GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF FINANCIAL SERVICES
LOK SABHA
UNSTARRED QUESTION NO. 23
ANSWERED ON MONDAY, 21st JULY, 2025/ 30 ASHADHA 1947 (SAKA)

REJECTION OF EDUCATION LOAN

23 ADV DEAN KURIAKOSE

Will the Minister of FINANCE be pleased to state:

(a) whether the Banks check the CIBIL score of parents and reject the educational loans to their children;
(b) if so, the details thereof;
(c) whether the Banks are taking any other form of security like land documents or gold to process the educational loans;
(d) if so, the details thereof; and
(e) the details of benefits which the Banks are providing to students to achieve education as a part of the priority sector lending?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SH. PANKAJ CHAUDHARY)

(a) to (b) All Scheduled Commercial Banks have been advised by Reserve Bank of India (RBI) to adopt Model Education Loan Scheme (MELS), 2022 (last amended on 21.3.2024), formulated by Indian Banks' Association (IBA). The scheme inter-alia provides that if the Student / Parent / Guardian has no credit history, they are assumed to be creditworthy. However, in case of an adverse credit history, banks at their discretion may frame a suitable criterion based on their risk appetite. For loans up to ₹ 7.50 lakhs, generally banks take favourable view as these loans are backed by Credit Guarantee Fund Scheme for Education loan. Moreover, rejection of loan application, if any, shall be done with the concurrence of the next higher authority. Further, IBA submitted that, in cases where credit history is available, banks use credit reports from Credit Information Companies (CICs) while appraising Education Loan applications as part of the overall evaluation process for loan applications. The creditworthiness of the applicant/co-applicant is a crucial factor in determining loan eligibility and terms. A favourable credit report generally facilitates a smoother approval process.

(c) to (d) With respect to taking security, RBI vide circular RPCD.SME&NFS.BC.No. 69/06.12.05 /2009-10 dated April 12, 2010, on Collateral Free Loans - Educational Loan

Scheme, has advised that banks must not, mandatorily, obtain collateral security in the case of educational loans upto ₹ 4 lakh.

Further, the IBA's MELS provides that, no collateral security or third-party guarantee is required for loans amount up to ₹ 7.50 lakhs, provided they are eligible for Central Sector Interest Subsidy Scheme (CSIS) / Credit Guarantee Fund Scheme for Education loan.

Public Sector Banks (PSBs) also provide collateral free loans beyond ₹ 7.50 lakhs, on case to case basis as per their Board approved policies.

Moreover, PM Vidyalaxmi scheme has been launched on 06.11.2024, which enables loans through banks to meritorious students so that financial constraints do not prevent any youth of India from pursuing quality higher education. The scheme facilitates and enables education loans to meritorious students who get admission in the top 860 Quality Higher Educational Institutions (QHEIs) in the country and enables meritorious students of these QHEIs to take collateral free, guarantor free education loans through a simple, transparent, student-friendly application process.

(e) With respect to providing benefits by banks to students, the Central Sector Interest Subsidy Scheme provides full interest subsidy during the moratorium period on loan availed under IBA's MELS for pursuing technical/professional courses in India. Students whose annual gross parental/ family income is up to ₹ 4.5 lakh are eligible under the scheme.

Further, the PM Vidyalaxmi scheme also provides for 3% interest subvention, during moratorium period, on loans up to ₹ 10 lakhs to a maximum of one lakh needy students in a year, who do not get benefit of any other scholarship/ interest subvention on education loans and whose annual family income is less than ₹ 8 lakhs.

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