How The Credit Crunch Will Affect People With Debt Problems

By now it's a good bet that we've all heard about the global credit crunch to some extent, even if we've just glanced away in boredom when a story about it came onto the television news bulletins. This reaction is perfectly understandable - after all, who outside the rarefied world of high finance really cares about or understands such concepts as Structured Investment Vehicles and other obscurities? And who cares if banks are taking quite a financial hit, given their huge profit levels over the last decade or so? The unfortunate reality is that the credit crunch will affect most of us in ways experts have not yet agreed on, but one large group of people are going to see the impact sooner rather than later: that is, people with significant personal debts. How will these millions of indebted consumers be affected? If we can take one positive, it's merely that as banks tighten their belts it's going to be come more and more difficult to get deeper into debt, which may prevent severe problems occurring in the future for people whose debts are substantial but not yet dangerously high. Seeing this as a real benefit though is maybe clutching at straws, as in almost every other respect the outlook is negative. Despite recent cuts in base interest rates, as central banks try to stimulate economic activity with cheaper credit, not all banks are passing these rate cuts on to the consumer. Indeed, many people on flexible rate borrowing are likely to see their interest rates hiked as banks try to recover the missing profits they're faced with. This will make it harder to meet monthly repayments, and will increase the length of time it takes to clear a debt if you stick to the same payment schedule. With worries about their exposures to bad debt growing, banks are also less likely to take a kindly view of people experiencing problems, and are in many cases going to be a lot less flexible than in recent years. They may try to recover what debt they can by whatever means they can, rather than coming to an agreement over a new repayment plan. There are also the issues of economic downturn loading to lower incomes, and falling house prices meaning secured lending is a lot more risky for both borrower and lender, and so more difficult to arrange. It's going to be harder to get secured finance, especially in cases of poor credit ratings or high loan to value levels, and this will have an impact on debt consolidation: it may not now be possible to borrow enough cash at a low enough rate to make consolidation work well. All this sounds plenty worrying for people struggling with debt, but that doesn't mean you should ignore it and hope the high flying financiers will work a miracle and solve the problems, as this is looking more and more unlikely. If you're experiencing debt problems now, it's an extremely sensible idea to immediately look at ways of solving them through consolidation or other means. Otherwise, you may well find that it's too late once the banks uncover the true extent of the mess that's been created.

About the Author

Martin writes for Debt Sorter, who are experts in debt reduction by management, IVA, or consolidation loans. consolidation debt management