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Will it soon be harder to get a credit card or loan? Pros say such a 'credit crunch' may have already begun. Consider doing these 3 things now to prepare.

Updated: May 2, 2023 at 1:32 p.m. ET
By Andrew Shilling Follow

With the Federal Reserve expected to raise rates yet again this month, the time to act may be now.

The failure of Silicon Valley Bank and others earlier this year may be fueling worries of a future credit crunch.
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Rising interest rates and high inflation have continued to wreak havoc on consumer wallets in 2023. While economists have anticipated a potential recession for some time now, the recent collapse of Silicon Valley Bank only furthered worries about what could lie ahead. So much so that Federal Reserve Chairman Jerome Powell said the fallout would likely "result in tighter credit conditions for households and businesses, which would in turn affect economic outcomes." What does all of this mean? Pros say that warning likely points to one critical outcome: a credit crunch.

In simple terms, a credit crunch is an overall decline in bank lending activity due to a sudden shortage of available funds, often caused by prolonged periods of time where lenders are over lenient in offering credit. The effects can also be pretty widespread: increased unemployment, declining

demand, credit losses and a general difficulty among consumers to borrow money, the last of which was seen between 2005 and 2009, when loan volumes fell by as much as two-thirds. What's really alarming, however, is that a recent study from the Federal Reserve Bank of New York suggests a crunch may have already started.

Catherine Valega, a wealth consultant at Green Bee Advisory in Winchester, Massachusetts, says the chances of this phenomenon taking place in the near term, if it hasn't already begun, is not out of the question. "Many banks are prioritizing having more cash on hand by reducing lending to avoid fates similar to recent bank failures," Valega says, adding that "tighter credit weakens the economy, which could lead to a recession and job losses. And when people are losing their jobs, they have a harder time paying back their debts."

Up your personal savings, stat

Valega says it's better to take action with an emergency savings safety net. "Consumers should be shoring up their personal balance sheet [with] 12 to 18 months expenses in liquid, safe solutions — such as CDs and high yield savings accounts," she says. (You can see some of the highest CD rates you can get here.)

While conventional wisdom is that everyone should have an emergency savings of three to six months' worth of living expenses, deciding where to park those reserves really depends on your financial goals. With both CDs and high-yield savings accounts offering competitive rates of returns as a result of rising interest rates these days — currently at 4.75%-5.00% — there are dozens of options to choose from.

Check out these three CDs with fixed rates well over 5% APY (Check out the full story here):

- **Credit Human**: The 24-35-month CDs here come with a $500 minimum deposit and a fixed rate of 5.25% APY. Credit Human also has 18-23-month CDs with a 5.25% APY rate and 12-17-month CDs with a rate of 5.00% APY, both of which also require a $500 deposit.
- **Finworth**: The 18-month CD here comes with a highly competitive rate of 5.27% APY . All you have to do is make the minimum $50,000 deposit and maintain that threshold during the life of the CD.
- **Brilliant Bank**: Earn up to 5.05% APY with the 9-month CD here. You'll just need to meet the $1,000 deposit minimum.

If you have a large sum of money set aside for an emergency fund that you hope to keep for longer than the life of a CD, these three high-yield savings accounts also come with some pretty impressive APY (Check out the full story here):

- **Varo Savings Account:** Make the required $1,000 in electronic deposits from your paycheck, pension or government benefits from your employer or government agency; end the month with a positive balance in both a Varo Bank Account and Savings Account; and you're eligible for one of the highest savings rates today at 5.00% APY.
- **GreenState Credit Union:** Like many banks and credit unions on the SaveBetter platform, there are little to no restrictions to earn a competitive interest rate and 4.85% APY. Just make the $1 minimum deposit requirement.
- **Western Alliance Bank:** This online-only bank offers one of the best rates today. Just make the $1 account minimum requirement and enjoy a high 4.85% APY on your savings. There are some limitations for joint account-holders, but otherwise this is a fairly string-free banking relationship.

Monitor your credit score

When banks are less willing to hand out loans, your credit score becomes your biggest weapon. Most lenders would prefer a 720 and above to get the best rates, says Monique White, the head of community at fintech and credit building company Self Financial. Although White admits there are no quick fixes when it comes to increasing a low score, there are a few things you can do today ahead of a potential credit crunch.

"Use existing payments to build your credit score," White says, adding that alternative credit building can allow individuals to report their rent and utility payments to the three major credit bureaus as another form of an on time payment. "Since rent and utilities are usually your biggest expense, you can now report these payments to help with your credit history by increasing your number of on time payments. Adding new tradelines, especially if you have little to none, can do that. You can check with

your landlord to see if this service is offered."

It may seem like a no-brainer, but another way to prepare, according to Valega, is by paying your bills on time and paying down any outstanding balances when you can. "I've always recommended that clients only use their cards as a tool — and plan to pay off the balance in full each month," she says. "If that is too hard for you, then cut up the cards and don't use them until you pay it off in full."

Reevaluate your credit cards

With rising interest rates representing a key component of a credit crunch, another way to prepare for tight market conditions is to take stock of your existing credit cards and their rates, says Nicholas Covyeau, a certified financial planner and founder of Swell Financial in southern California. "Your rates may have gone up, and if there's still time, consider trying to find a 0% interest card that you can balance transfer to," Covyeau says.

For some background, 0% balance transfer cards can offer a break from paying a high annual percentage rate, or APR, on your credit card balance with a temporary 0% APR promo period for as many as 21 months. Just be sure to pay off that balance before the 0% period is over. These are just a few examples and you can read more about these cards and some of the best available offers here:

- **Citi® Double Cash Card**, which offers 0% on balance transfers for 18 months (then 18.74% – 28.74% variable APR), plus cash rewards that let you earn unlimited 1% cash back on all purchases, plus an additional 1% as you pay for those purchases.
- **Capital One SavorOne Cash Rewards Credit Card**, which offers 0% on balance transfers for 15 months (then 19.74% – 29.74% variable APR), plus 3% cashback on dining, entertainment, various streaming services and purchases at grocery stores, and 1% on all other purchases.
- **Citi Simplicity® Card**, which offers 0% on balance transfers for 21 months (then 18.74% – 29.49% variable APR), which is one of the longest 0% periods available.

One way to gauge whether or not you should go this route, White says, is to determine how much debt you have and whether you've already let it go too far. "The rule of thumb for amounts owed is to keep the balance for your available credit balance below 30%," White says. "Once you cross that threshold, you'll start to see your score impacted negatively. If you have any room in your budget for extra payments, start paying down this debt to see your score impacted positively but to also cut down on interest fees."

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The Federal Open Market Committee (FOMC) will meet May 2-3, where it's expected they'll

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