

Education Loan in India – A Review

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Abstract

Education is one of the primary area which the Govt. of India identified as a Priority sector segment for Banks to finance. Accordingly, Education loan scheme was formulated and propagated and Public sector, private sector Banks and other Financial Institutions made concentrated financing in this category in the last decade. However, it has been observed that in the recent past there is a surge in Non-performing loans of this segment (education loan) granted by the Banks / FIs. The present paper analyses reasons of high default and suggests some steps for Banks & FIs to obviate such slippages.

Keywords: Education Loan, Irregular loan, Non-Performing Loans, Indian Banks Association (IBA)

Introduction

- The Govt. of India has always kept higher education of the young citizens on top of its priority areas. This paved the way to awareness amongst the parents and students for better education facilities especially at the higher education level. The students got options and the parents were happy to send their wards at far off places for better higher education in technical, non-technical and management courses. The abrupt increase in number of universities and colleges in the last 10-15 years manifests importance accorded by students and their parents to higher education. India has 864 universities, 40,026 colleges and 11,669 standalone institutions offering higher education. Most colleges (77.8 per cent) belong to the private sector and are not funded by the government.
- The cost of higher education also became high, mainly due to the magnificent infrastructure devel-

oped by education institutes coupled with treating education as Business.

- The education loan promoted by Govt. of India and readiness of Banks/FIs to provide education loan facility came to ready rescue of the students & their parents. In fact education loan has been considered as one of the best ways to undertake higher education.
- The education institutes were happy as their (high) fee structure was easily accepted by the system, similarly the students and their parents were also happy as the higher fees was not an immediate burden to them.
- During the last decade there is a continuous flow of credit to this segment and now the education loan market is estimated to be of Rs 733 Crore. of which 95 per cent is funded by Public Sector Banks and rest is contributed by Private Banks, Cooperative Banks and non-Banking financial companies (NBFC).
- While the education loan segment looks very attractive, all is not well as far as the repayment of these loans are concerned. There are problems faced by Banks & FIs for recovery in such borrowal accounts.
- The present study aims at analyzing the problem and suggesting some measures to be taken by banks to avoid education loan accounts become sticky.

Objectives of the Study

The present study is confined to a chosen leading public sector Bank. It aims at:–

- Analyzing credit low to education Loan segment and quantum of irregular / Non-performing assets under this category.
- Understanding reasons for education loan accounts turning Non-performing assets.

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- Suggesting several measures for the Banks / FIs to curb slippages in education loan accounts.

Flow of Education Loan Amount and their Turning up Irregular / Non-Performing Assets

In the last several years education loan portfolio of Banks is increasing (net of recovery) on year to year basis. The present data for two Financial years clearly indicates the trend:-

Table 1: Sectoral Deployment of Gross Bank Credit

Item	Outstanding As On (Amount in ₹ Billion)		Percentage Variation	
	Mar-16	Mar-17	2015-16	2016-17
Education Loan	682	728	9.5	6.9

Source: RBI Report on Trend and Progress of Banking in India 2016-17

- The growth rate of education loan declined to 2 per cent in 2017 from 17 per cent in 2015 and non-performing assets (NPAs) of public sector banks (PSBs)

in the segment increased to 7.7 per cent from 5.7 per cent during the period. As per the data compiled by the Indian Banks Association (IBA), the total outstanding education loan at end of the fiscal 2016-17 was Rs 67,678.5 crore, of which Rs 5,191.72 crore was NPA.

- The IBA data revealed that the non-performing asset (NPA) in the segment in percentage of the total loan has been constantly increasing. The NPA was 5.7 per cent in 2014-15, which rose to 7.3 per cent in the FY 2015-16 and further to 7.67 per cent in FY 2016-17.
- Education loans under the priority sector have also declined to 90 per cent in 2017 from 96 per cent in 2013. Education loans of up to Rs 1 million are eligible to be classified as priority sector loans.
- Going by the data in the documents placed by the ministry in the Lok Sabha and numbers put out by PSBs in their annual reports and/or investor presentations, seven PSBs had a double-digit gross NPA ratio as a share of their education loan portfolio, as on March 31, 2017:

Table 2: Education Loan Outstanding and NPA as on 31-03-2017

EDUCATION LOANS (in Rs crore)			
Period	Outstandings	NPAs	NPA-total loans ratio (%)
March 2013	48,382	2,615	5.40
March 2014	59,834	3,439	5.75
March 2015	62,244	3,385	5.44
March 2016	68,133	5,006	7.35
Dec 2016	72,336	6,336	8.76

Balancing book			
	Education loans outstanding as on Mar 31, 2017	NPA as on Mar 31, 2017	Percentage (in %)
Indian Bank	3,642.96	671.37	18.43
Central Bank of India	1909	317.65	16.64
Bank of Baroda	2054	331.31	16.13
United Bank of India	454	56.24	12.39
Syndicate Bank	2893	343	11.86
Oriental Bank of Commerce	1,194.45	137.41	11.50
Corporation Bank	1602	167.1	10.43
Punjab National Bank	5,278.56	478.03	9.06
Union Bank of India	3020	253.49	8.39
Indian Overseas Bank	4792	384.2	8.02

All figures in ₹ crore, except percentages

Source: Ministry of Finance, banks

Review of Literature

- a) **The Financing and Management of Higher Education: A Status Report on Worldwide Reforms** by D. Bruce Johnstone State University of New York at Buffalo with the collaboration of Alka Arora and William Experton.

Improving the efficiency and viability of existing student loan programs while broadening their coverage is a major challenge for developing countries. Despite the poor performance of many systems, the positive experience of countries like Columbia and the Dominican Republic, for example, show that it is possible to design and administer financially sustainable programs if effective collection programs, appropriate interest rates, and income contingent schemes, can be made operational (Page—13)

While the increasing number of private colleges helped meet the swelling demand for higher education, provided access to many more students, and created diversity--all at no cost to the government; they also brought with them the ills of high tuition, falling quality, and an uncontrolled increase in their number. (Page—15)

- b) **Working Paper Higher Education in India: THE NEED FOR CHANGE**, By Pawan agarwal June 2006 working paper, no. 180 provided in cooperation with: Indian council for research on international economic relations (ICRIER)

- As of 30 June 2005, Public Sector Banks had a total outstanding exposure of Rs.71 billion against 488,000 education loan accounts.
- Financing of higher education through student loans is still insignificant. Only 2-3 % students avail of student loans. In comparison, 85 % students in UK and Sweden, 50% in USA and Canada and 77 % in Australia had availed of student's loans in recent years. (Usher, 2005).
- A market research company conducted a comprehensive study of the students' loan performance in India. The study covered 350+ branches of 78 banks covering public and private sector banks including foreign and cooperative banks in 20 cities in Maharashtra and Delhi.

- It was seen from the study that more than half of the banks did not offer students loans at all. For the remaining banks, student loan portfolio was only about 3.77% of their entire loan portfolio with personal loans, automobile loans and home loans constituting the major part of it.
- On analysis of the 7751 student loan cases of various banks across the state, it was found that the average loan amount was around Rs.0.3 million and interest rate 12.5%.
- Majority of students who availed of loans were pursuing professional degree programs with 46.17% studying engineering, 22.64 % pursuing MBA and 12.71% doing medical programs.
- The default and delinquent levels in student loans were found to be extremely low with 1.1% and 0.7% figures respectively (I-Tenable, 2006).

- c) **NEWS REPORT (INDIAN EXPRESS –Dt. 17-07-2017)**

- Indian banks have seen a 142 per cent rise in default by students who have taken education loans during the past few years, at a time when hiring for new jobs has slowed down and tech companies have started laying off employees.
- State-owned Banks, which are already weighed down by huge defaults by corporates, are the worst hit as they account for over 90 per cent of educational loans.
- The total non-performing assets (NPAs), or loans on which borrowers have defaulted on payments for more than the stipulated 90 days, stood at Rs 6,336 crore at the end of December 2016, against Rs 2,615 crore in March 2013, the Reserve Bank of India (RBI) has revealed.
- The rise in bad loans in the education loan segment in 2013-2016 coincided with the Indian industry battling overcapacity, demand slow-down, stalling of new projects and defaults by top corporates.
- At the same time, the demand for loans was up as educational institutions, especially engineering and management colleges, mushroomed, without a check on quality

d) TRANSUNION CIBIL MARKET INSIGHTS REPORT ON EDUCATION LOANS

- In August 2017, credit rating agency TransUnion CIBIL Market Insights Report on Education Loans captured an emerging trend of sharper deterioration in small ticket (below INR 4 lakh) loans.
- TransUnion CIBIL report says that aggregate credit exposure of education loans in the Indian banking system is around INR 77,000 crore, which is barely 1% of total Banking system exposure, and by itself may not present a systemic risk but the importance of such delinquencies is that the trends predict the risk profile of future borrowers who will join the mainstream credit market; and second, this may also be reflective of the potential job opportunities in the Industry.
- TransUnion CIBIL Market Insights also indicate that while there is growth in amount of education loans disbursed, the quality of education loan portfolios needs to be monitored closely as over 3.5 lakhs of these 28 lakh accounts are NPAs (Non-Performing Assets) amounting to INR 7 thousand crores.
- Banks need to focus on sharpening of their risk management capabilities while assessing small ticket education loans.
- The study finds that in this segment as well a joint loan or a loan guaranteed by a credible guarantor reduces delinquency level significantly. As such steady underwriting practices will ensure profitable loan growth in this very important education loan segment.
- The study also suggests to the students that students availing this loan opportunity must understand that it is important to pay back their education loans once they complete studies. Defaults on repayments of education loans will reflect in the borrower's CIBIL Report and may negatively impact his/her CIBIL Score. As a result, this could hamper the chances of getting a loan for many more important milestones in the future.

(Source:- Core Sector Communique Dt. 31-08-2017)

Some Highlights of Education Loan Scheme

The model scheme for education loan as suggested by IBA was suitably amended / customized by all Banks / FIS for providing education loans to students to facilitate pursuit of higher education. Some of the highlights of the scheme is as under:--

- The rates of interest is comparatively low and No compounding of interest till start of the loan installment.
- There are no other charges levied by Banks in the education loan accounts.
- The margin (Students contribution) and security norms are very liberal and on lower side.
- The loan amount is disbursed directly to the college / university as per their fee structure along-with student's contribution, if any.
- The repayment of the loan starts only after six months of completion of course, which gives sufficient time to the student to settle down before repayment of the loan starts.
- A student is required to produce his / her mark-sheet (last Pass certificate) to avail further loan, as per demand raised by the respective college/ Institute.
- On completion of the course the student is also required to submit pass out certificate/ Mark list to the Bank
- The Bank compounds interest at the time of fixation of the repayment schedule which is generally from 7 years to 15 years.
- Credit Guarantee Fund Scheme for Education Loan (CGFEL) provides guarantee to the extent of 75 per cent of the defaulted education loan.

Advantages

- **Education is Expensive-** A good education is expensive and the expenses may be beyond the reach of a bright student. The education loan provides a facility that any meritorious student should not be deprived of higher education due to lack of funds. With a comprehensive education loan, individual facets of the course can be better addressed without the risk of running out of money. Education loan is more organized and seamless for a student.

- **Education Loan is widely and Easily Available-** Comprehensive education loans are a priority product for most of the Banks subject to conforming to some basic requirements ability to repay the borrowed amount is all it takes to get on-board.
- **Timely Assistance-** Education loan offers timely help, nullifying the worry to gather up the requisite amount, as demanded by the institute.

Methodology Used

To understand the flow and status of education loans granted by Banks, a sample of six branches of a major public sector bank working in Dehradun was selected. While selecting the branches their size (Volume of business) was also considered (From very high to low education loan exposure). Their data along-with consolidated data of the

entire circle (which consist of 100+ branches in the area) has been compiled and analysed.

- a) Sample data has been taken from a leading Public sector Bank working in Dehradun, their six different category branches and consolidated data of the circle consisting of more than 100 branches. (*For the purpose of secrecy of data, name of the bank and that of branches has been withheld*).
- b) Personal Interview based data / information from some students / parents and Bankers.
- c) The data is collected through web site of RBI / GOI / Financial dailies etc. related to education loan granted by Banks.

Data Analysis

Education loan portfolio & education loan disbursed during financial years.

Table 2: Financial Year 2015-16

Branch	Fy 2015-16 Amt. in Lacs			
	ED. Loan Outstanding as on 31-03-2016	Education Loan Disbursed During the Fy 2015-16	Of Which (COL --III) Iregular / NPA *	% Of Loan In Jeopardy
I	II	III	IV	V
A	264	42	64	24.24
B	282	57	130	46.10
C	217	31	40	18.43
D	412	48	108	26.21
E	193	51	49	25.39
F	63	10	17	26.98
Circle Consolidated	8964	1415	2039	22.75

*This includes existing npa accounts and likely (potential) npa accounts

Table 3: Financial Year 2016-17

Branch	Fy 2016-17 Amt. in Lacs			
	Ed. Loan Outstanding As On 31-03-2017	Education Loan Disbursed During The Fy2016-17	Of Which (COL --III) Iregular / NPA *	% Of Loan In Jeopardy
I	II	III	IV	V
A	2715	162	181	6.67
B	284	163	66	23.24
C	218	124	35	16.06
D	363	17	111	30.58
E	259	82	112	43.24
F	82	8	24	29.27
Circle Consolidated	8976	1657	2039	22.72

*This includes existing npa accounts and likely (potential) npa accounts

Table 4: Financial Year 2017-18

Branch	Fy 2017-18 Amt. In Lacs			
	Ed. Loan Outstanding As On 31-03-2018	Education Loan Disbursed During the Fy 2017-18	Of Which (COL --III) Irregular / NPA*	% Of Loan In Jeopardy
I	II	III	IV	V
A	2638	177	524	19.86
B	296	85	101	34.12
C	206	51	25	12.14
D	354	22	103	29.10
E	265	47	95	35.71
F	87	22	20	22.99
Circle Consolidated	9018	1659	2254	24.99

*This includes existing npa accounts and likely (potential) npa accounts

- 8) Based on Personal Interview of some students their parents and working / retired Bankers some generic reasons are enlisted for education loan accounts becoming irregular or NPA.

Student Related

- 1) The student could not complete the course due to continuous backlogs for which the education loan was granted.
- 2) The student could not get a suitable job after completion of the course and is unemployed.
- 3) The student got a job but his/her earnings are not sufficient to repay the Bank loan dues after meeting his/her own basic expenses.
- 4) Due to health issues, the student is not able to get a job / complete the course.
- 5) The student not available on address given to the Bank. His address / contact number not available (updated) in Bank's records
- 6) The students are apparently not taking responsibility for repayment of education loan. The student is a willful defaulter.

Bank Related Reasons

- The student not available on address given to the Bank. His address /contact number not updated in Banks records.

- The parents who are generally co-borrower or guarantor in such loan accounts either have shown their reluctance to pay-off the dues of their wards or 'advise Banks to contact the borrower (their ward) directly.
- The recovery mechanism of Banks is not effective. The Banks do not have any mechanism to trace a student after he/she completes studies. The mobile number keeps on changing and the e-mail address not available mostly in Bank records.
- In some cases even the course completion certificate not held on Bank records. The student has not been asked to submit the same and the Bank has fixed repayment schedule without ascertaining successful completion of course by the student.
- As there is no collateral security in such loans (Loans up to Rs.7.50 Lacs) the banks can only pursue and follow up the borrower. It is the sweet will of the student borrower to repay the amount on time as per the agreed terms, which results in education loan accounts of Banks turning NPA or running irregular.
- Banks also often find it difficult to track students who borrow money. Operationally, after the course, the student gets a job in a different city. So it becomes difficult for the Bankers to track the students.

Other Reasons

- a) There are a lot of new colleges and courses which keep coming up in India. Those colleges and courses

need to be evaluated for their potential employability before lending.

- b) If the quality of the course is not good, students will find it difficult to get the right job and right salary. Then it becomes difficult for them to repay loans.

Findings of the Study

On analysis of the data collected from some branches of a leading Public sector bank and consolidated data of the circle (around 100 branches) following facts have emerged:

- The education loan portfolio of Banks is steadily increasing, though the increase is not exponential but there is increase in the outstanding amount net of amount recovered.
- Fresh education loans disbursed during a financial year is also showing an increasing trend. This implies that demand for fresh sanctions of education loan is steady and is not affected by the any other factor.
- There is a spurt in irregular / NPA accounts of branches on year to year basis. The increase is steep in large branches where the education loan exposure is high.
- The reasons for education loan accounts becoming sticky for recovery are varied and significant for the study.
- It has been observed that both internal and external factors are responsible for education loan accounts becoming difficult for recovery.
- It has been found in the study that each NPA / irregular account needs to be studied and analysed for its reasons and accordingly, suitable action plan for recovery should be prepared by the banks.

Suggestions

Following measures are suggested for the Banks and students of education loans:

Bank Specific

- 1) The Banks should make selection of prospective borrowers for education loans more stringent. The selection criteria should not only include the aca-

demical record of the student but also employability of the course that he/she is undertaking.

- 2) The Banks need to be in constant touch with the students after sanction of the education loans. Their regular performance reports should be asked for and kept in the banks records.
- 3) All student now essentially have an e-mail ID, the same should be recorded in Banks system and periodical mails should be sent. This will have twin benefits for the Bank, one, contact with the student shall be maintained till completion of his course and, second, Banks can cross sell their other products and services to the student after they are employed.
- 4) Education loan is disbursed in stages, as per the demand raised by the college / university, therefore academic performance of student in the last examination should be made sole criteria for releasing the next installment.
- 5) Each education loan sanctioning authority of the Bank must have an updated data of approved courses, colleges & universities. The prospectus of college / university must be studied for ascertaining the efficacy of the course in which the intending student borrower got admission.
- 6) Special attention must be paid to avoid the mediocre colleges / universities and the courses which have got very low chances of providing on-campus employment to the students.

Student Specific

- 1) While granting of education loan, the student should be made well aware that the repayment of this loan is his / her responsibility, it is neither a grant nor a subsidy, but is a Loan which is to be repaid with interest over a period of time.
- 2) Educating the student about Banking procedures, and other products and services of the bank shall make them future responsible customer of the Bank.

Policy Specific

- 1) There is a mismatch between quantity and quality of education. According to the research published by the Observer Research Foundation (2010), India

recorded 10.4 per cent increase in the number of graduate engineers in 2008 compared with 9.9 per cent in China, 5.9 per cent in South Korea, 3.9 per cent in UK and -1.0 per cent in the US. However, despite the increasingly higher numbers of engineering graduates produced by the technical institutes in India, almost 30 per cent of fresh graduates remain unemployed even one year after graduation. NASSCOM estimated that the educational system produces nine half-literate graduates for each graduate of passable quality, reflecting the low quality of education.

- 2) Therefore, a lot needs to be done for increase in quality of education, in order to realize our goal of creating a knowledge economy with equitable and productive employment opportunities for the youth.
- 3) There is a wide gap between demand and supply of workforce especially in technical and Management courses.
- 4) Just providing education loan is not sufficient. Industry and Bankers would have to work together to ensure that the employability of such students is high and that the people with the right type of education and skills are available for the industry.
- 5) The education loan scheme needs major changes. This scheme should have only two variants:
 - One, the scheme should be for those brilliant students who come from economically low background, with no collateral security and should be covered by Government guarantees.
 - Another scheme for all those students who wish to avail education loan for higher studies, with 100% collateral security.
 - The education loans should have low rate of interest as compared to other commercial loans.

Conclusion

Banks play a facilitating and enabling role by extending education loans and they have a great responsibility to

ensure that no deserving student is denied higher education due to paucity of funds. At the same time it is a cause of wide concern that NPA in education loans category has got an increasing trend. The Banks and government is already struggling to deal with the problem of mounting NPA in the public sector Banks and this sector was considered comparatively a very safe and secured.

Now, keeping in view of the importance of Education loans stopping granting of fresh education loans is ruled out. The only option available to the Banks and financing institutions is correct selection of the student borrower for the right course.

For the present study sample size is very small but it reveals increasing trends of defaults in education loans portfolio due to various factors, such as :

- Students not getting well-paid jobs,
- students are reluctant to repay the education loan availed by them
- The Banks do not have any contact with the students after course completion.
- Banks are generally unsecured creditors so do not have any effective way to recover their dues.
- The courses / institutions chosen by the students are not providing employment to them.

Some specific suggestions have been made on the basis of results of the study for handling educations loan portfolio by the Banks.

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