-supply, or collective vertical integration by consumers or producers into distribution, production or supply (Sichel 1966; Heflebower 1980; Ware 1989; Hansmann 1995).

Inspired by English “friendly societies,” mutual savings and loan associations (MSLAs) first appeared in the US in 1831 mainly in response to commercial bank failure to provide individuals of limited means with long-terms loans for homes (Masulis 1984; Ware 1989; Rao and Neilson 1992; Hansmann 1995; Mason 2004; Kraatz and Moore 2006). MSLAs were typically founded as small, community based, depositor-owned associations that accepted deposits (“subscriptions” or “shares) from its members and used the funds thus pooled to provide home mortgage loans to members. MSLAs varied in their particulars. They began as “terminating plans” that required savings on a fixed schedule, loaned only to depositor-owners, and were dissolved once all members received mortgages, and evolved into “Dayton Plans,” which decoupled savings from lending, let depositors to save and withdraw funds increasingly on demand, and lent to depositors and non-depositors (Haveman and Rao 1997). Yet as locally based, depositor owned associations, MSLAs had real advantages over commercial banks. As we shall

take up further below, they were invested with social purpose and “moral sentiments” of mutuality, thrift and non-profit service to the community, and were used as vehicles for promoting certain social visions. And they served as the foundation for providing working families with funds to finance homeownership.

Mutuals were the dominant form of organization in the savings and loan subsector through 1975. State chartered stock SLAs first appeared in 1909, when California required managers and thrift organizers to subscribe to guaranteed stock as security for depositors (Haveman and Rao 1997; Mason 2004). But only 3 other states followed suit, and almost all SLAs were mutuals through the New Deal. In 1933, Congress passed the Home Owner’s Loan Act, which authorized the new Federal Home Loan Bank Board (FHLBB) to charter federal SLAs for the first time. Yet these were mutual charters, and Congress did not authorize a federal stock charter for SLAs until 1974 (OTS 1997). In 1955, fully 90% of the nation’s roughly 3544 SLAs were mutuals, controlling 11% of the industry’s assets. And while stock SLAs gained ground as most states altered their statutes to allow newly chartered stock SLAs, mutuals still accounted for 85% of roughly over 4100 OTS regulated SLAs in 1975 (Masulis 1984; OTS 2006).

Conversions from mutual to stock forms were prohibited in most states before 1945, and were comparatively rare events before 1975, reflecting controversy over their desirability and a series of moratoriums on conversions (Virch 1976; Masulis 1984; OTS 1997; 2006). Only 59 MSLAs converted to stock corporations from 1945 to 1974.¹

Three related institutional changes in the late 1960s and 1970s paved the way for widespread conversions to stock forms. First, Congress and FLHBB deregulated the

¹ Four MSLAs converted to stock forms in 1945 and 1946; 26 more from 1948 to 1955 (with 13 in California and 8 in Texas); 2 from 1955 to 1961; 26 from 1961 to 1963; and 1 between 1964 and 1974.

industry, lifting moratoriums on conversions and the creating regulatory protocols for converting MSLAs to stock corporations (Virch 1976; Dunham 1985; OTS 1997). The FLHBB first asserted jurisdiction to regulate conversions in 1948, and authorized 26 on a case by case basis until 1955, when abuses and concerns over “windfall” profits prompted it to impose a moratorium on federal SLA conversions. The FLHBB lifted the ban in 1961, but after 4 of the 26 subsequent conversions fell into receivership, it imposed a second moratorium in 1963 and commissioned three studies. The third (1969 “Friend report”) urged ending the ban, arguing that solutions to the stock distribution are workable, and between 1972 and 1974, the FHLBB conducted and accepted applications for test conversions, ultimately promulgating “stock subscription” conversion protocols. In 1973, Congress imposed a third moratorium, which it lifted in June 1976

Second, actors on both sides forged deepening linkages between the previously separated worlds of Wall Street and Main Street. Wall Street investment bankers like Thomson and McKinnon and Dean Witter entered the savings and loan field, were organizing their own specialized units, procedures and services to peddle conversion stock subscriptions, and were already actively promoting conversions and their services to mutual managers by 1976 (US Senate 1976: 32, 75, 181). And to facilitate this process, the industry’s US League of Saving Association retained its own consultants “to build new bridges to [the] investment community” (S&L News 1979a: 50).

Third, and perhaps most importantly, was the rise within the industry of new conceptions of the saving and loan association, and the retheorization of the mutual form. During the late 1960s and early 1970s, economists and industry experts became increasingly critical of MSLAs, developing what amounted to an agency theory critique

of the mutual form. This critique emerged in the debates over the conversion moratorium, as part of the study the FLHBB commissioned by Wharton School of Finance and Economics under the direction of Finance Professor, Irwin Friend. “[T]he separation of ownership from effective control of mutual associations is virtually complete,” argued University of Pennsylvania’s Edward Herman in his contribution (1969: 774).

Power is in the hands of small management groups... These groups in theory are fiduciary representatives of the mutual shareholders, who possess the legal right to control the organization, to receive its net income and to obtain and pro-rata share of net worth in the event of a liquidation. In fact, mutual shareholders generally function as wholly nonparticipating depositors; and mutual managers give every indication of being in business for personal gain... *[T]he spirit of mutuality is of little force*, and in the context of extreme shareholder exclusion from information and power... many mutual managers come to regard the association as their personal property. This has contributed to the relatively more extensive nepotism found in the mutual sector, to the higher levels of compensation and other expenses, to the frequent diversion of income into officer-director owned affiliates, and to under-the-table sales of mutual associations (emphasis added Herman 1969: 944-5)

Herman suggested that “the present state of mutuality is the best argument for the stock form of organization.” But he did not unconditionally endorse the latter, because stock forms were even more subject to conflicts of interest, and because the conversions of the past had let mutual management appropriate the associations’ accumulated assets.

UCLA Professor Alfred Nicols’ 1972 study expressed few such reservations. Where MSLAs were originally “democratic cooperatives in which all the member-savers shared in the decision making,” they have become “self-perpetuating aristocracies” of managers, who have used permanent proxies and other devices to effect “a seizure of absolute control” (Nicols 1972: 1, 13). This seizure rested partly on transformation of the

member-saver from an active participant in the association’s affair into what, in effect, is nothing more than a creditor. The saver in the modern savings and loan association, whether mutual or stock, is no different from the holder of a time or savings deposit in a commercial bank (Nichols 1972: 12).

Such a transformation created a “vacuum” into which manager stepped “as in large corporations. However, unlike the corporation, there is no effective way for anyone to challenge his decisions or power” as by concentrating stockholdings among an activist group and using that leverage to oust errant managers (Nicols 1972: 2). Managers could thus benefit themselves at depositors and insurers’ expense through “diversions of income”—nepotism, self-dealing by manager owned subsidiaries, and so on—increasing MSLA expenses and decreasing their responsiveness to new market opportunities for growth. For Nichols (1972: 300-1), the remedy “is obvious. If mutuals were converted to stock associations, not only would profit provide a basis for rational decision making, but the necessity for maintenance of nonequilibrium margins would vanish.”

These early critiques and the “Friend report” left their mark. They not only inspired a small industry of research on “risk reduction” and “expense preference behavior” in MSLAs that explicitly mobilized agency theory to show how opportunistic managers feathered their nests (Hester 1968; Edwards 1977; Hannan 1979; Hannan and Mavinga 1980; Verbrugge and Jahera 1981; Verbrugge and Goldstein 1981; Ohara 1981; Blair and Placone 1988; Kane 1989). They also figured explicitly in Congressional hearings and industry councils, calling into question taken-for-granted understandings of the efficiency, necessity, or intrinsic superiority of the mutual form for SLAs, putting stock form on at least on par with mutuals, and legitimating demutualization (e.g. US Senate 1976: 48, 66, 109).²

² This logic of incentive alignment and the salutary effect of the profit motive also made its way into management discourse. “When you own a piece of the rock, you work harder,” commented one association President regarding the incentive alignment benefits of conversion (S&L News...). “If management is good, it will want to own a piece of what it runs,” commented another. “I’d be a little concerned about someone who didn’t want to own what they ran” (S&L News...).

Equally telling was the framing of the mutual form as a limit to capital formation and the articulation of SLAs and conversions with logic of growth and increased competitiveness in response to market conditions. Critics repeatedly emphasized that MSLAs, unlike stock associations, cannot raise capital by issuing equity; they can only increase their net worth via retained earnings, and are thus fundamentally hampered in their ability to expand rapidly their deposit base and mortgage lending. We applied for a conversion, a president of a Florida MSLA, testified because “we happen to be in one of the glorious fast growing areas...and to sustain that type of growth...it’s absolutely essential to essential that we broaden our capital base [via] the equity market” (US Senate 1976: 100). An FHLBB chairman elaborated these sentiments in explain his agency’s decision to support conversions. First, “conversions increase the equity of associations thus supporting continued deposit growth and mortgage lending.” Such “an infusion of capital is very important for a growing association,” enabling approximately an additional \$21 of mortgage lending for every dollar of new equity, and opportunities for rapid expansion not possible via retained earnings.

Second, stock associations have been characterized by some as more aggressive and innovative than mutual associations. Whether this is true or not, conversion does offer the associations the opportunity to expand as well as enhance its competitive ability in other areas. It can attract high quality management with stock option plans. It can participate in mergers on a more equitable and efficient basis. It must pursue sound policies, because it has a clear and explicit group to whom management is responsible.

Third, and finally...and in keeping with our free enterprise economic system, it is important that association have the ability to choose freely the form of organization under which they wish to operate (US Senate 1976: 8-9).

To be sure, some in the industry rejected this reconceptualization of SLAs as creatures of rapid growth and the for-profit market place, seeking instead to defend traditional conceptions, reassert boundaries between MSLAs and the market, and recenter

the mutual as a community institution insulated from profit maximizing pressures and Wall Street. “The management of associations,” complained a Kansas MSLA president, “will no longer be interested in investing in the community” (Savings and Loan News, 1983: 51). The Vice President of the Council of Mutual Savings Institute also objected:

Conversion shifts the independent, community-oriented mutual S&L, immune from take-overs, corporate raids, proxy fights and acquisition, into a basically hostile environment – the securities market... The mutual form is best for the promotion of thrift and homeownership because, since it doesn't have to pay dividends to stockholders, its cost of capital is lower. Because there are no investor pressures, stock speculation, acquisition threats, management tends to be more stable (US Senate 1976: 47).

Indeed, conversion is an “assault on the mutual” as it carries the danger that the net worth the mutual has accumulated over the years, “which belongs to the association and are a community asset,” will be “appropriated for the benefit of those insiders who engineer the conversion, constituting a ‘windfall’” (US Senate 1976: 47, also 54). Even advocates of conversions conceded that conversion will move SLAs between two worlds. “Wall Street isn't Main Street,” as one commentator put it (S&L News 1979: 50). Conversions, a President of a converting association agreed, “will cause the association to operate on a more economic basis rather than on a community service basis” (S&L News 1983: 51).

Yet when combined with efforts to safeguard members from appropriation, arguments for conversion and the framing of fully capitalized loan growth as “serving the community” proved compelling, at least for a regulators, lawmakers and key associations. Moreover, these new conceptions, together with deregulation, regulatory protocols for conversion, and ties between SLAS and invest banks, constituted an institutional infrastructure for conversions. They linked the two previously segregated worlds of Main Street and Wall Street, valorizing stock corporations and the market on par with mutuals

and the community. And they reconstituted savings and loan as a heterogeneous field comprised of multiple, competing logics and “moral sentiments,” creating multiple legitimate organizing options for SLAS..

Between 1975 and 1989, roughly 738 mutual SLAs, or 18% of the 4078 OTS regulated thrifts in existence in 1975 converted from mutual to stock company form (See Figure 1). One hundred and thirty conversions alone were completed in the peak year of 1987. From 1990 until 2005, an additional 639 MSLAs converted (OTS 2006).

[Figure 1 about here]

Conversions under FHLBB guidelines begins with a conversion plan approved by two thirds of the SLA board, notification of depositors, and filing an application and the plan with the FHBB (Masulis 1984; Dunham 1985; OTS 1997). Upon FHLBB approval, the board had to call of special meeting of members to obtain their approval for the conversion, and if two thirds of the votes of depositors approve, a stock offering is made first to eligible subscribers, and then to the public. Depositors have the first rights of refusal to the stock subscription, subject to a 5% limit for any account holder, and between 15 and 25% of the total issue can be set aside for sale to officers and directors of the associations after depositor and other members have opted to not to subscribe. In practice, only 2 to 5% of depositors exercise their subscription rights; on average, managers acquire 20% of the new associations’ shares (Dunham 1985; Pettigrew et al. 1999). Converting SLAs may also include in their new charter a ban on any individual, manager or group of share-holders acting in concert acquiring more than 10% of equity in the association for five years following the conversion (Cole and Mehran 1998).

These conversions were a product of new market forces and institutional developments, including deregulation, the rise market conceptions within the industry, and its reconstitution around multiple, competing logics (see also Haveman 1992; 1993). Yet not all MSLAs responded uniformly to the “call of the market,” and conversions did not all occur at the same rate in the same places. To the contrary, as Figure 2 shows, they displayed a marked geography, with the highest proportion of mutuals converting in Arizona, Texas, Oklahoma, California and Florida. This geography may be an artifact of regulatory leniency, rapid growth in these regions, the boom and bust economies of the sunbelt and oil patches, and the resulting pressing needs for capital. But these are places characterized by immigration, rapidly expanding population, ethnic diversity and the wholesale manufacture of brand new communities, providing a first empirical warrant for investigating the relationships between community and organizational form.

[Figure 2 about here]

II. ORGANIZATIONAL FORM, COMMUNITY AND CONVERSIONS

Organizational analysts conceptualize forms like mutuals, cooperatives and stock corporations both *relationally or transactionally*, as instruments for managing economic relations, contracting costs and moral hazards, and *institutionally*, as embodiments or vehicles for moral sentiments, models of order, or institutional projects. Each conception suggests mechanisms linking community, organizational form and conversions.

A transactional/relational approach

For organizational economists, the rise and prospects for mutual and cooperative enterprises rest on their agency or ownership cost advantages relative to stock company forms, their ability to contain organizing and enforcement costs of collective ownership,

and ultimately, we suggest, on presence of networks of social relations or community foundations. In this view, mutuals and cooperatives are solutions to costs of contacting arising in market transactions with for-profit stock corporations (Alchian and Demsetz 1972; Putterman 1982; Ben Ner 1987; Williamson 1985; Heimer 1985; Elster 1988; Bonnin et al 1993; Hansmann 1995). Stock corporations separate ownership from consumption and production, vesting decision making authority and residual claims to profits in an independent class of shareholder-owners. In so doing, stock firms pose moral hazards for consumers and producers (Ben Ner 1987; Weisbrod 1988). They create incentives for stockowners and their managers to economize on products and benefit themselves at consumers' or producers' expense either by charging high or discriminatory prices, diluting product quality, or refusing service. Competition can check conflicts of interests. But when information about products is costly, collective goods are involved, or switching partners is difficult, consumers and producers become vulnerable to opportunistic corporations.

Mutuals solve this problem by eliminating the independent stock-holder investor and assigning property rights in the firm to the producer or consumer group most affected by contracting costs. In effect, they replace the market relation between a firm and its consumers or producers with an ownership relation, making producer- or consumer-owners the residual claimants and ultimate decision making authority in the firm. And in unifying the roles of ownership with production or consumption, mutuals mitigate conflicts of interest associated with stock corporations, supporting investments, provision and terms not realizable in market transactions with for profit firms (Heflebower 1980; Ben Ner 1984; Heimer 1985; Ware 1989).

Mutual SLAs had substantial contracting and agency cost advantages over stock banks, making them useful for credit market failures (Masulis 1984; Ware 1989; Rao and Neilson 1992; Hansmann 1995; Mason 2004; Kraatz and Moore 2006). Up through the early 20th century, commercial banks systematically failed to provide individuals of limited means with long-term loans for homes, partly because of the costs of assessing, selecting and monitoring individuals and small loans. In addition, small savers could not effectively monitor the risks a for-profit banks took in investing funds, leaving bankers free to invest deposits in highly speculative ventures that might not pay off a dime. MSLAs solved these problems by unifying the roles of depositor with owner and, initially, with borrower as well. Making depositors owners reduced the incentives characteristic for-profit stock banks for owners to benefit themselves at depositors' expense by investing their funds in high risk assets. Moreover, borrowers were typically shareholders, members often knew one another, and officers were usually local community leaders well known to the membership. MSLAs could thus evaluate and monitor borrowers effectively, while benefiting from obligations borrowers felt to avoid defaults whose costs would fall on themselves, their friends and neighbors.

Yet, mutuals forms and MSLAs are also subject to agency or ownership costs that can undermine their efficacy as solutions to market failures (Putterman 1982; Williamson 1985; Hoffman and Libecap 1991; Rao and Neilson 1992; Bonin et al. 1993; Hansmann 1985; 1995). Unlike stock-corporations, mutuals rely on collective action and decision making by relatively large numbers of consumers and producers, especially during their formation, creating problems of organization and latitude within the enterprise for costly disagreement, debate and internal divisions. Moreover, by spreading residual claims and

decision making among consumers or producers, mutual forms diminish incentives for owners to invest in improvements, develop expertise or monitor managers. Mutuals will thus be more prone than for-profit corporations to protracted decision making, managerial opportunism, incompetence, missed opportunities and underutilized assets

As economists have emphasized, these tradeoffs may apply with particular force to MSLAs (Herman 1969; Nichols 1972; Verbrugge and Jahera 1981; Masulis 1987; Rasmussen 1988; Rao and Neilson 1992). In contrast to stock banks, ownership in MSLAs cannot be transferred and remains perpetually diffuse, so managers face no threat that an individual or group of owners might concentrate shares to discipline or displace them. Moreover, individual depositor-owners have little incentive to bear the monitoring and collective costs of disciplining managers, particularly given deposit insurance and interest rate rules. To the contrary, such costs give member-owners incentives to become less active in organizational affairs, skip shareholder meetings, and operate less as member-owners of a cooperative than as mere consumers of bank services, and transacting with their association at arm's length. As a result, MSLA managers may not only face few, if any pressures or incentive to reduce costs, improve efficiency or take entrepreneurial risks in lending. They will also enjoy unusual autonomy in the firm, letting them disenfranchise owners via perpetual proxies and other means, and extract resources from the SLA via perquisites and favorable loans or contracts to family.

The central implication of the foregoing is that the relative ownership and agency costs of mutuals in general and MSLAs in particular rest fundamentally on the character of the communities and social networks within which MSLAs and their member operate. As sociologists and political scientists emphasize, the structure and stability of

communities, and the prevalence within them of dense and enduring social networks, decisively affects their social capital or collective efficacy—the capacity of a community and its members to exert informal and formal social control, and oblige individuals to contribute and cooperate within one another (Sampson 1987, 1999; Sampson et al. 2005; Massey and Denton 1991; Skocpol and Fiorina 1999; Kaufman 2002; Gamm and Putnam 1999; Putnam 2000). Empirically, the levels of social organization, network ties or social capital within communities affect a variety of outcomes, including crimes rates, whether and how community members occupy public spaces, participation in voluntary associations and voting, and citizen’s ability to mobilize collective for protest. And as organizational scholars have begun to show, community structures also affect economic organization and form, including the emergence, persistence and even the conversion of mutual or cooperative enterprises (Rao and Neilsen 1992; Haveman and Rao 1997; Clark and Soulsby 1998; Haveman, Rao and Paruchuri 2007; Schneiberg 2002; 2007; Schneiberg et al. 2007).

This work suggests that MSLAs will flourish and persist when members and managers are connected in dense and long standing networks of interpersonal relations, and when associations are embedded in stable and relatively homogenous communities rich in social capital. Where these social foundations exist, MSLAs and other mutual or cooperative forms have the greatest advantages and lowest ownership, collective action and agency costs relative to stock corporate forms. Members are known to one another, face-to-face interaction will be common, differences in outlook and interest are likely to be minimal, and high levels of trust prevail. Managers and members will be most inclined to identify with or feel obliged to act in the association and its community’s interest, and

the association has access to well developed social mechanisms for selecting, monitoring and influencing managers and borrowers. But, as communities become less stable or more internally divided, as members and managers become more heterogeneous, mobile or distant, as managers become less embedded in their local communities – in a word, as members and managers dissolve into impersonal societies of disconnected strangers— there will be less face to face interaction, and fewer social mechanisms available for forging associations, selecting good risks, subjecting managers to informal social control, or obliging them to community purposes. The agency and ownership costs of mutuals will increase, eroding their advantages relative to investor-owned stock corporations. And managers, well-placed insiders, and savvy outside investors will face growing incentives to convert the association to a stock corporation in order to capture the resulting efficiencies. Or, in a less sanguine reading, managers and well placed insiders will be freer to undertake conversion to appropriate the mutual for their own benefit.

An institutional approach

For institutionalists and organizational ecologists would have similar expectations, but adduce different mechanisms for the relationships between community context, form and conversions. Here, organizational forms represent embodiments or vehicles for institutional logics, social identities and institution building projects (Dobbin 1994; Davis, Deikmann and Tinsley 1994; Meyer et al. 1997; Rao 1998; Ingram and Simons 2000; Reuf 2000; Schneiberg 2002; Hannon 2004; Hsu and Hannon 2005; Haveman, Rao and Parachuri 2007). Forms both incarnate logics, and acquire legitimacy to the extent they articulated with prevailing conceptions of rationality, justice and order (Haveman and Rao 1997). In this view, whether forms like mutual and stock companies

are deemed institutionally appropriate or infused with value (Selznick 1957) are as important for their prospects as their relative capacities for solving transactional problems. Forms will thus generally co-evolve with prevailing logics, moral sentiments or theories of order. However, their emergence and relative distributions also depend on political-cultural work that links forms, logics and practices. They depend on whether movements, professions or institutional entrepreneurs embrace or endorse particular forms and logics. They depend on whether advocates can credibly theorize or frame preferred forms as consistent with prevailing sentiments and day-to-day practices and relations, while articulating compelling critiques of alternatives. They depend as well on whether advocates can draw on existing institutions or communities of related forms as exemplars, tangible incarnations of moral sentiments or analogies.

For example, insurance mutuals, dairy and grain cooperatives, and other related forms emerged within the US in nineteenth and early twentieth centuries not just as solutions to contracting failures, but also as platforms for social projects and identities (Schneiberg 2002; 2007). They were partly an expression of cooperative traditions Swedish and other northern European immigrants brought with them from their home countries. They were also promoted by movements and reform projects that rejected economic dependency, middlemen and “corporate liberal” visions of national markets, corporations and large cities, in favor of “producer-republican” programs of regionally decentralized economic development based on a “cooperative commonwealth” of farmers, independent producers and self-governing towns (Goodwyn 1978; Berk 1994; Hattam 1992; Voss 1996). For Grangers, Alliance men and municipal reformers, cooperatives and the like were simultaneously solutions to exchange problems, and

expressions or vehicles for visions of alternative economic order. And their claims on behalf of these forms proved credible, in part, because advocates could plausibly link them with both broader republican and anti-monopoly sentiments honoring self-sufficient communities of industrious producers, on the one hand, and the pervasive, tangible everyday reality of ethnic solidarities, small town communities and already existing cooperatives, on the other. In a broadly similar vein, Ingram and Simons (2000) find that ecologies of worker cooperatives in Israel rests one “ecologies of ideology” rooted in socialist ideas and theories of Kibbutzim as vehicles for democratic and communitarian local development. Indeed, cooperative organization quite commonly rest on social movements and their efforts to mobilize and implement broader visions of alternative social or economic order (e.g., Rothschild Whitt 1988; Staber 1989; Stryjan 1994; Russell and Hanneman 1995; McLaughlin 1996; Furlough and Srikwerda 1999).

Mutual SLAs likewise embodied and were likewise mobilized as vehicles for communitarian and republican moral sentiments (Haveman and Rao 1997; Haveman, Rao and Paruchuri 2007; also Mason 2004). In their earliest forms, MSLAs expressed moral sentiments of mutuality, or mutual self-help among an association of peers, thrift, or systematically planning and disciplined savings for the future, and non-profit service to the community, or a contribution to the welfare of the local community via expanding homeownership. During the 1910s and 1920s, MSLAs were subjected to and incorporated Progressive sentiment of efficiency, rationality and bureaucracy, turning increasingly to professionalized managers and otherwise aligning their structures with the new gospel. But even as MSLAs incorporated norms of impersonal rationality, lawmakers, federal regulators, and industry associations continued to theorize and

advocate MSLAs as embodiments of “Main Street” –as non-profit, locally owned and managed institutions for promoting thriving, harmonious and self-sufficient communities of virtuous householders— distinguishing them in principle, regulatory practice and popular culture from the worlds of Wall Street, impersonal market capitalism, and for-profit commercial banking.

As described above, this word changed substantially in the 1960s and 1970s, as new conceptions and moral sentiments, deregulation and linkages with Wall Street investment bankers subjected SLAs to new demands, and reconstituted the savings and loans as an institutionally heterogeneous field populated by multiple, competing logics and organizational forms. But not every MSLA defected from community to the market.

Here, too, existing theories support arguments, grounded in theorization and framing (Strang and Meyer 1994; Snow and Benford 1986), that link communities to organizational form: Mutual forms, MSLAs and claims made on their behalf will be more credible to participants to the extent that local communities, communities activities and dense networks of interpersonal relations are tangible realities in the day to day lives of mutual members and managers. Where mutuals and managers are embedded in local communities and interact on a daily basis with familiar faces from those communities, and where those communities are stable, well developed, and characterized by dense networks of long standing personal relations, both depositor-owners and managers will be prone to accept and embrace MSLAs and their advocates’ claims, even in the face of competing forms, claims and modernizing sentiments. In these contexts, claims to mutuality, non-profit service and community welfare have tangible socio-material foundations. They will make sense and resonate for depositor-owners, and particularly

for managers, even in the absence of active member participation in the association's affairs. But where communities are largely absent, and where mutuals and managers are less embedded or tied to the local community, and interact less with a local community's members on a day-to-day, face-to-face basis, claims about mutuality, community, and non-profit service lose plausibility and force. They will become less credible in particular relative to competing claims for the superiority of more rational and modern business forms, the benefits to the community of rapid loan growth, and the importance of responding actively to the demands and opportunities of the market.

Here, institutionalists, like organizational economics and agency theorists, identify important community and social structural foundations for mutual forms and their conversions. They highlight different mechanisms. One points to how changes in embeddedness and community organization undermine the agency and ownership cost advantages of mutuals relative to stock company forms. The other emphasizes how the erosion of embeddedness and local networks render claims to mutuality, community and non-profit service less credible, leaving mutual managers and members more open to competing claims, alternative models of "modern," rational organization, and the "call of the market." Yet both would expect conversions where mutuals become detached from their communities, where those communities disorganize or become impoverished in social networks and social capital. And both support the following specific hypotheses.

H1: The probability of a mutual SLA converting to a stock corporation increases as the mutual and its managers become less embedded in their local community

H2: The probability of a conversion increases as communities disorganize—as they become more unstable and heterogeneous, less capable of exercising formal or informal social control over members, less constituted by intact families, and poorer in social capital.

H3: Increasing embeddedness will amplify the effects of community disorganization on the probability of conversion.

In general, we expect mutuals and managers who are highly embedded or focused on the home community to be particularly sensitive to the state of that community – its networks, organization and capacity to influence members’ day to day lives. This implies the interaction effect in hypothesis 3: increasing embeddedness will increase the positive the effects of community disorganization on conversions.

III. METHODS AND DATA

Methods and Dependent Variable

To investigate the effects of embeddedness and community structure on SLA form, we applied discrete time event history methods (Allison 1995; Yamaguchi 1991) to longitudinal panel data and our dichotomous dependent variable, the conversion of mutual to stock SLAs between 1976 and 1988. Event history analysis lets us model the effects of time varying and invariant factors on the hazard rate of conversion in a given year by a mutual SLA. We use a discrete time approach because many of our variables are measured annually, and conversions involving filings, appraisals and approvals that can take up to a year to complete. We estimate models by applying logistic regression to pooled time series data. These models take the following form:

$$P = \frac{\exp(x_j\beta)}{1 + \exp(x_j\beta)}$$

where P =the probability of conversion, X is the set of independent variables for SLA j, and β is the set of effect coefficients.

We took the organization-year as our unit of analysis and observed 3764 mutual SLAs over 12 annual panels. In assembling our data set, we began with all mutual SLAs

in 1976, as these comprise the population at risk, adding a small number of newly formed mutuals when they appeared. We coded our dependent variable, conversion, equal to 0 for all SLAs for years in which they remained mutual, coded conversion equal to 1 for the year mutuals converted to stock corporations, and thereafter dropped converted SLAs from the data set as they were no longer at risk of stock conversion. Annual data on mutuals and their characteristics came from financial reports submitted by all SLAs to the Federal Home Loan Bank Board (now the Office of Thrift Supervision).

To relate conversions to context, we combined our firm-level data on mutuals with time-series data on SLAs' home counties compiled by the US Census Bureau. Using county data to tap the characteristics of mutuals' home communities or central geographical scope of operation was a carefully considered compromise. SLA markets are bounded at state lines by state laws, suggesting state-level data would be appropriate for addressing contextual effects on SLA form (Masulis 1984). Yet a state level view is far too broad to capture local community conditions. States are internally heterogeneous, typically containing a variety of communities within their boundaries. Moreover, 25% of the mutuals for which we have data on lending geography lend in two counties or less, 50% lend in 4 or less, and 75% in 6 or less, suggesting for most mutuals a far more local orientation than state-wide. Indeed, half the mutuals make 68% to 100% of their loans in a single county; 75% make at least half their loans there, suggesting that mutuals focus heavily within one county. To be sure, a county level focus can be too broad capture neighborhood organization. Yet, using zip-code level data for the most fine grained view possible with our data sets is too narrow, as over 90% of SLAs did business in more than

one county. Finally, county data are available for both urban and rural areas, unlike data available for other intermediate Census aggregations based on metropolitan areas.

We focus on the period between 1976 and 1988 based on historical consideration and data availability. We begin in 1976 as that was the first full year following the decision by the US Congress to lift its moratorium on conversions. Prior to 1976, mutuals were generally prohibited from converting and were thus not at risk. We end in 1988 because this year signaled the end of the first wave of conversions in the industry, the onset of a massive consolidation, and significant institutional changes in the industry. These changes included the authorization of mutual holding companies, and the enactment of the Financial Institutional Reform, Recovery and Enforcement Act which, among other things, eliminated the FHLBB, and created the Resolution Trust Corporation to manage thrift failures.

Independent Variables

Unless noted, firm-level independent variables were all time varying, observed annually, and based on SLA reports filed with the FHLBB (the OTS data). County-level variables were all time varying and came from the *County and City Data Books* (1972 to 1992) compiled by the Bureau of the Census from its decennial and five year surveys of population, manufacture and agriculture. We obtained county data electronically from the Bureau of the Census' *1998 USA Counties* CD-ROM, supplementing them *County and City Data Book* data available on line from the Inter-university Consortium for Political and Social Research. We used linear interpolation for variables created from Census data to obtain annual values and lagged all independent variables one year.

SLA community embeddedness. We measured community embeddedness using: 1) the percent of mutual assets invested in residential mortgages, and 2) a set of indices for how each mutual's lending was concentrated or dispersed across counties. As Kraatz and Moore (2006) suggest, how much mutuals focus on residential lending is a good proxy for how wedded they remain to their historical, community-based mission as opposed to pursuing non-traditional investments tied more to purely financial considerations and national securities markets. It should likewise proxy relational dimensions of community embeddedness (Clary and Soulsby 1998). Mutuals focusing heavily on residential mortgage lending are more prone toward extensive and ongoing interactions with local community members as a part of their business pursuits than mutuals that focus more on purely financial, non-traditional investments. Percent residential mortgages is an annual, firm-level variable constructed from the OTS files.

We also obtained Federal Reserve data on the geographical distribution of bank loans based on filings required by Home Mortgage Disclosure Act. These data were only available for 1506 of the mutuals in the OTS data set, and only for one point in time, at the end of our period. Yet, these are the only such data available and provide a detailed cross sectional view of mutual lending profiles. The HMDA data list for each bank: 1) the census tracts and counties to which the bank makes loans, and 2) the number and dollar value of conventional mortgage and other kinds of loans made within each geographical area. Based on these data, we calculated the proportion of a mutual's loans and loan values it made in each of the counties in which it was active, and then created two kinds of variables to tap how much each mutual concentrated its loans geographically. The first variable was simply the maximum proportion of loans and loan values each mutual made

in any one of the counties in which it made loans. As mutuals increasingly focus their loans and lending dollars in one or a small number of counties, this value would increase, reaching a value of one for mutuals that made all of their loans in one county.

The second type of variable was an index of qualitative variation based on proportions of loans and money lent by each bank across *all* the counties in which it was active. The IQV is a standardized measure of concentration or heterogeneity:

$$IQV = \frac{(1 - \sum_{i=1}^k p_i^2)}{(k - 1) / k} \quad \text{where } k = \text{the number of counties in which a mutual SLA}$$

makes loans, and p is the proportion of loans or loan dollars made in each county.

This measure has low values when a mutual SLA concentrates most or all of its loans in a one or a small number of counties, and increases in value as a mutual distributes its lending more widely across a growing number of counties, becoming less embedded within a single local community. For ease of interpretation, we reverse coded these IQVs before running our models, multiplying them by negative one, so increasing values signaled increasing concentration or community embeddedness.

We calculated maximum proportion variables and IQVs in four ways, using all loans and just conventional loans, and both the number and the total value of loans made per county. All of these measures were very highly correlated ($.81 < r < .98$). We opted to rely mostly on the IQV indices based on the number and value of all loans. Unlike the maximum proportion variable, the IQVs use data on all of the counties in which a mutual is active, and using all loans rather than conventional loans ensured that mutuals concentrating on non-traditional investments that would be included in our analyses using these variables. As noted, we hypothesize that increasing community embeddedness will

decrease probability of a mutual converting to stock company form.

Community characteristics. We used a variety of standard measures of social organization and disorganization and community capacity drawn from the social science literature on communities, crime and social capital (e.g., Sampson 1987, 1999; Sampson et al. 2005; Massey and Denton 1991; Putnam 2000). All of these measures seek to tap solidarity or collective vitality or efficacy of the communities in which mutuals are embedded, including the extent to which those communities contain stable and well developed networks of affiliation and trust, can sustain collective action and purpose, oblige citizens, and exert some degree of informal social control over its members.

We measure *crime rate* as the number of reported crimes per 100,000 persons per county, *divorce rate* as the number of and *building vacancy rate* as the number of perpetually (as opposed to seasonally) vacant residential units in a county divided by the total number of residential units there. Increasing crime and vacancy rates are standard indices of community and neighborhood disintegration. Increasing crime rates signals a decline in formal and informal controls within communities, and increasing divorce rates signal a reduction in the density and efficacy of families in a neighborhood or community that might affiliate and collectively exercise informal social control.

We measure *residential instability* as the absolute value of the percentage change in population over the previous five years. *Ceteris paribus*, residential stability facilitates the formation of dense and enduring social relations among community members, the development of trust, obligation and informal social controls those networks support. Conversely, rapid and substantial change in population due to growth, in- or out-migration typically weakens or disrupts those social relations, while impeding the

formation of new networks among community members on which mutuals may depend.

We measured *racial*, *business* and *farmer heterogeneity* using indices of qualitative variation and the racial, establishment size and farm size distributions provided by the Census. The index of racial heterogeneity was based on the numbers and proportions of individuals across white, black and other racial and ethnic groups, and correlates very highly with the percent of a county's population that is not white. Increasing racial heterogeneity can often fragment communities, creating perceptions of racial threat, diminished sociability, and new axes of conflict. The indices of business is based on the number of establishments in different establishment size groups, measured by employment. The farm heterogeneity measure is based on the number of farms in different farm size groups measured in terms of acres of land. Differences among businesses and farms in size and assets often generate heterogeneous and even conflicting interests, potentially seriously undermining the foundation for collective enterprise.

As a final measure of community cohesion and efficacy, we included a social capital index created by Robert Putnam (2000). This index combined individual responses to the DDB Needham Life Style survey, turnout in two presidential elections, and the numbers of civil, social and non profit organizations per 1000 population. The survey items used asked individuals about their group membership; whether or how often they attended public or club meetings, entertained friends, volunteered, worked on community projects or served as officer in an organization or club; and if they agree that people are honest or trustworthy. These data are admittedly crude, as they are only available for one year at the end of our period, and are aggregated at the state level. But given the centrality of community and social capital to our analysis, we opted to include

this variable as tapping broad, and stable characteristics of communities in the aggregate.

As hypothesized, we expect that social disorganization and diminished community will undermine the social foundations for mutuals forms. Increasing crime rates, divorce rates, vacancy rates, residential instability, racial heterogeneity and economic diversity will all increase the probability of a mutual converting to a stock company form. Increasing social capital will decrease the likelihood of conversion.

Finally, we created a series of *interaction terms* to determine if increasing community embeddedness rendered mutuals more vulnerable to community disorganization, and thus more likely to convert in response to a given decline community organization. We multiplied each community characteristic variable by our measures of embeddedness, relying mostly on interaction terms created from the indices of variation for all loans. By our hypothesis, increasing embeddedness will make mutuals more sensitive to changes in their home communities, amplifying the positive effects on conversions of social disorganization, residential instability and heterogeneity.

Controls. The financial history of the industry suggests that we should control for economic factors, capital requirements or financial hardships that might have prompted mutuals to convert to stock forms independently of community characteristics or embeddedness. Accordingly, we measure the *cost of funds* or the interest mutuals paid on deposits, *return on assets*, *percent of assets is fixed term investments*, and *capitalization* or the difference between the mutuals net worth to asset ratio and the FHLBB' regulatory minimum. We are agnostic as to whether poorly performing mutuals, mutuals locked into low yield assets, mutuals attracting regulatory attention, or those facing capital shortages or difficulties in raising funds are more or less likely to convert to stock

corporations, although existing work clearly identifies the limits mutuals face in raising capital as a key factor for conversion.

We control for *size* or total assets, and *organizational age*, but remain agnostic regarding the direction of effects. Ecologists suggest organizations become more inertial and less prone toward change as they become larger and older, and older mutuals may have been founded in times when mutual moral sentiments prevailed. However, large SLAs more readily entered new asset markets after deregulation (Haveman 1993), may have been better placed to take advantage of new opportunities afforded by conversion and capital infusions, and may have been more attractive as targets for conversion specialists, investors and IPO firms. Larger and older mutuals may also be more subject to agency problems and managerialism than their smaller and new counterparts.

We control finally for a variety of contextual economic factors to take into account any dependence of conversions on market conditions, regional economic distress or downturns like the collapse of values in oil patch states like Texas, boom markets associated with rapid growth and the creation of new suburbs in sunbelt states, and select differences in regulatory environments. Specifically, we included *residential population* to capture the potential size of housing market, *growth in building permits* to capture expansion or contraction in housing markets, *per capita income* to control for poverty and wealth, and *population density* and *population density squared* to determine whether conversions were more or less likely in rural, suburban and urban communities. All of these variables were based on county data. We also controlled for variations in regulatory environments and their effects on conversions by including a dummy variable for whether a mutual had a *federal charter* as opposed to a state charter, and for whether

mutuals operated in Texas, California or Florida. Texas, California and Florida are known for having loose regulations. They permitted state-chartered associations to invest aggressively in a wider variety of assets prior to federal deregulation, and served as incubators for more aggressive thrifts to innovate and model non-conventional investment practices that were later adopted more broadly (Kraatz and Moore 2006; Fabritus and Borges 1989).

Models and estimation

We analyzed conversions in three steps. We first fit models for the entire set of 3764 mutuals in our data, starting with controls and then adding community characteristic variables. We then replicated the analysis for more restricted set of mutuals for which we have lending geography data in order to assess further the net effects of embeddedness and community characteristics on conversion. In the third analysis, we address interaction effects, adding interaction terms to models estimated on more restricted data set to determine if increasing embeddedness rendered mutuals more susceptible to social or community disorganization.

We estimated models using logistic regression routines in STATA, version 9.2, clustering by SLA and using the robust option to take into account within group dependence (the correlation of observations over time within SLAs) and possibilities of heteroskedasticity standard errors. The cluster option calculates robust standard errors or Huber/White estimates. This approach is particularly suitable for a short (12 year) but very wide (3764 cases) data set, where cross sectional variation is likely to figure far more centrally than over time variation within cases. We also fit random effects models using STATA's *xtlogit* routine, which estimates effects using a matrix-weighted average

of the between and within mutual variation. The findings generated by both methods were quite similar, but we opted for the first approach as its correction for both non-independence and heteroskedasticity generated more conservative results.

IV. RESULTS

Table 1 presents models of the effects of embeddedness and community characteristics on conversions, using the full sample and the embeddedness measure for which we have data on all MSLAs. Model 1 includes our controls and that measure. Models 2 through 9 add to this baseline model each of our eight measures of community organization. Models 10 and 11 include the full set of factors, first excluding, then including our social capital variable, as it is a state-level, time invariant measure.

[Table 1 about here]

Model 1 reveals a negative coefficient for our embeddedness measure, which is consistent with the expectation that increasing community embeddedness decrease the odds of conversion, and the sign remains negative across all models, but never reaches significance, so the support for hypothesis one is weak. In contrast, the coefficient for social capital is negative and significant, and the coefficients for crime rate, divorce rate, residential instability, manufacturer heterogeneity and racial diversity are all positive and significant when entered singly to the base line models. With exception of vacancy rates, which is not statistically significant, and farm heterogeneity, which is negative and significant, the results provide strong and strikingly consistent results for hypotheses two. The odds of conversion increase as social capital decline and communities disorganize – that is, as communities become increasingly unstable, heterogeneous, racially divided, less able to exert control over its members and less comprised of intact families.

Figure 3 graphs the direction and magnitude of these effects, giving the percent change in the odds of conversion for a one standard deviation increase in the embeddedness and community organization variables.³ The effects of community disorganization and social capital are substantial. Decreasing social capital one standard deviation increases the odds an MSLA converting to a stock corporation by 15%. Increasing crime rates, divorce rates, residential instability and manufacturing heterogeneity one standard deviation increase the odds of conversion, respectively, by 11.1%, 10.5%, 12.1% and 13.8%, and the same increase in racial diversity increases the odds of conversion by 62%.

[Figure 3 about here]

Table 2 and figure 4 repeat this analysis on the subsample of SLAs for which we have data on both embeddedness measures. Table 2 omits the control variables for ease of presentation, but shows negative and significant coefficients for both measures of embeddedness. This result appears across all models and strong support for hypothesis one. The odds of conversion decrease as MSLAs concentrate more of their lending in traditional mortgage lending to the community and as they concentrate their lending within their local community. In addition, while farm heterogeneity continues to have a negative and significant coefficient, social capital has a significant negative effect, and crime rates, divorce rates and racial divisions significant positive effects on the odds of converting. Decreasing embeddedness, decreasing social capital, and increasing community disorganization all foster mutual conversions to stock corporate forms.

[Table 2 about here]

³ These figures were calculated using the standard formula for the magnitude of effects for logistic regression: $(\exp(b*s) - 1) \times 100\%$, where b is the regression coefficient from the log odds model, and s is the standard deviation of the independent variable (Long 1997: 227-29).

Furthermore, as figure 4 reveals, a number of these effects are substantial. A one standard deviation decrease in how much an MSLA focuses on traditional mortgage lending to the community increases the odds of conversion by 10.4%; the same increase how much a MSLA concentrates lending geographically in its own community produces a substantially greater 17.3% increase the odds of conversion. A one standard deviation increase in crime rates produces smaller 8.1% increase in the odds of conversion, but such increases in divorce rates and racial diversity have greater effects, producing, respectively, a 14.2% and 62.7% increase in the odds of conversion. These results confirm hypotheses 1 and 2.

[Figure 4 about her]

Table 3 addresses hypothesis 3 by adding interaction terms for each community characteristic to a model which includes all of the controls, both of the embeddedness measures and all eight community characteristic variables. The table omits the control variables for ease presentation and reveals positive and significant coefficients for three interaction terms, those for divorce, residential instability and farm heterogeneity. With one exception, these results are consistent with hypothesis three: Increasing the embeddedness or focus of MSLA lending activity within its home community renders it more sensitive to community disorganization, increasing the positive effect of disorganization on the odds of conversion.

[Table 3 about here]

Figure 5 graphs how the effects on conversion of community disorganization change as MSLAs become more embedded in their home communities. The dark gray bars give the effects of the community disorganization variable on conversion for MSLAs

with the lowest possible levels of embeddedness; the black bars give the effects of community disorganization at the middle value of embeddedness; and the light gray bars give the effect of community disorganization at the highest possible value of embeddedness, when MSLAs do all of their lending within their home county. The results, particularly for divorce rate and residential stability are consistent with our expectation. At the lowest levels of embeddedness, community disorganization measured as a one standard deviation increase either in divorce rates or residential instability have practically no effect on the odds of mutual conversions. But as MSLAs become increasingly embedded in their local communities, the effects of community disorganization increase, with the standard increase in divorce and residential instability producing, respectively, a 21% and a 20% increase in the odds of conversion at middle levels of embeddedness, and a 58% and 47% increase in the odds of conversion when they are fully embedded in a single community. The effects are far greater here than when considered simply as main effects. The pattern is broadly similar for the farm heterogeneity measure, though the results for this variable are again complicated by a negative sign and need further consideration.

[Figure 5 about here]

Finally, table 1 reveals a number of effects among the control variables. MSLAs were more likely to convert when they are younger, larger (in assets), are well capitalized and enjoy higher rates of return, and have few assets tied up in fixed mortgages. They are also more likely to convert when they have a federal as opposed to a state charter, facing increase costs of funds, operate in California, Texas and Florida, and operate in wealthier, relatively sparsely populated communities with rapidly growing housing markets (as

measured by growth in building permits). With the exception of the cost of funds variable and perhaps the regional effect, these results do not support a view of conversions as a response to economic distress. Rather they indicate that conversions were more likely among financially well-off MLSAs in fast growing areas characterized by brand new communities, and operating under relatively lenient regulatory regimes. Conversions thus appear to be responses to new economic opportunities and growth, and may have reflected as well strategies by investment bankers to “cherry pick” the largest, most profitable, and least encumbered MSLAs as conversion targets.

V. CONCLUSION

To what extent will firms operating in deregulated and institutionally heterogeneous contexts increasingly subject to the “call of the market” undertake profound organizational change, defect from one logic to another, and align their strategies and structures with new market gospels? We find that mutual savings and loans associations were more likely to abandon their traditional form and convert to for-profit stock corporations as they became less embedded in their local communities, and as those communities became less stable, more heterogeneous, racially divided, and poorer in social capital. As mutuals became detached from their communities, and as American communities dissolved into impersonal societies of strangers, so too did the social and community foundations of non-for-profit mutual enterprise. Moreover, mutuals that had retained high levels of embeddedness in their local communities proved particularly prone to abandon Main Street for Wall Street as those communities weakened.

These findings build on the relatively few quantitative studies of form conversions (e.g., D'Aunno et al 2000; Haveman, Rao and Parachuri 2007), and confirm and extend both previous work on the community foundations of cooperatives, and Haveman and Rao's arguments and findings about forms and form conversion among MSLAs (Haveman and Rao 1997; Rao and Nielsen 1992; Haveman, Rao and Paruchuri 2007) . These findings also promise to shed light on conversions in other industries, including insurance, where mutuals began to convert in greater numbers in the 1990s (Madsen 2006), and in the credit union industry, which is beginning to see conversions among some of its largest members, raising alarms in that industry.

Our findings have implications for three streams of research, which simply note here in conclusion. We contribute first to economic sociology by documenting new ways that social structure, embeddedness and community organization in particular shape the economic parameters of business organization and the relative costs of different organizational forms. We extend research on social capital and social disorganization by showing how community characteristics and social capital affect not just civic association, political participation, crime and neighborhood civility, but also forms of ownership and economic organization. And we contribute to institutional analyses of change and innovation. We highlight how organizational characteristics mediate the effects of field level forces for change, like heterogeneity and deregulation. We also show that local conditions, networks and social structures shape the credibility of forms, logics and their associated claims and thus how organizations innovate, if all, in response to new business models and competing institutional logics.

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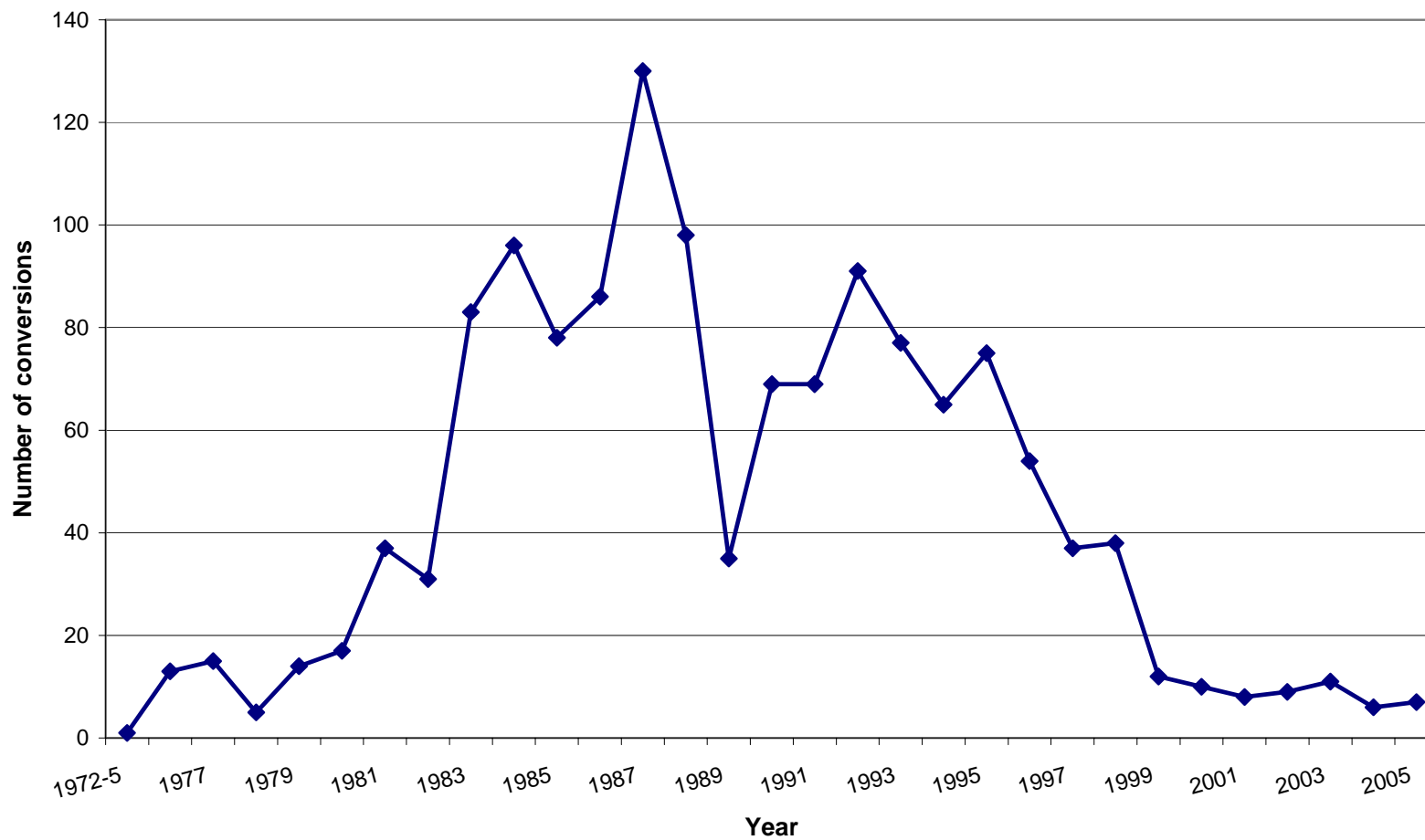
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Figure 1: Number of MLSA Conversions to Stock Company Form Per Year, 1972-2005



Percent Mutuals Converting to Stock Form, 1976-1988

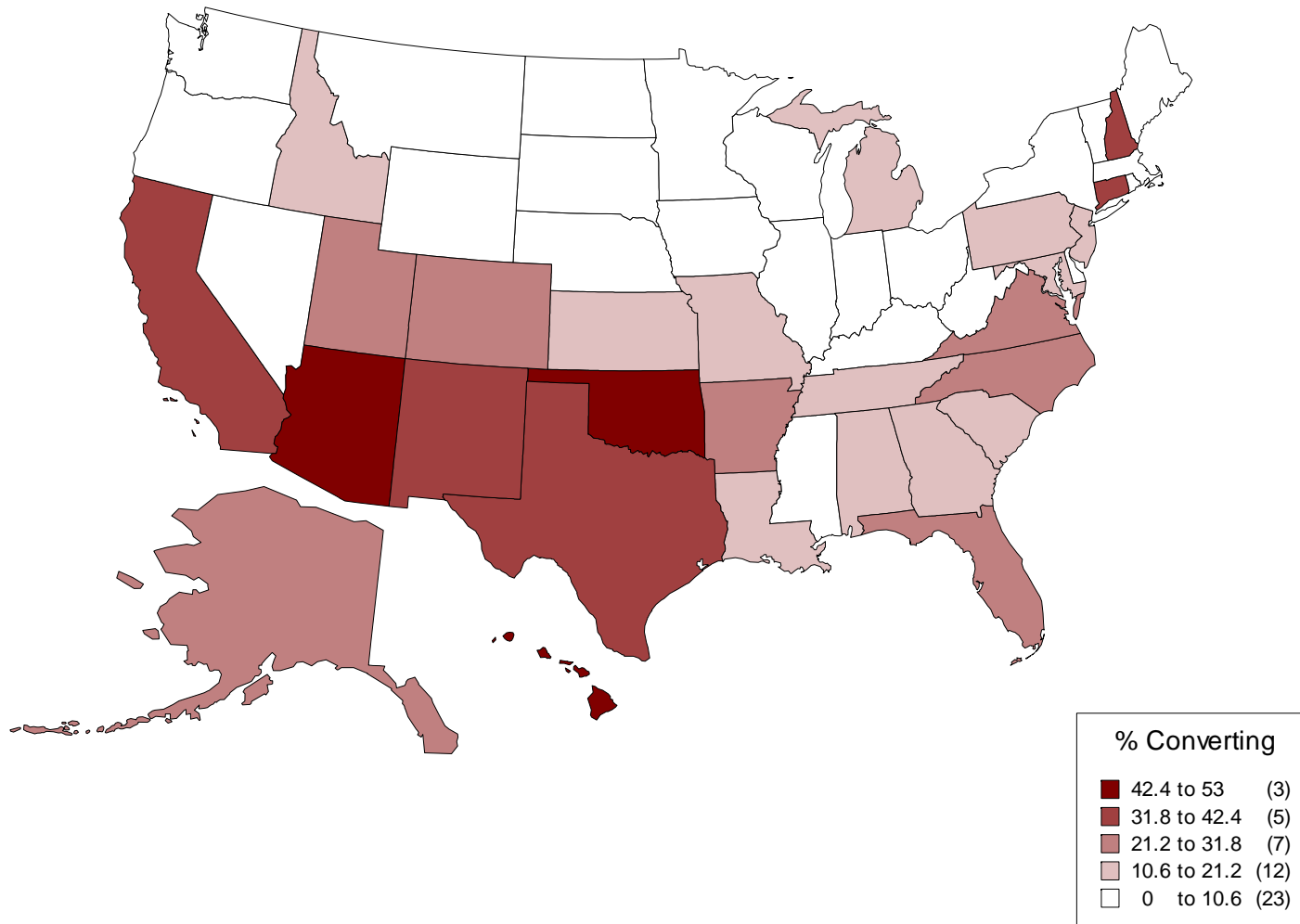


Figure 3: Effects of Embeddedness and Community Characteristics on the Odds of Conversion (full sample)

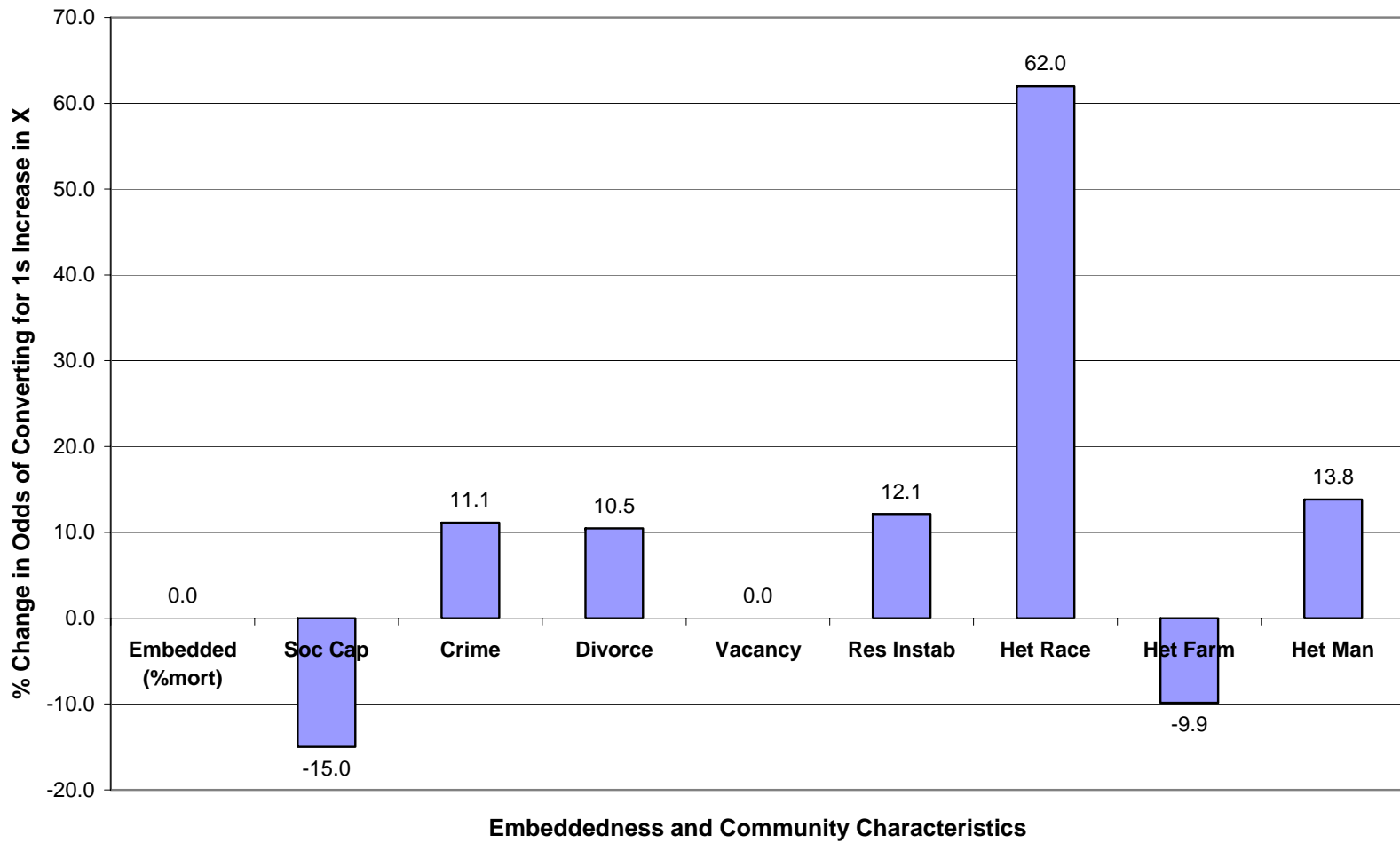


Figure 4: Effects of Embeddedness and Community Characteristics on the Odds of Conversion (subsample)

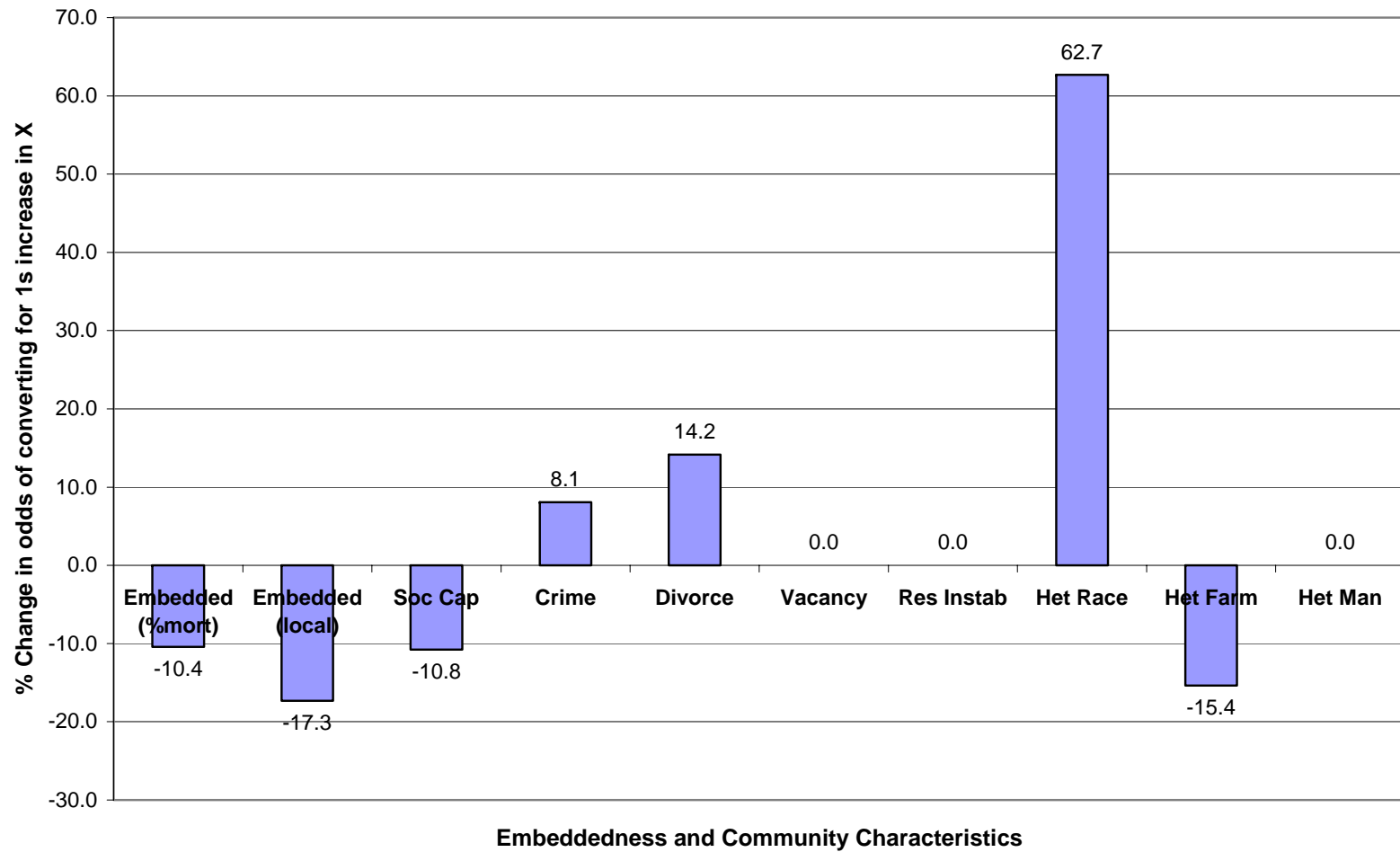


Figure 5: Effects of Community Disorganization and Heterogeneity on Odds of Conversion, by Three Levels of Embeddedness

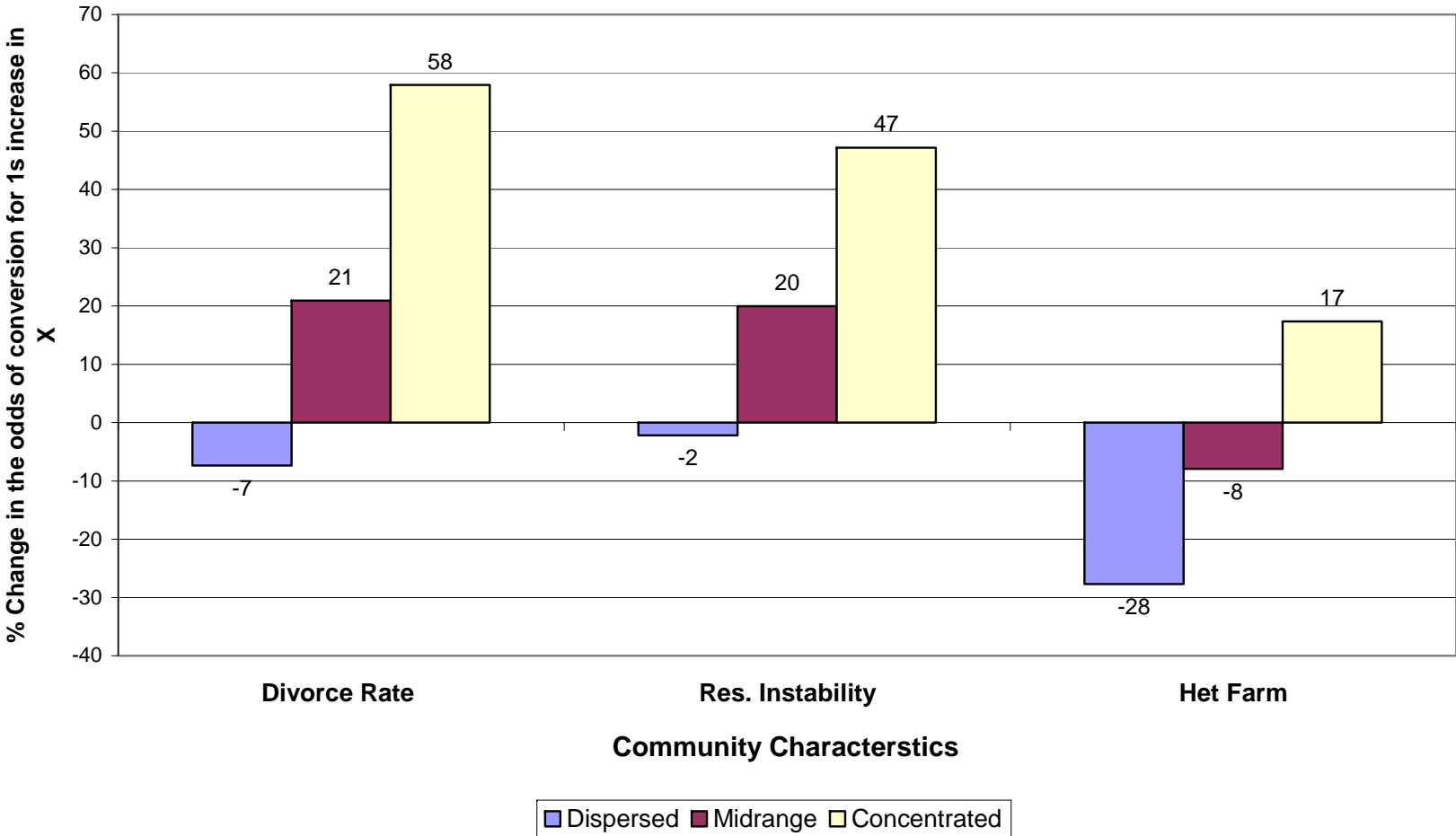


Table 1: The Effects of Embeddedness and Community Characteristics on Mutual SLA Conversions (Full Sample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Controls											
% Fixed rate	-1.708*** (.2401)	-1.724*** (.2410)	-1.710 *** (.2398)	-1.703*** (.2410)	-1.708*** (.2418)	-1.744 *** (.2422)	-1.695 *** (.2408)	-1.681*** (.2446)	-1.579*** (.2409)	-1.578*** (.2526)	-1.556*** (.2520)
Age	-0.0685*** (.002204)	-0.05864*** (.002214)	-0.06489*** (.002208)	-0.06666** (.002216)	-0.0685*** (.002213)	-0.06263 *** (.002222)	-0.07454*** (.002222)	-0.0701*** (.002199)	-0.03825* (.002267)	-0.03606 (.002296)	-0.03931* (.002311)
Capitalization	3.228** (1.430)	3.233** (1.398)	3.197** (1.393)	3.196** (1.435)	3.228** (1.430)	3.188e** (1.432)	3.209** (1.456)	2.969** (1.457)	3.690*** (1.301)	3.294** (1.368)	3.293** (1.367)
Return on assets	12.59 ** (5.216)	11.94** (5.122)	13.55** (5.310)	12.87 ** (5.221)	12.59** (5.220)	12.31** (5.263)	12.23** (5.195)	15.34*** (5.305)	11.70** (5.011)	13.68*** (5.219)	13.78*** (5.217)
Total assets (000,000)	2191*** (.02830)	.2212*** (.08279)	.2132*** (.07918)	.2170*** (.08292)	.2191*** (.08314)	.2198*** (.08202)	.2230*** (.08494)	.2134** (.08559)	.2135*** (.07874)	.2099** (.08328)	.2085** (.08414)
Cost of funds	17.58*** (6.763)	18.77*** (6.777)	17.59*** (6.733)	17.25** (6.746)	17.57*** (6.802)	17.45** (6.776)	17.86*** (6.807)	18.64*** (6.902)	17.40*** (6.704)	18.36*** (6.968)	17.67** (6.981)
Charter (federal)	.6623*** (.1223)	.6559*** (.1220)	.6599*** (.1221)	.6457*** (.1222)	.6623*** (.1224)	.6572*** (1.227e-01)	.6692*** (1.219e-01)	.6505*** (1.240e-01)	.6544*** (1.218e-01)	.6223*** (1.249e-01)	.6266*** (1.247e-01)
Resident population (000,00)	-.08245 (.05053)	-.07328 (.05087)	-.09111* (.05146)	-.07612 (.05116)	-.08257 (.05067)	-.06996 (.05156)	-.09330* (.05064)	-.04576 (.05058)	-.1637*** (.05445)	.1088* (.05729)	-.1195** (.05726)
Population density (000)	-.01450 (.04200)	-.02398 (.04192)	-.03180 (.04011)	-.004098 (.04209)	-.01454 (.04214)	-.003005 (.04332)	-.01692 (.04144)	-.08015 (.05956)	-.122*** (.04465)	-.1675** (.06573)	-.1769*** (.06533)
Population density2	-.001655 (.001338)	-.001315 (.001043)	-.001051 (.0009739)	-.001935 (.001299)	-.001653 (.001341)	-.001994 (.001574)	-.001485 (.001181)	.0001501 (.002179)	.0004587 (.0007751)	.002646 (.002012)	.002685 (.002043)
Income per capita (000)	.1364*** (.02168)	.1458*** (.02156)	.1340*** (.02186)	.1400*** (.02213)	.1363*** (.02231)	.1296*** (.02211)	.1440*** (.02179)	.1464*** (.02281)	.1628*** (.02134)	.1725*** (.02512)	.1717*** (.02516)
Building permit change	.05587** (.02271)	.05215** (.02305)	.05967*** (.02249)	.05650** (.02252)	.05587** (.02271)	.05705** (.02253)	.05524** (.02301)	.05997*** (.02176)	.05808** (.02353)	.06434*** (.02205)	.06599*** (.02215)
California, Texas, Florida	.7346e*** (.1527)	.6864*** (.1527)	.6564*** (.1566)	.6602*** (.1576)	.7352*** (.1603)	.5784*** (.1787)	.8473*** (.1629)	.7744*** (.1571)	.5965*** (.1536)	.4586** (.1945)	.4804** (.1944)
Embeddedness											
% Mortgage loans	-.5895 (.4433)	-.5718 (.4444)	-.6461 (.4419)	-.6054 (.4433)	-.5895 (.4433)	-.6483 (.4468)	-.5693 (.4450)	-.4878 (.4515)	-.6602 (.4351)	-.6281 (.4469)	-.6411 (.4467)
Community Characteristics											
Social capital index		-.2943*** (.09539)									.1785* (.1037)
Crime rate (000)			.04270*** (.01474)							-.01186 (.02485)	-.01943 (.02562)
Divorce rate				.05013* (.02680)						.03822 (.02770)	.04080 (.02820)
Vacancy rate					-.01471 (.8940)					.2094 (1.084)	.3745 (1.081)
Residential instability						1.6580** (.8405)				2.302** (.9498)	2.448** (.9635)
Manufacture heterogeneity							.9832** (.4891)			.7908 (.5179)	.9940* (.5436)
Farm heterogeneity								-.7401* (.3786)		-.6542* (.3623)	-.8055** (.3693)
Racial diversity									1.934*** (.2480)	1.954*** (.2706)	2.209*** (.3150)
Constant	-4.530*** (.4996)	-4.797*** (.5057)	-4.665*** (.5024)	-4.797 *** (.5331)	-4.527 *** (.5351)	-4.517*** (.4995)	-5.361*** (.6448)	-4.224*** (.5483)	-5.553*** (.5148)	-6.136 *** (.7922)	-6.171 *** (.7979)
Observations	20210	20210	20210	20210	20210	20210	20210	19596	20210	19596	19596

Robust standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 2: The Effects of Embeddedness and Community Characteristics on Mutual SLA Conversions (Subsample)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<i>Embeddedness</i>											
% Mortgage loans	-.9569*	-.9251	-.9757*	-.9788*	-.9598*	-.9838*	-.9474*	-.9303	-1.061*	-1.071*	-1.130*
	(.5672)	(.5685)	(.5630)	(.5660)	(.5672)	(.5715)	(.5679)	(.5916)	(.5515)	(.5831)	(.5825)
Geo Concentration	-.6573***	-.6396***	-.6397***	-.6452***	-.6855***	-.6452***	-.6484***	-.6103**	-.5984**	-.5738**	-.5823**
	(.2474)	(.2472)	(.2465)	(.2479)	(.2514)	(.2486)	(.2481)	(.2505)	(.2446)	(.2571)	(.2569)
<i>Community Characteristics</i>											
Social capital index		-.2334*									.2601**
		(.1290)									(.1191)
Crime rate (000)			.03141**							-.04219	-.05459
			(.01528)							(.03800)	(.03842)
Divorce rate				.06659*						.04919	.05990
				(.03563)						(.03845)	(.03951)
Vacancy rate					1.512					1.305	1.796
					(1.120)					(1.403)	(1.407)
Residential instability						1.590				1.759	1.973
						(1.147)				(1.300)	(1.307)
Manufacture heterogeneity							.5636			.3371	.6901
							(.8289)			(.8348)	(.8656)
Farm heterogeneity								-1.098**		-.9488**	-1.135**
								(.4852)		(.4679)	(.4706)
Racial diversity									2.006***	2.102***	2.438***
									(.3487)	(.3926)	(.4128)
Observations	11322	11322	11322	11322	11322	11322	11322	10845	11322	10845	10845

Note: All models include full set of controls for % fixed rate loans, age, capitalization, return on assets, total assets, costs of funds, charter, population, population density, population density squared, income per capita, % change in building permits, regulatory regime/region

Robust standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%

Table 3: The Conditional Effects of Community Characteristics on Mutual SLA Conversions

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<i>Embeddedness</i>								
% Mortgage loans	-1.131* (.5824)	-1.122* (.5819)	-1.083* (.5802)	-1.131* (.5846)	-1.130* (.5818)	-1.129* (.5819)	-1.101* (.5819)	-1.100* (.5813)
Geo Concentration	-6062** (.2721)	-8077 (.6731)	-2.070*** (.6269)	-1.600 (.4051)	-1.011*** (.3230)	-1.275 (1.930)	-2.821** (1.241)	-1.113** (.5482)
<i>Community Characteristics</i>								
Social capital index	.2047 (.2904)	.2610** (.1188)	.2485** (.1201)	.2658** (.1190)	.2536** (.1192)	.2608** (.1193)	.2514** (.1195)	.2629** (.1188)
Crime rate (000)	-.05437 (.03839)	-.02756 (.08388)	-.05099 (.03792)	-.05898 (.03851)	-.05084 (.03838)	-.05427 (.03857)	-.05553 (.03891)	-.05367 (.03822)
Divorce rate	.06000 (.03951)	.05938 (.03970)	.2413*** (.07961)	.06109 (.03950)	.06149 (.03972)	.06002 (.03955)	.06261 (.03950)	.05943 (.03941)
Vacancy rate	1.798 (1.406)	1.766 (1.410)	1.941 (1.422)	-5.156 (2.041)	1.618 (1.412)	1.689 (1.561)	1.954 (1.423)	1.905 (1.440)
Residential instability	1.968 (1.309)	1.984 (1.308)	2.038 (1.320)	1.817 (1.338)	5.428** (2.257)	2.004 (1.324)	1.998 (1.303)	1.945 (1.325)
Manufacture heterogeneity	.6885 (.8657)	.6836 (.8668)	.6401 (.8608)	.6772 (.8642)	.6147 (.8597)	.3031 (1.749)	.7377 (.8583)	.6351 (.8674)
Farm heterogeneity	-1.133** (.4712)	-1.145** (.4699)	-1.070** (.4735)	-1.166** (.4666)	-1.093** (.4723)	-1.136** (.4705)	1.053 (1.264)	-1.197** (.4692)
Racial diversity	2.432*** (.4121)	2.438*** (.4124)	2.400*** (.4127)	2.446*** (.4115)	2.418*** (.4197)	2.442*** (.4148)	2.386*** (.4149)	3.240*** (.8107)
<i>Interaction Terms</i>								
iqvnallbysoccap	-.08097 (.3845)							
iqvnallbycrime		.04100 (.1125)						
iqvnallbydivorce			.2817** (.1118)					
iqvnallbyvacancy				5.011 (3.929)				
iqvnallbypopch					5.738* (3.039)			
iqvnallbyehet						-6.005 (2.505)		
iqvnallbyfhct							3.189* (1.718)	
iqvnallbyrace								1.241 (1.108)
Observations	10845	10845	10845	10845	10845	10845	10845	10845

Note: All models include full set of controls for % fixed rate loans, age, capitalization, return on assets, total assets, costs of funds, charter, population, population density, population density squared, income per capita, % change in building permits, regulatory regime/region

Robust standard errors in parentheses

* significant at 10%; ** significant at 5%; *** significant at 1%