CHAPTER II
EDUCATION LOAN SCHEMES

2.1 INTRODUCTION:

Higher Education is essential to have a sustainable social, economic and political development of a society. Investment in Higher education makes a vital contribution to accelerate the process and the rate of economic growth through human productivity. During the last five decades there has been a sharp increase in the number of Universities and Colleges offering general and technical education in India. The strong wave of globalization and internationalization of higher education has led to reinforce and develop a strong and vibrant education system in the country. India is transforming into a Knowledge Super Power country. Hence, higher education is one of the priority sectors and thus funding of the same is necessary. The total expenditure on higher education increased remarkably during the post independence period. However, gradually there was a decrease in the same. On the contrary, India has emerged as one of the largest system of higher education providers in the world. Higher education in India is already a global business. It has become in many ways a commercialized affair and the funding support from the Government has been diminishing. This has therefore compelled the Universities and Institutions of Higher education to make significant increase in the fee levels in the recent years, with subsequent introduction of various kinds of fees. In many Universities and institutions, fee increases have
been erratic and unsystematic, with substantial increases in the fees of various types. The whole new revolution of education providers includes private institutions, distance education providers, self-financing courses in public institutions and foreign education providers. The growth of students enrolling for professional courses is also increasing by the day. But the spiraling cost of education deprives many a needy students to attain the desired educational excellence. Thus the Government has called upon the Banks to provide educational loans to facilitate the poor and needy students to pursue higher education.

2.1.1 MODEL EDUCATIONAL LOAN SCHEME:

The role of commercial banks in facilitating poor but meritorious students desirous of pursuing higher education had been highlighted by the Finance Minister in a meeting with the Chief Executives of the public sector banks on 13th June, 2000. Accordingly, in the year 2000, a study group was constituted under the chairmanship of Shri R. J. Kamath, Chairman and Managing Director of Canara Bank to examine and study the issue of providing financial support to needy students who wish to pursue higher education. Based on the recommendations of the Study Group, a comprehensive ‘Model Educational Loan Scheme’ was prepared by the Indian Bank’s Association. The Finance Minister after meeting the heads of the Commercial Banks on 7th April 2001, formally announced the scheme in 2001. The scheme 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. The Scheme aims at providing financial support from the banking system to deserving/meritorious students for pursuing higher education in India and abroad.

2.1.2 NEED FOR THE SCHEME:

The scope of education has widened both in India and abroad covering new courses in diversified areas. Knowledge and information are the driving force for economic growth of a country. 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. 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. Loans for education are seen as an investment for economic development and prosperity.

2.1.3 OBJECTIVES OF THE SCHEME:

The Educational Loan Scheme 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.¹
In short, the scheme aims at providing financial assistance on reasonable terms to the poor and needy to undertake basic education and to the meritorious students to pursue higher/professional/technical education.

2.2 RBI GUIDELINES PROVIDED WITH RESPECT TO THE MODEL EDUCATION LOAN SCHEME:

The Model Educational Loan Scheme introduced by Reserve Bank of India could be adopted by all Commercial Banks. The scheme provides broad guidelines to the banks for operationalising the educational loan scheme. The implementing bank will have the discretion to make changes suiting to the convenience of the students/parents in order to make it more customer friendly.

2.2.1 THE GUIDELINES PROVIDED COVER THE FOLLOWING AREAS:

1. APPLICABILITY OF THE SCHEME: The scheme provides details about how to implement the scheme so as to make it possible for Commercial Banks to make their operations easy and prompt and serve the basic purpose of providing higher education opportunities to the needy students.

2. ELIGIBILITY CRITERIA: The Courses mentioned in the scheme are pertaining to studies in India and studies abroad. The courses include school/graduate and post graduate studies both in India and abroad.
3. QUANTUM OF FINANCE: The guidelines provides for details of the amount of loan to be sanctioned. It also mentions the margin money requirements and the ceilings thereof.

4. SECURITY: The scheme also details out on the collaterals to be accepted by the banks. As also, it also mentions as to whether to support meritorious students without collaterals.

5. RATE OF INTEREST: The details related to the rate of interest to be charged during the repayment holiday/moratorium period and later are clearly mentioned in the scheme.

6. APPRAISAL/SANCTION/DISBURSEMENT: The basis on which the loan application would be appraised and the sanctioned thereof is outlined in the scheme. Also, guidelines related to disbursement of loan amount in total or in stages are provided.

7. REPAYMENT: This provides for the period within which the loan could be repaid, along with the guidelines on accrued interest on loans and or any concessions for loanees if interest is paid during the moratorium period.

8. FOLLOW-UP: The procedure which helps to keep a track of the students who have availed loans is provided briefly in the scheme.

9. PROCESSING CHARGES: The rules related to charging processing fees on educational loans is outlined in the scheme.

10. CAPABILITY CERTIFICATE: The powers to a bank to issue capability certificate to students going abroad is mentioned in the scheme.
11. OTHER CONDITIONS: In addition to the above guidelines, the scheme also details out other conditions relating to ‘no due’ certificate and the time period for disposal of loan applications.

2.3 DETAILS OF EDUCATIONAL LOAN SCHEME:
During the year 2001-2002, Reserve Bank of India introduced Model Education Loan Scheme prepared by Indian Banks Association to be implemented by the Commercial Banks. The RBI circular No.RPCD.PLNFS.BC.NO.83/06.12.05/2000-01 dated April 28, 2001, provided broad guidelines to the commercial banks for operationalising the scheme successfully. However, 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 Indian Banks Association (IBA) in the year 2004-05. The following guidelines (inclusive of changes as per guidelines issued in 2004-2005) issued by RBI are as under:

1. ELIGIBILITY CRITERIA:
   A student pursuing education loan
   a. Should be an Indian National.
   b. Secured admission to professional/ technical courses in India or abroad through Entrance Test/ Merit Based Selection process.

2. COURSES ELIGIBLE:
   A student can avail educational loan for studies in India as well as for studying abroad too.
The courses eligible for studies in India are as under (Indicative List):

a) Graduation courses: BA, B.Com., B.Sc., etc.

b) Post Graduation courses: Masters & PhD

c) Professional courses: Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer etc.

d) Computer certificate courses of reputed institutes accredited to Dept. of Electronics or institutes affiliated to university.

e) Courses like ICWA, CA, CFA etc.

f) Courses conducted by IIM, IIT, IISc, XLRI, NIFT etc.

g) 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.

h) Courses offered in India by reputed foreign universities.

i) Evening courses of approved institutes.

j) Other courses leading to diploma/ degree etc. conducted by colleges/universities approved by UGC/ Govt./ AICTE/ ICMR etc

k) 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.

l) 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.

The courses eligible for studies abroad are as under (Indicative List):

a) Graduation: For job oriented professional/ technical.

b) Courses offered by reputed universities.

c) Post graduation: MCA, MBA, MS, etc.

d) Courses conducted by CIMA- London, CPA in USA etc.

3. EXPENSES CONSIDERED FOR LOAN:

The fees/expenses considered for educational loan includes the following:

a) Fee payable to college/ school/ hostel.

b) Examination/ Library/ Laboratory fee.

c) Purchase of books/ equipments/ instruments/ uniforms.

d) 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.

e) Travel expenses/ passage money for studies abroad.

f) Purchase of computers - essential for completion of the course.

g) Insurance premium for student borrower.

h) Any other expense required to complete the course - like study tours, project work, thesis, etc.
4. QUANTUM OF FINANCE:

The quantum of finance available under educational loan is need based subject to repaying capacity of the parents/ students with margin and the following ceilings:

**Model Education loan scheme of 2001-2002:**

a) Studies in India - Maximum Rs.7.50 Lakhs.
b) Studies abroad - Maximum Rs.15 Lakhs.

**Revised Model education loan scheme of 2004-05:**

a) Studies in India - Maximum Rs.10 Lakhs.
b) Studies abroad - Maximum Rs.20 Lakhs.

The revised model education loan scheme of 2004-05 increased the limit of loan provided from Rs.7.50 Lakhs to Rs. 10 Lakhs for studies in India and from Rs.15 Lakhs to Rs.20 Lakhs for studies abroad respectively. Thus, now the needy students can get more loans to meet the higher education expenses.

5. MARGIN:

The margin money requirements as per 2001-2002 scheme is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 2 Lakhs</td>
<td>Nil</td>
</tr>
<tr>
<td>Above Rs. 2 Lakhs: Studies in India</td>
<td>15%</td>
</tr>
<tr>
<td>Studies Abroad</td>
<td>25%</td>
</tr>
</tbody>
</table>
The margin money requirements as per 2004-2005 revised scheme is as follows:

<table>
<thead>
<tr>
<th>Upto Rs. 4 Lakhs</th>
<th>Nil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs. 4 Lakhs: Studies in India</td>
<td>5%</td>
</tr>
<tr>
<td>Studies Abroad</td>
<td>15%</td>
</tr>
</tbody>
</table>

The margin money requirement criteria is based upon the loan amount limit. The revised model of education loan scheme of 2004-05 changed the margin money required to be brought in by the loanee vis-a-vis 2001-02 scheme. As per 2001-02 scheme, no margin money was required for a loan amount upto Rs. 2 Lakhs and for a loan amount above Rs.2 Lakhs, 15% margin money was required for studies in India and 25% margin money was required for studies abroad. Keeping in mind the objective of the education loan scheme, the revised scheme of 2004-05 increased the loan amount limit for providing margin money from Rs. 2 Lakhs to Rs. 4 Lakhs. Accordingly, now students can obtain more loan with reduced margin money requirement criteria i.e. no margin money is required to be brought in to obtain a loan upto Rs.4 Lakhs and to obtain a loan above Rs.4 Lakhs, 5% margin money is required for studies in India and 15% margin money is required for studies abroad.

The above margin money requirements also provide for following form of assistance:

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

6. SECURITY:

The scheme of 2001-2002 mentioned the following rules under
security criteria:

<table>
<thead>
<tr>
<th>Upto Rs. 2 Lakhs</th>
<th>No security.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs.2 Lakhs</td>
<td>Collateral security equal to 100% of the loan amount or guarantee of third person known to bank for 100% of the loan amount.</td>
</tr>
</tbody>
</table>

The revised scheme of 2004-2005 mentions the following rules under security criteria:

<table>
<thead>
<tr>
<th>Upto Rs. 4 Lakhs</th>
<th>Co-obligation of parents. No security.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs.4 Lakhs and upto Rs.7.5 Lakhs</td>
<td>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 &quot;joint borrower&quot;.</td>
</tr>
</tbody>
</table>

| 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 installments. |
The guidelines with respect to security provisions as per education loan scheme of 2001-02 were based upon the loan amount limit which were categorized into two parts i.e. loan amount upto Rs.2 Lakhs which did not require any security and loan amount above Rs.2 Lakhs which required a collateral security equal to 100% of the loan amount or guarantee of third person known to bank for 100% of the loan amount. The revised scheme of 2004-05 changed the loan amount limits from earlier categorization from two parts to three parts. Accordingly, the first category of loan amount upto Rs.4 Lakhs does not require any security but requires the parents to become co-obligators to the loan. The second category of loan amount above Rs.4 Lakhs to Rs.7.50 Lakhs requires collateral security in the form of suitable third party guarantee and also requires parents to become co-obligators to the loan. Also, the bank, at its discretion, may waive third party guarantee if satisfied with the net-worth / means of parent/s who would be executing the document as ‘joint borrower’. The third category of loan amount above Rs.7.50 Lakhs requires co-obligation of parents with tangible collateral security of suitable value, along with the assignment of future income of the student for payment of installments. The revised scheme, thus, requires more conditions to be fulfilled to obtain education loans to avoid the risks of non-repayment of loans thereof for the banks.
Following are the additional guidelines with reference to the security norms:

a) The loan documents should be executed by the student and the parent/guardian as joint-borrower.

b) The security can be in the form of land/building/ Govt. securities/ Public Sector Bonds/Units of Unit Trust of India, National Saving Certificates, and Kisan Vikas Patra, 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.

c) 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.

d) In case the loan is given for purchase of computer, the computer has to be hypothecated to the Bank.

7. RATE OF INTEREST:

The rate of interest instructed as per 2001-2002 scheme is as follows:

<table>
<thead>
<tr>
<th>Upto Rs. 2 Lakhs</th>
<th>Benchmark Prime Lending Rate (BPLR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs. 2 Lakhs</td>
<td>BPLR + 1%</td>
</tr>
</tbody>
</table>

The conditions associated to this criterion are:

a) The interest to be debited quarterly/half yearly on simple basis during the Repayment/Moratorium period.
b) Penal interest @2% be charged for above Rs.2 Lakhs for the overdue amount and overdue period.

The rate of interest instructed as per 2004-2005 revised scheme is as follows:

<table>
<thead>
<tr>
<th>Upto Rs. 4 Lakhs</th>
<th>BPLR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Rs. 4 Lakhs</td>
<td>BPLR + 1%</td>
</tr>
</tbody>
</table>

The conditions associated to this criterion are:

a) Simple interest to be charged during the Repayment holiday/Moratorium period.

b) Penal interest to be charged as applicable to individual banks.

The rate of interest criteria is also based upon the loan amount. The education loan scheme of 2001-02 instructed that the interest to be charged by the banks for loan amount upto Rs.2 Lakhs was the same as the ‘Benchmark Prime Lending Rate’ (BPLR) and that for a loan amount above Rs.2 Lakhs, it was BPLR plus 1%. Along with the rate of interest, other conditions were also laid viz. interest to be debited quarterly/half yearly on simple basis during the Repayment/Moratorium period and penal interest at the rate of 2% to be charged for above Rs.2 Lakhs for the overdue amount and overdue period. The revised scheme of 2004-05 increased the loan amount criteria from Rs.2 Lakhs to Rs.4 Lakhs. Accordingly, for a loan amount upto Rs.4 Lakhs, the
rate of interest is the same as the BPLR and for a loan amount above Rs.4 Lakhs, BPLR plus 1% is applicable as the rate of interest. Additional conditions viz. simple interest to be charged during the Repayment holiday/ Moratorium period and penal interest to be charged as applicable to individual banks are also laid by the revised scheme. Thus, the new scheme offers more amount of loan without changing the rate of interest applicable thereof.

8. APPRAISAL SANCTION DISBURSEMENT:

The norms for sanction/disbursement of education loan as per scheme of 2001-2002 are as follows:

a) The loan to be sanctioned as per delegation of powers preferably by the Branch nearest to the place of residence of parents.

b) No application for educational loan received should be rejected without the concurrence of the next higher authority.

c) 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.

In addition to the above, the revised scheme of 2004-2005 provided the following norm:

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.
9. REPAYMENT:

The following are the norms for repayment of loan:

<table>
<thead>
<tr>
<th>Repayment holiday/Moratorium</th>
<th>Course period + 1 year or 6 months after getting job, whichever is earlier.</th>
</tr>
</thead>
</table>

a) 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.

b) The accrued interest during the repayment holiday period to be added to the principal and repayment in Equated Monthly Installments (EMI) fixed.

c) 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.

10. INSURANCE:

This criterion was introduced in the revised model education loan scheme of 2004-2005. It provides for the following norm:

Banks may arrange for life insurance policy on the students availing Educational Loan. Individual Banks may work out the modalities with insurance companies.
11. FOLLOW-UP/TRACKING:
The method to keep a track of the students availing loan as per education loan scheme of 2001-2002 is as follows:
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.

The scheme of 2004-2005 added the following norm to the above:
In case of studies abroad, bank may obtain the Unique Identification Number (UIN)/Identity Card and note the same in the bank's records.

12. PROCESSING CHARGES:
The model education loan scheme clearly stated the rule towards processing charges as:
No processing/ upfront charges may be collected on educational loans for studies in India.

13. CAPABILITY CERTIFICATE:
The scheme provides the following guideline towards capability certificate:
Banks can 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.)

14. OTHER CONDITIONS:

In addition to the above conditions, the following miscellaneous conditions are also given in the scheme of 2001-2002:

a) 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.

b) 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.

c) 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.

In addition to the above miscellaneous guidelines, the revised scheme of 2004-05 provided the following instructions:

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

The above guidelines assist the banks to understand the method and rules for sanctioning and disbursement of educational loans to the students.
2.4 SCHEMES DESIGNED BY NATIONALIZED BANKS:

To understand and study the ‘Role of Nationalized Banks in supporting higher education through educational loans’ a sample of seven banks out of 28 nationalized banks have been selected. The sample includes the following seven banks under the proposed study:-

2. Bank of Baroda.
3. Bank of India.
4. Central Bank of India.
5. Dena Bank.
7. Union Bank of India.

2.4.1. DETAILS OF THE SCHEMES OF BANKS UNDER CONSIDERATION:

Following the guidelines provided by the ‘Model Education Loan Scheme’, the above seven banks have designed their educational loans by making changes in few criteria as per their convenience.

As per the Reserve Bank of India guidelines of 2004-2005, the following criteria for granting education loans are observed to be common in the seven banks (sample) under study:

1. ELIGIBILITY: A student applying for an education loan should:
   i. Be an Indian National
   ii. Has secured admission to professional or technical courses through an appropriate Entrance Test or selection process
iii. Has secured admission to a foreign University
iv. Has passed an appropriate qualifying examination

2. QUANTUM OF LOAN:

Need-based finance subject to repayment capacity of the parent or student with margin and upto the following ceilings are provided by the banks as under:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>For studies in India</td>
<td>Up to Rs. 10 Lakhs</td>
</tr>
<tr>
<td>For studies abroad</td>
<td>Up to Rs. 20 Lakhs</td>
</tr>
</tbody>
</table>

3. MARGIN MONEY:

The margin money requirements are as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs. 4 Lakhs</td>
<td>Nil</td>
</tr>
<tr>
<td>Above Rs. 4 Lakhs</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Studies in India</td>
</tr>
<tr>
<td></td>
<td>Studies Abroad 15%</td>
</tr>
</tbody>
</table>

4. REPAYMENT:

The norms for repayment are as follows:

| Repayment holiday/Moratorium | Course period + 1 year or 6 months after getting job, whichever is earlier. |
2.4.2 OTHER CRITERIA IMPLEMENTED BY SAMPLE BANKS:

Other criteria (Observed not to be common), implemented by sample banks for granting educational loan are provided in the table below:

1. PROCESSING FEES:

Processing fees charged by the banks include mainly the documentation expenses incurred by the bank. The processing fees charged by the sample banks are given in the following table:-
Table 2.1

**PROCESSING FEES CHARGED BY THE NATIONALIZED BANKS**

<table>
<thead>
<tr>
<th>Bank</th>
<th>Processing Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Maharashtra</td>
<td>Nil</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>Nil</td>
</tr>
<tr>
<td>Dena Bank</td>
<td>Nil</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>Nil</td>
</tr>
<tr>
<td>Bank of India</td>
<td><strong>For Studies in India</strong> – Nil</td>
</tr>
<tr>
<td></td>
<td><strong>For Studies abroad</strong>- Rs.1000 for issuance of sanction letter for obtention of VISA.</td>
</tr>
<tr>
<td></td>
<td><strong>Incase of change of institution:</strong></td>
</tr>
<tr>
<td></td>
<td>Studies in India – Rs.250.</td>
</tr>
<tr>
<td></td>
<td>Studies abroad- Rs.500.</td>
</tr>
<tr>
<td></td>
<td><strong>Xerox charges of agreement (copy to borrower):</strong></td>
</tr>
<tr>
<td></td>
<td>Loan upto Rs.2 Lakhs- Rs. 25/-*</td>
</tr>
<tr>
<td></td>
<td>Loan over Rs.2 Lakhs- Rs.100/-*</td>
</tr>
<tr>
<td></td>
<td>Plus copying charge of Rs.1 per page</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td><strong>For Studies in India</strong> – Nil</td>
</tr>
<tr>
<td></td>
<td><strong>For Studies abroad</strong>-1% charged upfront</td>
</tr>
<tr>
<td></td>
<td>(Amount refundable on availing loan).</td>
</tr>
<tr>
<td>State Bank of India</td>
<td><strong>For Studies in India</strong> – Nil</td>
</tr>
<tr>
<td></td>
<td><strong>For Studies abroad</strong>- Deposit of Rs. 5,000/-</td>
</tr>
<tr>
<td></td>
<td>(adjusted in the margin money)</td>
</tr>
</tbody>
</table>


From the Table 2.1, it is revealed that four banks viz. Bank of Maharashtra, Central Bank, Dena Bank and Union Bank do not charge
any processing fees for processing loan application for education loans. Bank of India charges Rs.1000 for issuance of sanction letter for obtaining VISA for studies abroad. Also Xerox of loan agreement charges of Rs. 25 and Rs.100 respectively for loans upto Rs.2 Lakhs and above Rs.2 Lakhs is charged by Bank of India. Bank of Baroda charges 1% upfront on loan amount which is refundable on availing loan. State Bank of India takes a deposit of Rs.5000/- for education loan for studies abroad which is adjusted in the margin money.

2. RATE OF INTEREST:

The Banks have been charging interest on the basis of their Prime Lending Rate revised from the months of June and July 2008. The rate of interest applicable for education loans, charged by the sample banks is given in the following table:-
### Table 2.2
RATE OF INTEREST CHARGED BY THE BANKS

<table>
<thead>
<tr>
<th>Bank</th>
<th>BPLR (p.a.)</th>
<th>Loan amount and Interest rates (p.a.) thereof</th>
<th>Loan amount and Interest rates (p.a.) thereof</th>
<th>Loan amount and Interest rates (p.a.) thereof</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Maharashtra</td>
<td>13.50%</td>
<td>Upto Rs. 4.00 lacs 12.00%</td>
<td>Above Rs. 4 lacs 12.75%</td>
<td>-----</td>
</tr>
<tr>
<td>Dena Bank</td>
<td>13.50%</td>
<td>Upto Rs. 4.00 lacs 10.75%</td>
<td>Above Rs. 4 lacs 13.25%</td>
<td>-----</td>
</tr>
<tr>
<td>Bank of India</td>
<td>13.25%</td>
<td>Upto Rs. 7.50 lacs 11.25%</td>
<td>Above Rs. 7.50 lacs 12.25%</td>
<td>-----</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>13.25%</td>
<td>Upto Rs. 4.00 lacs 12.00%</td>
<td>Above Rs. 4 lacs 14.00%</td>
<td>-----</td>
</tr>
<tr>
<td>State Bank of India</td>
<td>13.25%</td>
<td>Upto Rs. 4.00 lacs 12.25%</td>
<td>Rs. 4 lacs to Rs. 7.50 lacs 13.75%</td>
<td>Above Rs. 7.50 lacs 12.75%</td>
</tr>
<tr>
<td>Union Bank of India</td>
<td>13.25%</td>
<td>Male student 11.75%</td>
<td>Male student 12.50%</td>
<td>Male student 12.00%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female student 11.25%</td>
<td>Female student 12.00%</td>
<td>Female student 11.50%</td>
</tr>
<tr>
<td>Central Bank of India</td>
<td>13.25%</td>
<td>Male student 12.25%</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female student 11.75%</td>
<td>-----</td>
<td>-----</td>
</tr>
</tbody>
</table>

Source: Websites of above Banks.

Table 2.2 reveals that the interest rates charged by the banks are based upon the Benchmark Prime Lending Rate (BPLR). State Bank of India refers to BPLR as State Bank Advance Rate (SBAR). The BPLR of 5 banks including Bank of India, Bank of Baroda, Central Bank of India, State Bank of India and Union Bank of India is 13.25% p.a. Two Banks viz. Bank of Maharashtra and Dena Bank have BPLR of 13.50% p.a. Three Banks viz. Bank of Maharashtra, Bank of Baroda
and Dena Bank have categorized the loan amount into two categories viz. loan amount up to Rs. 4 Lakhs and loan amount above Rs. 4 Lakhs. Two Banks viz. State Bank of India and Union Bank of India have categorized the loan amount in three categories viz. loan amount up to Rs. 4 Lakhs, loan amount above Rs. 4 Lakhs to Rs. 7.50 Lakhs and loan amount above Rs. 7.50 Lakhs. Along with the loan amount categorization, Union Bank also charges different rates of interest to male and female students respectively. Bank of India categorizes loan amount into two categories viz. loan amount upto Rs. 7.50 Lakhs and loan amount above Rs. 7.50 Lakhs. Central Bank of India provides the loan on the basis of applicants’ category viz. male student and female student. However, it does not specify any category of loan amount. From the Table 2.2 it is revealed that Dena Bank charges the minimum rate of interest i.e. 10.75% p.a. whereas the maximum rate of interest is charged by Bank of Baroda i.e. 14.00% p.a.

2.4.3. FEW OTHER CRITERIA IMPLEMENTED BY THE BANKS AS PER RBI GUIDELINES:

The following criteria are implemented by banks as per their requirement based upon RBI guidelines issued under the Model Education Loan Scheme:

1. BANK OF MAHARASHTRA:

I. COURSES ELIGIBLE:

The courses eligible to receive educational loans offered by Bank of Maharashtra are stated as under:³
a) Studies in India:

i. School education including plus 2 stage of State Education Boards.

ii. Graduation courses/Colleges under universities approved by UGC like:-

iii. B.A, B.Com, B.Sc. etc.

iv. Post graduation courses, Masters and Ph.D.

v. Professional courses, Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer etc.

vi. Computer certificate courses of reputed institutes accredited to Dept. of Electronics or institutes affiliated to university.

vii. Courses like ICWA, CA, CFA etc.

viii. Courses offered in India by reputed foreign universities.

ix. Courses conducted by IIM, IIT, IISC, XLRI, NIFT etc.

x. Evening courses of approved institutes recognized by State/ Central Govt.

xi. Other courses leading to diploma/degree etc. conducted by colleges/ universities approved by UGC/ Govt/ AICTE/ ICMR etc.

b) Studies abroad:

i. Graduation : For job oriented professional/ technical courses offered by reputed universities.

ii. Post graduation : MCA, MBA, MS etc.

iii. Courses conducted by CIMA - London, CPA in USA etc.
II. Expenses Considered

Tuition fees, hostel expenses, purchase of books/ equipments/ instruments etc. It also includes travel expenses for studies abroad & other essential expenses.

III. Documents to be Furnished

i. Proof of being an Indian national i.e., School Leaving Certificate.

ii. Letter confirming selection through Entrance Test.

iii. Letter confirming admission to foreign university/institutions.

iv. Brochure of the educational institution stating the amount of fees charged.

2. BANK OF INDIA:

The educational loans offered by the bank is called as Star Educational Loan.4

I. COURSES ELIGIBLE:

The courses eligible to receive educational loans offered by Bank of India are stated as under:

a) Studies in India:

i. Graduation courses : BA, B.Com., B.Sc., etc.

ii. Post Graduation courses : Masters & PhD.

iii. Professional courses : Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer, etc

iv. Computer certificate courses of reputed institutes accredited to Department of Electronics or institutes affiliated to university.

v. Courses like ICWA, CA, CFA, etc.
vi. Courses conducted by IIM, IIT, IISc, XLRI, NIFT, NID and other Institutes set up by Central/State Govt.

vii. Evening courses of approved institutes.

viii. Other courses leading to diploma/degree, etc. conducted by colleges/universities approved by UGC/Govt./AICTE/ICMR, etc.

ix. Courses offered by National Institutes and other reputed private institutions with prior approval of Head Office.

x. Courses offered in India by reputed foreign universities with prior approval of Head Office.

Note:

1. Professional courses not approved by AICTE and conducted by Institutes not recognized by State Universities is outside the purview of the eligibility under the scheme.

2. Special scheme for students admitted to IITs, at concessional rate of interest.

b) Studies abroad:

i. Graduation: For job oriented professional/technical courses offered by reputed universities.

ii. Post Graduation: MCA, MBA, MS, etc.

iii. Courses conducted by CIMA - London, CPA in USA, etc.

II. Expenses covered:

i. Fee payable to college/school/hostel*

ii. Examination/Library/Laboratory fee.

iii. Purchase of books/equipments/instruments/uniforms.
iv. Caution deposit/building fund/refundable deposit supported by Institution bills/receipts.

v. Travel expenses/passage money for studies abroad.

vi. Purchase of computers - essential for completion of the course.

vii. Insurance cover for the student.

viii. Any other expense required to complete the course - like study tours, project work, thesis, etc.

* As per brochure/ demand letter from the institution.

3. BANK OF BARODA:

The educational loan offered by this bank is called as 'Baroda Gyan' for educational loans for studies in India and 'Baroda Scholar' for studies abroad.5

I. Courses Eligible:

The courses eligible to receive educational loans offered by Bank of Baroda are stated as under:

a) **Studies in India** :

i. School education including plus 2 stage.

ii. Graduation courses : All graduation courses.

iii. Post Graduation courses : Masters & Ph.d.

iv. Professional courses : Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer, Ayurved, Homeopathy, Physiotherapy.
v. Computer certificate courses of reputed institutes accredited to Dept. of Electronics or institutes affiliated to university.

vi. Courses like ICWA, CA, CFA, CS.

vii. Courses conducted by IIM, IIT, IISc, XLRI, NIFT.

viii. Courses offered in India by reputed foreign universities.

ix. Evening courses of institutes approved by State/Central Govt./UGC/ Universities.

x. Other courses leading to diploma / degree etc. conducted by colleges / universities approved by UGC / Govt. / AICTE / ICMR / ICAR.

xi. Courses offered by National Institutes and other reputed private institutions.

b) Studies abroad:

i. Graduation: For job oriented professional/technical courses offered by reputed universities.

ii. Post graduation: MCA, MBA, MS.

iii. Courses conducted by CIMA - London, CPA in USA.

II. Expenses covered:

i. Fee payable to college / school / hostel. Examination / Library / Laboratory fee.

ii. Purchase of books / equipments / instruments / uniforms.

iii. Caution deposit / building fund / refundable deposit supported by Institution bills / receipts.

iv. Travel expenses / passage money for studies abroad.
v. Purchase of computers - essential for completion of the course.

vi. Any other expense required to complete the course - like study tours, project work, thesis, etc.

4. CENTRAL BANK:

The educational loan offered by Central Bank is called as 'CentVidyarthi'.

I. Courses Eligible:

The courses eligible to receive educational loans offered by Central Bank are stated as under:

a) Studies in India:

i. School education including plus 2 stages.

ii. Graduation courses - B.A., B.Com., B.Sc. etc.

iii. Post Graduation courses - Masters & Ph.D.

iv. Professional courses - Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer etc.

v. Computer Certificate course of reputed institutions accredited to Department of Electronics or Institutions affiliated to University.

vi. Courses like ICWA, CA, CFA, etc.

vii. Courses conducted by IIM, IIT, IISc, XLRI, NIFT etc.

viii. Courses offered in India by reputed Foreign Universities.

ix. Evening courses of approved institutions.

x. Other courses leading to Diploma/Degree etc. conducted by Colleges/Universities approved by UGC/Govt./AICTE/ICMR etc.
xi. Courses offered by National Institutes and other reputed private institutions. Any other institution courses depending on future prospects/recognition by user institutions deemed proper by the Bank.

b) Studies Abroad:

i. Graduation: For job oriented professional/technical courses offered by reputed Universities.

ii. Post Graduation: MCA, MBA, MS. etc.

iii. Courses conducted by Chartered Institute of Management Accountants (CIMA) - London, Chartered Public Accountant (CPA) - USA etc.

II. Expenses Covered:

i. Fee payable to:
   College/School/Hostel/Examination/Library/Laboratory fee.

ii. Purchase of books/equipments/instruments/uniforms .

iii. Caution deposit/building fund/ refundable deposit.

iv. Travel expenses/passage money for studies abroad. Purchase of computers - essential for completion of the course.

v. Any other expenses required to complete the course - like study tours, project work thesis etc.

vi. To meet insurance premium for the policy on the life of the student.

vii. Reimbursement of the above expenses already incurred/loan taken from identified sources (to meet the contingencies) by the applicant on merits is allowed, subject to production of original receipts within
one month if applicant has secured admission in India and within six weeks if the applicant is going abroad.

5. DENA BANK:

The educational loan offered by Dena bank is called as ‘Dena Vidya Laxmi Educational Loan’.

I. Courses Eligible:

The courses eligible to receive educational loans offered by Dena Bank are stated as under:

a) Studies in India:

Graduation courses, Post-Graduation courses, Masters & PhD, Professional courses.

b) Studies Abroad:

Graduation for professional/ technical courses offered by reputed universities; Post Graduation (MCA, MBA, MS)

II. Expenses Covered:

i. Fee payable to colleges/ schools/ hostels.

ii. Examination/ Library/ Laboratory fees.

iii. Purchase of books, equipment, instruments and uniforms.

iv. Passage fare for travel abroad.

v. Purchase of computers needed to complete the course.

vi. Any other expense to complete the course like study tours, project work, thesis etc.
6. STATE BANK OF INDIA:

Particulars of the educational loan offered by State Bank of India are as followed:

I. Courses Eligible:

The courses eligible to receive educational loans offered by State Bank of India are stated as under:

i. All courses having employment prospects are eligible.

ii. Graduation courses/ Post graduation courses/ Professional courses.

iii. Other courses approved by UGC/Government/AICTE etc.

II. Expenses Covered:

i. Fees payable to college/school/hostel.

ii. Examination/Library/Laboratory fees.


iv. Caution Deposit/Building Fund/Refundable Deposit.

v. Travel Expenses/Passage money for studies abroad.

vi. Purchase of computers considered necessary for completion of course.

vii. Cost of a Two-wheeler upto Rs. 50,000/-.

viii. Any other expenses required to complete the course like study tours, project work etc.
7. UNION BANK OF INDIA:

The educational loan offered by Union bank is called as ‘Union Education’. 9

I. Courses Eligible:

The courses eligible to receive educational loans offered by Union Bank of India are stated as under:

a) Studies in India:

i. School education up to plus 2.

ii. Graduation/Post-Graduation.

iii. Professional course.

iv. Management course.


b) Studies Abroad:

i. Graduation: For job-oriented professional or technical courses offered by reputed universities.

ii. Post-Graduation: MCA, MBA, MS and such other courses.

iii. Courses conducted by CIMA, London, CPA, USA., and such other institution.
2.5 RECENT POLICIES AFFECTING EDUCATIONAL LOANS:

In January 2008, Finance Minister P Chidambaram declared that public sector banks must clear education loans within 15-30 days. Hence, the processing and sanctioning of educational loans have become much faster. He also mentioned that banks should try to have the process of applying and getting the loan sanctioned online. Most banks like the Union Bank of India, Central Bank, Dena Bank and State Bank of India provide the option to apply for an education loan online. The applicants get the sanction in principle online as well. They then contact banks in-person to complete formalities for loan disbursal.

The interest rates on advances have been deregulated by Reserve Bank of India (RBI) and banks are free to fix the rate of interest themselves with the approval of their Boards. Banks have been advised to fix their Bench-mark Prime Lending Rate (BPLR) after taking into account cost of funds, transaction cost, risk factor, margin and other overhead expenses.\(^{10}\) However, as per Model Education Loan Scheme, 2004, the banks have to charge interest on education loan up to Rs.4 Lakhs at BPLR and above Rs.4 Lakhs at BPLR+1 per cent.

As per Union Budget of 2006-07, the interest paid on education loan (for higher studies) brings down tax liability as per Section 80E of the Income Tax Act. Earlier, such a benefit was available only for the person who had taken the loan for studies. Now it is available even for
spouse or parents of the person who avails the loan. The overall limit for tax benefit is capped at Rs. 40,000 (interest component). Those who have taken education loan for their studies or for relatives can take a statement from their bank and submit the same along with their returns for availing tax benefit.

ENDNOTES:

1 RBI Letter RPCD.PLNFS.BC.NO.83/06.12.05/2000-01 April 28, 2001 to Scheduled Commercial Banks.

2 http://www.iba.org.in/educational_loan.asp

3 www.bankofmaharashtra.in

4 www.bankofindia.com


6 www.centralbankofindia.co.in


8 www.statebankofindia.com

9 www.unionbankofindia.com

10 http://pib.nic.in/release/release.asp?relid=27255