



## Educational loans And Non Performing Assets- An empirical Study

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### ABSTRACT

The Education sector is in the concurrent list in India such that both the Centre and the State Governments have the responsibility to make budgetary allocations for its growth. Primary and Secondary education in India receive comparatively better allocation than the higher education. With the advent of the Educational Loan Scheme of the Public Sector Banks in India in 2001, there has been a fillip in the enrollment in higher education institutions. The educational loans (EL) paved the way for pursuing professional and job oriented courses offered at the self financing colleges and Universities to deserving students. An empirical study of 600 borrowers in the State of Kerala in India reveals that the lion's share of the Non Performing Assets (NPA) are traceable to the borrowers belonging to the General Nursing and Midwifery (GNM) and B.Tech Engineering courses.

**Keywords: Education Loan, Higher Education, NPA**

### 1. Introduction

The national loan scholarship scheme started in 1963 to finance the meritorious students for pursuing higher education had been discontinued in 1991 owing to non recovery of the loans and financial difficulties of the Central Government. The budgetary allocation for higher education was also decreasing with respect to the increase in enrolment over the last two decades. The 1992 Education Policy provided for the establishment of Self Financing Colleges and Deemed Universities in the private sector to address the gap in Government investment in higher education. It also suggested educational loans for meeting the expenses for higher education. The Central Government and the Indian Banks Association finalized norms for educational loans in 2001. Since then the educational loans grew substantially. An empirical study of 600 samples in Ernakulam District in Kerala who took educational loans during the period 2004-2009 reveals that 160 of them have defaulted and that 75 per cent of the defaulters have pursued GNM course. This paper is a humble attempt to highlight the relationship between the courses pursued and the NPA in the context of the sample study and to put forward suggestions to make the loans more effective with respect to selection of course, procurement of jobs and repayment of the loans.

### 2. Objectives

- (i) To make an empirical study regarding the profile of the defaulters of educational loans in the state of Kerala, who have availed loans for their higher studies in various professional streams;
- (ii) To analyse the courses pursued by the borrowers and their employment status;
- (iii) To analyse the Non Performing Assets and repayment status and
- (iv) To make suggestions on the basis of the findings of the study.

### 3. Hypotheses of the Study (Null Hypotheses)

- (i)  $H_0$ : There is no association between the selection of the right course of study and the chances of getting gainful employment after completion of the selected course.

- (ii)  $H_0$ : There is no significant variation in the choice of courses by the EL borrowers

- (iii)  $H_0$ : There is no significant variation between the level of NPAs in educational loans as per the state-level (Kerala) statistics and that observed in the sample for this study.

- (iv)  $H_0$ : There is no significant variation in the defaulters among borrowers in the different courses

### 4. Methodology of the Study

The study is descriptive in nature. Both secondary and primary data are used to elucidate and substantiate the study. The study is limited to Ernakulam District of the state of Kerala where a substantial number of students after secondary education seek higher professional education by the help of education loans.

#### 4.1 Sampling

Students from middle income and lower income families seek educational loans. Therefore, the dispersion of the borrowers are fairly evenly distributed in Kerala, without regard to the town or village. The sampling frame consists of the educational loan borrowers of the Ernakulam District. There are 124 villages in Ernakulam district. 10 villages are selected on judgment basis in order to ensure regional representation of the sample. These villages are Nedumbassery and Angamaly from the North, Puthencruz and Thiruvankulam from the South, Muvattupuzha and Malayattoor in the East, Kadamakudy and Elamkunnappuzha in the West and Vazhakala and Edappilly South from the Central. From each village 60 borrowers are interviewed using a structured questionnaire to collect the primary data. Snowball sampling method is used to identify the borrowers in each village as the borrowers are not openly admitting themselves to be borrowers at the time of a pilot study of a handful of them.

#### 4.3 Period of the Study

The study covers a period of 5 years from April 2004 to December 2009 in the case of educational loans obtained and for computation of non-performing assets (NPA) till December, 2011.

#### 4.4 Tools of the Study

Chi Square, correlation and linear regression techniques are used in addition to the normal ratios and percentage.

#### 5. Limitations of the Study

During the years 2004-2009, a total of INR 240bn was given as educational loans in India for 1.6 m students[8]. The share of Kerala state out of this amount is INR 56bn for 252,391 student borrowers[22]. Ernakulam being one of the 14 districts in the state and the samples are collected only from ten villages in this district is the main limitation of the study.

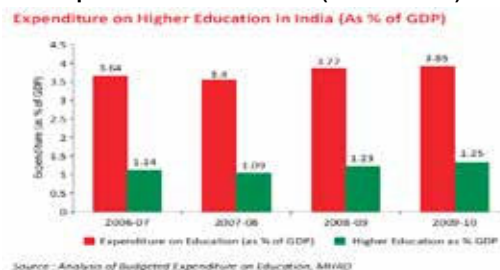
#### 6. Review of Literature and Research Gap

Jandhyala B G Tilak (2004)[9] analyses the departure of the Government from increased expenditure in higher education sector consequent on the commitment of universal primary and secondary education. Narayana (2005) [15] conducted an empirical analysis of the role of student loan by commercial banks in financing the estimated budgetary subsidy to general collegiate education by Government and Private Aided colleges in Karnataka State (India). Manoj P. K and Meera Bai (2009) [11] in their joint study have analysed the emerging trend in respect of technical education in India. Manoj P K and Arunachalam (2009) [12] 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. Harsh Gandhar (2010) [6] has done a study on educational loan schemes by scheduled commercial banks in Chandigarh in India. He has highlighted absence of previous studies on education loan schemes in India. Jandhyala B G Tilak (2012) [10] has examined the early foundations of primary education in Kerala State as remarkable when compared to other states in India along with the neglect of investment in Higher education. Hua Shen and Adrian Ziderman (2008)[7] reviewed 70 countries across the world for educational loans schemes. The Government sponsored schemes in these countries are more or less similar in the matter of various forms of subsidies given to the student loan borrowers. Alan Nasser and Kelly Norman(2011)[1] examine the pattern of student loan scheme existing in the United States. In 2011 the students loans outstanding rose to \$ 830 billion while the credit card lendings trailed behind at \$ 827 billion. Premsai C. (2007)[17] 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)[16] prove that very few students are concerned about obtaining a job after the studies. Devasia M.D., & Meerabhai M.(2005)[3] has found that Kerala has definitely predominant position in Indian states in literacy and primary education. However, in the matter of Higher education it is one of the lowest rated states in the country. May Luong (2010)[14] 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. Ernest & Young, FICCI (2011)[5] assessed that there is high potential demand for higher education in India. Tamar Lewin(2011)[23] asserts that in the US half the graduates who left the colleges in 1993 were having educational loans whereas this share has increased to one-third in 2008. Mavuthu, D.(2006)[13] observed that an MBA course is intended to be skill developing and richly rewarding course. Alphonsa M.J.(1994)[2], found out that among the educated persons unemployed in the Kerala State, matriculates constituted the highest proportion in 1961,1971 and 1981, while graduates and post graduates accounted for only a small part indicating lesser employment opportunities for the matriculates in the State. Rajini, K M (2009)[18] points out that of all the factors of production human resource is the most delicate and that proper recruitment, induction and training are essential for better output from them. Dora Gicheva(2011)[4] has studied on the probability of delay in marriage for students on education loans. Shujaat Farooq, et al (2008)[20], establish that education is an effective vehicle for economic growth. Social and cultural benefits also accompany the growth. Soumya Vinayan (2012)[21] has found that majority of the students borrow to pursue career in the field of Nursing especially in private institutions situated outside the state. Majority of them shun repayment for want of proper employment.

In view of the foregoing it may be noted that studies on educational loans are quite scarce in India. In the above context, this study seeks to bridge the above research gap by attempting an empirical study on six hundred samples and analyses the courses pursued by them for eventual possession of pass and placement in jobs.

#### 7. Data Analysis and Discussion

**Table I: Expenditure on Education (as % of GDP)**



(Source:University Grants Commission (UGC), New Delhi (2012), Higher Education in India At a Glance, UGC, New Delhi, Feb. 2012. [Available online at www.ugc.ac.in].)

The higher education sector has been witnessing a slump in public expenditure over the last two decades in comparison to primary and secondary education in India.(Table I)[24]

#### 7.1 Growth of Educational Loans and Higher Education Sector in India

In India, over a period of seven years starting from the year 2005 to 2011 the educational loans have risen from INR 51bn to INR 437bn[19]. It can be translated into a CAGR of 43.05 per cent.

In the year 1990-91 there were 190 universities and 7,346 colleges. These grew to 611 universities and 31,324 colleges as of August 2011. During the same period the student enrolment grew from 4.9m to 16.9m in the universities and colleges. The Gross Enrolment Ratio has risen from 11% in 2005 to 13.8% in 2011 in India.[24]

The national target of higher education enrolment in India is fixed at 30% in 2020. To achieve this objective the present capacity of 14.6m seats should be raised to 40m rendering an additional seat of 25.4m. The share of private unaided institutions operating in higher education increased from 43% in 2001 to 63% in 2006 and the enrolment in the same institutions grew from 33% to 53%. To raise the capacity from the present 14.6m seats to 40m seats by 2020, India needs an additional investment of INR 10,000bn and assuming that private sector participation will continue to be 53per cent (53% in 2006 mentioned as above) investment of the private players will be INR 5300bn. That is on an average of INR 530bn per year.[5]

#### 7.2 Performance of Educational Loans in the state of Kerala

The number of outstanding EL rose from 265,573 in December 2009 to 350,574 in December 2011 in Kerala State. The outstanding loan amount has grown from INR 45,970 m in 2009 to INR 70360 m in 2011.

The Non performing assets numbered 6,803 and amounted to INR 1,340m in 2009. In 2010 the number of NPA rose to 7,860 at an amount of INR 2,280m. In 2011 these figures were respectively 24,858 and INR 4,470m.

The NPA generated at the state level was 2.91 per cent in 2009, 3.9 per cent in 2010 and 6.35 per cent in 2011.(22)

#### 7.3 Demographics and Socio-Economic Profile of the EL Borrowers under survey

600 EL beneficiaries surveyed in Ernakulam District are in the age group of 17-26 years. 197 males and 403 females constituted the sample. 86 per cent of the samples parents are having annual income less than INR 0.5 million. 78 per cent of the

parents are Higher Secondary or below qualified. 22 percent of the parents are graduates or post graduates.

#### 7.4 Courses Pursued and Placement Status of the EL Beneficiaries

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. Of the 600 sample, 298 pursued GNM, 136 B.Tech Engineering, 54 Medicine(MBBS), 63 Management and 49 Other courses. 97 per cent of the EL borrowers have completed the course and 72 per cent of them are placed in employment. Only 57 per cent of the GNM borrowers could be employed right after studies.

The first hypothesis regarding no association between placement and the right course is rejected. It is evident that there is wide variations in the availability of jobs in different courses.

Similarly the second hypothesis regarding no variation in the choice of courses is also rebutted since 50 per cent of the samples who pursued the GNM course remained unemployed soon after the course.

#### 7.5 The Loan Amount and Interest Rates

271 EL beneficiaries availed loans less than INR 0.2m, 263 of them availed loans between 0.2m-0.4m, 42 between 0.4-0.6m, 18 between 0.6-0.8m, 5 between 0.8-1.0m and 1 above 1.0m. 89 per cent of the borrowers availed loans less than INR 0.4m. The total sums borrowed by the sample works out to INR 145.2m. The rate of interest ranged from 9 to 15 per cent. For 92 per cent or 404 EL borrowers rate of interest on loan remained between 12-14 per cent.

#### 7.6 Coursewise NPA and the volume of NPA Amount

The defaulters as on December 2010 are GNM borrowers 120(75 per cent), Engineering26(16 per cent), Medicine 3(1.9 per cent), Management 10(6 per cent) and Other courses 1(0.6 per cent). By2010 December, the NPA was INR 5.83m which rose to INR 8.748m by December 2011. The NPA as a percentage of the EL borrowed by the samples is 4 per cent in 2010 and the same rose to 6.16 per cent in 2011.

**TABLE II: Hypotheses Testing (3) NPA Due from Sample and the Kerala state as a whole:**

Year ending December	State NPA INR m	Sample NPA INR m
2009	1340	0
2010	2280	5.83
2011	4470	8.74
2012	5820	11.16

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(Source sample survey for sample and SLBC report for State NPA. NPA Extrapolated for 2012 by linear trend)

$H_0$ : There is no significant variation between the level of NPAs in educational loans as per the state-level (Kerala) statistics and that observed in the sample for this study.

The positive linear correlation between the sample and the state NPA outstanding balances is 0.9459 at 5 per cent level of significance. Hence the  $H_0$  is accepted.

#### TABLE III: Hypotheses Testing (4)

$H_0$ : There is no significant variation in the defaulters among borrowers in the different courses

$H_a$ : There is significant variation in the defaulters among borrowers in the different courses

Courses	GNM	ENGG	MED	MGT	OTHERS
Sample Borrowers	298	136	54	63	49
Sample Defaulters	120	26	3	10	1

(Source: Field survey of 600 EL beneficiaries in Ernakulam District.)

The table value of chi-Square for 4 d.f. @ 5 per cent Level of Significance is 9.488

Since the computed value of chi-square is 108.38 the  $H_0$  is rejected. We accept the  $H_a$  that there is significant variation in the course wise defaulters. In other words some courses are showing more tendency for default.

## 9. Suggestions and Conclusions

By 2011 the number of defaulters have shrunk to 116 out of the total 160 defaulters. That is one or two years is too early for a good number of EL borrowers to start repayment. Hence, the present system of 7 to 10 years (Now revised to 10-15 years) should be stretched to longer periods for such people. Many of the EL borrowers are landing up in foreign employment and they too lag their repayment but nevertheless make one time settlement. Therefore, the concept of NPA in their case should be reconsidered. The best way to tackle the issue is to constitute the Credit Guarantee fund to periodically give relief to the scheduled banks with respect to the NPAs. At the same time A Debts Recovery Cell can be constituted at the state level which can take over NPA or EL issued to students without mortgagage. The issue of the loan is now vitiated by arbitrary decisions of some of the officers of the bank branches. A national level eligibility test for the issue of educational loans should be introduced. The educational loan is a powerful tool for the development of the human resource for a developing economy like India.