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Leveraging the Capital of the Community

Innovations Case Narrative:
eMoneyPool

Money pools are a popular group-savings practice that has been used around the world for centuries. Members of the group help each other pay for short-term goals by leveraging the capital resources of their community. Just as some people turn to a credit card when they need to make a large purchase, others turn to money pools.

In one form or another, the money pool concept has always been part of my family's life. As a child, I often went to my Aunt Silvina's house after school, where I would wait until my mom got off work. I occasionally saw my aunt go to the front door and exchange money with her friends. I was too young to understand what was going on, but that was my introduction to a money pool.

How do traditional money pools work? A small group of people, usually ten, contribute money to a common fund, from which they take turns receiving the entire lump sum. A group member with an immediate need draws from the pool first, then repays the group in regular installments. A group member with a less urgent need will choose a later turn while making contributions to the pool up front, effectively using it as savings tool. When their scheduled turn comes around, they draw from the pool to pay for whatever they choose. It's a tightly synchronized dance, where everyone knows ahead of time when their payments are due and when it's their turn to draw from the pool. This allows them to plan ahead for large purchases or life events.

Surprisingly, the vast majority of participants say that saving money is the main benefit of participation. So why choose a money pool over a savings account? Because unlike traditional savings accounts, money pools offer participants access to funds before they could have saved for a purchase on their own.

Lets imagine that John and Jessica both put away $100 a month. It will take John ten months to save $1,000 using a regular savings account. Jessica, on the

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other hand, joined a money pool, and can draw the entire $1,000 from the group in month four or month six, and then make the remainder of the payments afterwards. Both John and Jessica put away $1,000 over the course of ten months, but Jessica had the flexibility to receive an advance from the group and to access the money sooner.

The second distinct benefit is the social pressure, which adds to the success of saving for one's goals. The National Bureau of Economic Research has found that saving in a group more than triples your chances of saving successfully. This is likely due to the fact that when you're saving alone there is no one there to hold you accountable, and it's easy to be tempted to spend your savings. With a money pool, roughly 99 percent of those who join will reach their savings goal.

For those who don't have access to or don't like using credit, money pools offer participants absolute control over their spending and how they pay for purchases. This practice is known by more than 200 names around the world, including *susu, tanda,* and chit fund. Luis and I knew them as *cundinas* — in fact, at the age of 16, Luis bought his first car using a cudina. He accessed the funds quickly and was able to pay for his truck in cash, and the group didn't ask him for a credit check or proof-of-income.

It's counterintuitive to think that, unlike traditional lenders, money pools have been managing risk on a different set of principles for centuries – one that requires no loan application or the related underwriting procedures. Access to the group, and thus the funds, is based solely on the individual's reputation within their community. The repayment rate is an astounding 99 percent.

Luis and I wondered what it would look like to streamline this concept and make it available to the masses—essentially enabling anyone to tap into a money pool marketplace using their computer or smartphone at any time. Used as a mainstream tool, money pools would be a non-predatory alternative to accessing capital. By allowing people to become less dependent on expensive credit, it would bring to light the payment history of those using this informal practice and eventually enable them to access non-predatory loans, such as a mortgage.

THE BIG IDEA

In August 2008, Luis and I were working in real estate. I was the operations manager for a mortgage company, and he was a star realtor while moonlighting as a pharmacist. I'm good with numbers and Luis is great with people, strengths that would later define our roles in our company. When the bottom fell out of the market in 2008, I was unsure about my future. One day I had a dream in which my brother and I were running a successful company that offered online money pools. My brother and another male figure were standing with me, staring at a computer screen, excitedly watching our company grow. When I woke I dismissed the dream and went about my day. Then I had exactly the same dream the following week. It was rare for me to remember a dream, let alone have the same dream twice. I approached Luis with the idea to get his thoughts.

He listened intently, and after he asked a few questions we ran with the idea. We began to hash out the framework for a business right then and there, starting with a website that was easily accessible and had an intuitive user interface. We envisioned people logging in from a smartphone and being able to message any member of their group. Luis said we would have to report transactions to credit bureaus so our users could build credit. I suggested that we create trust ratings, as eBay does, so that members could easily spot who had a good reputation of making payments on time. Luis added the idea of a merit system that would allow users to earn the right to certain privileges on the website. We bounced ideas back and forth, and within just a few hours we were on our way to Staples to buy notebooks, pens, and markers. We had already developed our general framework and were ecstatic about it, but as neither of us had gone to business school, we were in uncertain territory in terms of what to do next.

SCOREing SOME HELP

As excited as we were, reality set in quickly and life started demanding rent, car, and utility payments. We didn't do much with our idea for a few years—just a little work here and there when we found time outside our day jobs. We were unsure how realistic our idea was and how far we would take it, but our efforts started to add up and made us feel we had enough to keep pushing forward. Eventually we reached out to SCORE, a nonprofit organization supported by the Small Business Administration that offers free mentoring from retired business executives. We were asked to write a business plan and determine our market size. Because money pools historically have been a subculture of informal, invitation-only groups, it was not easy to find data on the actual use of this financial model.

We reached out to Dr. Carlos Velez-Ibanez at Arizona State University, arguably the country's foremost authority on traditional money pools, who gave us some data on repayment rates of the groups and common uses of the funds, but we needed something that indicated the size of the active U.S. market. So, we did what any curious entrepreneurs would do: we conducted a survey. We stood outside a couple of supermarkets and eventually polled 834 people. We first polled 417 individuals at a Hispanic market in Phoenix. To our surprise, people saw us holding a clipboard and avoided us like the plague. So, we changed our strategy and said we were college students doing a research paper on the savings habits of Hispanics. It worked like a charm.

After a strong start in Arizona, we jumped on a plane to Los Angeles, where we polled 417 more lucky Latinos. Randomly approaching strangers for a poll was the least favorite part of my budding entrepreneurial career, but it got us the information we needed. After we tallied the numbers, even we were surprised. The 834 people we had polled were statistically representative of all Hispanics in the country. The polling results showed that roughly 90 percent of first-, second-, and third-generation minorities who on average earned less than $60,000 a year were aware of the practice, and an astonishing 61 percent were actively using offline money pools. Moreover, based on conversations with Dr. Velez-Ibanez and his research, we found that usage across most minority groups within the U.S. should remain fairly. This was huge! In a country where there are banks on every corner, how could so many people be turning to money pools as a financial resource? Our family did, as did many of our friends, coworkers, and extended family, but I had no idea we were part of something with so much history and widespread use. This was the confirmation we needed to continue to push forward.

MAKING IT OFFICIAL

For a while Luis and I discussed what type of entity to create, bouncing back and forth between a nonprofit and a for-profit. Both had some interesting factors that would determine our path moving forward. Nonprofits would allow us to raise money through grants instead of investors. This was rather appealing at the time, considering that we were broke. But nonprofits are also at the mercy of the grants they need to survive. Unless you're a well known nonprofit, accessing grant funding is challenging. While a for-profit has to rely on investors initially, as it becomes profitable it relies on its customer . . . at least that's the plan. Also, a for-profit has no choice but to try to be as efficient as possible in order to reach profitability and self-sufficiency. We figured that we could magnify our impact by focusing on the customers and efficiency. So it was decided—a for-profit it was. We were soon incorporated as an LLC and set out to buy our domain name.

We had our eye on moneypool.com for a few years, but someone already owned it and wanted $100,000 for the domain. Disappointed, we started searching for alternatives. As it turned out, emoneypool.com was available, and for only $10. What a deal! That was perfect for our budget, so we bought it and moved on.

TRYING TO RAISE OUR FIRST ROUND OF CAPITAL

Trying to raise investment capital was as painful an experience as I could ever imagine. We spent more than a year talking to an endless stream of advisors and investors and getting nowhere. What we didn't know at the time is that an idea by itself is worthless; it's the execution of that idea that counts. Usually, entrepreneurs need a prototype and customers before they have any chance of receiving investment capital. We had mistakenly figured it was a numbers game and that the more people we spoke to, someone would eventually say yes. Unfortunately for us, this wasn't the case.

One interesting challenge was the fact that not a single angel investor we approached had any personal experience with money pools. And why would they? Money pools are usually only used by low- to moderate-income individuals, and minorities at that, whereas most angel investors are affluent Anglos. They would stare at us in disbelief when they learned that this practice was happening all around them. We quite literally got laughed out of a room at one point. We didn't talk about that one for years. Their favorite questions were, What if someone takes the money and runs? What about the time value of money? Why don't these people just use a savings account? Why don't they get a loan? From their standpoint, and ours, we were light-years away from finding an investor.

We didn't fully realize that we were going about it wrong until we had a meeting with Raul Yzaguirre, a civil rights activist in Phoenix. He told us point blank, "Build a prototype, get some users, and test it. Then you'll have an easier time trying to raise capital." It was a difficult truth to hear, but we knew we had to put our money where our mouths were and prove the online version of the concept. We had no idea what would happen when we joined strangers in a single money pool. It had never been done before. We were curious, and we would never find out unless we tried —so we switched gears and went straight into prototype mode.

AND WE'RE OFF…

While we set out to build a prototype of the site, our biggest struggle was accepting the difference between our vision of the perfect website and building the website we could afford. Although I had learned programming in college, too much time had passed for me to do it myself, so we hired a developer to build the prototype for us. Our main priority was to prove that money pools could work online, so we stripped the website of our wish list of features and settled for a bare-bones implementation. One month and $5,000 later, we had the ugliest website we had ever laid eyes on. Nevertheless, we were able to get family, friends, and our advisors to join our first money pool.

The prototype was the mere shell of a site at that point. Unbeknownst to our users, what they thought were automated transactions and email reminders was actually Luis and I scrambling around behind the scenes like puppeteers, giving users the "feel" of what should have been a full-fledged, automated website. Despite the early hiccups, we felt that our first money pools were a resounding success because everyone made their payments on time. But in this group we all knew each other.

One of the more difficult challenges was taking a model that historically had been conducted offline and converting it to an online format. We wanted the user experience to be simple and intuitive, but most importantly we needed to replace the key element of trust in family and friends, with trust in our extended networks via an online platform. This quickly became a priority as we had mistakenly assumed that existing groups of friends would simply move their offline pools to the online version. The problem was that users had trouble convincing their existing group, for a variety of reasons, to move online and thus it required substantial effort.

We started receiving phone calls from our test group asking if they could join a pool with other members of the community because they didn't trust their friends! That was a new one for us and counterintuitive to say the least. We weren't sure if this small but growing voice of users wanting to work with others on the platform was representative of the majority, but it pointed us directly toward our initial vision of an open marketplace. The only problem was that we weren't sure if we could manage the risk if we allowed strangers to work together, so we searched out examples that had proved successful, eBay being the most obvious.

The eBay community includes buyers and sellers who don't know one another. A buyer finds an item he wants to buy from a community member, say a set of golf clubs from John Doe in New York, and is required to send John, not eBay, $500 in payment for the clubs, at which point the seller will, hypothetically, mail John his golf clubs. He is required to send money to a complete stranger and then hope that he gets his clubs. For those of us familiar with eBay, this seems like common sense now, but what initially gave John the confidence to do such a seemingly crazy thing? The answer is seller ratings! The seller rating system on eBay is a transparent means of giving buyers insights into a seller's historical performance. For example, if the seller has sold 658 golf clubs on eBay and delivered 658 golf clubs, his seller rating will reflect this history and the buyer can feel comfortable that there is a very good chance the seller will again deliver on his end of the deal for the 659th time. The seller ratings are, in my opinion, the glue holding the eBay community together because they allow trust, and ultimately commerce, to exist between strangers. Could this concept work for eMoneyPool?

We built out an algorithm that would act in the same way. It would be a visual indicator of a community member's history of making their eMoneyPool payments on time, which would form their reputation within the community. As users make payments on time, their the rating would increase and also grant them special privileges in the community, such as access to larger pools and more —a dual incentive.

We did a lot of work behind the scenes to create our version of the rating system, including building a world-class risk management system and rating algorithm, but the effort was well worth it because it was unmistakably the right move. People no longer felt confined to just their group of friends, they now had the option to select from a variety of different pools and terms. People who had never met could now work together in a single pool with aligned motivations. This change was the first of many steps toward a true marketplace model.

Although we considered this change a success, we were still cash poor and time rich and were unable to launch the full version of the website. So, we used this time to learn. From our perspective, there were many, many different ways to implement the money pool model in an online format — user ratings is but one variation. A marketplace is another variation. Every time we experimented with a possible new implementation it would either bring us closer or farther away to the best version of the online model we were seeking. With so many options, we selected a few of the most promising implementations and went through at least eight different iterations in roughly a year. Testing each version of the model and getting user feedback, we restructured almost every critical piece of the site. Each change made the system more automated, intuitive, and efficient. The abundance of time proved to be invaluable, as it allowed us to fail repeatedly before finding what we believed to be the right structural implementation of the model.

SEED SPOT

Eventually we had the platform we wanted and a handful of users in beta, but still no investors. We had exhausted all of our options and didn't know where to go next. Luis and I were invited to attend a mixer for Local First Arizona, a non-profit organization that encourages people to consume local products to promote a stronger local economy. It was there that I met Chris Petroff of Seed Spot. He was promoting a new incubator and was looking for the first batch of social entrepreneurs. Courtney Klein and Chris Petroff were the cofounders, and their vision for Seed Spot translated into an eight-month business curriculum for socially conscious businesses that included mentoring, media exposure, and connections to local angel investors. It was exactly what we needed. We quickly filled out the application, along with nearly 200 other entrepreneurs, and made it into their first class. Shortly after joining the incubator we raised a small amount of capital and launched the full version of the website to the public. We were now officially out of beta and grew roughly 700 percent that year. It was then that we started to attract the attention of a few curious investors at Seed Spot.

Joining Seed Spot was a big turning point for us. They helped put us on the map, and led to countless opportunities for eMoneyPool from the time we spent there. Best of all, through a chain of unexpected events, it finally brought us the much-needed funding we needed. We were able to close out our seed round with a combination of investments from ACCION Venture Lab out of Washington, D.C., and angel investors in the Phoenix area. Until then Luis and I had kept our day jobs so we could pay the bills, making it difficult to work around the clock to make ends meet and build the company. But once funding rolled in we were able to quit our jobs and dedicate ourselves to eMoneyPool full time. Luis and I could not have been happier and more optimistic.

TROUBLE IN PARADISE

It was early 2013, we were finally out of private beta and into the full version of the website, we had received funding, and users were signing up daily. Just as things seemed to be going better than ever, a hidden problem started to rear its head. Our website was beginning to have problems—lots of problems. The source of the problems stemmed back to the company we chose to build the website, which did not do the best job with the code. We ended up with what is referred to as "technical debt" or a large amount of deferred maintenance in the code base that needed our immediate attention. During our growth spurt in 2013 and early 2014, our developer was spending more time fixing problems than building out new features for our users. When we did get a breather and could focus on upgrading the code, it took much longer than expected.

As luck would have it, Brad Jannenga; who was founder and CTO of WebPT, a successful tech company in Phoenix, decided to lend a hand. After hearing about our technical problems, Brad asked Jeremy Wilson, his director of product development, to look at the code and give us his opinion. His analysis made it very clear that we couldn't grow with our current code base and would have to rebuild the site from the ground up. We gave this a lot of thought and received mixed advice. In the end, we decided to put our users first. If our business had been a simple photo-sharing app we probably would have just kept moving without looking back, but we are a financial enterprise and our responsibility to our users' safety and privacy was our main priority. Earning our users' trust was paramount, and we didn't want to lose it by making silly mistakes, like a miscalculated transaction or security breach. We had to bite the bullet and do the unthinkable . . . Rebuild the site from the ground up.

This time we were going to do it right, so we asked Jeremy to design the website architecture. We wanted to make sure we could grow without having the same kind of problems, and we were heavily focused on security and scalability. We built a very sophisticated platform to replace our existing website – one that was capable of handling millions of transactions per month. We used multiple servers to isolate sensitive information and implemented redundancy into the system. In the end, a job that should have taken three months took nine, but now our foundation was strong and the site was capable of growing several years into the future. Unfortunately, a substantial portion of our seed funding, which had been earmarked for hiring new employees, marketing, and growth, was spent on the rebuild.

As we wrote check after check, we had to remain focused. This is when we learned to play the "mental game" of entrepreneurship, which is like living on an emotional rollercoaster. It requires seeing the big picture and understanding that the highs and lows come and go, sometimes daily. Our job was to remain focused and accomplish the tasks at hand. Sometimes we would win this mental game and shrug off the stress, while at other times we would lose our focus and worry about worst-case scenarios. It was these hard days that would shake us to the core. We easily could have chosen 9-5 jobs with a steady salary and less stress, but that was not what we wanted. We wanted to do something special that would have an impact. The elegant model of the money pool, which was a major part of our family and culture and had been used around the world for centuries, was ripe to be expanded to reach millions – and we wanted to be the ones to do it.

A BRIDGE TO TRADITIONAL LENDING

Our estimates show 40-60 million minorities are currently participating in offline money pools in the United States. Surprisingly, perhaps, these people are not only blue-collar workers; Arizona State's Velez-Ibanez explains in *Bonds of Mutual Trust* that white-collar workers such as bank tellers, cashiers and secretaries are also very active in money pools.

Offline money pools have their challenges; they're time-consuming, inefficient, and sometimes unsafe. However, the main problem is that, although this model is helping people save towards a specific goal, the millions of payments generated by offline pools are not being recognized by traditional financial institutions, and thus the transactions aren't helping people build a payment history. We believe that because money pool payments closely resemble the regularly scheduled payments required by traditional credit, they should also be used to provide lenders with proof of their credit worthiness, which in turn should help them qualify for non-predatory loans.

One day, while giving a presentation at the Arizona Community Foundation, we met Robin Romano, CEO of MariSol Federal Credit Union (MariSol FCU). Robin had much experience with offline pools. She believed that the member base of her credit union would recognize the concept and choose to participate in the more formal version of the online pools. Most importantly, the credit union could use the resulting payment history to help members qualify for introductory loans. The relationship was mutually beneficial; individuals who successfully completed a money pool would receive a certificate of completion from eMoneyPool, which in turn qualified them for an introductory loan from MariSol FCU—in essence creating a bridge from the nontraditional to the traditional finance world – a win-win-win scenario.

Since starting with MariSol FCU, we've partnered with several others across the country, all of which accept our certificate of completion. There are well over 6,000 credit unions in the U.S., not including banks and online lenders. Unfortunately, creating individual relationships with each of these lenders will be difficult and time consuming.

Ideally, we would like to be able to report our user's payment history directly to the credit bureaus making our users' data available to any lender while helping them build credit. This currently is the missing link as we work to bridge money pools to mainstream finance. We have made significant progress in this area and believe we can complete this link in the next year. From our time going through the Village Capital FinTech Accelerator in 2015, we were put in touch with reps at one of the major credit bureaus. Here, we were able to better understand the challenges at the credit bureau level. Ross Baird, the Director of Village Capital, has gone to great lengths to help us make our work a reality for us. However, the challenge lies in the way the credit bureaus recognize payment history; they usually only accept debt-related history. Since money pools are a credit and savings hybrid, the model falls into a bit of a gray area. While we work to make a better credit score a reality for our users, we'll continue to partner directly with individual lenders as a temporarily solution.

PARTNERSHIPS

Luis spends most of his time nurturing our existing relationships and speaking at conferences to build new ones. Generally, our partners fall into three major categories: Lenders, Immigration and Citizenship programs and Individual Development Accounts (IDAs).

Lenders

Traditional lenders are unable to deal with individuals who don't meet a minimum credit threshold, as they are either unable to price the risk or unwilling to accept it. Either way, these would-be borrowers are not a traditional lender's specialty. Money pools, on the other hand, are great at dealing with risk by simply asking a user to take a later turn in the group's rotation. By taking part in a money pool, such people can demonstrate that they are credit worthy, which in turn can help them qualify for loans that previously were out of their reach. Once a user completes a money pool, we're able to demonstrate that they are credit worthy, and lenders feel comfortable taking a limited risk based on the user's money pool performance. We're currently working with nine credit unions and are looking to expand to online lenders.

Immigration and Citizenship Programs

Approximately six million individuals apply for legal U.S. citizenship each year. In addition, Deferred Action for Childhood Arrivals (DACA) is a government initiative that grants deportation immunity to qualified immigrants and offers them the opportunity to apply for citizenship. Nonprofits both large and small around the country are providing services to help individuals apply for DACA and deal with the paperwork. Unfortunately, many of them are running into a familiar problem—their clients don't have the money to pay the legal fees, roughly $700, nor do they have the credit to apply for a loan. This leaves the individuals in a state of limbo.

There is an ongoing search for a non-predatory solution that caters to individuals with no credit history, is scalable, and is accessible anywhere in the country. eMoneyPool is designed to handle this exact scenario, as we recently established a formal partnership with the National Council for La Raza (NCLR), America's largest Latino advocacy organization, which is known for serving Latinos across the country, and has a sparkling reputation and national presence. One of NCLR's key projects, overseen by their Wealth Building Initiative, aims to provide financial inclusion to individuals with access to capital through their new Fuente Credito platform. The platform allows applicants the opportunity to apply for a low-cost loan through trusted lender partners, which are willing to loan under these circumstances, or save for their legal fees through eMoneyPool. With our ability to bring users on board seamlessly, it's a great match. The bonus is that many of the individuals we can reach through NCLR will likely be familiar with the money pool model.

Individual Development Accounts

IDAs are incentivized government savings programs that help underserved individuals build wealth through buying a home, starting a business, or going to school to increase their income. They ask participants to save a predetermined amount, say $1,000, which is then matched with a $1,000 grant. With the offer of free money from matched savings, the offer is almost too good to be true, but the program has its struggles. The trouble is, when people join the program, while they have every intention of saving their initial goal amount, somewhere along the line they lose their focus or motivation and never finish. Nonprofits that offer the program are seeing a rather low completion rate of somewhere under 30 percent. When an individual chooses to save for a goal with a money pool, they have a 99 percent chance of success .

Approximately two years ago we partnered with Fuerza Local, a local nonprofit that offers self-funded IDAs to underserved entrepreneurs. To date, more than 60 entrepreneurs have cycled through our program, and we have lost only one—numbers that are unheard of to IDA managers. The critical difference is that money pools offer the structured discipline and social pressure that enable the typical user to develop a savings mindset. We're currently in talks with a few nonprofits that want to use eMoneyPool to improve the performance of their IDA programs.

MEETING THEM ON THEIR TERMS

For centuries, money pools have been an instrumental savings tool for those living at the bottom of the pyramid. Much effort has gone into addressing the needs of this demographic to help them enter the mainstream financial world through education, budgeting, IDAs, and more. What is most exciting to me about eMoneyPool is that we've taken a unique approach to being a part of solving this problem: we're meeting this demographic on their terms, with a model they're comfortable with and actively use. And through their participation we've built the infrastructure to carry them a little bit closer to the ultimate goal.