EDUCATIONAL LOAN SCHEME OF SCHEDULED COMMERCIAL BANKS IN INDIA: AN ASSESSMENT

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ABSTRACT

Education loans form a part of the priority sector advances of the Public Sector Banks and most of the educational loans are taken for pursuing higher education courses. In the knowledge era, higher education has gained significance all across the world. Like other developing nations, India also faced financial crunch in the early nineties and higher education suffered in terms of allocations. And in the pursuit of raising access ratio in higher education, private institutions entered the field and there has been steep rise in user charges in most-sought-after professional courses like engineering and management in India in the post-reforms period. In the light of the facts that scholarships going to higher education have declined, in real terms, and it is a vehicle of upward mobility, the education loan scheme comes in to focus in order to raise access ratio in higher education. This paper is a humble attempt to review its growth & performance during the period 2004-10 through a case study of scheduled commercial banks in Chandigarh(2007); to enlist deficiencies in the scheme and suggest some policy options in this regard. The main conclusion of the study is that the scheme is run purely on commercial basis and does not offer any soft options for the meritorious and the needy.

Key words: *Education Loans - priority loan advances - Education Loan Scheme-features & deficiencies-policy options and strategies*

INTRODUCTION

One of the most important objectives of government policy since the nationalisation of fourteen commercial banks in 1969 and that of six commercial banks in the year in 1980 was to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit. The sectors that were initially identified for this purpose were agriculture, small industry and self-employment. These sectors were to be accorded priority status

in credit allocation by the banks. The commercial banks were advised to grant at least 40 percent of their total advances to the priority sector comprising of agriculture, small scale industries, small road and transport operators, retail trade, small business, professional & self employed persons, education etc. Under the priority sector advances, Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions.

Making education loans accessible to a wide section of students has been one of the priority areas of Government of India. Today around 18 lakh students all over India are enjoying benefits of education loans and education loans worth Rs. 16000 crore have been disbursed to the needy students, according to the Finance Ministry. Forty percent of total advances of the commercial banks are advanced to the priority sectors like agricultural loans, small scale industry, etc. Education loans also form a part of these priority sector advances of the Public Sector Banks, as higher education has gained significance all across the world in the knowledge era and in these times of globalisation. Moreover, India has comparative advantage in the higher education field. Therefore, the responsibility of the Government of India becomes larger as user charges in higher education have been increasing in the post-reforms era especially due to mushrooming growth of higher education institutions in the private sector and cut in the government finances going to higher education. Also that the access ratio in higher education in India is merely 12% against the world average of 23%.Higher education is seen as an instrument of upward mobility and still more than a quarter of population lives below poverty line.

Student loan financing is not a new phenomenon in India. Just after independence, a scheme of student loans was started under which educational loans were advanced to displaced students from East and West Pakistan through *the Social Welfare and Rehabilitation Directorate, New Delhi*. Another such scheme was the interest-free scheme of educational loans i.e. National Loan Scholarship Scheme introduced long back in 1963. This National Loan Scholarship Scheme was run through the state governments. Under this scheme, interest free loans were provided to meritorious students for pursuing post-Matric education. But the scheme had to be stopped in the

year 1991 due to bad recovery of loans and economic crisis facing Government of India at that time. The rate of return of this government-sponsored Indian scheme of educational loans was minimal (merely 6%) and it had to be discontinued. Indian experience is not different from the world. During the period 1977-78 and 1990-91, the recovery rate of student loans varied between 8 percent and 15 percent for India as a whole. The rate of recovery across states varied with less than one percent in Assam to50 percent in Tripura in the year 1987-88; while the overall average stood at 6 percent for India during the same year [*Tilak (1996)*].

Almost in all the countries the state supported education loan schemes were plagued with bad recovery of loans and were stopped under the times of financial stringency. Consequently, the higher education sector witnessed cut in subsidies and increase in the user- charges. The points in time may differ but story remains the same. Accordingly, new deffered-payment-arrngements were offered with the motive of better rate of recovery.

Hence, one of the central theoretical and practical rationales for loan programs is to diversify sources of funding for higher education. Most loans are used not for institutional funding, but to limit the government burden for student maintenance. In case of Chile, Colombia, Indonesia, Australia, Quebec, Japan and U.S.A., the loan scheme is coupled with rising fees in public universities to cushion the impact of cost-recovery in these public universities. In these seven countries, with some of the highest cost-recovery in the world, governments recover only between 2% (Colombia) and 14% (Quebec) of instructional costs from the loan recipients.

The growth of higher education system in terms of institutions and enrolment is appreciable in India especially during the nineties and beyond, but the nature of this growth raises some issues. Actually, large numbers of private management institutes and even more private engineering colleges constitute the bulk of the increase. Numbers of both have doubled over the past five years, from 1,000 and 1,350 to about 2,000 and 2,700 respectively. Thus, there is a quick transition from publicly funded general higher education to private professional education dominated by engineering and management. The private sector took up this expansion as public institutions were

not in a position to expand; so even though quality is compromised, capacity has been created and demand met. Apart from obvious concerns about quality, the major consequence of this mushrooming growth of private sector in higher education field is high user costs. The tuition fees in all private professional institutes are high, making higher education increasingly expensive. As a result, more and more students and their families felt the need to borrow - a trend unknown just a few years ago.

Almost after gap of a decade, the Government of India introduced Education Loan Scheme through the commercial banks of India for the purpose of completing post-matriculation education. Despite the fact that the current scheme offers no subsidy, about 7, 00,000 students took out educational loans in 2009 compared with just a few thousand in 2001. From the early 2000, the banking sector's education loan portfolio has been growing at a robust rate of 40percent a year. Faced with a bulging middle class and large section of population living below poverty line, the scheme needs to be softer. Presently, the Ministry of Human Resource Development (MHRD) is working out to provide educational loans to the needy with annual family income below 2.5 lakh at a subsidized rate of interest of 4% (current rate being around 12%). And the Government of India would act as the guarantor for the loan and so there will be no need for any collateral or co-applicant.

Therefore, it is in order to study the rationale/genesis, growth, popularity and features of the Education Loan Scheme of India and deficiencies in it. Before taking up the main issue, a review of educational loan schemes offered across the world has been made.

EDUCATIONAL LOAN PROGRAMS IN OTHER COUNTRIES: A REVIEW

In this section, an attempt is being made to study the distinguishing features of educational loan schemes across the world and their rates of return Actually, a successful support program (or government supported scheme of educational loans) needs to be targeted effectively to those who are deemed most deserving of support. Without effective targeting, growing enrolments on one hand and less- than-full –loan recovery on the other hand, will put unsustainable pressures on the limited loan funds.

Many student loan programs are open to all students regardless of need or ability, as in case of Ghana and Kenya in Africa. In case of UK and Australia also, all students have access to credit, regardless of income. But open access can be expensive to governments, particularly if support is subsidized (if rate of interest is charged lesser than the market rate of interest).

In the US, support is available to students below the specified income threshold. Alternatively, loan amounts can vary according to the difference between an individual's available resources and the costs of a given course of study, as in Canada, Barbados, Brazil and Sweden. In Norway, Netherlands and Sweden, this assets & income of the students above/over 19 years of age are assessed independently as they are treated as financially independent. But this same requirement in many developing countries has enabled students from wealthier families to benefit enormously from student support, simply because students at age 19 are unlikely to have their own sources of income.

Access to support can be based on student's performance, either at secondary school or University, as it gives a strong performance incentive. In Indonesia, students were eligible for loans as they approached graduation, only after proving their academic ability. In Venezuela and Honduras, a student failing to receive minimum grades will lose access to loan support and must begin repayment of loans immediately. There is a concern, however, that the use of ability criteria would result in the selection of wealthier students with access to better educational facilities.

In case of India, the Education Commission also recommended a rigorous test of admission at post-graduate stage along with adequate scholarship-cover for 50 percent of the students supplemented with loan-scholarships way back in 1966. The Programme of Action on the National Education Policy (1992) also favoured support to meritorious students as it also recommended an elaborate and effective system of providing freeships, scholarships and loans to students belonging to the weaker sections of society.

The major problem that has plagued the finances of most of the student loan programs has been the failure of many students to repay their debt. Default on the part of the students can be divided into two parts:

- students who can not pay, and
- students who evade payments.

Appropriate arrangements need to be made for checking the deliberate evasion from repayment of loan. Therefore,choosing an appropriate collection institution is central to effective recovery. Banks and tax systems have the necessary infrastructure to collect repayments. In Venezuela, the student loan program operated by the national savings bank (BSNAP) does not suffer from problems of default, while the public agencies face much greater problems. Non-payment was merely 5% in case of Honduras, where private agencies were used to locate students and collect money. ICETEX in Colombia passes on additional charges for such services to the students. As a result, students now are reluctant to default on their loan in Colombia. *The lowest loan default states have been in Sweden, Hong Kong and Quebec, where students are exempted from payment (while still accruing interest charges) when a graduate's income falls below a threshold level.* Same is the case in U.K, where students have to submit proof that their income is below the threshold level. In Ghana, each borrowing student must have two guarantors who are wage earners (and thus traceable by the government) in order to avail the loan facility. The French government has proposed a students loan program that would require student to make small payments each year even while they are borrowing (a way to remind them of their loan obligation). If a student fails to make any payment, the loan is cut off.

The present scheme of educational loans in India- Education Loan Scheme - is not much different from such schemes offered in other countries as all aim at full/near-full recovery of loans. Here scheme is run through commercial banks and there is no involvement of any private agency like Colombia and Honduras.

II

REVIEW OF THE LITERATURE

Shastree (2004) conceives that there had been three waves of the privatization drive in higher education in the world, as mentioned below –

- The first wave of growth in contemporary HE was noticed in Latin America, which involved Catholic Universities with a religious role. Later Indonesia, Tanzania, Ukraine etc. followed.
- The second wave was more a `reaction to the perceived massification' or `decline in quality of public higher education', which attracted private sector to the higher education arena.
- The third wave in the later twentieth and early twenty-first century mostly captured rising demand for higher education that exceeded the supply of *public or free higher education*. As the public budgets were unable to meet the still rapidly growing demand for higher education, students paid for finding out a viable alternative.

Nyborg (2003) is of the view that public responsibilities must remain a pillar of *European Higher Education Policies* as Europe faces the challenges of the global marketplace and threat to higher education as a public good. He opines that the public authorities should have substantial financial responsibility for higher education. Public funds must be supplemented by private money, but should never be a pretext for the public authorities not to provide substantial public resources. The public authorities should bear the main responsibility for ensuring equal opportunities in higher education, including access policies and student finance. These responsibilities are crucial for making higher education as much of a public good as possible. While there should be no monopoly on higher education provision, the public authorities must contribute to the provision of good educational opportunities in reasonable conditions to ensure that higher education encompasses a wide variety of disciplines.

Hilman(2003) rightly comments that the alternative to free/subsidized access to publicly financed education is private payment. Student may, however, lack the means to pay for their education and may wish to borrow to finance their education costs. The private lenders may be unwilling to lend for studies. The impediment to lending, according to him, is asymmetric information that results in moral hazard. The asymmetric information, that results in moral hazard. The asymmetric information is that students know their own effort input and motivation, but lenders can observe neither effort input into studying nor the motivation to study. Repayment of loans based on the expectation of the future earnings, and the risk of default facing the

lender depends on the observed effort of the student in studying and preparing for exams. A moral hazard problem arises because, according to him, it is the non-observable behavior of the student that determines whether education will provide an income or not which, in turn, will anticipate the repayment of loan. He opines that this moral hazard introduces government involvement into student loans. Government can provide loans directly through a government agency or security to the private lender by guaranteeing repayment of loans. Accordingly, he advocates government-supported student loans on the following grounds:

- resource potential
- equity in sharing the costs of higher education; and
- efficiency by making students more serious with respect to their education and careers. .

Albretch and Ziderman (1995) analysed the government supported deferred-cost-recovery programs of twenty different countries on the basis of rate of return of these schemes, results of which are summarised below:

- in only six loan programs the loan recovery ratio exceeded 50 percent (incase of Colombia' Hong Kong, UK, Norway, Barbados & Sweden)
- in ten programs the loan recovery ratio was 30 percent or less (Chile, Honduras, Jamaica, Brazil, Indonesia, Venezuela, Kenya, Sweden etc.)Carlson (1992) presents broadly the similar results of loan recovery for selected loan schemes from Latin America. Taking account of loan repayments, default and administrative costs, he estimates overall loan recovery of 52% for both Chile (1989) and Colombia (1985), 34% for Brazil (1989), 30% for Jamaica (1988) and 27% for Honduras (1991).

They concluded that the financial efficacy of any loan scheme depends certainly on the 'loan- recovery-ratio': the extent to which loan is repaid in full, or in other words how much cost of burden of higher education is borne by the government. According to them, a successful support program needs to be targeted effectively to those who are deemed most deserving of the support. Without effective targeting, growing enrolments on one hand and less- than-full –loan recovery on the other hand, will put unsustainable pressures on the limited loan funds.

Tilak (1996) found many of the arguments made against student loans to be valid in India; and therefore, he did not lend support in favor of student loans. Student loans, without any carefully formulated policy, may affect the access and equity adversely. Even American critics of student loans express their apprehensions in this regard while saying that student loans may lead to inequality of access by restricting participation of (ethnic) minorities in higher education. He visualized student loans as a method of generating finances for higher education than a measure to improve access & equity.

Ram (1996) observed that the Students Loan Programme was quite successful in Singapore. He noticed in this regard that full employment, continuous demand for skills, labor shortages and higher economic returns to educational investment all tantamount to a degree of economic development in case of Singapore, where the concept of loans for education becomes acceptable with little persuasion and public debate. Actually, Ram agrees with the school of thought (few researchers) which opines that a country could afford to introduce student loans only at a given level of development.

The Review Committee on NPE' 1986 recommended introduction of institutional loans, while raising fees in higher education sector, as a strategy for releasing pressure on the government kitty. Though it agreed that such an arrangement is the need of the hour, yet it mentioned that educational loans do involve certain problems in India. They were mentioned as-

- Psychologically, people are against loans.
- Credit markets are not developed.

Through the survey of literature it is evident that governments around the world used to bear a large part of expenditure on higher education. Actually, in almost all the countries, including India student loans used to be seen as a measure to ensure the protection of weaker sections from the effects of high user charges, in spite of the above mentioned problems. The budgetary strains brought wide change in the financing patterns. Gradually, the debate shifted from 'Should there be increased reliance on private sector and other sources?' to 'What is the reasonable balance between the state, student and private sector?' Consequently, there arises need to look

out for mobilization of additional sources like philanthropy, endowments, business contributions, taxing corporate sectors etc. The increased cost recovery needs to be accompanied with student loans. The government sponsored education loan schemes are no longer there. The interest charged on education loans is equal to or higher than the market rate of interest. More recently, this social consideration has got a backseat and the financial efficacy has become the most important issue.

RESEARCH GAP

As it is evident that the original scheme of educational loans i.e. National Loan Scholarship Scheme was initiated in India in the year 1963 and it continued till 1991. This government sponsored National Loan Scholarship Scheme proved to be a failure when assessed in terms of recovery of loans. Moreover, the economic crisis facing Government of India in the early nineties necessitated the winding up of the scheme. Hence, it was dropped in the beginning of the nineties. At the same time, it was realized that a similar type of educational- loan scheme was required to cushion the impact of rising user-charges in India**.** Accordingly, a new scheme of education loans, namely, Education Loan Scheme, was started. The main tenet of the scheme was its economic viability**.**

Through a survey of literature, we have studied various arrangements/schemes of educational loans and their problems in different countries and the previous scheme of educational loans in India. But no study is available on the present scheme i.e. Educational Loan Scheme (2001) in India. Therefore, this paper is an humble attempt to study a) its growth and performance or increase in the amount of educational loans; b) about the beneficiaries of the scheme; and c) deficiencies in the scheme.

III

OBJECTIVES, METHODOLOGY AND DATABASE

OBJECTIVES

Hence the paper attempts to answer the following questions:

- What is the rationale behind the introduction of Educational Loan Scheme
- How has this scheme performed in India in terms of growth of educational loans in India?
- Who are the beneficiaries of the scheme?
- What have been the deficiencies in the scheme?

FOCUS AREA

The present paper focuses on the Educational Loan Scheme of Indian Commercial Banks. Consequently, the focus of the paper is on the growth & distribution of educational loans; socio-economic characteristics; the problems of educational loanees; findings & limitations of the study; and the strategies to make the scheme more effective.

METHODOLOGY

The methodology has been discussed below:

RESEARCH DESIGN

A *survey* has been conducted on the educational loan scheme run through the commercial banks of India in the year 2007. The results have been presented using *percentage method, tables* and *pie-diagrams*.

SAMPLE DESIGN

A survey has been conducted on the commercial banks in the Union Territory of Chandigarh. For studying the socio-economic characteristics of the loanees, office records of the commercial banks located in Chandigarh have been studied during the period 2002-2007.

STUDY AREA

For carrying out the survey, we confined ourselves to *Chandigarh*. The choice of the Union Territory of Chandigarh as the study area has been dictated by its dominant access ratio at tertiary level of education in the Indian Union. As mentioned in Selected Educational Statistics (2003-04), the access ratio of Chandigarh was 29 percent while that for India as a whole was around 9 percent. Pondicherry stood at second position with a Gross Enrolment Ratio of 17.9 percent and Goa was at third place with enrolment ratio 13.5 percent in year 2002-2003.

DATA COLLECTION

For studying the socio-economic characteristics of the loanees, office records of the commercial banks located in Chandigarh have been studied.

TIME PERIOD

A *survey* has been conducted on the beneficiaries of the Educational Loan Scheme run through the commercial banks of India in the year 2007 and is inclusive of all cases of educational loans available with these banks till 2007.

TARGET GROUP

Ten branches of various scheduled commercial banks located in the Union Territory of Chandigarh were contacted and information was gathered regarding 131 cases of educational loanees on request basis. The selection of banks was done on the basis of convenience sampling. And those bank branches were not studied which had one or two cases.

SAMPLING SIZE

The number of cases included in the study is 131 i.e. the number of education loanees.

IV

GENESIS OF EDUCATIONAL LOAN SCHEME OF INDIAN COMMERCIAL BANKS

The government sponsored National Loan Scholarship Scheme (1963-91) could not succeed as the rate of recovery was very low as the recovery rate was negligible and the country faced severe economic crisis in the early nineties, the NLSS was discontinued. Actually, the government was not in a position to finance the higher education sector liberally and it started to look out for other non-governmental measures of financing higher education.

In the early nineties, Indian Government set up various committees one after the other to (a) review the financing patterns in the higher education sector and to (b) suggest some remedies. To name a few –Punnayya Committee, Swaminadhan Committee, Pylee Committe, Mahmood-ur-Rehman Committe, Ambani-Birla Committe, CABE Committe,Yashpal Committe etc. Almost all committees recommended raising the user-charges.The most significant and pathbreaking

recommendations were those of the Punnayya Committee (UGC, 1993) and the Swaminadhan Committee (AICTE, 1994) and were more or less quite similar.

Punnayya Committee recommended an increase in the entire fee structure of the universities in1993. At the same time it apprehended that such upward revision in the fee structure of the universities may result in denial of access to weaker sections particularly those who belong to socially and economically backward sections. Therefore, the Committee proposed following schemes which were endorsed by almost all the later committees:

1. Free or Concessional Studentship freeships or admitting meritorious students from socially and economically weaker sections of society at concessional rate of fee. The extent of such concession was proposed to be to be initially 10% of the entire student strength of the institution which could be increased later.

2. Scholarship Scheme for Post- graduate Student covering tuition and living costs where necessary; and tuition cost met fully or partly in relation to the income of guardians i.e. whose income falls below a prescribed level. In the first instance Post Graduate scholarships may be sanctioned to 20% of the strength of students pursuing various courses of study in central universities at post graduate levels. The object of this fellowship programme should be to encourage meritorious students belonging to weaker sections from all parts of the country to seek admission in the central universities.

3. Regarding Loan Scheme, *Punnayya Committee* recommended that UGC may explore the possibilities of introducing a soft loan scheme in collaboration with the nationalised banks. The sole criterion for selection of a student in this case must be merit and economic backwardness. The extent and manner of assistance may be determined by the universities. The bank would need to satisfy itself in regard to credit worthiness; and the university should not be made responsible for the recovery of the loan or pursuing of action for this purpose.

Like Punnayya Committee other committees namely, Swaminadhan Committe, Pylee Committee, Mahmood-ur-Rehman Committee, Ambani-Birla Committee, CABE

Committee, Yashpal Committee, also recommended the same. *The Swaminadhan Committee (1993)* recommended setting up of an Educational Development Bank of India to float student loans to the needy students and also to the institutions. *Ambani Birla Committee (2000)* redefined the role of the government in higher education from a regulator to a facilitatorand went far ahead in suggesting a gradual move to full cost recovery in higher education, encouraging the emergence of a largely self-financing private sector. They suggested a credit market for education so that those who cannot pay fees should be able to take loans or credit from the market. This drastic move was not acceptable to the policy makers and it went unheeded. Pylee and Mahmood-ur-Rehman Committees also recommended to raise fees and to revise them periodically. *The CABE Committee (2005)* in its report recommended increasing fees in the higher education sector which had remained constant for decades. It strongly advocated student loans as an effective antidote to check the regressive effects of increase in fees. At the same time, it agrees that the poor performance of many countries with the student loan programmes is also well known. Obviously, it indicated towards the rate of recovery of the scheme.

Towards the beginning of the year 2000 (or in late 90s), the new scheme of educational loans i.e. Educational Loan Scheme was floated by the scheduled commercial banks as per the guidelines of the Reserve Bank of India, though the first two recommendations of the Punnayya committee regarding freeships/ concessional fees for higher education especially at post-graduate stage seem to have gone unheeded. Moreover, the special preference to the meritorious and needy has found no place in the present arrangement of loans.

Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad; and are categorised under priority sector loans by the Commercial Banks which comprises of agriculture, small scale industries, small road and transport operators, retail trade, small business, professional & self employed persons, education etc. The rationale of priority sector lending was one of the causes for nationalization of the top 14 banks in 1969. The rate of progress was quite rapid soon after nationalization but later progress was more modest. The priority sector lending

in India stood at 14 percent of the total advances in 1969, increased to 46 percent as at the end of 1988 and then to 35 percent in 1997 and then to 39.6% in 2007.

The main emphasis of the scheme is that no deserving meritorious students should be denied the opportunity to pursue higher studies for want of financial assistance.

EDUCATION LOAN SCHEME OF THE COMMERCIAL BANKS OF INDIA: GROWTH & PERFORMANCE

Education Loan Scheme is being run by the Public Sector Banks of India since 2001 under different names and with small variations. For example, Bank of Baroda has named the scheme for education with in India as *Baroda Vidya* and for education from abroad as *Baroda Scholar*. The Punjab National Bank has two schemes- (1)*Vidya Lakshya Purti,* and (2)*Sarvottam Shiksha.* The latter scheme provides loans at concessional rate of interest (less than BPLR) for specified educational institutions. Same type of scheme is run by the State Bank of India under the name *Gyan Jyoti Scheme*.

Education loans extended by public sector banks are a hit with the student community and have bee witnessing steady increase ever since the scheme was introduced in 2001, as shown in the table. Over the years the ratio of educational loans as a percentage of Public sector banks' total advances has shown an improvement from 0.64% in 2004 to 1.25% in 2008, almost doubled. The loan is mostly taken for higher studies.

The performance of Public Sector Banks under Education Loan Scheme of Indian Banks' Association (IBA) shows continuous growth in educational loans, in terms of amount, as well as, number of accounts. Moreover, educational loans still remain largely in the domain of public sector banks, as they offer better terms than the private banks. The total education loan disbursed by PSB's have reached around Rs. 34,192 crores with 18, 51,106 benefactors till March, 31st, 2010. Education loans are now popular across all segments of society and are extended to only those students who have confirmed admission.

Table 1:

Growth of Educational Loans in 27 PSBS in India (2004-10)

YEAR	Total Outstanding Loans of PSU banks under portfolio	Total Loan Accounts
31st March,2004	Rs. 4,500 crores	3,19,000
31st March,2005	Rs. 6,713 crores	4,68,207
31st,March, 2006	Rs. 10,004 crores	n.a.
31st,March, 2007	Rs. 19,817 crores	n.a.
31st,March, 2008	Rs. 24,260 crores	12,46,870
31st,March, 2009	Rs. 27,646 crores	16, 03,385
31st,March, 2010	Rs. 34,192 crores	18,51,106

Sources: Figures taken from Monday, April 24, 2006, Business Line; Indian Banks' Association (IBA), 2009; and Finance Ministry 2010.

The performance of Public Sector Banks under Education Loan Scheme of Indian Banks' Association (IBA) shows continuous growth in educational loans, in terms of amount, as well as, number of accounts. Despite the developments, education loans still largely remain the domain of public sector banks. The main emphasis of banks is that no deserving meritorious students should be denied the opportunity to pursue higher studies for want of financial assistance. Education loans are now popular across all segments of society and are extended to only those students who have confirmed admission.

Study loans in India experienced a strong growth in the fiscal years 2005-06 and 2006-07.As per data of IBA, education loans outstanding to Public Sector Banks were to the tune of Rs. 6713 crores in March, 2005. The increase in total loans outstanding over 31st March, 2008 in absolute and percentage terms, was Rs.7829 crores and 39% respectively. Similarly, the number of accounts increased by 3, 56,515 registering a growth of about 29% during the same period. In 2008-09, the educational loans witnessed an impressive growth of 39 percent..

The average size of about 70 percent of the loans was up to Rs. 4 lakh (without security). A reason for this sector continuing to be attractive over the last ten years is

negligible defaults. Loan defaults are placed at less than 3 percent, as per ASSOCHAM study.

This has been a growing sector and is bound to expand further. Banks are also looking for opportunities to introduce demand-based schemes. Study loans in India are seeing a strong growth in the current fiscal; the demand is robust with private colleges offering courses such as engineering and management. Now that the limit of education loan has been increased to 10 lakhs for availing higher education within the country and to Rs. 15 lakhs for education abroad, the average size of the domestic education loan is Rs 2 to 8 lakh, while that for overseas education is around Rs 5 to 15 lakh. The number of Indian students travelling abroad for higher studies has almost doubled over the past two years. Correspondingly, the banks have seen a similar trend in the quantum of education loans.

The State Bank of India and its seven associate banks – leaders in education loans – have recently upgraded their products portfolio to expand their market share. Almost all the branches have been authorised to disburse education loans. According to official reports, the revamp of the educational loan product has resulted in a nearly 30 to 40 per cent growth during the financial year 2007-08. The SBI and its associate banks now expect the demand for education loans to further go up with the hike in fees by IIMs and IITs across the country and other B-schools also overhauling their fee structure.

Although the banks have loosened their purse strings for education loans, they are not going to let students default so easily. The government is considering a host of measures, including a bar code or even radio frequency identification on passports, put forward by banks, so that students availing such loans can be tracked.

Though education loans are now popular across all segments of Indian society, yet less than 3% students in India avail of education loans against 85% in UK, 77% US and 70% in Germany and France and most of these education loanees in India belong to middle income families, according to a study by ASSOCHAM. The study

highlights that though there are many schemes for providing financial aid to poor students, the amount given is awfully low and procedures are very cumbersome

According to this study, US spends nearly $ USD 80 billion on higher education annually, mostly in the form of students aid, India has allocated about $ 3.5 million USD for its flagship merit-cum-means scholarship schemes. The study also says that the number of engineering graduates in India is 3,50,000 annually, compared to 70,000 engineering graduates in US and 100,000 engineering graduates in Europe. India also produces 60,000 MBAs every year. Obviously, the amount is quite small in India in relation to the outturn of the graduates. Engineering colleges in the country have been growing at 2% a year while business schools have grown at 60% annually – with 348 universities and over 17,973 colleges spread across the country. In the year 2005, more than 2 million graduates were added that included 25,000 doctors and 6 lakh science graduates and postgraduates. The scenario has not changed much since 2006 and the share of students that sought loan from various financial institutions was less than 3percent (*Banknet India*).

FEATURES OF THE EDUCATION LOAN SCHEME OF THE COMMERCIAL BANKS OF INDIA THROUGH A CASE STUDY OF CHANDIGARH BANKS

In order to know how popular the scheme has been, various scheduled commercial banks in the Union Territory of Chandigarh were contacted and information was gathered regarding 131 cases of educational loanees on request basis. Following banks were contacted for the purpose:

1. Punjab National Bank, Sector 28,Chd. (5)

2. Oriental Bank of Commerce, Sector 24,Chd. (1)

3. Punjab National Bank, Section 17,Chd. (4)

4. Oriental Bank of Commerce, Sector 26,Chd. (6)

5. Oriental Bank of Commerce, Sector 17,Chd. (5)

6. Union Cooperative Bank, Sector 17,Chd. (11)

7. Union Bank of India, Sector 17,Chd. (5)

8. Canara Bank, Sector 17,Chd.(17)

9. State Bank of India, Sector 12,Chd. (56)

10. Central Bank of India, Sector 17,Chd. (10).

Note: Figures in parentheses show the number of educational loanees in that branch.

It was found that the average loan size of domestic education is Rs. 2-3 lakh while that for overseas education is around Rs. 7-8 lakhs. Demand is still robust, with private colleges offering courses such as engineering, management, hotel management, nursing, etc.

As loans were observed to be taken mostly for professional courses, few banks had offered loans for studying professional course at concessional rate of interest, as in case of Allahabad Bank 2% rebate is offered in rate of interest, provided it is truly a professional course. The Sarvottam Shiksha scheme of Punjab National Bank provides loans at concessional rate of interest (i.e. less than BPLR) for professional courses in specified educational institutions. Same type of scheme is run by the State Bank of India under the name Gyan Jyoti Scheme. Such schemes were available even before it was made mandatory in the late 90s (or June 2001) through the Ministry of Finance e.g. Canara Bank's Gyan Ganga scheme for purchasing books worth Rs. 10,000 in the decade of 80s.

Out of the above mentioned ten bank branches, the branch of State Bank of India at the Post Graduate Institute of Medical and Educational Research (PGIMER), Sector 12 was observed to have the largest number of cases (56/131) of educational loan disbursals. Loans were advanced to the persons employed in the PGIMER itself and who had their salary accounts in the same branch. In most of the cases, the loans were advanced to their wards without filling in forms completely. Therefore, the personal, family and other details of these educational loanees could not be procured and the plan of the study had to be based on the remaining 75 cases of the nine branches.

On the basis of the records, we had access to, following observations can be made regarding the remaining 75 cases, spread across nine commercial banks:

1. Twenty percent of the loanees were females indicating that majority of the students who availed the facility of educational loan were males.

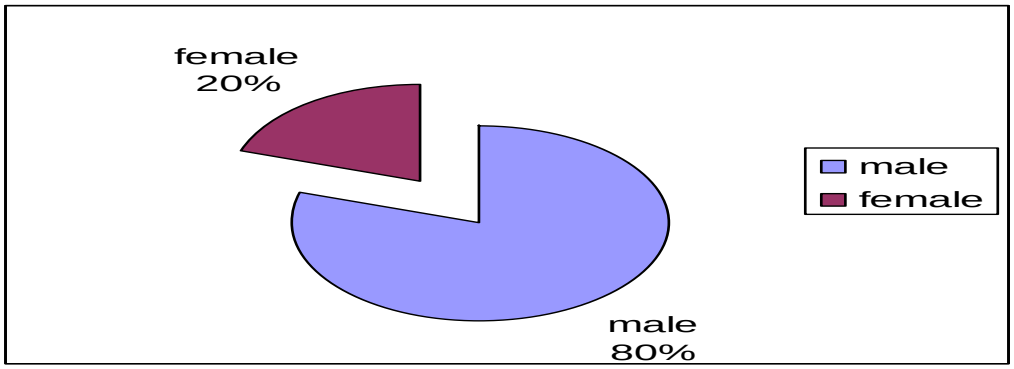

Figure 1. Sex-wise Distribution of Educational Loanees in Chandigarh

2. Loans were taken mainly for professional courses, namely MBA, MCA,MIT, BDS, BHMS, MS, BE, B Tech, M Tech in (65/75=)87 % of the cases. Out of the remaining, few cases were for studying vocational courses (after 12th) e.g. Diploma in Computers (hardware).The courses of Engineering and Hotel Management (in Australia, New Zealand, Canada, United Kingdom) were observed to be the most sought after courses among the loanees. One to two percent of loanees took loan for doing course in Fashion Technology from foreign countries.

3. Seventy three percent (i.e.55 out of 75) loanees availed loans up to 4 lacs while only twenty seven percent (i.e. 20 out of 75) availed loans above 4 lacs, obviously less than or equal to 15 lacs. The possible explanation can be that loans below 4 lacs did not need any collateral security, so the majority had gone for it.

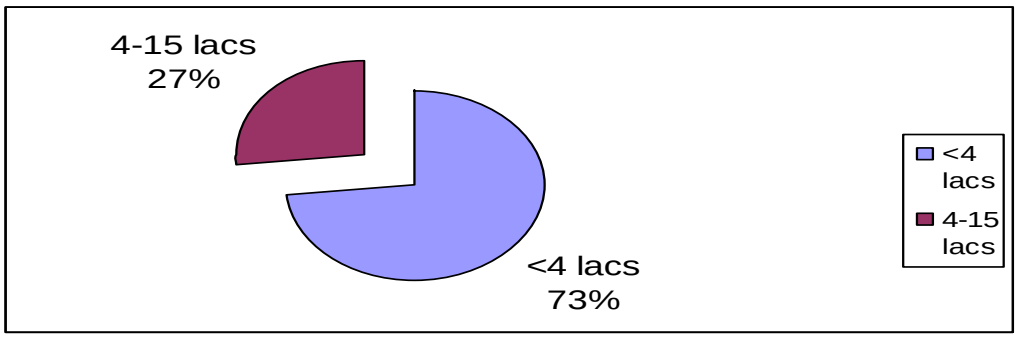

Figure 2 : Amount Disbursed as Education Loan in Chandigarh

4. Forty nine percent (i.e.37 out of 75) loanees took loans for pursuing studies abroad. So, loans were availed for studying in India as well as abroad.

5. Sixty five per cent (i.e. 49 out of 75 loanees) of the mothers were housewives and non-earning. In good number of cases, it was noticed that the families had single earning member.
6. Seventeen (i.e.13 out of 75) of the loaness came from business families, around seven percent(i.e.6-7%) from pensioners family (defence & others) and the remaining but the larger section of the loanees (i.e. 76%) were either from service class or from landlords' families, apparently who could easily repay loans.

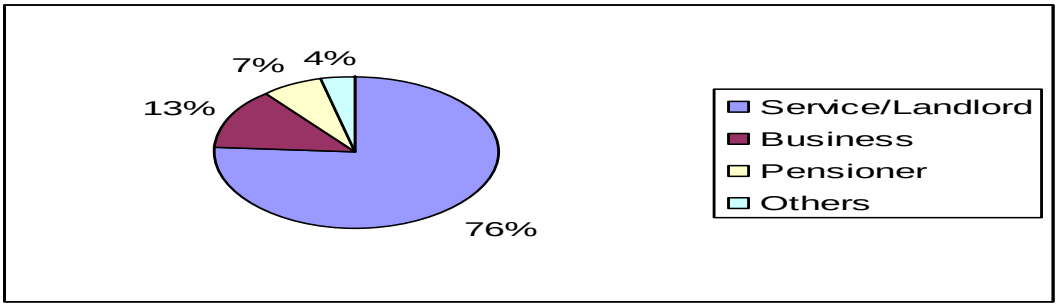

Figure 3 : Economic Background of Educational Loanees in Chandigarh

On discussing the scheme & its provisions with the bankers, following points emerged:

1. Terms of collateral security vary for individuals. It can be less than 100 percent for cases known to bank staff and can be 100 percent in case of no acquaintances.
2. In cases of meritorious students from very poor background, as bankers said, the conditions can be relaxed if people from their neighborhood can give guarantee and convince the staff. No such case could be procured during the survey of bank records or the professional institutes of Chandigarh, results of which are mentioned in the next chapter.
3. Collateral security can be provided in the form of liquid assets, Policies of Life Insurance Corporation, Kisan Vikas Patra, National Saving Certificate etc. for the loan amount or amount less than it, as decided at the time of finalisation of loan.
4. As per the guidelines of the scheme, the loan is to be carried forward and next installment is to be given only after the progress report from the institution reaches the bank. But the reality deviates from the requirement mentioned in the scheme. The candidate himself intimates the bank about his/ her result of the professional year. These observations were vindicated by the observations

of the concerned officials of the banks and the officials of the professional institutions. Correspondingly, it was found that unlike National Loan Scholarship Scheme (1964-1991) there was no link between the professional institution and the bank under this new scheme; and the academic performance and loan disbursal were noticed not to be related at all.

5. The experience of the bankers regarding loans advanced for foreign education (especially in case of Canara Bank) is that many people used it as a mode of going abroad and settling there permanently. After reaching the country of destination, they preferred premature adjustment of loan sometimes after only a few months. It points towards the rich people making misuse of the scheme. This loophole needs to be plugged.
6. The banks were found to be happy with their performance, as far as repayment of loans was concerned. The main reason behind it was that the loan was provided only after the financial status of family was confirmed and the repayment of loan was assured.

DEFICIENCIES IN THE EDUCATION LOAN SCHEME OF THE COMMERCIAL BANKS OF INDIA

In this section, the problems faced by the public at large have been discussed. The results have been come out of the discussions with the bankers and the newspaper reports mainly.

1. **Insufficient Amount of Educational Loan**: Under the Education loan Scheme, amount given is sometimes awfully low and procedures to get this aid are very cumbersome, as the following instances suggest. In the last week of July 2004, two news items appeared in the Hindustan Times concerning failure of two female students to avail education loans. Rajani, a dalit engineering student in Kerala committed suicide as her family could not afford the fees for her studies. Her application for a student loan was reportedly turned down by several banks. Obviously, this happened due to inability of Rajani's family to pay collateral security. The similar case was also about the financial troubles dogging Vaishali, a medical student of Nagpur.

2. Stringent and Inflexible Terms and Conditions: These are discussed below:

a) The terms and conditions of the collateral security followed by Indian Banking system are very stringent and not people friendly. Tilak (2004) raises a question on the terms and conditions of collateral security, when he writes- wasn't it a sufficient 'credential' for Rajani to have got herself admitted to a computer engineering course? Moreover, she belonged to reserved category and was a woman. Despite all these factors she failed to avail education loan facility. It is also very true that it has always been easier for students at premier institutes like the IITs and IIMs to access bank loans, but for students in other institutions loans are often linked to collaterals.

b) Bankers when contacted put forth the view that though they do not seek any security for loans up to Rs 4 lakhs yet repayment necessarily becomes the primary issue before sanctioning a loan , as reported by Chief Manager with Punjab and Sind Bank, Chandigarh .

3. No Consideration for Needy and Meritorious Students: Access to loans is guided more by the ability to repay (measured in terms of mortgages, security and collateral arrangements for repayment) than either by educational merit or by economic need of the students. A few instances are discussed here in this regard. First is the case of Rupinder Sharma, a resident of Punjab, who approached four different banks- Punjab & Sind Bank, Oriental Bank of Commerce, Syndicate Bank and State Bank of Patiala- for education loan, but was turned down by all on some ground or the other despite obtaining the 288th rank in an engineering entrance test. As reported in the Chandigarh Tribune, Rupinder required about the Rs. 6.5 lakh for the four years course, but one of the banks said they could sanction a loan of only up to Rs. 3.5 lakh and it is further added, which seems correct Another instance of a senior employer of a private company is also reported in the same news item that could not get a loan of just Rs. 2 lakh and took loan from provident fund to meet his son's educational expenses. Another was the case of a student who got admission to Dr. Abmedkar Institute of Hotel Management Chandigarh but could not avail educational loan facility.

4. Misuse of Scheme for Going Abroad: Education loans are more or less beyond the reach of those who are actually in need of funds to meet the high expenses of quality education. At the same time, a large number of applicants, bankers say, are those who do not need money, but seek loans to facilitate visa issuance for going abroad.

With most of the banks, on the other hand, there have been cases where loans, which were sanctioned for doing courses in foreign countries, have been repaid with in a few months of starting the course. In addition, there have been instances with the Oriental Bank of Commerce, where the bank loans obtained for overseas education have been returned even before the course has begun. The experience of countries with regard to recovery of loans is very poor.

5. Provisional Receipt- a Hindrance: Many higher education aspirants could not get loans sanctioned due to his failure to bring a provisional receipt of fee from the institution while the institutions maintain that there is no such thing as a provisional receipt.

Several studies of the World Bank & others have shown the estimates that it would take 14 years to recover 50 percent of the loan amounts in advanced countries such as UK. The cost of administration of loans is very high, if not prohibitive, in some countries. It was also found by *Tilak(1999).* He found that launching of student loan programmes in developing countries require huge initial funds (eg. An estimated Rs. 3,000 crore in India for higher technical education only).

FINDINGS OF THE STUDY

1 The Educational Loan Scheme is run purely on commercial basis.

2. There is no provision for softer loans for the needy groups.

3. The terms and conditions concerning collateral security are very stringent.

4. Many people have misused Educational Loan Scheme as a vehicle to go abroad.

5. The clause of provisional receipt of 'admission to higher education institution' without depositing the requisite course fee.

6. There is no link between the institute of study and the bank which advances educational loan as far as annual academic performance of student is concerned.

STRATEGIES TO MAKE EDUCATION LOAN SCHEME OF THE COMMERCIAL BANKS OF INDIA MORE EFFECTIVE

Though there has been appreciable growth in the educational loans advanced by the commercial banks during the period 2004-10, yet the existent income structure of the country and the growing significance of knowledge in the times of globalization call for some necessary reforms in the scheme. This section, accordingly, brings forth the strategies to make the Educational Loan Scheme more effective and inclusive:

1. The Educational Loan Scheme is run purely on commercial basis. A part of the profit earned through this scheme can be made mandatory to be spent on poor sections.

2. In addition, the common recommendation of the committees (though with different names) of instituting some fund for collecting contributions from different agencies with a purpose to provide softer loans for the needy groups should be incorporated into the scheme, for example the recommendation of Punnayya (1993) Committee for setting up a fund like State Education Fund (SEF); that of Swaminandhan (1994) Committee to set up Educational Development Bank of India (EDBI); and that of CABE (2005) Committee for setting up a body like Higher Education Finance (HEFC). Industrial contributions, international assistance, donations from NRIs, contributions from financial institutions & commercial banks, education cess etc. should be deposited in this fund. These finances should be used exclusively for promotion of higher education.

3. The terms and conditions concerning collateral security need to be made flexible so as to accommodate the meritorious amongst the economically weaker sections.

4. In order to check that people may not use Educational Loan Scheme as a vehicle to go abroad, some stricter conditions (for example in terms of higher rate of interest) can be imposed on them. Nevertheless, this aspect needs careful monitoring.

5. Some link needs to be worked out between the institute of study and the bank which advances educational loan. Imposition of some stringent regulations can motivate the students to perform well academically.

6. As higher education institutions do not provide any provisional receipt of admission without depositing the requisite course fee (the purpose for which loan is required), this clause needs to be dropped or altered.

7. As education loans under the Educational Loan Scheme form a part of the priority sector advances, the scheduled commercial banks should be directed to extend advances to poor and meritorious higher education aspirants under Differential Rate of Interest (DRI) Scheme to the weakest of the weaker sections at a rate of interest of 4.0 per cent.

LIMITATIONS OF THE STUDY

- Neither the loanees could be interviewed nor could they be administered questionnaires. The scheduled commercial banks, which have been contacted, refused to give contact numbers/addresses of the loanees as, according to them, it would have tantamounted to breach of secrecy.
- Only 131 cases of educational loans could be studied. As only 1% of the total loans advanced by these banks were educational loans, it was difficult to study it at a larger scale.

FUTURE AREAS OF COMPREHENSIVE RESEARCH

- Distribution of educational loans across income groups in India.
- Comparative study of Educational loans in other developing and developed countries.
- Educational Loans in Total Loan Advances and Priority sector advances.

CONCLUSION

In the light of the facts- a) increased user charges in the higher education sector; b) growing importance of higher education as a vehicle of upward mobility in the knowledge and information era; c) comparative advantage of India in the times of globalisation and d) the demographic dividend (larger proportion of population falling in the working age-group) of India, the scheme of educational loans run by commercial banks of India emerges as the need of the hour. The growing magnitude of educational loans indicates that the scheme is getting very popular amongst the higher education aspirants in India. But there is strong need to work on the weaknesses & deficiencies of the scheme and some efforts are being made in this regard by various bodies.

Banks are now trying to push their educational loan products with insurance cover to make them more attractive for the customers and safer for themselves. A majority of the educational loans with the Andhra Bank now carry insurance. The Bank has a tie-up with life Insurance Corporation for the purpose. In case of any tragedy, the loan-repayment will be taken case of by the insurer. Similarly, a Working Group set up by the *Indian Bank Association (IBA)* has come up with alternative suggestion to minimise defaults on education loans :- a) to make it mandatory for parents & guardians of the students borrowing loans, to be co- borrowers thereby making them liable for repayment; b) disbursing loans form branches situated close to the permanent residence of the student- borrower; c) setting up of Rs. 250 crore Credit Guarantee Fund on the lines of the Credit Guarantee Trust Scheme for small scale industries to provide cushion to banks on loan defaults. The one half of the corpus may be funded by the Central Government while the other half could be shared by the banks and the borrower.

According to the broad contours worked out by *the Planning Commission*, the government would set up a National Student Loan Guarantee Corporation or some similar body which will provide a guarantee to students or certified institutions. The move, though on paper, is expected to enable banks to lend more freely since they insist on collateral at present fearing default. In addition to this students can avail of loan write-off by serving for a specified period in a government agency.

The *Ministry of Human Resource Development* is also contemplating to set up a fund with assistance from States in order to provide soft loans to the needy people. In the times of globalization and knowledge era, higher education is of utmost importance and India has comparative advantage in the field. Therefore, in the times of high user charges, it is imperative to provide subsidy on educational loans to the meritorious and the poor. The banking system keeps education loans under priority sector advances but the real purpose would be served when these loans would be subsidized like the agricultural sector and the small and medium enterprises in order to make best utilization of the human resources falling in the working age-group.

Obviously, almost all the agencies be it *Indian Bank Association (IBA*) or *the Planning Commission* or *the Ministry of Human Resource Development* are attempting to improve the terms & conditions of the scheme in order to make it people friendly. Our study also concludes that presently, the scheme caters to only those who have the repayment capacity. The terms of collateral security are quite stringent and need to be made flexible and people friendly. The Government of India needs to collaborate with the Indian Banking Association and other such agencies to create a fund for helping the needy and the meritorious in terms of softer loans. In the times of inclusive banking, the proposed reforms in the educational loan scheme run by commercial banks of India become even more relevant.

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