

Learning to get the best deals on education loans

Many students depend on education loans to fulfil their dreams of high-quality higher education. However, they also need to learn how to make the most of the education loan offers that are out there

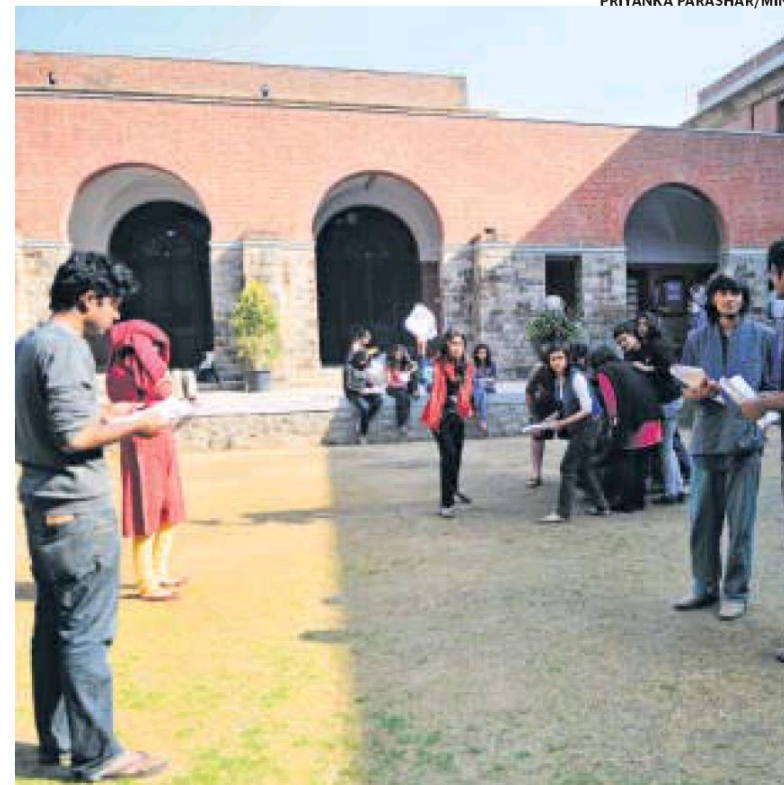
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The cost of quality higher education is going up. According to a study by Crif High mark, one of the four credit bureaus in India, the average ticket size of education loans has gone up from Rs2.5 lakh in 2010-11 to Rs6.77 lakh in 2016-17, which is an average year-on-year growth of over 16%.

The report also highlighted that in India non-performing assets (NPAs) in education loans crossed the mark of 10% in 2016-17. But, the report said, lending institutions were still eager to lend to students, as education loans disbursed were about Rs20,000 crore in 2016-17, compared to Rs17,000 crore in the previous year. The growing number of NPAs in this segment have made banks more careful in approving and disbursing education loans. Many of you will be undertaking the journey from preparing for admission to an institute to also applying for an education loan at different banks or financial institutions. Here is what experts have to say about some of the important aspects of taking an education loan.

WHEN TO START PLANNING

As with any other high-value spend, in education loans too, planning in advance will help a great deal. "The planning for financing education should ideally be done when



PRIYANKA PARASHAR/MINT

Ganeriwala, co-founder, Collegify, an education consultancy.

Planners, and a banker-turned financial adviser.

PSBs versus Private banks: For

other travel papers needed; study permits; academic record of the student; and income tax documents of parents, guardians or the guarantor. If it is a big-ticket loan, banks also ask for collateral.

"With rising NPAs in this segment, banks are now insisting on collateral," Praharz said. The demand is also coming with changes in employment and immigration policies in countries that the students see for high-paying jobs. The documentation in these cases would also involve collateral; security-related documentation like verification and valuation certificates.

Collateral: For education loans of high amounts, usually above Rs10 lakh, the collateral required is usually more than the approved loan amount. However, banks also waive such a requirement if the student has a confirmed admission to top institutes.

Repayment: Most banks offer a repayment holiday or a moratorium of 6 months to 1 year after the course is completed. Repayment of loan starts immediately after the repayment holiday. However, the interest on the loan is to be paid periodically—immediately after the loan is disbursed. So even while your education is undergoing you or your guardian will have to keep paying interest on the education loan.

SELF-FINANCING LIVING COSTS

Cost of living in the countries—like the US, Canada, Australia and many European countries—that are preferred by students are higher than in India. If you are looking at

a student initiates the test-preparation for her chosen higher education. Family assets are not always liquid and there are various other considerations and factors that make it illiquid in the short run," said Ajay Bohora, co-founder, managing director and chief executive officer of HDFC Credila, an HDFC Ltd subsidiary that specialises in education loans. If a student is looking to study abroad, it is quite possible that the university she is applying to might also have a requirement to furnish 'proof of resources or funds' at the application stage itself. In such a situation, having an approved loan from a bank, in advance, can be helpful. "If an education loan has been planned, keeping the finances in order and properly documented—like assets and liabilities—and taxes filed helps. In most cases of studying abroad, the student has a time period of around 3-4 months after getting confirmation from a university to arrange the education loan," said Rohan

PUBLIC SECTOR BANKS OR PRIVATE BANKS OR NBFCs?

Approval of an education loan can depend on several factors, such as: student's academic record, entrance test scores, ranking and quality of the institute and the course in which admission is sought. All these factors are considered to determine the future employability of a student. From a borrower's perspective, apart from the process of approval and disbursement, the rate of interest is an important factor to be considered.

Public sector bank (PSB): While the process here could be more tedious, the rate of interest could be lower. "Public sector banks adhere to laid-down norms and procedures and may take a little longer for processing. Private sector banks and NBFCs are more prompt and also liberal in limits but it (may have) higher costs. Sometimes interest rate differential is around 4%," said Prakash Praharaj, founder of MaxSecure Financial

instance, for loans needed to study abroad, State Bank of India's effective rate of interest at present is 10.45%, which is at 1 year MCLR (7.95%) plus spread (2.50%). For HDFC Credila, the effective rate is calculated with the benchmark lending rate (BLR) plus spread. Current BLR is 11.85% and spread is determined on the risk profile in each case.

The processing fee could vary from nil to Rs20,000 plus taxes, depending on your relationship with the bank. Also factor in costs of obtaining legal opinion and fees for valuation and verification of the collateral securities.

DOCUMENTS AND COLLATERAL

Documents: Usually, banks will ask for a letter of admission from the university or college; detailed cost break-up of the educational programme specifying the tuition fees—term-wise, year-wise and any other expenses involved; visa approval and any

reducing the amount to be borrowed, you can explore other avenues to take care of your day-to-day expenses. "Many students manage their living cost by opting for part-time employment while studying. Universities provide scope for working in libraries or as research assistants. The number of students opting for this are more in the 2nd year—and beyond—of their study," Praharaj said. Many universities also provide financing options to students, wherein the payable fee can be spread over the period of study.

It is important for students as well as their parents, guardians or guarantors to invest time in understanding the process involved in an education loan. The aim while taking these loans, in most cases, is to gain high-quality higher education that in turn can provide high-paying jobs. However, students and guardians also need to beware of the institutions that are big on marketing but low on quality and output.