

As Crypto markets plummet to a third of their value, our survey shows that 60% of UK investors used borrowed funds to buy their coins

Submitted by: Key Loans & Mortgages Limited t/a KIS Finance
Wednesday, 15 June 2022

A study by KIS Finance (<https://www.kisbridgingloans.co.uk/>), has revealed that 2 out of 3 cryptocurrency investors borrowed money to make their purchase, rather than using income and/or savings.

Overall, more than two thirds (64%) of those who have invested in cryptos, used one or more credit facilities to do so. Due to the previous huge increases in the value of crypto currencies, this may have seemed like a good investment strategy at the time. However, the crypto market has now seen a dramatic fall in value to below \$1 trillion, compared to its peak of almost \$3 trillion only 7 months ago. This will have left many facing huge losses, whilst still saddled with the cost of repaying their original borrowing, along with the added interest payments.

Massive crypto losses over the last few days

Cryptocurrencies are highly volatile and a risky investment strategy. There was a massive increase in crypto prices in November last year, with Bitcoin hitting its highest ever price. But since then, cryptos have been on the decline.

The latest price crash appears to have been triggered by recent inflation data in the US, which saw a run of investors move out of risky crypto currencies into safer, more traditional investments. Alongside this, the news that crypto lending platform Celsius was stopping customers from withdrawing funds due to “extreme market conditions” contributed to Bitcoin losing 15% of its value in 24 hours.

Other leading crypto currencies have been hit with even larger losses, with Ethereum, Cardano, Solana and Dogecoin experiencing massive falls of between 15 – 25% in just 24 hours

The huge hype over crypto investments creating billionaires has led to many people, particularly young adults, looking to jump on the band wagon and make their own fortunes. However, these success stories can fail to highlight how much of a risk cryptocurrencies are as an investment product and the dangers of placing yourself in debt to fund your investment.

Has the crypto currency bubble burst?

If you invested in Bitcoin in February 2011 or Ethereum in 2016 when they were worth just \$1 and sold now then you would be laughing.

An investment of \$1000 in Bitcoin in 2011 would now be worth \$21,985,000, even with the current huge falls in the market. But if you invested \$1000 in Bitcoin at the end of last year you would have lost

around half of your investment if you exited the market now.

Some investors may hold on, but many might start to panic seeing their investment drop by so much and sell to cut their losses, fearing that they will lose everything.

For those who have borrowed to make their initial purchase the risk is that they will now not only lose their investment, but will be left struggling to pay for the credit they used to purchase it in the first place.

The table below shows of how seven of the largest currencies have plummeted in value over just the last week.

Bitcoin - Down 21.86%
Ethereum - Down 30.64%
Litecoin - Down 25.06%
Ripple (XRP) - Down 17.13%
Dodge Coin - Down 27.36%
Cardano - Down 13.75%
Solana - Down 23.08%

Percentage of crypto investors who used one or more credit facilities to fund purchase, by age

18 - 24: 70%
25 - 34: 64%
35 - 44: 68.9%
45 - 54: 62.5%
55 - 64: 45%
65+: 25%

As the table shows, those aged between 18 and 24 were the age group most likely to use borrowed funds to make their investment, with a significant drop of borrowers in the two highest age groups. Therefore, it is young people, at the start of their adult lives, who are at the greatest risk of being saddled with high levels of additional unwelcome debt.

The appeal of crypto currencies seems to be particularly strong with Generation Z (those currently under the age of 25), who are attracted by the decentralised nature of the market. But the fact that these markets are unregulated leaves investors with little protection. There is also concern that this generation is more at risk from Crypto influencers, with get rich quick stories that may encourage younger investors to borrow money in the hope of generating large returns.

What type of credit facilities have people used to fund cryptocurrency investments?

When we break down what kinds of credit facilities people have used to purchase cryptocurrencies, over a third (35.5%) made their investment using a credit card. Almost a fifth (19.3%) funded the purchase out of their overdraft.

Credit card - 35.5%

Overdraft - 19.3%

Personal loan - 14.6%

Secured loan - 9%

Payday loan - 7.6%

Re-mortgage - 3.3%

“Get rich quick” schemes with lasting consequences

The fact that so many turned to short term, high-cost finance facilities to fund their crypto purchases, suggests that they expected their investment to be short term, with quick profits. However, the subsequent dramatic fall in crypto values has left many saddled with expensive debts that they will now struggle to repay.

Holly Andrews, Managing Director at KIS Finance (<https://www.kisbridgingloans.co.uk/>), comments on the findings.

“In recent years, the cryptocurrency industry has grown rapidly and cryptos are becoming a more mainstream product every single day. Even tech giant PayPal has now introduced a cryptocurrency trading platform, making it accessible to everyone.

Although cryptos, and specifically Bitcoin, have seen people make thousands or even millions in profit; the last few months have shown that they are incredibly volatile and can see investors losing large percentages, or all, of what they put in very quickly.

It's concerning to see that so many people have turned to borrowed funds to purchase cryptocurrencies as they are extremely unpredictable and offer no guarantees that the money invested will be returned. So, if people are investing money that isn't theirs and subsequently losing it, this could cause some serious financial challenges later down the line.

The biggest concern is those who don't have the means to pay the money back, especially if their

original plan was to repay their loans with the profits made from their investment. With a very strong possibility of losing the money for good, people may be left severely out of pocket and racking up interest on their credit cards and overdrafts. Also, some credit card providers will view this type of transaction as a cash advance, meaning a cash advance fee and higher interest rate will be applied.

So, if you are thinking of making an investment into cryptocurrencies, you should only invest an amount of money that you can afford to lose and it should be funded through income and/or savings rather than a credit facility.

Borrowing money to invest in cryptos can become a very vicious cycle that's difficult to break. Once you start losing money, it can be very tempting to invest more to make the money back; especially if you don't have other means of repaying the funds.

Great care should be taken when you invest money anywhere, but especially when it's something as volatile as cryptocurrencies. If you can, seek some professional financial advice first and never invest more than you can afford. Buying cryptocurrencies should also not be your only form of investment or savings as there is very little stability – spread your investments out and treat cryptocurrencies as a smaller, fun investment.”

[ENDS]

Notes to journalists/editors:

All figures, unless otherwise stated, are from a survey conducted by The Leadership Factor for KIS Finance. The total sample size was 2,000. The survey was carried out online.

Further data breakdowns (by age, gender, region, and city) are available on request.

Full data report:

<https://www.kisbridgingloans.co.uk/finance-news/cryptocurrency-consumer-research-and-data-autumn-2021/>

About KIS Finance:

KIS Finance are an independent finance broker specialising in bridging finance, development finance, commercial mortgages, equity release, and secured loans. Their team of advisors have considerable experience across multiple different areas of the finance sector, as well as insurance and compliance.