MANAGING YOUR MONEY

Three Ways To Protect Yourself In A Credit Crunch

Avoiding A Credit Crunch May Be As Easy As Having Good Credit, Setting Limits And Paying Down Debts

(NAPSA)—A rising number of credit defaults and delinquencies could cause lenders and regulators to slam the brakes on credit—which could mean higher interest rates, lower credit limits and more trouble getting loans.

Americans have piled on so much debt in the last decade that some economists are worrying about the possible fallout if consumers, already living on the edge, are pushed over by rising unemployment.

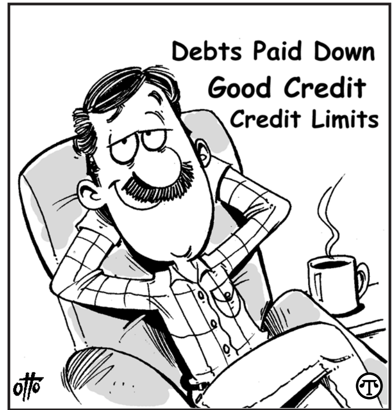
There are several indicators causing concern:

- Foreclosures have reached the highest level in at least 30 years;
- Bankruptcies keep hitting record highs;
- Credit card delinquency rates have risen 30 percent in the past year; and
- The average homeowner's equity represents just 55 percent of the home's value—down from the 67 percent level typical of the 1960s, '70s and '80s.

While no one knows for sure whether or not there will be a credit crunch, it can pay to be proactive.

As a consumer, there are ways you can protect yourself from the potential fall-out. Here are some tips to help you survive a credit crunch from Liz Pulliam Weston, MSN Money expert:

- Build and maintain good credit. People with good credit histories and high credit scores (typically FICO scores over 720) will generally get the best deals regardless of the overall credit environment. People with poor credit may see much of the easy lending terms of the last few years disappear.



Avoiding a credit crunch may be as easy as having good credit, setting limits and paying down debts.

- Don't overextend. Maxing out your credit cards and borrowing every nickel a mortgage lender will give you are rarely good strategies. They're particularly bad ideas in rough economic times.
- Pay down your debt. Again, this is always good advice, but especially so when the cost of credit could be on the rise. Start with nondeductible consumer debt, such as your credit cards, then move on to auto and personal loans (assuming you won't face onerous pre-payment penalties).

Mortgage debt is generally cheap, and tax deductible besides, but it still makes sense to at least pay down your home equity loans. The more home equity you leave untouched, the more of a cushion you have in case of an emergency.

For more tips on credit and debt management, visit CNBC on MSN Money (http://money.msn.com), or use the planning tools offered in Microsoft Money software.