

What to do if your debt spirals out of control in UAE

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(Alamy Image)

According to a survey by MyMoneysouq.com, the average debt per household in the UAE is Dh25,720.

Farooq Piyara Masih was recently rescued by a few labourers from a park and is now staying with them at their labour camp. He had never imagined that he would be at the mercy of others. The 51-year-old Pakistani lived a good life, working at a senior level in the hospitality industry in Dubai just until a few years ago. But today he is caught in a massive debt trap. "I had a loan of Dh400,000 from a bank, and then I lost my job and couldn't pay it. I voluntarily went to the police and discussed my case. I have spent several months in jail, but still there is a lot to repay," he said.

He has negotiated with the banks and chalked out a deal that suggests he pay Dh2,000 every month for the first two years, Dh4,000 per month from the third year and Dh5,000 from the fifth. But he cannot. His health has severely deteriorated, he is half-paralysed, unemployed and has no money. "I don't know what to do," he said.

Ballooning personal debt and redundancies have drawn many into debt. On Wednesday, we published a letter from a reader who wrote that he was happy to read the ongoing financial literacy series in the newspaper but was skeptical if households earning Dh5,000 or around that can actually benefit from financial planning.

"I am an engineering graduate and was working for a chemical company for three years, earning Dh5,500. My wife and daughter joined me two years ago and I then took a loan to pay rent and other initial expenses. I am still repaying my loan. My daughter has started going to school. One day, I lost my job. For the past four months, I have been on the lookout for a job and my family is still here with me in the hope that I will get a job soon. Whatever little savings I had have been used up in the last three months. How can a person plan and save when there is no security for his livelihood? Such planning, I feel, is only for those with benefits and good salaries," Maqdoom Sabir wrote.

But the fact is, financial planning helps. No matter how much you earn, if you spend your money rationally and not emotionally, you can avoid a debt trap and live a financially harmonious life.

According to a survey by MyMoneysouq.com, the average debt per household in the UAE is Dh25,720. The sample size of the survey is just 640 and cannot be used to understand the saving and spending patterns of a large group. But it gives us a fair bit of understating of personal finances of people. On an average, the 604 people saved above Dh3,000 a month.

"We know the cost of living is high in the UAE. Yet, we have seen households trying to survive on one salary running in four digits. It is criminal, to say the least. Before bringing your family over, take a stock of the expenses. Create a budget. Assess whether you will be able to provide a good life to your family here or will they fare better in their home country. These are tough decisions, but if the idea of coming to the UAE is to provide a better life to the family then it has to be taken. Send your family back, if the spouse cannot add to the household income and then look at ways of reducing debt. You can always call your family back once you have a more stable footing," said Saurabh Malhotra, a financial planner based in the UAE.

"For a person who has lost his job, it is important to first create a laundry list of all financial commitments and prioritise what needs to be paid first. Ideally highest cost debt should be eliminated first. Look at liquidating assets to support the payments and

avoid taking more debt to deal with the situation. A payment holiday request could also be explored in certain cases," said Vishal Dhawan, a financial advisor providing services in India and the UAE.

Your embassy could guide you out of debts

Dubai and the UAE are home to a number of consulates and embassies, and should be the first point of contact in case of any trouble, including financial stress. "We obviously cannot provide financial assistance to people in debt. But we can surely put them in touch with legal experts who can assess their situation and guide them. We have helped many people renegotiate their loans with banks, financial institutions, and helped work out a plan that has alleviated their pain," says Paul Raymund Cortes, Consul-General, Philippines.

Neeraj Agarwal, Consul (Press, Information, Culture & LT) at the Indian Consulate in Dubai, said: "It is beyond our purview to pay for any type of debt accumulated by people. However, we can help get legal opinion, advice, and reach out to the larger Indian community that usually helps people. There have been several cases when we have helped people in debt renegotiate better deals with financial institutions and banks. In certain cases, where children's education is getting affected, we have spoken to schools to see if their tuition fee can be waived off or decreased."

Checklist before taking a loan

>**Need assessment:** Sit down with your family and figure out if you really need a loan. Make an informed and unanimous choice.

>**Affordability:** Make sure you can afford the repayments you are signing up for.

>**Get the best deal:** Weigh your options before finalising a loan. Compare interest rates, amount eligibility and insurance options.

>**Get an insurance:** Personal loans usually come with an insurance element. But it cannot be invoked until you inform the insurance company.

>**Read your contract:** When you are applying for a loan, you are made to sign on a contract that runs into several pages. Read and understand it in its entirety. Insist on getting a copy.