INSTITUTE OF RESEARCH ADVANCES

IRA-International Journal of Management & Social Sciences
ISSN 2455-2267 Vol. 03 Issue 01 (April, 2016)
Paper DOI: https://dx.doi.org/10.21013/jmss.v3.n1.p7

Current Scenario in Education Loans in India

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ABSTRACT

Education plays a vital role in the development of a Nation. Due to the advent of self-financing colleges, the cost of education became very high. Education loan have been a great assistance to those students who have not been able to pursue professional education due to financial constraints. But loan programmes turned out to be disappointing in terms of repayment status. This study is purely a conceptual study which focuses on the Model Education Scheme introduced by Indian Banker's Association.RBI instructed banks to implement the Model Educational Scheme to help the deserving students. In this study we can analyze the importance of educational loans, Benefits of educational loans, Issues in getting student loans, Problems faced by beneficiaries while taking education loans. Challenges of banks, Repayment and recovery of education loans. Rise of NPA as a result of non-payment of education loans through a detailed literature survey. Significance of study is also mentioned in this.

Keywords: Importance of education loan, problems faced by beneficiaries, issues in getting education loans, Repayment and recovery of education loans.

Introduction

One of the vital assets of the country is its educated population. The government has a vital role to play in providing education to all those who require the need for finance. The cost of education in India and outside India being quite extortionate, but do not have the financial resources look at lending institutions like commercial banks for support. Even though government provides scholarships, government subsidies etc, due to high competition and limited number of such opportunities. Banks especially the public sector has a social responsibility and an obligation to finance educational aspirations of poor but meritorious students. Education loans make higher education accessible to those from poor backgrounds.

The National loan scholarship scheme started in 1963 to finance the meritorious students for pursuing higher education had been discontinued due to non-recovery of loans and financial difficulties of the central government.

The educational policy 1992 of the Government of India signalled private participation in higher education. Self financing colleges and Deemed universities were permitted to operate in the country. It also suggested educational loans for meeting educational expenses. Tuition fee in the self financing colleges and deemed Universities were not affordable for many people. The state owned or aided colleges and Universities had no capacity to absorb all eligible students in their rolls. In order to address these issues, the central government and Indian Banker's Association has introduced a model educational scheme in 2001 to provide educational loans at affordable rates. (Varghese K.X and Manoj P.K)

Significance of the study.

The present study is unique in the sense that it brings about better understanding of present scenario of educational loans in the country and to understand the position of Non-Performing Assets. Non-Performing assets arises due to negligence of banks and default of payment by the beneficiaries of educational loans. Thus it is important to provide insight on the consequences of non-payment of educational loans.

Objective of the study

The objective of the study is to know more about the trends in education loan. Since the Non-Performing Assets are growing at an alarming rate, it is important to identify where the position of NPA is and factors leading to NPA's.

According to the Mr. Sreenivasan Education Task Force Convener there are seven reasons which causes NPA's due to lack of Insensitivity of Banks which ultimately pulls the students into the debt trap. Based on the complaints received from various students, ELTF finds that the banks do not classify NPA properly and unnecessarily blame the students.

The seven reasons are:

1. **Inhuman attitude of the bank officials**: Indian Banking Association stipulates ten to fifteen years of flexible repayment (lower EMI at the beginning and gradual increase of EMI in the later years). Most of the managers fix huge EMI for initial five years. This burdens the student since the EMI fixed is more than the income of the student.
2. **Reluctance of bank managers and regional managers** to re schedule the EMI, even in genuine cases.
3. **Wrong classification of education loans**. If the education loans are properly classified, nearly 75% of the present NPA will become good assets. Banks purposely show increased NPA to avoid education loans.
4. **The students are being harassed right from the first day** when they seek education loan by making them run pillar to post. The students thus get frustrated and develop enmity with bank. Managers do not create awareness of the bank rules among the students.
5. Educational task force had suggested the banks to conduct a get together of all students who have taken educational loans once in a year, by the branches or regions **to maintain good relationship between the banks and beneficiaries**. Unfortunately banks are not ready to accept this suggestion.
6. **Lack of proper interest subsidy management by the branches**. Though 100% subsidy is available for students, the branches do not claim the correct subsidy in time. Even the subsidy element is taken into account as NPA. Unpaid subsidy is the default of the Government.

7. Individual banks and Indian Banks Association **do not take interest in creating awareness about education loan, interest subsidy, repayment etc.** When Ministry of HRD extended the interest subsidy due date for SC/ST students, neither the banks nor IBA took any initiative to publicise the extension date.

Non Performing Assets (NPA)

The assets of the banks which don't perform (that is – don't bring any return) are called Non Performing Assets (NPA) or bad loans. Bank's assets are the loans and advances given to customers. If customers don't pay either interest or part of principal or both, the loan turns into bad loan.

According to RBI, terms loans on which interest or instalment of principal remain overdue for a period of more than 90 days from the end of a particular quarter is called a Non-performing Asset. However, in terms of Agriculture / Farm Loans; the NPA is defined as under:

- For short duration crop agriculture loans such as paddy, Jowar, Bajra etc. if the loan (installment / interest) is not paid for 2 crop seasons , it would be termed as a NPA.
- For Long Duration Crops, the above would be 1 Crop season from the due date.

Provisioning Coverage Ratio

For every loan given out, the banks to keep aside some extra funds to cover up losses if something goes wrong with those loans. This is called provisioning. **Provisioning Coverage Ratio (PCR)** refers to the **funds to be set aside by the banks as fraction to the loans**.

Standard Asset

If the borrower regularly pays his dues regularly and on time; bank will call such loan as its "Standard Asset". As per the norms, banks have to make a general provision of 0.40% for all loans and advances except that given towards agriculture and small and medium enterprise (SME) sector.

However, if things go wrong and loans turn into bad loans, the PCR would increase depending up the classification of the NPA as discussed in next section.

Classification of NPAs

Banks are required to classify nonperforming assets further into three main categories (Sub-standard, doubtful and loss) based on the period for which the asset has remained non performing. This is as per transition of a loan from standard loan to loss asset as follows:

If the borrower does not pay dues for 90 days after end of a quarter; the loan becomes an NPA and it is termed as "Special Mention Account". If this loan remains SMA for a period less than or equal to 12 months; it is termed as Sub-standard Asset. In this case bank has to make provisioning as follows:

- 15% of outstanding loan in Case of Secured Loan.
- 25% of outstanding loan in Case of Unsecured Loan.

If sub-standard asset remains so for a period of 12 more months; it would be termed as "Doubtful asset". This remains so till end of 3rd year. In this case, the bank needs to make provisioning as follows:

- Up to one year: 25% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured Loans.
- 1-3 years: 40% of outstanding amount in case of Secured loans; 100% of outstanding amount in the case of unsecured loans.
- More than 3 years: 100% of outstanding amount in case of Secured loans; 100% of outstanding amount in case of Unsecured Loans.
- If the loan is not repaid even after it remains sub-standard asset for more than 3 years, it may be identified as unrecoverable by internal / external audit and it would be called loss asset. An NPA can be declared loss only if it has been identified to be so by internal or external auditors.

Example of NPA

We suppose that a party was disbursed a loan on January 1, 2010. Its due date is June 1, 2010. But the party does not make a payment. So

- It will be an Standard Asset from January 1, 2010 till June 1, 2010 (Due Date)
- It will be a Special Mention Account From June 2, 2010 till August 29, 2010 (90 days)
- It will be Sub-standard from August 30, 2010 till August 29, 2011
- It will be doubtful from August 30, 2011 till August 29, 2012

It may remain doubtful Asset for a period of 3 years, beginning from 12 months of being an NPA, but once the auditors identify it as a loss, it will be assigned a loss asset; however, the period may be anything above 3 years.

Types of NPA

Gross NPA:

Gross NPAs are the sum total of all loan assets that are classified as NPAs as per RBI guidelines as on Balance Sheet date. **Gross NPA reflects the quality of the loans made by banks**. It consists of all the nonstandard assets like as sub-standard, doubtful, and loss assets.

It can be calculated with the help of following ratio: **Gross NPAs Ratio = Gross NPAs / Gross Advances**

Net NPA

Net NPAs are those type of NPAs in which the bank has deducted the provision regarding NPAs. Net NPA shows the **actual burden** of banks. Since in India, bank balance sheets contain a huge amount of NPAs and the process of recovery and write off of loans is very time consuming, the provisions the banks have to make against the NPAs according to the central bank guidelines, are quite significant. That is why the difference between gross and net NPA is quite high.

It can be calculated by following: Net NPAs = **Gross NPAs – Provisions / Gross Advances – Provisions**

Implications of the NPAs on Banks

The most important implication of the NPA is that a bank can neither credit the income nor debit to loss, unless either recovered or identified as loss. If a borrower has multiple accounts, all accounts would be considered NPA if one account becomes NPA.

NPA and SARFAESI Act

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act have provisions for the banks to take legal recourse to recover their dues. When a borrower makes any default in repayment and his account is classified as NPA; the secured creditor has to issue notice to the borrower giving him 60 days to pay his dues. If the dues are not paid, the bank can take possession of the assets and can also give it on lease or sell it; as per the provisions of SARFAESI Act.

Reselling of NPAs

If a bad loan remains NPA for at least two years, the bank can also resale the same to the Asset Reconstruction Companies such as Asset Reconstruction Company (India) (ARCIL). These sales are only on Cash Basis and the purchasing bank/ company would have to keep the accounts for at least 15 months before it sells to other bank. They purchase such loans on low amounts and try to recover as much as possible from the defaulters. Their revenue is difference between the purchased amount and recovered amount.

In a controversial move in July 2015, public sector State Bank of Travancore (SBT) had sold its education NPAs of ₹130 crore, to be recovered from 8,568 defaulters, to R-ARC for ₹63 crore. Reliance paid ₹9 crore to the bank immediately and gave security receipts for ₹54 crore. It could pay the money to the bank within a time period frame of 15 years.

NPA POSITION OF BANKS IN KERALA

Loan Outstanding

		Less than 4 Lacs		**Above 4 Lacs to 7.50 Lacs**		**Above 7.50 Lacs**	
		No	Amount	No	Amount	No	Amount
2014	Total - Commercial Banks	331407	657349	39582	161481	12328	86434
2015	Total - Commercial Banks	321519	671446	48645	169060	17997	105679

Parameter		**Total Outstanding**		**EL NPA position**	
		No	Amount	No	Amount
2014	Total - Commercial Banks	383317	905264	45843	91510
2015	Total - Commercial Banks	388160	946186	32345	71013

INTEREST RATES

Irony of interest rates.

From a student's perspective, the irony is that they have to provide more for Equal Monthly instalments due to high interest rates in case institutes have been rates downside. On the other hand it's likely that they would be placed at a lower package from such institute. Special concessions on interest rates of 0.5% are available for women students.

Two types of interest rates.

These comprise of **fixed interest and floating interest rate**. Usually national banks offer variable interest rates for student loans, while private banks and foreign banks offer fixed interest rates. Interest varies between 12 to 16 percent. Considering the present macro-economic environment it is advisable to go for floating interest rates. SBI is the leading player with 25 percent share in education loan segment.

Simple VS Compound interest

Simple interest is to be charged during the study period and up to commencement of repayment. There have been complaints that banks charge compound interest. Servicing of interest during the moratorium period is optional and students can avail one percent rebate on interest rate if they decide to pay.

LOANS AND THE REGULATORY REGIME

Banks play an emerging role in increasing access to higher education by extending loans. However, the regulatory regime needs to be strengthened simultaneously to ensure quality among new higher education institutions through compulsory accreditation and strict implementation of guidelines by United Grants Commission, All India Council for Technical Education and other regulatory bodies. These steps are necessary to ensure employability of students. Fees in such institutes need to be regulated strictly as per apex court judgements so that students don't suffer due to profiteering.

GOVERNMENT'S ROLE

The banks that lend loans are likely to be shy in exposing themselves to such loans, if the risk of default persists. As far as the student community is concerned, should insist to the government that too much reliance on educational loans is not that their interest and that the government should be willing to play its role in making higher education opportunity affordable for all.

IBA's new guidelines

- **Eligibility**: Loans to Indian nationals for pursuing approved courses leading to graduate/postgraduate degree and PG diplomas conducted by colleges/ universities recognized by UGC/Govt./ AICTE/AIBMS/ICMR etc. Reputed professional and technical courses are also considered. Approval can be checkeon www.ugc.ac.in, www.education.nic.in, www.aicte.org.in. Loans for courses in reputed foreign universities are also granted.
- **Eligible Expenses**: Fees payable, accommodation charges, exam and library fees, reasonable expenses for books and equipment including computer, travelling expenses abroad and other reasonable expenses required to complete course.
- **Quantum of finance**: Rs. 10 lakh for study in India and Rs. 20 lakh for study abroad. Banks may consider lending higher amount in special cases at their discretion.
- **Security** : (a) up to Rs. 4 lakh- No security, parents to be joint borrower
- (b) between 4-7.5 lakhs- along with parents collateral security in form of third party guarantee
- (C) Above 7.5 lakhs- Parents to be joint borrowers+tangible collateral security of suitable value required.
- **Moratorium period for repayment**: Course period + 1 year or 6 months after getting job, whichever is earlier
- **Margin money**: Nil for loan up to Rs. 4 lakh. 5 percent and 15 percent respectively for study in India and abroad on loan above Rs. 4 lakhs.
- **Tenure of loan**: 10 and 15 years for loan up to Rs 7.5 lakhs and above respectively
- Interest paid by the students on educational loan in financial year is eligible for income-tax exemption u/s 80 E of IT Act for 8 years.

Challenges of educational loan in India

Securing education loan in India may sound easy, but it is full of obstacles and formalities. Government, in order to facilitate loan disbursal has simplified the norms, but, still there remain many more in place, that comes in way of a student getting educational loan. Some of the challenges faced by the students as well as banks include customization of loan product to suit the requirements; collateral security sufficient enough to cover the loan amount, proof of appropriateness of the University, College and Course applied for; timely approval of loan to meet the admission related deadlines;

post disbursal issues etc. These activities consume a lot of energy, time, effort and money. (R Sreenivasan and Debabrata Das).

The problem of default is worse, in the case of overseas education; as students change their address without informing the bank (Vidyalakshmi 2006). But because of political pressures, public sector banks cannot simply stop giving study loans, or stop building their non-performing assets (NPAs), due to loan repayment default.

Consequences of non-repayment of educational loans

It is important to pay the student loans on correct time. There are many consequences of not paying the education loans on time. Some of the important consequences of not paying the educational loan on time are mentioned below:

Tax Refund Offset

The most common consequence of not making student loan payments on time is losing your tax refund. Every year when you file your taxes, if your student loans are in delinquent status, you risk losing the refund. While the refund will pay down your debt, you may find yourself in a sticky financial situation if you were counting on being able to use your refund money for something else.

Litigation

In some cases, you will be sued. Though not all borrowers will be, any borrower can be. What makes this situation even worse is, you may even be held responsible for the cost the lender incurs by suing you. This means you will not only have the original student loan debt, interest, penalties and late fees, but you will have the lender's legal fees, and your own, too. Avoid this at all costs.

Wage Garnishment

Similar to the way your tax refund can be intercepted, your pay check can be garnished to handle the debt. The amount and frequency of the garnishment will vary depending on the rate and frequency of pay, and the amount of delinquent debt. Wages may be garnished at a rate of up to 15% of any disposable income. This will be handled through your employer.

Educational loan default can impact CIBIL score.

Non payment of educational loans can affect one's credit score. CIBIL releases credit reports called Credit Information Report (CIR) pertaining to individuals on the basis of their past credit history, which the agency receives from leading financial institutions in India. CIBIL credit score or credit rating is, in short, a 3-digit figure ranging from 300 to 900 points which denotes a person's credit worthiness. This figure is derived from the CIBIL report of an individual through advanced statistical algorithms that take into account their credit history including borrowings, repayment patterns, defaults in repayment and other data relevant to a person's creditworthiness.

CIBIL scores are calculated on the basis of at least 6 months of historical financial data of an individual. The data is fed into an algorithm with 258 different variables; each with a different weightage.

Denial for Military Service

Those who do not pay their student loan debt may not be eligible to enrol in the military. While this may not be a "consequence" for some people, others who enjoy the idea of serving in the Armed Forces may find this to be a major motivator to make student loan payments on time.

Once you have defaulted on your student loans, options such as deferment, forbearance, and consolidation are no longer available. These options are valuable in the sense that they provide a way to keep student loans current and save money while you are experiencing conditions which may prohibit you from making your payments on time

Discussion

Educational loans are essential to meet the financial scarcity since the fees fixed by the Self-financing colleges and Deemed Colleges are exorbitantly high. Since the educational loans are included in the priority sector loans the interest rates should be brought down to minimum. The bank should give proper information about the repayment, when does the moratorium period come to an end etc. Borrowers can be tracked down using the

Unique Identification of AADHAR card for repayment defaults or for the elongation of repayment period for the period of loss of job or salary cut. Borrowers should be forewarned about the employability of the course by the government or loan sanctioning authority. (Varghese K.X and Manoj P.K).

West Asian crisis had made the situation worse. The turmoil in the West Asia had upset their hopes and thousands of nurses had returned empty handed from Iraq, Libya and other troubled countries. The nurses had added to the number of unemployed nurses in Kerala, the state which has for decades has been a major provider to the rest of India as well as to the world.

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