Chapter No. 03:

Need and Importance of Education Loan.

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Introduction:

Education has continued to evolve, diversify and extend its reach and coverage since the dawn of human history. Every country develops its system of education to express and promote its unique socio-cultural identity and also to meet the growing challenges with the changing times. There comes a time in history when a new direction has to be given to revitalize an age-old process. Education is essential for all and is fundamental to their all round development, material and spiritual. 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, 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 along with certain modifications suggested by the Government of India. 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. 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.

Students’ loan programmes now exist in many developed and developing countries. Examples of student loan programmes which are financed from public funds or backed by government guarantees, were found in Japan, Scandinavia and the U.S.A., where the idea of students borrowing from government funds to finance higher education dares from the 1940s and 1950s. Other developed countries set up loan programmes in the 1960s, including Canada and several European countries. The first developing country to establish a student loan programme
was *Colombia* and it was followed by many other student loan programmes in Latin America in the 1950s and 1960s. By early 1980s student loan programmes were established in Europe, North America, Latin America, the Caribbean, and few isolated examples in Africa and Asia. A review of international experience of student loan programmes found official loan programmes that are run by government agencies or backed by government guarantees in more than thirty countries. Loan have recently been proposed in several other countries, including the U.K., and New Zealand among developed countries, and Tanzania, South Africa, Kenya, Uganda among the developing countries.³

Just about 10 percent of the 16–23 age groups get higher education in India against 50 percent in developed countries. In countries like India a large number of students cannot join higher education, and after joining many of them discontinue their education because of lack of finance to meet the costs of education. The problem of finance, which prevails among a sizable section of students, is a serious issue. India in a Comparative perspective enrolment in higher education is only 9–11 percent in India as against 45–85 percent in the developed countries. About 35 percent of India’s population in the age group of 20–25 aspires for higher education.⁴
Role of Higher Education in Indian Economy:

Before the 1990s, India's higher education system had only loose ties to the economic development. In fact, the rapid growth of higher education in 1950s and 1960s had brought unemployment and a brain drain, economic problems that were unexpected and unwelcome. In more recent decades, however, higher education has engaged with and served the Indian economy in many ways. The human capital represented by the highly skilled workforce it has produced made significant contribution to India's service industry 1980-2000 and supports the country's increasingly important role in the global and knowledge economies. India's recent economic success is due to a large extent to educational investment. The social economic rate of return arguably underestimates the contribution of higher education. In other words, we need to review the contribution of higher education, especially to global and knowledge economies, which favor creativity and innovation. The brain drain, for example, was once viewed as an economic loss in India. However, Indians who left their country for overseas have, in the new world economy, often contributed to their country's growth in ways that were once unforeseen, including the development of IT expertise, industries, trade and markets for services.
**Emerging trends in Policy, Planning and Functioning of Higher education:**

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**Growth of Higher Education:**

Since independence, the number of colleges and universities has registered a significant hike. From 1950-51 to 2004-05, while the number of universities has increased at an annual compound growth rate of 4.9 per cent, the number of colleges has gone up from 578 to 17,625 showing a growth rate of 6.7 per cent per annum. During this period, enrolment in higher education has registered a steep hike, from around 0.174 million to 10.48 million. The gross enrolment ratio in higher education was 1 per cent in 1950-51 and it increased to 10 per cent in 2004-05. The number of teachers has also gone up from around 24,000 in 1950-
51 to 4,72,000 in 2004-05 (Selected Educational Statistics 2006-07). As on March 31, 2006, the country had 20 central universities, 217 state universities, 102 deemed to be universities, 10 private universities, 13 institutions of national importance and five institutions established under the State Legislature Act (UGC 2006). Thus, the Indian higher education system is the largest in the world in terms of the number of institutions. The number of institutions in India is more than four times the total number of institutions both in the US and Europe.\(^6\)

**Priority Sector Bank Finance:**

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. Priority Sector includes - Agriculture, Micro and Small Enterprises, Education, Housing, Export Credit, Others. Loans to individuals for educational purposes including vocational courses up to Rs.10 lakh for studies in India and Rs. 20 lakh for studies abroad are included under priority sector.

Making loans accessible to a wide section of students has been one of the priority areas of the Government of India. Today around 20 lakh students all over India are
enjoying benefits of educational loans worth Rs. 18,000 crores, which have been disbursed to the needy students, according to the Finance Ministry. 40 per cent of total advances of the commercial banks are advanced to priority sectors like agriculture, small-scale industry etc. Educational loans also form a part of these priority sector advances of public sector banks, as higher education has gained significance all across the world in the knowledge era and in these times of globalization.

**Loans and Advances:**

The term ‘loan’ refers to the amount borrowed by one person from another. The amount is in the nature of loan and refers to the sum paid to the borrower. Thus from the view point of borrower, it is ‘borrowing’ and from the view point of bank, it is ‘lending’. Loan may be regarded as ‘credit’ granted where the money is disbursed and its recovery is made on a later date. It is a debt for the borrower. While granting loans, credit is given for a definite purpose and for a predetermined period. Interest is charged on the loan at agreed rate and intervals of payment. ‘Advance’ on the other hand, is a ‘credit facility’ granted by the bank. Banks grant advances largely for short-term purposes. There is a sense of debt in loan, whereas an advance is a facility being availed of by the borrower. However, like loans, advances are also to be repaid. Thus a credit facility- repayable in installments over a period is
termed as loan while a credit facility repayable within one year may be known as advances.

Loans and advances granted by commercial banks are highly beneficial to individuals, firms, companies and industrial concerns. The growth and diversification of business activities are effected to a large extent through bank financing. Loans and advances granted by banks help in meeting short-term and long term financial needs of business enterprises. Loans and advances from banks are found to be ‘economical’ for individuals, traders and businessmen, because banks charge a reasonable rate of interest on such loans/advances. For loans from money lenders, the rate of interest charged is very high. The interest charged by commercial banks is regulated by the Reserve Bank of India. Banks generally do not interfere with the use, management and control of the borrowed money. But it takes care to ensure that the money lent is used only for purposes which are demanded for. Bank loans and advances are found to be convenient as far as its repayment is concerned. This facilitates planning for future and timely repayment of loans. Otherwise business activities would have come to a halt. Loans and advances by banks generally carry element of secrecy with it. Banks are duty-bound to maintain secrecy of their transactions with the customers. This enhances people’s faith in the banking system.
Financing of Higher Education in India:

The main sources of finance of Indian Higher education is the government and the private that includes household, firms, community, charitable trusts etc. The long term trends in financing show that higher education is increasingly becoming a state funded activity with about three-quarters of the total expenditure being borne by the government. However, on account of several factors including the new economic policies adopted since the 1990s, state funding to education in general and higher education in particular, has been declining in real terms. Further, the mushroom growth of private institutions, particularly in areas of management, engineering, computers, etc, have raised the issues of access, equity, quality and regulation.\(^9\)

Student Financing for Education:

Student loan financing is not a new phenomenon in India. Just after independence, a scheme of student loans was started under which educational loans were advanced to displaced students from East and West Pakistan through the Social Welfare and Rehabilitation Directorate, New Delhi. Another such scheme was the interest-free scheme of educational loans i.e. National Loan Scholarship Scheme introduced long back in 1963. This National Loan Scholarship Scheme was run through the state governments. Under this scheme, interest free loans were provided to meritorious students for pursuing post-Matric
education. But the scheme had to be stopped in the year 1991 due to bad recovery of loans and economic crisis facing Government of India at that time. The rate of return of this government-sponsored Indian scheme of educational loans was minimal (merely 6%) and it had to be discontinued. Indian experience is not different from the world. During the period 1977-78 and 1990-91, the recovery rate of student loans varied between 8 percent and 15 percent for India as a whole. The rate of recovery across states varied with less than one percent in Assam to 50 percent in Tripura in the year 1987-88; while the overall average stood at 6 percent for India during the same year.¹⁰

Almost in all the countries the state supported education loan schemes were plagued with bad recovery of loans and were stopped under the times of financial stringency. Consequently, the higher education sector witnessed cut in subsidies and increase in the user-charges. The points in time may differ but story remains the same. Accordingly, new differed-payment-arrangements were offered with the motive of better rate of recovery. Hence, one of the central theoretical and practical rationales for loan programs is to diversify sources of funding for higher education. Most loans are used not for institutional funding, but to limit the government burden for student maintenance. In case of Chile, Colombia, Indonesia, Australia, Queba, Japan and U.S.A., the loan scheme is coupled with rising fees in public universities to cushion the
impact of cost-recovery in these public universities. In these seven countries, with some of the highest cost-recovery in the world, governments recover only between 2 per cent (Colombia) and 14 per cent (Queba) of instructional costs from the loan recipients.¹¹

The Government of India introduced Education Loan Scheme through the commercial banks of India for the purpose of completing post-matriculation education. Despite the fact that the current scheme offers no subsidy, about 7 lakh students took out educational loans in 2009 compared with just a few thousand in 2001. From the early 2000, the banking sector's education loan portfolio has been growing at a robust rate of 40 percent a year. Faced with a bulging middle class and large section of population living below poverty line, the scheme needs to be softer. Presently, the Ministry of Human Resource Development (MHRD) is working out to provide educational loans to the needy with annual family income below 2.5 lakh at a subsidized rate of interest of 4 per cent (current rate being around 12%). And the Government of India would act as the guarantor for the loan and so there will be no need for any collateral or co-applicant.¹²

The government has pledged to rise public spending on education to 6 per cent Gross Domestic Product (GDP). For accelerating public expenditure, the Central Budget 2004 introduced a cess of 2 per cent on major central taxes/duties for elementary education and Budget 2007 a cess of 1 per cent for secondary and higher education. In the Eleventh Plan, the Central Government envisages an outlay of about Rs 2.70 lakh crore at current price (Rs 2.37 lakh crore at 2006-2007 prices) for education. This is a four-fold increase over the Tenth Plan allocation of Rs 0.54 lakh crore at 2006-2007 prices. The share of education in the total plan outlay will correspondingly increase from 7.7 per cent to 19.4 per cent. Around 50 per cent of Eleventh Plan outlay is for elementary education and literacy, 20 per cent for secondary education, and 30 per cent for higher education.\(^\text{13}\)

Costs of Education:

Higher education has become very expensive in India. Varied fee structures are followed by different educational institutions. Moreover, the expenditure on non-fee components of education has been increasing at a much faster rate. Poor accessibility of higher education to a sizable section of the Indian society has become a serious issue. In view of this trend, a proper student aid policy needs to be formulated. A large section of students may get an
opportunity for education in private and government colleges if a liberal loan facility is available to the persons being included in the under-privileged students’ category. In this context, it is important to enhance the use of educational loan within an appropriate framework of inclusiveness, as a non-government source of finance.

Estimates on unit costs of education are extremely useful in investment decision making in education. But they have been rarely used in planning in education, including in forecasting of resource requirements, budgeting, allocation of resources to education in India. Expenditure per pupil has increased by several times in the post-independence period. But it is clear that it has increased significantly only in current prices and the real increase has been either not significant or negative. As no systematic methods have been used elaborately to estimate non-recurring cost per pupil, no reliable estimates are available or non-recurring cost. Ignoring the non-recurring costs and confining to recurring costs, it can be noted that increase in cost per pupil is confined to tiny segments of the education sector. While the cost per pupil is the highest in universities and other institutions of higher education including research institutions, institutions of national importance and institutions deemed to be universities, cost of college education is not that high.
Lending Policies of Commercial Banks:

The main business of a bank is to grant loans and advances to needy persons. The most important use of bank money is lending. Yet, there are risks in lending. So the banks follow certain principles to minimize the risk:

- **Safety:** Normally the banker uses the money of depositors in granting loans and advances. So first of all initially the banker while granting loans should think first of the safety of depositor’s money. The purpose behind the safety is to see the financial position of the borrower whether he can pay the debt as well as interest easily.

- **Liquidity:** It is a legal duty of a banker to pay on demand the total deposited money to the depositor. So the banker has to keep certain percent cash of the total deposits on hand. Moreover the bank grants loan. It is also for the addition of short term or productive capital. Such type of lending is recovered on demand.

- **Profitability:** Commercial banking is profit earning institutes. Nationalized banks are also not an exception. They should have planning of deposits in a profitability way pay more interest to the depositors and more salary to the employees. Moreover the banker can also incur business cost and can give more benefits to customer.
• **Purpose of Loan:** Banks never lend or advance for any type of purpose. The banks grant loans and advances for the safety of its wealth, and certainty of recovery of loan and the bank lends only for productive purposes. For example, the bank gives such loan for the requirement for unproductive purposes.

• **Principle of Diversification of Risks:** While lending loans or advances the banks normally keep such securities and assets as a supports so that lending may be safe and secured. Suppose, any particular state is hit by disasters but the bank shall get benefits from the lending to another states units. Thus, the effect on the entire business of banking is reduced.

**Education Loan:**

The original scheme of educational loans i.e. National Loan Scholarship Scheme was initiated in India in the year 1963 and it continued till 1991. This government sponsored National Loan Scholarship Scheme proved to be a failure when assessed in terms of recovery of loans. Moreover, the economic crisis facing Government of India in the early nineties necessitated the winding up of the scheme. Hence, it was dropped in the beginning of the nineties. At the same time, it was realized that a similar type of educational loan scheme was required to cushion the impact of rising user-charges in India. Accordingly, a
new scheme of education loans, namely, Education Loan Scheme, was started. The main tenet of the scheme was its economic viability.

1. **Education Loan for study in India:** Money should not be hurdle to fulfill your dreams of getting quality education. With so many students applying for entrance exams, not all students get admission in free colleges. A fee in private colleges are very high but with education loan available from so many banks in India, solves the money problem to get admission in good colleges.

2. **Education Loan for study abroad:** Thousands of Indian students dream of studying abroad in the world highly ranked universities. One of the most prominent hurdles in doing so is huge tuition fee in foreign universities and colleges. Students in India can overcome this hurdle by applying for the education loans in the Indian banks. Indian banks offer education loans for studying abroad which include travel, tuition fee and other related expenses on easy terms.
**Banks List for Education Loan:**

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<td>Federal Bank</td>
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<td>Bank of Maharashtra</td>
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<tr>
<td>Catholic Syrian Bank</td>
<td>Oriental Bank of Commerce</td>
<td>Vysya Bank</td>
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**Nature, Objectives and Scope of Student Loan Scheme:**

Government of India in consultation with Reserve Bank of India (RBI) and Indian Banker's Association (IBA) has framed a Comprehensive Educational Loan Scheme to ensure that no deserving student in the Country is deprived of higher education for want of finances. The new scheme covers all type of courses including professional courses in schools and colleges in India and abroad. The Salient features of the scheme are as under:\textsuperscript{15}

- The scheme envisages loans up to Rs.7.5 lakh for studies in India and up to Rs. 15 lakh for studies abroad.
- For loans up to Rs. 4 lakh no collateral or margin is required and the interest rate is not to exceed the Prime Lending Rates (PLR). For loans above Rs. 4 lakh the interest rate will not exceed PLR plus 1 percent.
- The loans are to be repaid over a period of 5 to 7 years with provision of grace period of one year after completion of studies.

The Educational Loan Scheme outlined 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

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conditions. No deserving student is denied an opportunity to pursue higher education for want of financial support.

Of late, educational loan is very popular among students because of its simple and appealing logic, despite its inherent weaknesses. It is argued that in order to safeguard the poor students from the rising costs of higher education (both tuition fee and maintenance cost), a number of countries in the developing and developed world have established student loan programmes. Student loans are currently in operation in more than 80 countries around the globe. However, cost recovery cannot be implemented equitably without scholarship programmes that should guarantee necessary financial support to academically qualified poor students.

Further, imperfection in capital markets related to the lack of collateral security for education investments restricts the ability of poor students to borrow for education. In India, there was an interest free National Loan Scholarship programmes financed by the central government to help the poor and meritorious students in higher education. The recovery rate of this scheme was either extremely low or nil and the scheme is no more in operation. Following the wave of changes around the world, the present Educational Loan Scheme through banks has become more popular. Government of India in consultation with RBI and Indian Bankers’ Association framed a comprehensive loan scheme
in 2001 and revised it in 2004-05. At present all the public sector banks and other private banks have introduced different types of attractive student loan schemes. The scheme covers a wide range of courses in higher studies from post-matric to higher studies, both in India and abroad. However, to bring in uniformity and enlarge the scope of student loan scheme of all commercial banks, a model student loan scheme has been adopted by all commercial banks. Student loans cover tuition fees, hostel fees, library charges, administrative charges, travel expenses, purchase of books/equipment/uniform etc. The amount of educational loans varies with different banks. Generally, the maximum limit granted is up to Rs 10 lakhs for studying inside the country and a maximum of Rs 20 lakhs for studying abroad. Loans are given on interest rates ranging from 10.5 to 15 percent per annum. Some banks also give a choice between fixed and floating interest rates. Some banks charge interest on a daily or monthly basis reducing the balance which works in favour of the borrower. Management students are among the top choices for most banks. Technology students from the country’s premier institutions, medical and engineering college students can get student loans from banks on priority basis.
Eligibility Criteria for Education Loan:

**Student Eligibility:**

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

**Courses Eligible:**

**a. Studies in India:**

- Graduation courses: B.A., 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.

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.
- 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.

**Appraisal / Sanction/ Disbursement of Education:**
- 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.
Repayment of Loan:

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 Installments fixed. 1 per cent interest concession may be provided for loanees if the interest is serviced during the study.

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

g. **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.

h. **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.

i. **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. Period when repayment holiday is specified for interest/ repayment under the scheme.

**Funding Education without a Loan:**

There are other options like grants, scholarships and aids to pursue education besides taking a loan. Grants and scholarships from charitable institutions: Trusts and charitable institutions funded by corporate, religious organisations etc offer scholarships and grants to exceptional students in select areas of education and research, or because they belong to a certain religion. Most educational institutes award scholarships to the needy and deserving students. Philanthropists and alumni also donate money to help such students. If you meet the eligibility criteria, you can apply for such scholarships.

**Installment-free education loan:**

Government to consider installment-free education loan proposal, banks to lend without collaterals. The Planning Commission is considering a proposal wherein students, even graduates, can write-off their educational
loans by serving for a while in a government agency. This move, for which the details are yet to be finalized, has been made to check brain drain from the country. The Planning Commission may set up a National Student Loan Guarantee Corporation which will provide a guarantee to students of certified institutions who avail of a bank loan. The move will enable banks to lend without collaterals. According to the Reserve Bank of India data, there was a 51 per cent rise in education loans from Rs 9,962 crore at the end of March 2006 to over Rs 15,000 crore at the end of March 2007. Officials say that a mechanism for loan waiver from a private or a foreign bank, and points regarding tax treatment are yet to be framed.17

**Insurance Cover for Educational Loans:**

Banks like Andhra Bank and State Bank of Hyderabad will now offer educational loan products with insurance cover to make them more attractive for the customers and safer for themselves. The educational loans re-payment schedule may stretch up to nine years and the liability insurance shields the risk. In the event of any tragedy (death or incapacity), the loan repayment will be taken care of by the insurer. The bank has a tie-up with Life Insurance Corporation for the purpose. Though dependent on the loan amount and repayment schedule, the average premium amount works out to a little over Rs 1,000 per lakh per annum.
Eligible Courses for a loan:

The student are to know before apply for a loan.

- Check whether your course is eligible for a loan.
- Are you eligible for an education loan?
- How much loan can you get?
- What expenses does the loan cover?
- Do you have to provide collateral for the loan?
- Does your course qualify for a loan?
- Loans are available for educational courses within the country and abroad.

Bear in mind that banks usually offer loans for courses that are of duration of a year and above. The specific list of courses varies from bank to bank.

Studying in India:

- Most graduate, post-graduate and professional courses (engineering, medicine, veterinary, law, dentistry, management).
- Programmes like those of the Institute of Cost and Work Accountants of India, the Institute of Chartered Accountants of India, the Institute of Chartered Financial Analysts of India.
- Courses recognised by the University Grants Commission, the All India Council for Technical Education, the government, the AIBMS, and the Indian Council for Medical Research.
• Less conventional courses like biotechnology, fashion technology and aviation. Banks are usually flexible in approving and disbursing such loans.

• Not all the courses will be eligible for tax benefits on the interest repayment.

**Studying abroad**

• Undergraduate job-oriented professional/technical courses offered by reputed universities.

• Post-graduate courses like MCA, MBA, MS, etc

• Courses conducted by CIMA, London, CPA, USA, etc

• If you are an employed person and want to better your prospects, you can avail of a loan to get additional educational qualifications and/or receive training in modern technology in India/abroad.
Rate of Interest on Education Loan:

Table No. 3.01: Rate of Interest on Education Loan of Various Banks in India.

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Interest Rate Type</th>
<th>Rate of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI – India</td>
<td>Floating</td>
<td>11.25</td>
</tr>
<tr>
<td>Bank of Baroda - India</td>
<td>Floating</td>
<td>10</td>
</tr>
<tr>
<td>IDBI Bank – India</td>
<td>Floating</td>
<td>11.25</td>
</tr>
<tr>
<td>Allahabad Bank - India</td>
<td>Floating</td>
<td>11.25</td>
</tr>
<tr>
<td>HDFC Bank – India</td>
<td>Fixed</td>
<td>12 - 14</td>
</tr>
<tr>
<td>Andhra Bank - India</td>
<td>Fixed</td>
<td>11</td>
</tr>
<tr>
<td>Bank of India - India</td>
<td>Floating</td>
<td>9.5</td>
</tr>
<tr>
<td>Bank of Maharashtra - India</td>
<td>Floating</td>
<td>10.25</td>
</tr>
<tr>
<td>Canara Bank - India</td>
<td>Floating</td>
<td>11</td>
</tr>
<tr>
<td>Central Bank of India - India</td>
<td>Floating</td>
<td>10</td>
</tr>
<tr>
<td>Dena Bank – India</td>
<td>Floating</td>
<td>10</td>
</tr>
<tr>
<td>Federal Bank - India</td>
<td>Fixed</td>
<td>13.25</td>
</tr>
<tr>
<td>Indian Bank – India</td>
<td>Floating</td>
<td>12.5</td>
</tr>
<tr>
<td>Indian Overseas Bank - India</td>
<td>Fixed</td>
<td>10.25</td>
</tr>
<tr>
<td>Karnataka Bank - India</td>
<td>Fixed</td>
<td>12.25</td>
</tr>
<tr>
<td>Oriental Bank of Commerce - India</td>
<td>Floating</td>
<td>10.75</td>
</tr>
<tr>
<td>Punjab National Bank - India</td>
<td>Floating</td>
<td>10.5</td>
</tr>
<tr>
<td>State Bank of Mysore - India</td>
<td>Floating</td>
<td>11.25</td>
</tr>
<tr>
<td>UCO Bank – India</td>
<td>Floating</td>
<td>11.25</td>
</tr>
<tr>
<td>Union Bank of India - India</td>
<td>Fixed</td>
<td>11.75</td>
</tr>
<tr>
<td>Vijaya Bank – India</td>
<td>Floating</td>
<td>11</td>
</tr>
<tr>
<td>City Union Bank - India</td>
<td>Fixed</td>
<td>13.75</td>
</tr>
<tr>
<td>Punjab &amp; Sind Bank - India</td>
<td>Floating</td>
<td>12</td>
</tr>
</tbody>
</table>
### Education Loans for Studies in India and Abroad:

The sums of loans for studies in India and abroad, offered by banks are different; with up to a maximum of one million for studies in India and up to a maximum of two millions for studying in universities abroad. The repayment period roughly ranges between five and seven years. During the moratorium period / repayment holiday, simple interest is charged. However, banks give something like 1 per cent concession in interest rates, if interest is serviced during moratorium period. Only Indian nationals are eligible for education loan. Generally banks do not demand any collateral for loans up to rupees four lakh; but beyond this amount, collateral becomes essential. Most banks have explicitly specified that a student is eligible for loan approval only in case, where the course is recognized by the government or government agencies.

Many banks insist upon the mother or father becoming the co-borrower. Banks charge up to 2 per cent penal interest on delayed payments. Processing fee varies from 0 per cent to 0.5 per cent of the loan amount. Loans are extended to cover almost all expenses viz., tuition fee, hostel fee, library fee, books, equipments, laptops, caution.

<table>
<thead>
<tr>
<th>Bank</th>
<th>Type</th>
<th>Rate 1</th>
<th>Rate 2</th>
<th>Rate 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Syndicate Bank - India</td>
<td>Floating</td>
<td>10</td>
<td>10</td>
<td>9.5</td>
</tr>
<tr>
<td>United Bank of India - India</td>
<td>Floating</td>
<td>10.25</td>
<td>11</td>
<td>NA</td>
</tr>
<tr>
<td>Corporation Bank - India</td>
<td>Fixed</td>
<td>11</td>
<td>12</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: [http://www.apnaloan.com](http://www.apnaloan.com)
deposits, building fund etc. required for completion of study. Disbursement of loan can be in full or in installments; so as to match the demands stated by the respective educational institution. Normally, the loan amount cannot be below rupees fifty thousand. Margin money requirement of the bank can vary from 5 per cent for studies in India to around 15 per cent for studies in universities abroad.

Central Government Interest Subsidy Scheme for Economically Weaker Section for Education Loans:

Government of India, Ministry of HRD vide letter no. F.11-4/2010 – U.5 (i) dated 25th May 2010 have formulated a scheme to provide full interest subsidy during the period of moratorium i.e. Course Period plus one year or six months after getting job, whichever is earlier. This scheme is available for loans taken by students belonging to economically weaker sections where annual parental income from all sources is up to & inclusive of 4.5 lakhs under the IBA approved Model Educational Loan Scheme, for pursuing any of the approved courses of studies in technical and professional streams, from recognized institutions in India.18

Salient Features of the Scheme:

The Scheme is applicable to all students satisfying the eligibility criteria of the IBA approved Model Educational Loan Scheme, subject to complying with the conditions of
the Interest Subsidy Scheme. The Scheme is applicable only for studies in India and is available to Educational Loans up to and inclusive of 10 lakhs.

- The interest payable by the student belonging to economically weaker sections and satisfying the eligibility criteria of the scheme, during the period of moratorium on the amount of disbursements made on or after April 1, 2009 will be borne by the Government of India.

- The interest subsidy under the scheme shall be available to the eligible students only once for under graduate course or the post graduate degree /diploma course in India. Integrated courses (combined graduate plus post graduate) would also be considered under the scheme.

- Interest subsidy under this scheme shall not be available to the students who discontinue the course midstream, or who are expelled from the Institutions on disciplinary or academic grounds. Interest subsidy is permitted, in case of discontinuation due to medical grounds for which necessary documentation to the satisfaction of the Head of educational institution is submitted.

- State Government has designated appropriate authority or authorities who are competent to issue
Income certificate, based on economic index and not social background, for the purpose of this scheme.

- Interest rates charged on the loan shall be as per interest rates applicable under our Education Loan Scheme.

- List of accredited universities/institutions and recognized professional courses which are administered by the Ministry of Tourism and are eligible for Interest Subsidy Scheme are updated on our website.

**Banking Sector’s Education Loan Portfolio:**

Almost after gap of a decade, the Government of India introduced Education Loan Scheme through the commercial banks for the purpose of completing post-matriculation education. Despite the fact that the current scheme offers no subsidy, about 7 lakh students took out educational loans in 2009 compared with just a few thousand in 2001. From the early 2000, the banking sector’s education loan portfolio has been growing at a robust rate of 40 per cent a year. Faced with a bulging middle class and large section of population living below poverty line, the scheme needs to be softer. Presently, the Ministry of Human Resource Development (MHRD) is working out to provide educational loans to the needy with annual family income below Rs. 2.5
lakh at a subsidized rate of interest of four per cent (current rate being around 12%) and the Government of India would act as the guarantor for the loan and so there will be no need for any collateral or co-applicant.19

**Advantage and Disadvantages of Educational Loan:**

The banks are provide a good service for the society by providing educational loan for the student who unable to continue their higher education due to lack of cash. There is a good advantage for availing the bank loan, besides there is some disadvantage too. Some time the borrower may not able to repay the payment in the period. Or they may not get sufficient salary as they expected. This may lead to brake in the repayment and thus may lead to the suicide of the borrower. So always take an extra care before take any educational loan from any bank. And also should search for the better offer and analyze before availing the loan. The following are advantages and disadvantages of education loan.

**Advantage:**

The major purpose of educational loan is to accompanying assistance for the student to complete their education. The major important benefits of educational loan are that the interest rate is less than that of the other types of loan. So the people can choose the educational loan for the purpose of study. The other advantage of educational loan is which is needed to repaying only after the
completion of the study. The other benefits of the educational loan are that it can help the student without cash to study his ambitious course and to fulfill his dream. The educational loan not only covered with tuition fees but also covered with the entire expense that is needed to fulfill the higher education. The other benefits of educational loan are that it helps to get reduction in tax payment. The borrower can claim the interest from the tax. The deduction only includes the interest rate and not the principle amount. The educational loan thus creates so many advantages.

Middle-income people may also have more trouble paying for college than their high income counterparts, because their parents lack the resources of high-income parents. Children from middle-income families make too much money to qualify for student aid packages, but they do not have the financial means to cover the costs of college. Young adults from middle income families may therefore suffer a disproportional burden of student loan debt compared to their low- and high-income peers.

**Dis-advantage:**

The above factors depict the advantage of the educational loan, even though there is some disadvantage are also for the educational loan. The banks are providing very good help for the student by giving educational loan. Any how one think is that the bank given the educational
loan for the student is not only for the service but also for increasing their margin. So they make some hidden rule for this. That may not be disclosing at the time of taking of educational loan. The banks are providing very good features for the educational loan to attract the people to their educational facility. It may not be fulfill after availing the loan. The students have a chance of trapped in the web of unsuitable educational loan due to the improper knowledge and also the lack of understanding in the educational loan procedure. To avoid this student should have analyzed the best educational loan for the study. In case of failing in the repayment of educational loan, the bank will create utter pressure in the head of the borrower. This may lead to the suicide of the borrower. Sometimes bank may not give the educational loan easily, they will disturb the applicant for various certificates. The bank may not disclose some late fine and other fine at the time of availing educational loan. The banks are creating some hidden rule to enlarge their benefits through providing educational loan. Due to complexity it is not at all easy for the normal people to understand about it.

**Problems in Education Finance:**

The major problem that has plagued the finances of most of the student loan programs has been the failure of many students to repay their debt. Default on the part of the students can be divided into two parts:

1. Students who cannot pay, and
2. Students who evade payments.

Appropriate arrangements need to be made for checking the deliberate evasion from repayment of loan. Therefore, choosing an appropriate collection institution is central to effective recovery. Banks and tax systems have the necessary infrastructure to collect repayments. Non-payment was merely 5 per cent in case of Honduras, where private agencies were used to locate students and collect money. ICETEX in Colombia passes on additional charges for such services to the students. As a result, students now are reluctant to default on their loan in Colombia. *The lowest loan default states have been in Sweden, Hong Kong and Quebec, where students are exempted from payment (while still accruing interest charges) when a graduate’s income falls below a threshold level.* Same is the case in U.K, where students have to submit proof that their income is below the threshold level. In Ghana, each borrowing student must have two guarantors who are wage earners (and thus traceable by the government) in order to avail the loan facility. The French government has proposed a student’s loan program that would require student to make small payments each year even while they are borrowing (a way to remind them of their loan obligation).\(^{20}\) If a student fails to make any payment, the loan is cut off. The present scheme of educational loans in India- Education Loan Scheme - is not much different from such schemes offered in other countries as all aim at full/near-full recovery of loans. In recent years, student loan borrowing and default rates have
risen notably, leading to concern about the public financial risks associated with loan defaults and the financial challenges faced by many students. These trends juxtapose with a sizable and increasing public investment in post secondary education.

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