You are under a mountain of credit card debt and can no longer keep up with minimum payments. What should you do?

This article assumes that you have already cut back on spending as a first priority but are still struggling to repay your outstanding balances. Before you even contemplate bankruptcy, there are a variety of schemes that may seem confusingly similar, but which you can consider.

01 **Do a Balance Transfer (BT)**

{loadposition advert1}Balance transfer refers to a self-driven scheme that allows you to take a short-term lower-interest loan from a bank to pay off your credit card bills. Promotional interest rates can sometimes be less than 2% per annum.

Balance transfer is a self-driven form of debt management, in that the onus is on an individual to pay off credit card balances rather than to use the BT funds for other purposes. The bank that offers the BT doesn't actually check or enforce that the BT funds are used for the purpose of paying down credit card debt.

The downside of a BT is that if you are already deep in the debt trap and have a poor credit rating, a BT application may not be approved. Furthermore, due to the self-driven nature of BT, not only would it not reduce credit card debt, but may lead to even greater amounts of debt if it is misused.

02 **Apply for Repayment Assistance Scheme (RAS)**

A Repayment Assistance Scheme is a scheme that is administered by Credit Counselling Singapore (CCS). One benefit is that you deal with CCS rather than the bank(s) directly, which may be less awkward for some individuals.

However, RAS is slightly rigid, with fixed interest rate (5%), fix repayment period (8 years) and specific eligibility criteria. Moreover, RAS does not consolidate your debt if you have debt spread across many banks. Hence, RAS doesn't stop you from chalking up more credit card debt with another bank.

03 **Sign up for Debt Consolidation Plan (DCP)**

{loadposition advert1} A Debt Consolidation Plan refers to a scheme in which you actively contact a bank (or likely several banks) with which you have large outstanding balances and propose that you combine all your credit card debts with that bank. If approved, that bank will pay off your credit card balances with the other banks and may waive off part of the debt. In return you have to commit to paying off the loan via monthly instalments.

This scheme is similar to a RAS (i.e. convert credit card to a lower-interest term loan), but it also consolidates any debt that you have spread across several banks. A key eligibility criteria is that you must have unsecured debt that exceeds 12 times of your monthly income. An upside is that an applicant that is currently on a RAS can still opt to apply for a DCP.

One downside of DCP is that some banks may be unwilling to approve your DCP application (especially if it means that they need to write off part of your debt even when you seem capable of keeping up with minimum payments). You should also expect to pay a higher interest (e.g. 6 to >10%), compared to the interest in RAS. Some unsecured loans, such as renovation, medical or education loans are excluded from DCP.

Once you have signed up with a bank for a DCP, you will have just one credit card with a credit limit of one-month's salary. Your credit cards (if any) with all other banks will also be terminated and future credit card applications would not be approved during the term of the DCP. As DCP terms are specific to each bank, you should contact each bank to ask questions regarding repayment period fees, interest rates, early repayment penalties etc, some of which are negotiable.

04 **Sign up for Debt Repayment Scheme (DRS)**

{loadposition advert1} A Debt Repayment Scheme is a pre-bankruptcy scheme that is administered by the Official Assignee under the Bankruptcy Act. Debtors with unsecured debts not exceeding $100,000 will be able to enter into a debt repayment plan with their creditors. In return, you will need to commit to repaying your debts over a fixed period of time of not more than 5 years. One key difference with DCP is that other forms of unsecured debts (not just credit card debts) are included under this scheme.

DRS would be a late-stage measure, such as when you have breached your repayment commitment under RAS or DCP and have other forms of debt that affects your ability to service credit card debts, such that banks are now sending you writs of demand, with the threat of bankruptcy not far away.

Conclusion

In summary, there are a myriad of schemes that can help you reduce your credit card debt. The four schemes explained above are generally in order of the gravity of the situation but this is by no means the best order of managing your credit card debt problem. Nonetheless, it is perhaps important to understand them and match each scheme with your current situation, to avoid rejection in your applications (e.g. applying for BT when it is already too late to do so, or applying for DCP/DRS when it is too early to do so).

This article is intended only as a general guide and you should still seek advice from a financial planner or counsellor. Finally, this article is written in the context of Singapore and hence may not apply to residents of other countries.

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