

What Are the Legal Consequences of Defaulting on a Bank Loan in the UAE?

Introduction

In the UAE, defaulting on a bank loan is regulated by two important laws: Federal Decree-Law No. 42/2022 on Civil Procedure Law and Federal Decree-Law No. 50/2022 on Commercial Transactions, specifically Bank Credits. This article explores the legal consequences and procedures following a debtor's default on a bank loan under these laws.

Federal Decree-Law No. 50/2022 - Commercial Transactions Law

Article 409 of the Commercial Transactions Law defines a bank loan as a contractual arrangement where the bank distributes funds to the debtor under agreed conditions. Banks are authorised to secure sufficient guarantees for loans, with the debtor obliged to repay the loan and associated interests within agreed-upon conditions and timelines.

Under the new Commercial Transactions Law, criminal actions are limited and apply only to certain cases of bounced cheques. Criminal actions will apply only to specific cases of bounced cheques, including intentional falsification, fraud, providing counterfeit cheques, and withdrawing account balances to prevent payment.

Federal Decree-Law No. 42/2022 - Civil Procedure Law

Article 143 introduces payment orders for urgent and confirmed creditor rights, with electronic or written issuance for specified amounts or movable types. Creditors need to notify the debtor to pay, and if the debtor doesn't follow through, the creditor may request a payment order. Grievance, or appeal against payment orders can be filed within stipulated timeframes, subject to jurisdictional amounts.

Execution Procedures:

In the event of default, the bank, acting as the creditor, can initiate legal actions per Article 233. The execution process involves specifying required steps, serving the writ of execution, and notifying the debtor to settle the debt.

Article 234 allows provisional seizure of debtor funds, and a travel ban may be imposed if there's evidence of an escape attempt. If the debtor proposes payment, the executor records the proposal and requests the debtor to deposit the sum at the court's treasury. Execution continues against the remaining amount if the proposal is partial, as per Article 235. Forceful entry requires the approval of the execution judge and the presence of a police officer.

According to Article 319, a creditor may seek the debtor's imprisonment if they resist executing a writ unless insolvency is proven. Insolvency is not accepted in specific cases, such as when the debtor smuggles money or defaults on instalment payments. Detention periods are specified, not exceeding 6 consecutive months (or up to 36 months in total, unless the debt results from deliberate financial crimes, in which case it may be up to 60 months).

Additionally, the creditor can approach the court to seek a Travel Ban against the Debtor as per Article 324. A creditor may request a travel ban if there is a fear of the debtor escaping the state, provided the debt is not less than AED 10,000. Conditions for issuing a travel ban include providing written evidence of the debt and a guarantee by the creditor for potential harm to the debtor.

Furthermore, Other Precautionary Measures are outlined in Article 327 of the law. If a debtor with a travel ban does not surrender their passport or is suspected of disposing of money, the judge may summon them and impose payment or attendance guarantees.

In summary, defaulting on a bank loan in the UAE leads to legal actions as per the law. Both borrowers and creditors need to know and understand these legal consequences when dealing with financial transactions under UAE law.