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Batten down the hatches as the credit storm hits

Debt As British lenders get more choosy about their customers, Kate Hughes asks what we need to do to be accepted for cards, loans and mobile phones

Sunday, 23 March 2008

The look of defeat on the faces of City traders last week was a sign that the credit crunch is now a reality rather than a prediction.

Consumers are already feeling the effects of lenders desperate to reduce exposure to risky debts, and everything from credit cards to mobile phone contracts are more difficult to get than they were a year ago.

Lenders and service providers weight an applicant's criteria differently, but it all comes down to affordability and stability, says Mel Mitchley of the credit-reference agency CallCredit.

But higher earners shouldn't assume they won't be affected as lenders tighten their belts. Because it has been easier for them to gain access to cash, they are more likely to have got into trouble than lower earners, who may not have been accepted for a loan in the first place.

"Now more than ever, you must be able to prove conclusively that you can afford to make the payments on your debt, regardless of other financial commitments," says Ms Mitchley.

But the assessment will also pay close attention to other borrowings and that affects a huge percentage of the population as the UK's debt mountain has tripled over the past decade.

But there are ways of softening the impact of the credit crunch "Those going into this period of econ-omic downturn with debts of any size should do their best to reduce them," says Peter Chadborn of independent financial adviser CBK. "Take a ruthless look at your spending, set a bud-get if you spend more than you earn, and prioritise repayments so you pay off the most expensive debts first." "If you do nothing, you may find yourself with your finances out of control and nowhere to go."

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