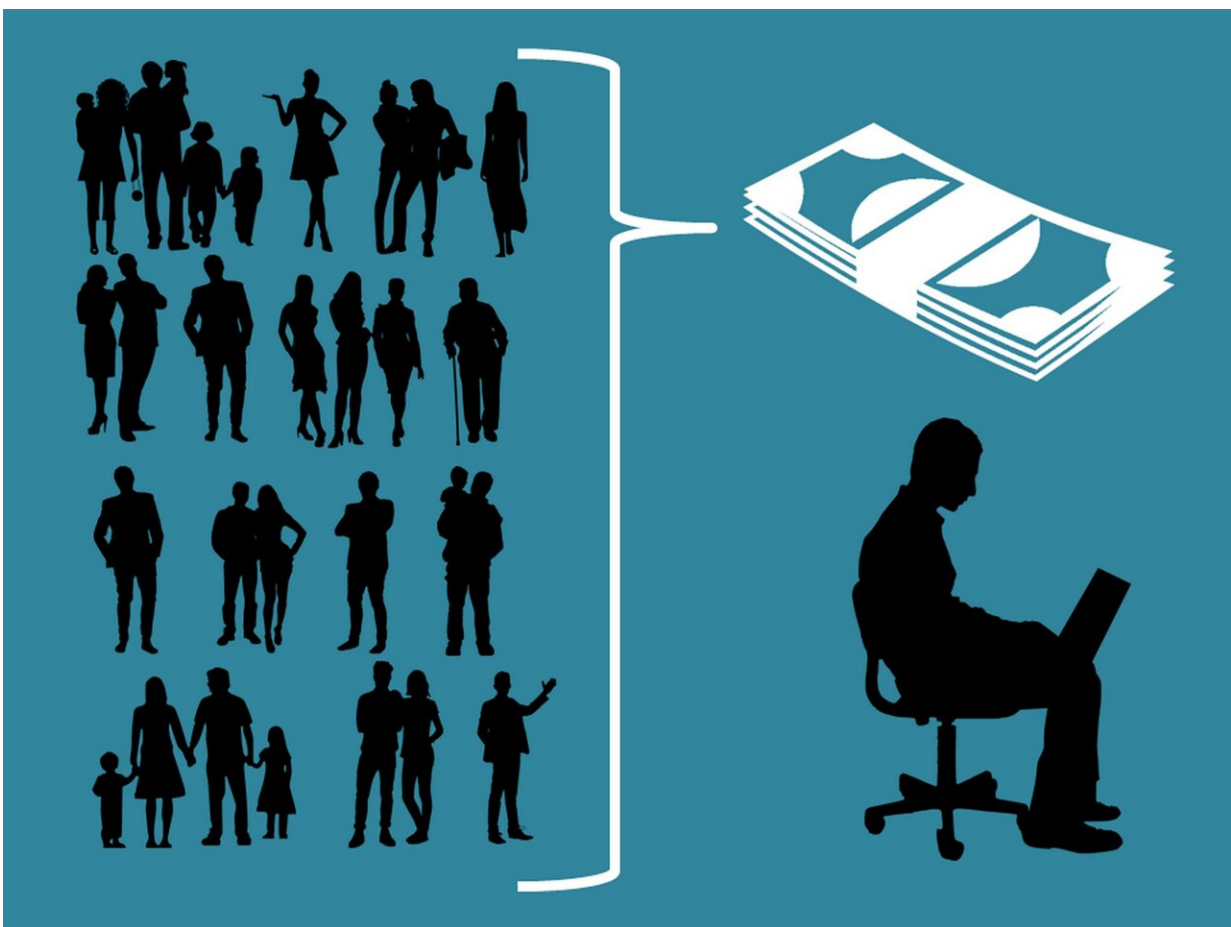


Crowdfunding after the Marshall fire overwhelmingly helped wealthy households, find researchers

February 2 2024, by Katy Marquardt Hill



Credit: Pixabay/CC0 Public Domain

After Colorado's Marshall Fire consumed more than 1,000 homes in suburban Boulder County on Dec. 30, 2021, hundreds of crowdfunding campaigns sprang forth to provide some immediate relief to homeowners who lost everything.

Within a few weeks, GoFundMe campaigns raised \$23 million for Marshall Fire victims, dwarfing the \$2 million in grants issued through the Federal Emergency Management Agency, or FEMA.

But that crowdfunded support was lopsided: 10% of fire survivors with a GoFundMe [campaign](#) received more than \$60,000 while 12% raised less than \$5,000, according to new research. What's more, the households that received the most funding were more likely to be those with earnings above \$150,000.

"It became clear very quickly that wealthier people were not only more likely to have GoFundMe campaigns in the first place, but they also raised substantially more money in their GoFundMe campaigns," said Emily Gallagher, assistant professor of finance at Leeds School of Business, who authored a paper along with Tony Cookson, Leeds finance professor, and Phillip Mulder, assistant professor in the risk and insurance department at the Wisconsin School of Business at the University of Wisconsin-Madison. They plan to submit the paper to a peer-reviewed journal in March.

Disparities in crowdfunding

Broadly, the researchers set out to determine whether crowdfunded private charity helps the most vulnerable. Crowdfunding—specifically via the platform GoFundMe—has become a sort of "informal insurance" for disaster survivors, Gallagher said, since funds can be quickly raised through social networks and transferred directly to individuals in need.

Cookson and Gallagher said they approached the project with curiosity since they each live near Louisville and Superior, the suburban towns heavily affected by the Marshall fire, and have friends who lost their homes.

"Some of the people we know are relatively wealthy people who raised very large sums through GoFundMe," Gallagher said. "So we were curious if those were outliers, or was this pretty common? We were also wondering what happened to people at the other end of the spectrum who don't have such high incomes."

They found that beneficiaries with incomes above \$150,000 received 28% more support than those with incomes below \$75,000. In addition, high-income households were at least 14 percentage points more likely to be beneficiaries of GoFundMe campaigns, and they had more donors overall—receiving six additional donations per 10% increase in household income.

"Part of the reason why higher-income people raise more and are more likely to have GoFundMes is that they have advocates, they have friends who actually step in and start these campaigns for them," Gallagher said. "Whereas if you're on the lower-income end and more financially vulnerable, it's less likely that someone outside of your family started a campaign."

'Richer, deeper networks'

The researchers examined 975 GoFundMe campaigns for survivors of the Marshall Fire, focusing on households that experienced a total loss of their homes. Because the names of fundraisers on GoFundMe are public, the researchers were able to match names with homes destroyed in the fire.

Working with the credit bureau Experian, they produced an anonymized data set matching crowdfunding and housing data with personal credit characteristics to determine recipients' pre-fire income and financial picture.

Sorting donors by income and location, they also found that wealthier recipients had bigger, more geographically dispersed networks of donors outside of the local area. "Richer people have richer and deeper networks," said Cookson. "Not only do they know people who are wealthier, but they have a wider network of people who they know."

Charitable giving biases

The greater their household income, the more donations—and larger donations—Marshall Fire crowdfunding beneficiaries received. The average donation amount increased by about \$1.56 per 10% increase in the beneficiary's income, according to the researchers.

"We also found this curious thing we weren't expecting," Gallagher said. "When we look at donors who gave to multiple campaigns, we found that that same donor tended to give a larger amount when the beneficiary was a higher-income household. That we don't have an explanation for. There are a lot of psychological mechanisms that could be playing a role."

Those may include the impact of social pressure on charitable giving, perceptions about the value of money and trust in people who are in your network.

"Most people who gave probably got a warm glow from giving, and certainly anyone who was receiving money in these GoFundMe campaigns was being helped," Cookson said. "But it's important to be aware that there are these natural biases built into our social networks. If

you care about extending beyond that, you may have to overcome the very natural, human urge to give to people who are like you."

Donors looking to serve those with the greatest need should actively look outside their circles, he added.

Recovery funding gap

The researchers also accessed public data, including Boulder County construction permits, to gauge the swiftness of the rebuilding process in relation to the donation amounts beneficiaries received. They found that households with GoFundMe donations of \$30,000 or more began rebuilding their homes four to eight months earlier than their counterparts with smaller proceeds.

"GoFundMe is a great source of liquidity, and people become very liquidity-constrained because they'd just lost their house, their clothes, really everything they own," Gallagher said.

Most homeowners who lost their homes in the fire were dramatically underinsured, with uncovered expenses averaging \$110 per square foot, according to United Policyholders. Marshall Fire GoFundMe proceeds amounted to 15% to 26% of this underinsurance gap, but GoFundMe's impact was larger because these funds could be tapped immediately.

"Your insurance is held in escrow by your mortgage lender, and it's paid out only as hard costs are incurred," Gallagher said. "There are a lot of the soft costs that you need to get going with rebuilding like architectural fees. Often they're an out-of-pocket cost for the homeowner at least for a period of time until they can get reimbursed."

Couple the crowdfunding advantage with qualification criteria for federal aid and the disparity widens, Gallagher said.

"There is this big gap being left by federal disaster aid policy," she said. "It's easier for wealthier people to qualify for federal aid. Loans are dependent on credit scores and debt-to-income ratios. And so this paper asked the question, "Do individuals through private charity manage to fill that gap that's left by federal disaster assistance programs?"

"What we found instead is that this form of private charity is not tilted toward people who have the greatest need. It's tilted toward people who arguably have less need. It's going in the wrong direction from a perspective of making sure everybody has enough recovery funds in aggregate when you add private charity with government assistance. You get this sort of exacerbated disparity in who's able to rebuild and how quickly."

Provided by University of Colorado at Boulder

Citation: Crowdfunding after the Marshall fire overwhelmingly helped wealthy households, find researchers (2024, February 2) retrieved 29 April 2024 from <https://phys.org/news/2024-02-crowdfunding-marshall-overwhelmingly-wealthy-households.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.