

## **MAHARASHTRA GRAMIN BANK**

### **MODEL EDUCATIONAL LOAN SCHEME FOR PURSUING HIGER 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 ` .4 lakhs and up to ` .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 minimise 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:**

- **Merit as the sole criteria for eligibility.**
- **Admission under management quota is kept outside the scope of the scheme.**
- **The quantum of loan to be justified by the employment potential.**

##### 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, branches 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

The above list is indicative in nature. Branches may consider other job oriented courses leading to technical/ professional degrees, post graduate degrees/diplomas offered by recognized institutions under this scheme.

Reference : [www.ugc.ac.in](http://www.ugc.ac.in), [www.education.nic.in](http://www.education.nic.in), [www.aicte.org.in](http://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](http://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\*\*\*

**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:

- Studies in India - Maximum upto ` .10 lakhs.
- Studies Abroad - Maximum upto ` .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. It would, however, be open to bank to 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 10 lakhs qualify for interest subsidy under Central Sector Interest Subsidy Scheme for loans up to 10 lakhs.

**6. MARGIN:**

Upto 4 lacs	NIL
Above 4 lacs 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 4.00 lakhs	Parents to be joint borrower(s).
Above 4.00 lakhs	1) The parent(s) executing the documents as joint borrower(s) , 2) Collateral security in the form of suitable third party guarantee be taken. 3) Tangible collateral security of suitable value i e minimum 100 % of loan amount , along with the assignment of future income of the student for payment of instalments.

**Note:-**

1. The loan documents should be executed by both i e the student and the parent/ guardian as joint-borrower.
2. 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.
3. 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 :**

As per our existing rates:

- Up to Rs 4.00 lakhs 13 %
- Above Rs 4.00 lakhs 14 %

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 be added to the principal amount borrowed while fixing EMI for repayment.

## **9. REPAYMENT:**

**Repayment holiday Moratorium: Course period + 1 year or 06 months after getting job , whichever is earlier.**

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 be worked out 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) be 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 ` 7.5 lakhs	- upto 10 years
For loans above ` 7.5 lakhs	- upto 15 years

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

## **10. PROCESSING CHARGES :**

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