

# All about Education Loan an Analytical Framework of Repayment and NPA of Education Funding

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**Abstract** - It is a fact that Indians are intelligent among all the breeds in the world. The backbone of our intelligence is the educational system which is in synchronization with our family and cultural values. Indian kids are doing extremely well in the field of education. Unlike any other country, education is the primary requirement for any Indian kid. Reputation and respect are related to the level of education. Indian students are quite competitive in the education market. Growing need for a better education compels the cost of education to be higher. Most of the Indian families are in the range of middle income group; they are forced to go for education loan in order to provide better education for their children. Government is also encouraging the education growth and also ensures that the cost of education should not be a reason for stopping or leaving the education by any child. For others, government has implemented various programmes including the easy availability of education loan by various institutions. The scheme of education loan has been introduced in 2001 by RBI for needy and meritorious students who wish to pursue their higher education. Educational loan is one of the priority sector advances in which limits are fixed by government. The loan can be granted to pursue higher education, engineering graduates, post graduate courses, also to diploma and job oriented courses. The paper aims to analyze all about the education loan, its process by banks, reasons which leads to non-repayment of education loans.

**Keywords** —Education Loan, higher education, Public Sector Banks, Private Sector banks education loan, Education loan NPA, NPA, etc.

## I. INTRODUCTION

A centralized system of Education is one of Human Resource Development. The primary driven factor of government is to providing finance and emphasis the needy and meritorious students to be focused in their future. The driving force of economic development is Information and Knowledge. This makes the Government and RBI to form a model framework for issuing education loan to pursue the higher studies. Based on recommendations, Indian Banks Associations have prepared a Model Education loan scheme in year 2001 which advised banks to implement the above said scheme via circular no. RPCD.PLNFS.BC.No.83/0612.5.2000-01, dated April 28th 2001. The model loan for education proposed to distribute up to Rs.4.00 lakhs without any security other than personal security, and for loan of Rs.7.50 lakhs and above both with collateral and personal security corresponding to the change in the environment, education loan scheme has also seen many changes over the years.

### Need for education loan

As per a survey of All India survey Institution there are about 864 universities and 11000 colleges and institutions in India which is the back bone of Indian higher education industry. As per the National Survey Sample Report 2014, average annual expenditure on technical/professional and

vocational education was about 9 times and 4 times that of general education. With the advancement and technological improvement, the cost of education increasing which too far to the poor and moderate families. The tuition fees, book fees, and extra costs in Universities, Deemed colleges are not affordable for them. At this juncture, the individuals are having option to take up the credit from banks to fulfill their aim through career developments.

### Objectives of the Study

- To study about the education loan approaches provided by banks
- To review the education loan disbursement and funding pattern by banks.
- To identify the repayment schedules given by banks to the students
- To critically assess the causes of non-repayment of education loan
- To know the consequences on non-repayment of education loan

## II. REVIEW OF LITERATURE

1. **Narayana (2005)** - conducted an empirical analysis of the role of student loan by industrial banks as educational loans have become a vital element of the non-public loans

of regular banks in our country. He also analysed about the nonperforming assets arising and general subsidy to education by government and private colleges in state of Karnataka.

**2. P Geetha Rani (2009)** claimed that "It is prioritized by the Government of India which has about resources augmented for covering a vast portion of higher education costs. There were some recent policies which were implemented to favor the available resources in various stages of education and also cover the recovery costs in full form in higher institutions. It comprised of increase in fees, and loans by the students currently operated by scheduled commercial banks. It seems to be a cycle relationship between the student loan and their full cost towards education. The cost of higher education has been neglected in biggest drift of globalization and competition in our country. It is a must to the various funding sources to diversify the funds along with the cost sharing among students with political limits and commercialization of higher education which should be impermissible.

**3. Sailabala Debi (2010)** claimed that every individual has the basic right education. Our government has taken many initiatives seriously to establish a goal towards higher education. In general, one cannot omit both primary and higher education in particular to compete in world level challenges to attain the goal. The higher education institutions play a major role in setting up high value for education in high cost of fees. Education is important for a better survival however teaching is important for property development.

**4. Harsh Gangadhar (2010)** - He analysed in his study on loan schemes by scheduled banks in Chandigarh. It has been highlighted that interest on student's loans are high which was also absolutely disbursed on a commercial basis. In certain cases, loans were repaid promptly. The banks failed to reveal the identity of the borrowers because it can breach the privacy and trust of the banker-client relationship. The scholarship scheme introduced long back was the oldest form of educational loan in India. Under this scheme, free loans were provided to meritorious students for pursuing their education. Unfortunately that scheme was stopped due to heavy bad loans crisis faced by our country.

**5. Rajeev Darolia (2013)** - He analysed that there is an increase in public risks about student debt and defaults. It is becoming a controversial attempt to restraint defaults by holding in higher institutions. Recent policy proposals penalize faculties for students' poor reimbursement performance, which gave raise for questions on institutions' power to influence this behavior. The extended research gave the conclusion as a link between the higher institutions, banks and loan defaults. It is clearly evident that the student's family financial resources with low income lead to default of loan repayment. At the time of formulation of policy regarding the educational loans, the policymakers have to accept these conclusions as one of the point in promoting efficiency of public funds and protecting the students without affecting their higher studies.

**6. Varghese K. X. and Manoj P. K (2013)** - It is the responsibility of the state and central governments to allocate sufficient funds for the growth in the educational sector. Secondary and primary education in our country

should receive high contribution for development. In India, the public sector banks introduced tutorial loan scheme in 2001. This paved the way for pursuing higher education in self-financing institutions by deserving students. A practical study of 600 borrowers in Kerala state revealed that rising trend in General nursing and B.Tech courses were leading to an increase in Non-performing assets.

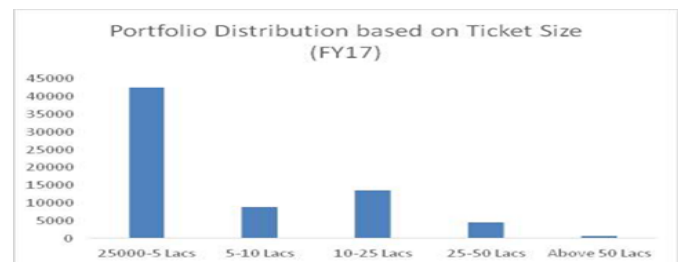
**7. Manoj P.K. (2013)** - Indian banks association had come up with the new framework for educational loans in 2001. After getting the approval from Central government, the banks have started disbursing the loans to education sector especially public sector banks. In 2011, the governments intervened with some new norms and were modified. It shows that there has been a steady growth of educational loan disbursement in the years 2001-2011.

### Actual fact sheet and disbursement

The loan processed by banks to the students who wish to obtain admission to professional and career oriented courses, engineering and management courses etc., The banks will consider the students score, their academic records and achievement for sanctioning of loans. The value of course, the college value (whether AICTE approved institutions), recognized or not are viewed by the banks. In is important to give collateral security if the loan amount exceeds Rs.7.50 lakhs. The offer letter given by Institution should be produced to the bank. The education loan covers 100% student education related expenses like tuition fees, accommodation charges, transport fees, book fees, library and exam fees, travelling expenses (in case of abroad) and other reasonable expenses, which is required complete the course. The parent or guardian will be the co-applicant whose credentials would also be taken into the account for repayment. The bank would consider the borrowing history and creditworthiness of joint applicant as that may be the parent or guardian of the borrowed. The loan will be sanctioned in 15 days of submitting the application. The loan shall be disbursed by the bank directly to institutions by issuing demand drafts, or through any other instruments. The loan will be disbursed in stages as per the requirement or demand directly to institutions.

### III. FUNDING PATTERNS OF BANKS

Following graph exhibit the funding pattern of educational loans by the banks and institutions in India.



The banks will fund to the borrowers subject to the margin requirements of the industry. The margin requirement is up to 5% for inland studies and 15% for abroad studies. A minimum loan amount is Rs.4.00 Lakhs. Such loans are issued without any collateral security but with co-obligation of parents. The banks have fixed the loan amount range between 4.00 lakhs to 7.50 lakhs with co-applicant as

his/her parents which also included collateral security as a 3<sup>rd</sup> party guarantee. The collateral security is must, if the loan amount exceeds 7.5 lakhs. However, banks and financial institution are allowed to have their own set of terms and conditions. For abroad studies, the minimum amount of loan should be Rs.10 lakhs. In general education loan interest rate varies between 10.15% and 10.90%. In 2017, out of all banks, State Bank of India has sanctioned 480922 accounts of educational loan disbursements which is ranking in the place of No.1.

## Repayment

Banks usually give a period of 1 year from the completion of course. This period may be called a holiday period. Before the holiday period ends, the student has to go into a job and start repaying. In the time undergoing course, the parent or guardian who was joint applicant may pay the interest if they can. One year as holiday period or once the borrowers get the job whichever is earlier as the borrower can repay. If the student cannot able to complete the course on time, they may extent the period up to 2 years to start repayment. Repayment may be equated monthly installment maximum tenure of 10 years for below Rs.7.50 lakhs and 15 years for above Rs.7.50 lakhs.

## Performance of Education Loan

As per the RBI data, The percentage of NPA stands at 8.97% on year ended March 2018, and 7.30% for the year ended on March 2017, and 7.30% on March 2016. The total education loan outstanding NPA at the year ended 2017-18 is Rs.6, 434.62 crores out of the total education loan of Rs.71, 234.65 crores. A report says 95% out of sanctioning of educational loans in India have sanctioned only by Public sector banks (PSBs). Tamilnadu counts over with 40% of all over India's educational bad loan of high delinquencies.

As like other advances, the provisions of NPA will also include Education loans.

The growth rate of education loan repayment declined to 2% in 2017 from 17% in 2015 and non-performing assets (NPAs) of public sector banks (PSBs) in the segment increased to 7.7% from 5.7% during the period – says CARE ratings.

EDUCATION LOANS		
	OUTSTANDINGS	NPAs
2017-18	72,839	5,939
2016-17	72,818	5,339
2015-16	68,133	5,006
2014-15	62,244	3,385
2013-14	59,834	3,439
2012-13	48,382	2,615
*(Rs crore) Source: RBI		

## Causes of Non Repayment

In 2008, the financial meltdown has brought out job market down. After 2011, the world of technology is underwent a major changed ad development have started. But the students who borrowed the education loan for their career development could not be able to repay their loan. The causes are,

- Though the Student having their skills and capability along with the degree, they don't get job profile which is related to their degree
- Some of the Borrower/Student may get low salaried jobs on which they can't even survive.
- Weak job market conditions
- Some of the Student/Borrower has diverted the amount for other purpose other than education
- Student/borrower may discontinued in his or her studies for what he borrowed education loan
- Student/borrower may have severe health Issue
- The Student/borrower may die or may got total disability
- The Student/Borrower was identified as victim
- The Student/Borrower may enrolled into a re-habitalization program for his/her disability
- The Student/Borrower may end up with sudden termination of job in between while repaying the education loan.
- When the studies entered by student by borrowing from bank, the value of particular Study/Course may gone obsolescence.

## Consequences of Non Repayment

The entire loan balance and its accrued interest immediately become due and payable. The student shall pay the loan from one year completion of course or from 6months from joining of a job whichever is earlier. The consequences may be faced by the students are,

- The Borrower may lose his eligibility for repayment of restructuring loans in future.
- The Borrower cannot go for further aid.
- The Borrower's credit score (CIBIL) may get affected.
- The Banks may legal action may be taken against him.
- The Borrower's collateral (if any) may sell out through Auction.
- At last, when the borrowers do not pay, the banker will give details to the recovery agent to collect dues.

## IV. CONCLUSION

Education loan plays a vital role in developing the economy and young, youth and most powerful segment of population in India. Under the Current situations banking system needs to strengthen at ease and continuous monitoring to prevent the slippages and standard. A lot need to be done in ensuring the quality of the assets disbursement and also the quality of assets.

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