

Student loan up to ₹7.5 lakh may be collateral free

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IN a move that will make it much easier for students to finance their studies, banks are unlikely to seek collateral for education loans of up to Rs 7.5 lakh. The development comes after a meeting of finance minister P Chidambaram with chiefs of public sector banks on Saturday. Chidambaram, at the meeting, had asked the Indian Banks' Association (IBA) to ensure easier access to such funds.

"The IBA will review current deficiencies such as our pro-activeness in providing appropriate credit, perhaps without insisting

AT PRESENT, for loans of over Rs 7.5 lakh, along with a joint obligation from parents, a collateral is required

on collateral on loans up to Rs 7.5 lakh. The IBA will review these issues and come out with a new circular," MD Mallya, chairman and managing director, Bank of Baroda told The Indian Express.

At present, banks do not seek security for education loans of up to Rs 4 lakh. But IBA norms require that a third-party collateral

for loans between Rs 4 lakh and Rs 7.5 lakh. For loans of over Rs 7.5 lakh, along with a joint obligation from parents and assignment of future income of the student, a suitable collateral is also required. The collateral can be in the form of land, building, government or public sector bonds, life insurance policies, bank deposits, mutual funds or even gold.

Further, banks may not be required to refer to the service area for giving such loans, Mallya said. Under the current guidelines, students can submit their loan applications only at bank branches near their parent's residence or the educational institution.

Chidambaram had asked the IBA to review its guidelines on education loan, address the deficiencies and issue a revised circular. The IBA, in May this year, had come out with a revised model education loan scheme. The finance minister had also announced that bank managers would be penalised for rejection of eligible loan applications. Further applications for student loans could be rejected only by an officer superior to the receiving officer.

Sources said that under the new norms, banks may also be asked to process loan applications faster than the current time line of 15 days.