

# Business School Loans Lift Off in Russia

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Sberbank is one of only a few Russian banks to offer special conditions on loans for students with good grades. **Andrei Makhonin**

You need to raise your qualifications for further career growth or you just have a hunger for knowledge, but you don't have enough income to study at a prestigious business school or foreign university. In such a situation, taking out special educational credit, or a student loan, is an option that is becoming more attractive for Russians seeking a second degree. The interest rate on such loans, of course, is lower than those on ordinary consumer loans.

The number of banks that give out student loans is not large in Russia. According to Vilena Li, sales department director at Rosgosstrakh Bank, no more than 20 banks offer such loans. Among them, however, are large banks with well-developed branch networks, including Sberbank, Rosselkhozbank, Soyuz, Baltiisky and others.

However, not all banks are willing to offer a student borrower the chance to wait and pay back the main loan until after graduation, which is one of the main advantages of most student loans. Borrowers can obtain educational loans with an extended debt period at Sberbank

and Rosselkhozbank, which lends only to people planning to work in an agriculture-related occupation in the future. In addition, the company Avesa also offers loans with an extended debt period.

Moreover, the majority of banks require the borrower guarantee such a loan with a special insured security or bring in acquaintances to underwrite the loan.

"Bankers are wary of giving out long-term credit to young people who, as a rule, don't have a set income, since it's not possible to appraise their future ability to pay. There's no guarantee that the borrower will finish studying and find a job with sufficient wages," said Mark Schreiber, deputy director of Rosenergobank.

The risk of educational loans not being paid off is fairly high, Li said.

Most often, banks give student loans for university education, but some are ready to finance second higher degrees, graduate degrees, business courses and courses for raising qualifications, as well.

Some banks, including Avesa and Rosinterbank, do not set geographical requirements and give out loans to those studying abroad, whereas others, like Sberbank, only finance education in Russia.

Several banks offer loans for those studying at a specific institution of higher learning. For instance, Russky Standart offers loans for those studying at the Russian Economic School and Gazprombank gives out loans only to those at the Skolkovo School of Management. Most, however, do not limit future students in their choice of school.

## **Help for Top Students**

The interest rates for loans usually don't depend on the loan period and range from 12 to 19 percent in rubles and 10 to 18 percent in an international currency.

Good grades can help lower the cost of credit. The government subsidizes banks' interest rates for students who have received all fours and fives on the Russian five-point grading scale for two semesters. This allows such students to take out ruble loans with advantageous conditions: no insured security and a 5.0625 percent interest rate. Since 2010, Sberbank and Soyuz Bank have given out these special loans.

Students can receive these reduced-rate loans if they are studying for a first degree in one of 158 Russian universities listed by the Education Ministry.

## **Lack of Demand**

Even with such advantageous conditions, few students take out educational loans. For instance, Sberbank gave out 350 government-subsidized loans and slightly more than 1,000 educational loans in total in 2011.

Over the past year, Rosinterbank gave out about 120 loans for study at Russian institutions of higher education and 24 for study in colleges and MBA programs abroad, said Aslan Kerimov, curator of educational credit programs at Rosinterbank.

Kerimov said that those who most often apply for educational loans are students seeking to pay for business education, and demand peaks at the start of fall.

Another large contingent of borrowers (one that is relatively steady over the course of the school year) is made up of students who face the possibility of being moved out of the budget study program at their university and those who have failed to pay for their education thus far.

For now, the majority of the population is not trying to get an education paid for by loans, Li said.

## **New Possibilities**

Despite the avoidance of school loans by most people, the number of lenders hoping to develop the educational loan system is growing. Most recently, the Agency for Residential Mortgage Lending joined this group.

Under the Agency for Residential Mortgage Lending program, financing will be provided to pay for secondary and additional degrees in Russian and foreign institutions of higher learning, including MBA programs. These loans may be spent not only on tuition, but also on study materials, housing during the study period and, for those studying in other countries, medical insurance and language courses.

The size of the loan will range from 300,000 to 3 million rubles, and the loan period will range from two to 15 years. As collateral, the borrower will have to present residential real estate belonging to the student or his or her co-borrowers, who are usually close relatives.

For a loan making up less than 30 percent the cost of the collateral real estate, the yearly interest rate will be 11 percent, whereas if the loan is worth 30 to 60 percent of the collateral real estate, the interest rate will increase to 12 percent.

In addition, the program includes the possibility of extending the loan period for the entire period of study plus three months.

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