

Indian Bank Association's Revised model Educational Loan Scheme for pursuing higher studies in India and abroad

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, higher education is progressively moving into the domain of private sector. With a gradual reduction in government subsidies higher education is getting more and more costly and hence the need for institutional funding in this area.

The scope of education has widened both in India and abroad covering new courses in diversified areas. Development of human capital is a national priority and it should be the endeavour of all that no deserving student is denied opportunity to pursue higher education for want of financial support. Loans for education should be seen as an investment for economic development and prosperity. Knowledge and information would be the driving force for economic growth in the coming years.

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 implementation 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 educational loans with limits above Rs.4 lakhs and up to Rs. 7.5 lakhs.

We have been receiving enquiries from members seeking clarifications on the various provisions of the scheme based on feedback received from the branches. With a view to ensure that the scheme is implemented in letter and spirit, it was decided to review the scheme and make modifications in the scheme to facilitate smooth operation at bank branches. Towards this, a Working Group of General Managers drawn from select banks was constituted at IBA. This revised model scheme has been prepared based on the suggestions made by the Group.

2. OBJECTIVES OF THE SCHEME :

The Educational Loan Scheme outlined below aims at providing financial support from the banking system to deserving/ meritorious students for pursuing higher education in India and abroad. The main emphasis is that every 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. No deserving student is denied an opportunity to pursue higher education for want of financial support.

3. APPLICABILITY OF THE SCHEME:

The scheme detailed below could be adopted by all Commercial Banks. 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 suiting to the convenience of the students/ parents to make it more customer friendly.

The scheme details are as under :

4. ELIGIBILITY CRITERIA :

4.1 Student eligibility:

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- Should be an Indian National
- Secured admission to professional/ technical courses in India or Abroad through Entrance Test/ Merit Based Selection process.

4.2 Courses eligible

a. Studies in India: (Indicative list)

- Graduation courses : BA, B.Com., B.Sc., etc.
- Post Graduation courses : Masters & Phd.
- Professional courses : Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer etc.
- Computer certificate courses of reputed institutes accredited to Dept. of Electronics or institutes affiliated to university.
- Courses like ICWA, CA, CFA etc.
- Courses conducted by IIM, IIT, IISc, XLRI, NIFT etc.
- Regular Degree/Diploma courses like Aeronautical, pilot training, shipping etc., approved by Director General of Civil Aviation/Shipping, if the course is pursued in India. In case the course is pursued abroad, the Institute should be recognized by the competent local aviation/shipping authority
- Courses offered in India by reputed foreign universities.
- Evening courses of approved institutes.
- Other courses leading to diploma/ degree etc. conducted by colleges/ universities approved by UGC/ Govt./ AICTE/ AIBMS/ ICMR etc
- Courses offered by National Institutes and other reputed private institutions. Banks may have the system of appraising other institution courses depending on future prospects/ recognition by user institutions.
- Courses, which are not covered under the criteria mentioned above, individual banks may take a view to consider extending
- education loan under the scheme taking into account the future prospects/recognition by user institution.

b. 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.

4.3 Expenses considered for loan :

- Fee payable to college/ school/ hostel.
- Examination/ Library/ Laboratory fee.
- Purchase of books/ equipments/ instruments/ uniforms.
- Caution deposit, Building fund/refundable deposit supported by Institution bills/receipts, subject to the condition that the amount does not exceed 10% of the total tuition fees for the entire course.
- Travel expenses/ passage money for studies abroad.

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- Purchase of computers - essential for completion of the course.
- Insurance premium for student borrower
- Any other expense required to complete the course - like study tours, project work, thesis, etc.

5. QUANTUM OF FINANCE:

Need based finance subject to repaying capacity of the parents/ students with margin and the following ceilings.

- Studies in India - Maximum Rs.10.00 lacs.
- Studies abroad - Maximum Rs.20 lacs

6. MARGIN :

Upto Rs 4 lacs	Nil
Above Rs. 4 lacs : Studies in India	5%
Studies Abroad	15%

- 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.

7. SECURITY :

Upto Rs 4 lacs	Co-obligation of parents. No security
Above Rs.4 lacs and upto Rs7.5 lakhs	Co-obligation of parents together with collateral security in the form of suitable third party guarantee. 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".
Above Rs.7.5 lakhs	Co-obligation of parents together with tangible collateral security of suitable value, along with the assignment of future income of the student for payment of instalments

Note:-

- The loan documents should be executed by both the student and the parent/ guardian as joint-borrower.
- The security can be in the form of land/ building/ Govt. securities/ Public Sector Bonds/Units of UTI, NSC, KVP, life policy, gold, shares/mutual fund units/debentures, bank deposit in the name of student/ parent/ guardian or any other third party 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.
- In case the loan is given for purchase of computer, the computer has to be hypothecated to the Bank.

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8. RATE OF INTEREST :

Upto Rs 4 lacs	BPLR
Above Rs. 4 lacs	BPLR + 1%

- Simple interest to be charged during the Repayment holiday/ Moratorium period.
- Penal interest to be charged as applicable to individual banks.

9. APPRAISAL / SANCTION/ DISBURSEMENT :

- In the normal course, while appraising the loan the future income prospects of the student will be looked into. However, where required, the means of parent / guardian could also be taken into account to evaluate re-payment capability.
- The loan to be sanctioned as per delegation of powers preferably by the Branch nearest to the place of residence of parents.
- No application for educational loan received should be rejected without the concurrence of the next higher authority.
- The loan to be disbursed in stages as per the requirement/ demand directly to the Institutions/ Vendors of books/ equipments/ instruments to the extent possible.

10. REPAYMENT:

Repayment holiday/Moratorium	Course period + 1 year or 6 months after getting job, whichever is earlier.
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The loan to be repaid in 5-7 years after commencement of repayment. 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.

- 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 for loanees if the interest is serviced during the study period when repayment holiday is specified for interest/ repayment under the scheme.

11. INSURANCE

Banks may arrange for life insurance policy on the students availing Educational Loan. Individual Banks may work out the modalities with insurance companies

12. FOLLOW UP/TRACKING:

Banks to contact college/ university authorities to send the progress report to the bank at regular intervals in respect of students who have availed loans. In case of studies abroad, bank may obtain the Unique Identification Number (UIN)/Identity Card and note the same in the bank's records.

13. PROCESSING CHARGES

No processing/ upfront charges may be collected on educational loans for studies in India.

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14. 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.)

15. OTHER CONDITIONS:

a. Meritorious Students

Banks which wish to support highly and exceptionally meritorious/ deserving students without security may delegate such powers to a fairly higher level authority.

b. Multiple Loans

In case of receipt of application for more than one loan for student borrower from a family, the 'family' as a unit has to be taken into account for considering the loan and security taken in relation to the total quantum of finance disbursed, subject to margin and repaying capacity of the parent/student.

c. Minimum Age

There is no specific restriction with regard to the age of the student to be eligible for education loan.

d. Change of Address

In cases of student staying with parents and where such parents have transferable jobs or there is change in address, the bank may provide in the system of noting the 'address for correspondence' for tracking purpose.

e. Top up loans

Banks may consider top up loans to students pursuing further studies within the overall eligibility limit, with appropriate re-schedulement, subject to taking required security.

f. Co-obligator

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

No Due Certificate

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

Disposal Application

Loan applications have to be disposed of 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.

Flexibility in terms

In order to bring flexibility in terms like eligibility, margin, security norms, banks may consider relaxation in the norms on a case-to-case basis delegating the powers to a fairly higher level authority.