A critical analysis of educational loan schemes of banks and their role for Socio Economic development in India

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Received: April 29, 2018 Accepted: May 30, 2018

ABSTRACT

Education includes significance as a provider of valuable resources for political and socio-economic development, apart from being a refinery of knowledge. India includes a massive young population with low gross enrollment ratios (GER1) providing opportunities for youth in in form employment generation as well as employable for the future. Education and development are closely related, as education provides inputs for economic growth among which knowledge is an important one. Development of knowledge is based on the quantity and quality of education system available, particularly of higher education, in a country. Finances for education are mobilized from different sources like government scholarships (spending), fees, educational loans, and others. Among these, educational loan has been seen as an optional medium of financing for education. In this background, the present paper tries to analyze the trends and patterns of educational loan in India. In addition to this, we have tried to understand the pattern of education loans provided by selected commercial banks. The study tries to focus on how educational loans play a vital role in socio-economic development of India. The study is hence a critical analysis of educational loans schemes of banks.

Key Words: *Education Loan, Socioeconomic Development, Gross Enrolment ratio (GER), Higher education.*

INTRODUCTION

India has a large young population with low gross enrolment ratios (GER1) providing opportunity for the players in the education sector including education loan providers i.e. Banks and NBFCs. GER in higher education in India was about 25.2% for 2016-2017, whereas globally it varies from an average of 8% in sub-Saharan Africa to 75%in Europe and North America. Socio-economic profile of the students and cost of education are the key factors driving education finance. Technical/professional courses including vocational courses entail higher fees as compared with general education which requires external financing. Furthermore, higher costs in privately-managed unaided colleges vis-á-vis government colleges also drive the requirement for external finance. Currently, the sector is predominantly covered by the Public Sector Banks (PSBs) forming almost 95% of the total bank lending to the education loan sector. On account of lower ticket size of loans being disbursed by the PSBs, majority of them are getting classified as priority sector lending and are unsecured in nature. The delinquencies in the PSBs in this segment have been higher on account of loans being unsecured in nature and also as these loans are funded for graduation courses which have lower employment opportunities. The loan portfolio of PSBs has large regional disparities with higher proportion of portfolio outstanding in southern India, mainly Tamil Nadu and Kerala. However, this indicates that there is large untapped segment across India.

In recent years, there is emergence of NBFCs with specialized approach towards the education sector. They have been different in their approach in terms of financing the education loans as compared with the banks. They have presence across major cities in India and predominantly funding students for overseas education. The delinquencies in their portfolio are lower on account of higher proportion of their portfolio being secured in nature. In addition, they are funding overseas education, which provides more employment opportunities. The education loan segment which is primarily been driven by government emphasis on providing finance to meritorious student requires a focused approach towards designing the product to maintain good asset quality. Lenders need to clearly define the parameters to assess each student loan separately rather than treating it simply as a priority sector loan. New scorecards are required to be developed and the existing ones need to be further fine-tuned to arrive at risk pricing commensurate with the profile of the student and employability. The regulatory framework also needs some modifications which allow the lender some flexibility in deciding the loan terms including collateral requirement based on the student profile and employment prospects of the student.

The budgetary announcement in 2017-18 by the government has put emphasis on improvement and revitalizing infrastructure and systems of education including higher education including access to finance. Thus, the stage is set for growth momentum in the higher education sector with government

support. However, this requires enhanced private sector participation including NBFCs and banks. The private sector has to participate in the financing of students in the higher education system with specialized approach to create growth momentum and also control delinquencies at reasonable levels for sustainable profitable growth.

RECENT UPDATE ABOUT EDUCATIONAL LOANS

Central Government Interest Subsidy Scheme for Economically Weaker Section in Education Loans- Government of India, Ministry of HRD vide letter no. F. 11-4/2010 – U.5(i) dated 25th May 2010 have formulated a scheme to provide full interest subsidy during the period of moratorium i.e. Course Period plus one year or six months after getting job, whichever is earlier. This scheme is available for loans taken by students belonging to economically weaker sections (EWS) (where annual parental income from all sources is up to and inclusive of 4.5 lacs) under the IBA approved Model Educational Loan Scheme, for pursuing any of the approved courses of studies in technical and professional streams, from recognized institutions in India.

Salient Features of this Scheme are:

The Scheme is applicable to all students satisfying the eligibility criteria of the IBA approved Model Educational Loan Scheme, subject to complying with the conditions of the Interest Subsidy Scheme. The Scheme is applicable only for studies in India and is available to Educational Loans up to and inclusive of Rs.10 lacs.

• The interest payable by the student belonging to EWS and satisfying the eligibility criteria of the scheme, during the period of moratorium on the amount of disbursements made on or after April 1, 2009 will be borne by the Government of India.

• The interest subsidy under the scheme shall be available to the eligible students only once - For under graduate course or the post graduate degree /diploma course in India. Integrated courses (combined graduate plus post graduate) would also be considered under the scheme.

• Interest subsidy under this scheme shall not be available to the students who discontinue the course midstream, or who are expelled from the Institutions on disciplinary or academic grounds. Interest subsidy is permitted, in case of discontinuation due to medical grounds for which necessary documentation to the satisfaction of the Head of educational institution is submitted.

• State Government has designated appropriate authority or authorities who are competent to issue Income certificate, based on economic index and not social background, for the purpose of this scheme.

• Interest rates charged on the loan shall be as per interest rates applicable under our Education Loan Scheme.

• List of accredited universities/institutions and recognized professional courses which are administered by the Ministry of Tourism and are eligible for Interest Subsidy Scheme are updated on our website.

• List of Technical / Professional courses for which the scheme would be applicable shall be publicized from time to time by UGC and AICTE and the same would be immediately displayed at their websites, which may be accessed for verification purposes.

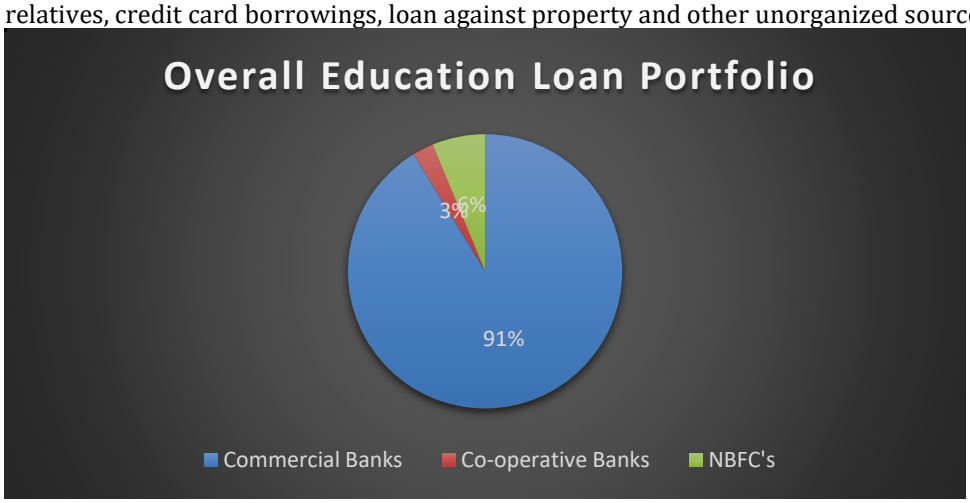
ROLE OF EDUCATIONAL LOAN IN PROGRESS OF HIGHER EDUCATION

Education and development are closely related, as education provides inputs for economic growth among which knowledge is an important one. Development of knowledge is based on the quantity and quality of education system available, particularly of higher education, in a country.

Higher education loan scenario in India is very much progressive. There are 864 universities, 40,026 colleges and 11,669 standalone institutions in India imparting higher education. Majority of the colleges in India are privately managed (77.8%), of which majority are unaided colleges. Total enrolment in higher education has been estimated to be 3.5 crore students with 1.9 crore boys and 1.6 crore girls. Gross Enrolment Ratio in higher education in India is 25.2% for 2016-2017 which is calculated for the age group of 18-23 years.

Development of higher education depends on various factors, among which finance plays a major role. Bank credit has an important role in promoting the education and development of skilled professionals required by an emerging market economy such as India. The idea to encourage education loans was first coined through the introduction of education scheme formulated by Indian Banks Association (IBA) in 2001.

Financing for higher education is being met through various sources including direct student loan from banks and other financial institutions, parents borrowings through other channels including from friends and relatives, credit card borrowings, loan against property and other unorganized sources.



Objective of study

- To Understand and study educational loan sector in India.
- To study and analyses the role of banking sector for financing higher education.
- To study the impact of educational loan in socio economic development.

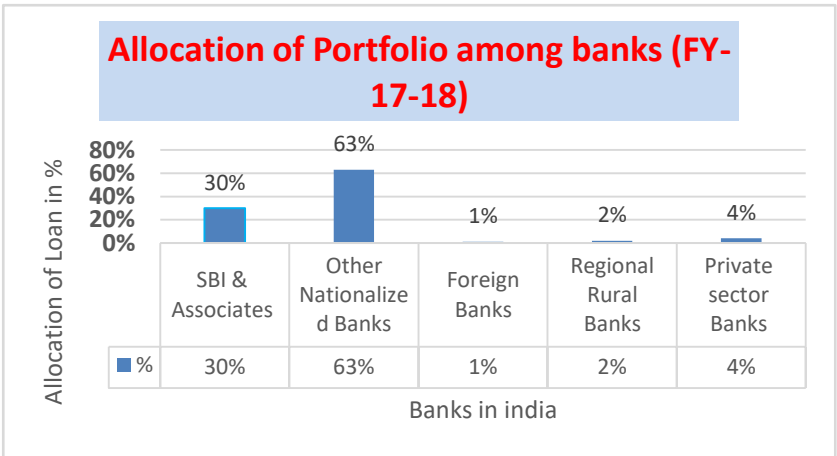
RESEARCH METHODOLOGY

This study is based on complete secondary based data. Common source of secondary data information collected by government departments, RBI, Indian Banks Association (IBA) and news article.

Key features of education loan sector

Higher participation of public sector banks (PSBs) the education loan sector in India has primarily been driven by the public sector banks on the back of government emphasis on providing financing to meritorious student from the lower socio-economic backgrounds.

The nationalized banks, including the SBI group, have the highest proportion of the education loan portfolio amongst the banks. The resistant towards disbursements in this sector is seen in the trend from the low participation of the foreign as well as private sector banks forming minimal share in the education loan portfolio. NBFC participation is lower as compared with the banking sector.

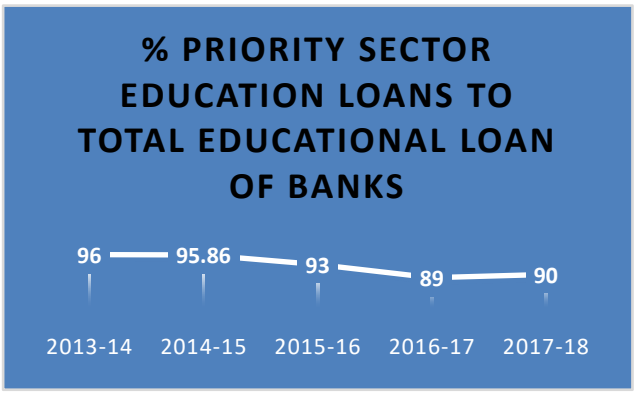


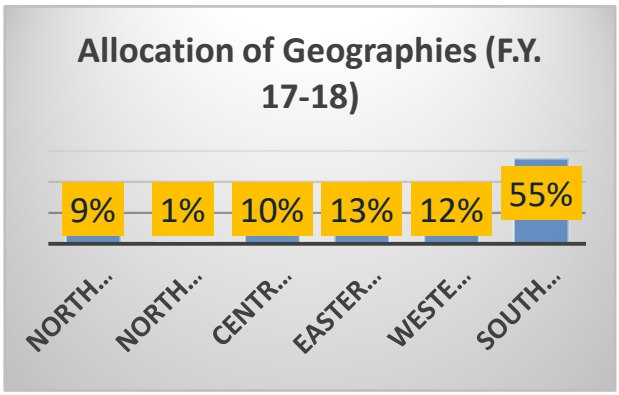
Source data: RBI (Reserve bank of India)

Higher proportion of the education loan portfolio of banks within the priority sector lending category

Education loan scheme was introduced in 2001 by banks for facilitating higher education for poor and meritorious students. Initially, this scheme covered students studying in India as well as abroad with a maximum ceiling of Rs.7.5 lacs inIndia and Rs.15 lacs for abroad studies. Currently, education loans up to Rs.10 lacs are eligible to be classified as priority sector loan, irrespective of the sanctioned amount.

As majority of the loan book of bank comprises of loan with ticket size less than Rs.4 lacs which falls in the category of priority sector lending. Education loans under the priority sector lending stood at around 89% in FY17 (refers to the period April 1 to March 31) compared with the total educational loan portfolio of the banks. However, it has been observed that the ratio of priority sector loans to total educational loan portfolio has been on a decreasing trend from almost 95.86% in2013 to 89.75% in 2017. However, there is no compulsory prescribed limit to banks for education loans segment under priority sector lending guidelines unlike in case of other segments i.e. agriculture (18%).

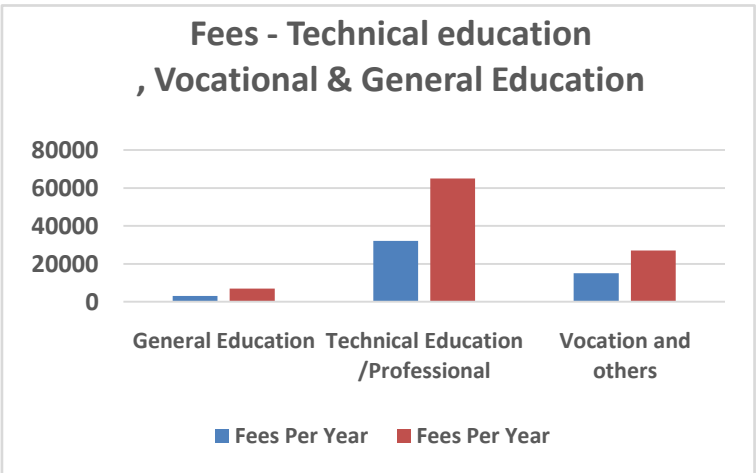




Source: RBI (Reserve Bank of India)

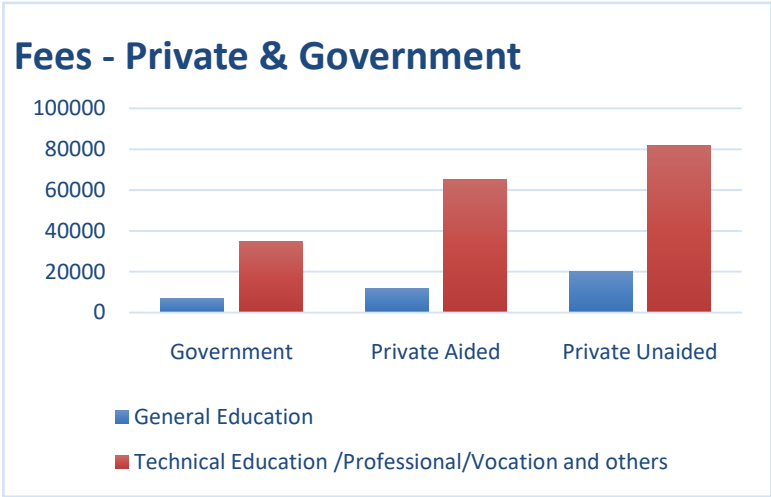
Large regional disparities in education loan portfolio of banks

The distribution of the education loan portfolio by the banks shows large regional disparities. Southern India forms around 56% of the total education loan portfolio of the banks. Amongst the states, Tamil Nadu and Kerala together account for 36% of the outstanding education loan portfolio. The other states which contribute higher to the education loan portfolio of banks include Maharashtra, Karnataka, Andhra Pradesh and Telangana. The education loans are skewed towards some regions mainly on account of higher literacy levels and students inclination to pursue higher education mainly technical courses. Furthermore, the availability of the government schemes, access to finance and availability of ready educational infrastructure are other key aspects which skew the ratio towards these regions.



Increasing cost of education driving education finance

Higher education in technical/professional fields including Vocational courses entail higher fees as compared with general education. 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. The fact that majority of the colleges in India are privately managed and unaided has led to higher requirement for finance from banks. As per the National Survey Sample Report 2014, average annual expenditure on technical/professional education in private aided and unaided colleges varied between 1.5 and 2.5 times to that of Government institutions.



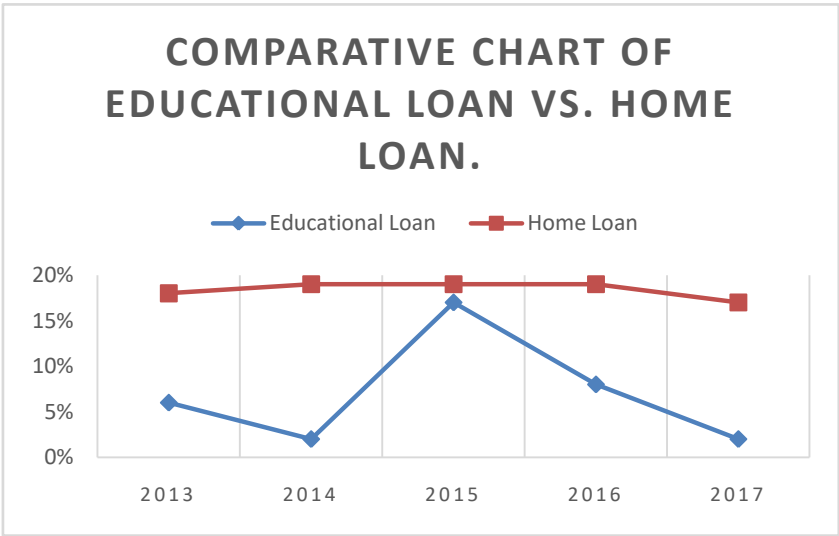
The rising costs of obtaining a college degree have meant that for many students the only way to finance their education is via student loans. Students from lower socio-economic background are more likely to access bank finance considering the costs associated in completing the course.

Lower growth in education loan segment vis-à-vis other asset classes

The education loan portfolio growth has been low despite the opportunities in the education segment. One major factor could be higher delinquencies experienced by banks and very few specialized lending institutions in this segment.

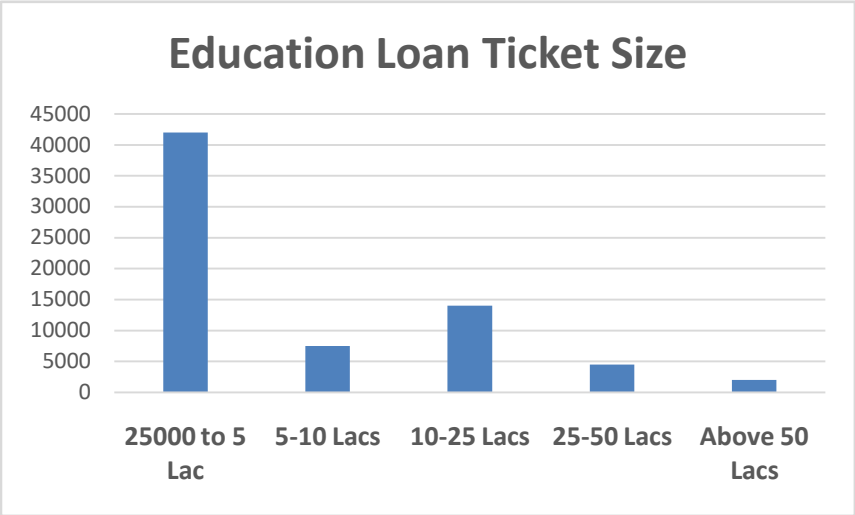
Comparative chart of Educational Loan vs. Home Loan.

Source: - RBI



Educational Loan size of Public Sector Banks

As per the IBA scheme for education loan from banks, there is no security and margin requirement for loans upto Rs.4 lacs. For loan amounts ranging from Rs.4 lacs toRs.7.5 lacs, banks may seek third party guarantee and for loans above Rs.7.5 lacs,
tangible collateral security of suitable value,along with the assignment of the future income of the student for payment of installments, is required. It has been observed from the distribution of portfolio that the maximum loan portfolio is within Rs.5 lacs category indicating that majority of the portfolio is unsecured in nature primarily on account of the IBA scheme which does not allow any collateral upto Rs.4lacs of education loan.



Educational Loan NPA Status

The total value of non-performing loans for the public sector banks in the education sector has grown from Rs.3,536 crore in March 2015 to Rs.5,192 crore in March 2017 spiking the NPA ratio to 7.67% in FY17 from 5.70% in FY15. While the problem of higher delinquencies is pan India, two states primarily Kerala and Tamil Nadu, which have higher proportion of loan portfolio, show higher delinquencies. As per the information derived from the State Level Bankers Committee meeting minutes, Kerala and Tamil Nadu showed GNPA% above 10% as compared with the overall delinquencies at 7.67% at Pan India Level. Other States such as Andhra Pradesh, Telangana and Madhya Pradesh, Gross NPA% were around 5%. The key reason for higher delinquencies is that majority of the loans are unsecured in nature.

There could also be a pattern of student's wrongdoings vis-à-vis level of higher education. The wrongdoings are likely to be higher in undergraduate courses vis-à-vis post graduate courses as employment opportunities (rate of returns/future earnings) are commensurate with the financial costs on account of lower competition in those segments. Further, reputation/brand and technical superiority of the college in imparting education (which also has a bearing on the employability) seems to be directly correlated to the debt servicing. Students or their parents who are conscious of maintaining financial discipline including their credit history are also likely to report lower delinquencies. The delinquencies are higher in cases wherein the repayments are being done by the students rather than the parent who are also helping with the debt repayments.

CONCLUSION

The education loan segment which is primarily driven by government focus on education sector requires a specialized approach towards designing the product to maintain good asset quality. The players need to clearly define the parameters to assess each student loan separately rather than treating it as priority sector loan. Clear scoring card needs to be developed or needs to be further fine-tuned to arrive at risk pricing commensurate with the profile of the student.

The profile of the student should take into account education background, past educational performance, university credentials to which the student has applied and employability of the student. Extra caution is required especially in the loans of smaller ticket size that are unsecured.

The regulatory framework also needs some modifications which allow the lender some flexibility in deciding the loan terms including collateral requirement based on the student profile and the employability of the student. The penetration in education loan market is only 20% compared with the higher education expenditure. Hence, there is still a large untapped segment which can lead to significant growth for lenders and creation of sustainable model for the players in this segment.

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