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No collateral, 3rd party guarantee for education loans up to ₹7.5 lakh

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New Delhi, May 29: Students seeking education loans of more than ₹4 lakh no longer need any third party guarantee as the Credit Guarantee Fund proposed by finance minister Pranab Mukherjee in this Budget will cover loans up to ₹7.5 lakh without any collateral security and third party guarantee. This is a departure from the current scheme of things as under the present Model Educational Loan Scheme developed by Indian Banks Association (IBA), loans above ₹4 lakh are secured by way of a third party guarantee.

The fund, as FE had reported earlier, will replace the human resource development (HRD) ministry's proposed National Education Finance Corporation (NEFC) for refinancing of education loans. Currently, above ₹4 lakh and up to ₹7.5 lakh are secured by way of a third party guarantee but the Credit Guarantee Fund Education Trust (CGFT) scheme, education loans up to ₹7.5 lakh without any collateral security and third party guarantee would be covered up to 75% of the amount in default.

Under the present model, there is a maximum limit for education



loan of ₹10 lakh for studies within the country and ₹20 lakh for studies abroad. As per the IBA, the public sector banks had sanctioned ₹15,207 crore worth education loans in 5.42 lakh accounts in the year ended 31 March. The amount of the disbursement was ₹11,200 crore during the year.

"The fund seeks looks at the guarantee part which is separate from refinancing as education loan is a separate product in itself. This is so because while any other loan is repaid in a few years, this loan can't be repaid till the time the student is studying," an HRD ministry official said.

The details of the fund will be finalised in the meeting of the Cen-

tral Advisory Board of Education which is the highest advisory body to advise central and state governments on June 6.

The fund is also a blessing for the public sector banks that often complain of default on loan repayment as there is no collateral involved. According to IBA, the total outstanding loans of public sector banks for education as on March 31 stood at ₹43,074 crore in more than 22 lakh accounts.

In special deserving cases, banks may approach for coverage of Education Loans above ₹7.5 lakh for providing such loans to highly and exceptionally meritorious and deserving students without collateral security and third party guarantee.

A nominal guarantee fee at a specified rate of one per cent per annum of sanctioned loan or as specified by the Trust from time to time shall be paid by the institution availing the guarantee.

In case of default and invocation of claim, the Trust Fund shall settle the claims after due diligence and 75% of the guaranteed amount shall be payable as first installment and the balance will be paid after conclusion of recovery proceedings by the lending institution.