

MODEL EDUCATIONAL LOAN SCHEME FOR PURSUING HIGHER EDUCATION IN INDIA AND ABROAD 2021

(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.)

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 endeavours 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 the meritorious students pursue higher education in India and abroad. 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.

In 2000, IBA had constituted a Study Group to examine the role of commercial banks in facilitating pursuit of higher education by poor, but meritorious students. This was subsequent to the Finance Minister's meeting with the Chief Executives of public sector banks.

Based on recommendations made by the Study Group, IBA had prepared a Model Educational Loan Scheme in the year 2001 which has been modified from time to time. The scheme was last modified in the year 2015 based on experience gained in the operation of the Scheme over the years.

With increased public awareness about the benefits of the educational 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 in view of customer grievances, and to minimize scope for multiple interpretations leading to disputes, a review exercise was taken up in June 2018.

The amendments to the Scheme were approved by the IBA Managing Committee at its meeting held on January 15, 2021.

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 at affordable terms and conditions.

3. APPLICABILITY OF THE SCHEME

The Scheme could be adopted by all member banks of the Association. **The scheme provides broad guidelines to the banks for operationalizing the educational loan scheme and implementing banks will have the discretion to make changes as deemed fit.**

4. ELIGIBILITY CRITERIA

4.1 Nationality

- (a). The student should be an Indian National (including Non-Resident Indian [NRI])
- (b). For Persons of Indian Origin (PIO) / Overseas Citizens in India (OCI), and students who are born abroad (overseas citizenship by birth, when parents were on deputation with Foreign Government/Government agencies or International / Regional Agencies etc.) and are now studying in India after repatriation of their parents, loans can be considered for studies in India only. However, such facility will be subject to Regulation 7 (C) of Foreign Exchange Management (Borrowing and Lending in Rupees) Regulations, 2000 [Notifications No.FEMA.4/2000-RB dated 3rd May 2000 and further amended vide Notification No.FEMA.115/2004-RB dated 25th March 2004].

(Banks may adopt their Board approved policy for Risk Mitigation)

4.2 Admission

- (a). 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).
- (b). For studies abroad, banks may at their discretion consider granting loans on the basis of invite / conditional offer letter, if demanded by the Educational Institution.

4.3 Meritorious

- (a). If the admission to an eligible course is through a merit based selection process, he/she could be considered a meritorious student.
- (b). If the admission to professional and technical courses is through common entrance test and those who get admission through this process could be considered a meritorious student.

4.4 Creditworthiness

Normally, the student borrower may not have a credit history and as such he is assumed to be creditworthy. However, in case of an adverse credit history of student, banks at their discretion may frame suitable criteria based on their risk appetite.

Note:

For NRI/ PIO/ OCI, co-applicant should be a permanent resident of India. However, if the parents are also NRI / PIO/ OCI, additional co-applicant (who is a permanent resident of India) acceptable to the bank may be stipulated.

4.5 Classification

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.

5. COURSES ELIGIBLE

5.1 Studies in India: (Indicative list)

- (a). Courses as initiated under various Government Subsidy Schemes
- (b). Approved courses leading to graduate/ post graduate degree and P G diplomas/certificate conducted by recognized colleges/ universities recognized by UGC/ Government/ AICTE/ AIBMS/ ICMR etc.
- (c). Courses like ICWA, CA, CFA etc.
- (d). Courses conducted by IIMs, IITs, IISC, XLRI. NIFT, NID etc.
- (e). 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.
- (f). Approved courses offered in India by reputed foreign universities.

Reference:

- (a). <http://mhrd.gov.in/technical-education-1>
- (b). <http://mhrd.gov.in/institutions-national-importance>
- (c). http://www.naac.gov.in/Universities_Colleges.asp,
- (d). <http://www.nbaind.org/accreditation-status.aspx>
- (e). www.ugc.ac.in,
- (f). www.education.nic.in,
- (g). www.aicte.org.in

5.2 Studies Abroad

- (a). Courses as defined under various Government Subsidy Schemes.
- (b). Graduation: For job oriented professional/ technical courses offered by reputed universities / institutions.
- (c). Post-graduation: MCA, MBA, MS, etc.
- (d). Courses conducted by CIMA- London, CPA in USA etc.
- (e). Degree/diploma courses like aeronautical, pilot training, shipping etc. provided these are recognized by competent regulatory bodies in India /abroad for the purpose of employment in India/abroad.

Reference:

www.webometrics.info / www.topuniversities.com / www.qs.com (indicative only)

5.3 Expenses considered for loan

- (a). Fee payable to college++/ hostel*
- (b). Examination/ Library/ Laboratory fee
- (c). Travel expenses/ passage money for studies abroad
- (d). Insurance premium for student borrower
- (e). Caution deposit, Building fund / refundable deposit supported by Institution bills/receipts. **
- (f). Purchase of books/ equipments/ instruments/ uniforms***
- (g). Purchase of computer at reasonable cost, if required for completion of the course***
- (h). Any other expense required to complete the course – like academic and maintenance fees, study tours, project work, thesis, exchange programme, etc. ***
- (i). While computing loan required, scholarships, fee waiver etc., if any available to the student borrower while applying for the loan, may be taken into consideration.
- (j). 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.

- (a). Reasonable lodging and boarding charges will be considered in case the student chooses / is required to opt for outside accommodation.
- (b). 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.
- (c). It is likely that expenditure under Item Nos. (f), (g) & (h) 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 (f), (g) & (h) may be capped at 20% of the total tuition fees payable for completion of the course.

Note: The banks at their discretion can increase the cap of 10% and 20% mentioned above

6. List of Documents required:

(1) Student-applicant:

- (a). Proof of Identity and Address as per KYC norms
- (b). Proof of Academic Records
- (c). Proof of admission: Offer Letter or Admission Letter from the Institution.
- (d). Statement of cost of study/ Schedule of expenses
- (e). Passport-size photographs
- (f). Previous / existing loan, if any, from Banks/Lenders, banks may obtain suitable documentary evidence.

Note:

- [1]. Passport to be mandatorily submitted in case of Studies Abroad.
- [2]. Aadhaar should be made mandatory, **wherever applicable as per Supreme Court decision.**
- [3]. Pan Card is a mandatory document. However, in case the student is not able to submit Pan details at the time of application, the same may be submitted subsequently as per the timeline decided by the respective Banks (a minimum time of at least six months from the date of disbursement of the loan may be given).
- [4]. Any other document as specified by the Financing Bank to take the credit decision.

(2) Co-applicant / Guarantor:

- (a). Proof of Identity and address as per KYC norms
- (b). Passport-size photographs

- (c). Previous / existing loan, if any, from Banks/Lenders, banks may obtain suitable documentary evidence.
- (d). Pan Card is a mandatory document. However, in case the co-applicant/ guarantor is not able to submit the Pan card at the time of application, the same may be submitted subsequently as per the timeline decided by the respective Banks.
- (e). Income documents as deemed fit by respective Banks. Note: To avail the benefit of Government Subsidy schemes, Income certificate/proof from the designated officials of the respective states/Competent Authority is mandatory before sanctioning of loan.
- (f). Any other document as specified by the Financing Bank to take the credit decision.

7. QUANTUM OF FINANCE

Need based finance to meet the expenses worked out as per para 5.3 above will be considered taking into account minimum margins as per para 8. While assessing the quantum of finance, banks should ensure that a student is neither over financed nor under financed. Banks should ensure that the government scholarships or scholarships from any source are credited to the loan account, if the scholarship amount was not netted off while fixing quantum of finance.

Note:-

- (a). Banks may consider capping education loan amount (stream wise/ institution wise) by taking into account reputation and placement history of the education institution concerned.
- (b). The threshold limit under various subsidy schemes of Government of India will be as per the respective scheme notifications. **As per RBI notification, loans to individuals for Education purposes including vocational courses upto Rs.10 Lakh irrespective of the sanctioned amount are eligible for classification under priority sector, which is subject to change from time to time.**

8. MINIMUM MARGIN

Minimum Margin Requirements	Study In India	Study Abroad
Upto ₹ 4 lakhs	Nil	Nil
Above ₹ 4 lakhs and upto ₹ 7.5 lakhs*	5%	15%
Above ₹ 7.5 lakhs	Banks discretion	Banks discretion

- (a). Scholarship/ assistantship to be included in margin.
- (b). Margin may be brought- in on a pro-rata basis as and when disbursements are made.

* The margin upto Rs7.5 Lakh may be kept as Nil, if loan is eligible for the Credit Guarantee, as under the extant guidelines.

9. SECURITY

Loan Amount	Security Required
Upto ₹ 4 lakhs Above ₹ 4 lakhs and upto ₹ 7.5 lakhs	<ol style="list-style-type: none">1. No security2. Parent(s) / guardian(s) to be joint borrower(s).3. Parent(s) / guardian(s) to be joint borrower(s) along with suitable third-party guarantee. <p>The bank may, at its discretion, in exceptional cases, waive third-party guarantee if satisfied with the net-worth / means of parent/s / guardian(s) who would be executing the document as joint borrower(s).</p> <p>Note :</p> <p>However, third party guarantee will be waived if the loan is eligible for Credit Guarantee coverage and/or Government interest subsidy.</p>
Above ₹ 7.5 lakhs	<ol style="list-style-type: none">1. Parent(s) / guardian(s) to be joint borrower(s)2. Tangible collateral security of suitable value acceptable to the bank.

Note:-

1. The loan documents should be executed by the student and the parent/ guardian as joint borrower. However, banks will have discretion to waive this clause.
2. The student in all cases will be the primary borrower and parents / guardians will be the co-borrowers
3. The future income of the student to be assigned to the bank for repayment of loan.

10. RATE OF INTEREST

Interest to be charged at rates linked to the Base Rate / MCLR as decided by individual banks. Banks may charge differential interest rates for collateralised and non-collateralised loans. It will also be open to banks to offer differential interest rates based on rating of courses/institutions or even students.

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.

11. APPRAISAL / SANCTION / DISBURSEMENT

- (1) All applications will be mandatorily routed through Vidya Laxmi Portal (VLP) of Govt. of India.
- (2) Normally, sanction/rejection will be communicated within 15 days of receipt of duly completed application with supporting documents in the Bank.
- (3) In the normal course, while appraising the loan, the future income prospect of the student will be looked into. **A well laid appraisal procedure will ensure that the decision to sanction an education loan is based on sound commercial logic, besides serving a noble social cause.**
- (4) Rejection of loan application, if any, shall be done with the concurrence of the next higher authority and conveyed to the student stating reason for rejection.
- (5) Students may submit their loan applications either at the bank branches near to the present / permanent residence of parents / guardian or near to the Education institution. Banks are, however, free to adopt different norms to suit their business plans.
- (6) The loan to be disbursed in stages as per the requirement/ demand directly to the Institutions/ Vendors of equipments / instruments to the extent possible.
- (7) If the student /parent / guardian has no credit history they are assumed to be creditworthy. However, in case of an adverse credit history, banks at their discretion may frame a suitable criteria based on their risk appetite.
- (8) Banks to mandatorily report details of all Education loan to Credit Information Companies (CICs) In case of studies abroad, disbursement may be made before issuance of VISA at the Bank's discretion.

Note:

1. If, due to lack of access to internet facility, any application is received in physical form, the same is also to be uploaded on VLP immediately after sanction.
2. The sanction as well as rejection (with reasons) should also be reported by the bank concerned on the VLP portal.

12. REPAYMENT

- (1) Repayment Holiday / Moratorium: Course period + 1 year.
- (2) Repayment of the loan will be in equated monthly instalments for a period of 15 years for all categories (excluding course and moratorium period).
- (3) 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:-

1. Banks at its discretion may provide 1% interest concession if interest is serviced during the study period and subsequent moratorium period prior to commencement of repayment. However, the Subvention provided by Government should not be a cause for providing 1% concession in rate of interest.
2. 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 want to set up start-up units by giving moratorium on repayment of principal and interest during incubation period which may be considered up to 2 years. A suitable undertaking/ declaration to be obtained from applicants in this regard.
3. 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. A suitable undertaking/ declaration to be obtained from applicants in this regard. 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.
4. No prepayment penalty will be levied for prepayment of loan any time during the repayment period.

13. INSURANCE

Banks may make it mandatory to arrange for life insurance policy / credit life insurance policy / Personal Accident Insurance scheme on the students availing Education Loan. Individual Banks may work out the modalities with insurance companies.

14. FOLLOW UP / MONITORING

Students to submit progress report at regular intervals. In case of studies abroad, student to submit the Social Security Number (SSN) / Unique Identification Number (UIN) / Identity Card and banks to note the same in records. The Aadhaar number issued by UIDAI may also be captured in bank's system as and when available.

Student to submit the employment details after the completion of the course.

15. CHARGES

Vidya Laxmi Enrolment charges to be borne by the student (Rs.100 + GST, subject to change).

Bank Charges/Fees

Loan Amount	Processing Fee
Upto ₹ 7.5 lakhs	NIL
Above ₹ 7.5 lakhs	Banks discretion

(However, in case the bank levies processing fees for considering loans upto ₹ 7.5 lakhs, the same should be refunded / adjusted in the loan account on availment of first disbursement.).

Note: However, the student applicant may be required to pay fee /charges, if any levied by third party service providers.

16. 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.)

17. OTHER CONDITIONS:

17.1 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.

17.2 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.

17.3 Top up loans

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

17.4 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 spouse or the parent(s)/parents-in-law.

17.5 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.

Indian Banks' Association
No. RB/ELS/9623

February 15, 2021

The Chairman / Managing Director and Chief Executives of All Member Banks

Dear Sir /Madam,

IBA Model Educational Loan Scheme for Pursuing Higher Education in India and Abroad, 2021

In 2000, pursuant to the Finance Minister's meeting with the Chief Executives of public sector banks, IBA had constituted a Study Group to examine the role of commercial banks in facilitating pursuit of higher education. Based on recommendations made by the Study Group, IBA had prepared a Model Educational Loan Scheme in the year 2001, which has been modified from time to time. The scheme was last modified in the year 2015 based on experience gained in the implementation/operation of the scheme over the years.

In October 2018, a review exercise was taken up w.r.t. the following aspects:

1. Incorporate the changes in the scheme keeping in view the operational difficulties and updation made in Central Sector Interest Subsidy Scheme (CSIS) as revised – applicable w.e.f. April 01, 2018;
2. To make the scheme more transparent for students;
3. To minimize scope for multiple interpretations leading to disputes.

Accordingly, IBA constituted a Working Group to undertake the task of modifying the Educational Loan Scheme and prepare a structure/format of revised Educational Loan Scheme. The working group had a series of meetings and after detailed deliberations, finalized the revised scheme. The revised model scheme was approved by the DFS.

The revised Model Educational Loan Scheme with proposed changes by the DFS was approved by the IBA Managing Committee in its meeting held on January 15, 2021, for adoption and implementation by the member banks.

Further, since the scheme is a model scheme, Banks may adopt their board approved policy for risk mitigation with regard to individual colleges and courses, etc.

The revised IBA Model Educational Loan Scheme for Pursuing Higher Education in India and Abroad, 2021 is enclosed for your necessary action.

Yours faithfully,

D K Malhotra
Senior Advisor

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Encl: A/a