

6 ways to avoid credit card debt in UAE

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(Alamy Image)

The inability to handle credit cards well has pushed many into the quicksand of debt.

On Monday, we asked our readers on social media to share their experiences related to the use of credit cards in the UAE. Many wrote to us. A common underlying theme of most messages, however, was unsustainable debt on cards and the inability of people to repay.

Barney Almazar, a veteran financial and legal adviser based in the UAE, said that on an average he receives 70 to 100 enquires per week from people on how to deal with ballooning debts. That's more than 10 queries daily to just one lawyer.

Credit cards may seem like tools for easy money, but the inability to handle them well has pushed many into the quicksand of debt. Debt is a recurring story for many in their adult life, and many such stories are inadvertently linked with how people use or abuse their plastic money.

"I used two credit cards for quite some time. I used them to their maximum limit, and always paid back in time. In June, due an unforeseen event, I had to leave Dubai in a

rush, and hoped to be back by August to resume work. However, my work visa was cancelled and eventually I became jobless. Meanwhile, I defaulted on my credit card payments and bank officials have been chasing me for repayment. I have reached a final settlement with them, but the experience and my inability to return to Dubai has taught me one lesson: Always spend within your limits and be mindful of tomorrow because we'll never know what will happen," wrote a KT reader to us from the Philippines, requesting anonymity.

This reader is not alone. A lot of us borrow to bridge the gaps, to fund wedding parties, make impulsive decisions, or even have holidays – when most such heavy expenses should be planned in the first place. Add to that an unexpected job loss, and households get off-balance. In fact, the most common reasons why people get into unmanageable debt are unexpected job loss and drop in incomes. "The kind of environment we are in, people are likely to get this shock (of job loss or pay cuts) at least once in their lifetime, if not more. It is prudent to be prepared. It pays to have financial priorities right and a rational spending behaviour," Vishal Dhawan, a financial advisor offering services in India and the UAE, said.

There'll be always calls from banks, financial companies urging you to take more loans, top-ups, or convert big purchases into easy monthly instalments, but don't fall for it.

What you should (and should not) do if you default on credit card debts?

Credit card delinquencies can land you behind bars. "As per the penal code of the UAE No. 401, in the case of default of payments, banks can deposit the security cheque for collection of the payment. If the cheque bounces, the bank can proceed with criminal charges against the defaulter which can land the defaulter in jail," said Barney Almazar, a legal advisor.

But spending time behind bars won't free you from the shackles of debt. Banks can approach the civil court to recover the payments. So, what should a person do in such a situation? Fleeing the UAE surely won't help, Almazar advised. "Talk to banks. Look for ways to consolidate your debt. In most cases, people reach a settlement with banks that is amicable for both parties. Just recently, we settled the case of a Filipina. She owed some Dh1.7 million to the banks. The case was settled for Dh15,000. Talk to financial experts, lawyers ... there is always hope."

TRY THESE

- >Revisit your situation and try to consolidate debt on different credit cards
- >Explore the balance transfer facility by another card company. It usually offers interest-free period of three to six months.
- >Approach banks to restructure the outstanding balance into a fixed-interest loan, which will stop the accumulation of heavy interest and save you from further late payment fees.
- >If you are employed, take a salaried loan (a personal loan from your bank) to pay off high-interest debt.
- >In case of redundancy, check if you have any insurance cover on the card. Unsecured loans usually have a credit shield.
- >If none of these options are available to you, visit a legal expert, and explore your options.