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When the Bank Isn’t the First Call



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A researched briefing on why some Black business owners hesitate to borrow, how community funding can expand their options, and what must be protected before friends and family become financiers.

The inventory order is ready. The customer is interested. The business has an opportunity to move.

But before the founder can say yes, another question arrives: Where will the money come from?

For some entrepreneurs, the next call is to a bank. For others, it is to a sister, a longtime friend, a customer, or a circle of people who have watched the business grow.

That second conversation is often treated as evidence that a business has not yet become serious. It can also reflect something more complicated: a history of exclusion, uncertainty about lending, a desire to protect the household, and a belief that people who know the founder may understand the opportunity better than an institution does.

Black business owners are not one audience with one relationship to debt. Some actively pursue institutional financing. Some have been rejected. Some do not need it. Others want capital but do not trust the process—or do not believe the process will work for them.

The useful question is not whether every founder should overcome that hesitation and apply for a loan.

It is how to turn hesitation into an informed capital decision—and how to build alternatives without asking the community to absorb risks it cannot afford.

1. The hesitation is measurable. Its meaning needs care.

In the Federal Reserve Banks' **2026 chartbook on firms by race and ethnicity of ownership**, based on the **2025 Small Business Credit Survey**, 32% of Black-owned employer firms that did not apply for financing identified discouragement as their primary reason. The corresponding figure for white-owned nonapplicant employer firms was 8%.1

"Discouraged" has a specific meaning here: the business did not apply because it did not think it would be approved.

That is not the same as saying 32% of all Black founders distrust banks. It is not a finding about every startup, side business, or self-employed worker. The chart covers small employer firms, and this particular question covers the subset that did not apply for financing during the prior 12 months.

The same chart found that 31% of Black-owned nonapplicant employer firms cited debt aversion, compared with 15% of white-owned nonapplicants. Another 29% of Black-owned nonapplicants said they did not need financing or already had enough.1

These distinctions matter. Not applying can mean “I expect rejection.” It can mean “I do not want debt.” It can also mean “My business does not need this product.” Those are different decisions, requiring different responses.

The survey is a weighted convenience sample, not a randomly selected census of businesses. Its findings are valuable evidence of reported financing experiences, but they do not establish that fear alone causes a particular revenue gap or quantify billions of dollars in lost growth.2

A separate project helps explain what can sit behind the numbers. In 2023, Black Onyx Management surveyed Black-owned businesses in Indiana; 180 responded. A Fed Communities account of the project reported that 72% of respondents considered themselves debt averse. Reasons included distrust of banking, historical fear of debt, and uncertainty about underwriting. Nearly half reported being unaware of how banks made loan decisions.3

That is a local finding, not a national prevalence estimate. Still, it raises an important possibility: what appears from outside to be a lack of ambition may sometimes be an understandable response to uncertainty about what borrowing will actually require.

2. Protecting the household is not the opposite of building a business.

There is a difference between refusing to invest in a business and refusing to put the household’s stability behind an unclear financing agreement.

A founder may have a viable order and still be right to question a personal guarantee. A company may need working capital and still be wrong to accept a repayment schedule that starts before the customer pays. Revenue can grow while cash becomes tighter.

Business financing should therefore begin with the use of funds, not the lender’s logo.

What will the money purchase? When does that purchase produce cash? How dependable is the expected payment? What happens if the customer pays late—or not at all?

Consider a hypothetical operator seeking $10,000 to fulfill an order. The relevant question is not simply whether the lender offers $10,000. It is whether the order’s remaining margin, payment timing, and the business’s other cash commitments can support the actual repayment terms.

A projected sale is not cash in the account. A signed agreement is not protection against every delay. And a lower monthly payment is not automatically a lower total financing cost.

The same care applies to business-credit advice. Separate accounts and accurate bookkeeping are important operating disciplines. They do not create an automatic firewall between a business debt and an owner’s personal finances.

Under federal SBA loan conditions, holders of at least a 20% ownership interest generally must guarantee the loan, and other guarantees may be required in appropriate circumstances.4 The precise exposure depends on the product and documents. Forming an LLC does not erase a personal guarantee someone

signs.

The goal is not to frighten founders away from borrowing. It is to replace vague reassurance with a clear account of what the founder is accepting.

3. Community capital is not a new invention.

Long before “community VC” became a phrase, people were organizing money through relationships.

Rotating savings and credit associations—often called ROSCAs in academic research—are one example. Names and practices vary across communities; susu and partner are among the terms used in parts of the African and Caribbean diaspora.

In a simple rotating arrangement, members contribute an agreed amount at regular intervals, and one member receives the pooled contribution each round. Everyone is expected to keep contributing through the full cycle, including after receiving their payout.

Caroline Shenaz Hossein’s peer-reviewed research documents the role of these arrangements among Black women in the Caribbean and Canada. Her 2015 study drew on interviews and focus groups with 332 people across Jamaica, Guyana, Trinidad and Tobago, Haiti, and Canada. It describes peer-to-peer financial cooperation operating alongside conventional banks to support livelihoods, family, and community.5

This research provides evidence of an established practice. It does not show that a particular arrangement will succeed in the United States, establish current nationwide participation among African American founders, or guarantee a measurable increase in business ownership.

Its importance is more fundamental: community members are not merely recipients of financing. They can be organizers of it.

Illustrative savings-circle math: Ten members each contribute $500 per month. That creates a $5,000 monthly payout. Across a ten-month cycle, each member contributes $5,000 and receives one $5,000 payout, assuming everyone contributes as agreed and there are no fees or losses.

The arrangement changes the timing of access to money. It does not create new wealth or a return on investment by itself. An early recipient gains earlier access but must keep contributing afterward. A late recipient waits longer and remains exposed to earlier members failing to pay.

That timing can matter for a specific inventory purchase or equipment expense. It also explains why trust alone cannot carry the whole arrangement.

4. “Our own Kickstarter” can describe several very different things.

The phrase captures a powerful instinct: people who believe in a business should have a way to help it move forward.

But the legal and financial structure depends on what those people receive in exchange.

A gift

A supporter provides money without a contractual expectation of repayment, ownership, or a financial return. The parties should make that intention explicit and seek tax advice where appropriate. Calling a transfer a gift does not settle every tax question.

A preorder or reward

A customer pays for a product, service, or specified reward. This is not equity simply because many people participate. The business still needs credible delivery plans, realistic costs, and clear terms. The cash is accompanied by an obligation to deliver what was promised.

A loan

Someone advances money expecting repayment. That requires more than “we know each other.” Amount, interest if any, repayment timing, late-payment handling, and remedies belong in writing. Lending, interest-rate, tax, and other legal requirements can depend on the transaction and jurisdiction. Some notes may also be securities.

An ownership investment or other security

A contributor expects equity, profit participation, or another investment return. This is not simply a more generous version of a donation. Securities requirements may apply, even when the people involved are friends, customers, or relatives.

A rotating savings arrangement

Members exchange scheduled contributions for a turn at the pooled payout. That is not automatically equivalent to a loan fund, a company selling shares, or venture capital. Its legal treatment depends on its actual features and the applicable jurisdiction.

The first design decision is therefore not the name of the circle.

It is what the money is—and what the contributor has been promised.

5. Community investing has a regulated route. A group chat is not that route.

For eligible businesses seeking investment from a broader community, Regulation Crowdfunding provides one established U.S. pathway.

The SEC explains that qualifying companies may raise up to $5 million in a 12-month period under Regulation Crowdfunding. Transactions must take place online through an SEC-registered intermediary—a broker-dealer or funding portal. The framework includes issuer disclosures and limits for non-accredited investors.6

This is not a blanket permission to collect investment money through a payment app. Nor does using a registered platform make an offering safe, ensure success, or mean the SEC endorses the business.

A founder must evaluate eligibility, the security being offered, disclosure and financial-statement requirements, fees, ongoing reporting obligations, and restrictions on offering communications. Investors need to understand that they may lose their entire investment and may be unable to exit easily.67

The appeal is real: community members can potentially participate as investors rather than only as customers.

But the obligation becomes greater, too. A business is asking people to bear financial risk, not merely cheer for its success.

The same caution belongs around a private "founder investment club." Forming an LLC and signing an operating agreement does not, by itself, resolve securities, investment-company, investment-adviser, or state-law questions. The SEC's investment-club bulletin specifically warns that club interests may be securities and that the club or a compensated adviser may be subject to regulation.8

An investment club should therefore be treated as a structure to review with qualified counsel—not a ready-made legal shortcut.

6. The community cannot afford invisible risk.

There is a danger in presenting community finance as a morally superior answer to every institutional barrier: it can transfer the risk from a lender's balance sheet to people whose resources are already stretched.

If everyone in a circle depends on the same local economy, a downturn may reduce their ability to contribute at the same time. If one founder receives an early payout and then loses income, the consequences spread to the people waiting behind them.

A community-backed business can fail even when its founder is honest. A responsible founder must be willing to explain that before accepting money.

The strongest arrangements make room for someone to say no without social punishment. They do not ask members to risk rent, emergency savings, or money needed by dependents. They do not confuse cultural solidarity with guaranteed repayment.

They also recognize that documentation protects relationships.

A clear contribution schedule is not an insult to trust. A conflict-of-interest rule is not disloyalty. A written explanation of who holds funds and who can authorize transfers is not bureaucracy for its own sake.

The disagreement will not necessarily occur when everyone is excited. It may occur when a payout is late, a business needs more time, or one member wants to leave. Rules written before that moment are more useful than assurances offered afterward.

7. Build more than one route to capital.

Community funding and institutional financing do not have to be competing identities.

A founder might use retained earnings for small recurring expenses, customer preorders for a defined product run, and a suitable loan for an asset that generates cash over time. Another may decide that the opportunity is too uncertain to borrow against at all.

Community Development Financial Institutions are another category worth investigating. The Treasury's CDFI Fund describes certified CDFIs as specialized organizations serving low-income communities and people who lack access to financing. They include banks, credit unions, loan funds, and venture capital funds.9

Minority Depository Institutions are a separate designation. The FDIC maintains a list of qualifying insured institutions, based on minority ownership or qualifying board and community characteristics. MDI does not automatically mean Black-owned, and CDFI certification does not automatically mean minority-owned.10

Neither designation guarantees an affordable loan or an approval. Geography, borrower eligibility, products, underwriting, collateral, guarantees, and cost still matter.

The practical move is to ask questions before filing applications:

- Does this institution finance my business type, stage, location, and intended use of funds?
- What records and operating history does it require?
- Is an initial conversation or prequalification available, and will it involve a hard personal-credit inquiry?
- What are the repayment schedule, total dollar cost, fees, guarantees, and collateral requirements?
- What changes would make this business a stronger candidate if it is not eligible now?

An answer may be "not yet." That can still be useful if it comes with a specific explanation instead of an assumption that the door is closed forever.

8. Before a capital circle, write a capital brief.

Before creating a pool, recruiting investors, or asking relatives for money, an operator should prepare one page that answers six questions.

1. What exactly needs funding? Identify the expense, amount, timing, and business purpose. "Help me grow" is not a use-of-funds plan.

2. Why is this the appropriate funding type? Distinguish a gift, sale, loan, savings arrangement, or investment. Do not promise one thing and document another.

3. How will the money come back—or what will be delivered? State the source and timing of repayment, the product obligation, or the absence of any guaranteed investment return. Separate confirmed facts from projections.

4. What happens if the plan fails? Identify plausible delays, losses, and the effect on the founder and contributors. Put the downside in the same conversation as the opportunity.

5. Who controls and records the money? Specify custody, authorization, records, reporting, conflicts, and privacy. Do not assume that funds in an organizer's account are separately protected or insured for each participant; verify account ownership and applicable protections.

6. What independent review is required? Ask qualified legal and accounting professionals about the proposed activity before soliciting or pooling funds. A worksheet is not a formation document or an exemption from regulation.

If these questions cannot be answered clearly, the next step is not a bigger circle. It is a better-defined proposal.

The goal is more agency, not another obligation to be fearless.

Black entrepreneurs do not need another lecture telling them to take a risk.

They need financing conversations that acknowledge why hesitation exists, distinguish harmful terms from useful capital, and respect the possibility that a founder may decide not to borrow.

Community funding deserves a place in those conversations—not as a romantic substitute for fair institutional access, and not as an excuse for lenders to leave communities to finance themselves.

Its promise lies in expanding the range of informed choices. Its limits lie in the capital available, the obligations created, the law, and the risks that relationships cannot erase.

A bank does not have to be the first call. A trusted friend does not have to become the lender. A circle does not have to become a fund.

What matters is whether the structure fits the opportunity—and whether everyone understands what they are saying yes to.

Trust can open the conversation. Clear terms, realistic cash flow, and accountability must carry it forward.

Operator worksheet: Community Capital Decision Brief

For planning and professional review—not authorization to accept funds.

- **Business and specific use of funds:** _____
- **Amount required and date needed:** _____
- **Proposed structure:** gift / preorder or reward / loan / rotating savings / securities investment / undecided
- **Contributor receives:** _____
- **Delivery, repayment, or payout schedule:** _____
- **Cash-flow assumptions and supporting evidence:** _____
- **Delay or loss scenario:** _____
- **Maximum household exposure and any personal guarantee:** _____
- **Fund custody, authorization, records, and reporting:** _____
- **Exit, missed contribution, dispute, and conflict rules:** _____
- **Legal and tax questions requiring review:** _____
- **Alternative funding routes considered:** _____

Stop points

Pause if the funding type is unclear; participants cannot afford the potential loss or contribution obligation; returns are described as guaranteed without a substantiated legal and financial basis; custody is unexplained; or the necessary professional review has not happened.

Completion is not a readiness certification. Use the brief to improve the conversation with an accountant, attorney, lender, or other appropriate professional.

Resources for the next conversation

- Explore the BlackRefer Directory for relevant professional support; confirm each provider's services, qualifications, and fit independently.
- Review The Government RFP Reality before treating a potential contract as financing-ready revenue.
- Review Pricing for Profit, Not Apology alongside the cash-flow and repayment analysis.
- Use the CDFI Fund and FDIC resources below to investigate institution types and official lists—not as lender endorsements.

Sources

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