

Short on Savings?

Consider crowdfunding to meet your goals!



OPPORTUNITIES FOR INNOVATION IN CROWDFUNDED SAVINGS



THE BACKGROUND

Hospital bills. A broken car transmission. Astronomical heating bills during a harsh winter. These are just a few examples of financial emergencies that befall Americans each year that are all too familiar to low- and moderate-income families. A survey administered by Doorways to Dreams Fund (D2D) found that 70 percent of low- to moderate-income (LMI) consumers faced at least one financial emergency like these in the last 12 months¹.

In an effort to identify innovations that could help consumers better manage those financial emergencies, D2D conducted a series of in-depth interviews with LMI consumers that generated the following insights:

- LMI consumers **rely on their friends and family** for financial support to manage emergencies;
- LMI consumers feel that their networks, comprised of mostly of friends and family who are also low- to middle-income, **cannot provide as much support** as those of higher-income consumers; and
- Consumers are more **motivated to save for aspirational future goals** than for financial emergencies.

From those insights, D2D hypothesizes that crowdfunded savings is an innovation that could spur new product development and help consumers:

- **Access broader networks** and more funding than they otherwise could reach within their traditional circles; and
- **Raise money for aspirational future goals** that could also provide a cushion for financial emergencies.

It is well-documented that most Americans are ill-prepared to manage financial emergencies. D2D surveyed LMI consumers with incomes of \$25,000-\$50,000 and found that 45 percent have \$500 or less in savings². For those consumers, financial emergencies can be devastating. Without savings, options are more limited. Consumers can spend less, work more hours, or sell assets, but vulnerable consumers are not always able to finance the entire cost of their emergencies using these coping mechanisms³.

Though consumers have additional alternative options that can help them manage financial emergencies, many of those options are costly, predatory, or inaccessible. Credit markets can be especially difficult for LMI consumers to enter. Many have little, poor, or no credit history, lack knowledge on how to check, correct, and improve their credit scores, and have a perception that the credit system is inaccessible⁴. For those consumers, alternative financial options like payday loans and pawn shop loans can be attractive for their accessibility and convenience⁵, but often result in costly long-term consequences⁶. Many consumers who turn to these alternative options enter into high-interest agreements, rollover on their loans, and often experience debt collection harassment⁷.

Financial gifts from friends, family members, extended networks, and even strangers are more desirable to manage financial emergencies. Unlike many alternative options, financial gifts provide spending flexibility, do not charge interest, and cannot negatively impact consumers' credit scores.

THE PRE-PILOT

D2D designed a two-part pre-pilot test to analyze an existing model of crowdfunding and to survey consumers about their perceptions of and experiences with existing platforms. To develop the first phase of the pre-pilot, D2D partnered with DreamFund⁸, a crowdfunding platform that helps consumers raise and save money. D2D recruited a small group of LMI consumers who were asked to set up campaign pages on the DreamFund website, share them with their networks, and take a series of surveys to share information about their crowdfunding experience. Consumers were paid a stipend for their participation. The DreamFund pre-pilot allowed D2D to gather information about LMI consumers' experiences using crowdfunding to raise money for savings goals.

The second phase of the pre-pilot consisted of a public survey with a 405-person sample of LMI consumers⁹. The survey was designed to help clarify consumers' perceptions of crowdfunding, their experiences using it, barriers to adoption, and opportunities for product improvement.

THE OUTCOMES

Our pre-pilot found that many LMI consumers are already receiving money from others to pay for their expenses, but they normally only receive assistance from the inner circles of their existing networks. In D2D's public survey about crowdfunding, 48 percent of respondents had received money from friends or family to help them pay for their expenses in the last year and 50 percent had given money to friends or family¹⁰. The DreamFund pre-pilot test also suggests that consumers are most likely to turn to immediate family and friends for assistance – the baseline survey to pre-pilot test participants revealed that 51 percent of respondents turn to parents, 32 percent turn to friends, and 24 percent turn to grandparents when they need money¹¹.

Platforms that facilitate crowdfunding for savings goals complement existing informal exchanges of financial gifts within networks. These platforms can provide a key opportunity to help consumers reach beyond their existing networks.

In our public survey, 58 percent of respondents said they would donate money to strangers with compelling campaigns. They also expressed certain preferences for the types of campaigns they wanted to donate to. Almost half, 44 percent, said they would be more likely to give money to someone who wanted to save, rather than spend, the funds they raised. Over three-quarters, 78 percent, said they would be more likely to give money to an individual facing an emergency than one who wanted to save for a future goal.

Though respondents have a preference for funding emergency needs, they are also willing to donate to general savings funds and specific future goals.

Without any direction provided by D2D, our pre-pilot test participants raised money for all three types of savings needs. Pre-pilot test participants who set up crowdfunding campaigns chose to save for a variety of goals: general savings funds (retirement), emergency needs (car repair), and future goals (education). Responses to a question on our public survey about funding preferences also support the notion that crowdfunding can be used to raise money for different types of savings goals, including long-term aspirations.

What kinds of savings goals would you be willing to donate to through a crowdfunding platform?¹²

General emergency savings fund	26%
Education related goals	28%
Retirement	11%
Medical Expenses	61%

Our pre-pilot revealed a measured gap between the percentage of LMI consumers who are interested in using crowdfunding and the percentage who have actually done so. One-third of respondents on our public survey said that they would be interested in using crowdfunding as a tool to raise money for an emergency or future expense, yet only 4 percent of them had set up a crowdfunding campaign for any purpose in the past, and only 15 percent of respondents had ever donated to one.

Despite the gap, our surveys suggest that users are satisfied with crowdfunding platforms. Results from our public survey show that consumers who have used crowdfunding tools in the past have had positive experiences with the existing system features. When asked to describe their experiences with things like the campaign set-up process and learning how to use and navigate the platforms, the vast majority of respondents claim to have had a positive experience. No more than 10 percent of respondents felt that any specific feature of crowdfunding platforms was difficult to use¹³.

THE OPPORTUNITIES

Because a large percentage of consumers are interested in using crowdfunding for emergencies and future goals, but few have actually done so, we believe that closing the gap will require re-framing crowdfunding as a savings tool. This could be done by marketing existing platforms as savings tools or by creating new platforms that facilitate crowdfunded savings. Crowdfunding platforms like DreamFund have already identified this opportunity and are experimenting with different framing options while allowing personal savings goals to gain traction within the crowdfunding space.

Many of the concerns highlighted by respondents reluctant to use crowdfunding to raise money for emergency or future expenses could be alleviated by a platform that allowed for a higher degree of confidentiality or anonymity for fundraisers. Many respondents were concerned about being judged for goals on a social platform, perceived their personal savings goals as unimportant, or felt reluctant to publicize their personal financial needs¹⁴. The accountability that public crowdfunding platforms uphold is a crucial part of the system, but we believe

that there is an opportunity for crowdfunding platforms to source that accountability internally and relieve some of the social pressures that conflict with raising funds for personal expenses.

Opportunities to Attract LMI Consumers:

Market existing platforms explicitly as savings tools

Provide fundraisers a higher degree of privacy

We can conclude from D2D's pre-pilot study of crowdfunded savings that this innovation has potential to gain traction among LMI consumers and help manage financial emergencies. Innovation in this space in the last five years has already produced several products and services that help LMI consumers crowdfund for financial emergencies and savings needs; companies like DreamFund and SavingsFund are designed for savings campaigns, and sites like FundRazr and Thoughtful.org are designed for financial emergencies. However, those products have not yet converted the entire market of interested consumers into users. New product innovation and marketing could help meet that demand.

Though crowdfunded savings platforms show promise, there may also be other opportunities to leverage crowdfunding to help LMI consumers manage financial emergencies. This pre-pilot did not address cash flow among networks of friends and families. **Further exploration is needed to understand when exchanged funds serve as gifts versus informal loans and how product development around informal loans can yield further innovative solutions for LMI consumers managing financial risk.** Findings from this research may point to a need for not only crowdfunded savings, which has been D2D's focus thus far, but also crowdfunded loans.

New product development and evaluation incorporating these insights is necessary to help this innovation reach its full potential among LMI consumers.

END NOTES

¹From baseline survey administered to potential pilot participants. 60 responses, income range \$60,000 or less, age range 18 and over.

²This result is from the crowdfunding public survey with 405 responses. A [2014 Bankrate survey](#) had similar findings; 26percent of survey respondents had no savings, and 24percent only saved enough to cover 3 months of expenses.

³A [2011 NBER paper](#) found that 50percent of Americans said they certainly or probably could not get enough funds to cover a \$2,000 emergency within 30 days. 54percent of respondents said they would need to use two or three different coping methods (when choosing among using savings, friends/family, mainstream credit, alternative credit, selling possessions, and working more) to pay for the emergency.

⁴Consumer Financial Protection Bureau, "[Empowering low income and economically vulnerable consumers](#)"

⁵[2011 Consumer Financial Literacy Survey Final Report](#), NFCC. 195 consumers who had used alternative financial services, such as check cashing facilities, rent-to-own outlets, and "easy loan" companies, were asked why they used those services. 77 percent said the services were "quick and convenient," 29 percent felt those services were their only option, and 18 percent couldn't get a loan from a bank or credit union.

⁶CFPB, "[What is a Payday Loan?](#)" 2013. "A typical two-week payday loan with a \$15 per \$100 fee equates to an [annual percentage rate \(APR\)](#) of almost 400percent. By comparison, APRs on credit cards can range from about 12 percent to 30 percent."

⁷North Carolina Department of Justice, "[Payday Loans](#)"

⁸DreamFund, Inc. www.dreamfund.com

⁹This D2D crowdfunding survey was administered online to 405 paid respondents through SurveyMonkey. Respondents were between ages 18 and 55 and had incomes of \$25,000-\$50,000. 54percent female were female and 46percent male. 76percent of respondents were white, 12percent African American, 7percent Latino, 2percent Asian, and 2percent identified with a different group or chose not to answer.

¹⁰This result is from the crowdfunding public survey with 405 responses.

¹¹See Appendix A, Table 4

¹²This result is from the crowdfunding public survey with 405 responses. See Appendix A, Table 5 for a full list of choices and responses.

¹³A question about the ease of using different features of crowdfunding platforms was asked of 15 respondents in the 405-respondent public crowdfunding survey and also of 11 respondents to a monthly survey sent to the DreamFund pre-pilot test participants.

¹⁴This result is from the crowdfunding public survey with 405 responses.

Appendix A: Survey Responses from surveys with DreamFund Pilot Participants

Table 1

Did your household experience any financial emergencies in the past 12 months?

**Answer Choices–
Responses–**

–
Yes 70.00% (42)
–
No 30.00% (18)

Total: 60

Table 2

How did your household manage to pay for that financial emergency? Select all that apply.¹

Answer Choices–	Responses–
– Used savings set aside for emergencies	40.48% 17
– Used other savings	16.67% 7
– Borrowed from family and friends	40.48% 17
– Charged it on a credit card	11.90% 5
– Took a cash advance on a credit card	0.00% 0
– Took out a pay day loan	2.38% 1
– Took out a loan from a jewelry or pawn shop	4.76% 2
– Took out a loan from a bank or credit union	4.76% 2
– Took out another loan	4.76% 2
– Sold property or other assets	11.90% 5
– Worked more hours	23.81% 10

¹This question was asked of the 42 consumers who said they had experienced a financial emergency in the last 12 months, as shown in Table 1.

Answer Choices	Responses
– Spent less on things I didn't absolutely need	33.33% 14
– Cashed in savings bonds	2.38% 1
Total Respondents: 42	

Table 3

Generally, when you're in need of money for either an emergency or to meet day to day needs, do you turn to your family and friends for assistance?

Answer Choices–	Responses–
– Yes, often (once every 3 months or less)	10.00% 6
– Sometimes (once every 3-6 months)	28.33% 17
– Very rarely (once every year)	16.67% 10
– I have before but don't generally turn to family or friends (less than once a year)	31.67% 19
– No, never	13.33% 8
Total	60

Table 4

When you do turn to family and friends, who do you rely on? Select all that apply.

Answer Choices –	Responses –
– Parent(s)	51.92% 27
– Aunt/Uncle	13.46% 7
– Brother/Sister	13.46% 7
– Cousin	5.77% 3
– Grandparent(s)	23.08% 12
– Child	7.69% 4
– Friend	30.77% 16
– Co-worker	5.77% 3
– Ex-spouse	1.92% 1
– Spouse/Partner/Significant Other	3.85% 2
Total Respondents: 52	