

## Educational Loan Scheme

April 28, 2001

RPCD.PLNFS.BC.NO.83/06.12.05/2000-01

The Chairman/Managing Director  
All scheduled commercial banks

Dear Sir

### Educational Loan Scheme

The Finance Minister in a meeting with the Chief Executives of the public sector banks on 13 June 2000 had highlighted the role of commercial banks in facilitating pursuit of higher education by poor, but meritorious students. In pursuance thereof the Indian Banks' Association constituted a Study Group under the chairmanship of Shri R.J.Kamath, Chairman and Managing Director of Canara Bank to examine the issue in detail. Based on the recommendations of the Study Group, a comprehensive model educational loan scheme was prepared by the Indian Banks' Association for adoption by all banks. The Scheme aims at providing financial support from the banking system to deserving/meritorious students for pursuing higher education in India and abroad. The scheme was announced in the Union Budget for 2001-2002 and discussed in the meeting the Finance Minister had with the Chief Executives of banks on 7 April 2001.

2. Government of India, Ministry of Finance, Department of Economic Affairs [Banking Division] has considered and decided to accept the Model Scheme prepared by IBA for implementation, subject to the following modifications :

- (i) The condition of minimum qualifying marks in the last examination may be dropped.
- (ii) No margin may be insisted upon for loans upto Rs.4 lakh. However, for loans of higher amounts, the margin requirement may be 5% for inland studies and 15% for studies abroad.
- (iii) No security may be insisted upon for loans upto Rs.4 lakh. However, for loans above this amount, collateral security of suitable value or co-obligation of parents/guardians/third party alongwith the assignment of future income of the student for payment of instalments may be obtained.
- (iv) Loans upto Rs.4 lakh may be advanced at interest rate not exceeding PLR of the bank. Above Rs.4 lakh, the interest rate may be PLR + 1%.

3. We accordingly, forward herewith a copy of the model scheme prepared by IBA for implementation by banks after effecting the modifications indicated at [i] to [iv] of para 2 above, at the earliest so that its benefits are available to students from this academic session itself.

4. It is clarified that this Scheme is separate and in addition to and not in supersession of the scheme earlier circulated by RBI under Supreme Court orders vide our circular RPCD.SP.BC.10/09.07.01/99-2000 dated 31<sup>st</sup> July 1999 issued to public sector banks.

5. Please acknowledge receipt.

Yours faithfully

[Varughese John]  
General Manager

Encl : As above

## **A MODEL EDUCATIONAL LOAN SCHEME**

### **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.

The Hon'ble Finance Minister in a meeting with the Chief Executives of the Public Sector Banks on 13th June 2000 had highlighted the role of commercial banks in facilitating pursuit of higher education by poor, but meritorious students. He also expressed the need to have a comprehensive educational loan scheme prepared that could be adopted by all banks. Accordingly, a study group under the Chairmanship of Shri R J Kamath, Chairman and Managing Director, Canara Bank was constituted to examine the issue in detail. This model scheme has been prepared based on the recommendations contained in the report submitted by the group in August 2000.

### **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.

In short, the scheme aims at providing financial assistance on reasonable terms:

- \* to the poor and needy to undertake basic education.
- \* to the meritorious students to pursue higher/ professional/ technical education.

### **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 Courses eligible**

###### **a. Studies in India:**

- \* School education including plus 2 stage.
- \* 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.
- \* 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.

###### **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.

##### **4.2 Student eligibility :**

- \* Should be an Indian National
- \* Secured admission to professional/ technical courses through Entrance Test/ Selection process.
- \* Secured admission to foreign university/ Institutions.
- \* Should have scored minimum 60% (50% for SC/STs) in the qualifying examination for admission to graduation courses.

##### **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.

- \* Travel expenses/ passage money for studies abroad.
- \* Purchase of computers - essential for completion of the course.
- \* 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.7.50 lacs.
- Studies abroad - Maximum Rs.15 lacs

## **6. MARGIN :**

Upto Rs.2 lacs	:	Nil
Above Rs. 2 lacs : Studies in India	:	15%
: Studies Abroad	:	25%

- 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.2 lacs	:	No security
Above Rs.2 lacs	:	Collateral security equal to 100% of the loan amount or guarantee of third person known to bank for 100% of the loan amount.

Note:-

- \* The document should be executed by both the student and the parent/ guardian.
- \* The security can be in the form of land/ building/ Govt. securities/ Public Sector Bonds/ Units of UTI, NSC, KVP, LIC policy, gold, shares/ 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 II charge basis provided it covers the required loan amount.
- \* In case the loan is given for purchase of computer the same to be hypothecated to the Bank.

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

## **8. RATE OF INTEREST :**

Upto Rs.2 lacs	:	PLR
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Above Rs.2 lacs : PLR + 1%

\* The interest to be debited quarterly/ half yearly on simple basis during the Repayment holiday/ Moratorium period.

\* Penal interest @ 2% be charged for above Rs.2 lacs for the overdue amount and overdue period.

**9. SANCTION/ DISBURSEMENT :**

\* The loan to be sanctioned as per delegation of powers preferably by the Branch nearest to the place of domicile.

\* 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.

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.

\* 1-2% 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. FOLLOW UP:**

Banks to contact college/ university authorities to send the progress report at regular intervals in respect of students who have availed loans.

**12. PROCESSING CHARGES :**

No processing/ upfront charges may be collected on educational loans.

**13. CAPABILITY CERTIFICATE:**

Banks can also issue the capability certificate for students going abroad for higher studies. For this 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.)

**14. OTHER CONDITIONS:**

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.

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.

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.