

Banks cut card limits and reject borrowers in consumer credit crackdown

News Story

High street banks are slashing credit card limits and turning away droves of borrowers in a consumer credit crackdown. Banks hope that by tightening up lending standards they will cut the cost of servicing problem borrowers.

Half a million Barclaycard customers have seen their credit limits reduced in a continuing review by Barclays of its customers' spending behaviour. The bank is rejecting half of all applications for cards and is monitoring card-users closely for signs of trouble.

"We have been going through a review since 2006 and lowered credit limits for 500,000 cardholders where customers are over their limits or where they have become overextended," a Barclays spokesman said. Barclays' action follows disclosure of impairment charges of £1.5 billion in its credit card business.

Barclaycard revealed a 17 per cent fall in profits in the first half. Its confirmation of tighter credit terms will be bad news for retailers in the run-up to Christmas. Further bad news is expected for Barclaycard this month.

The business is thought to be considering selling its consumer loan business, FirstPlus, for less than its £4.5 billion loan book is worth. Frits Seegers, the head of Barclays' global retail business, is believed to be concerned about bad debt charges and will make a decision within weeks.

There is anecdotal evidence that other banks are battenning down the hatches amid rising bad debts and escalating wholesale borrowing costs.

The Consumer Credit Counselling Service said that demand for its services was soaring. "We received 18 to 20 per cent more calls to our helpline over the first six months of 2007 than in the same period last year," James Ketchell, of CCCS, said. "The banks are making it a lot tougher to obtain credit." HSBC said that new international solvency rules had forced it to take a tougher line on credit limits.

The new rules require banks to have an extra capital cushion for unused credit in card or overdraft facilities. That imposes an extra cost on a bank if it offers a customer a credit line on which he is not drawing at present. Banks also face the prospect of far larger compensation payments to consumers.

Alistair Darling told *The Times* that he planned to increase the level of protection offered to bank customers in the Financial Services Compensation Scheme (FSCS) from £31,700 to as much as £100,000.

Unlike other financial services providers, banks are not levied annually by the FSCS, but with the higher level of protection being promised, banks face the prospect of a substantial levy. The Treasury is consulting on how the FSCS might be reformed.

Angela Knight, chief executive of the British Bankers' Association, suggested that £100,000 may be too large a sum to protect. "We're very much prepared to enter into a discussion on how to get this right," she said. "We need to look at the average amount in a deposit account because at the moment we are making policy on the hoof."

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