

Annexure-7.63

Revised IBA Guidelines (31.05.2012) on Model Education Loan Scheme

Chief Executive

No.CE/210

May 31, 2012

To :

Chief Executives of all Member Banks

Dear Sirs/Madam,

**Revised IBA Model Educational Loan Scheme for
Pursuing Higher Education in India &Abroad**

The IBA vide circular No.CE/149 dated August 30, 2011 had circulated to member banks modified EducationalLoan Scheme for adoption and implementation by banks.

Subsequently, the Department of Financial Services (DFS) had requested IBA to hold interactive meetings with Directors/Principals of major educational institutions at important centres in India with a view to get their feedback and to make the educational loan scheme more meaningful. Accordingly, the IBA conducted interactive meetings with major educational institutions at Delhi, Bengaluru, Chennai, Kolkata, Hyderabad and Mumbai. These interactions highlighted some of the operational issuesas also some suggestions for incorporation in the model scheme. The IBA Sub-Committee on EducationalLoan Scheme and the IBA Managing Committee considered the matter and felt that the issues raised did not warrant major changes in the scheme; as majority of the issues were operational in nature and could be incorporated in the Guidance Notes.

The salient aspects of the modifications incorporated in the revised Scheme / guidance note relate to :

- a) Admissions under Management quota for all courses including nursing courses kept outside the scope of the Scheme.
- b) While computing loan amount, scholarship/fee waiver, if any, available to the student would be taken into account.
- c) Students could submit loan applications either at bank branches near to the residence of parents or at bank branches near to the education institutions. However, KYC compliance has to be done by the branch nearest to the place of residence of parents. Further, after the loan is sanctioned,the student's file could be transferred to the bank's branch near to the institution for follow-up/monitoring.
- d) Part-time courses, research work and job oriented specialized programs could be considered based on merit and placement records at bank's discretion.

- e) Banks could consider rating of educational institutions and students, as a tool for improving asset quality.
- f) It would be open for banks to offer differential interest rates based on rating of courses/institutions/students.
- g) Where institutions permit students to keep terms, in case of failure in one or two subjects, banks could disburse subsequent installments.
- h) Tracking of students after completion of course could be done in co-ordination with educational institutions.

The IBA Managing Committee at its meeting held on May 25, 2012 decided to circulate the revised Scheme together with the Guidance Notes to all the member banks of the IBA for adoption and implementation.

While on the subject, member banks may kindly note that the Government is proposing to establish a Credit Guarantee Fund Trust to administer and operate Credit Guarantee Fund Scheme for educational loans granted by banks upto Rs. 7.5 lakhs without any collateral security and third party guarantee. The details are being worked out.

We place for member banks' reference the following :

- 1) Revised IBA Model Educational Loan Scheme for pursuing higher education in India & Abroad – Annexure I
- 2) Revised Guidance Notes on Model Educational Loan Scheme – Annexure II
- 3) Feedback received from Educational Institutions – Annexure III

Yours faithfully,

K Ramakrishnan

Encls. : Annexures I, II, and III.

- c.c. to :
- 1) All SLBC Convenors
 - 2) All Members of the IBA Sub-Committee on Educational Loan Scheme



Indian Banks' Association

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

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

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 etc., approved by Director General of Civil Aviation/Shipping, 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:

- * 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.



Indian Banks' Association

REVISED GUIDANCE NOTES ON MODEL EDUCATIONAL LOAN SCHEME FOR PURSUING HIGHER EDUCATION IN INDIA AND ABROAD

I. Introduction

Educational Loan Scheme is a socially and economically relevant loan scheme from the Indian banking industry. Rightly, the RBI has included education loans as part of the priority sector lending of banks. It aims to provide need-based finance to meritorious student for taking up higher education.

In any commercial lending decision, credit worthiness of the borrower and the viability of the scheme are important. The student borrower has no credit history and as such he is assumed to be creditworthy as this is a futuristic loan. However, it is likely that the joint borrower for the loan has a credit history and any adverse features could have a bearing on the assessment of credit risk. If the joint borrower has a loan account with the bank and the loan is treated as non-performing asset, the bank runs the risk of having to consider the student loan also as NPA ab-initio. To overcome this, the bank may, as a prudent measure insist on a joint borrower acceptable to the bank, in case of adverse credit history of the parent/guardian of the student.

II. Objectives of the scheme

The educational loan scheme is meant to provide need-based assistance to meritorious students in pursuing higher education. Since the word “meritorious” is a relative term it would be necessary for banks to specify parameters for defining the term meritorious. The following approach is suggested:

If the student has obtained admission to an eligible course through a merit based selection process, he/she could be considered a meritorious student. Generally, admission to professional and technical courses are through common entrance tests and those who get admission through this process could be considered meritorious. Where the admission is purely based on the marks scored in qualifying examinations, the bank may fix cut-off marks (percentage) for loan eligibility.

Very often enquiries are made whether the model scheme covers students who are getting admission against management quota. Management seats or management quota refers to the seats in private education institutions for which the management has discretion to give admission on factors other than merit. Usually, out of permitted seats for the batch, a certain percentage is earmarked to be filled from State level merit list and the rest are allowed to be filled by the management at their discretion.

Usually for the management seats the only requirement would be passing of the qualifying examination with certain minimum stipulated marks. It is logical to interpret that these seats do not qualify for being called “meritorious”

Banks have reported certain cases where the employment potential would not justify the fee structure for management seats from the point of repayment of the loan being sought. Hence, any loan considered by banks for students getting admission under management quota would be outside the model scheme. Banks may fix appropriate terms and conditions for such loans.

III. Applicability of the Scheme

The Model Scheme has been developed for the benefit of the member banks of the Association. However, other banks and financial institutions can also adopt the model without reference to the Association.

IV. Eligibility Criteria

IV.i. Student Eligibility

For the purpose of this scheme higher education is defined as studies taken up after completion of higher secondary school i.e. Ten plus two stage. The need for bank loan scheme came for discussion in the country for meeting higher levels of fees charged by private managements for technical and professional courses consequent to ban on capitation fee. However, in the model scheme a generalized definition has been adopted for higher studies for wider coverage. It is expected that the banks will decide on the courses for which they will be giving student loans based on employability and consequent ability to repay the loan.

References are often made about the eligibility of students pursuing employment oriented courses like teachers training courses and 3-year technical diploma courses in polytechnic institutions after completion of 10th standard. It is clarified that banks are free to include such employment-oriented courses as eligible course provided they are offered by approved/recognized colleges/institutions.

It need to be noted that while the Central Sector Interest Subsidy Scheme of MoHRD is based on 'IBA Model Educational Loan Scheme', the subsidy is applicable only for loans given for Professional and Technical courses (after 12th standard) in India.

IV. ii. Courses eligible

a. Studies in India

The list of courses given in the model scheme is purely indicative in nature. The important thing is that the course is approved/recognized by the designated academic authority/regulatory body for the stream of study concerned.

Links to the web sites of the University Grants Commission (UGC), All India Council for Technical Education (AICTE) and the Ministry of HRD (MoHRD) have been provided in the model scheme to serve as guidance on courses and approving authorities for various courses, which fall within the definition of higher studies.

Banks may prepare and publish a list of eligible courses they would consider for sanctioning of student loans. Since employability of students on the completion of the course is an important consideration for loan approval, banks may consider introducing a system of assessing the employability of students through the campus placements system. Details such as percentage of final year students getting job offers through campus placement, average salary offers etc. may be collected in respect of colleges / institutions from which most loan applications were received in the past for evaluation of employability of students. This exercise should be done on an on going basis to reflect the current status.

Since employability is the main criteria for decision making, it would be in order for banks to consider financing for studying part-time courses (evening classes or otherwise).

Job oriented specialized programmes like maritime courses which are offered in collaboration with foreign institutions may not be having recognition in India. However, if the placement record of such institution gives confidence about employability, banks may, at their discretion consider financing such courses.

Similarly, financial assistance for pursuing research work could also be considered for financing on merit.

Note:

While evaluating employability and repayment possibilities, banks should take into consideration, availability of interest subsidy under the MoHRD Central Sector Scheme introduced w.e.f. 1.4.2009. Under the scheme, the Central Govt. subsidises 100% of the loan's interest during the study period and subsequent moratorium period before commencement of repayment. It is expected that the interest subsidy could bring the EMI for repayment by as much as 30 to 40%. The student hailing from economically weaker section family would benefit from this scheme.

b. Studies Abroad

Diploma courses and certificate courses have not been included as eligible courses for the scheme. Post graduate studies leading to PG degrees and PG diplomas offered by reputed institutes/universities only will be covered by the scheme. Assessment of employment potential or future prospects is very important criterion considering the higher cost of studies involved. The web link given in the scheme is for guidance and there could be other links/sources giving such useful information.

c. Expenses considered

The Model scheme is aimed at meeting all genuine study expenses of a student required to complete the study undertaken. It needs to be noted that sometimes, the fee structure varies with type of college/institution within the same State for a given course. The fees charged by the government colleges/institutes are generally the lowest, with higher fees permitted in aided private colleges/institutions; fee structure being highest in unaided private colleges/institutes. Sometimes the difference between the lowest and highest fee structure levied for the same course by different colleges/institutions is too high to give comfort to a banker in taking credit decision as employment prospects remain same. A practical approach would be to consider approved fee structure for merit quota seats in all colleges/institutions, provided banks are satisfied about repayment prospects on employment.

d. Rating as an assessment tool

Banks could use rating of education institutions and student as a tool for targeting students borrowers and improving asset quality. External data on rating of various education institutions may be available in public domain. The track record of the institution in terms of percentage placement and average emoluments offered to passing out student would be useful information in creating rating matrix. Similarly, along with the rating of institutions, banks could also attempt rating of students. Academic record and ranking in the selection test would be core for the initial rating. To this, the academic record during the study period could be added to revise the students rating from year to year. Students getting admission to highly rated institutions and students who have high rating for themselves could be offered loans with lower rate of interest.

Besides weightage to ranking of institute and merit of students ranking of courses offered by the educational institution be done on the basis of placements record of the institution concerned.

V. Quantum of finance

While assessing the quantum of finance, banks should ensure that a student is neither over financed or under financed. It would be necessary to take into account scholarships / concessions etc., if the student is entitled to, before fixing the limit for sanction. At the same time, if some of the genuine expenses are left out or remains uncovered, the student will find difficulty in completing the course with consequent stress on repayment.

VI. Margin

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VII. Security

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VIII. Rate of interest

In the past, interest rates were linked to the BPLR of banks. With effect from 1st July 2010, the banking system has switched over to base rate linked product pricing for loans and advances. The new system is more transparent and expected to result in better risk based pricing of loans in the country. Also, market competition is expected to bring down interest spreads. Hence it is proposed to leave the interest rates free for banks to decide at their end. However, it is proposed to retain 1% interest concession for servicing of interest during study/moratorium period. It is also expected that the banks will charge relatively lower rates for loans up to Rs. 4 lakhs and continue concessions hitherto being given to girl students. It will also be open to banks to offer differential interest rates based on rating of courses/institutions or even students.

IX. Appraisal/Sanction/Disbursement

The model scheme does not look at the financial position of parents while evaluating loan to a meritorious student. Repayment possibilities have to be based on projected future earnings of the student on employment after education. To avoid subjectivity in assessment, it is suggested that the banks may fix from time to time earning potential for various courses, percentage of income to be considered for repayment etc. A well laid appraisal procedure will ensure that the decision to sanction an education loan is based on sound commercial logic, besides serving a noble social cause.

The suggestion that bank branches nearest to the residence of parents to consider the loan application was given for better tracking of students during and after study period. Banks are, however, free to adopt different norms to suit their business plans.

X. Repayment

Repayment period has been increased to give greater comfort to the student borrowers to repay the loan out of their future earnings. Prepayment options are also provided for persons who would like to clear the loan faster out of better than anticipated earnings. No prepayment charges are to be levied in such cases.

XI. Insurance

Insurance policy should be obtained only with the prior consent of the student borrower. This is more so relevant in case of loans up to Rs. 4 lakhs where the bank loans are without any security. The clause regarding insurance has been included in the scheme to provide a life cover to the student.

XII. Follow Up/Monitoring

Monitoring academic progress of the student is necessary for the success of the Scheme. Considering that all banks are now on CBS, it is suggested that irrespective of the branch where loan is sanctioned, monitoring of loans during the study period may be entrusted to the branch dealing with the institution or the one located nearer to the educational institution. Generally, college authorities will provide progress report after every semester / year.

Member banks may note that professional colleges allow students to move to the higher class even if they fail in a few subjects in the examination for previous year/semester. The disbursement of subsequent instalments should not be stopped for the reason that the student has failed in one or two subjects in the examination provided he has been allowed to keep terms.

The Banks may also explore the possibility of sending payment towards the fees to the institutions through electronic channels. Progress reports may also be received electronically wherever possible.

XIII. Tracking of students

It is found that banks will be able to track the student after completion of the course effectively if co-ordinated with the education institutions. Educational institutions will be able to provide placement details and in some cases changes in the initial years after education. The alumni forums of educational institutions can also give valuable feedback.

Many banks obtain Permanent Account Number (PAN) for its value in future tracking. However, as most of the students may not require PAN during education period, submission of PAN details should not be made a pre-condition for loan sanction. However, considering the ease of registering PAN, the students may be asked to submit PAN during the course of studies.

XIV. Processing Charges

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XV. Capability Certificate

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XVI. Other Conditions

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Indian Banks' Association

Gist of the feedback received from the interactive meetings with the educational institutions are given below:

Eligibility:

1. Banks are not using common criteria. While some banks consider loans for pursuing one year PG course in hospitality some others take the stand that the courses are outside the scheme.
2. There are certain institutions offering Maritime courses and offering courses in collaborations with foreign institutions. Such courses are partly held in India and partly in abroad and foreign diplomas and certificates are issued. While such courses may not be recognized as such in India, placement records indicate that they get international job offers. Banks should finance students pursuing such courses.
3. Some institutions sought loans for students pursuing research

Loan sanctions – terms and conditions:

1. There is considerable delay in loan processing /sanctioning. Students invariably end up having to pay the fees from own sources and thereafter seek reimbursement.
2. Even for loans upto Rs. 4 lakhs, banks insist on collateral and there have been cases of rejection of applications on this account instead of simple interest as provided in the scheme.
3. There were some complaints that banks were charging monthly compounded interest on education loans.
4. There were complaints that banks are insisting on insurance cover while the scheme does not make such a cover mandatory.
5. When fees structure is notified by the Govt., banks should not insist on separate letters from individual colleges.
6. As loans get processed at branches nearer to their homes, many times students apply for leave to go to native place to complete documentation / get instalment released etc.
7. There are cases where banks stop loan disbursements in subsequent years when the students fails in one or two subjects, though they are allowed to keep terms. Many time the progress report may not be ready when they have to pay fee for the new year / term and refusal by the bank to release instalments will inconvenience students and educational institutions.
8. Delays in sanction and disbursement affects student from rural areas more. Banks should send cheques for fee payment alongwith covering letter giving details of the students, as otherwise the cheque could be misutilised.
9. The colleges welcomed opening of counseling desks by banks during admission period. They found value in bank branches situated nearer to the colleges in considering loans rather than bank branches in rural interiors who fail to appreciate needs of the students.

10. With limited interactions they have with the bankers, some of the representatives from the institutions mentioned that frontline staff in the bank lacked awareness about loan scheme.
11. Many times, meritorious students from poor families fail to get loan sanctioned as they find difficulties in providing security required. Institutions wanted banks to consider security relaxation to really meritorious students. They suggested group guarantees of students in place of third party guarantees. In some cases, the institutes showed willingness to provide letter of comfort / corporate guarantee in genuine cases.
12. Many State Government offered scholarship etc. and there is a need for banks to avoid double financing.
13. Many times students do not get lucrative jobs immediately after the completion of course and they may not be able to afford EMIs out of their earnings. It would be beneficial if telescoping of instalments is provided. The students will find it convenient to pay step up instalments with passage of time.
14. Banks should not ask for approval /accreditation status of college every time the students approaches for a loan.
15. All institutes /colleges welcomed suggestions for online remittance of college fee etc. by banks. They were also willing to transmit progress report online.
16. For certain courses like PG programmes at IIMs, the Rs. 10 lakhs limit fixed in the model scheme is inadequate and IBA may review the position.

Tracking of students:

1. Most institutions indicated that they were not aware if their students had availed loans from banks.
2. Institutions express willingness to help banks in loan recovery to the extent possible.
3. Very often colleges had only initial placement details with them which they were willing to share with banks. But the students change their job frequently and after two to three years, colleges have very little contact with the students.
4. About 30% of students do not qualify for campus placement.
5. Most colleges were willing to share the academic progress of the students with banks. Some even offered online access to academic records. Some colleges were willing to sign MoU with banks
6. Most colleges felt that there was a need for legal provisions mandating employers to deduct loan instalment and remit to banks.
7. Banks can tap database on Alumni available with the institutions.

Rating of Institutions:

1. Ideally a system of rating of educational institutions based on placement records of students passing out should help the banks to structure their loan products better. A good placement history with higher salary offer for poor student would make the loan less riskier and would enable banks to offer better security terms and lower interest rates.
2. They can refine the assessment process by combining college rating with the rank obtained by the student in qualifying examination. The banks can also rate the students year to year and fix interest rates linked to the rating. Mr. Pritam Singh, Director, International Management Institute, New Delhi who attended the Delhi meeting offered to work with IBA on coming out with rating model.

3. The response of educational institutions to the concept of rating was mixed. While some of the reputed institutions welcomed the suggestions, many others did not want college rating to be taken up by the banks or other external agencies. A point was made that most of the ratings were paid for by the institutions.

Based on the above feedback, we summarize the position as under:

The six interactive meetings with educational institutions across the country, in which over 150 participants attended clearly brought out the need for better rapport between the banks sanctioning education loans and the educational institutions. Presently, there is hardly any interaction taking place between bankers and educational institutions other than exchange of communication for sanction / release of loan.

Tracking of students: The college authorities are willing to associate with banks and member banks should take full advantage of the offer for tracking the progress of students in the college and their career progress thereafter. Banks should inform colleges details of students who have availed loan from them.

There is case for legislation making it mandatory for employers to deduct loan instalment and remit to banks periodically. As the present Govt. attaches lot of importance to this scheme, the DFS may consider taking up such suggestions with Ministry of HRD for necessary action.

The interactions have brought out a case for examining certain amendments to the model educational scheme in certain areas: These amendments require the approval of the IBA Managing Committee: The suggested amendments are as under:

Quantum of Finance: Presently for studies in India maximum upto Rs. 10 lakhs is considered and for studies abroad Rs. 20 lakhs. For certain management courses and medical streams the limit considered is adequate to meet the total expenses.. The scheme provides banks with options to consider higher limits for such courses and it may be desirable to retain this proviso rather than raising the limits. However, it may be noted that the recently released M V Nair Committee for Priority Sector Lending have revised ceiling for Priority Sector status to Rs. 15 lakhs and Rs. 25 lakhs respectively.

Security: The discussions brought out concepts of group guarantee by students and corporate guarantee of educational institutions. The discussions also brought out the concept of differential security norms based on rating of courses / students. If it is decided to bring greater flexibility to the scheme by incorporating these aspects, we could do it by enabling changes in the guidance notes rather than amending the scheme itself.

Rate of Interest: At present banks are charging fixed rate of interest for all education loans (there may be variations subject to quantum of limit) irrespective of the courses pursued, rating of institutions or student rating. There has been wide spread demand for charging differential rates based on the above variables. If approved, we would make enabling changes in the scheme / guidance notes.

Appraisal /Sanction/ disbursement: The scheme indicate that the loan applications will be accepted normally by the branch nearest to the residence of the parent. The interaction indicated that this may not be the most prudent way of handling loan sanctions. In many ways a branch situated nearer to the college would be able to better appreciate the financial

needs of the students and coordinate better with the colleges during the study period. The CBS system also facilitates easy handling of the loan account at various stages by different branches. If approved, we will incorporate necessary modifications in the scheme / guidance notes.

Repayment: Feedback suggested that the system of fixing uniform EMI throughout the loan recovery period was not always appropriate. Sometimes the student borrower does not get a placement with emoluments comparable with others in the batch and he may find difficult to service the loan during the early part of his career. It was suggested that flexibility may be brought into the scheme by fixing progressively stepped up instalments starting with a relatively smaller amount in the beginning.

Rating of Institutions : In view of mixed response from the educational institutions, some in favour and some not in favour; this issue needs to be deliberated further before a consensus is arrived.

Chief Executive

No. CE/209

31st May, 2012

**To :
Chief Executives of all Member Banks**

Dear Sirs,

IBA MODEL LOAN SCHEME FOR VOCATIONAL EDUCATION AND TRAINING

Please refer to our circular No. SB/CIR/10-21-VC/4715 dated 20th December, 2011 enclosing a 'Model Educational Loan Scheme for Vocational Courses. On subsequent interactions with the Dept. of Financial Services and the Prime Minister's National Council on Skill Development under the Chairmanship of Mr. S Ramadorai brought out the need for bank loans for Skill Development training involving periods even lesser than 6 months. It was informed that National Council on Skill Development has ambitious plans to develop skilled work force in the country and around 25 lakh persons are expected to avail credit for vocational / skill development programmes in the next 3 years. The Prime Minister's office also sent us some suggestions for modifying the Model Scheme to make the bank scheme in line with the Govt. plan for Skill Development. IBA also interacted with some of the Skill Development Institutes in Maharashtra for feedback and suggestions.

The IBA Sub-Committee on Educational Loan Scheme considered the suggestions and the revised Model Scheme was placed before the IBA Managing Committee at its meeting held on 25th May, 2012. The Managing Committee after discussions approved the changes in the Scheme including change in the title of the Scheme. The Model Educational Loan Scheme for Vocational Courses will now be called as '**IBA Model Loan Scheme for Vocational Education and Training**'.

A copy of the revised Model Scheme is enclosed for your perusal. Member Banks may like to adopt and implement the Scheme with effect from 1st July, 2012, after taking the approval of the Bank's Board.

While on the subject, Member Banks may kindly note that the Govt. is proposing to establish a Credit Guarantee Fund Trust to administer and operate Credit Guarantee Fund for loans granted by banks for Vocational Courses including Skill Development. The details are being worked out.

Yours faithfully,

(K Ramakrishnan)

Encl. : Copy of revised Model Scheme.

c.c. to : 1) All SLBC Convenors
2) All Members of the IBA Sub-Committee on Educational Loan Scheme



Indian Banks' Association

IBA MODEL LOAN SCHEME FOR VOCATIONAL EDUCATION AND TRAINING

1. INTRODUCTION

The IBA Model Educational Loan Scheme for pursuing higher studies in India & Abroad was formulated initially in the year 2001 and modified subsequently from time to time with the objective of facilitating pursuit of higher studies by meritorious students. The focus was mainly on technical and professional courses in recognised Colleges and Universities. The vocational courses offered by ITIs, ITCs, Polytechnics and other technical institutions / bodies were not covered in the Model Educational Loan Scheme (some banks do provide loans for pursuing 3 year diploma courses offered by Polytechnic Institutes). However, in view of the initiatives being taken by the Govt. of India in skill development in recent years, a need was felt for providing institutional funding for the students undergoing specialized skill development programs in recognized institutions. The Govt. has estimated that the country would require 10 to 15 million skilled workers every year to support the development process. The initiatives being taken by the Govt. are for setting up new training facilities, modernization of existing centres and intensive faculty development. The “Model Loan Scheme for Vocational Education and Training” has been developed as an extension of the existing Model Educational Loan Scheme for pursuing higher education in India & Abroad, to support the national initiatives for skill development.

2. OBJECTIVE

The Model Loan Scheme for Vocational Education and Training aims at providing financial support from the banking system to those who, have the minimum educational qualification, as required by the institution / organization running the course eligible under the scheme.

3. APPLICABILITY OF THE SCHEME

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

4. ELIGIBILITY CRITERIA

4.1 Student Eligibility

- The student should be an Indian National
- Have secured admission in a course run or supported by a Ministry / Dept./ Organisation of the Govt. or a company / society / organization supported by National Skill Development Corporation or State Skill Missions / State Skill Corporations, preferably leading to a certificate / diploma / degree, etc. issued by a Govt. organization or an organization recognized / authorized by the Govt. to do so.

4.2 Courses Eligible

Vocational / Skill development courses of duration from 2 months to 3 years run or supported by a Ministry / Dept. / Organisation of the Govt. or a company / society / organization supported by National Skill Development Corporation or State Skill Missions / State Skill Corporations, preferably leading to a certificate / diploma / degree, etc. issued by a Govt. organization or an organization recognized / authorized by the Govt. to do so. . State Level Bankers Committee (SLBC) / State Level Coordination Committee (SLCC) may add other skill development courses / programmes, having good employability.

4.3 Minimum Age

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

5. QUANTUM OF FINANCE

Need based finance to meet expenses as worked out under para 6 below will be considered subject to the following ceilings :

- | | | |
|---|--|-------------------------------------|
| - | For courses of duration upto 3 months | ☐ 20,000/- |
| - | For courses of duration 3 to 6 months | ☐ 50,000/- |
| - | for courses of duration 6 months to 1 year | ☐ 75,000/- |
| - | for courses of duration above 1 year | ☐ 1,50,000/- |

Banks may consider sanction of higher limits for courses of duration above one year, if required, for specific courses offered by reputed institutions having regard to the nature of such courses and employability (ability to repay out of job earnings).

6. EXPENSES CONSIDERED FOR LOAN

1. Tuition / course fee .
2. Examination / Library / Laboratory fee
3. Caution deposit
4. Purchase of books, equipments and instruments
5. Any other reasonable expenditure found necessary for completion of the course. (As such courses are localized boarding, lodging may not be necessary. However, wherever it has been found necessary, the same could be considered on merits)

7. MARGIN

Nil

8. RATE OF INTEREST

Interest rate to be charged linked to the base rate of banks as decided by the individual banks or at reduced rate, if an interest subsidy is provided by the Central / State Govt. to all or a class of beneficiaries proposed to be targeted. Simple Interest will be charged during the study period and upto commencement of repayment.

Note :

- Servicing of interest during study period and the moratorium period till commencement of repayment is optional for students.
- 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.

9. PROCESSING CHARGES

Nil

10. SECURITY

No collateral or third party guarantee will be taken. However, the parent will execute loan document along with the student borrower as joint borrower.

11. MORATORIUM PERIOD

Upon completion of the course, repayment will start after a moratorium period as indicated below :

- | | | |
|--|---|--|
| - for courses of duration upto 1 year | - | 6 months from the completion of the course. |
| - for courses of duration above 1 year | - | 12 months from the completion of the course. |

12. REPAYMENT

The loan will be repaid after the moratorium period as indicated in para 11 in Equated Monthly Instalments (EMIs) as follows :

- | | | |
|------------------------|---|------------------|
| - courses upto 1 year | - | In 2 to 5 years |
| - courses above 1 year | - | In 3 to 7 years. |

13. INSURANCE

Optional at the requirement of the borrower.

14. PREPAYMENT

The borrower can repay the loan any time after commencement of repayment before having to pay any prepayment charges.

15. OTHER TERMS & CONDITIONS

Other terms and conditions as applicable to the “IBA Model Educational Loan Scheme for pursuing higher education in India & Abroad” will be applicable to this scheme also.