

PERSONAL FINANCE · Published October 7

# Should I take out a personal loan to invest?



By **Stephanie Vozza** | Sponsored by **Credible** - which is majority owned by our parent, **Fox Corporation**, and is solely responsible for its services.

Measure the risk before you bank on a reward. (iStock)

Personal loans are a popular form of debt. The total amount Americans borrowed using this type of financing reached a high of \$162 billion in the first quarter of 2020, per [TransUnion](#).

[Personal loan interest rates are near all-time lows](#), so you may be tempted to take out a loan for a variety of reasons — but what about investing? Depending on your credit score, some borrowers could qualify for a personal loan [as much as \\$100,000](#).

Before you build wealth by investing borrowed money, here's what you need to know.

## Is using a personal loan to invest a smart move?

Consumers can take out a personal loan and invest the money — but whether that's a good idea depends on your financial situation or goals. It can be a huge gamble, yet can also pay off if you play your cards right. If you're considering using a personal loan to invest in stocks (or otherwise), here's what you'll need to ensure you're making a smart move:

1. Good credit and the ability to easily pay the loan off
2. A clear ROI on investing the loan
3. Generate income

## 1. Good credit and the ability to easily pay the loan off

The better your credit, the [better your interest rate](#). If you [qualify for a low rate](#), you may consider taking out a loan to make an investment like buying property or stocks.

However, you'll need to have excellent credit to qualify for the lowest rates. Excellent credit is a score that is 750 or higher. If your credit score is in this range, shop around for the best lender. You can [compare offers and rates easily on Credible](#).

## **EVERYTHING YOU NEED TO KNOW ABOUT PERSONAL LOANS**

### 2. A clear ROI on investing the loan

All investments come with risk, but some may be lower than others. If you have an opportunity to purchase something at a low price that's expected to increase in value, a personal loan could help facilitate the transaction with many lenders providing funding in a few days.

Personal loan interest rates can be as low as 4.99%, and it's easy to find and compare offers by visiting a site like Credible. [Click here to check out personal loan rates from top lenders](#).

## **CAN YOU GET A PERSONAL LOAN WITHOUT A CREDIT CHECK?**

But there is no sure thing. Stocks can be volatile, and there is no guarantee you'll get a strong return.

"Investing is about building wealth over the long term," says David W. Mullins, a certified financial planner with Mullins Wealth Management Group in Richlands, Va. "Keep investing in the money you actually have and do not immediately need. Otherwise, you may find yourself in a hole you can't afford to climb out of."

### 3. Generate income

Using a personal loan to invest might make sense if the investment will generate income. For example, you might invest in your business by purchasing a piece of

equipment that will create a new stream of revenue. Or you could purchase a property to lease out for monthly cash flow.

In these cases, the income you generate from the investment can be used to make the payment on your loan and even provide an added return.

If you're planning to invest in something that generates extra income or will lead to a boost in savings, then don't hesitate — [investigate in your personal loan options today](#).

## **THE BIGGEST MISTAKE TO AVOID WHEN TAKING OUT A PERSONAL LOAN**

### **When is it a bad idea to use personal loans for investing?**

If you took the above steps before using a personal loan to invest, then you probably made a smart financial move (depending on what you invested in). But there are some red flags when it comes to taking out a personal loan for this purpose.

If any of these points apply to you, then you shouldn't take out a personal loan to invest:

1. You have bad credit
2. You can't afford investment failure
3. You have difficulty making payments on time

#### **1. You have bad credit**

Borrowers with bad or fair credit will [pay the highest interest rates](#), which can be as much as 35.99%. They may also be at higher risk for [personal loan scams](#) since options are limited.

Higher interest will create a higher monthly payment, making it nearly impossible to recoup your money. In the end, you could pay more in interest than you earn as a return on investment.

## **WHAT SHOULD YOU USE A PERSONAL LOAN FOR?**

## 2. You can't afford investment failure

You should never invest money you can't afford to lose. No matter what type of asset you choose, investing comes with inherent risk. If your investment doesn't pay off, you will still owe the debt.

"There is no guarantee that you will get a return on the investment," says Kashif A. Ahmed, certified financial planner with American Private Wealth in Bedford, Mass. "I know plenty of people have lots of conviction in their ideas—and there are plenty during bull markets. But we know that you have to return the borrowed funds with interest."

## 3. You have difficulty making payments on time

Debt is called a "liability" for a reason. No matter how you use a loan, it creates a burden of repayment that can put your personal finances at risk. This is especially concerning in today's uncertain economy. If you were to lose your job, [your personal loan payment](#) would likely put an unnecessary strain on your budget.

The pros of borrowing to invest? "You invested in Tesla when it was 30," says Erika Safran, certified financial planner with Safran Wealth Advisors in New York City. "The cons: You invested in commercial real estate in January 2020. The rate of return on your investment is not guaranteed but your debt is there until you pay it off. From the prudent perspective of making smart financial decisions, this is not one of them."

Borrowing to invest is filled with risk. If you decide to seek out a personal loan, it's critical to shop around for the best rates. [Compare personal loan lenders on a site like Credible](#) to help increase your chances of getting the best offers and the best return.

## HOW DO SMALL PERSONAL LOANS WORK?

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