Community Mobilization and Credit: The Impact of Nonprofits and Social Capital on Community Reinvestment Act Lending*

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Objective. Recent trends in urban research emphasize the importance of local nonprofits and social capital in the revitalization of poor and minority neighborhoods. This article tests the idea that urban communities able to mobilize themselves by establishing development nonprofits and overcoming collective action problems will be better able to make use of urban-development policies. *Methods.* Measures operationalizing nonprofit presence and social capital are used in an empirical test to see if they can, through the medium of the Community Reinvestment Act, increase the number of mortgage and business loans in Washington, D.C. *Results.* These variables show only weak effects on mortgage lending, but very strong results for small-business lending in all types of communities. *Conclusions.* The results suggest that nonprofits and social capital may have only limited benefit in the revitalization of urban neighborhoods and researchers and practitioners should be careful when relying on them.

Over the course of the last couple of decades there has been a surge of interest in community development policy implementation processes emphasizing bottom-up, or community-based, solutions to urban problems. In the wake of the Reagan devolution revolution of the 1980s, and the privatization of public services emphasis in the 1990s, it is not surprising that those in search of answers to inner-city problems have advocated solutions starting at the local level. One line of research has focused on the nonprofit sector as a vehicle for using policy to more closely connect poor communities with government. Another pursues the formation of social capital as a way to empower low-income communities to help themselves.

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Yet evidence on how effective these two approaches to community development are remains slim. This article addresses this question by examining how one particular policy, the Community Reinvestment Act, designed to stimulate mortgage and small-business lending, might be used by nonprofits and communities with social capital to reap the benefits it has to offer. However, empirical tests using lending data in Washington, D.C. find only limited effectiveness, suggesting that the potential of these concepts to aid poor communities varies by circumstance and benefits desired.

Nonprofits and Social Capital as Keys to Neighborhood Revitalization

Although the belief that voluntary organization and association is critical to the health of civil society dates back to Alexis de Tocqueville's *Democracy in America*, the idea of communities, particularly poor and racially concentrated communities, learning to help themselves with "bottom-up" solutions to social problems in partnership with government has emerged as a popular theme in urban studies. One stimulus for this research has been the devolution of federal authority over social programs initiated in the 1980s by the Reagan Administration, which argued that those closest to local social problems should take the lead in formulating solutions. But, as Handler (1996) argues, devolution takes on a number of different forms, with varying consequences for policy recipients. Apart from merely shifting responsibility for policy administration down to state or local governments, or contracting out to the private sector, devolution can also manifest as the empowerment of stakeholders at the community level, such as local nonprofits and citizens who are the policy's beneficiaries. How nonprofits have benefited from devolution by acting as providers or public services through partnerships with the government and private sector is readily seen in a burgeoning research agenda (see Lipsky and Smith, 1990). Whether they are viewed as providers of services neglected by the private sector (Weisbrod, 1988), community coalition builders (Hula, Jackson, and Orr, 1997; Koschinsky and Swanstrom, 2001), or just good old-fashioned advocacy organizations (Verba, Schlozman, and Brady, 1995; Reid, 1999), the common theme is of nonprofits filling critical gaps in community infrastructure (Boris, 1999). Frequently run by a cadre of individuals committed to community development, nonprofits concentrate the knowledge and resources necessary to both apply for, and successfully administer, government grants and private-sector resources. As devolution places greater responsibility for policy implementation at the community level, it is the voluntary sector that has often stepped up to the plate (Salamon, 1995; De Vita, 1999).

However, representation by local nonprofits is not the only way a community can hope to reap the rewards of policy under devolution; local politics too has a role to play. As Handler argues, lack of resources or political pressure often pushes bureaucracies to embrace strategies that empower a policy's stakeholders by giving them a greater role in program regulation. The resources argument is simple—often agencies are not provided sufficient resources to carry out policy and so look to those with a stake in its success to identify problems, catch violations, or provide other types of "bottom-up" regulation. Agencies may also have political reasons for involving beneficiaries. Under pressure to please elected political superiors, policy administrators have incentives to be differentially responsive to those constituencies with the greatest capacity to reward or punish these superiors at the polling booth or damage political reputation in the community (McCubbins, Noll, and Weingast, 1987). It is therefore those neighborhoods able to turn out residents, whether to vote or stage protests, that agency personnel are more likely to involve in policy administration and who will reap the policy benefits. To empower these clients, bureaucracies may provide alarms and levers citizens and their representative organizations can sound and pull when benefits are not forthcoming or providers, whether the government or the private sector, are not believed to be living up to their obligations.

But if this type of devolution relies on nonprofits and citizen mobilization to take the initiative, policies so implemented may be biased more toward communities with the resources and organization necessary to create nonprofits or overcome Olson's (1965) collective action problem and apply political pressure than toward those lacking this wherewithal. Therefore, the empirical question in this article is straightforward: Has devolution created policy regimes advantaging communities with greater numbers of nonprofits and the capacity to organize politically? Tests of these ideas have been few (but see Saegert, Winkel, and Swartz, 2002). A few case studies have examined the ability of particular nonprofits to use policy for community benefits (Hula, Jackson, and Orr, 1997; Orr, 2001); others have examined community mobilization in terms of social capital (Gittell and Vidal, 1998; Servon, 1998), but on the whole there has been strikingly little empirical work on the question. I attempt to find an answer by focusing on the regulation of bank lending in low-income communities. If the answer is "yes," then a second, normative question arises: For all of the good associated with community empowerment, ought such an unequal capacity to make use of policy be permitted in a democratic system? I return to this second question, though I do not answer it, in the conclusion to the article.

Community Mobilization and the Community Reinvestment Act

Although the problems facing urban neighborhoods are many, few have received more attention than access to mortgage loans and other types of credit, linked as they are to issues of affordable housing and small-business development (Galster, 1992; Munnell et al., 1996). Where the other fair-lending laws attempt to simply outlaw discrimination in banking lending decisions (Avery, Beeson, and Sniderman, 1996), the 1977 Community Reinvestment Act (CRA) takes a more pro-active approach to credit availability by requiring banks to target a portion of their loans toward those low-income and racially concentrated communities from which they solicit deposits. The history of CRA is largely of a series of efforts to find the best balance between enforcement of the law so that low and moderate income (LMI) communities receive the policy's benefits while keeping the compliance burden on the banking industry manageable and its LMI lending profitable (Haag, 2000). In the tradition of policy devolution, regulators, claiming to lack the resources for frequent inspections of banks, have changed implementation of the law by shifting more responsibility for the functioning and enforcement of CRA to the participants, that is, banks and LMI communities. As a result, the implementation process has evolved two distinct mechanisms providing well-organized and mobilized LMI communities with levers to increase the number of mortgage and small-business loans received. Each mechanism, in turn, permits a test of community development nonprofit and mobilization effectiveness in addressing urban problems.

Responding to criticism from both the banking industry and community activists that the law emphasized documentation over actual lending, the regulatory agencies responsible for enforcing CRA rewrote the implementing rules in 1995.[1] One major change was the creation of a tri-partite compliance test requiring banks to not only make a significant number of direct mortgage and small-business loans to LMI neighborhoods, but to invest in local community organizations to provide financial support services such as loan counseling. The result has been a shift away from an exclusive focus on direct lending to individuals over to the development of long-term investments in, and building working partnerships with, local development nonprofits specializing in finance, such as community development financial institutions (CDFIs).[2] Although these particular types of nonprofits have been springing up in poor urban neighborhoods for decades (Schill, 1997), the post-1995 CRA has made them attractive to banks as a means of fulfilling their investment and service obligations under the tri-partite exam. Instead of fulfilling requirements only by risky direct loans, banks are now encouraged to make substantial investments in community development nonprofits, providing both equity and capital that the nonprofit may turn around and lend out to local customers. Furthermore, the benefits banks gain by partnering with these organizations

[1]These are the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision.

[2]For more on community development financial institutions, see McLenighan and Tholin (1997).

may not end with just the fulfillment of exam requirements. Because these nonprofits are usually rooted deep in the community, they are able to help banks expand their direct lending business by linking them to customers who, on paper, may appear as risks, but whom the nonprofit partner can vouch for. This, in turn, helps banks generate profit off of their direct LMI lending (Lento, 1994; Santiago, Holyoke, and Levi, 1998). It is through the efforts of these nonprofits, acting as agents for the community, that LMI neighborhoods are able to use CRA to attract bank loans and investments and thus create a testable hypothesis.

Nonprofit Hypothesis: *The more community development and financially-oriented nonprofits are in a neighborhood, the more direct loans are likely to be made in that community.*

The second CRA mechanism potentially benefiting well-organized LMI communities stems from the way the law is enforced. CRA primarily places sanctions on noncomplying banks when they apply to regulators for approval of a merger or acquisition. Along with a bank's record of safe and sound performance and the spatial concentration of services, regulators also check the institution's CRA performance when deciding to approve an application. Assuming that banks are more likely to be sensitive to CRA performance when they have applications pending, community activists have found that protests against a bank's CRA record, or even the threat of a protest, can compel it to increase its lending activity. CRA activism has become a well-developed grassroots movement over the last couple of decades (Squires, 1992), and the ability of both local and national organizations to document bank discrimination has been honed to a fine art (see Marsico, 1993).[3] Furthermore, the types of protests most likely to attract the attention of regulators are those drawn from neighborhoods the banks are required to serve. But, as pointed out above, empowerment comes to those who are able to mobilize effectively, and this runs into a collective action problem.

Organizing grassroots efforts often requires a preexisting propensity for association among would-be participants and local leaders to act as catalysts (Salisbury, 1969; Walker, 1983). In other words, a community's capacity to organize for political action is dependent on its level of civic mindedness or social capital. Largely attributed to Putnam (1995, 2000) and Coleman (1988), social capital has become the cornerstone in many efforts to strengthen economic and social development in urban neighborhoods (Lang and Hornburg, 1998; but see DeFilippis, 2001). The more involved are the members of a community in regular social activities such as church, school

[3]Mergers such as Chase with Chemical Bank, NationsBank with Bank of America, and Travelers Insurance with Citibank attracted large protests alleging discriminatory lending, producing substantial loan commitments from the involved institutions.

PTAs, clubs, safety patrols, and the like, the more likely they are to generate the social capital necessary to organize for political action. Furthermore, as Gittell and Vidal (1998) find, social capital may not always arise spontaneously, but requires stimulation by social entrepreneurs or civil leaders so that those neighborhoods with larger numbers of social institutions will exhibit greater levels of social capital.[4] This leads to a second hypothesis.

Social Capital Hypothesis: *Neighborhoods with higher levels of social capital should be able to threaten protest and receive more mortgage and small-business loans.*

Research Design and Data

To test these hypotheses I use aggregate home mortgage and small-business lending data for each Census tract in Washington, D.C. for 1998. An urban center with a majority African-American population, but large white and other minority populations (Latino, Indian, and Asian), and considerable disparity in income and assets, the nation's capital is an ideal setting for this test. My dependent variables are the total number of conventional and refinancing mortgage loans as well as loans to businesses, including small businesses ($1 million or less in annual revenue) made in each Census tract.[5] The independent variables operationalizing my hypotheses come from several different sources. For community-development-oriented nonprofits I used the extensive data collected by the National Center for Charitable Statistics (NCCS) at the Urban Institute from Internal Revenue Service files to identify the locations and types of nonprofits in D.C. for 1998.[6] From this I determined which nonprofits are community oriented and focus on improving the financial and/or economic stability of particular D.C. communities as well as their tract locations. As it turns out, community development nonprofits are widely distributed around D.C.,

[4]Although nonprofits and social capital both represent forms of community empowerment, they are separate concepts, at least as they are used here. Local development nonprofits are often established by social entrepreneurs, often from outside the community, concerned about the absence of a community's ability to provide essential services. Communities with greater social capital may not exhibit the same level of demand for the services of these nonprofits and not be attractive to nonprofit entrepreneurs. By the same token, as Handler (1996) notes, nonprofits may even serve as barriers to collective action and the production of social capital because their presence will dissuade residents from seeing a need for grassroots mobilization. Empirically, the measure of nonprofits and social capital used here only correlate at 0.27.

[5]Mortgage-lending data is available under the Home Mortgage Disclosure Act and small-business lending under CRA and may be obtained from the Federal Financial Institutions Examination Council at ⟨http://www.ffiec.gov/⟩ or on CD-ROM.

[6]For more on this data and its availability, see the National Center for Charitable Statistics ⟨http://www.nccs.urban.org/⟩. See Holyoke (2001) for details on the variable's construction.

concentrating neither in affluent nor poor communities. Many communities had more than one, including one tract with a median income of just over $35,000 boasting 10 of these nonprofits. Although at first glance, nonprofits do not appear to be disproportionately concentrated in white or minority neighborhoods, looking only at minority tracts reveals that there are more in Hispanic communities than African-American. If nonprofits in fact do help neighborhoods attain bank credit, some minority communities may have an edge over others.

The variable capturing social capital as an indicator of a community's capacity to engage in collective action is more difficult to construct.[7] Finding that no single indicator provided an accurate measure of social capital, Putnam himself used a variety of indicators, such as volunteerism, charity, civic organizations, religious participation, and even political activity. As I argued above, the propensity for association may be seen in social activity such as church attendance, volunteer organizations, philanthropic association, educational support, and so forth. Accordingly, I collected data on the locations of local institutions able to help facilitate the building of social networks within a community, as well as between a community and government or the private sector, such as religious organizations, private schools, and charity and volunteer organizations in D.C. I also gathered indicators of neighborhood political clout, measured by turnout in the last local election, as well as several demographic factors, such as education and crime, that social capital scholars have argued also contribute to neighborhood cohesion.[8] A confirmatory factor analysis was used to identify the underlying dimension linking these indicators, which I take to be social capital and use as my independent variable. Table 1 indicates how each factor loaded on the underlying dimension. A quick look at the social capital variable reveals that it is more prevalent in white communities than in minority communities, although it is also higher in Hispanic neighborhoods than in African-American. Although there is a modest correlation at 0.37 between social capital and median household income, there are some interesting exceptions. The tract with the 15th lowest level of social capital is one of the District's wealthiest neighborhoods with a median income of over $500,000. By the same token, several areas high in social capital were not overly wealthy, though not particularly poor either, with median incomes just under $50,000.

To clearly capture the impact of these variables on lending, I used several additional independent variables figuring prominently in other studies on bank lending reflecting the demographic compositions of urban neighborhoods as controls. Data on median income, racial composition, and

[7]Different types of social capital measures have been developed in urban studies (e.g., Berry, Portnoy, and Thomson, 1993) and used to study problems in education (e.g., Schneider et al., 1997; Stone et al., 2001).

[8]This data comes from a large number of sources in D.C. and is available from the author.

TABLE 1

Variable Loading on the Community Mobilization Dimension

Variable	Factor Loading Score
Religious organizations	0.06
Charity organizations	0.18
Community volunteer organizations	0.16
Electoral clout	0.67
Private schools	0.34
College education	0.70
Resident in poverty	– 0.64
Crime rate	– 0.74

educational levels of the population per tract are available for 1998 from an assessment made by the District government.[9] Whether a tract is located entirely in the downtown section of D.C., and therefore unlikely to receive mortgage loans due to its nonresidential configuration, is captured by a binary variable indicating whether the tract is classified as nonresidential by the Census Bureau. Additional variables on the number of family households per tract, median home value, and the size of the labor force also come from the Census Bureau for 1990. By matching the Census data on racial and median income levels with equivalent 1998 data I also found the level of change in each tract over the course of the eight years. Communities that are increasing in wealth may be more attractive to banks, and communities with considerable change in minority concentrations may indicate a shifting population that, if discrimination is a factor, may decrease the number of loans. Finally, as noted above, CRA is often considered to have its most substantial impact on banks when they are filing applications to merge with or acquire other financial institutions. Although the rate of bank mergers and acquisitions dramatically increased toward the end of the 1990s, a large number of banks conducting business in Washington, D.C. during the time of this study had not recently, or did not soon afterward, merge or acquire. So that the effect of the variables operationalizing my hypotheses are not diluted because many of the institutions making loans were not engaged in merger and acquisition (M&A) activity, I identified every bank that engaged in such activity from 1996 to 2000.[10] As not everyone agrees that CRA is only effective during such periods, I ran the analysis presented below using both the total number of bank mortgage loans per tract as well as only those loans made by banks engaging in M&A activity.

[9]The data is available from the DC State Data Center site at ⟨http://www.dclibrary.org/sdc/⟩.

[10]Available from the Federal Reserve National Information Center at ⟨http://www.ffiec.gov/nic/⟩.

Analysis and Discussion

The dependent variables are event count data, or data recording the number of times an event, such as a bank loan, occurred in a particular geographic location. Such data tend to follow a Poisson distribution where the probability of an event occurring diminishes the more frequently the event takes place. In other words, the probability of a first bank loan being made in a community is considerably higher than that of a 50th loan. This means that the mean number of loans is to the left-hand side of the distribution and the variable can only take on positive values, making OLS regression inappropriate for estimating my models (King, 1988). Instead, I use the negative binomial regression procedure based on the Poisson distribution.[11] The first analysis uses the total number of refinancing mortgage loans in each D.C. Census tract. Here I use as control variables the percentage of the minority population, the total number of families, median family income, the percentage of the population with a college education, median home value per tract, vacancy rates, whether the tract is downtown, and change in race and median income from 1990 to 1998. The results of the analysis are displayed in Table 2.

As with all the models estimated in this study, the Wald X^2 statistic for the refinancing loan analysis is significant at $p < 0.005$, indicating that the results found here are not likely to be the result of random chance. Both hypotheses at first glance appear to be supported, for the nonprofit and social capital variables have statistically significant impacts on the predicted number of total refinancing loans. Furthermore, both variables exhibit positive effects on the number of refinancing loans made by banks engaging in mergers and acquisitions. It is also worth pointing out that the sign of the variable for high concentrations of minorities is negative and the impact statistically significant. Although I have not tested enough alternative variables to draw any conclusions regarding lending discrimination, and the results are statistically significant only for refinancing loans made by banks engaging in M&A activity, the result should at least raise a red flag and perhaps prompt a more detailed investigation in the future.

Yet the real extent to which nonprofits and social capital impact refinance lending is more clearly seen by calculating the predicted number of loans for different values of my two variables of interest (King, 1998). In Figure 1 I present a graphic representation of the strength of the nonprofit variable for all refinancing loans and those made by banks engaging in M&A activity. Holding all other variables at their mean, the value of the nonprofit

[11]Normally, in Poisson regression the distribution is equal to the average of the variance. Yet in some cases variance is larger and overdispersion occurs. The negative binomial regression procedure takes this into account. In each case I first ran the model using the exponential Poisson technique and then calculated a X^2 goodness-of-fit statistic. If it turned out to be statistically significant, then overdispersion was occurring and the negative binomial method recommended by Long (1997) is used.

TABLE 2

Estimates of Refinancing Loans: Maximum Likelihood Estimates (Robust Standard Errors)

Explanatory Variables	Total Loans	Banks Engaging in M&A Activity
Number of community development nonprofits	0.04**	0.05*
	(0.02)	(0.03)
Social capital	0.53***	0.46*
	(0.15)	(0.21)
Percentage of the population is minority	– 0.85	– 1.78***
	(0.50)	(0.63)
Median household income	3.87	6.61
	(3.48)	(4.53)
Number of families	0.01***	0.01***
	(0.02)	(0.01)
Percentage of residents with a college education	– 0.01	– 0.01
	(0.01)	(0.01)
Percentage of vacant units	– 0.02*	– 0.01
	(0.01)	(0.01)
Change in median income from 1990–1998	0.81***	0.72
	(0.25)	(0.32)
Change in minority population from 1990–1998	0.01	0.01
	(0.01)	(0.01)
Downtown	– 0.07	0.06
	(0.22)	(0.30)
Median home value	2.64***	3.47***
	(9.23)	(1.10)
Constant	– 1.27	– 1.09
	(0.69)	(0.91)
Wald X^2	625.75***	436.95***

$^*p<0.05$; $^{**}p<0.01$; $^{***}p<0.005$.
$N=187$.

variable is changed across its entire range (0–20) with the equation predicting the number of refinancing loans at each value. This reveals that raising the number of community development nonprofits per tract from zero to 20 only results in an increase of roughly two refinancing loans, a very small effect (though undoubtedly important to the recipient of the loan). The predicted number of loans from banks engaging in M&A activity is even smaller. The results are only slightly higher for social capital, as revealed by the same procedure in Figure 2. Here an increase in value from two standard deviations below the social capital mean to two above results in an increase of approximately five refinancing loans. Again, the effect is smaller for loans made by banks engaging in mergers and acquisitions, an increase of not quite three loans. In sum, the evidence suggests that while nonprofits and social capital have a definite impact on refinance lending through CRA, it is quite small.

FIGURE 1

Number of Refinancing Loans for Nonprofits per Tract

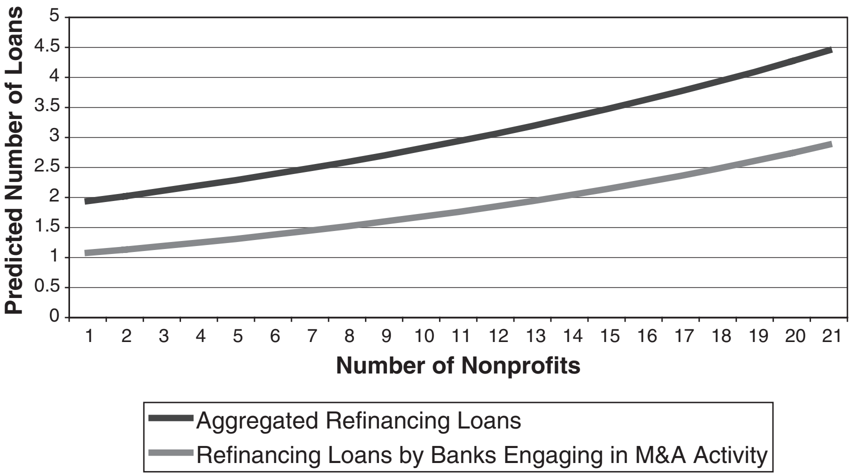
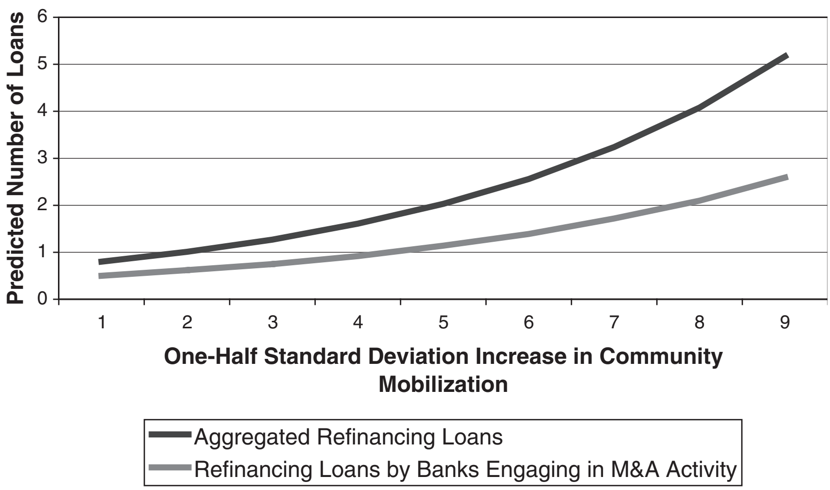


FIGURE 2

Refinancing Loans for One-Half Standard Deviation Increase in Community Mobilization



The results for conventional loans, presented in Table 3, are more mixed. The nonprofit hypothesis receives no support, for the two estimates are not statistically significant and the magnitude of the effect for different values of the variable (not graphed) is virtually a flat line. On the other hand, the social capital variable performs largely as predicted, its effect significant for

TABLE 3

Estimates of Conventional Loans: Maximum Likelihood Estimates (Robust Standard Errors)

Explanatory Variables	Total Loans	Banks Engaging in M&A Activity
Number of community development nonprofits	0.01	0.04
	(0.02)	(0.03)
Social capital	0.28	0.56*
	(0.17)	(0.25)
Percentage of the population is minority	– 0.09	– 0.77
	(0.65)	(0.99)
Median household income	– 0.01***	– 0.01***
	(4.72)	(6.77)
Number of families	0.01***	0.01*
	(0.01)	(0.01)
Percentage of residents with a college education	0.02**	– 0.01
	(0.01)	(0.01)
Percent of vacant units	– 0.01	0.01
	(0.01)	(0.01)
Change in median income from 1990–1998	0.64	1.02*
	(0.36)	(0.51)
Change in minority population from 1990–1998	0.01*	0.01**
	(0.01)	(0.01)
Downtown	– 0.63*	– 1.11*
	(0.27)	(0.54)
Median home value	2.49**	3.62*
	(9.63)	(1.52)
Constant	– 0.64	– 1.43
	(0.86)	(1.24)
Wald X^2	239.28***	101.33***

*$p<0.05$; **$p<0.01$; ***$p<0.005$.
$N=187$.

lending by banks engaging in M&A activity. Yet the extent of its impact on conventional lending is not all that different than for refinancing loans when the magnitude of its impact is examined (also not shown). Again, a shift in the variable from two standard deviations below the mean to two above only increases the total number of conventional loans from banks engaging in M&A activity by two.

In search of further evidence for my hypotheses I turn from mortgage lending to business lending. This data has not been collected as long as mortgage data and the amount of existing research on this type of lending is considerably smaller (Bostic and Canner, 1998). Immergluck (1999), however, notes in his study of small-business lending in Chicago that there may be differences in lending patterns to small businesses (businesses with annual revenue of less than $1 million) as compared to those that are more profitable. Smaller firms, he points out, may be considered a greater risk by lending officers because they do not have the same deep resources on which to draw to repay loans. Immergluck also notes that small firms owned by minorities have a harder time leveraging their equity for the same value as comparable firms owned by whites. As CRA attempts to correct such inequities, its influence may emerge more prominently in an analysis of loans to firms with $1 million or less in annual revenue than to larger businesses. To make this comparison, in addition to using a variable of the total small-business loans made in D.C., I subtract out loans made to firms with $1 million or less in annual revenue to form a separate dependent variable.

Since business-lending decisions are more likely to be made by the lending officer with a different set of neighborhood criteria in mind than mortgage loans, I use a somewhat modified set of control variables in the analysis. I retain the controls for minority population, median household income, change in median income, change in minority population, and downtown location, but add in a couple of new ones. The size of the local labor force should be conducive to the creation of businesses and those neighborhoods with a larger labor force are more likely to see more firms spring up and attract more loans. I therefore use Census data on the size of the labor force as a control variable. Furthermore, limitations in this data did not permit a clear identification of which loans were coming from banks recently engaging in M&A activity. I therefore developed a proxy measure by finding the number of bank offices in a Census tract that are connected to an institution engaging in M&A activity under the assumption that the more branches of such banks are found in a tract, the more loans will be made. The 1998 D.C. telephone book provided information on the location of bank head and branch offices, allowing me to locate the tract number of each. Cross-referencing these with the information on banks engaging in M&A activity from the Federal Reserve's National Information Center permitted me to code whether each office is connected to an institution that has just engaged, or is about to engage, in a merger or acquisition. The results of the estimations are presented in Table 4.

Unlike the mortgage lending analysis, the results here clearly support both hypotheses. The number of nonprofits variable is highly significant for both total business lending and lending to very small firms. When I graph the magnitude of its impact by calculating the predicted number of loans for different values of the variable, plotted in Figure 3, I find that the impact on total business lending is much more substantial, increasing the predicted number of loans up to just over 100. Yet there is a clear difference between aggregated business loans and those made to small businesses. The presence of CDFIs and other community development nonprofits has much less of an effect here, the maximum value of this variable only raising the predicted number of loans to just under 40, although it is worth remembering that this is still far greater than the maximum effect this variable had on mortgage lending.

TABLE 4

Estimates of Business and Small-Business Loans: ML Estimates (Robust Standard Errors)

Explanatory Variables	Total Business Loans	Loans to Small Businesses
Number of community development nonprofits	0.12***	0.10***
	(0.02)	(0.02)
Social capital	0.28***	0.28***
	(0.09)	(0.09)
Percentage of the population is minority	−0.65*	−0.86***
	(0.27)	(0.26)
Median household income	5.36	4.44
	(3.98)	(3.51)
Bank is engaging in mergers or acquisitions	0.18***	0.18***
	(0.05)	(0.04)
Size of the local labor force	0.01	0.01
	(0.01)	(0.01)
Change in median income from 1990–1998	0.38	0.38
	(0.26)	(0.22)
Change in minority population from 1990–1998	0.02*	0.01
	(0.01)	(0.01)
Downtown	0.66***	0.38*
	(0.17)	(0.18)
Constant	1.69***	1.02*
	(0.40)	(0.43)
Wald X^2	476.31***	343.05***

*$p<0.05$; **$p<0.01$; ***$p<0.005$.
$N=179$.

The social capital variable also performs well, but its effect is somewhat smaller here than the nonprofit variable. Figure 4 graphs changes in the predicted number of business loans for changes in the variable's standard deviation. At its highest value it predicts not quite 22 loans, and considerably less when only loans to very small businesses are considered. Although this variable is on a different scale from the nonprofit variable, making a direct comparison between Figures 3 and 4 problematic, the magnitude of the difference implies that, in the case of small-business lending, it is the community development nonprofits that are the best stimulates for credit. Perhaps local organizations focus more on providing financial support for job-creating businesses than for housing, making them more attractive to banks desiring to partially satisfy their CRA obligations. It is also worth noting that in both models the variable indicating whether the bank engaged in M&A activity is statistically significant. It would appear that for business lending, more than for mortgage lending, banks submitting themselves to regulatory inspection are more sensitive to CRA performance than those not filing applications.

FIGURE 3

Small-Business Loans for Increases in Nonprofits per Tract

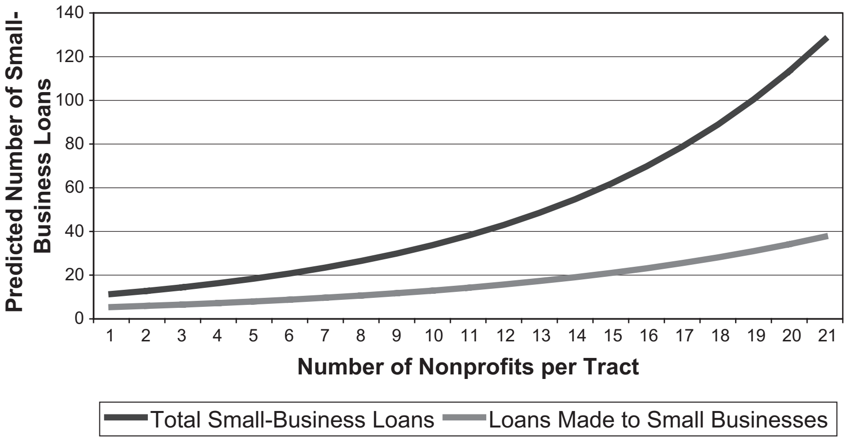
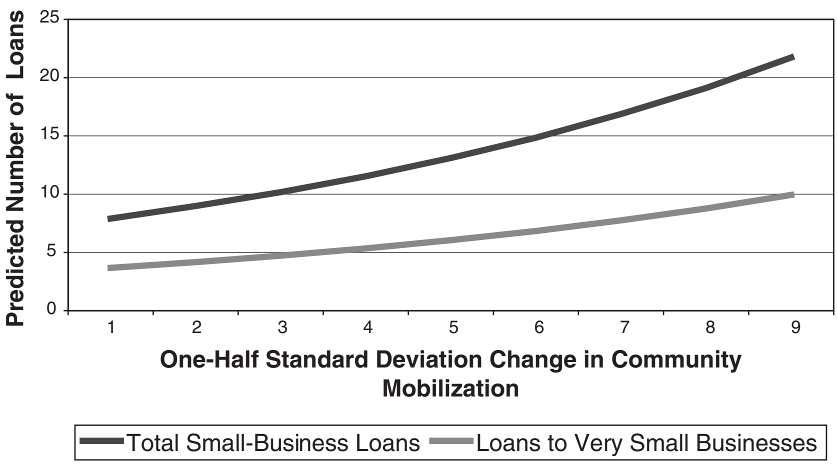


FIGURE 4

Small-Business Loans for One-Half Standard Deviation Change in Community Mobilization



Overall, the analysis of mortgage-lending data provides lukewarm support for the nonprofit and social capital hypotheses and their influence under devolution. They do, in nearly every case, have a statistically significant impact, but for mortgage lending the substantive impact is nearly negligible. Nor, again in the case of mortgage lending, does it matter all that much whether all bank loans are being considered or merely loans by banks applying for change in status with federal regulators. Yet the story appears quite different for business lending, although less so for loans to businesses with $1 million or less in annual revenue. Here it is the community development nonprofit presence, working as intermediaries between banks and local businesses, making the greatest difference. Although proponents of local housing nonprofits may not find these results encouraging, local development corporations and community financial institutions focusing on developing the commercial base of inner-city neighborhoods appear to play a critical role in linking capital to entrepreneurship.

Conclusion

A few different messages can be taken from this study. First, a vibrant nonprofit presence and high levels of social capital in a community, urban poor or otherwise, can make a difference in how well a neighborhood benefits from the devolution of public policy—just not in all circumstances. Scholars and practitioners eager to embrace the promise of these concepts need to step back and consider that for all of the possibilities they hold, they are hardly cure-alls and may only function effectively under particular types of circumstances, producing only some of the benefits desired. In this case, after all, their ability to encourage greater mortgage lending from banks, and in turn stimulate the local housing market, was small, yet they were clearly important factors in bringing small-business loans to D.C. communities. Why small-business lending is more susceptible to these forces is beyond the scope of this article; it may be that banks see profit-generating businesses as a safer bet, but the evidence does argue that the beneficial effects of nonprofits and social capital are variable rather than constant.

These findings suggest that a comment on the Community Reinvestment Act is in order. CRA continues to be an extraordinary piece of public policy; few sectors of corporate America are held to the same level of social responsibility as the banking industry. A great deal of research has gone into the law's evaluation, with very mixed results. At least as far as this study is concerned, CRA is working, but not uniformly. Certainly CRA should be commended for promoting nonprofit involvement and helping to generate social capital, but even though it is structured to promote partnerships with nonprofits and to be responsive to protests, the law's original aim was to provide greater access to mortgage, and later small-business, credit in all communities regardless of race, income, or capacity to mobilize. An inequality of performance outcomes should remain a problem of concern for lawmakers and practitioners.

Finally, my findings beg an important question. An underlying assumption in this study is that the way public policy is often implemented emphasizes partnerships with localities and communities where both sides take an active role rather than simply rely on federal and state governments to solve urban (and rural) social problems. Certainly CRA is highly dependent on neighborhoods making use of the processes it provides, intentionally or not, to be effective. If this is true, and some communities are better able to make use of it by partnering with banks through nonprofits and/or overcome collective action problems in order to stage protests, what is to be the fate of communities that do not have the ability to access these tools? It may be that policies relying on bottom-up implementation may themselves fail to operate with the even hand that citizens have a right to expect from their government. If so, then there may be serious democratic consequences to devolution. For all the emphasis placed on community empowerment, unless it can be replicated across the board, success may result in inequality. For those communities unable to help themselves, democratic equality demands less delegation of responsibility by government.

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