

EDUCATION LOAN

Now, take a loan to pay school fee

With this new facility, you can avail of loans ranging from ₹30,000-4 lakh from specific banks for classes up to senior secondary.

NUPUR ANAND

It's very likely that the fee your parents paid to educate you from kindergarten till graduation is less than the annual fee that you pay for your child's playschool today. In a metro city, a playschool can make you poorer by ₹35,000-1 lakh a year, while primary and secondary education in a private school can cost between ₹50,000 and ₹5 lakh a year.

Paying such high fees could be a problem if you face a financial crisis, but there's no way you can remove your child from school, can you? Now, you can resolve this dilemma by simply stepping into a bank. Yes, banks have started offering education loans for children's school fees, a phenomenon that took off about a year ago.

Loan criteria

Earlier, education loans were offered only for professional courses. Now, you can take them to pay the school fee for classes ranging from nursery to senior secondary. The banks that offer this facility include public sector entities, such as Bank of Baroda, Central Bank of India, State Bank of Hyderabad and J&K Bank. The loan amount usually varies from ₹30,000-1 lakh, but the Bank of Baroda has an upper limit of ₹4 lakh. Though you don't need an account with these banks to avail of the facility, accountholders are given preference. As a senior official from the Central Bank of India affirms, "We will give a loan to a customer even if he does not have an account with us, but serving an existing customer will be our first priority." Another condition is that the school should be affiliated to ICSE, CBSE or any state education board.

The loan is primarily meant to fund the tuition fee, but it can also be used to pay for other expenses, such as buying a laptop or any apparatus that may be required for projects. However, in such a case, the equipment will remain in the bank's name as security till the total amount is paid.

Cost of loan

Another option to tide over the difficult period is taking a personal loan, but this comes with a high rate of interest, which ranges from 14-19% and can go up to 24% in certain situations. On the other hand, an education loan is available at 12-13%. Despite the fact that both are unsecured loans, the one for education is cheaper. If you are taking a loan to finance your daughter's education,

you will be able to get an additional concession of 0.5-1% on the existing rate.

"Generally, education loans are based on the parents'/guardian's income level and their capability to repay. The interest rates also depend on the income as well as the credit profile of the borrower. You could also get a concession if you provide a security or a collateral," says Adhil Shetty, CEO of *BankBazaar.com*, a financial services company.

Funding for coaching

Coaching classes, which help students prepare for various entrance exams, have become a vital part of the education system. Ranjana Sharma, who scored 95% in her higher secondary, aspires to become a doctor, but her father cannot pay the hefty fee demanded by the coaching institute. He can now approach the banks as they provide loans for coaching taken for professional courses. So, students appearing for entrance exams for civil services, medicine, chartered accountancy, engineering, etc, can opt for this loan.

The Central Bank official says, "The coaching class loan scheme has witnessed a good response, with many parents coming forward to avail of this facility." However, it comes with certain conditions. "A caveat is that you have to appear for the entrance exam of a recognised course, otherwise you will not be eligible for the loan," says Kartik Jhaveri, director, Transcend Consulting, a financial planning firm.



What for?

LOAN FACTS

- School and college fee.
- Examination, library and laboratory fee.
- Fee and other charges payable to the hostel.
- To buy books, equipment, uniforms.
- To purchase a computer or laptop (to be hypothecated to bank).
- Caution deposit, building fund and refundable deposit.

Interest rate

12-13%
Loans for girl students are cheaper by 0.5-1%.

How much?

Varies from ₹30,000 to ₹4 lakh, depending on the bank.

Where?

Public sector banks, such as Bank of Baroda, Central Bank of India, State Bank of Hyderabad and J&K Bank.

Repayment

- The loan for each yearly sub-limit is repayable in 12 EMIs.
- The first EMI is to be paid 12 months after the first disbursement of each year's loan.



Education loans have a lower interest rate compared with personal loans. You could also get a further concession if you provide a collateral."

ADHIL SHETTY,
CEO, *BankBazaar.com*

Confusion over tax

According to Section 80E of the Income Tax Act, the interest that you pay on an education loan is a deductible expense. Earlier, only the loan taken to fund professional courses came under this ambit. This has been amended from the assessment year 2010-11 to include vocational courses pursued after passing the senior secondary exam.

However, there is some confusion about the inclusion of coaching classes. "Typically, one can't claim tax deduction for coaching fees. However, under Section 80E, it is suggested that a loan taken for the purpose of higher education be available for tax exemption. So, it is possible to claim an exemption on the loan taken for coaching classes. This is in contrast to Section 80C, where tuition fee is specifically mentioned," says Paras Savla, a CA who runs Paras Savla & Associates.



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