

Educational Loans from Scheduled Commercial Banks: A Critical Assessment

Dr. Naveen Kumar Baradi*
Indian School of Business, Gachibowli, Hyderabad, India. PIN-500032

Venkata Dharma Kumar Malla
Indian School of Business, Gachibowli, Hyderabad, India. PIN-500032

Abstract

India has large number of students who are aiming for higher education and are seeking financial assistance in the form of educational loans from banks. It has been found in the study that, educational loans are available to deserving / meritorious students at affordable interest rates for pursuing higher studies in India and abroad for various courses. Even though the number of education loan accounts has increased; the year-on-year growth rate had been showing a declining trend both in number of accounts as well as in the amount.

Keywords: Educational Loans-interest rates-growth in loan accounts.

1. Introduction

Knowledge and information is key driving force for economic growth of any country. Rapid rate of economic growth of the country demands technically and professionally trained human man power in huge numbers. Therefore, loans for education are seen as investments for economic development and prosperity of the country. Money borrowed to finance education or school related expenses is called Educational loan. The National loan scholarship scheme was started in 1963 to finance the meritorious students for pursuing higher education. The budgetary allocation for higher education was also decreasing with respect to the increase in enrollment over last two decades. Functioning of education sector depends on availability of various resources, of which to a large extent on financial resources. Finances for education are mobilized from different sources like government spending, fees, educational loans, and others. Among these, educational loan has been seen as an alternative way of financing for education.

Educational Loan Scheme is a socially and economically relevant loan scheme from the Indian banking industry. Reserve Bank of India (RBI) has included education loans as part of the priority sector lending of banks. It aims to provide need-based finance to meritorious student for taking up higher education. In any commercial lending decision, credit worthiness of the borrower and the viability of the scheme are important. The student borrower has no credit history and as such he is assumed to be creditworthy as this is a futuristic loan. However, it is likely that the joint borrower for the loan has a credit history and any adverse features could have a bearing on the assessment of credit risk. If the joint borrower has a loan account with the bank and the loan is treated as non-performing asset, the bank runs the risk of having to consider the student loan also as non-performing asset. To overcome this, the bank may, as a prudent measure insists on a joint borrower acceptable to the bank, in case of adverse credit history of the parent/guardian of the student.

2. Literature Review

Higher education at the start of 21st century is beset with problems of declining financial support by government, higher fees, greater student debt loads, and a restive student body (Johnstone, 2005). In India, the 1992 Education policy provided for the establishment of self financing colleges and deemed Universities in the private sector to address the gap in Government investment in higher education. It also suggested educational loans for meeting the expenses for higher education. The Central Government and the Indian Banks association finalized norms for educational loans in 2001. Since then the educational loans grew substantially.

In a study conducted in United States Of America (USA) on student borrowing over the last two decades prior to 1987, found that students borrow more than they used to, and more students take out educational loans. Student loans were popular with both the middle class and lower income families and are commonly taken at community colleges and proprietary schools. And it was also found that most of the educational loans were taken by students studying in private colleges (Hansen, 1987). Majority of the Americans are favorable towards borrowing, to finance educational expenses. People from low income groups found to be reluctant to borrow for educational expenses when compared to middle and upper income groups (Mortenson, 1989).

In a study of 1,500 students of University Putra of Malaysia, it was found that students have good knowledge about National Higher Education Fund Corporation (PTPTN) loan agreement but there were a significant proportion of students with negative attitudes towards the repayment of the loan. Majority of them perceived the loan as a burden to them (Elistina et al., 2006). Adam (2008) discusses how American Congress has eliminated the possibility of discharging educational loans by bankruptcy.

Dongbin (2007) examines the relationship between undergraduate student loan debt and college degree attainment. The results of his study find that higher student loan debt in the first year of college is associated with lower chances of degree attainment among low-income and Black students. Her findings suggest that students' increased reliance on loans for financial aid may widen the income and racial/ethnic gaps in degree completion, despite the fact that a primary goal of financial assistance is to narrow those gaps.

3. Need for the study

Education assumes significance as a provider of input for economic, political and social development, besides as a source of knowledge. Economic growth in recent years has been based on availability and quality of knowledge in any country, which in turn depends on access and affordability to education.

India has large number of students who aim for higher education and the gap between the number of educational loans availed and those who seek financial assistance is significant, which in turn is affecting the student community. To make things more complex and difficult the banks impose stringent and inflexible terms and conditions. The main emphasis is that every meritorious student is provided with an opportunity to pursue education with the financial support on affordable terms and conditions.

4. Objectives of the study:

The current research was undertaken to achieve the following objectives:

- To study the terms & conditions imposed by banks for educational loans in India.
- To study the growth in educational loans in Public Sector Banks.
- To examine the interest rates charged by different public and private sector banks for educational loans.

5. Research Methodology

Sources of secondary data for the current research were as follows: Research works of various scholars; journals and magazines; websites of various banks giving educational loans; journals and magazines; books and other literature on Educational loans, Research Methodology, etc.

6. Data Analysis & Interpretation

6.1 Objective 1

First objective of the current research was to study the terms and conditions imposed by banks for educational loans in India. Hence it was decided to collect the secondary data for this purpose basing on the literature available. We have taken one public sector bank and one private sector bank for this purpose. Details for public sector bank are as following.

6.2 Andhra Bank Educational Loan

Andhra Bank gives education loan under AB Dr. Pattabhi Vidya Jyothi scheme. Loan covers expenses of tuition fees, hostel fee, books, projects, study tours and refundable deposits. For a student taking loan for studies in abroad bank covers air passage and maintenance.

6.2.1 Scope of the scheme

The scheme will apply to deserving/ meritorious students who wish to pursue higher studies in India and abroad and for pursuing Vocational Courses

6.2.2 Eligibility

- The student must be a resident Indian.
- The student must have secured admission into the higher education course, in a recognized Indian or foreign institution, through an entrance test, after completing his/her 10+2 or equivalent qualification.
- Should have a valid passport for pursuing education abroad.

6.2.3 Courses Eligible for Finance

Graduation – For job oriented profession/ technical courses offered by reputed universities.

Post-Graduation – MCA, MBA, MS etc.

Courses conducted by CIMA – London, CPA in USA etc.,

Graduate/ Post Graduate studies in Arts, Science, Commerce and Business Administration.

Graduate/ Post Graduate studies in Pharmacy.

Graduate/ Post Graduate studies in any Professional/ Technical courses.

PhD (Doctor of Philosophy)

6.2.4 Quantum of Finance

Need based as informed in the admission/ confirmation letter of the University/ College, subject to a maximum of Rs. 20.00 lacs

6.2.5 Margin

Up to Rs. 4, 00,000/- : NIL; Above Rs. 4, 00,000/- : 15%

Covers

Tuition Fees; Examination Fees ; Study Tours, Project work ; Cost of Books, Stationary ; Equipment essential for courses ; Caution Deposits/ Building Funds/ Refundable Deposits supported by institution bills/receipts, subject to the condition that the amount does not exceed 10% of the total tuition fees for the entire course.

6.2.6 Hostel Fees

In case of studies abroad – Cost of Air Passage to the foreign country and maintenance including Health Insurance as per Foreign Exchange permit and correspondence from the college abroad

6.2.7 Mode of Charging Interest

The interest to be debited monthly on simple basis during the repayment- holiday / gestation period. The accrued interest during the repayment holiday period to be added to the principal and repayment in Equated Monthly Installment (EMI) fixed.

Penal Interest: For the loans above Rs. 2.00 lacs penal interest at 2% be charged on the overdue amount for the overdue period

6.2.8 Co-obligation

Co-obligation of parents is required. Wherever parents are not there, Bank could consider grandparents as co-obligator to the loans taking into account their net worth.

In case of court appointed guardians, their co-obligation shall be obtained. In case of married person, co-obligator can be spouse or the parents(s)/ Parents-in-law

6.2.9 Collateral Security

Up to Rs.4.00 lacs – NIL

Rs. 4.00 lacs to 7.5 lacs – Co-obligation of parent/guardian/third party

Above Rs. 7.50 lacs – Tangible security of suitable value besides co-obligation of parent. Parent co-obligation and assignment of future income

6.2.10 Holiday Period

1 year after course period or 6 months after getting job, whichever is earlier.

For exhaustive details students are advised to check the Andhra Bank website.

6.3 Axis Bank

AXIS Bank is one of the fastest growing banks in private sector. Axis Bank's Education Loan aims to provide the much needed financial support to deserving students for pursuing higher professional or technical education in India and abroad. The education loan would be provided to those students who have obtained admission to career-oriented courses e.g. medicine, engineering, management etc., either at the graduate or post-graduate level.

6.3.1 Expenses considered for Axis Bank Education Loan

The education loan will cover the tuition fees, hostel charges, cost of study materials and other education related expenses.

6.3.2 Amount of Education Loan

For studies in India, the maximum quantum of finance offered is Rs.10 lakhs. The maximum loan amount for studies abroad is Rs.20 lakhs. The minimum amount of education loan is fixed at Rs. 50,000. The interest rates depend on the loan amount and tenure. Also, if the education loan is availed by a female the interest rate is 0.5 % lower.

6.3.3 Processing Fees and Other Charges

There are no loan processing charges and prepayment charges for Axis Bank Education Loans. For the late payment of EMI, Rs.500 plus taxes per cheque bounce and a penal interest of 24% per annum on the overdue amount is charged.

6.3.4 Security

Third party guarantee and/or collateral security might be asked as security in certain cases. As additional security, assignment of a LIC policy in the bank's favour for the sum assured being at least 100% of the education loan amount might be required. Also, the future income of the student needs to be assigned in favour of Axis Bank for meeting EMI obligations.

6.3.5 Margin

There is no margin for education loans amounting up to Rs.4 lakhs. For loans above Rs.4 lakhs, the margin is 5% for studies within India and 15% for studies abroad

6.4 Objective 2

Second objective of the current research was to study the growth in educational loans in India, in Public Sector Banks. Hence it was decided to collect the secondary data for this purpose based on the literature available. Student loans in India (Educational loans) have become a popular method of funding higher education in India with the cost of education going higher.

The education loan growth rate in Public Sector Banks (PSBs) had witnessed a declining trend. Even

though the number of education loan accounts had increased; the year-on-year growth rate had been showing a declining trend both in number of accounts as well as in the amount. The total outstanding education loans of PSBs as on March 31, 2011, stood at Rs 43,074 crores in 2,235,532 accounts. The education loan amount was Rs 4,550 crore in 319,337 accounts as on March 31, 2004. The growth rate of education loan outstanding amount as on March 31, 2011, went down to 20.90 per cent. Similarly, the growth rate in number of accounts has also fallen from 46.62 per cent at the end of March 2005 to 15.93 per cent at the end of March 2011. Similarly, the growth rate in number of accounts has also fallen from 46.62 per cent at the end of March 2005 to 15.93 per cent at the end of March 2011.

Number of education loan disbursements have dropped sharply by 60 per cent between 2009-10 and 2014-15 (News Article), seeing a gradual decline over years. Almost 10 per cent, i.e., around Rs 7,900 crore of the total education loans corpus of Rs 79,000 crore has been categorized as over dues, or active loans which are 90 days past due, which can be technically declared as non-performing asset (NPA).

6.5 Objective 3

Third objective of the current research was to examine the interest rates charged by different public and private sector banks for educational loans in India. Hence it was decided to collect the secondary data for this purpose based on the literature available.

Taking an education loan is common these days, particularly in view of the sharp increase in costs for higher education in India. Investing for ones further education or your kids' education is one of the best investments. Banks, now offer attractive interest rates for further education in India or abroad. Education loan is not only beneficial to pursue higher studies but one can also avail tax benefit under 80E of Income tax act. Only an individual is eligible for tax deduction not a Hindu Undivided Family. Different banks offering education loans to students have varying interest rates from bank to bank and they differ from time to time.

7. Conclusions

- Educational loans are available to deserving/ meritorious students who wish to pursue higher studies in India and abroad for various courses including Vocational courses.
- Loan can be taken from a minimum of Rs50, 000 and up to maximum of Rs 20, 000, 00. Banks may consider higher quantum of loan based upon course.
- No collateral required up to Rs 4, 00,000.
- Loan covers expenses of tuition fees, hostel fee, books, projects, study tours and refundable deposits. For a student taking loan for studies in abroad bank covers air passage and maintenance.
- Co-obligation and collateral is required in most of the cases.
- Holiday period is 1 year after course period or 6 months after getting job, whichever is earlier.
- The education loan growth rate in Public Sector Banks (PSBs) had witnessed a huge decline. The growth rate in number of accounts had fallen from 46.62 per cent at the end of March 2005 to 15.93 per cent at the end of March 2011.
- Interest rate is 0.5% lower for girl students.
- Interest rates are based on the base rate, which is given by Reserve Bank of India.

8. Recommendations

- To be optimistic and positive all the banks should take initiatives to provide insurance cover to their educational loan products by making them more attractive and safe for the customers.
- In the present era of globalization and growing importance of higher education; financing education should serve as a tool for improving economic condition and social status of people. Though Educational Loan Schemes are run purely on commercial basis by most of the banks an effort should be made by both the Government and the banks to ease the stringent terms and conditions for availing education loans.
- Taking advantage of the present generation of users' high dependence on information technology and internet; Banks can develop uniform structures/guidelines for education loans by integrating operations and also involve Educational Institutions to improve transparency, visibility and awareness among prospective borrowers who seek education loans.

9. Limitations of the study:

- The study is limited to the period 2012-13, Hyderabad, India only.
- The study is limited to educational loans only.
- The study is limited to specific public sector banks & private banks only.
- Economic conditions might have varied.

10. Scope for Further Research

Education loan disbursements are dropping and non-performing assets are increasing. Studies can be done in this direction to find out reasons for this.

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Figures & Tables

Table 1 : Growth in Educational Loans in PSBs

*As on March 31st 2011-Business Standard			Year-on-year growth (%)	
Financial Year	No. of accounts	Amount outstanding (in Crores)	No. of accounts	Amount
2005	468,207	6,713	46.62	47.54
2006	679,945	10,012	45.22	49.14
2007	944,397	14,283	38.89	42.65
2008	1,246,870	19,817	32.03	38.75
2009	1,603,385	27,646	28.59	39.51
2010	1,928,350	35,628	20.26	28.87
2011	2,235,532	43,074	15.93	20.9
2012	2,452,550*	45,537	*Forecasted values arrived based on previous year's values	
2013	2,782,942*	52,604		

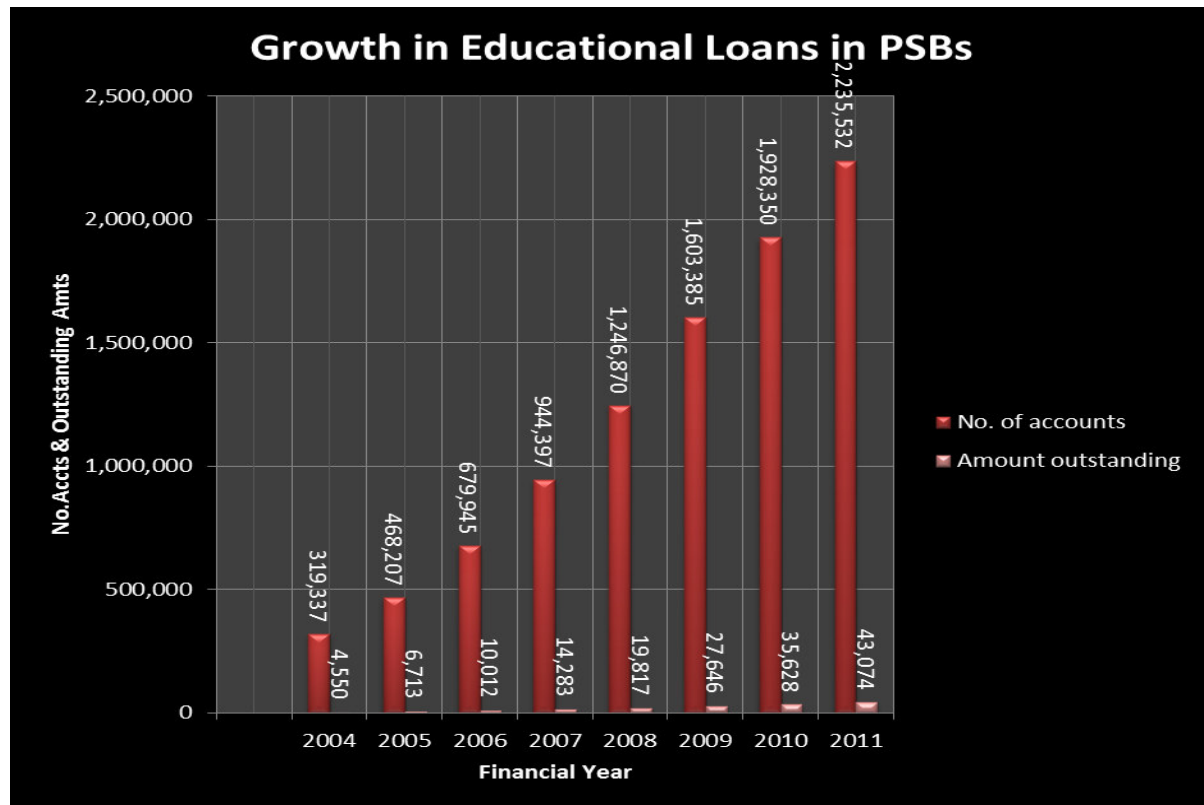


Figure 1 : Growth in Educational Loans in PSBs

Table 2: Interest Rates by Banks (2015).

Interest Rates by Banks * (2015)-Bankbazaar.com			
Banks	Education Type	Loan Amount	Interest Rates(0.5% less for girl students)
Axis Bank	Study in India	Up to Rs 10 Lac	16.95 % (up to Rs 4 Lac), 17.95% (loan between Rs 4 Lac - 7.50 Lac); 15.95% (above Rs 7.50 Lac)
	Study Abroad	Up to Rs 20 Lac	
Bank of Baroda	Study in India	Up to Rs 10 Lac	12.5% (between Rs 4 Lac-7.5 lac), 11.75% (above Rs 7.5 Lac)
	Study Abroad	Up to Rs 20 Lac	
Canara Bank	Study in India	Up to Rs 10 Lac	11% (up to Rs 4 Lac), 12 % (loan between Rs 4 Lac - 7.50 Lac); 9.50% (above Rs 7.50 Lac)
	Study Abroad	Up to Rs 20 Lac	
	Study Abroad	Up to Rs 20 Lac	
Punjab National Bank	Study in India	Up to Rs 10 Lac	13% (upto Rs 4 Lac); 14% (between Rs 4 Lac-7.5 Lac);12% (above Rs 7.5 Lac)
	Study Abroad	Up to Rs 20 Lac	
	Study Abroad	Up to Rs 20 Lac	
State Bank Of India	Study in India	Up to Rs 10 Lac	12.85% (up to Rs 4 Lac), 13.6% (loan between Rs 4 Lac - 7.50 Lac); 11.6% (above Rs 7.50 Lac)
	Study Abroad	Up to Rs 20 Lac	