

CREDIT GUARANTEE FUND SCHEME FOR EDUCATION LOANS (CGFSEL)

CHAPTER I

INTRODUCTION

1. Title and date of commencement

(i) The Scheme shall be known as the Credit Guarantee Fund Scheme for Education Loan (CGFSEL).

(ii) It has come into force from the date of notification by the Government of India (i.e 16.09.2015).

(iii) New education loans sanctioned on or after the date of notification of the scheme with features as under will be eligible for the coverage under the scheme.

2. Loan Limit

The maximum loan limit under this scheme is Rs 7.50 lakh without any collateral security and third party guarantee. However, the Fund reserves the right to revise the loan limit as and when required.

3. Interest Rate

The Interest Rate charged by the Bank for education loans to be covered under CGFSEL should be maximum upto 2% p.a. over the Base Rate. However, the Fund may revise such ceiling from time to time keeping in view the prevailing interest rate scenario, base rates of Bank and RBI's Credit Policies.

4. Margin

Upto Rs. 4 lakh Nil

Above Rs. 4 lakh: Studies in India 5%

Studies Abroad 15%

5. Definitions

For the purposes of this Scheme –

(i) "**Amount in Default**" means the loan amount outstanding in the loan account(s) of the student borrower inclusive of accrued interest, as on the date of the account becoming NPA, or the date of lodgment of claim application whichever is lower or such other amount as may be specified by the Fund for preferring any claim against the guarantee cover subject to a maximum of 'Guarantee Cover'.

(ii) **“Base Rate”** for a Bank means the Base Rate so declared by that Bank from time to time as per Reserve Bank of India guidelines based on which interest rate applicable for the loan will be determined.

(iii) **“Eligible borrower”** means new or existing borrower with Indian Nationality who meets eligibility criteria prescribed under “IBA Model Educational Loan Scheme for pursuing Higher Education in India and Abroad” and executed loan documents with the Bank to avail education loan. Parents/guardians will be the co-borrowers/joint borrowers. In case of a married person, joint borrower can be either spouse or the parent(s)/parents-in-law.

(iv) **"Collateral security"** means the security provided in addition to personal obligation of borrower/co-borrower.

(v) **“Education Loan”** means any financial assistance by way of loan, extended by the Bank to the eligible borrower for higher education as per ‘IBA Model Educational Loan Scheme’.

(vi) **"Fund"** means the Credit Guarantee Fund for Education Loans set up by Government of India with the purpose of guaranteeing payment against default in Education Loans, extended by the Bank(s) (MLIs) to the eligible borrowers.

(vii) **“Guarantor”** means a person acceptable to the bank, who guarantees to repay the education loan, in the event of failure of the borrower to repay.

(viii) **“Guarantee Cover”** means maximum cover (i.e. 75%) available per eligible borrower of the amount in default in respect of the credit facility extended by the Bank.

(ix) **"Lending institution(s)"** means All public sector banks, private sector banks and foreign banks which are members of IBA. The Funds may, on review of performance, include co-operative banks / other FIs / NBFCs as additional MLIs in future.

(x) **"Material date"** means the date on which the guarantee fee on the amount covered in respect of eligible borrower becomes payable by the Bank to the Trust.

(xi) **"Non-Performing Assets"** means an asset classified as a non-performing based on the instructions and guidelines issued by the Reserve Bank of India from time to time.

(xii) **"Scheme"** means the Credit Guarantee Fund Scheme for Education Loans.

(xiii) **NCGTC** means National Credit Guarantee Trustee Company set up on March 28, 2014 by Government of India under the Companies Act 1956 to act as the Trustee to operate the Credit Guarantee Funds for Educational Loans, Skill Developments Loans and any other funds to be set up by Government of India from time to time.

(xiv) Accordingly, all matters pertaining to the operations of CGFSEL would be undertaken by NCGTC on behalf of this said Trust Fund.

CHAPTER II

SCOPE AND EXTENT OF THE SCHEME

6. Guarantees by the Fund

i Subject to the other provisions of the Scheme, NCGTC undertakes, in relation to Education Loans upto Rs 7.5 lakh extended to an eligible borrower by a Bank which has entered into the necessary agreement for this purpose with NCGTC, to provide guarantee against default in repayment of education loans extended by the Bank.

ii NCGTC reserves the right to accept or reject any proposal referred to it by the Bank which otherwise satisfies the norms of the Scheme.

7. Education Loan eligible under the Scheme:

(i) The Fund shall cover education loans extended by Bank to an eligible borrower as per IBA scheme, on or after entering into an agreement with NCGTC without any collateral security and/or third-party guarantee, provided that the Bank applies for guarantee cover in respect of education loans so sanctioned within such time period and as per the procedures prescribed by NCGTC for the purpose. The bank has already executed an agreement with NCGTC.

(ii) The Bank applies for guarantee cover in respect of education loans disbursed in the quarter April-June, July-September, October-December and January-March prior to expiry of the following quarter viz. July-September, October-December, January-March and April-June, respectively.

(iii) As on the material date,

(a) there are no overdue in respect of the account to the Banks and / or the loan has not been classified as a Non-Performing Asset (NPA) in the books of the Bank, and/or (b) the activity of the borrower for which the credit facility was granted has not ceased; and / or

(c) the credit facility has not wholly or partly been utilized for adjustment of any debts deemed bad or doubtful of recovery, without obtaining a prior consent in this regard from NCGTC.

(iv) The Fund may, at its discretion, approve/frame a list of educational institutes and/or their courses, loans for which the guarantee cover will be available, or the Fund may also notify the categories of educational institutions/courses for which the guarantee cover shall not be available.

8. Education Loans not eligible under the Scheme

The following Education Loans shall not be eligible for being guaranteed under the Scheme: -

- i. Any Education Loan in respect of which risks are additionally covered by Government or by any general insurer or any other person or association of persons carrying on the business of insurance, guarantee or indemnity, to the extent they are so covered.
- ii. Any Education Loan, which does not conform to, or is in any way inconsistent with, the provisions of any law, or with any directives or instructions issued by the Central Government or the Reserve Bank of India, which may, for the time being, be in force.
- iii. Any Education loan which has been sanctioned by the Bank with interest rate more than 2% over the Base Rate of the Bank in cases where Base Rate is applicable.

9. Responsibilities of Bank under the scheme:

- i. The Bank shall evaluate and sanction Education Loan in accordance with the IBA Model Educational Loan Scheme for pursuing higher studies in India and abroad and conduct the account(s) of the borrowers with normal banking prudence and due diligence.
- ii. The bank shall ensure to submit the information required by NCGTC for giving guarantee cover with regard to the Education Loan borrowal account.
- iii. The Bank shall ensure that the loan covered under credit guarantee shall be non-dischargeable.
- iv. The Bank shall ensure linkage of every education loan with Aadhar number and register the borrower's/co-borrower's name with an appropriate credit information bureau.
- v. The Bank shall closely monitor the borrower's account and follow up for repayment.
- vi. The Bank shall ensure that the guarantee claim in respect of the

Education Loan given to the borrower is lodged with NCGTC in the form and in the manner and within such time specified by NCGTC in this regard and that there shall not

be any delay on its part to notify the default in the borrower's account which shall result in the Fund's facing higher guarantee claims.

vii. The payment of guarantee claim by NCGTC to the Bank does not in any way take away the responsibility of the Bank to recover the entire outstanding amount of the credit from the borrower with applicable interest. The Bank shall exercise all the necessary precautions and maintain its recourse to the borrower for entire amount of education loan owed to it and initiate such necessary actions for recovery of the outstanding amount, including such action as may be advised by NCGTC.

viii. The Bank shall comply with such directions as may be issued by NCGTC, from time to time, for facilitating recoveries in the guaranteed account, or safeguarding its interest as a credit guarantor, as NCGTC may deem fit and the Bank shall be bound to comply with such directions.

ix. The Bank shall, in respect of any guaranteed account, exercise the same diligence in recovering the dues, and safeguarding the interest of the Fund in all the ways open to it as it might have exercised in the normal course if no guarantee had been furnished by the Fund. The Bank shall, in particular, refrain from any act of omission or commission, either before or subsequent to invocation of guarantee, which may adversely affect the interest of the Fund as the guarantor. In particular, the Bank should intimate NCGTC while entering into any compromise or one-time settlement arrangement. Further, the Bank shall secure for the Fund or its appointed agency, through a stipulation in an agreement with the borrower or otherwise, the right to publish the defaulted borrowers' names and particulars by NCGTC.

###

CHAPTER III

GUARANTEE FEE

10 Guarantee Fee

- i. For availing the guarantee coverage, the Bank shall pay Annual Guarantee Fee (AGF) of 0.50% p.a. of the outstanding amount as on the date of application of guarantee cover, upfront to the Fund within 30 days from the date of Credit Guarantee Demand Advice Note (CGDAN) of guarantee fee. All subsequent AGFs would be calculated on the basis of the outstanding loan amount as at the beginning of the Financial Year. However, the Fund reserves the right to charge different guarantee fees in future for different educational loans depending on their risk rating/risk profile.

ii. The procedure for collection of guarantee fee under the scheme shall be as under :

The demand on Banks for the AGF in respect of fresh guarantees would be raised upon approval of guarantee cover. The guarantee start date would be the date on which proceeds of the AGF are credited to Trust's Bank account. The AGF shall be calculated on pro-rata basis for the first and last year and in full for the intervening years on the outstanding loan amount at the beginning of the financial year. In the latter case, the AGF shall be paid by the Bank within 30 days i.e. on or before April 30, of every year.

iii. Provided further that in the event of non-payment of AGF within the stipulated time or such extended time that may be agreed to by NCGTC on such terms, liability of the Fund to guarantee such credit facility would lapse in respect of those credit facility against which the AGF are due and not paid, iv. In the event of any error or discrepancy or shortfall being found in the computation of the amounts or in the calculation of the guarantee fee, such deficiency / shortfall shall be paid by the eligible Bank to the Fund together with interest on such amount at a rate of 4% over and above the Bank Rate. Any amount found to have been paid in excess would be refunded by the Fund. In the event of any representation made by the Bank in this regard, NCGTC shall take a decision based on the available information with it and the clarifications received from the Bank. Notwithstanding the same, the decision of NCGTC shall be final and binding on the Bank.

v. The amount equivalent to the guarantee fee will be borne by the Bank.

vi. The guarantee fee once paid by the Bank to NCGTC is non-refundable, except under certain circumstances like –

a) Excess remittance,

b) Remittance made more than once against the same Education loan, and

c) Annual guarantee fee not due.

###

CHAPTER IV

GUARANTEES

11. Extent of the guarantee

The Fund shall provide guarantee cover to the extent of 75% of the amount in default. The Fund reserves the right to modify the same. The guarantee cover will commence from the date of payment of guarantee fee and shall run through the agreed tenure of the Education Loan.

###

CHAPTER V

CLAIMS

12. Invocation of guarantee

(i) The Bank may invoke the guarantee in respect of Education loan within a maximum period of one year from date of NPA, if NPA is after lock-in period or within one year of lock-in period, if NPA is within lock-in period, after the following conditions are satisfied:

a. The guarantee in respect of that credit facility was in force at the time of account turning NPA.

b. The lock-in period of 12 months from either the end of period of moratorium of interest or the date of commencement of guarantee cover in respect of loan covered, whichever is later, has elapsed. As per IBA Education Loan Scheme, the moratorium is course period + 1 year.

Further, servicing of interest during study period and the moratorium period till commencement of repayment is optional for students.

c. The amount due and payable to the Bank in respect of the Education loan has not been paid and the dues have been classified by the Bank as Non Performing Assets. Provided that the Bank shall not make or be entitled to make any claim on NCGTC in respect of the said Education loan if the loss in respect of the said credit facility had occurred owing to actions / decisions taken contrary to or in contravention of the guidelines issued by NCGTC.

d. The credit facility has been recalled and the recovery proceedings have been initiated under due process of law.

ii. The claim should be preferred by the Bank in such manner and within such time specified/to be specified by NCGTC in this behalf.

iii. NCGTC shall pay 75 per cent of the guaranteed amount on preferring of eligible claim by the Bank, within 30 days, subject to the claim being otherwise found in order and complete in all respects. NCGTC shall pay to the Bank interest on the eligible claim amount at the prevailing Bank Rate for the period of delay beyond 30 days. The balance 25% of the guaranteed amount will be paid after obtaining a certificate from the Bank that all avenues for recovering the amount have been exhausted. On a claim being paid, NCGTC / the Fund shall be deemed to have been discharged from all its liabilities on account of the guarantee in force in respect of the borrower concerned

iv. In the event of default, the Bank shall exercise its rights, if any, to take over the assets of the borrowers and the amount realized, if any, from the sale of such assets or

otherwise shall first be credited in full by the Bank to NCGTC before it claims the remaining portion of the guaranteed amount.

v. The Bank shall be liable to refund the claim released by NCGTC together with penal interest at the rate of 4% above the prevailing Bank Rate, if such a recall is made by NCGTC in the event of deficiencies having existed in the matter of appraisal / renewal / follow-up / conduct of the Education loan or where lodgment of the claim was more than once or where there existed suppression of any material information on part of the Bank for the settlement of claims. The Bank shall pay such penal interest, when demanded by the Fund, from the date of the initial release of the claim by NCGTC to the date of refund of the claim.

vi. The Guarantee Claim received directly from the branches or offices other than the Retail Asset Division, HO will not be entertained.

13. Subrogation of rights and recoveries on account of claims paid

i. The Bank shall furnish to NCGTC, as and when required by NCGTC, the details of its efforts for recovery, realizations and such other information. NCGTC shall not exercise any subrogation rights and the responsibility of the dues shall rest with the Bank.

ii. In the event of a borrower owing several distinct and separate debts to the Bank and making payments towards any one or more of the same, whether the account towards which the payment is made is covered by the guarantee of the Fund or not, such payments shall, for the purpose of this clause, be deemed to have been appropriated by the Bank to the debt covered by the guarantee and in respect of which, a claim has been preferred and paid, irrespective of the manner of appropriation indicated by such borrower or the manner in which such payments are actually appropriated.

iii. Every amount recovered and due to be paid to NCGTC shall be paid without delay, and if any amount due to NCGTC remains unpaid beyond a period of 30 days from the date on which it was first recovered, interest shall be payable to NCGTC by the Bank at the rate which is 4% over and above the Bank Rate for the period for which payment remains outstanding after the expiry of the said period of 30 days.

CHAPTER VI

MISCELLANEOUS

14. Appropriation of amount received from the Bank

The amount received from the Bank shall be appropriated in the order in which the service fee, penal interest and other charges have fallen due. If the service fee and the penal interest have fallen due on the same date, the appropriation shall be made first

towards service fee and then towards the penal interest and finally towards any other charges payable in respect of the eligible credit facility.

15. Appropriation of amount realized by the Bank in respect of a credit facility after the guarantee has been invoked.

Where subsequent to the Fund having released a sum to the Bank towards the amount in default in accordance with the provisions contained in Para 12 of this scheme, the Bank recovers money subsequent to the recovery proceedings initiated by it, the same shall be deposited by the Bank with NCGTC, after adjusting towards the legal costs incurred by it for recovery of the amount. The Fund shall appropriate the same first towards the pending service fee, penal interest, and other charges due to the Fund, if any, in respect of the credit facility towards which the amount has been recovered by the Bank, and the balance, if any, shall be appropriated in such a manner so that losses on account of deficit in recovery of the credit facility between NCGTC and the Bank are in the proportion of 75% / 25%, respectively.

16. Fund's liability to be terminated in certain cases

- i. If the liabilities of a borrower to the Bank on account Education Loan guaranteed under this Scheme are transferred or assigned to any other borrower and if the conditions as to the eligibility of the borrower and the amount of the Education Loan and any other terms and conditions, if any, subject to which the Education Loan can be guaranteed under the Scheme are not satisfied after the said transfer or assignment, the guarantee in respect of the Education Loan shall be deemed to be terminated as from the date of the said transfer or assignment.
- ii. If a borrower becomes ineligible for being granted Education Loan under the Scheme, the liability of NCGTC in respect of Education Loan granted to him/ her by a Bank under the Scheme shall be limited to the liability of the borrower to the Bank as on the date on which the borrower becomes so ineligible, subject, however, to the limits on the liability of NCGTC fixed under this Scheme.

17. Returns and Inspections

- i. The Bank shall submit such statements and furnish such information as and when required by NCGTC in connection with Education Loan under this Scheme.
- ii. The Bank shall also furnish to NCGTC all such documents, receipts, certificates and other writings as and when required by NCGTC and shall be deemed to have affirmed that the contents of such documents, receipts, certificates and other writings are true, provided that no claim shall be rejected and no liability shall attach to the Bank or any officer thereof for anything done in good faith.
- iii. NCGTC shall, insofar as it may be necessary for the purposes of the Scheme, have the right to inspect or call for copies of the books of account and other records

(including any book of instructions or manual or circulars covering general instructions regarding conduct of advances) of the Bank, and of any borrower from the Bank. Such inspection may be carried out through the officers of NCGTC or any other person appointed by NCGTC for the purpose of inspection. Every officer or other employee of the Bank or the borrower, who is in a position to do so, shall make available to the officers of NCGTC or the person appointed for the inspection as the case may be, the books of account and other records and information which are in his/ her possession.

18. Conditions imposed under the Scheme to be binding on the Bank

- i. Any guarantee given by the Fund shall be governed by the provisions of the Scheme as if the same had been written in the documents evidencing such guarantee.
- ii. The Bank shall as far as possible ensure that the conditions of any contract relating to an account guaranteed under the Scheme are not in conflict with the provisions of the Scheme but notwithstanding any provision in any other document or contract, the Bank shall in relation to the Fund be bound by the conditions imposed under the Scheme.
