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An Analytical Study Of Growth Of Education Loan In India

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Abstract:

Skill based and professional higher education is essential to social, cultural and scientific temper development and economic growth of a nation. India is the largest youngest populous country in the world. Therefore, higher educational institutes have to be established to improve the quality of human resources. However, withdrawal of government support to higher education by the central government promotes relatively expensive privatisation of higher education. In 2021, 40 percent universities, 61 percent colleges were privately owned and run high demand Engineering, Medical Science, MBA and Pharmacy courses across India. Central government has been providing interest subsidies on the education loan for the merit and economically backward students for professional education. However, most of them are unable to make repayment of loans because of high dropout, education failure, absence of job opportunity, low salary and so on. The total outstanding education loan was Rs. 101064 crore in March 2023. According to the Reserve Bank of India, Non-performing assets of the education loan stood at 7.82 percent in the first quarter of 2022. This increasing NPA of education loans makes the banks cautious sanction loan. Although, it is essential in any circumstance to continue financial support from banks and government to students for higher education to obtain a demographic dividend of quality human resources for the economic development of a nation. Researchers suggest that government, educational institutions and banking associations should do empirical study early to ascertain the risk factors in education loans and restructure the loan process rather than avoiding loan sanction. It will be helpful to India become a global leader in human resource rather than economic development.

Key Words: Accounts, Defaulters, Education loan, Higher education, outstanding loan.

Introduction:

The constitution of India lists "Education" as a concurrent subject and the state governments have a big role to play in ensuring the access and quality of education being imparted to its citizens. Hence, the central government has the responsibility of policy decisions and any transformation in the higher education ecosystem to be led by the states in India. Since independence, the central government has appointed various committees to study the utility of the existing education system associated with school & higher education and needful changes made in the school and higher education according to recommendations. Radhakrishnan Commission (1948) Kothari Commission (1964), National Education Policy (1986), National Knowledge Commission (2005) and recently New Education Policy (2020) has been appointed to study the education system of India. However, quality, employability, cost and competitiveness in school and higher education is a big question in the education system in India.

Higher education plays a vital role in the social, economic and technological development of a nation. The number of universities, colleges and enrolment of students in higher education is increased substantially during the planning period. However, the higher education sector has gone from tremendous change during liberalisation, privatisation and globalisation. An increasing public demand of higher education due to change in demographic pattern and withdrawal of government's budgetary support to higher education has led to exponential growth in the private higher education institutions in India. According to the All India Survey on Higher Education 2020-21, there are 1113 universities and 43796 colleges in India. The total number of students enrolled is 4.13 crore for higher education during the same period. However, private universities account for 26.3 percent enrolment and private unaided colleges 44.4 percent enrolment of higher education.

Recently, most of the higher educational institutions have introduced skill based education and the trend of student enrolment in the same has substantially increased even though high costs for admission. Most of the poor and middle class students cannot afford the cost of such private institutions. Therefore, the government has announced various scholarships for merit and poor class students. Moreover, education has been included in the priority sector for banks & financial institutions to meet the financial need of meritorious and poor students and also introduced subsidised education loan schemes for pursuing higher education in India and abroad. As on March 2023, 20.89 lakh outstanding education loan accounts and Rs. 101064 crore outstanding loan of SCB in India. Recently, the increasing number of defaulters in education loans has become a crucial issue in India. About 8 percent education loan portfolio defaulters were in 2022-23 year and consequently banks are shown cautious tendency while sanctioning education loan.

This paper studies the growth in the education loan during 2010-2023 across India.

Review of Literature:

Shromona Ganguly and Deepa S. Raj in their research article titled 'Education Loan NPAs of Banks in Tamil Nadu: Issues and Challenges" made detailed analysis of various schemes of education loan, volume of credit, ratio of default in various streams and factors responsible for high default. Education in Tamil Nadu is costly because of privatisation of higher education is one of the important reasons to become top borrower of education loan in India.. Unemployment, wilful default, non-completion of course by the student borrower, not responding to the bank's reminders are the major causes of high default in Tamil Nadu. However, there is a sharp decline in demand for education from Covid -19 in the state.

Arindam Bandyopadhyay in his article studying borrower level risk characteristics of education loans on the basis of micro data. He has collected 5000 education loan borrowers of four major public sector banks. This paper empirically examines different characteristics associated with the loan (loan amount, interest rate, and repayment period), security positions (such as margin given and security), and borrower (age, marital status, presence of guarantor or co-borrowers). A set of univariate statistical tests as well as multivariate logit and Tobit regression techniques have been used to find out the answers. The major findings suggest that borrower defaults on education loan payments are mainly influenced by security, borrower margin and repayment periods, and regional locations. The paper suggests that strengthening borrower risk assessment techniques, portfolio monitoring, due diligence in lending, and institute performance measures can reduce credit risk in education loans.

Sandeep M. Khanwalker propounded that the public sector banks are playing an important role in providing education loans across India. He has made empirical study of the education loan of Dehradun. The growth rate of education loans is increasing although, increasing defaulters in absolute and relative terms is the big issue in the same area. He has found out and discussed causes of education loan defaulters and suggested many measures to control default in a research article. He also suggested that banks should provide education loans on priority basis to students as the need of the economy even though there is a high ratio of defaulters.

Rajesh Tiwari & Dr. Bimal Anjum focused on professionalism of education in the private sector, high number of 18-25 age group population & education loan seekers and approach of banking sector. The dominance of privately owned institutes in professional courses has led students towards loan seekers while in education. Despite a consistent increase in the number of accounts of education loans and outstanding amounts, a large number of loan seekers have complained of denying and rejecting loan applications on various grounds by the banking sector. Author has suggested that the student friendly approach should be developed by banks and government while providing education loans is a requirement for market oriented human resource development in India.

Objectives of the Study:

1. To know about the government's education loan scheme..
2. To analyse the trends in the number of education loan accounts & total outstanding education loans.
3. To ascertain the contribution of public sector banks and other banks & financial institutions in providing education loans.
4. To study the share of major populous states in education loans.
5. To review the factors responsible for increasing defaulters in education loans.

Research Methodology:

This paper is based on the secondary data. The data is collected from the reports of the Reserve Bank of India, Ministry of Education, Ministry of Finance, University Grants Commission, and Department of Higher Education. Moreover, newspapers, research papers, periodicals and Journals are used to prepare paper. Mean, annual growth rate, average annual growth rate, percentage etc. statistical tools are used to analyse statistical data.

Overview of Education Loan Scheme:

The Department of Higher Education, Ministry of Education has been implementing the Central Sector Interest Subsidy (CSIS) Scheme since 2009. Under this Scheme Interest Subsidy is given during the moratorium period i.e., Course period plus one year on education loan taken from the Scheduled Banks under the Model Education Loan Scheme of Indian Banks Association to students belonging to economically weaker sections whose annual parental income is up to Rs. 4.5 Lakh from all sources. The subsidy is allowed for pursuing higher education in professional/ technical courses only from NAAC accredited Institutions or professional/ technical programmes accredited by NBA or Institutions of National Importance or Centrally Funded Technical Institutions (CFTIs). The Canara Bank has been appointed as Nodal Bank for the implementation of the scheme. Further, the NDA government has modified existing CSIS scheme in 2015 and 2018. The government has further modified the CSIS scheme with the approval of the Union Cabinet on 19.01.2022. The Modified Scheme shall be applicable from the academic year 2022-23, starting 1st April, 2022.

Scope of Scheme:

i) The Scheme is adopted by all Scheduled Banks/Regional Rural Banks (RRBs)/Cooperative Banks and is linked with the existing Model Educational Loan Scheme of the Indian Banks' Association.

ii) Interest Subsidy under CSIS is admissible only once either for undergraduate or postgraduate or integrated course. Under the scheme, interest subsidy on education loan is provided for a maximum amount of Rs. 10.0 lakh (Even sanctioned loan amount in excess of Rs. 10 lakh would qualify for interest subsidy up to Rs. 10 lakh only).

iii) In CSIS scheme, no collateral security or third party guarantee is required for Education Loan sanctioned upto Rs. 7.5 lakh. The lonee bank is to ensure that this part of the loan is covered for guarantee under Credit Guarantee Fund Scheme for Education Loan (CGFSEL).

iv) Under the Scheme, the interest payable on the Educational Loan for the moratorium period, i.e. Course Period plus one year will be borne by the Government of India. After the period of moratorium, the interest on the outstanding loan amount shall be paid by the student, in accordance with the provisions of the existing Model Educational Loan Scheme of Banks and as may be amended from time to time.

Eligibility of students for CSIS:

i) Education Loans taken under IBA Model Education Loan Scheme.

ii) Students having gross parental/ family income upto Rs. 4.5 lakh per annum.

iii) Students enrolled in professional/ technical courses only from NAAC accredited Institutions or professional/ technical programmes accredited by NBA or Institutions of National Importance or Central Funded Technical Institutions (CFTIs).

iv) Students availing any other Central /State Government Scholarship or Fee reimbursement shall not be eligible for availing benefits under CSIS Scheme.

v) Interest Subsidy under this Scheme shall not be available to those students who discontinue their course midstream, or who are expelled from the Institution on disciplinary or academic grounds.

vi) The interest rates charged on the educational loan shall be as per the Benchmark Prime Lending Rate (BPLR)/Base Rate of the individual banks and as per the provisions for interest rates under the IBA Model Educational Loan Scheme.

Education loan growth in India:

Despite education loans accessible under the Central Sector Interest Subsidy (CSIS) Scheme, a substantial number of personal loans have been taken for educational purposes in India. Table 1 depicts the outstanding educational loan under personal loan scheme and CSIS from 2008 to 2022 period. The total outstanding education loan has increased from Rs. 39973 crore in March 2008 to move to a peak of Rs. 140841 crore in 2022 in India. The calculated average annual growth rate (AAGR) of total outstanding education loans was 10 percent for the same period. However, the AAGR of total outstanding education loan during 2008-2014 was substantially higher than the 2014-2022 period. The AAGR for former was 20.3 percent and later merely 2.3 percent. It means applications for education loans from students have been made in large numbers and banks also sanctioned such loans more easily during 2008-14 than the 2014-22 period.

The AAGR of outstanding education loan under CSIS was higher (20.5 percent) than the personal loan for education purpose (20 percent) during 2008-2014 period but AAGR of former has rapidly come down to 0.1 percent and 4.1 percent for later during 2014-2022 period. It depicts that the outstanding education loan under CSIS has increased slower than the personal loan for education purposes during 2014-2022 in India.

Table 1: Education loan growth in India (Rs. in crore)

Period	Personal Loan (For Education Purpose)	Education Loans (under Priority Sector)	Total Education Loan	AGR of Column 2	AGR of Column 3	AGR of Column 4	Share of Column 3 to Column 4
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Mar 28, 2008	20532	19441	39973	--	---	---	49
Mar 27, 2009	28579	27861	56440	39.2	43.3	41.2	49
Mar 26, 2010	36863	36247	73110	29.0	30.1	29.5	50
Mar 25, 2011	42704	42589	85293	15.8	17.5	16.7	50
Mar 23, 2012	49933	48067	98000	16.9	12.9	14.9	49
Mar 22, 2013	54970	52612	107582	10.1	9.5	9.8	49
Mar 21, 2014	60005	57888	117893	9.2	10.0	9.6	49
Mar 20, 2015	63320	59184	122504	5.5	2.2	3.9	48
Mar 18, 2016	68224	60137	128361	7.7	1.6	4.8	47
Mar 31, 2017	70088	60436	130524	2.7	0.5	1.7	46
Mar 30, 2018	69712	60713	130425	-0.5	0.5	-0.1	47
Mar 29, 2019	76376	57976	134352	9.6	-4.5	3.0	43
Mar 27, 2020	77872	61233	139105	2.0	5.6	3.5	44
Mar 26, 2021	78131	59589	137720	0.3	-2.7	-1.0	43
Mar 25 2022	82723	58118	140841	5.9	-2.5	2.3	41

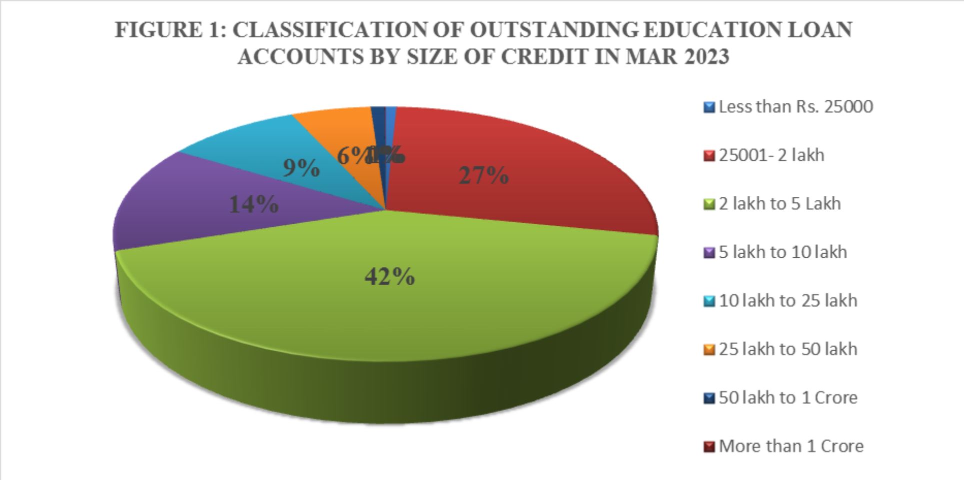
Source: Compiled and Computed by the author from data as reported at https://rbi.org.in from Basic statistical returns

Similarly, the annual growth rate (AGR) of outstanding personal loans for education purposes was comparatively lower than the education loan under CSIS during 2008-2014 period. On the other hand, AGR of former has higher than the AGR of later during 2014-2022 period (See Table 1). The AGR of outstanding education loan under CSIS was lower than the personal loan in 2012 & 2013 during the six years of 2008-2014. However, it was lower except 2018 and 2020 during 8 years of 2014-2022 period. Not only this, AGR of outstanding loan under priority sector scheme was negative in 2018, 2021 and 2022 period.

Moreover the share of education loan under CSIS in total education loan has deteriorated continuously during study period. The share of CSIS education loans was 49 percent in 2008 and dropped to 41 percent in 2022. Weaknesses CSIS scheme, lack of proper documentation, institutional norms, time consuming process are the major factors responsible for higher outstanding amount of personal loan than the CSIS education loan.

Classification of Education loan by size of loan:

The total outstanding education loan accounts of SCB were 20.9 lakh with average outstanding loan of Rs. 4.84 lakh as on March 2023 in India. The largest 8.3 lakh accounts were in the loan range of Rs. 2 lakh-Rs. 5 lakh (42 percent), followed by 27 percent in the loan range of Rs..25000 to Rs. 2 lakh and 2.89 lakh (14 percent) for loan range of Rs. 5 lakh – Rs. 10 lakh. It means 83 percent accounts had less than 10 lakh outstanding education loan in total number of outstanding loan accounts.



Source: Statistical Tables relating Banks in India, RBI, https://dbieold.rbi.org.in/DBIE/

The average size of outstanding loan of less than Rs. 10 lakh outstanding loan was Rs. 2.48 lakh. In other words 83 percent loan borrowers did not required any collateral or guarantees while sanctioning education loans. These loans are unsecure on the same grounds and have a high risk factor of transforming into Non-performing assets.

Classification of education loan by population group:

Vidya Lakshmi portal was launched on 15th August, 2015 for the benefit of students seeking Educational Loans. As of October 2023, 44 banks have registered 138 educational loan schemes on the Vidya Lakshmi Portal. It includes public sector banks, private banks, foreign banks, regional rural banks and small banks also. However, 87 percent outstanding loan accounts and 88 percent outstanding credit have from public sector banks in March 2023 across India.

Table 2: Classification of SCB education loan by population group as on Mar 2023

Population Group	Public Sector Banks		All SCB		Public sector Bank	
	No of A/c	Amount of BALX	No of A/c	Amount of BALX	Share of PSB A/c	share of BALX
Rural	369744	10110	427805	11390	86	89
Semi Urban	635459	24845	714874	27173.8	89	91
Urban	419436	23374	466512	25406.2	90	92
Metropolitan	402522	30122	480148	37094.2	84	81
All India	1827161	88450	2089339	101064	87	88

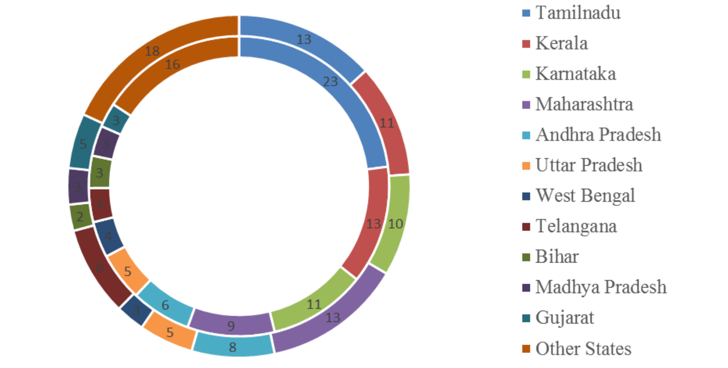
Source: Compiled and Computed by the author from data as reported at https://rbi.org.in Statistical Tables relating Banks in India

Table 2 depicts the outstanding accounts and outstanding amount of education loan by size of group in March 2023. The contribution of rural and semi urban outstanding loan accounts was 55 percent but contribution in the amount of outstanding loan was 38 percent. However, 45 percent urban & metropolitan education loan accounts contributed 62 percent of outstanding loans in the same period. Similarly, there is a positive correlation between average loan outstanding and size of the population group in education loans. It means the average outstanding loan of rural & semi urban students is comparatively lower than urban and metropolitan areas. An average loan size of rural resident students was Rs. 2.66 lakh and of metropolitan resident students education loan was Rs. 7.72 lakh indicating three times more than rural residents..

Allotment of education loan by states in India:

Figure 2 represents the state wise relative share of outstanding accounts of education loan and outstanding loan amount. An inner circle depicts the share of outstanding accounts and outer circle amount of outstanding loan. The total number of outstanding education loan accounts and outstanding loans was 20.89 lakh and Rs. 121076 crore respectively in March 2023 in India. The major 11 states contributed 84 percent of accounts and 82 percent of outstanding loans. However, southern states are leading in sanctioning education loans. Tamil Nadu, Kerala, Karnataka, Andhra Pradesh and Telangana altogether contributes 57 percent in loan accounts and 50 percent in outstanding loan.

FIG. 2: OUTSTANDING EDUCATION LOAN IN MAJOR STATES BY MARCH 2023



Source: : Compiled and Computed by the author from data as reported at https://rbi.org.in

Tamil Nadu is at the top position and contributes 23 percent of account and 13 percent of outstanding loan, followed by Kerala 13 percent loan account and 11 percent loan amount, third Karnataka 10 percent of loan accounts and 10 percent outstanding loan. Uttar Pradesh is the largest state by population but contributes only 5 percent of loan account and outstanding loan. Maharashtra is second largest state by population but contributes only 9 percent in loan account and 13 percent in outstanding loan. Bihar, West Bengal, Madhya Pradesh, Rajasthan and Gujarat are also major states by population but contributing altogether 20 percent of loan account and outstanding loan amount also.

Risk Assessment in Education loan:

India is the most populous country in the world having more than 54 percent population of below 25 years age group. This new generation is unable to get employment through traditional business and trying to get jobs or begin self-employment business through education and training from informal education. However, few skilled based and professional higher educational institutions are either government or government aided in India. Central and state governments have planned to privatise higher education and continuously reduced financial support since the introduction of new economic reforms. Therefore, newly introduced skill based and professional universities and colleges are operating on self-managed funds rather than the government support.

The privately owned self-funded institutions are based on profit motive and applying high fees to fulfil the infrastructural, salary & miscellaneous expenses for running professional programmes. Government has announced a CSIS scheme to provide financial availability & support to needful and merit students. Public sector & private banks have provided loans under CSIS and personal loan schemes for higher education in India. However, increasing non-performing assets in education advances is a challenging issue before the banking system.

Therefore, risk factors in providing education loans to students for higher education should be determined is important for betterment of students and the banking system.

One, the quality of education shall be assessed by the various government agencies of educational institutions particularly Engineering, MBA, Medical & Pharmacy institutions. Banks must consider reports of agencies while sanctioning loans to the students. Second, the course memorandum and possibility of job opportunity for that course in the market should be assessed every year by the banking association. Third, educational institutions must be categorised by the previous year placement and loan sanctioning criteria shall be categorised according to placement status of the institute. Fourth, the borrower students' progress card should be assessed every academic year to provide the next instalment. Fifth, risk management of the students should be done by the banks while sanctioning loans. This risk management can be possible through insurance of the borrower and probability of getting a job. Sixth, the government must take responsibility of loan repayment if students fail to get jobs and fail to complete the course. Sixth, Banks shall provide some relief for the one time settlement of loans to the non-defaulter students.

Scope for future in research:

This study is based on secondary data mainly collected from the reports of the Reserve Bank of India, reports of the Ministry of Education and reports of University Grants Commission. Therefore, problems facing banks while sanctioning loans, issues of applicant students and defaulters cannot be ascertained by this data. Consequently, researchers could not point out the precise reasons for rejection of proposals by banks and problems of loan defaulters. These are the areas to work for researchers.

Conclusion:

Education plays an important role in social, cultural and scientific temper development of humans and also nations. Higher education is the important stage in education and has a crucial role in the economic growth of a nation and also overall development of a nation. Since independence, the state and central government has focused on extension of quality higher education. However, there are structural changes in higher education since the introduction of economic reforms in India. One, the state and central government has continuously reduced public expenditure on higher education relative to other sectors. Second, privatisation of existing institutions and establishment of new self-funded skill & professional educational institutions makes higher education more expensive than the government education. In 2021, there were self-funded 442 universities, 27039 colleges and 11296 standalone institutions with 1.7 crore (43 percent) student enrolment of higher education. If it is analysed on the basis of professional and skill based high cost education, this proportion may be increased to 80 percent in India.

The students pursuing professional education in domestic private institutes and foreign universities need to take external financial support, particularly poor economic class students. Government has considered education in the priority sector and announced the Central scheme of interest Subsidy (CSIS) in 2009 and this scheme is modified with minor changes further by the government. In March 2023, about 20.9 lakh outstanding education loan accounts were on record with Rs. 101064 core outstanding loan. According to the Reserve Bank of India Non-performing Assets (NPA) in the education loan category were 7.82 percent at the end of June 2022 across India and most of the defaulters are from the loans disbursed to students in secondary institutes and low value education loans.

Few researchers have analysed data collected about defaulters from the various banks and ascertain the responsible factors of loan defaulters. High dropout, failure in higher education, low level of salary, lack of job opportunity are the major causes of default. Moreover, family problems, illness, wilful default are the secondary factors of default in education loan. However, micro level study on primary data has not been done to find out the actual factors of increasing defaulters in education loans.

There is a need to sort out the issue of increasing the number of education loan defaulters to sustain the quality and professional higher education in India. The Central & State government, Ministry of Education and banking association has to study as early as possible through special commission. Similarly, NGO, educational institutions and economic thinkers also positively study the same issue to make India a global leader.

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