A BMORE COLLAB RESEARCH REPORT

Baltimore Black Butterfly Entrepreneurs' Access To Capital: Barriers, Consequences, And Alternatives

RESEARCH TEAM

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Executive Summary

Access to financial capital is the cornerstone for entrepreneurial success. Yet for many small business owners from historically marginalized and under-resourced communities in Baltimore, access to capital remains severely limited. Entrepreneurs of small businesses that serve local communities often rely on wealth in personal networks or commercial bank loans, neither of which is readily available to under-resourced entrepreneurs in Baltimore's Black Butterfly communities. Black Butterfly communities refer to the under-resourced neighborhoods that stretch across the east and west sides of Baltimore, forming wing-like patterns around the city's more developed central areas.

Drawing on 63 semi-structured interviews with Baltimore entrepreneurs and representatives from financial institutions, this report identifies the barriers entrepreneurs face when seeking bank loans, explores the consequences of these barriers, and highlights the alternative sources of capital that entrepreneurs pursue in place of bank loans.

#1: Interviews consistently identified six major barriers to accessing funding.

- Many applicants were rejected due to low credit scores, often through automated screening systems.
- The lack of collateral and existing assets created an irony where one 'needs to have money to access money.'
- Startup companies with limited operating history were frequently disqualified, regardless of their potential.
- Personal background checks sometimes flagged issues from decades ago that had no bearing on a business's current viability.
- Businesses located in low-income neighborhoods were deemed risky by banks' location-based risk assessments.
- Finally, unclear denial reasons left applicants without the information needed to improve their future applications.

#2: These barriers had far-reaching consequences, including **higher operational costs, missed growth opportunities, damaged personal credit, and forced reliance on predatory lenders**.

#3: Despite these challenges, entrepreneurs in Black Butterfly demonstrated tenacity and resourcefulness; many turned to alternative sources of capital, such as **CDFIs, crowdfunding, impact investment funds, and accelerator programs** to support their endeavors.

Our analysis of Baltimore entrepreneurs' real-life stories reveals significant gaps between the perspective of entrepreneurs and that of financial institutions. The rules and practices that serve the purpose of banks' risk management were often perceived by entrepreneurs as barriers that felt arbitrary, impersonal, and discriminatory. Based on this realization, we suggest three specific recommendations.

- More training and education need to be provided to Baltimore's entrepreneurs to "speak the same language" with bankers. Black Butterfly entrepreneurs will greatly benefit from understanding what duties banks have with depositors and what tools banks use to mitigate loan risks. Knowing these will enable entrepreneurs to shape their loan applications into what bankers would positively evaluate and could justify their approval decisions.

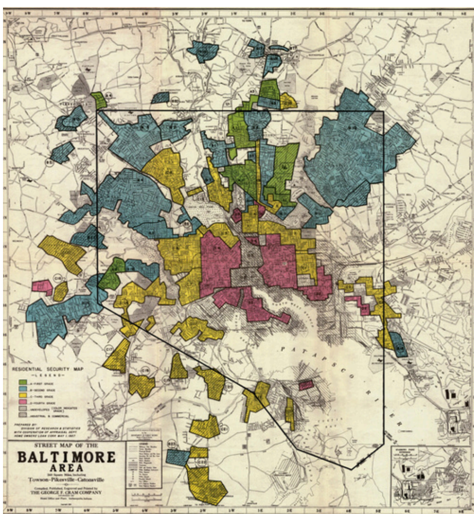
- Financial institutions need to deepen their knowledge of the structural and historical forces that shape applicants' current financial profiles and realize that performing some risk management practices can inadvertently contribute to perpetuation of historical and systemic inequities. By doing so, banks should constantly reevaluate their risk management practices to check whether they overestimate risks associated under-resourced entrepreneurs and underestimate their upside potentials.

- Ultimately, it is critical to expand and develop an ecosystem of alternative capital sources, constituted by CDFIs, impact investors, local crowdfunding platforms, and social impact incubators/accelerators. The ecosystem tailored to the needs of under-resourced, community-centered businesses will foster equitable entrepreneurship, which is essential for revitalizing Baltimore's historically marginalized communities.

Introduction

Entrepreneurs from historically marginalized and under-resourced backgrounds experience significant difficulties in accessing financial capital. While entrepreneurs of high-technology, high-growth ventures can mobilize financial resources from various sources, including venture capital funds and private equity investors,[1] entrepreneurs of small businesses, which typically serve the local needs of the surrounding communities, often lack a robust funding ecosystem. Instead, for these entrepreneurs, available sources of capital are largely limited to the wealth in their personal networks or traditional business loans from commercial banks. And the first option is often unavailable for those who are from historically marginalized, under-resourced backgrounds, such as Baltimore's Black Butterfly communities.[2]

Two earlier reports in this series document a troubling pattern that the second route—bank loans—is also not widely available to Baltimore's entrepreneurs. The **first report by Lawrence Brown, PhD, MPA**, presents detailed historical evidence of how government redlining maps affected banks' lending practices, with a far-reaching impact on present-day entrepreneurs. The **second report by Mac McComas** provides contemporary quantitative evidence showing the striking disparities in the availability of business loans between Baltimore's Black Butterfly and White L.



The current report complements these findings by providing in-depth qualitative evidence of *how* and *why* Baltimore's marginalized entrepreneurs experience barriers in their attempts to access capital. Based on 63 interviews conducted between February 2024 and July 2025, we delineate (1) the specific barriers that Baltimore entrepreneurs face in securing business loans from financial institutions, (2) far-reaching consequences such barriers create for the entrepreneurs, and (3) alternative sources of financial capital that were available to Baltimore entrepreneurs.

Image Credit: This map was published on May 1, 1937, by the Federal Home Loan Bank Board. It was originally sourced from the National Archives and Records Administration II located in College Park, Maryland.

[1] Clough, D. R., Fang, T. P., Vissa, B., & Wu, A. 2019. Turning lead into gold: How do entrepreneurs mobilize resources to exploit opportunities? Academy of Management Annals, 13: 240–271.

[2] Brown, L. T. 2021. The black butterfly: The harmful politics of race and space in America. Johns Hopkins University Press.

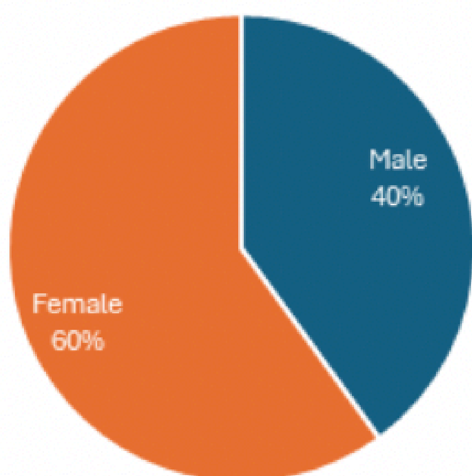
Research Methods

From February 2024 to July 2025, we conducted semi-structured interviews with 63 individuals within Baltimore's entrepreneurial ecosystem. We identified our sample through snowball sampling. We first contacted community leaders who share common concerns around historical marginalization in Baltimore's Black Butterfly and asked them for an introduction to entrepreneurs in their networks. Once we interviewed these entrepreneurs, we asked them for their introductions, and in this way, we continuously expanded our coverage of Baltimore entrepreneurs.

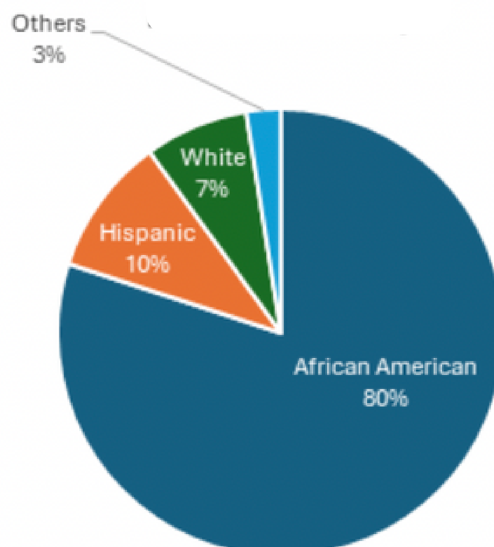
Each interview lasted for about 75 minutes on average, with 28 interviews conducted in person and 35 interviews virtually. All interviews were recorded and transcribed. Among the interviewees, 40 represented Baltimore entrepreneurs, and the following charts provide a specific breakdown of the entrepreneurs.

In addition to entrepreneurs, we also interviewed 23 individuals who are part of a broader entrepreneurship ecosystem in Baltimore. Among them, 52% represented financial institutions, allowing us to develop rich understandings around the perspective of financial institutions.

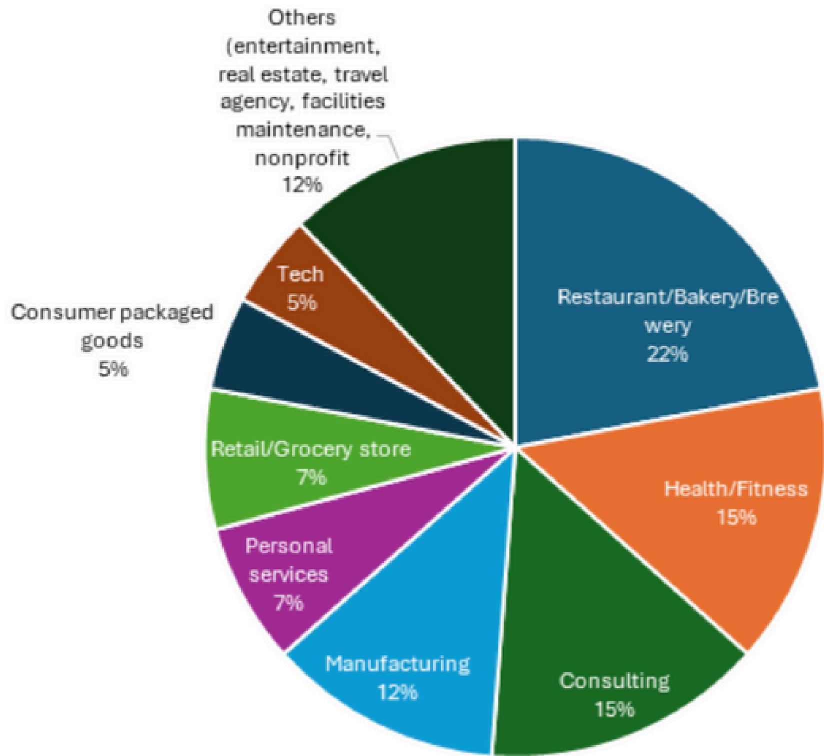
Gender



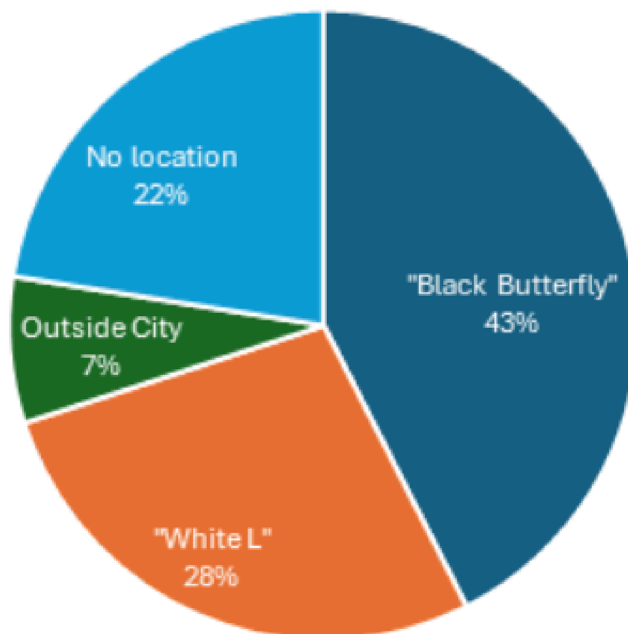
Race/Ethnicity



Research Methods



Industry



Business Location

BARRIERS TO CAPITAL ACCESS

This section provides a comprehensive list of factors that block Baltimore's marginalized entrepreneurs from accessing capital. For each factor, we introduce the perspectives of both sides—entrepreneurs who are denied access to capital and financial institutions that make these lending decisions.

It is important to note that most business lending decisions are made based on the current performance and the perceived potential of the business itself. An interviewee said that revenue is "the first access to capital" for entrepreneurs, and nothing can "solve your [issue of] access to capital, if there's no revenue coming in" (ES10).[3] The factors that we list below are the ones that play a role in addition to the business's recorded profitability and perceived potential. Yet these factors can compound with the evaluation of the business itself because they can sometimes prevent a business even from receiving a fair chance for evaluation or exacerbate minor problems in business records, ultimately affecting the assessment of the business itself.

Low Credit Score

A low credit score is one of the most frequently cited reasons for denying business loan applications. Our interviewees commonly said the cut-off is usually 680: "in order to get a business loan, [...] in most cases, you need a 680, and if you fall under 680 then that's when you have to go to other sources" (E9). Representatives of financial institutions explained that checking credit scores is one of the most basic ways to mitigate the risks associated with any loans and is often baked into automated systems that initially screen all loan applications:

> **"The first thing that happens when you fill out an application for a bank business loan is [that the application] is run through the scanning process and [it is] looking for a handful of things, the first one being credit. And if it scores too low on credit, they're not looking at anything else" (ES17).**

[3] The code that follows each direct quote refers to the specific interview from which the quote was retrieved. Interviewees are coded as either "E"(entrepreneur) or "ES" (representative of an entrepreneurship support organization).

A bank representative explained that one's credit score is negatively affected, especially when there is a "history of multiple delinquencies or history of late payments [...] for the last 12 or 24 months." And to get a business loan, applicants first "need to fix the credit report," which is a slow process because some records that taint one's credit history "[don't] leave your credit report for seven years" (ES10).

The impact of credit scores reveals a significant gap between the needs of the entrepreneurs and the banks. For banks, screening applicants with credit scores is a reasonable method to filter out 'risky' borrowers, but from the entrepreneurs' perspective, a credit score is not always a perfect measure of one's trustworthiness as a borrower. This is because the resource-poor environment where many of our interviewees come from, along with the lack of financial literacy education, can place them in life circumstances where their efforts for survival can leave negative marks on their credit scores (e.g., maxed-out credit cards, medical debt).

In some cases, Baltimore residents even inherit bad credit scores because of the financial decisions that their parents or guardians had made in their names. One interviewee indicated, "Some people might be dealing with having bad credit [...] because their parents might have taken a credit card out in their name, and they didn't know about it. And so now they're trying to navigate life, and they're like, 'how do I even have bad credit, and I don't have a credit card?'" (ES8)

Lack of Collateral and Existing Assets

The next most common factor that prevents Baltimore entrepreneurs' access to capital is the lack of collateral and existing assets. One entrepreneur recollected, "Despite having the property and land as collateral, the bank still wanted additional collateral like my home and even a life insurance policy" (E23). Another entrepreneur said that a bank denied their loan application, stating that they needed to have at least $30,000 in their bank account to qualify. This interviewee recollected the conversation with a loan officer:

> **"I went to the bank, [...] and I was like, 'I need some money.' And they're like, 'What you got?' And I'm like, 'Nothing.' And they're like, 'Oh, you gotta have money to access money'" (E22).**

This brief exchange tells a lot about another big chasm between Baltimore entrepreneurs and the banks. For the banks, collateral is a key device to minimize their exposure to risks because collateral provides a safeguard in the case of default. For small business loans that are considered to be relatively risky, having such safeguards gives justification for banks to invest their depositors' money in risky projects. One of the representatives of a financial institution stated, "Banks are generally going to want collateral, even if it's small, and even some CDFIs want a car that has some equity or a paid-for car" (ES17). Another bank representative pointed out that such collateral requirements are common also in SBA-backed loans: "[For] some of the SBA guaranteed loans, SBA want the first lien on real estate that's owned by [the entrepreneur]" (ES10).

Yet from the under-resourced entrepreneurs' perspective, this requirement of "gotta have money to access money" does not make much sense because it is the very condition of lacking assets that forces them to apply for a loan. This creates significant misalignment between the entrepreneurs and the banks. A representative of a financial institution explained that "if you're looking for a $50,000 loan, [...] you need to have $50,000 worth of equity," but "in the entire State of Maryland, the people least likely to have collateral are black and women business owners in Baltimore City." Consequently, "the number one reason [...] across the board that people could not get a loan was [the lack of] personal wealth" (ES15). What makes perfect sense from a bank's risk management perspective is posing a seemingly senseless barrier for those who have the greatest need to access credit. This raises a serious question on whether a bank loan is a structurally appropriate means to provide capital for under-resourced entrepreneurs.

Being a Startup

For many entrepreneurs we talked to, simply being a startup posed another barrier to business loans: "When you're getting a business started and you [...] can't really prove your track record—nobody really wants to lend you money" (E24). This is because typical business loan applications require at least two to three years' worth of financial records. Multiple representatives of financial institutions told us: "Banks do not do startups. You must be in business for at least three years" (ES17). In addition, the scale of loans that typical small business owners need does not match the typical loans that banks make. A bank representative told us, "The other big thing was the size of the company and the size of the loan, because [...] about 80% of bank lending is a million dollars and up" (ES15). For many commercial banks, the loans that early-stage entrepreneurs seek are simply too small to make financial sense.

While these requirements seem reasonable from the bank's perspective, they generate another senseless situation for entrepreneurs. One of our entrepreneurs said, "The bank wants the money back the next month, but if you're not even in business yet, how are you going to pay that back?" (E19) The reality is even harsher for nonprofit startups. A director of a nonprofit organization told us that despite running the organization for over eight years, their loan application was still denied because they hadn't reached the 10-year mark required for nonprofit loan eligibility under the bank's specific designation (E31).

Furthermore, being a startup does not just mean the lack of a long enough operational history; it also means that many of the necessary financial records are not properly organized. And a bank representative said it poses a significant barrier: "Many minority-owned businesses [...] really missed out on some of the benefits of the COVID relief, [...] because they just didn't have their books in order, [...] Some of them had not filed their latest tax returns. Some of them had missing tax returns over the years. Some of them didn't have current P&L statements" (ES11). These testimonies reveal another structural misfit between minority entrepreneurs' needs and banks' requirements. **While the startup phase is when businesses are most cash-strapped, the very situation makes it too risky for banks to make loans to them.**

Background Checks

Through interviews, we learned that background checks can pose another big challenge to Baltimore entrepreneurs. One entrepreneur said that a banker "gave us the hardest time with the SBA—she wanted to go into my background. She needed to know every charge I had since I was 18, making things a lot more unbearable. It wasn't pleasant" (E25).

Another entrepreneur shared a similar story with us. They attempted to secure a bank loan to purchase the facility they had been renting, and the entrepreneur was confident about their eligibility because they had submitted a track record of paying the rent for the past 15 years, and the expected mortgage was less than the rent. They thought: "How could I not qualify when we've been paying rent for the past 15 years?" Yet after months of delay, their loan application was eventually denied. The reason was that the bank had discovered a legal dispute between the entrepreneur and their rental property management company more than 20 years ago. The entrepreneur was stunned because the issue was no longer on the credit report, and to their mind, "it was nowhere to be found." The entrepreneur concluded that "they found a reason to decline" (E20).

Our interviews with bank representatives confirmed that it is an established practice that loan officers sometimes pull background checks, which provide a report that includes "your whole entire life, every misdemeanor, every case, public records," and these reports play a critical role, especially for SBA-backed or government-related loans (ES10). Notably, not all lending decisions involve pulling background checks. They are pulled only when underwriters notice "red flags," such as errors in tax filings, unexplained cash deposits, or confounding of personal and business finances, which call for further examination of the "character" of the borrower. Yet as we mention below, some of these 'irregularities' could be addressed without pulling a background check report, if the banker and the entrepreneur have a trusting relationship and can communicate with each other. In the current environment, small doubts lead to pulling background checks, which can spawn more doubts because then the underwriter may 'discover' a 20-year-old record of misdemeanor or fine.

Business Location Deemed as "Risky"

Another notable factor that we found from interviews is that business location also matters for lending decisions. A representative of a financial institution informed us that banks take into consideration a neighborhood's income level in their lending decisions in the way that when the income level of a particular neighborhood falls under 80% of AMI (area median income), the neighborhood can be considered as high risk. This representative explained that it is part of banks' strategy to mitigate risks, likening it to a practice in the car insurance industry that imposes different premiums based on the applicant's zip code (ES13).

While this makes sense from the perspective of banks' risk management, it is troubling because some lending decisions can be made not solely based on the individual merit of an entrepreneur and their business, but also based on where the business is located. The representative said that some individuals in a neighborhood that is perceived as risky can experience a higher chance of loan denial compared to similar individuals in high-income areas because the perception is, "if you are in certain neighborhoods, you are high risk" (ES13). Particularly in hyper-segregated places like Baltimore, this practice can result in the perception of race-based discrimination, if not actual discrimination.[3]

[4] If the consideration of neighborhood income levels actually results in lending discrimination based on certain demographic factors such as race, gender, and national origin, it would be in violation of multiple federal laws that prohibit redlining.

One entrepreneur observed that while business districts in Little Italy, Fells Point, and Hampden thrived, West Baltimore's Pennsylvania Avenue was left to deteriorate, lamenting that "nobody invests in our [community]" (E23). In Baltimore, there is significant overlap between the concentration of poverty and the concentration of racial and ethnic minority populations. **This means, although race itself is not a factor in business lending decisions (unlike home mortgages, business loan applications do not collect information on the applicant's race), the location-based risk assessment can pose a threat of inadvertent race-based discrimination in places like Baltimore.**

This issue is exacerbated by the fact that most banks lack physical branches in low-income neighborhoods. When we asked why, bank representatives pointed to the cost of maintaining branches, which can be unjustifiably high in areas where banks do not expect to do a lot of business. Instead, they emphasized that banks are collaborating with community organizations in low-income neighborhoods and holding "office hours" at local farmers' markets to meet potential borrowers. While these extra efforts are laudable, they would not be the same as having a branch where bankers and community members can maintain ongoing relationships. This reinforces the recurring theme of our report—regardless of the bankers' individual intentions, commercial banks' risk management mandates discourage them from serving many Black Butterfly entrepreneurs.

Unclear Reasons

The most troubling cases in our interviews are the ones where entrepreneurs did not know why exactly their loan applications were denied. One entrepreneur recollected, "They just said that their loan officers have a rating system that they use, and they don't know exactly what that looks like" (E18). Another entrepreneur remembered a similar interaction with a banker quite vividly (E20):

Entrepreneur: What's going on? I don't understand how I could be declined. You guys knew my financials. This is really screwing us over.

Banker: Well, it seems like all you wanna do is to argue, so therefore maybe we should end this conversation.

Our interviews with representatives of financial institutions revealed that there are systematic reasons behind this pattern beyond individual bankers' control. A banker described that typical denial letters are very generic, so "the borrowers will not learn [the exact reasons for the denial] unless they really sit down with someone [...] who is specialized, [such as] bankers." This interviewee further shared their personal opinion that bankers should be like doctors and take the oath to make sure that "the clients' financial wellness is our first interest," but lamented that it was far from reality (ES10).

Instead, our interviewees in financial institutions provided at least three reasons why entrepreneurs are not given specific reasons for denial. First, banks often use an automated system to do the initial screening of applications, and therefore, loan officers in these cases do not know the precise factors the system uses to screen out certain applicants. Second, there is a division of labor within banks wherein those who face applicants are not the same ones who make lending decisions, and the two parties do not necessarily communicate detailed information about particular applications. In this structure, the bankers who interact with entrepreneurs can only provide vague reasoning behind the decisions.

Finally, many of our informants in the banking industry stressed that bankers are not incentivized to provide detailed education to loan applicants. **Bankers themselves are constantly under pressure to make more sales and meet performance goals; sitting down with rejected applicants to inform them of the specific reasons behind decisions simply does not contribute to meeting these goals.**

CONSEQUENCES OF LIMITED CAPITAL ACCESS

While it is widely understood that a lack of access to capital negatively impacts small businesses, our interviews provided detailed stories of how it affects the businesses and the entrepreneurs. Primarily, **limited access to capital results in higher operational costs, which ultimately prevent entrepreneurs from further accumulating assets and investing in growth opportunities**. One entrepreneur was only qualified for an adjustable-rate loan, and "while initially helpful, [...] the adjustable interest rate structure has become a significant burden" on their business. They further explained that "as market conditions fluctuate, the interest rate on the loan has increased multiple times, cutting deeply into my already narrow profit margins" (E23). Another entrepreneur also secured a loan, but at a higher rate than the market rates at the time, and for many years has paid more interest:

> **"So the years that I spent in this loan are years that I wasn't using that money to build additional assets. And [...] that's where minority business gets stuck. We can't even get off the mat to build enough assets to get to the point [where you can] build more assets."**

The entrepreneur called it a "poverty tax": "It's almost like there's like a poverty tax, or an under-resourced tax that people who are [...] disinvested in [...] have to pay a higher penalty to even play [an already difficult] game of entrepreneurship" (E2).

The challenges in accessing capital not only increased operational costs but also blocked the businesses from accessing other resources, further jeopardizing business growth. For example, during the COVID pandemic, the SBA offered an abatement program where it paid closing costs on behalf of the businesses that purchased properties. Yet one of our informants was not able to take advantage of the program because a bank's delayed lending decision kept him from closing the deal before the deadline (E20). Similarly, the entrepreneur of a real estate development firm tried to leverage the state's tax credit program, but it required proof of ownership of the property. In order to purchase the property, the entrepreneur tried to secure a loan, but repeated rejection from many banks nearly kept him from leveraging the tax credit program. Fortunately, after 15 rejections, the entrepreneur was able to secure the loan (E7).

Enduring higher operational costs and failing to exploit growth opportunities put many entrepreneurs into **a vicious cycle that ultimately led to "subprime" or "predatory" lenders**. One entrepreneur said they had to deal with subprime lenders "because I couldn't get a prime lender to take me seriously" (E2). Another entrepreneur was exploited by a predatory broker, who promised fundraising from venture investors and later disappeared after using up all the initial funds. After all the years of trying, the entrepreneur came back to "square one" (E17). A representative of a financial institution articulated what typically happens after loan denials:

> **"When people can't get a business loan from a bank, they use their personal credit, and then they tank their own credit score because they're using personal credit to fund a business, or worse, they go online and get some of these predatory loans, [in] which there are no consumer protections. [...] APRs are only required on consumer loans, so [for predatory loans] someone can advertise a 10% interest rate and compound it daily, which can turn into up to 400% interest rate." (ES15)**

Having heard from both entrepreneurs and bankers, we found that many of the banking practices regarding business lending made much sense for risk mitigation, which banks and other financial institutions are mandated to do as part of their fiduciary duties. Although such efforts to mitigate risks are not illegal or "blatantly biased," they make loans "[always] slightly unattainable" for the marginalized and under-resourced entrepreneurs (E2). And our interviews reveal that the fallout is often devastating: many Baltimore entrepreneurs found themselves trapped in the vicious cycle of higher operational costs, damaged personal credit, and reliance on predatory lending that ends up driving the operational costs even higher.

ALTERNATIVE SOURCES OF CAPITAL

Despite the various challenges in accessing capital, the entrepreneurs we interviewed were resilient. When their access to capital through commercial banks was blocked, they identified alternative ways to raise funds. The following statement of an entrepreneur describes what this process typically looks like for early-stage entrepreneurs: “I knew that I needed non-traditional [financing]. So that’s when we did [...] the crowdfunding [and] CDFI, and that was successful for us, [so we were] able to get like $2,500 from that. And then I started doing pitch competitions and filling out grants, and so we kind of got a lot of money from doing that. And that sustained us [for] our first two years” (E34). In this section, we list these alternative funding sources that were frequently cited by our interviewees.

CDFIs (Community Development Financial Institutions), such as **Baltimore Community Lending**, were the most frequently cited alternative source of capital in our interviews (17 interviews). CDFIs were cited as an appropriate source of capital for early-stage, under-resourced entrepreneurs, because CDFI loans usually do not require collateral, do not screen applicants purely based on credit scores, and will consider businesses with relatively short operational histories as long as they demonstrate a “proof of concept” (ES17). Instead of waiving these conventional requirements, CDFIs often require applicants to go through a rigorous technical assistance (TA) process, wherein TA officers regularly meet with the entrepreneur to refine their business model, develop financial projections, and ensure that all the necessary financial records are in good standing.

One frequent misunderstanding we noticed from our interviews is that some entrepreneurs think that CDFIs are banks. In fact, CDFIs are not banks but special financial institutions designed to support under-resourced populations by making loans to applicants with relatively higher risk profiles than what traditional banks would accept. CDFIs do not take deposits from the general public—while some of their funds come from grants and donations, most are borrowed from banks.

Therefore, CDFIs' interest rates, which tend to be higher than typical bank loans, reflect the rates at which they borrow funds from other financial institutions. Furthermore, CDFIs provide the aforementioned TA services that traditional banks don't provide, so their rates include the overhead cost associated with providing such services.

The next most prevalent alternative source of capital was crowdfunding (11 interviews), as many interviewees cited popular platforms like KIVA. Some interviewees specifically mentioned **Maryland Neighborhood Exchange**, a Baltimore-based program run by Community Wealth Builders. It provides free comprehensive technical assistance for local entrepreneurs and serves as a facilitator for local-level investment crowdfunding.

The Maryland Neighborhood Exchange also offers education for regular Baltimoreans on how they can become investors for local businesses in their own neighborhoods through participating in crowdfunding campaigns. As a result, this program helps turn regular customers into investors in their favorite local businesses. One entrepreneur explained it in this way: "It's like taking a private company public on a really small scale" (E2). Entrepreneurs who participated in crowdfunding campaigns cited it as an effective mechanism for raising small-scale funds to test new products/services. And yet some entrepreneurs found that its scale is limited because the platforms were still not widely known, and that it can take a toll on entrepreneurs to advertise the fundraising campaign alongside daily operations.

Impact investment funds, such as **Ignite Capital**, were also highly cited (7 interviews). These funds provide small-scale loans to entrepreneurs whose business generates social and environmental impact. Some of these funds provide small amounts of "emergency funds" to help address urgent capital needs at a relatively fast pace, and entrepreneurs we interviewed expressed strong appreciation for the speed and flexibility of these funds. As an additional benefit, entrepreneurs also pointed out that these funds tend to be "patient capital," meaning that they often offer flexible and longer-term repayment options.

Notably, our interviewees also mentioned that the decision process for these loans can take a long time. This is because, for impact investment funds, trusting relationships tend to substitute the above-mentioned hard lending criteria employed by banks (e.g., credit score, collateral). Building relationships between the funds and the entrepreneurs requires understanding the product/service, getting to know the entrepreneurs, and engaging with the business's other stakeholders, all of which naturally take time.

Furthermore, there is an inevitable trade-off between the funds' low interest rates and the time taken for lending decisions. To offer low interest rates, impact investment funds tend to keep administrative overhead to a minimum, which limits the number of loan applications that can be processed in a given period. Although these funds are clearly driven by a mission to support under-resourced entrepreneurs, speedy processing and low interest rates cannot be achieved simultaneously under real resource constraints.

Our interviewees also frequently mentioned accelerators and pitch competitions as flexible, non-dilutive sources of capital. We had an entrepreneur who told us that they participated in three accelerator programs at once, not only for training but for funding. An important caveat is that significant time and effort are usually required to participate in accelerator programs, and if one participates in multiple programs, the lessons could become redundant. Due to this limitation, some mentors discouraged entrepreneurs from using accelerators as a source of funding and instead recommended using them for their training and networking value.

CONCLUSION

It is a chronic and well-recognized problem that under-resourced, historically marginalized entrepreneurs experience significant difficulties in accessing capital.[4] Through this interview study, we had a unique opportunity to understand the issue from both entrepreneurs' and financial institutions' perspectives. It not only revealed specific barriers that Baltimore entrepreneurs face—low credit score, lack of collateral, records in background checks, lack of operational history, risky business location—but also allowed us to understand why banks impose these barriers and how entrepreneurs experience them.

Our analysis shows how what could be a rational requirement from one side can be seen as senseless from the other. Many of the banks' rules and practices in business lending were established to mitigate banks' risks in managing depositors' money, and without them, banks would lose the public's trust and eventually cease to exist as an institution. In contrast, entrepreneurs perceived these rules and practices as a reflection of discrimination and the lack of empathy. Similarly, while many of the factors that ultimately lead to a rejected loan application often stem from the entrepreneurs' genuine lack of understanding and their circumstances shaped by historical marginalization, bankers interpret them as signs of incompetence, defensiveness, and dishonesty. Both attributed each other's actions to internal causes without considering external factors that resulted in observed actions.

This realization leads us to our first conclusion: **it is vital to enhance mutual understanding between under-resourced entrepreneurs and financial institutions.** For entrepreneurs to increase their chance of getting a loan, they need to understand how lending decisions are made in financial institutions—who handles their applications, what they require in the process, what they look for in those requirements, and why they look for what they look for. This understanding will help the entrepreneurs to "speak the same language" with loan officers (ES11), which can then lead bankers to engage more deeply and more empathetically with entrepreneurs.

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[5] Fairlie, R., Robb, A., & Robinson, D. T. 2022. Black and White: Access to Capital Among Minority-Owned Start-ups. Management Science, 68(4): 2377–2400.

Becoming a successful entrepreneur seems to require more than just providing excellent products and services. It requires them to become savvy in dealing with financial institutions by thinking from the bank's risk management perspective and helping the loan officer justify a positive evaluation of their loan applications.

The same applies to those who represent financial institutions. It is critical for bankers to understand the structural and historical factors that make under-resourced entrepreneurs seem less desirable in their evaluation mechanisms, and to appreciate how much additional effort and competency are required for a marginalized entrepreneur to build a viable business. Taking these factors into consideration may indicate that it is worth taking risks with these entrepreneurs. Their businesses may be more resilient in the face of market downturns, and forming deep relationships when they are small can pave a way towards a loyal and lucrative client base.

More importantly, those in banks and financial institutions need to be aware of what far-reaching impact their decisions can have on individual entrepreneurs and society at large. Our interviews revealed devastating ramifications of limited capital access and how it perpetuates a vicious cycle of poverty and community deterioration. Providing financial resources to underprivileged entrepreneurs can have a profoundly positive impact that extends beyond individual businesses and contributes to alleviating deep-seated inequality in the city. Restoring trust and building relationships between historically marginalized communities and financial institutions is the first step to revitalizing Baltimore through entrepreneurship.

Clearly, telling entrepreneurs and bankers to better understand each other is not enough—long-term, structural remedies must also follow. Therefore, our second conclusion is that **it is imperative to envision and expand alternative access to capital for under-resourced entrepreneurs**. Our interviews revealed an important mismatch between what banks can supply and what entrepreneurs demand: while the typical size of capital that a nascent small business needs is too small for a typical bank loan, the level of risks that these nascent businesses pose is often too high for banks to bear.

For typical tech startups, the mismatch is resolved by the existence of a rich alternative funding ecosystem, consisting of venture capital funds, angel investors, and startup accelerators, which provide smaller seed funding to highly risky ventures. The problem is that such ecosystems do not exist for typical small businesses of Baltimore's under-resourced entrepreneurs. The venture funding ecosystem is not suitable for these community-centered businesses because they are not designed to generate the type of explosive growth that venture capital funds expect.[5]

Consequently, Baltimore's under-resourced entrepreneurs are left without their own funding ecosystem that can help address the urgent capital needs during the start-up phase, when they are neither old nor large enough to secure a bank loan. Our interviews identified several emerging elements of this ecosystem (e.g., CDFIs, impact funds, crowdfunding, social impact accelerators). More systematic research is needed to understand how effective these alternatives are and how they can be connected to build a healthy ecosystem that supports Black Butterfly entrepreneurs. As a result, more resources need to flow into building the alternative ecosystem for Baltimore's under-resourced small businesses. When these businesses begin to populate the streets of Black Butterfly communities, the city's equitable revitalization will start to become a reality.

[6] Kim, S., & Kim, A. 2022. Going Viral or Growing Like an Oak Tree? Towards Sustainable Local Development Through Entrepreneurship. Academy of Management Journal, 65(5): 1709–1746.

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Yolanda Christophe, PhD, and Suntae Kim, PhD, are pictured to the right sharing preliminary research insights and soliciting feedback during a June 2024 meeting with community leaders in Baltimore, Maryland.