



Efficacy of Educational Loans: Employability of the Borrowers is the most Important Predictor

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ABSTRACT

Educational Loans in India have become available to the needy students by the introduction of the Educational Loan Scheme of the Public Sector Banks in India in 2001. The private sector and cooperative sector banks also joined the fray. This paper examines the efficacy of educational loans on a sample of 600 borrowers in Ernakulam District in Kerala state of India who have completed their studies availing EL during 2004 to 2009 by analyzing the criterion variable, satisfaction level with predictor variables such as the placement obtained or not, has the loan helped in studies, whether the loan was adequate and Would the beneficiary recommend others for EL. It has turned out that the best predictor variable is the placement obtained or not(employability).

KEYWORDS: Educational Loans, Higher Education, NPA

1. INTRODUCTION

In India, over a period of seven years starting from the year 2005 to 2011 the educational loans issued by scheduled banks have risen from INR 51 billions to INR 437 billions [10]. In the year 1990-91 there were 4.9m students in the universities and colleges in India which grew to 16.9m in 2010-11. The higher education sector has been witnessing a decrease in public expenditure over the last two decades in comparison to primary and secondary education in India[12].

The State of Kerala in India has always been in the forefront of primary and secondary education. However, in the matter of higher education the state had not much to be proud of. The State Government's decision to permit self financing colleges in the state paved the way for more college admissions in the state from the year 2001 onwards. Many students availed educational loans to pay tuition fees and other expenses for their higher studies in and outside the state. By the year ending December, 2009 there were 265,573 borrowers with education loans amounting to INR 45.97 Bn in the state of Kerala.[11]

2. REVIEW OF LITERATURE

Jandhyala B G Tilak (2004)[4] analyses the departure of the Government from increased expenditure in higher education sector consequent on the commitment of universal primary and secondary education. Manoj P. K and Meera Bai (2009) [5] in their joint study have analysed the emerging trend in respect of technical education in India. Manoj P K and Arunachalam (2009) [6] in their study have looked into the problems and challenges of management education in India, with a focus on the issue of quality of the management graduates. Alan Nasser and Kelly Norman(2011)[1] found that in 2011 the student loans outstanding rose to \$ 830 billion while the credit card lendings trailed behind at \$ 827 billion in the United States. Prem Sai C. (2007)[9] elaborates on the Government of India's Policy decisions on private participation in the expansion of higher education in India. Peter Comes et.al(2008)[8] studied that very few students are concerned about obtaining a job after the studies. Devasia M.D. & Meerabhai M.(2005)[2] have found that Kerala has definitely predominant position in Indian states in literacy and primary education. May Luong (2010)[7] observed that students are least bothered about the cost of the post secondary education, even if not all of them are going to do well after their studies. Ernst & Young(2011)[3] assessed that there is high potential demand for higher education in India.

In sum, (a) the Governments alone cannot bear the cost of higher education. Private participation with regulatory control is essential, (b) Higher educated youths get faster employment than their peers with secondary education and (c) Feed back from borrowers can be very useful for management of the education loan schemes.

3. OBJECTIVES

The main objective of this paper is to test whether the satisfaction level of the EL borrowers can be predicted by four criterion variables like placement obtained or not, has the loan been adequate, whether the EL helped or not and would the borrower recommend to others for EL.

The subsidiary objectives include the descriptive analysis of 600 samples on demographics, parents' income, parents' education, loan amount, interest on loan and NPA.

4. METHODOLOGY

This paper is mainly based on primary data. In order to survey the borrowers of EL in the state of Kerala in India, the District of Ernakulam is selected. Data have been collected by investigators from 600 EL borrowers of this district on the basis of snowball sampling technique. The banks were very reserved about the supply of data on the EL borrowers since they were to safeguard the details of their customers. However, informal interviews with the bank executives have been resorted to gather substantial data.

4.1 Tools used

Ratios, percentages, correlation, chi square and regression tools are used for analysis of data.

3.2 Limitation and Scope for further research

A longitudinal study of the defaulters is vital to track down additional defaulters or those who revive their defaulted accounts and that is precisely the draw back of the present study.

5. DATA ANALYSIS AND FINDINGS

5.1 Demographic and social status of the EL beneficiaries
The empirical study covered 600 beneficiaries or borrowers of EL who completed their studies during 2004 to 2009. The samples totaling 600 consisted 197 males and 403 females. There were 252 Hindus, 120 Muslims and 228 Christian borrowers of EL. 77.83% of the borrowers' parents were HSSC or below qualified people.

5.2 Courses pursued for study

Courses pursued by the EL beneficiaries were: General Nursing and Midwifery(GNM), B.Tech Engineering in various disciplines, Medicine (MBBS), Management courses(MBA, PGDM), B.Sc. Nursing, B.Sc. Optometry, etc. and various Diploma courses offered by the Tamilnadu and Karnataka state Governments. GNM course was opted by 298 borrowers of whom 258 were females and 40 males. Engineering students consisted of 80 males and 56 females. Medical students were 21 males and 33 females. The management students comprised 36 men and 27 women and in the other professional categories there were 20 males and 29 females.

5.3 Range of Loan and Interest rates

The ELs ranged from INR 75,000 to INR 1.5m The total sum borrowed by the 600 samples amounted to INR 102.6m. About 80% of the borrowers availed loans below INR 0.4 m. and needed no security other than the personal security of them or their parents. 67.33% of the loans were issued at 12-14% interest rates.

5.4 Status of Course completion, placement and NPAs

Of the 600 borrowers observed 582 have completed their courses. 429

of the above got jobs after the course. Only 401 students admitted that they have repayment ability. 160 borrowers have defaulted payment of instalments over a year. 75% of them are GNM students. By 2010 December, the NPA was INR 5.796m which rose to INR 8.748m by December 2011.

5.5 Satisfaction level of EL borrowers

The criterion variable, satisfaction level of the EL borrowers is regressed with predictor variables like, The Placement Obtained or not, Has the loan helped in studies, Whether the loan was adequate and Would the beneficiary recommend others for EL. Out of 600 EL borrowers the responses turned out as in Table I below.

The adjusted R square 0.798 shows that the model fits well with the predictor variables having correlation with criterion variable, the satisfaction level of the EL borrowers vide Table II(i) Model summary. The Anova and Beta Coefficients as per Table II Sub table (ii) and (iii) also compare well with the predictor variable as Placement obtained or not.

5.6 Number and volume of State Level EL borrowers regarding EL and NPA

In Kerala State, the active accounts on EL were 265573, 312894 and 350574 respectively for the years 2009, 2010 and 2011. The amounts of EL outstanding over these accounts were INR 45.97bn, INR 58.33bn and INR 70.36bn. The corresponding NPAs or defaulting accounts were 6,803(INR 1.34bn), 7,860(INR 2.28 bn) and 24,858(INR 4.47bn)[11]

Table I: Frequencies of responses on the predictor and criterion variables

	Frequencies				
	Yes	No			
Satisfaction of the beneficiaries	453	147			
Placement obtained or not	429	171			
	On Likert scale from least to the highest				
Has the loan helped in studies	7	24	78	245	246
Whether the loan was adequate	19	107	172	176	126
Would the borrower recommend to others EL	18	6	204	198	174

(Source: Field survey of samples in Ernakulam District, Kerala State, India)

Table II: The multiple regression output from the SPSS 17.0 software

(i) Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.894a	.799	.798	.19355		
(ii) ANOVAb						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	88.696	4	22.174	591.947	.000a
	Residual	22.289	595	.037		
	Total	110.985	599			

- Predictors: (Constant), Whether loan was adequate, Would the borrower recommend others, Placement obtained or not, Has the loan helped in studies
- Dependent Variable: Satisfaction of the beneficiaries

The anova reports the overall significance of our model. The significance is great when the p value is less than 0.05.

(iii) Coefficientsa					
Model B	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Std. Error	Beta			
1 (Constant)	1.795	.058		31.028	.000
Placement obtained or not	-.853	.018	-.895	-48.616	.000
Has the loan helped in studies	.009	.009	.018	.974	.330
Would the borrower recommend others	.006	.008	.013	.714	.475
Whether loan was adequate	-.001	.007	-.002	-.133	.894

The placement obtained or not is the most important predictor as it has got the highest absolute t value and least p value.

6. SUGGESTIONS AND CONCLUSION

- Eligibility for the educational loans should be processed by Government machinery.
- Rating of the institution and the students should be used to subsidize the loans and not for refusing education loans to the needy students.
- Borrowers should be encouraged to refund the loans without limit of any time.
- Borrowers should be forewarned about the employability of the course by the Government or loan sanctioning authority.
- Credit Guarantee Fund must be started by the Government to absorb the NPA emanating from the unsecured ELs.
- Those who work in India after the course and those who work in Government can be extended redemption of a certain percent of their EL outstandings as loyalty rewards.

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