

Education Loans for Higher Studies in India

Who gives how much and how?

If you are shopping for a loan to fund your post-school/college education, you may initially feel somewhat at sea with the many options available. You will of course want the optimal combination of interest rate, margin amount, repayment period, etc. While both public and private banks extend loans for completing higher studies within the country and abroad, the following report will restrict itself to loans for higher studies in India, with the loan amount being upwards of Rs 7.50 lakh. This report is an attempt to make the loan-hunting process easier by putting together facts, pointers and updates, so that students will have a checklist against which to make an informed decision.

Subas Tiwari & Gopal Ravi Kumar

For this study, we chose 14 banks (9 public sector and 5 private sector) based on consumer feedback and product structure. The parameters on which we have compared them include maximum loan, rate of interest, maximum repayment period, processing fee, other charges, loan/study options, option of life insurance cover, interest concessions offered, and interest on EMI default.

We gave the highest weightage (25 points) to

consumer feedback, which helped in determining product quality as well as the most important and beneficial variables. These variables have a direct bearing on the product structure.

CV RECOMMENDATION

Best Buy
Bank of Baroda

Education Loans for Higher Studies in India:

CV Weightage Points (100)		BOB – Baroda Gyan	SBI – Student Loan	CBI – Cent Vidyarthi	OBC	PNB – Saraswati	
10	Processing fee payable (maximum)	Nil (10)	Nil (10)	Nil (10)	Nil (10)	Nil (10)	
15	Maximum loan (Rs, in lakh)	10 (5)	10 (5)	10 (5)	10 (5)	10 (5)	
15	Rate of interest (%) (maximum)	10.70 (15)	10.75 (15)	10.55 (15)	10.50 (15)	11.25 (12)	
10	Maximum repayment period (in years, excl. course and holiday period)	15 (10)	15 (10)	15 (10)	15 (10)	15 (10)	
5	Life insurance cover (optional)	NS (0)	NS (0)	Yes (5)	NS (0)	NS (0)	
5	Other charges payable	7500 (1)	NS (0)	500 (3)	NS (0)	250	
5	Interest concession for interest serviced during study period	NS (0)	NS (0)	1.00 (5)	1.00 (5)	NS (0)	
5	Overdue interest for EMI default (PA %)	2 (5)	NS (0)	NS (0)	2 (5)	NS (0)	
5	Loan/Study options	5 (3)	6 (5)	1 (1)	1 (1)	5 (3)	
25	Consumer feedback	16	18	8	9	15	
Total		65	63	62	60	58	

Notes:

- The maximum loan availed is taken to be above Rs 7.50 lakh for higher studies in India.
- The rate of interest is on a floating basis and is linked to bank base lending rate (MCLR).
- Information given here has been sourced from websites and brochures as available on 3 June 2019.
- NS – not specified

More and more students/families are opting for education loans due to the rising costs of education. The tax benefits are a plus point too. Here are the other main attributes that work in its favour:

- ✓ Quick processing
- ✓ Minimum documentation
- ✓ Quantum of finance enlarged to include hostel fees, computer cost, etc.
- ✓ No collateral security insisted upon
- ✓ No third-party surety (in most banks barring one or two)
- ✓ Cheaper rates of interest

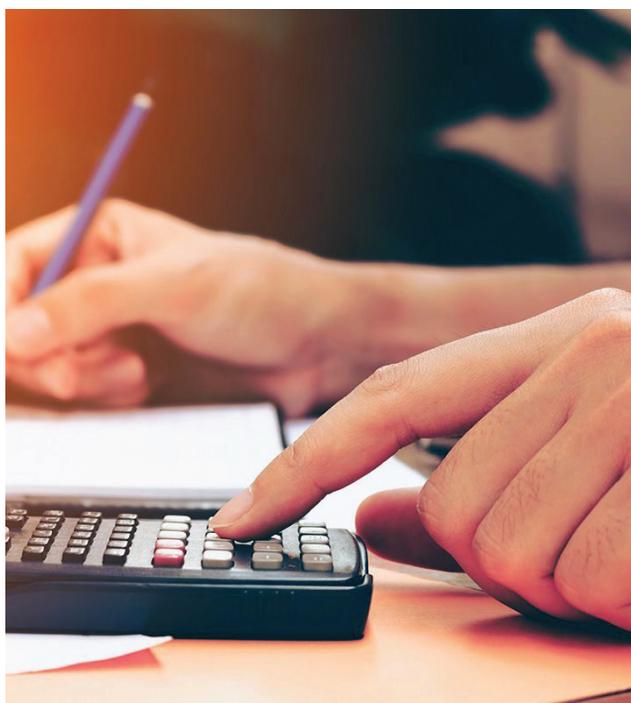
- ✓ Longer repayment period
- ✓ No need to pay back loan till completion of course
- ✓ Easy EMIs for regular repayment



A Comparative Chart

Syndicate Bank – Syndvidya	BOI	HDFC	IOB – Vidya Jyoti	Indian Bank	Axis Bank – Study Power	Karur Vysya	City Union – CUB Vidhya Vani	Federal Bank
Nil (10)	NS (0)	7500 (3)	NS (0)	NS (0)	5000 (5)	Nil (10)	Nil (10)	NS (0)
10 (5)	10 (5)	10 (5)	30 (8)	NS (0)	75 (15)	10 (5)	10 (5)	10 (5)
11.50 (12)	11.15 (12)	13.44 (8)	11.65 (12)	11.65 (12)	13.70 (8)	12.35 (8)	15.75 (4)	15.25 (4)
15 (10)	15 (10)	15 (10)	7 (5)	15 (10)	NS (0)	7 (5)	15 (10)	15 (10)
NS (0)	Yes (5)	Yes (5)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)
Nil (5)	NS (0)	500 (3)	NS (0)	NS (0)	NS (0)	110 (3)	NS (0)	NS (0)
1.00 (5)	1.00 (5)	NS (0)	1.00 (5)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)
NS (0)	2 (5)	24 (1)	NS (0)	2 (5)	24 (1)	NS (0)	NS (0)	NS (0)
1 (1)	1 (1)	1 (1)	5 (3)	5 (3)	1 (1)	1 (1)	2 (2)	1 (1)
10	14	7	8	8	7	2	2	7
58	57	43	41	38	37	34	33	27

- ✓ Some banks offer concession for female students (who opt for a loan) in terms of lower rates of interest.
- ✓ Some banks are extending interest concession to students looking to repay the interest amount during the moratorium period (study period) so as to reduce the loan burden on themselves/their parents when the time comes for repayment of the loan plus interest.
- ✓ The Income Tax Act provides succour to students when they avail of bank loans for higher studies, by way of income tax exemption to be claimed on the amount of interest paid/payable either by the student or by the parent under Section 80E, for a period not exceeding eight assessment years.



The Loan Givers

For one, there are commercial banks under the regulation of Reserve Bank of India (RBI). Some non-banking financial companies (NBFCs) also provide education loans through their sponsors, some of them being: www.credila.com (HDFC); www.avense.com (DHFL); www.myuniverse.co.in (Aditya Birla); www.ibs.india.org; and www.ksfi.co.in. Here, banks definitely score over NBFCs due to their large branch network and greater transparency in their dealings.

You may be surprised to know that education loan has been more or less customised as a loan product by

RBI. In fact, it was adopted as a model loan product (for higher education in India and abroad) by Indian Banks' Association (IBA) in 2015 so that banks would be able to draft their own education loan schemes based on this model. It is available on the IBA website for public viewing.

Making These Loans Accessible

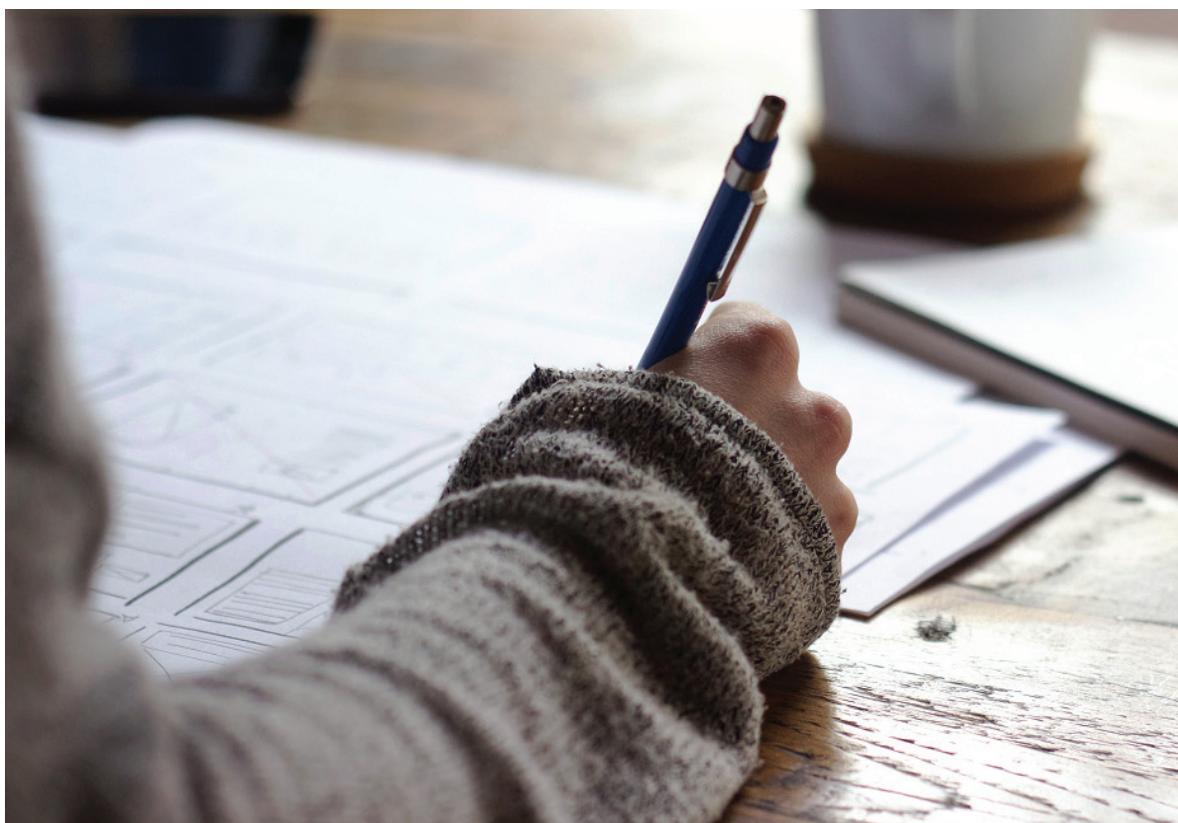
There have been a slew of directions/guidelines in the matter of enabling students to get education loans faster as well as banks feeling safe in extending such loans to students (in spite of their status as non-earning individuals). These directions/guidelines are summarised here.

Bank's conditions: While sanctioning a loan, the bank will check if a student has actually secured admission to a course, the quality of the college and the course (whether it is recognised by the University Grants Commission or the All-India Council for Technical Education), and, where applicable, the credit history of the co-applicant or guarantor.

Documents: The most commonly required documents are: a) proof of admission (educational loan cannot be applied without proof that admission has been secured in the selected institution); b) schedule of fees from the institution; c) mark sheet of the last qualifying examination; d) details/statements of bank accounts held by the student applicant for the last six months; and e) photographs.

Repayment: Most banks ask you to start paying off the loan either six months or one year after you complete the course, or six months after you have secured a job, whichever happens first. It is important to remember that the higher the amount, the longer you get to repay. However, this does not mean that you are not charged any interest for that period. Although some banks may defer interest payment, interest is actually calculated from the day of disbursement of the loan.





◆ Model IBA education loan scheme for pursuing higher education in India and abroad

Salient features

- This is available to any Indian national who is securing/has secured admission for higher education in recognized institutions in India/abroad through entrance test/merit-based selection process after completion of HSC (10+2 or equivalent).
- Classification of education loan portfolio: a) loans to students admitted to top-rated institutions; b) loans to students admitted to other domestic institutions; c) loans to students seeking studies abroad
- Quantum of finance: studies in India – Rs 10.00 lakh maximum; studies abroad – Rs 20.00 lakh maximum; under Credit Guarantee Fund Scheme for Education Loans (CGFSEL) – Rs.7.50 lakh maximum
- Margin amount
 - a) Studies in India: up to Rs 4.00 lakh – nil; above Rs 4.00 lakh – 5%
 - b) Studies abroad: 15%

- Expenses considered for loan cover study fees, hostel fees, exam fees, travel expenses for joining the course, insurance premium if applicable, caution deposit, purchase of books/computer/laptop, and any other expense directly relating to the completion of the course.

Normally banks do not approve any loan that will cover the entire cost of your education. For example, for a loan of Rs 10 lakh, the bank will approve only 80 per cent or Rs 8 lakh. The additional Rs 2 lakh that you will have to raise from your own sources is called the margin amount.

◆ Delhi Government's higher education guarantee scheme (2015)

Salient features

- Students pursuing any skill development course or diploma or degree course after finishing qualifying examination from any school/educational institution in Delhi are eligible for loans under this



scheme. The scheme is also applicable to industrial training institutes (ITIs) and polytechnic institutes/colleges.

- No collateral security need to be given for obtaining the loan.
- The loan is covered under the 'Higher Education & Skill Development Credit Guarantee Fund' to be created by the Delhi Government for providing guarantee to banks in case of default by students.
- For loans up to Rs 10 lakh, no margin money is required.
- There are no processing charges for the loan.
- The interest rate is as may be charged by individual banks as linked to base lending rate (simple interest to be charged/collected during repayment holiday period).
- Repayment is in equated monthly instalments (EMIs) to be paid over 15 years.
- The loan repayment schedule carries a moratorium period covering the study period required to finish the course and one year thereafter to find a job.

◆ Credit Guarantee Fund Scheme for Education Loans (CGFSEL)

Salient features

- In order to bring in simplified norms of lending coupled with stricter monitoring of uncertified educational institutes, the government of India brought out a notification (dated 16.09.2015) to establish the CGFSEL. Banks are expected to increase their loan volume and numbers in extending education loans to needy students for pursuing further studies in India and abroad.
- The maximum loan allowed is Rs 7.50 lakh without any collateral security and third-party guarantee.
- For loans up to Rs 4 lakh, margin amount is nil; for loans above Rs 4 lakh, it is 5 per cent for studies in India and 15 per cent for studies abroad.
- The education loans to be covered under this fund shall attract interest of up to 2% above the base rate of banks.
- No security or third-party guarantee is required.
- Guarantee cover to the extent of 75 per cent of

the amount of loan default is available for eligible borrowers.

◆ Central scheme to provide interest subsidy (CSIS)

Salient features

- This is for the period of moratorium of education loans taken by students from economically weaker sections (EWS) under the educational loan scheme of Indian Banks Association (IBA), to pursue technical/professional education studies in India.
- The scheme is applicable only for studies in recognized technical/professional courses in India.
- The benefits of the scheme are applicable to those students belonging to EWS, with an annual gross parental/family income upper limit of Rs 4.50 lakh per year (from all sources).
- The scheme is independent of any other scheme that may cater to EWS.
- There is provision for full interest subsidy during the period of moratorium (course period + 1 year or 6 months after getting job, whichever is earlier). After the period of moratorium, interest on the outstanding loan amount shall be paid by the student in accordance with the scheme.
- Interest subsidy is available only once, either for the first undergraduate degree course or the postgraduate degree/diploma course in India.
- Interest subsidy shall not be available for those students who discontinue the course midstream, or who are expelled from the institution on disciplinary or academic grounds except on medical grounds, which should be certified by the head of the educational institution.
- Interest is as may be decided by individual banks (as may be linked to BPLR/base rate/MCLR).
- Canara Bank is the nodal bank for implementation of the scheme.

