



## Indian Banks' Association

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### **MODEL EDUCATIONAL LOAN SCHEME FOR PURSUING HIGHER EDUCATION IN INDIA AND ABROAD (2015)**

#### **1. INTRODUCTION**

Education is central to the human resources development and empowerment in any country. National and State level policies are framed to ensure that this basic need of the population is met through appropriate public and private sector initiatives. While government endeavour to provide primary education to all on a universal basis, public funding of higher education is not considered feasible. Cost of education has been going up in recent times and since the student has to bear most of the cost, there is a clear case for institutional funding in this area. This model education loan scheme is an attempt to bring out a viable and sustainable bank loan scheme to meet the aspirations of our society.

Knowledge and information would be the driving force for economic growth in the coming years. The current rate of economic growth of the country demands technically and professionally trained man power in large numbers. In this backdrop, loans for education are seen as investments for economic development and prosperity. The model Education Loan Scheme was developed by the Indian Banks' Association to help meritorious students pursue higher education in technical and professional courses. As the focus is on development of human capital, repayment of the loan is expected to come from future earnings of the student after completion of education. Hence the assessment of the loan will be based on employability and earning potential of the student upon completion of the course and not the parental income/family wealth.

Based on recommendations made by a Study Group, IBA had prepared a Model Educational Loan Scheme in the year 2001 which was advised to banks for implementations by Reserve Bank of India vide circular No.RPCD.PLNFS.BC.NO.83/06.12.05/2000-01 dated April 28, 2001 along with certain modifications suggested by the Government of India. In line with the announcement made by the Hon'ble Finance Minister in his Budget Speech for the year 2004-05, IBA had communicated certain changes in the security norms applicable to education loans with limits above ₹ 4 lakhs and up to ₹ 7.5 lakhs. The scheme was further modified in the year 2007-08 based on experience gained in the operation of the scheme over the years.

With increased public awareness about the benefits of the education loan scheme, bank branches were receiving more and more applications for loans every year. This also resulted in cases of customer grievances due to misinterpretation of the provisions of the scheme. To make the scheme more transparent and to minimize scope for multiple interpretations leading to disputes, a review exercise was taken up in September 2012.

The current revision enlarges the coverage under the Scheme and attempts to address some of the weaknesses noticed . The revised scheme provides for uniform moratorium of one year and longer repayment periods for the loans. The terms of sanction like margins and security have also been relaxed for loans covered by Credit Guarantee Scheme of the Government. Following feedback received from other stake holders, some of the suggestions brought out in the RBI proposal for Higher Education Lending Programme (HELP) have also been incorporated in this Scheme. The amendments to the Scheme were cleared by the Managing Committee of the Association at its meeting held on 26<sup>th</sup> June 2015.

## 2. OBJECTIVES OF THE SCHEME

The Educational Loan Scheme outlined below aims at providing financial support from the banking system to meritorious students for pursuing higher education in India and abroad. The main emphasis is that a meritorious student, though poor, is provided with an opportunity to pursue education with the financial support from the banking system with affordable terms and conditions.

## 3. APPLICABILITY OF THE SCHEME

The scheme detailed below could be adopted by all member banks of the Association or other banks and financial institutions as may be advised by the Reserve Bank of India. **The scheme provides broad guidelines to the banks for operationalising the educational loan scheme and the implementing bank will have the discretion to make changes as deemed fit.**

## 4. ELIGIBILITY CRITERIA

### 4.1 Students Eligibility

- The student should be an Indian National.
- Should have secured admission to a higher education course in recognized institutions in India or Abroad through Entrance Test/ Merit Based Selection process after completion of HSC (10 plus 2 or equivalent). However, entrance test or selection purely based on marks obtained in qualifying examination may not be the criterion for admission to some of the post graduate courses or research programmes. In such cases, banks will have to adopt appropriate criteria based on employability and reputation of the institution concerned.

#### **Note:**

**It would be in order for banks to consider a meritorious student (who qualifies for a seat under merit quota) eligible for loan under this scheme even if the student chooses to pursue a course under Management Quota.**

### 4.2 **Design elements for classification of education loans**

**It is proposed to classify the education loan portfolio into three categories viz.**

- a. Loans to students admitted to top rated institutions
- b. Loans to students admitted to other domestic institutions
- c. Loans to students seeking studies abroad.

It is expected that depending upon risk perception, reputation of the institution and employability of the students banks will be able to fine tune their terms and conditions of sanction suitably to these categories.

The guidance note attached to the scheme gives elaboration of design elements for classifying educational loans

## 5. COURSES ELIGIBLE

### 5.1. Studies in India: (Indicative list)

- Approved courses leading to graduate/ post graduate degree and P G diplomas conducted by recognized colleges/ universities recognized by UGC/ Government/ AICTE/ AIBMS/ ICMR etc.
- Courses like ICWA, CA, CFA etc.
- Courses conducted by IIMs, IITs, IISC, XLRI, NIFT, NID etc.
- Regular Degree/Diploma courses like Aeronautical, pilot training, shipping, degree/diploma in nursing or any other discipline approved by Director General of Civil Aviation/Shipping/Indian Nursing Council or any other regulatory body as the case may be, if the course is pursued in India.
- Approved courses offered in India by reputed foreign universities.

#### Note:

1. **The above list is indicative in nature. Banks may approve other job oriented courses leading to technical/ professional degrees, post graduate degrees/diplomas offered by recognized institutions under this scheme.**
2. **Courses other than the above offered by reputed institutions may also be considered on the basis of employability.**

Reference : [www.ugc.ac.in](http://www.ugc.ac.in), [www.education.nic.in](http://www.education.nic.in), [www.aicte.org.in](http://www.aicte.org.in)

### 5.2 Studies Abroad

- Graduation : For job oriented professional/ technical courses offered by reputed universities.
- Post-graduation: MCA, MBA, MS, etc.
- Courses conducted by CIMA- London, CPA in USA etc.

- Degree/diploma courses like aeronautical, pilot training, shipping etc provided these are recognized by competent regulatory bodies in India India /abroad for the purpose of employment in India/abroad.

Reference: [www.webometrics.info](http://www.webometrics.info) (indicative only)

### 5.3 Expenses considered for loan

- Fee payable to college++/ school/ hostel\*
- Examination/ Library/ Laboratory fee
- Travel expenses/ passage money for studies abroad
- Insurance premium for student borrower, if applicable
- Caution deposit, Building fund / refundable deposit supported by Institution bills/receipts. \*\*
- Purchase of books/ equipments/ instruments/ uniforms\*\*\*
- Purchase of computer at reasonable cost, if required for completion of the course\*\*\*
- Any other expense required to complete the course - like study tours, project work, thesis, etc.\*\*\*
- While computing loan required, scholarships, fee waiver etc., if any available to the student borrower may be taken into account.
- If the scholarship component is included in the loan assessment, it may be ensured that the scholarship amount gets credited to the loan account when received from the Government.

#### Notes:

++ For courses under Management quota seats considered under the scheme, fees as approved by the State Government/Government approved regulatory body for payment seats will be taken, subject to viability of repayment.

\* Reasonable lodging and boarding charges will be considered in case the student chooses / is required to opt for outside accommodation.

\*\* These expenses could be considered subject to the condition that the amount does not exceed 10% of the total tuition fees for the entire course.

\*\*\* It is likely that expenditure under Item Nos. vi, vii & viii above may not be available in the schedule of fees and charges prescribed by the college authorities. Therefore, a realistic assessment may be made of the requirement under these heads. However, the maximum expenses included under vi, vii & viii may be capped at 20% of the total tuition fees payable for completion of the course.

## 6. QUANTUM OF FINANCE

Need based finance to meet the expenses worked out as per para 4.3 above will be considered taking in to account margins as per para 6 subject to the following ceilings:

- Studies in India - Maximum upto ₹ 10 lakhs.
- Studies Abroad - Maximum upto ₹ 20 lakhs.

**Note:-**

Banks may consider capping stream wise/ institution wise cap on education loan amount by taking into account reputation and placement history of the education institution concerned. Banks may consider higher quantum of loan on course to course basis (eg: courses in IIMs, ISB etc). It may also be noted that even loans in excess of ₹ 10 lakhs qualify for interest subsidy under Central Sector Interest Subsidy Scheme for loans up to ₹ 10 lakhs, **though it may exceed priority sector norms fixed by the RBI.**

**7. MARGIN**

Upto ₹ 4 lakhs Nil

Above ₹ 4 lakhs Studies in India 5%  
Studies Abroad 15%

However, upto ₹ 7.5 lakhs, margin will be 'Nil', if loan is eligible for the Credit Guarantee - Scholarship/ assistantship to be included in margin.  
- Margin may be brought-in on year-to-year basis as and when disbursements are made on a pro-rata basis.

**8. SECURITY**

Upto ₹ 4 lakhs No security  
Parents to be joint borrower(s). However, banks will have discretion to waive this clause.

Above ₹ 4 lakhs and up to ₹7.5 lakhs Besides the parent(s) executing the documents as joint borrower(s), collateral security in the form of suitable third party guarantee will be taken. The bank may, at its discretion, in exceptional cases, waive third party guarantee if satisfied with the net-worth / means of parent/s who would be executing the document as joint borrower(s).

However, third party guarantee will be waived if the loan is eligible for Credit Guarantee coverage.

Above ₹ 7.5 lakhs Parent(s) to be joint borrower(s)

Tangible collateral security of suitable value acceptable to bank, along with the assignment of future income of the student for payment of installments.

**Note:-**

- The loan documents should be executed by the student and the parent/ guardian as joint-borrower.
- The security can be in the form of land/ building/ Government securities/ Public Sector Bonds/Units of UTI, NSC, KVP, life policy, gold, and shares/mutual fund units/debentures, bank deposit in the name of student / parent / guardian / any other third party or any other tangible security acceptable to the bank with suitable margin.
- Wherever the land/ building is already mortgaged, the unencumbered portion can be taken as security on second charge basis provided it covers the required loan amount.

**9. RATE OF INTEREST**

Interest to be charged at rates linked to the Base rate as decided by individual banks. Banks may charge differential interest rates for collateralized and non-collateralised loans.

- Simple interest to be charged during the study period and up to commencement of repayment. Simple interest may be charged even during any subsequent moratorium considered.

**Note:-**

Servicing of interest during study period and the moratorium period till commencement of repayment is optional for students. Accrued interest will be added to the principal amount borrowed while fixing EMI for repayment.

**10. APPRAISAL / SANCTION/ DISBURSEMENT**

- Applications will be received either directly at bank branches or through on-line mode. Upon receipt of application, standard acknowledgement giving a reference number will be issued. The acknowledgement will contain contact details of the bank official who, could be contacted in case of delay in disposal of application.
- Normally, sanction/rejection will be communicated within 15 days of receipt duly completed application with supporting documents.
- In the normal course, while appraising the loan, the future income prospect of the student only will be looked into.
- Rejection of loan application, if any, shall be done with the concurrence of the controlling authority of the branch concerned and conveyed to the student stating reason for rejection.
- Students may submit their loan applications either at the bank branches near to the residence of parents or to the educational institution. However, after the loan is

sanctioned, the cases be transferred to the bank branch near to the institution for follow up with student / institution.

- The loan to be disbursed in stages as per the requirement/ demand directly to the Institutions/ Vendors of equipments / instruments to the extent possible.

## 11. REPAYMENT

Repayment Holiday / Moratorium Course period + 1 year. Banks may also provision for moratorium taking into account spells of under-employment/unemployment, say two or three times (maximum of 6 months at a time) during the life cycle of the loan. Banks may also encourage student borrowers who wants to set up start-up units by giving moratorium on repayment of principal and interest during incubation period which may be considered upto 2 years.

If the student is not able to complete the course within the scheduled time, extension of time for completion of course may be permitted for a maximum period of 2 years. If the student is not able to complete the course for reasons beyond his control, sanctioning authority may at his discretion consider such extensions as may be deemed necessary to complete the course. In case the student discontinues the course midway, appropriate repayment schedule will be worked out by the bank in consultation with the student/parent

- The accrued interest during the repayment holiday period to be added to the principal and repayment in Equated Monthly Instalments (EMI) fixed.
- 1% interest concession may be provided by the bank, if interest is serviced during the study period and subsequent moratorium period prior to commencement of repayment.
- Repayment of the loan will be in equated monthly instalments for a period of 15 years for all categories.
- While EMI based repayment is the generally accepted practice, many times the salary levels at the start of the career may not facilitate comfortable payment of EMI in certain cases (e.g. professionals like Doctors). Telescoping of repayment with stepped up instalments with passage of time may be considered in such cases.

### **Note:-**

No prepayment penalty will be levied for prepayment of loan any time during the repayment period.

## 11. INSURANCE

Banks may, make it mandatory to arrange for life insurance policy on the students availing Education Loan. Individual Banks may work out the modalities with insurance companies.

**13. FOLLOW UP / MONITORING**

Banks to contact college / university authorities to obtain progress report on the student at regular intervals in respect of those who have availed loans. In case of studies abroad, bank may obtain the Social Security Number (SSN) / Unique Identification Number (UIN) / Identity Card and note the same in the bank's records. The UID number issued by UIDIA may also be captured in bank's system as and when available. Banks to enter into Memorandum of Understanding (MoU) with the educational institutions to provide the educational loans to the students. There should be an annual review of the asset quality of educational loans between banks and educational institution.

**14. PROCESSING CHARGES**

No processing / upfront charges may be levied on loans sanctioned under the scheme. (Banks may charge processing fee for considering loans for studies abroad. The fee would however, be refunded upon the student taking up the course).

Note: However, the student applicant may be required to pay fee /charges, if any levied by third party service providers who operate common portal for lodging loan applications.

**15. CAPABILITY CERTIFICATE**

Banks can also issue the capability certificate for students going abroad for higher studies. For this purpose financial and other supporting documents may be obtained from applicant, if required.

(Some of the foreign universities require the students to submit a certificate from their bankers about the sponsors' solvency/ financial capability, with a view to ensure that the sponsors of the students going abroad for higher studies are capable of meeting the expenses till completion of studies.)



**16. OTHER CONDITIONS:**

**16.1 Sanction of loan to more than one child from the same family**

Existence of an earlier education loan to the brother(s) and/or sister(s) will not affect the eligibility of another meritorious student from the same family obtaining education loan as per this scheme from the bank.

**16.2 Minimum Age**

There is no specific restriction with regard to the age of the student to be eligible for education loan. However, if the student was a minor while the parent executed documents for the loan, the bank will obtain a letter of ratification from him/her upon attaining majority.

**16.3 Top up loans**

Banks may consider top up loans to students pursuing further studies within the overall eligibility limit.

**16.4 Joint Borrower**

The joint borrower should normally be parent(s)/guardian of the student borrower. In case of a married person, joint borrower can be either spouse or the parent(s)/parents-in-law.

**16.5 No Due Certificate**

No due certificate will not be insisted upon as a pre-condition for considering education loan. However, banks may obtain a declaration/ an affidavit confirming that no loans are availed from other banks.

**16.6 Disposal of loan application**

Loan applications have to be disposed of in the normal course within a period of 15 days to 1 month, but not exceeding the time norms stipulated for disposing of loan applications under priority sector lending.

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