

Role of Banks in Financing Higher Education in Gujarat

Abstract

In India the Higher education has become very expensive. Different educational institutions follow diverse fee structures. Furthermore, the expenditure on non-fee components of education has been increasing at a much faster rate. This makes the problem of poor accessibility of higher education to a sizable section of the Indian society a more complex issue. In view of this trend, a proper student aid policy needs to be formulated. In this perspective, it is important to enhance the use of educational loan within a suitable framework of inclusiveness, as a non-government source of finance. In lieu this, the present paper examines role of banks in financing higher education in Gujarat.

Keywords: Higher Education, Financing, Educational Loan, Education, Banks.

Introduction

The Indian educational segment needs to deal with diverse challenge starting from improving literacy to universalizing access to basic fundamental and secondary education. Furthermore, it needs to supply trained manpower and higher skills to meet the mounting requirements of the nation. "It is essential to create a level playing field where backward sections get equality of opportunity in the field of education, especially higher education. Various steps are being taken in the Twelfth Five Year Plan [2012–2017] to improve the higher education system in India. Emphasis is also being given in making higher education more inclusive and more responsive to economic needs [John, 2013]". "A large section of students may get an opportunity for education in private and government colleges if a liberal loan facility is available to the persons being included in the under-privileged students category"[UGC, 2011]. In this perspective, it is important to enhance the use of educational loan within an suitable framework of inclusiveness, as a non-government source of finance. Loan financing to education has surfaced as one of the most accepted substitute sources of financing and this scheme is currently in operation in more than 80 countries around the globe. In view of the rising costs of higher education [both tuition fee and maintenance cost], many developing and developed countries have established student loan programmes for providing the opportunity to the students of lower income class to go for higher education. This has become more popular sources of financing higher education mainly because of [i] steep hike of cost of higher education, [ii] fast increasing demand for higher education, [iii] entry of private sector on a large scale. The most significant and universal objectives of student loan is equity and access for the poor and cost-sharing has an inherent budgetary intention in regard to public funding replacement in higher education. That is, reduction in public expenditure on higher education and reallocation of education expenditure from higher to lower levels of education.

The objective of this paper is two-fold. Firstly, the purpose is to bring together important studies on the financing of higher education. Secondly, the paper aims at identifying important elements and dimensions of the financing of higher education in Gujarat. For this purpose, a wide array of studies on financing of higher education has been surveyed and put into proper perspective. Important issues and challenges emerging from the review of literature are identified. In lieu this, the present paper examines role of banks in financing higher education in Gujarat.

Review of Literature

Literature review summarizes, interprets, and critically evaluates existing "literature" [or published material] in order to establish current knowledge of a subject. The purpose for doing so relates to ongoing research to develop that knowledge: the literature review may resolve a

Jyoti Achanta

Associate Professor,
Dept. of Business Economics,
Faculty of Commerce,
The Maharaja Sayajirao University
of Baroda, Vadodara
Gujarat, India

controversy, establish the need for additional research, and/or define a topic of inquiry. The purpose of literature review is to establish current knowledge on aspects that relate to legal and ethical issues within the practices relating to higher education.

The study conducted by Dutt [1969] measured the source of financing of 28 colleges which included four state colleges and 24 private colleges in Haryana and they were further categorized under three headings as the state colleges, private women colleges and other private colleges. The various sources of financing of higher education was found to be: [i] fee income; [ii] government grants [State, UGC, and local bodies]; [iii] other sources [fines, sale of prospectus, etc.]; and [iv] funds given by the governing bodies. The sources of income were very much different in all colleges.

In the study carried out by Jha [1974] discusses the financial behavior of the Patna University and concluded that government grants is the main source of finance. It was noted in the study that in 1964-65, the state government itself was anemic due to deficit of funds which took place due to lack weak tax collections in the state. As a result of which this there was further reduction in the flow of funds to the coffers of university. The study also highlighted failure of the finance committee to function properly due to the lack of financial rules.

Mridula [1985] analyzed the sources of financing universities' maintenance grants. In this study a large number of state universities were covered and it was found that the main source of financing maintenance expenditure was the grants received from UGC and the majority of these grants were in the form of the block grants.

Tilak [1992] described the details of the student loan scheme prescribed in India, its strengths and weaknesses. In this study the researcher suggested some marginal improvements for the betterment of educational loans.

Kulavelil [2000] has analyzed the objectives and nature of higher education and resources mobility through funding diversification in Kerala private colleges and made a comparison with some of the public colleges in Kerala. He criticized the idea of financing higher education which is financed out of indirect taxes paid by the disadvantaged group.

Narayana [2005] has made an empirical investigation about the function of commercial banks in financing the budgetary subsidy to general collegiate education by government and private aided colleges in Karnataka state in India. He concluded that the current model schemes of student loan and subsidies should be encouraged and be made equally supportive to the changing needs of the students pursuing studies in India and abroad.

Agrawal [2006] study provides an overview of its structure, the regulatory environment in which it works, its financing and other important issues including governance, academics and technology. He argues that while the higher education system [particularly the private sector] in India has expanded rapidly over the last 20 years, it has done so with little regulation and decreasing standards in all but a few

quality institutions developed. Moreover, the expansion in enrollment has taken place at a time when public funding has declined [in real terms] and public universities have started to charge higher tuition fees. These changes have had a negative impact on access for the poor given the absence of substantial student financial aid programs.

Tilak, [2015] in his study focuses on higher education, and especially on the financing of higher education. According to him, higher education is broadly recognized as a vital public good, and as a social responsibility. According to him there should be a proper sharing of funding responsibilities amid union [central] and state governments. The funding of central universities is directly or indirectly taken care by central government wherein university grants commission [UGC] plays important role. And in case of State led universities only the development expenditure of state universities and colleges is funded by the union government. Recent commissions / committees [e.g. National Knowledge Commission, Yashpal Committee] have suggested that the union government should fund state universities and colleges as well, beyond only covering development expenditure.

Research Gap

Significant Review of Literature was carried out for the present study. The literature review clearly reveals that the subject and issues relating to 'financing of education' more specifically higher education remains potential area for research and not much empirical research has been carried out.

Objectives of the Study

1. To find out the social dimensions of granting students loan for higher education by the banks.
2. To find from the bank whether the education loan amounts to pursue higher studies in India or abroad [in terms of amount and number of account]

Research Methodology

Research design is exploratory and descriptive. The data was collected for the period of October 2013 to December 2014. Primary data collected with the help of questionnaire [structured non disguised] from banks in six mega cities of Gujarat state. the secondary data was collected from annual reports of banks, manual of instructions on loan and advances, books, articles and research papers and e-resources.

Sample Design

Sample and sample size- total 50 banks in six cities of Gujarat were approached with approached with the request to fill up questionnaire considering the objectives and requirement of research, the statistical, tools used were frequency, percentage, cross tabulation, graphs, SPSS & MS Excel were used.

Sample Frame

Scope of study was Gujarat state [50] banks in six mega cities were selected.

Problems with Financing Higher Education in India

Historically, the financial burden of education was borne by both State and Central Government.

But, as pointed out previously, the amount of expenditure spent on education sector by the Government has been reducing over the years, which has created a huge investment gap.

Education Loan in India

The banks play a major role in providing educational loans to the students. The mobilization of funds for education takes place through banks only. The survey of total 37 banks is conducted to know the process followed at banks for educational loans. At the same time attempt is also made to understand the operational aspects of educational loans at bank level. The information about bank loans is collected at branch level with the use of structured questionnaire numerated to bank managers. The banks included in study are both public sector as well as private sector banks. Some of the cooperative banks are also included in the survey. As far as possible, attempt is made to cover all different banks.

Table 1: Education Loan Interest Rate of Different Banks in India

Bank/ Product name	Interest Rate Type	Interest Rate [in %] for Loan Amount		
SBI-India	Floating	11.25	12.75	11.75
Bank of Baroda- India	Floating	10.00	12.00	12.00
IDBI	Floating	11.25	11.50	11.50
Allahabad Bank	Floating	11.25	11.00	11.00
HDFC Bank	Fixed	12-14	12-14	12-14
Andhra Bank	Fixed	11.00	12.75	12.75
Bank of India	Floating	9.5	10.00	10.75
Bank of Maharashtra	Floating	10.25	11.00	11.00
Canara Bank	Floating	11.00	12.00	9.75
Central Bank of India	Floating	10.00	10.00	10.00
Dena Bank	Floating	10.00	12.50	12.50
Federal Bank	Fixed	13.25	14.75	14.75
Indian Bank	Floating	12.50	12.50	12.75
Indian Overseas Bank	Fixed	10.25	11.50	11.50
Karnataka Bank	Fixed	12.25	13.25	13.25
Oriental Bank of Commerce	Floating	10.75	11.50	11.50
Punjab National Bank	Floating	10.50	11.25	11.25
State Bank of Mysore	Floating	11.25	12.75	NA
UCO Bank	Floating	11.25	11.75	11.75
Union Bank of India	Fixed	11.75	12.25	11.50
Vijaya Bank	Floating	11.00	11.00	11.00
City Union Bank	Fixed	13.75	14.50	14.50
Punjab & Sind Bank	Floating	12.00	12.00	NA
Syndicate Bank	Floating	10.00	10.00	9.5
United Bank of India	Floating	10.25	11.00	NA
Corporation Bank	Fixed	11.00	12.00	NA

Source: <http://www.apnaloan.com/education-loan-india/rates.html>

Financing of Higher Education in Gujarat

Gujarat is very fast growing state in the country. This state has high industrialized and service sector developed. Gujarat is a very fast developing state in all over of India. In the Tenth Five Year plan the country has achieved 7.8 per cent economic growth rate but Gujarat state has got 10.86 per cent growth rate. It's higher than country. India labour Ministry Report mentioned that, during last five years Gujarat has got first position to provide employment, 55 per cent employment gives Gujarat in total employment in India. After the policy of globalization, 10 years back Gujarat has 10 Universities and 300 colleges but now they are 26 than more universities and around 1200 colleges, Gujarat's higher education scenario, educational institutions are emerging like mushroom. There are vertical and horizontal changes in higher education in Gujarat after the globalization.

Bank loans for Higher Education in Gujarat: Empirical Data Analysis

The private sector got permission to participate in education sector due to the introduction of economic reforms which led to reduction in government spending on higher education. As a result educational loan is became an important means to finance education while meeting the objective of providing loan to students. An examination of educational loan is essential to understand the pattern, its magnitude, etc. which has been carried out in the following section. In the present study focuses on educational loan distributed by nationalized banks and private banks in selected cities of Gujarat state.

Operational years of the bank

The information about the operational years of the banks reveals that all categories of banks are including banks with as high as hundred years of operations and as low as four years of operations. Almost all the banks are offering educational loans.

What is the quantum of loan offered by your bank?

The quantum of loan differs across the banks. Educational loan comprises of 10 to 20 percent of total loan disbursed by banks. Banks give educational loans as per the requirement of the students and depending on the nature of course and qualification of students.

For what kind of courses your bank offer education loan?

In terms of course for which educational loans are offered by banks, it is found that educational loans are available for almost all higher educational courses including undergraduate, post graduate, diploma, professional and technical courses.

Eligibility Criteria for Educational Loans

The analysis of criteria followed while granting educational loans shows that most banks required minimum 50 percent marks in qualifying examination to avail the loan. The following criteria for educational loan are reported by banks. The responses received from the bank managers about the criteria for approving the educational loans is presented in table below.

Criteria for Approval of Educational Loan		
Criteria	No of Respondents	% of Respondents
50% in Exam	1	2.7
60% in SSC	1	2.7
NA/NR	3	8.1
Above 55% marks	1	2.7
Admission letter, Mark sheet etc.	1	2.7
As per case	1	2.7
As per course	1	2.7
As per norms	1	2.7
Bank norms	2	5.4
Carrier oriented	1	2.7
Case to case	1	2.7
Confirm admission	1	2.7
First attempt pass	1	2.7
First class in exam	1	2.7
Good academic record	1	2.7
Guarantor above 4 Lac	1	2.7
HSC	1	2.7
Indian national secured with admission	12	32.4
Indian Nations with secured admission, merit base, relation process	1	2.7
Mark sheet, Institute letter	1	2.7
Passing	1	2.7
Secured admission	1	2.7
SSC	1	2.7
Total	37	100

Source: Primary Data Collected

It can be seen from the above table that majority of the bank managers have responded that basic criteria for granting education loan are the Indian citizenship of students and secured admission. Banks generally asked for admission letters from academic institute and mark sheets along with loan application.

Whether the loan is given to study in India or abroad?

In response to question about the eligibility of students for educational loan for study within the country or abroad, all banks have policy to give loans for study within India and abroad.

What expenses one need to consider for loan?

While granting the educational loans generally all expenses are considered including, tuition fees, hostel fees, books, transportation charges etc.

Do you think introduction of education loans will help to improve the quality of higher education?

In order to know the relationship between education loan and quality of higher education, the bank managers were asked about their perception on the subject. 94.6 percent of bank managers have responded positively to the question that introduction of education loan will help to improve the quality of higher education.

Introduction of education loans will help to improve the quality of higher education

	Number Respondents	Percentage
Yes	35	94.6
No	2	5.4
Total	37	100

The bank managers were of the view that education loan will improve the quality of higher education by widening the choices of courses available to students. It also helps the poor and needy students to pursue higher studies where they can repay their loan after completing the courses. It will also help the students from rural areas to pursue their higher studies in urban areas. Further because of education loan students with good merit but poor economic conditions will get chance to enroll for higher studies.

Interest and Tenure of Education Loan

The popularity of education loan depends on the interest rate charges by banks and the tenure of loan. Undue higher interest rate will make the education loan unviable option. Similarly tenure for the repayment of higher education loan is also important parameter need to be considered by the students. The analysis of rate of interest charged by the banks on education loan shows that 97.3 percent of bank are charging rate of interest of 10 percent and above.

Rate of Interest Charged on Higher Education Loan

Interest Rate	Number of Respondents	Percentage
7-9 Percent	1	2.7
10 Percent and above	36	97.3
Total	37	100

In response to tenure offered by banks for repayment of higher education loan majority of respondents [73.1 percent] have reported the tenure of 6 to 8 years. Further nearly 13.5 percent of respondents have reported that their bank offers higher education loan with repayment period of 3 to 5 years.

Tenure Offered By Bank for Repayment of Higher Education Loan

Tenure	Number of Respondents	Percentage
6 months- 2 years	1	2.7
3 years- 5 years	5	13.5
6 years- 8 years	27	73.1
9 years and above	3	8.1
Depend on course	1	2.7
Total	37	100

Do you get any tax benefit for regular repayment of education loans do they get any tax benefit?

With reference to benefit available for the repayment of loan, it is found that more than 73 percent respondents have reported that repayment of

educational loan is beneficial in terms of tax benefits. The borrower gets tax benefits as well as interest rate benefit if they repay their educational loan. Some of the banks are offering 1% rebate on pre payment of educational loan.

Maximum time period offered by your bank to repay the education loan

The time period offered by banks for repayment of loan varies across the banks. 34.32 percent banks are have repayment period of 7 years. Some of the banks have policy of repayment depending on the courses and course duration. The repayment of educational loan generally starts after getting the job especially six months after getting the job.

Age Limit for Higher Education Loan

The data about the age limit for higher education loan shows that nearly 60 percent of banks do not have any age limit. The age limit of educational loan varies across the banks ranging from 18 years to 65 years.

Age Limit for Higher Education Loan

Age Limit	Number of Respondents	Percentage
Yes	15	40.54
No	22	59.46
Total	37	100.00

Higher Education Loan for Computer Certificate Course

Study also attempt to know the educational loan for computer certificate courses from recognized institutions. It was found that nearly 46 percent banks provide such loans while nearly 54 percent bank managers have responded that they do not provide educational loans for computer certificate courses.

Does your bank offer higher education loans for computer certificate course from recognized institutions?

Educational Loan for Computer Courses	Number of Respondents	Percentages
Yes	17	45.95%
No	20	54.05%
Total	37	100.00%

Banks Link with Higher Educational Institutions

For the success of higher educational loans, it is necessary to have linkages between banks and higher educational institutions. It will help the banks in smooth process of providing higher education loans. During the study it was found that only 43.2 percent banks have linkages with higher educational institutions. Few banks have also responded that they make such linkages in some special cases. Majority of banks do not have any linkages with higher educational institutions for educational loans. Few higher educational institutes with which banks have linkages for educational loans are IIM, NIT, IIT, MICA etc. Banks do not have any tie up with universities for providing educational loans to students who gets admission with universities.

Is the repayment plan based on the level of

income of end users?

Is the repayment plan based on the level of income of end users?		
	Frequency	Percent
Yes	22	59.46%
No	7	18.92%
Any Other	8	21.62%
Total	37	100.00%

The repayment process and interest rate computation for educational loans also differ across the banks. In order to understand the repayment process, the banks managers were asked questions about the repayment process. It was found that nearly 60 percent banks have repayment plan based on the level of income of end users of educational loans.

How interest rate is calculated on education loan of a student?

The interest on education loans are mostly simple interest rate. Only in few cases [8 percent] bank managers have reported simple as well as compounding interest rate computation for education loans. Further it was found that interest rate is computed on a monthly basis.

Is it possible to change repayment options by the seekers of education loan?

	Frequency	Percent
Yes	29	78.38%
No	4	10.81%
Can't Say	4	10.81%
Total	37	100.00%

The facility of changing the repayment option is available with nearly 78 percent banks. Only 10 percent banks managers have reported that their banks do not provide a facility to change repayment option.

Does your bank provide any grace period to repay the education loan in order to avoid the default?

	Frequency	Percent
Yes	29	78.38
No	4	10.81
Can't Say	4	10.81
Total	37	100.00

Banks also provide option to grace period for the repayment of educational loans. Nearly 78.4 percent banks have reported that they allow grace period for the repayment of education loan.

Does your bank allow postponing the repayment of education loan?

	Frequency	Percent
Yes	23	62.16%
No	14	37.84%
Total	37	100.00%

At the same time 62.2 percent bank managers have reported that their bank provide option to postponing the education loan takes while

27 percent reported that their banks do not provide any such facility.

Are there any specific courses which are eligible for income tax deduction?

	Frequency	Percent
Yes	4	10.81%
No	16	43.24%
all	2	5.41%
NA/NR	15	40.54%
Total	37	100.00%

With regard to specific course which are eligible for income tax deduction, it is observed that there are no such courses where income tax deductions are available. Income tax deductions are available for all courses.

Will interest accrue on education loan during deferment or grace period?

	Frequency	Percent
Yes	28	75.68%
No	4	10.81%
NA/NR	5	13.51%
Total	37	100.00%

The banks have provision of accrued interest during grace period. More than 75 percent bank managers have reported that their banks have a policy for accrual of interest on education loan during deferment of grace period. Only about 10 percent banks do not have any such provisions.

Can borrowers in military services get any type of repayment relief on education loan?

	Frequency	Percent
Yes	1	2.70%
No	29	78.38%
Any Other	7	18.92%
Total	37	100.00%

In the case of relief in interest rate for borrower from military services, it results of the study shows that no such relief is provided by majority of banks. More than 78 percent bank managers have revealed the fact that their banks do not provide any relief in interest rate for borrower working in military services.

In case of default in repayment of education loan, how can one get their loan status back into repayment?

In the case of default in repayment of education loan because of any reason, there are provisions available with the banks to revive loan status. In most cases banks have a system of reviving the education loan after the payment of overdue amount by the borrowers. Some penalties are charged in the form of additional interest rate for revival on education loan which have turned default. The repayment liability lies with the guardian in the case of higher education loan for minor students.

Document Required and Processing Fees for Higher Education Loan

There was not much difference between banks in documents required to avail higher education loans. The document required for loan purpose include [a] academic records [b] admission letter from institute [c] banks statement of guardian/guarantor [d] identity proof [e] address proof [f] pan card of guarantor [g] income proof of guarantor [h] bank statements of guarantor [i] loan agreement [j] proof of fees deposited [k] property documents of guarantor etc. Commercial banks are required to follow RBI norms while granting higher education loans.

Does your bank believe in giving consolidated education loan?

	Frequency	Percent
Yes	4	10.81%
No	15	40.54%
NA/NR	18	48.65%
Total	37	100.00%

The attempt was also made to understand the consolidation of education loans among various banks in the case of large loan amount. It was found that most banks do not have policy of consolidated education loans and they do not believe in such consolidation. The reason is the small amount of education loan in terms of the size and proportion of total loans sanctioned by bank.

Processing Fees for Higher Education Loans

Processing Fees	Number of Banks	Percentages
Yes	13	35.14%
No	20	54.05%
Depends	4	10.81%
Total	37	100.00%

Majority of banks do not charge any processing fees for higher education loans. Only 35 percent bank managers have reported that their bank change some processing fees for higher education loans.

Security/Collaterals for Education Loan

The educational loans are mostly unsecured up to 4 lakh. For higher education loan more than four lakh banks have a policy to take some security/collaterals. Assets accepted by banks for security of higher education loans include, cash deposits, LIC policy, property, gold, fixed deposits, NSC, third party guarantee etc. The nature of security depends of the quantum of loan.

Does your bank have any panel interest?

	Frequency	Percent
Yes	29	78.38%
No	3	8.11%
NA/NR	5	13.51%
Total	37	100.00%

The results of the study show that majority of

banks charge panel interest for educational loan. 78.38 percent bank managers have reported that their bank charge panel interest while 8.11 percent respondents have reported that their bank do not charge any such interest.

Who takes the repayment guarantee if student is minor?

The analysis of responses received from the bank managers reveals the fact that guardian has to take up the guarantee of the repayment of education loan in case student is minor.

Does your bank charge any processing fees for providing higher education loan?

	Frequency	Percent
Yes	13	35.14%
No	20	54.05%
NR	4	10.81%
Total	37	100.00%

Banks have a system of charging processing fees for all kinds of loan. The data received during the study shows that nearly 54 percent banks does not charge any processing fees for education loan.

Do you agree and believe that the higher education loans are reaching the needy students?

The analysis of perception of managers about higher education loans reveals that more than 94 percent managers believe that higher education loans are reaching the needy students who gets the chance to pursue their higher studies which otherwise could not have been made possible because of their poor financial conditions on one side and high cost of education on the other side.

As a banker do you think so student loan debt should be cancelled so as to stimulate the economy?

On the question of cancelling the students loan debt to stimulate the economy, majority of the respondents [65 percent] have give their opinion on the negative side.

Do you agree and believe that the higher education loans are reaching the needy students?

	Number of Respondents	Percentages
Yes	35	94.6
Do not know	2	5.4
Total	37	100

According to you whether students' loan is feasible?

Bank managers were also asked about the feasibility or otherwise of students' loan. 97.3 percent bank managers were of the view that higher education loans for students are feasible option for the banks.

Targeting Students Loan

Banks are expected to reach the students to provide information about higher education loans. Banks can use various mediums to create awareness about the loans provided by the banks. Study found that most of the banks do not reach out the students for selling the educational loans. Rather students are approaching the banks for their needs. Only few

banks are targeting the students at the time of admission seasons through arrangement of camps and kiosks at admission centers.

Students Loan Risk

Students loan, below 4 lakh, are mostly unsecured. The perception of the banks manager about the risk involved in higher education loan as compared to mortgage loans shows that only few bank managers consider education loan as risky investment. While some of the respondents viewed that education loan cannot be compared with mortgage loans, other are of the opinion that it is riskier sometime depending on the courses and nature of educational institute.

Students Loan Becoming Necessary Evil

On the question of students' loans becoming necessary evil, nearly 13 percent respondents have positive answer. Majority of bank managers do not consider students loan becoming necessary evil.

Does your bank have option to cancel or discharge a student loan?

Higher education loan one disbursed in case of some emergencies. Nearly 46 percent banks have option to cancel or discharge the student loan. Student higher education loan are cancelled in the case of [a] death of students or guardian, [b] closer of educational institute [c] permanent disability of students, etc.

Does your bank have option to cancel or discharge a student loan?

	Number of Respondents	Percentages
Yes	17	45.95
No	14	37.84
Don't Know	6	16.22
Total	37	100.00

Does your bank provide student loans to even those who are enjoying scholarship?

	Frequency	Percent
Yes	34	91.89%
No	1	2.70%
NR	2	5.41%
Total	37	100.00%

Many students enjoy scholarship from various institute, social groups, government etc. There are special schemes designed by state and centre government for schedules caste, scheduled tribes students pursuing their higher education. Students below poverty line are also entitled for scholarship under some schemes. The amount of scholarship may not be enough to meet all the expenses of study and students need additional support from bank in the form of loan. It was found during the study that 91.89 percent bank managers have revealed that their banks provide student loan to even those who are enjoying scholarship.

Does your bank provide student loan in one installment or does it provide on progressive basis?

The student loan can either be in one installment or on progressive basis in various installments. 97.3 percent respondents have reported

that their banks provide students loan on progressive basis.

Do you give student loan to the family or you give to the educational institute?

	Frequency	Percent
Educational Institute	35	94.59%
Family	1	2.70%
Both	1	2.70%
Total	37	100.00%

The disbursement of higher education loans are made directly to the educational institute by banks. More than 94 percent respondents have reported that they make disbursement of loan to educational institute directly. Only few banks have provision for disbursement of higher education loan to students who in turn make payment of institute

Has your bank experienced any student loan default?

Any loan has a chance of default by borrower and banks suffering loss. The views expressed by bank managers about experience with student loan default are presented in table below.

Has your bank experienced any student loan default?

	Number of Respondent	Percentages
Yes	18	48.65
No	19	51.35
Total	37	100.00

It can be seen from the table that 48.65 percent bank managers have experience student loan default. The proportion of default is in the range of 5 to 10 percent of total higher education loan sanctioned and disbursed. In the case of default in repayment of higher education loan banks generally have a system of regular follow up in the form of notice to the parents/guardian and also to the institute. Defaults are generally handled by moral persuasion. In the extreme cases legal actions are taken against the guardian of the students to recover. In some of the cases their properties are used to recover the loan amount.

Does your bank have blacklisting option for student loan defaulters?

	Frequency	Percent
Yes	11	29.73%
No	18	48.65%
Any Other	4	10.81%
NA/NR	4	10.81%
Total	37	100.00%

Defaulter of the higher education loan may be blacklisted. Nearly 30 percent banks managers have option for blacklisting the student loan defaulters. At the same time 48.6 percent respondents have reported that their bank does not have option of blacklisting.

If yes, does blacklisting of those who default

student loan helps in repayment of student loan?

	Frequency	Percent
Yes	5	13.51%
No	2	5.41%
NA/NR	30	81.08%
Total	37	100.00%

The prime reason for not blacklisting the student is also revealed by the managers. Only about 13.5 percent managers have clearly indicated that such blacklisting do not help in recovery of loans.

Are student loan defaults serious and unsolvable problem?

	Frequency	Percent
Yes	12	32.43%
No	12	32.43%
NA/NR	13	35.14%
Total	37	100.00%

In the present research it was found that the default of student loan is not a serious and unsolvable problem. Only about 32.4 percent i.e. one-third respondents have reported that it is serious unsolvable problem.

According to you can you tell us why do students default?

	Frequency	Percent
Defaulters inability to repay	14	37.84%
Imperfect knowledge and negative attitude	12	32.43%
Incentives to default	3	8.11%
All	1	2.70%
NA/NR	7	18.92%
Total	37	100.00%

The analysis of reasons for default as indicted by the bank managers shows imperfect knowledge and incentive to default are the major reasons for non repayment of student's education loan. In some of the cases, students default in repaying the loan because of not getting proper job on completion of study.

What factors are potentially important in affecting default rates?

	Frequency	Percent
Eligibility rules that determined how much students are allowed	6	16.22%
Rules determining the diligence	12	32.43%
Any Other	14	37.84%
NR	5	13.51%
Total	37	100.00%

In order to minimize the default on student education loan, it is necessary to have stringent eligibility criteria for granting loan at the first instance.

The rules determining due diligence should also be drafter to minimize the default cases.

Are income-contingent student loans are optimal?

	Frequency	Percent
Yes	17	45.95%
No	6	16.22%
Can't Say	12	32.43%
NR	2	5.41%
Total	37	100.00%

Higher education loans are mostly income-contingent. The amount of loan depends on the income of the guardian. 45.9 percent respondents have agreed that income contingent students' loans are optimal while 16.2 percent respondents do not agree to this view.

Does your policy ensure student loan repayment?

	Frequency	Percent
Yes	28	75.68%
No	2	5.41%
Can't Say	5	13.51%
NA/NR	2	5.41%
Total	37	100.00%

Majority of banks [75.7 percent] have policy in place to ensure regular repayment of student loan. The repayment is ensured through regular follow up with the guardian and institute. Mostly loans are disbursed on progressive basis depending on the course duration and academic progress of the students concerned. Some of the banks have a system of taking post dated cheques from the parents/guardians against repayment of loan. In order to minimize the default cases loans are given on the basis of merit of the students.

Does your bank give loan to foreign student studying in India?

There are good numbers of foreign students studying in India with Indian institutes. They also need financial assistance in the form of bank loans.

Does your bank give loan to foreign student studying in India?

	Number of Respondents	Percentage
Yes	3	8.1%
No	30	81.1%
Can't Say	4	10.8%
Total	37	100.00%

The information collected from the bank managers shows that most of the banks do not give loan to foreign students studying in India. The main criterion for education loan is Indian citizenship. Only few bank managers have reported that their banks do give loan to foreign students studying in India.

Can parents be co-borrowers with the student?

	Frequency	Percent
Yes	36	97.30%
No	1	2.70%
Total	37	100.00%

With regard of parents becoming co-borrower with the students, the results of the study shows more than 97 percent banks allows such

provisions.

What is the minimum age required for taking student loan?

	Frequency	Percent
No Min Age	5	13.51%
12 Years	1	2.70%
15 years	3	8.11%
17 Years	1	2.70%
18 Years	19	51.35%
45 Years	1	2.70%
NA/NR	7	18.92%
Total	37	100.00%

With regard to minimum age required to taking educational loan there has been mix response from bank managers. Most banks [51.35 percent] have reported 19 years as minimum age for educational loan.

Does your bank directly disburse loan to educational institution?

	Frequency	Percent
Yes	34	91.89%
No	2	5.41%
NR	1	2.70%
Total	37	100.00%

Majority of banks have a system of direct disbursement of educational loan to educational institute. The cheques is issued in the name of institute of amount is directly transferred to institute bank account.

In how many installments student loan can be repaid?

With regard to number of installments to repay the educational loan, majority of banks have reported that they allow 84 installments. There has been wide variation in the repayment period across the banks. Few bank managers have reported that they have a system of repayment as per the requirement of borrowers.

What details you take from student and his family before sanctioning student loan?

The bank managers were also asked about the details they take from the students and family members before sanctioning student loan. Various requirement of the banks include, educational certificate, admission confirmation letter, details of institute, ID proof, address proof, bank details, financial details of parents and guarantor, collateral etc.

Can India introduce cost sharing policies along with student loan policies and programmes?

	Frequency	Percent
Yes	9	24.32%
No	5	13.51%
Can't Say	2	5.41%
NA/NR	21	56.76%
Total	37	100.00%

The opinion of bank managers with regards to cost sharing policies along with students' loan policies and programs shows that only about 24 percent bank

managers are of the view that India can introduce such policies. Nearly 13.51 percent bank managers are of the opinion that India cannot introduce cost sharing policies along with students' loan policies and programs.

Does student loan offered by your bank have excessive build in subsidization and inefficient costly collection?

	Frequency	Percent
Yes	5	13.51%
No	9	24.32%
NA/NR	23	62.16%
Total	37	100.00%

Only few bank managers were of the view that student loan offered by their banks have excessive build in subsidization and inefficient costly collection.

Are you aware about the proportion of borrowers facing hardship in repaying their student loan?

	Frequency	Percent
Yes	9	24.32%
No	19	51.35%
Can't Say	6	16.22%
NR	3	8.11%
Total	37	100.00%

With regard to the awareness about the proportion of borrower facing hardship in repaying their student's loan, the data reveals that only 24.32 percent managers have reported that they are aware about the same. More than half of the respondents included in the survey reported that they are not aware about the proportion of borrowers facing hardship in repaying their student loan.

As a banker do you agree that investment in higher education through student loan is a risky investment?

	Frequency	Percent
Yes	9	24.32%
No	21	56.76%
NR	7	18.92%
Total	37	100.00%

The perception of the bank managers about the educational loan as risky investment shows that only about 24.32 percent respondents consider that investment in higher education through students loan is risky investment.

As a banker can you foresee and predict the trends in incidence of borrowing and debt level of student loan?

	Frequency	Percent
Yes	12	32.43%
No	6	16.22%
Can't Say	1	2.70%
NA/NR	18	48.65%
Total	37	100.00%

The increasing number of students are

defaulting in repayment of education loan and getting into debt trap. More than 32 percent bank managers included in survey have presented their view that they can foresee and predict the trend in incidences of borrowing and debt level of student loan.

Do parents take loan for girl student as for them student loan is regarded as a negative dowry?

	Frequency	Percent
Yes	8	21.62%
No	24	64.86%
Can't Say	4	10.81%
NR	1	2.70%
Total	37	100.00%

The perception of more than 21 percent bank managers shows that parents take loan for girl students as for them student loan is regarded as negative dowry.

Is there any income ceiling on student/ parents for the eligibility of loan scheme?

	Frequency	Percent
Yes	6	16.22%
No	29	78.38%
Any Other	2	5.41%
Total	37	100.00%

With regard to income ceiling of students/parents for eligibility of loan scheme, only about 16.22 percent managers have reported such ceiling. More than 78 percent bank managers have reported that there is no such ceiling on student/parents for eligibility of loan scheme.

Special Provisions for Weaker Sections

Is there any special provision of any kind for weaker sections in terms of security, government guarantee, lower rate of interest or relaxation in repayment period, repayment in accordance with earning waivers etc?

Is there any special provision of any kind for weaker sections in terms of security, government guarantee, lower rate of interest or relaxation in repayment period, repayment in accordance with earning waivers etc?

	Frequency	Percent
Yes	10	27.03%
No	19	51.35%
Can't Say	6	16.22%
NR	2	5.41%
Total	37	100.00%

The students from the weaker sections of the society need special assistance in higher education loans. Special provision in terms of security, government guarantee, lower interest rate, and relaxation in repayment period, repayment waiver etc will help the weaker sections of the society like scheduled caste, scheduled tribe, below poverty line, socio-economic backward classes etc. in pursuing their higher studies and become equal partner in

economic development of the nation. The responses from the bank managers about the availability of special provision for weaker sections of the society are presented in table below. It can be seen from the table that only 27.03 percent banks have special provisions for weaker sections.

In the student loan scheme started by your bank does it adhere to the principle of equity and efficiency?

	Frequency	Percent
Yes	28	75.68%
No	2	5.41%
Can't Say	4	10.81%
NA/NR	3	8.11%
Total	37	100.00%

Education loan scheme of any bank is expected to follow the principle of equity and efficiency. Majority of bank managers [75.7 percent] have reported that the student loan scheme started by their bank adhere to the principles of equity and efficiency.

Who bears the administrative cost of availing student loan?

	Frequency	Percent
Bank	10	27.03%
Student/Parents	26	70.27%
NR	1	2.70%
Total	37	100.00%

The administrative cost of the availing student loan can either be borne by the bank or by the students/parents. The analysis of data collected from the bank managers reveals the fact that the administrative cost of availing students loan is mostly born by the student/parents/guardian. Only 27.3 percent bank managers have reported that the administrative cost of student loan is born by bank.

As a banker do you agree that student loan bubble might be next economic emergency?

	Frequency	Percent
Yes	20	54.05%
No	7	18.92%
NA/NR	10	27.03%
Total	37	100.00%

The perception of the bank managers about the future of higher education loan reveals that more than half [54.05 percent] bank managers are of the view that students' loan bubble might be next economic emergency.

Conclusions

From the statistical analysis of this chapter it can be concluded that a student pursuing higher, postgraduate professional courses is more likely to get education loan than a student pursuing undergraduate courses. Similarly, students in quest of admission in unapproved institution has less or meager chances of getting educational loan. It was

also noticed that banks do not seem to be discriminating too much between a student with prior work experience and a fresher. While pursuing, the present study and going through available literatures it was noticed that default rate on education loan is a persistent problem across globe; especially, when the students leave the country for pursuing higher studies abroad, and this further increases the risk of default. In some cases parents were made the co-borrower so as to minimize the chances of default because in many cases, the students "annual family income" plays an important role in determining, whether he is extended education loan or not.

Further analysis revealed that most of the private banks were not in favour of giving education loan looking at the amount of the existing default rate. Despite the fact that the interest rate on these loans is very low, even lower than the prime lending rates. Low lending rates coupled with higher risks of default does not make it a sound business model and is therefore becomes less appealing for the private sector banks; hence the reluctance. On the other hand, the government is bound by political agenda to increase expenditure on education sector and promote higher education. And therefore, the public sector banks which are being under the control of government are left with no choice but not have to grant loans to students. Some of the financial institutions, to overcome the problem of default, use all relevant information available from different sources, and with the help of credit scoring models, do the credit profiling of the student vis-à-vis the educational institution. This helps it, in working closely with the students and their parents to try and design appropriate education loan program for them. Thus, it can be concluded that a student is more likely to get education loan if he approaches a public sector bank. Additionally if the student has a higher family income and plans to pursue postgraduate professional study from a government owned / approved institution the chances of getting educational loan is phenomenally higher.

It was also noticed that there is no consideration for needy and meritorious students. In certain cases it was observed that there is misuse of schemes for going abroad. The information on education loan is limited in nature as it does not indicate details like whether this loan is given for students or given to educational institutions also, amount of loan by courses, loan by social categories, etc. keeping these limitations in mind, and assuming that the information available pertains to student loan, an attempt has been made to understand the pattern of educational loan in terms of number of accounts, amount and relative priority across sectors of lending by public sector banks. Student loan is a good option, to some extent, for financing higher education; it may not fulfill the objective of social equity. The issue of the social equity and student loan needs to be examined to understand the impacts and implications. But, data are not available from the financing agencies on the extent of student loan and other aspects.

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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