



## Reason for Non Performing Assets in Educational Loan: Indian Bank

### KEYWORDS

Non Performing Asset, willfully default and Loan seekers

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### Introduction

The main aim of education loan is to provide financial assistance to the meritorious student having no financial background. Most of the loan seekers willfully forget the bank which lend a helpful hand, at the time of repayment of loan, some may go for their own personnel and family priority rather than repaying the due amount. Some are willfully defaulting in order to get the subsidy and benefits from the government. Since a government sponsorship is in behind these loans the bank officials can't push the defaulters to repay the dues. Most of the loan taken are without the access of collateral security, so the possibly of retaining the property of the buyer is not possible in the case of education loan. Such kind of loan is turning as Non Performing Assets (NPA) in an alarming rate which makes the bank to put provision and these leads to the reduction of their profit.

### Need for the Study

Education is the fundamental right of every citizen, in order to succeed in the life and to earn a decent living. Some section of the people will meet these expenses from their own resources while some other section of people meets the expenses through the bank loans. As the bank doesn't demand any collateral securities associated with the education loan, the chances of -becoming default is more. There are many reasons associated with the NPAs in education loan, the present study is an attempt to analyse the NPAs in education loan and its major reasons.

### Objective of the Study

To analyze the Non Performing Assets in educational loan and its reason of Non Performing Assets in Indian Bank.

### Scope of the Study

The study is confined to the five branches of Indian Bank having high NPAs in educational loan namely,

Mohali

S A S Nagar (Mohali)

Derabassi

S U S College Campus

Phase V, Mohali

### Research Methodology

The study is purely related with the secondary data provided by the bank and interviewing both the customers and the bank officials.

The data were collected by an in-depth interview with the

manager of the above mention banks with a structured questionnaire. The customers from each branch according to their status of education loan were also interviewed with a structured questionnaire.

### Non Performing Asset

Any assets which remains idle for more than 90days become NPA. For the case of a bank if they are not getting the interest or EMI of loan for more than 90days it is treated as NPA. Earlier it was 180 days but recently due to the norms of RBI it is changed to 90 days.

### Repayment of Educational Loan

Normally education loan is given under two categories by the norms of RBI, i.e. IBA scheme and Non IBA scheme. INDIAN BANK ASSOCIATION (IBA) scheme is the scheme in which meritorious student can avail loan and the repayment of the loan is considered from the course completion plus one year holiday period. Interest is also calculated after the course completion plus one year holiday period. But in the case of Non IBA scheme even the repayment is started after the course completion plus one year holiday period, the interest is calculated from the day onwards which they took loan on simple interest mode.

### Factors Leads to NPAs in Education Loan

- The holiday period is not sufficient for borrowers to clear his dues.
- Most of the students are not getting good job within the holiday period
- Even, the person who got job is not getting good salary to clear his/her dues
- Some of the loan seekers willfully default, to get subsidies and concessions from the government
- Some will go to accomplish their family priorities and needs with their salary before repaying the dues
- Some will go for maintaining their basic infrastructure facilities with their first income, because most of the loan seekers are below average according to the financial rating and they are the ultimate expectation of their parents.

### Major Courses Presumed

Major courses pursued by the EL beneficiaries consisted General Nursing & Midwifery(GNM), B.Tech Engineering, Medicine(MBBS), Management(MBA/PGDBM) and Other courses like B.Sc. Nursing, Bachelor of Physio Therapy, B.Sc. Optometry, M.Sc. Bio Technology, Bachelor of Education(B. Ed.), Master of Education(M.Ed.) etc.

### Data Analysis and Interpretation

**Table 1. Total loan provided in 2013**

| Branch No: | Total Loan Provided In 2013 | Education Loan Provided In 2013 |
|------------|-----------------------------|---------------------------------|
| 1          | 2478.07                     | 40.7                            |
| 2          | 1513.98                     | 41.34                           |
| 3          | 1622.18                     | 17.04                           |
| 4          | 854.11                      | 16.43                           |
| 5          | 1111.69                     | 61.95                           |
| TOTAL      | 7580.03                     | 177.45                          |

Amounts in Lakh

Of the total loan provided in 2014, 2% constitutes Education loan. It indicates that of the total loan amount provided in 2014, very minute percentage is given as Education loan.

**Table: 2: Table showing Loans outstanding as on 31 March 2014**

| Branch No: | Total Loan Outstanding | Education Loan Outstanding |
|------------|------------------------|----------------------------|
| 1          | 2936.06                | 370.3                      |
| 2          | 60                     | 40.88                      |
| 3          | 3625.36                | 361.58                     |
| 4          | 75.43                  | 33.83                      |
| 5          | 1972.67                | 137.04                     |
| TOTAL      | 8669.52                | 943.63                     |

Amounts in Lakh

Of the total loan outstanding as on 31 march 2014, 11% constitute Education loan. It implicate that 11% of the total loan outstanding are of Education loan

**Table: 3, Reasons for NPAs in Education loan**

| SL: NO | Criteria        | No of Respondent |
|--------|-----------------|------------------|
| 1      | Family Priority | 5                |
| 2      | Not Well Placed | 15               |
| 3      | Unemployment    | 7                |
| 4      | Wilful default  | 2                |
| 5      | Other           | 1                |

It is found that, the Factors which makes the Loan seek-

ers to Default the loans are, Not Well Placed followed by Unemployment and Family Priorities. It is also found that there are some sections of the society wilfully default to get subsidies and concessions from the Government.

**Table:4, Interest rate of loans**

| S:NO | Category         | Interest Rate |
|------|------------------|---------------|
| 1    | Home Loan        | 10.25%        |
| 2    | Vehicle loan     | 10.75%        |
| 3    | Gold loan        | 12.5%         |
| 4    | Agriculture loan | 12.5%         |
| 5    | Education loan   | 12.5%         |
| 6    | Business loan    | 14.75%        |

It is found that the interest rate of education loan is comparatively higher than the home loan and the education loan. It is even higher than gold and agriculture loan. It is better to reduce the interest rate of the Education loan, since it is given for a good initiative and with a good motive of making every one Literate. Decreasing the interest rate of Education loan will also leads to the reduction in the NPAs of Education loans.

**Hypothesis testing**

Does "Not Well Placed" ---- have equal chance, like other choices in defaulting education loan

H0\_ "Not Well Placed" have equal chances like other choices in defaulting education loan

H1—"Not Well Placed" is not having equal chances like other choices in defaulting education loan

**Table 6. Reasons for NPAs in education loan**

| Reasons    | Family Problems | Not Well Placed | Unemployment | Wilful default | Other Reasons |
|------------|-----------------|-----------------|--------------|----------------|---------------|
| Respondent | 5               | 15              | 7            | 2              | 1             |

n = 5

N=30

SAMPLE MEAN =6

POPULATION MEAN= 15

SAMPLE STANDARD DEVIATION=

= 5.56

DEGREES OF FREEDOM =

AT 5% LEVEL OF SIGNIFICANCE TABLED VALUE = -1.96

SINCE THE POPULATION SAMPLE IS SMALL WE WILL GO FOR T -TEST

T-TEST =

CALCULATED VALUE =

= -3.6195

Since the tabled value is more than the calculated value, we reject our null hypothesis and accept the alternative hypothesis that-- "Not Well Placed is not having equal chances like other choices in defaulting education loan. It is a major factor in defaulting education loan having more rate than other choices.

**Hypothesis testing**

There is a general saying among people that- "wilful default" is the reason for the hike in NPAs in Education loan.

H0 = "Wilful default" leads to the hike of NPAs in Education loan

H1= "Wilful default" is not a reason for the hike of NPAs in Education loan

Out of the 30 sample surveyed, it is found that only 2% willfully default the Education loan and the remaining 98% had defaulted due to other reason.

As an additive method we are equating the nature of sample to the general population. Which replicate that, only few section in the society violate Education loan wilfully.

Hence we can conclude than willful default is not a reason for the mounting of NPAs in Education loan.

So we reject our null hypothesis and accept the alternate hypothesis that is, "wilful default" is not a reason for the hike of NPAs in Education loan.

**Does any Relationship between Total loan outstanding and Education loan outstanding.**

Let x = Total loan outstanding

Let y= Total Education Loan outstanding

**Table 4.1.10, Table showing loan outstanding**

|   |         |       |         |       |         |
|---|---------|-------|---------|-------|---------|
| X | 2936.06 | 60.00 | 3625.36 | 75.43 | 1972.67 |
| Y | 370.3   | 40.88 | 361.58  | 33.83 | 137.04  |

For calculation sake divide each figure by 100 and applying Karl Pearson coefficient correlation.

Karl Pearson coefficient of correlation =

|       |      |        |      |       |
|-------|------|--------|------|-------|
| X     | Y    | Xy     |      |       |
| 29.36 | 3.70 | 108.63 | 862  | 13.69 |
| 0.6   | 0.4  | 0.24   | 0.36 | 0.16  |
| 36.25 | 3.61 | 130.86 | 1314 | 13    |
| 0.754 | 0.33 | 0.24   | 0.56 | 0.10  |
| 19.72 | 1.37 | 27     | 389  | 1.876 |
| 86.68 | 9.41 | 267    | 2566 | 29    |

= = 0.94

There is a high positive co-relation between total loan outstanding and Education loan outstanding. That is an increase in the value of one variable result in the increase of other variable and a decrease in the value of one variable leads to the decrease in the value of other variable.

**Suggestions and Conclusion**

**Suggestions**

- It is better to reduce the interest rate of the Education loan.
- It will be good if the bank increases the holiday period, this will give students some more relaxation in the repayment of a loan.
- Bank should strictly consider the students, meritorious performance while considering them for Education loan.
- Most of the student who seek Education loan are not well placed the government should either made a platform of providing job to them or the government should absorb their loans.
- The government should implement the scheme, like interest waving and subsidies on a uniform platform. Otherwise some may get the advantage and other may not get the advantage.
- The government should introduce separate legal policies and rules for the wilful defaulters.
- The bank whom provided the loan, should make the arrangement to link the salary accounts of the loan seekers to the particular branch, so that they can cut a fair amount towards the loan due according to his/her salary.
- It is better to treat IBM and Non IBM scheme, as same in the calculation of interest rate regarding the loan.

**Conclusion**

The ultimate purpose of Education loan is to assist the meritorious student in their studies without making finance a hindrance. But in the long run due to certain Norms, Policies and more seats in Education institution more people without having meritorious performance is approaching for Education loan. Because of the more number of colleges, each year lakh and lakh of graduate was passing out and most of them are not getting a good job due to the vast competitions. Such Unemployment leads to default in Education loan and this will leads to NPAs in education loan.

Education is the birth right of every one, we can't deny

any ones Education in the name of Finance. So let us hope for a bright future, let everyone get Education, let everyone should get Employment and there by our society, state and country grow in all sake.

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