



## Growth of Education Loan and Non-Performing Assets: A Study of Commercial Banks in Kerala

**Dr.K.Gangadharan**

Professor and HoD, Principal Investigator, UGC-Innovative Research Project, Department of Applied Economics, Kannur University Thalassery Campus, Palayad.

**Sajith.Kumar.S**

Project Fellow, UGC-Innovative Research Project, Department of Applied Economics, Kannur University Thalassery Campus, Palayad.

### ABSTRACT

*The need for higher education in the social and economic well-being of the citizen and the nation is widely acclaimed. To meet the huge education expenses, students depends on Education Loan. Education loan provides an opportunity to the poor students to attain good education. The objective of the paper is to analyze the trend in education loan and its Non-Performing assets. The demand for education loan and its supply is rising in Kerala during the past few years. Public and Private sector banks are actively promoting higher education through education loan. However, it's after effects comes in the form of NPAs, which threatens the smooth functioning of commercial banks and may reduce their lending capacity. Along with the rise in the availability of education loan, the Non-Performing Assets is also rising. This is bad for both the banks and the economy.*

**KEYWORDS : Higher education, Education Loan, Non-Performing Assets**

### INTRODUCTION

Education aims the all-round development of the students. It provides well trained and qualified human capital to the nation. In the technical sense, education is the process by which the accumulated knowledge, skills and values are transmitted from one generation to the other. Education is the base to all other social and economic benefit which the person enjoys in the future. Output of higher education is inevitable for meeting the changing necessities of the society and thereby it works as the fuel for economic growth. Therefore ensuring better quality education to all is essential to have a balanced development of the nation. Higher education calls for higher cost. Therefore it is inaccessible to the financially backward students with good academic backgrounds. Boom of private educational institutions in the higher education sector further accelerated the cost of education. In order to overcome such a situation the Government of India introduced the education loan system. Education loan as a govt. scheme provides financial support to the economically backward and academically meritorious students through commercial banks. Later it turned into a life changing decisions of many poor students, who cannot access higher education without an external support. The beneficiaries of education loan in Kerala are predominantly members of middle class family.

In Kerala, the number of applications for education loan is increasing every year. Students depend on both the private and public sector banks for their requirement. Banks, as a prime supporter of human resource development, sanction majority of these loan application based on their eligibility. At the same time, the default in repayment of loan leads to the problem of NPAs, which may hinder the successful functioning of the banks. Non-Performing Asset levels of public sector banks have been rising. 14 public sector banks reported stressed assets, comprised of NPAs and restructured loans, as of December 31, 2014 (Mathew 2015). The stressed assets accounted for over 13 percent of their advances. Unbelievably, the Central Bank of India, the country's top nationalized bank not long ago topped the list with it is stressed assets accounting for over 21 percent of its advances. Private sector banks have such stressed assets on their books too. However, their share of the stressed assets, in relative as well as absolute terms, is far behind that of the public sector banks. The rate of growth of stressed assets in the case of private sector banks is way behind that of their public sector peers.

### OBJECTIVES

The specific objectives for the study are

- To analyze the demand and supply of education loan in Kerala during 2007-08 to 2013-14 period
- To compare the growth of Non-Performing Assets in education

loan in relation with the growth in demand and supply of it.

### METHODOLOGY

The study is analytical in nature and fully depends on secondary data to analyze and compare the growth of education loan in Kerala and its NPAs. The data base of the study is availed from SLBC Annual Reports on 'Performance under Education Loan Scheme' during 2007-08 to 2013-14 period. Tables and figures are used to evaluate and interpret the data.

### CASE FOR EDUCATION LOAN IN KERALA

Kerala is well known for its achievement in education sector. Secondary and higher secondary education in Kerala are mainly under govt. control, while in higher education the role of private educational institutions are negligible. Since they were guided by profit motive, private professional institutions are charging abnormal fee. Majority of the students in Kerala- as a middle class state can't afford such a huge fee. Thus, education loan works as a mediator between higher education institutions and the aspiring students.

When thinking about higher education, first the students think about the availability and accessibility of education loan. In the southern states in India, especially in Kerala the demand for education loan is too high. The four southern states have close to 56 percent of the total education loans outstanding in India at the end of March, 2012 (Somasyro Chakraborty, 2012). Through disbursement of education loan commercial banks in Kerala plays a creditable role in the educational development of the state.

### Trend for Education Loan in Kerala

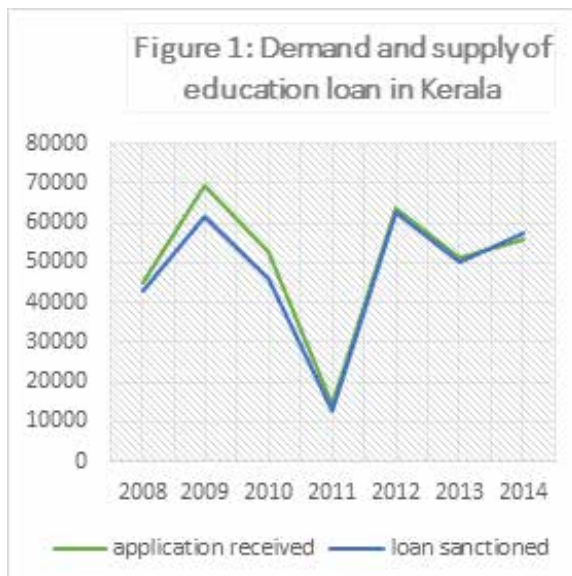
During 1996 to 2008 period, the number of private educational institutions in India expanded at the rate of 10 percent every year. At the same time, the annual decline of 1.6 percent in government and private-aided institutions accelerated the share of students in private, self-financing sector by 25 percent in 2008 as against 7 percent in 1996 (Thorat, 2015). The case in Kerala is almost similar to India. During the last five years large number of private educational institutions offering new and advanced professional courses established across Kerala. Along with the rise in enrolment in these courses the demand for education loan also raised.

Table 1 analyses the demand for and supply of education loan in Kerala during 2007-08 to 2013-14 period. In the case of nationalized banks, the demand for education loan and its sanctioning is fluctuating throughout the study period. Even though the number of application and loan sanctioned is increasing, there is no continues change over years. During the period 2008-09, banks received the highest number of applications and loan sanctioning is also at maximum, but

the next two consecutive years witnessed a fall in it. It is also evident from the table that, students' dependence on nationalized banks is dipping year on year. During the last year 73.71 percent of the total applications are received with nationalized banks as against 86.5 percent in 2007-08 period.

The private sector banks in Kerala also shows an almost similar trend. The number of applications received and loan sanctioned is increasing in the earlier and later stages and fall during 2009-2011 period. However, the share of private sector in meeting education loan requirement in total is increasing all this period and the year 2013-14 is the only exceptional case. Now they covers about 17 percent of the total education loan needs. So, it is clear that, students' preference towards private sector banks in availing education loan is increasing.

Thus, in Kerala both public sector and private sector banks are actively entering into providing education loans to those who are in need. Since education loan become a necessity to most of the students, they were highly demanding it. Though with a double mind, both public and private sector banks provide education loan to these vast majority of students' community. As a result as seen from the table 1 the application for education loan and its sanctioning by banks is increasing rapidly during the recent period (Figure 1).



**Table 1. Demand and supply for education loan in Kerala (Amount in Lakh, as on march 31)**

Year	Nationalized banks			Private sector banks			Kerala**		
	Applications received	Total loan sanctioned		Applications received	Total loan sanctioned		Applications received	Total loan sanctioned	
		Number	Amount		Number	Amount		Number	Amount
2007-08	39256(86.70)	37263(86.50)	91084(85.44)	2811(6.21)	2717(6.31)	8678(8.14)	45276	43078	106612
2008-09	55731(80.42)	48645(79.09)	137009(84.34)	4715(6.80)	4004(6.51)	12244(7.54)	69300	61501	162448
2009-10	43846(82.84)	36717(79.90)	86563(79.52)	4268(8.06)	4166(9.07)	13050(11.99)	52928	45953	108855
2010-11	11416(79.78)	10184(79.67)	23067(80.70)	1670(11.67)	1222(9.56)	2966(10.38)	14309	12782	28583
2011-12	49225(77.31)	47179(75.26)	100684(72.92)	8901(13.98)	9954(15.88)	25663(18.59)	63667	62690	138062
2012-13	34502(67.29)	33439(66.56)	54103(54.48)	11877(23.16)	12083(24.06)	31966(32.19)	51277	50221	99315
2013-14	41350(73.71)	43255(75.47)	91515(72.59)	10482(18.68)	9754(17.02)	22249(17.65)	56102	57314	126069

Source: SLBC, Kerala

\*\*Including RRBs and Co-Operative banks, Figures in parenthesis are percentage to Kerala total

**Table 2. NPA position among banks in Kerala (Amount in Lakh, as on march 31)**

Year	SBI Group (A)		Other Nationalized Banks (B)		Total Nationalized Banks(A+B)		Private Sector Banks		Total Kerala**	
	No. NPA of accounts	Amount	No. NPA of accounts	Amount	No. NPA of accounts	Amount	No. NPA of accounts	Amount	No. NPA of accounts	Amount
2007-08	1451(25.37)	4522(53.92)	3364(58.81)	2811(33.53)	4815(84.18)	7333(87.45)	777(13.58)	955(11.38)	5720	8386
2008-09	5263(58.96)	6303(55.36)	2039(22.84)	3101(27.24)	7302(81.81)	9404(82.60)	1083(12.13)	1372(12.05)	8926	11385
2009-10	2878(28.45)	5012(33.62)	5007(49.50)	6989(46.88)	7885(77.95)	12001(80.50)	1409(13.93)	1924(12.91)	10116	14908
2010-11	6947(40.82)	11814(42.35)	6528(38.36)	10653(38.19)	13475(79.19)	22467(80.54)	1897(11.14)	2858(10.25)	17017	27896
2011-12	11792(39.03)	19443(37.23)	14179(46.93)	25332(48.51)	25971(85.95)	44775(85.74)	2094(6.93)	3649(6.99)	30216	52221
2012-13	17893(37.54)	31583(41.42)	22961(48.18)	33034(43.32)	40854(85.72)	64617(84.74)	2732(5.73)	5874(7.70)	47661	76255
2013-14	22969(47.75)	41487(43.29)	17682(36.76)	39173(40.87)	40651(84.52)	80660(84.18)	3962(8.24)	8854(9.24)	48098	95842

Source: SLBC, Kerala

\*\*Including RRBs and Co-Operative banks, Figures in parenthesis are percentage to Kerala total

**Education Loan and Non-Performing Assets:**

As the supply of education loan rises, even the poor sections of the society have access to higher education. But the actual problem is related to their affordability. Sometimes, the failure of the loan beneficiaries to complete the course or to attain a good job may leads to default in repayment and along with huge unemployment and low starting salaries cause to the problem of Non-Performing Assets (NPAs). This affects the banks, since the lenders are facing cash flow mismatches. While analyzing the demand for and supply of education loan system in Kerala, we can't ignore this impact of education loan. NPAs are emerging as a serious issue on the existence of the banks. It affects the financial stability and lending capacity of banks.

The table 2 analyzes the growth in number of accounts and amount of Non-Performing Assets among various types of banks in Kerala during 2007-08 to 2013-14 period. It is clear from the table that, ex-

cept some fluctuations, during the entire period there is a continuous rise in the number of NPAs accounts and in NPAs amount for all banks in Kerala.

In the case of State bank Group in Kerala, we can see a steep growth in number of NPA accounts and corresponding level of amount during these period, while 2009-10 period is the only exceptional case, where both the number of accounts and amount showed a declining trend. During 2013-14 period 47.75 percent of Kerala's total NPA accounts and 43.29 percent of NPA amount are rest with State bank group, as against 25.37 and 53.92 percent respectively during 2007-08 period. Thus in case of NPAs as a share in total amount State Bank group shows a positive sign.

The case of other nationalized banks in Kerala is also similar. The 20 nationalized banks together hold 36.76 percent of Kerala's total NPA

accounts 40.87 percent of its NPA amount during 2013-14 financial year. Even though the number of NPAs of accounts increased, out of the share in Kerala nationalized banks share went down from 58.81 to 36.76 percent. Thus, as per the 2014 reports nationalized bank in India holds 84.5 percent of the total NPA accounts in Kerala and which makes a sum of Rs.80660 lakh rupees as NPA.

Private sector banks in Kerala also witnessed a continuous rise in NPA accounts and amount in this period. But during 2013-14 period, they succeeded to keep a lower value in case of percent to Kerala total. They hold 8.24 percent of the total NPA accounts in Kerala and 9.24 percent of NPA loan in 2013-14 as against 13.58 and 11.38 percentage correspondingly during 2007-08.

While considering the case of whole banks in Kerala it is evident that, there is an almost 8 fold rise in number of NPA-accounts and 10 fold increase in NPA loan amount during these period. The real problem is not the high figure but these are growing in the entire period. This makes their situation under a danger condition in the future also. Large NPAs reduce the lending capacity of the banks and threaten their successful existence. Therefore, the high incidence of NPA will have an impact on all important financial ratios of the banks viz., Net Interest Margin, Return on Assets, Profitability etc., which may likely to affect their smooth functioning (Reddy, 2014).

### CONCLUSION

The demand for education loan is increasing at a high rate. In an overall, the supremacy of nationalized banks in supplying education loan is much visible. However, now a day's dependence on private sector banks for education loan is on rising. Their share in meeting education loan requirements in the total is on growing. While analyzing the NPAs situation, during the entire period there is a continuous rise in the number of NPA accounts and in NPA loans for all banks in Kerala. However, Private Sector Banks keeps them in better control than the Public Sector Banks. Thus, the rise of NPAs in education loan is gone along with the growth in the demand and supply of education loan. This implies that, majority of the education loan in the past is turned in to Non Performing category, which is not a good sign for our banks and the economy. It causes poor recycling of funds, which in turn will reduce the deployment of credit. Thus, the Non-Performing Loans affects not only further availability of credit but also financial soundness of the banks. This creates the need for an urgent administrative intervention in the respective area to control the problem of NPAs.

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