

How to deal with ballooning credit card debt brought on by COVID-19 | Al Rowaad Advocates & Legal Consultants

Debt relief measures have been introduced in the UAE to help residents cope with spiraling debt.



United Arab Emirates, Dubai, Aug 24, 2021 ([Issuewire.com](https://www.issuewire.com)) - Al Rowaad Advocates & Legal Consultancy is a full-service law firm committed to delivering sound judgment to its clients on their most difficult and important matters. Established in 2003, the firm was first known as Advocates Without Frontiers before it expanded and was recently renamed Al Rowaad Advocates & Legal Consultancy, the company's license owner, with a head office in Dubai and a branch office in Abu Dhabi.

Our legal firm is duly licensed to perform legal services and advocacy in the U.A.E., reaching out to local and U.A.E.-based international clients. Among Al Rowaad's strong practice areas are family law, criminal law, civil law, corporate & commercial, banking, maritime & transport, labor, litigation & arbitration, and real estate. Our law firm recognizes the importance of staff training so that our clients can count on our expertise in the various and complex aspects of the law, and receive the highest level of personalized service. We are a multi-lingual firm offering services in Arabic, English, French, Russian, Hindi, Urdu, Iranian, and Tagalog.

What do we do when we want to - or have to - buy something, but don't have the money?

Most of us reach into our wallets for one of our many credit cards, safe in the knowledge that we'll make the card payment as soon as we receive next month's salary. This is what people did for years without any trouble - until the novel coronavirus changed all that. Many people have spent 2020 racking up debt, trying to cope with job losses and salary cuts; now in 2021, even with the job market looking up, some people have fallen too deep into the debt trap. However, by mustering the courage to work with the lender banks, they can still dig themselves out of the pit, as the UAE has extended some of its [debt relief measures](#) till the middle of 2022.

Using the credit card has long been second nature for some UAE residents - people come here from all over the world for better prospects, and a certain kind of affluent lifestyle is part of that package. The card used for discretionary purchases, essential expenses, or quick business funds is par for the course. A 2015 study, published by Al Etihad Credit Bureau and Citibank UAE, revealed that 71 percent of affluent UAE households (with joint monthly income above Dhs30,000) owned at least one credit card; and out of them, about 33 percent used their credit card daily and nearly 50 percent used it weekly.

Those habits wouldn't disappear overnight when good times change to bad, especially because nobody expected the COVID-19 pandemic to last for so long. Even after cutting non-essential expenditure to zero, people still used their credit cards to pay for essential items such as school fees and bulk supplies for the household. With that, the amount of money owed just got bigger and bigger for many credit card users in the UAE.

Analysing the situation, Dr. Hassan Elhais, PhD in Law, Legal Consultant of UAE-based law firm Al Rowaad, told 999, "Incidents such as salary cuts and job losses may suddenly result in unanticipated loss of income. This may affect the repayment capacity of credit card users. While some users may continue to make minimum payments, others may default on their payments. Failure to make timely payments may give banks the opportunity to charge additional interests and late payment fees on the outstanding amounts - this may, over a period of time, compound into a big debt that credit card users may find difficult to pay.

"In such cases, the banks may start their recovery procedures, which include following up with customers, tracking bouncing security cheques, reporting to the credit bureau, and registering a civil case to claim the outstanding amount."

UAE'S DEBT RELIEF MEASURES

The pandemic has made as big an impact on the economy as on public health. In an interconnected global economy, no country can escape being bruised.

As a countermeasure, the UAE Central Bank unveiled a Dhs100 billion economic stimulus package, called the Targeted Economic Support Scheme (TESS) last year - loan repayment relief has been a notable one. Correctly deciding that there's no point criminally prosecuting a credit card user (or some other type of borrower who owes money to an institutional lender) who simply can't pay and who has lost income for no fault of his own, the UAE's focus has shifted to helping lenders and borrowers work together to protect the interests of both parties.

Under TESS, lenders were asked to treat all their borrowers fairly and provide temporary relief on retail clients' loan payments for up to six months from March 15, 2020. To enable this, TESS injected Dhs50 billion into UAE banks through collateralized loans at zero cost.

In April 2021, the UAE Central Bank announced that some of these measures from last year were being extended till mid-2022, one of these being that people burdened by massive credit card debts can use TESS to find relief. Credit card users should coordinate with their banks to explore options such as the conversion of outstanding balance into easy installments or options to reduce the overall interest on the outstanding amount.

"Some banks are also offering payment holidays on a case-to-case basis. Payment holiday is a method by which banks allow their customers to miss certain monthly payments. Banks may agree with you, based on your circumstances, on the number of months you may miss your monthly installments. This may be helpful for customers who have received temporary salary cuts," said Elhais. Banks may also propose a restructuring of a user's outstanding debt by spreading the outstanding amount into several installments over a period of time at a reasonable rate. Accordingly, those users who are now unable to make their installment payments may avail themselves of such a facility to reduce their installment amount.

Restructuring of debt is offered by the banks after assessing the overall profile of the customer. This is a mutually favorable arrangement for both banks and customers, as customers may have a reduced burden of installment payment, and the banks may receive regular monthly repayments towards the outstanding amount.

WHAT TO DO AS A DEBTOR?

It's advisable to maintain a good repayment history record with the banks. While credit card holders can use the aforementioned methods to clear their outstanding dues, they may also consider reducing their overall credit limit in order to avoid overspending and maintain regular payments.

Credit cards are a form of unsecured loan, and they're amongst the most expensive loans that a lending institution offers. If you miss a payment, you're charged a sizeable amount as late payment fees. If you don't make the full payment within the interest-free period, you incur a high interest on your outstanding balance. The end result is that debt tends to pile up and, by the end of the year, it looks unmanageable. In most cases, a bank gets in touch with you if you miss payments more than once.

If you miss payments three times, after warnings from the bank, they might file a police case against you. A large number of people, who have suffered a loss of jobs, reduction in salaries, closure of businesses, and mounting household bills, are also confronting mounting debt, especially on their credit cards.

DON'T DESPAIR: As you deal with your credit card debt, the first thing to do is not despair, because you're not alone. Having a high credit card debt in the UAE is more common than you think. Most people indulge themselves a bit more than their salaries strictly permit and often fail to make even the minimum payment. The result is that, in no time, the bills have ballooned, and they can't see a way out of this dark tunnel. It's a sinking feeling to realise that one's credit card led one into a debt trap.

DO WORK IT OUT: The second thing you need to understand is that others have come out of large credit card debts with astute financial action. In February 2021, for instance, a man in Dubai, whose credit card bill was more than Dhs1 million, reached a settlement with his bank to close the matter by paying the only Dhs25,000. This ex-pat had started a company in 2012 that went bust, and he had to borrow heavily with his credit card. As his liabilities increased and there was no way he could pay up, the man fled to his native country. Police cases were filed against him in the UAE and the government here blacklisted him.

But then, he was an honest person who wanted to fulfill his responsibilities and return to the UAE, a country he loved. He took the help of lawyer Barney Almazar, Head of Commercial Practice at Gulf Law UAE, who carried out a series of negotiations with the bank on his behalf and reached the aforementioned settlement. "Lots of people of various nationalities are suffering from debt problems, due to credit cards, loans and so on, during the pandemic. I tell people not to lose hope, especially now that there is a pandemic. Banks and other lending institutions do not want to send you to jail. There are practical measures that can help borrowers resolve their debts," said Almazar, speaking to 999.

HOW A LENDER CAN HELP YOU

The TESS features are aimed at providing relief to individuals and enterprises that are suffering financially due to the pandemic. Under it, banks are being urged to be understanding and flexible with customers who are facing challenging times due to COVID-19. You can visit a bank to assess if you meet the TESS criteria. If you do, you can request a payment deferral, installment postponement, or payment holiday on your loan from your bank.

Relief measures such as relaxation in repayment may be extended for up to three months without any additional interest. Some banks are offering a 50 percent cut in late payment fees and/or a refund of foreign currency exchange fees for customers who booked international flights through credit or debit cards. Different banks have their own way of enforcing these measures, so you will need to study their processes and negotiate effectively. If necessary, take the help of a legal expert who specializes in these cases.

According to El Hais and Almazar, during debt repayment and/or restructuring negotiations with the bank, it's best to speak right away to the bank's senior-most person, as he or she is the one with the expertise, experience, and decision-making powers. Such a person can also better analyze than a less senior employee exactly what works for the bank and how much relief it can offer you.

Given the range of their experience, the senior-most person would also be better able to understand the details of your financial difficulties, assess the related documents (proving your job loss or salary cut), and be able to understand your character as a customer. A letter from your present or former employer about your financial or work status might be needed.

Some lawyers can help if the debt case is complex. Commercial lawyers, handling financial cases, have been approached by banks with details about such schemes. Additionally, if you contact a bank for negotiations and it doesn't respond within a month, you can take up the matter with the UAE Central Bank's Consumer Protection Department. It's a rule with banks to take up consumer complaints fairly and independently and work towards a resolution.

Other steps to be considered include Balance Transfer Credit Cards, and moving your outstanding debt from one bank to another. Banks offer Balance Transfer Credit Cards to get new customers and you could get a zero percent interest rate for the short term, enabling you to pay off your debt with no additional interests. You might also want to move all your different credit card balances to one new credit card under this system.

Then there's debt consolidation, a method of bringing different loans or liabilities under one umbrella loan. You take a new loan - often at a lower interest than your credit card rate - to pay off the other different loans. Now, you focus on only one single loan and pay it off. This is similar to a Balance Transfer Credit Card, but the interest is not zero percent and there's no limit to the period of benefit.

With all these remedies available, there's no need to hide because of your credit card debt. This is the time to gather courage, not live in fear, and the UAE is ready to help you out.

UAE RESIDENTS' DEBT STORY

SWOLLEN DHS15,000 DEBT: A woman in Abu Dhabi maxed out her credit card but was able to pay off the entire amount except for Dhs15,000. Due to the pandemic, she suffered a salary cut and money became tight. She wasn't able to make the minimum payment and began to accrue interest and late fees on her credit card loan. Eighteen months later, her credit card debt has swollen to more than Dhs100,000. She says that the collection department of the bank is relentlessly calling her and threatening her with a police complaint and a travel ban.

TALKING IT OUT WITH THE BANK: His credit card was meant for special occasions, but the young professional in Abu Dhabi couldn't resist the temptation to use it on a few luxuries. He used to pay the minimum amount every month, but the outstanding amount just kept increasing due to the high compounding interest on his card. After the company he worked for downsized him, he was not able to pay even the minimum amount. He stopped using the credit card in January 2021, but his debt keeps increasing. He has now got in touch with the bank to restructure his debt.

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