



Education Loans for Higher Studies Abroad

Let's assess your options

If you are shopping for a loan to fund your higher studies (within the country or abroad), one major concern will be to find one with the combination of loan amount, interest rate, margin amount, repayment period, etc., that works best for you. With almost every other bank advertising in the print/electronic media about their education loan schemes, that can be quite a challenge though. This article is an attempt to make this overwhelming process easier by putting together facts, pointers, updates and a comparative assessment of the loan products being offered by leading banks, so that students and their parents/guardians will be able to make an informed decision.

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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 consumer feedback, maximum loan amount, rate of interest (for loans above Rs 7.50 lakhs), margin percentage, processing charges, other charges, maximum repayment period, life insurance cover, percentage of collateral cover provided, and interest concessions offered.

We gave the highest weightage (20 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

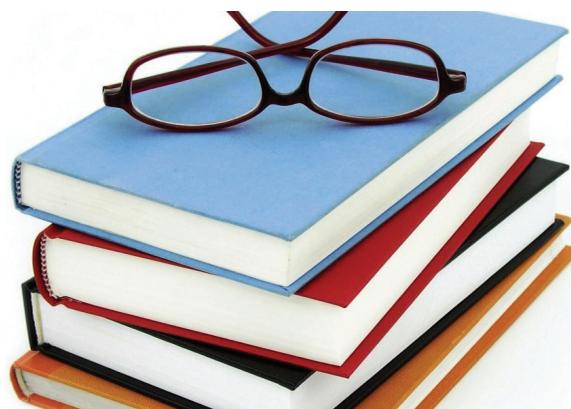
Clearly you must research your loan options thoroughly. Take your time to compare the different kinds of loans that are on offer and run a thorough comparison. Don't set all your hopes on just one – it may be prudent for you to apply to multiple banks, in case your loan application were to get rejected by one.

You can register at Vidya Lakshmi portal and fill up the common education loan application form (CELAF) with all the necessary details. CELAF is a single form that students can use to apply for higher education loans from multiple banks/schemes. The

same form is also being prescribed by Indian Banks' Association (IBA) and is accepted by all banks. A student can apply to a maximum of three banks through Vidya Lakshmi portal using CELAF.

One may want/need to study abroad for any or some of the reasons below:

- a) The selected course of study is not offered in India.
- b) The preferred university is well known in the area of such specialised study.
- c) A sibling/relative is settled in the country where the university is located. That may solve the biggest headache of all, accommodation—in terms of both cost and convenience.
- d) You foresee several employment opportunities after completion of the course.



These documents you will need

- ✓ Mark sheets of the last qualifying examination for school and graduate studies in India
- ✓ Proof of admission to the course
- ✓ Schedule of expenses (study fees, books, hostel fees, etc.) for the course
- ✓ Copies of letter confirming scholarship, if any
- ✓ Passport-size photographs
- ✓ Statement of existing bank account for the last six months, of either student or parent
- ✓ Income tax assessment order for the last two assessed years of the parent/sureties standing as guarantor(s) for the education loan
- ✓ A brief statement of assets and liabilities of the parent/sureties

Loans for Higher Studies Abroad:

CV Weightage Points (100)	Parameters	Bank of Baroda	Central Bank of India	Oriental Bank of Commerce	Syndicate Bank	
15	Rate of interest for loans above Rs 7.50 lakhs (%)	10.70 (15)	10.55 (15)	10.50 (15)	10.75 (15)	
10	Maximum loan amount (in lakhs)	60 (7)	20 (2)	NS (0)	200 (10)	
10	Margin (%)	10 (7)	15 (3)	15 (3)	15 (3)	
5	Processing charges (%)	0.75 (4)	0.15 (4)	1.00 (4)	Nil (5)	
10	Maximum repayment period (in years) excl. course and holiday period	15 (5)	15 (5)	15 (5)	15 (5)	
5	Life insurance cover	Yes (5)	Yes (5)	Yes (5)	NS (0)	
10	Percentage of collateral cover provided	100 (10)	100 (10)	100 (10)	125 (5)	
5	Other charges payable	Yes (0)	No (5)	No (5)	No (5)	
10	Interest concession for repayment of interest amount during study + holiday period	Yes (10)	Yes (10)	Yes (10)	Yes (10)	
20	Consumer feedback	17	16	17	10	
Total		80	75	74	68	

Notes:

- The rate of interest is on a floating basis and based on the marginal cost of funds-based lending rate (MCLR).
- Information given here has been sourced from websites, brochures and customer care as available on 12 June 2019.
- Rate of interest is indicative only and requires to be ascertained from individual banks separately.
- NS – not specified

On these terms

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

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.

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A Comparative Chart

	Bank of India	State Bank of India	Punjab National Bank	Axis Bank	Indian Bank	Indian Overseas Bank	HDFC	City Union Bank	Karur Vysya Bank	Federal Bank
	11.15 (15)	10.75 (15)	11.25 (15)	13.70 (5)	11.65 (11)	11.65 (11)	14.10 (8)	15.50 (5)	12.35 (11)	15.25 (5)
	20 (2)	20 (2)	NS (0)	75 (10)	NS (0)	40 (4)	20 (2)	20 (2)	20 (2)	20 (2)
	15 (3)	15 (3)	15 (3)	15 (3)	15 (3)	15 (3)	Nil (10)	15 (3)	15 (3)	15 (3)
	0.65 (4)	Nil (5)	1.00 (4)	2.00 (1)	NS (0)	NS (0)	1.50 (2)	0.25 (4)	Nil (5)	NS (0)
	15 (5)	15 (5)	15 (5)	NS (0)	15 (5)	7 (2)	7 (2)	15 (5)	7 (2)	15 (5)
	Yes (5)	NS (0)	NS (0)	Yes (5)	Yes (5)	NS (0)	Yes (5)	Yes (5)	NS (0)	NS (0)
	NS (0)	NS (0)	125 (5)	100 (10)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)	NS (0)
	No (5)	No (5)	Yes (0)	No (5)	No (5)	No (5)	Yes (0)	No (5)	Yes (0)	No (5)
	Yes (10)	Yes (10)	Yes (10)	NS (0)	NS (0)	Yes (10)	NS (0)	NS (0)	NS (0)	NS (0)
	16	17	16	15	15	8	10	9	8	8
	65	62	58	54	44	43	39	38	31	28





Benefits of an Education Loan

More and more students/families are opting for education loans due to the rising costs of education. Apart from the quick processing, minimum documentation, competitive rates of interest, longer repayment period, easy EMIs, etc., here are some other aspects that work in favour of these loans:

- Some banks offer concessions/a lower rate of interest to female students (who opt for a loan).
- Some banks are extending interest concession to students looking to repay the interest amount during the moratorium period (study period). This helps reduce the loan burden on themselves/their parents.
- Students can claim income-tax exemption on the amount of interest paid/payable either by the student or by the parent under Section 80E, for a period not exceeding 8 assessment years. So, if you have taken a 15-year loan, for example, try to repay it within 8 years to get the tax benefit.

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.

If you have started repayment, don't default. This is usually the first loan most individuals take. By repaying on time, you can build a good credit history; all your future loans will be dependent on how you repay this loan.

Schemes and Means to Get that Loan

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.

◆ 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).
- **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

◆ Credit Guarantee Fund Scheme for Education Loans (CGFSEL)

Salient features

- This was established to guarantee education loans sanctioned by member banks (for a nominal fee to be paid by the member banks every year to keep the guarantee afloat). Corpus contribution to the fund shall be made upfront by the settler – that is, the government of India – on an annual basis. In case of loan default and invocation of claim, the Fund shall settle the claim of the lending institution after due diligence and the latter shall be paid on claim filed by them to the extent of 75 per cent of the loan amount; the rest 25 per

With the Credit Guarantee Fund Scheme in place, banks are now expected to increase their loan volume and numbers, particularly with regard to extending education loans to needy students for pursuing further studies in India and abroad.

cent will have to be absorbed by the lending institution.

- The maximum loan allowed is Rs 7.50 lakh without any collateral security and third-party guarantee.
- For education loans up to Rs 4 lakh, there is no collateral fee.
- For loans up to Rs 4 lakh, margin amount is nil; for loans above Rs 4 lakh and up to Rs 7.50 lakh, 15 per cent is margin fee 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.
- National Credit Guarantee Trustee Company (NCGTC) provides guarantee against default in repayment of educational loans up to Rs 7.50 lakh extended by lending institutions. It also covers a guarantee to the extent of 75% of the amount of loan default.
- The guarantee is available only against educational loans.



◆ Vidya Lakshmi

This is a first-of-its-kind, single-window electronic platform for students to access information on and make application for education loans provided by banks. Here students can track their loan applications anytime.

Here's what students will be able to do –

- a) Get information about education loan schemes of banks
- b) Avail of the common education loan-application form

- c) Apply to multiple banks for educational loans
- d) Email loan-related grievances/queries to banks

The portal also provides linkages to National Scholarship Portal, a digital scholarship platform that carries multiple scholarships offered by the central government, state governments, and government agencies like UGC (University Grants Commission) and AICTE (All India Council for Technical Education).

Banks, on their part, can download the loan applications as well as upload the loan-processing status for students to access.

Scope for improvement

- Timely release of loan will enable students to plan their date of travel and join the course of study on time.
- The cost of yearly travel from host country to home country can be included in the loan.
- When credit guarantee is expanded/extended to cover loans up to at least Rs 10 lakhs (presently the maximum limit is Rs 7.50 lakhs, for studies in India as well as abroad), it will send out a strong signal for banks to step up lending to eligible students (especially when education loans up to Rs 10 lakhs and Rs 20 lakhs for studies abroad are eligible to be covered under banks' priority-sector lending under RBI guidelines).

Options other than bank loans

Some non-banking financial companies (NBFCs) offer education loans for studies abroad. Some of these are HDFC Credila, Avanse Financial Services and Aditya Birla Capital.

Other than loans, one may think of obtaining assistantships (merit-based), fellowships, and scholarships from different foreign universities. However, the availability of such assistance depends on the country/course one is applying to. For example, most US universities facilitate such arrangements depending on the course. For countries other than the US, self-funding or funding from banks is mostly required.

