

Annexure- 9.55

Chief Executive

No. CE/220

27th September, 2012

To:

Chief Executives of all Member Banks:

Dear Sirs / Madam,

Educational Loan Scheme – Grievance prone areas discussed at the Review meeting with Chief Executives of Public Sector Banks taken by Hon’ble Finance Minister on 18th August, 2012 at New Delhi

At the above meeting, Hon’ble Finance Minister brought out a number of areas in the implementation of Educational Loan Scheme where the Govt. was constantly receiving grievances / complaints from affected students / parents. We list below the major areas of grievance pointed out by the Minister:

- Refusal to finance outside the bank’s designated service area
- Delay in sanction of limits and repeated refusal of loan on flimsy grounds
- Absence of a proper grievance redressal mechanism in banks
- Need to consider loans to meritorious students pursuing courses offered under management quota
- Non-inclusion of nursing course in the list of eligible courses by some banks

The position in respect of the above issues were reviewed by IBA first, at the level of Committee on Educational Loan Scheme and, thereafter, by the Managing Committee at its meeting held on 21st September, 2012. Based on the discussions / decisions taken by the Managing Committee, we advise as under:

1. Refusal to finance outside the bank’s designated service area:

The Model Educational Loan Scheme has not stipulated a service area approach to finance under the scheme. While proximity to the residence of parents was considered an advantage in KYC compliance, the scheme allows the student to have a choice in deciding on the bank from where to borrow. The Committee, however, noted that SLBC in Kerala and some of the DLCCs in Tamil Nadu had allocated villages / wards in urban centres to different banks for the purpose of entertaining applications under Educational Loan Scheme. This, we understand, was an attempt to evenly distribute loan applications among participating banks. The Managing Committee felt that such arrangements should not preclude a student from approaching any bank of his choice for sanction of loan. The Member Banks are therefore, requested to instruct their branches not to reject loan applications merely for the reason that the particular area is allocated to another bank by SLBC / DLCCs.

2. Delay in sanction of limits and repeated refusal of loan on flimsy ground:

The Model Educational Loan Scheme envisages that in the normal course, an education loan should be sanctioned / rejected within a period of 15 days of receipt of duly completed application with supporting documents. Rejection, if any, has to be with the approval of controlling authority of the branch concerned and the reason for rejecting should be communicated to the students in writing. The Managing Committee decided to reiterate the position and appeal to the banks to ensure that the branches follow the laid down norms in sanctioning / rejection of loan applications.

3. Absence of a proper grievance redressal mechanism in the bank

The guidelines issued by Reserve Bank of India and Govt. of India require banks to have robust grievance redressal mechanism within the institution. The arrangements need to be widely publicized with details of contact persons / escalation matrix etc. The Managing Committee decided to draw the attention of banks to the need to have these facilities made available / known to students approaching the banks for sanction of loan. The Committee also suggested that the banks may provide a toll free line for receipt of complaints and the number may be prominently displayed in the branch premises. It was also decided that banks should take penal action against branch managers who repeatedly refused / rejected applications for education loan. The controlling authorities should be advised to counsel such officials initially. Officers who do not show improvements in this regard may be warned in writing and thereafter banks could initiate such disciplinary measures as deemed fit.

4. Need to consider loans to meritorious students pursuing courses offered under management quota:

The Managing Committee considered the recommendations made by the IBA Committee on Educational Loan Scheme and after detailed discussions decided to incorporate a provision for financing meritorious students who pursue courses under management quota seat in an institution for reasons of convenience (proximity) or choice of course.

We enclose a copy of the revised Model Educational Loan Scheme. Your attention is drawn to changes made in paragraph 4.1 and notes to paragraph 4.3 in this regard. The changes made are indicated in bold italics.

5. Non-inclusion of nursing course in the list of eligible courses by some banks:

The Managing Committee observed that the Model Educational Loan Scheme provided for financing students who pursue degree / diploma in nursing in recognized institutions. Many of the banks had also reported that they were sanctioning loans for pursuing nursing courses. Managing Committee after detailed discussions decided to include degree / diploma in nursing in the indicative list of eligible courses and these are made in Para 4.2 (a).

We have duly incorporated necessary changes in the existing scheme after approval by the IBA Managing Committee. We enclose copy of Model Educational Loan Scheme for pursuing higher education in India and Abroad (September, 2012) for Member Banks' information and necessary action.

Yours faithfully,

(K Ramakrishnan)

Encl: IBA Educational Loan Scheme (September, 2012)



Indian Banks' Association

MODEL EDUCATIONAL LOAN SCHEME FOR PURSUING HIGHER EDUCATION IN INDIA AND ABROAD (September, 2012)

1. INTRODUCTION:

Education is central to the human resources development and empowerment in any country. National and State level policies are framed to ensure that this basic need of the population is met through appropriate public and private sector initiatives. While government endeavour to provide primary education to all on a universal basis, public funding of higher education is not considered feasible. Cost of education has been going up in recent times and since the student has to bear most of the cost, there is a clear case for institutional funding in this area. This model education loan scheme is an attempt to bring out a viable and sustainable bank loan scheme to meet the aspirations of our society.

Knowledge and information would be the driving force for economic growth in the coming years. The current rate of economic growth of the country demands technically and professionally trained man power in large numbers. In this backdrop, loans for education is seen as investments for economic development and prosperity. The model Education Loan Scheme was developed by the Indian Banks' Association to help meritorious students pursue higher education in technical and professional courses. As the focus is on development of human capital, repayment of the loan is expected to come from future earnings of the student after completion of education. Hence the assessment of the loan will be based on employability and earning potential of the student upon completion of the course and not the parental income/family wealth.

Based on recommendations made by a Study Group, IBA had prepared a Model Educational Loan Scheme in the year 2001 which was advised to banks for implementation by Reserve Bank of India vide circular No.RPCD.PLNFS.BC.NO.83/06.12.05/2000-01 dated April 28, 2001 along with certain modifications suggested by the Government of India. In line with the announcement made by the Hon'ble Finance Minister in his Budget Speech for the year 2004-05, IBA had communicated certain changes in the security norms applicable to education loans with limits above Rs. 4 lakhs and up to Rs. 7.5 lakhs. The scheme was further modified in the year 2007-08 based on experience gained in the operation of the scheme over the years.

With increased public awareness about the benefits of the education loan scheme, bank branches are receiving more and more applications for loans every year. This has also resulted in cases of customer grievances due to misinterpretation of the provisions of the scheme. This review exercise has been taken up to make the scheme more transparent and minimize scope for multiple interpretations leading to disputes.

2. OBJECTIVES OF THE SCHEME

The Educational Loan Scheme outlined below aims at providing financial support from the banking system to meritorious students for pursuing higher education in India and abroad. The main emphasis is that a meritorious student, though poor, is provided with an opportunity to pursue education with the financial support from the banking system with affordable terms and conditions.

3. APPLICABILITY OF THE SCHEME:

The scheme detailed below could be adopted by all member banks of the Association or other banks and financial institutions as may be advised by the Reserve Bank of India. The scheme provides broad guidelines to the banks for operationalising the educational loan scheme and the implementing bank will have the discretion to make changes as deemed fit.

The scheme details are as under:

4. ELIGIBILITY CRITERIA:

4.1 Student eligibility:

- The student should be an Indian National.
- Should have secured admission to a higher education course in recognized institutions in India or Abroad through Entrance Test/ Merit Based Selection process after completion of HSC(10 plus 2 or equivalent). However, entrance test or selection purely based on marks obtained in qualifying examination may not be the criterion for admission to some of the post graduate courses or research programmes. In such cases, banks will have to adopt appropriate criteria based on employability and reputation of the institution concerned

Note: It would be in order for banks to consider a meritorious student (who qualifies for a seat under merit quota) eligible for loan under this scheme even if the student chooses to pursue a course under Management Quota.

4.2 Courses eligible

a. Studies in India: (Indicative list)

- Approved courses leading to graduate/ post graduate degree and P G diplomas conducted by recognized colleges/ universities recognized by UGC/ Govt./ AICTE/ AIBMS/ ICMR etc.
- Courses like ICWA, CA, CFA etc.
- Courses conducted by IIMs, IITs, IISc, XLRI, NIFT, NID etc.
- Regular Degree/Diploma courses like Aeronautical, pilot training, shipping, ***degree/diploma in nursing or any other discipline*** approved by Director General of Civil Aviation/Shipping/***Indian Nursing Council or any other regulatory body as the case may be***, if the course is pursued in India.
- Approved courses offered in India by reputed foreign universities.

Note:

1. The above list is indicative in nature. Banks may approve other job oriented courses leading to technical/ professional degrees, post graduate degrees/diplomas offered by recognized institutions under this scheme.
2. Courses other than the above offered by reputed institutions may also be considered on the basis of employability.

Reference : www.ugc.ac.in, www.education.nic.in, www.aicte.org.in

(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.
- Degree/diploma courses like aeronautical, pilot training, shipping etc provided these are recognized by competent regulatory bodies in India/abroad for the purpose of employment in India/abroad.

Reference: www.webometrics.info (indicative only)

4.3 Expenses considered for loan :

- i. Fee payable to college++/ school/ hostel*
- ii. Examination/ Library/ Laboratory fee
- iii. Travel expenses/ passage money for studies abroad
- iv. Insurance premium for student borrower, if applicable
- v. Caution deposit, Building fund/refundable deposit supported by Institution bills/receipts. **
- vi. Purchase of books/ equipments/ instruments/ uniforms***
- vii. Purchase of computer at reasonable cost, if required for completion of the course***
- viii. Any other expense required to complete the course - like study tours, project work, thesis, etc.***
- ix. While computing loan required, scholarships, fee waiver etc., if any available to the student borrower may be taken into account.

Notes:

++ For courses under Management quota seats considered under the scheme, fees as approved by the State Government/Government approved regulatory body for payment seats will be taken, subject to viability of repayment.

- * Reasonable lodging and boarding charges will be considered in case the student chooses / is required to opt for outside accommodation.
- ** These expenses could be considered subject to the condition that the amount does not exceed 10% of the total tuition fees for the entire course.
- *** It is likely that expenditure under Item Nos. vi, vii & viii above may not be available in the schedule of fees and charges prescribed by the college authorities. Therefore, a realistic assessment may be made of the requirement under these

heads. However, the maximum expenses included under vi, vii & viii may be capped at 20% of the total tuition fees payable for completion of the course.

5. QUANTUM OF FINANCE:

Need based finance to meet the expenses worked out as per para 4.3 above will be considered taking in to account margins as per para 6 subject to the following ceilings:

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|--------------------|---|----------------------------|
| - Studies in India | - | Maximum upto Rs. 10 lakhs. |
| - Studies Abroad | - | Maximum upto Rs. 20 lakhs. |

Note:

The ceilings fixed for studies in India and Abroad correspond to the limits fixed by the RBI for treatment as priority sector lending. Banks may consider higher quantum of loan on course to course basis (eg: courses in IIMs, ISB etc). It may also be noted that even loans in excess of Rs. 10 lakhs qualify for interest subsidy under Central Sector Interest Subsidy Scheme for loans up to Rs. 10 lakhs.

6. MARGIN:

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

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

7. SECURITY :

Upto Rs. 4 lakhs	Parents to be joint borrower(s). No security
Above Rs. 4 lakhs And upto Rs.7.5 lakhs	Besides the parent(s) executing the documents as joint borrower(s) , collateral security in the form of suitable third party guarantee will be taken. The bank may, at its discretion, <u>in exceptional cases</u> , waive third party guarantee if satisfied with the net-worth / means of parent/s who would be executing the document as joint borrower(s).
Above Rs. 7.5 lakhs	Parent(s) to be joint borrower(s) Tangible collateral security of suitable value acceptable to bank, along with the assignment of future income of the student for payment of instalments.

Note:-

- The loan documents should be executed by both the student and the parent/ guardian as joint-borrower.
- The security can be in the form of land/ building/ Govt. securities/ Public Sector Bonds/Units of UTI, NSC, KVP, life policy, gold, shares/mutual fund units/debentures, bank deposit in the name of student/ parent/ guardian / any other third party or any other tangible security acceptable to the bank with suitable margin.

- Wherever the land/ building is already mortgaged, the unencumbered portion can be taken as security on second charge basis provided it covers the required loan amount

8. RATE OF INTEREST :

Interest to be charged at rates linked to the Base rate as decided by individual banks

- Simple interest to be charged during the study period and up to commencement of repayment.

Note: Servicing of interest during study period and the moratorium period till commencement of repayment is optional for students. Accrued interest will be added to the principal amount borrowed while fixing EMI for repayment.

9. APPRAISAL / SANCTION/ DISBURSEMENT :

- Applications will be received either directly at bank branches or through on-line mode. Upon receipt of application, standard acknowledgement giving a reference number will be issued. The acknowledgement will contain contact details of the bank official who, could be contacted in case of delay in disposal of application.
- Normally, sanction/rejection will be communicated within 15 days of receipt duly completed application with supporting documents.
- In the normal course, while appraising the loan, the future income prospect of the student only will be looked into.
- Rejection of loan application, if any, shall be done with the concurrence of the controlling authority of the branch concerned and conveyed to the student stating reason for rejection.
- Students may submit their loan applications either at the bank branches near to the residence of parents or to the educational institution. However, after the loan is sanctioned, the cases be transferred to the bank branch near to the institution for follow up with student / institution. The KYC compliance for the purpose has to be done by the branch nearest to the residence of parents.
- The loan to be disbursed in stages as per the requirement/ demand directly to the Institutions/ Vendors of equipments/ instruments to the extent possible.

10. REPAYMENT:

Repayment holiday/Moratorium	Course period + 1 year or 6 months after getting job, whichever is earlier.
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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. In case the student discontinues the course midway, appropriate repayment schedule will be worked out by the bank in consultation with the student/parent

- The accrued interest during the repayment holiday period to be added to the principal and repayment in Equated Monthly Instalments (EMI) fixed.
- 1% interest concession may be provided by the bank, if interest is serviced during the study period and subsequent moratorium period prior to commencement of repayment. Repayment of the loan will be in equated monthly instalments for periods as under:

For loans upto Rs. 7.5 lakhs	- upto 10 years
For loans above Rs. 7.5 lakhs	- upto 15 years
- While EMI based repayment is the generally accepted practice, many times the salary levels at the start of the career may not facilitate comfortable payment of EMI in certain cases (e.g. professionals like Doctors). Telescoping of repayment with stepped up instalments with passage of time may be considered in such cases.

Note: No prepayment penalty will be levied for prepayment of loan any time during the repayment period.

11. INSURANCE

Banks may, with the consent of the student, arrange for life insurance policy on the students availing Education Loan. Individual Banks may work out the modalities with insurance companies.

12. FOLLOW UP/MONITORING:

Banks to contact college / university authorities to obtain progress report on the student at regular intervals in respect of those who have availed loans. In case of studies abroad, bank may obtain the SSN/Unique Identification Number (UIN)/Identity Card and note the same in the bank's records. The UID number issued by UIDIA may also be captured in bank's system as and when available. Banks to enter into Memorandum of Understanding (MoU) with the educational institutions to provide the educational loans to the students. There should be an annual review of the asset quality of educational loans between banks and educational institution.

13. PROCESSING CHARGES :

No processing / upfront charges may be levied on loans sanctioned under the scheme. (Banks may charge processing fee for considering loans for studies abroad. The fee would however, be refunded upon the student taking up the course)

14. CAPABILITY CERTIFICATE:

Banks can also issue the capability certificate for students going abroad for higher studies. For this purpose financial and other supporting documents may be obtained from applicant, if required.

(Some of the foreign universities require the students to submit a certificate from their bankers about the sponsors' solvency/ financial capability, with a view to ensure that the sponsors of the students going abroad for higher studies are capable of meeting the expenses till completion of studies.)

15. OTHER CONDITIONS:

15.1 Sanction of loan to more than one child from the same family

Existence of an earlier education loan to the brother(s) and/or sister(s) will not affect the eligibility of another meritorious student from the same family obtaining education loan as per this scheme from the bank.

15.2 Minimum Age

There is no specific restriction with regard to the age of the student to be eligible for education loan. However, if the student was a minor while the parent executed documents for the loan, the bank will obtain a letter of ratification from him/her upon attaining majority.

15.3 Top up loans

Banks may consider top up loans to students pursuing further studies within the overall eligibility limit, if such further studies are commenced during the moratorium period of the first loan. The repayment of the loan will commence after the completion of the second course and further moratorium period, as provided under the scheme.

15.4 Joint Borrower

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

No Due Certificate

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

Disposal of loan application

Loan applications have to be disposed of in the normal course 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.
