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Research Article

BAD LOANS IN EDUCATION LOAN SEGMENT- A CONCEPTUAL ANALYSIS

Booma.T.*
Ph.D. Research Scholar, Department of Commerce, Madurai Kamaraj University, Madurai, Tamil Nadu.
Dr. R. Radhika Devi*
Director i/c & Assistant Professor, Women's Studies Centre, Madurai Kamaraj University, Madurai, Tamil Nadu

*Corresponding authors | Received: 02/02/2023 | Accepted: 15/02/2023 | Published: 19/03/2023

Abstract: *One of the critical parts of a country's growth is education. The availability of higher learning will aid in the creation of the human capital required to propel the economy forward. India has advanced significantly in the field of education as a result of India and several Indian states' efforts. Every parent wants to give their children the best education possible, and they all agree that a good institute should place a strong emphasis on student discipline. They are very eager to pay for the college and schooling of their kids. All parents concur that children should have a good education and be knowledgeable. Education has a tremendous positive impact on students' and their families' sustainability and quality of life. An essential instrument for developing a better society is education. The repayment of student loans should be considered an investment in the growth and prosperity of the country. Yet with the increased number of people who are defaulting on their student loans, the NPA problem has recently had a significant impact on India's banking sector. When the interest or principle on a loan is past due for more than 90 days, the Reserve Bank of India (RBI) deems it to be non-performing (NPA). Nevertheless, this period may change based on the terms and circumstances that the borrower and the bank or financial institution have agreed upon. As a result, the objective of this secondary research is to evaluate the state of education loans, the NPA trend in the education industry, and the factors that contribute to loan default and a greater percentage of non-performing assets for student loans.*
Keywords: Education loan, Loan Default, Non-Performing Assets, Reserve Bank of India, State Level Bankers Committee, Bad loan

Introduction

A student who lacks the financial means to graduate from college could be eligible for an educational loan. The educational loan differs from other types of loans in that it was used for educational purposes. Loans for education come with a lower interest rate than other types of loans. Moreover, students will be given a deadline for repayment that follows degree completion. In other words, the borrower did not make a repayment while they were studying. Once the course has been completed, one must return the payment. The student is well supported by the educational loan since it enables them to finance expenses like tuition, housing costs, and university fees. Throughout the 2000s, the Indian economy witnessed rapid growth. To finance their initiatives, businesses and corporations borrowed heavily from Indian banks. Several infrastructure and power sector projects that were backed by banks ultimately proved unprofitable for a variety of reasons, including growing costs, the consequences of the 2008 crisis, etc. All of them contributed to the bank balance sheets of banks being damaged by mounting NPAs by 2013. As the RBI began cleaning up the banks' accounts, incidents of wilful defaulting involving thousands of crores of rupees surfaced. Around this time, it was revealed that banks had been careless in determining a customer's creditworthiness and that there had been some instances of corruption. All these variables combined to cause the NPAs in Indian banks to nearly treble by 2021.

Objectives of the Study

1. To study the Education loan status in India
2. To analyse the causes of the escalating NPAs in the banking industry
3. To suggest the remedial measures to avoid Education loan NPAs in banks

Research Methods

A research methodology is a series of steps or techniques used to identify, categorize, organize, and evaluate data associated with a subject. This article uses conceptual analysis and is based on secondary data. Books, journals, websites, and other sources are used to gather secondary data.

Benefits of Education Loan

The student loan offers following several benefits.

1. The interest rate on educational loans is lower than that of other sorts of loans, which is one of their main advantages.
2. The education loans ensures that student need not have to be repaid until after they have finished their studies.
3. The educational loan enables the financially strapped student to pursue his ambitious course of study and desire.
4. The educational loan not only paid for tuition, but also for all other costs associated with completing a higher education.
5. Loan for education include their ability to lower tax obligations. The borrower is entitled to deduct interest from taxes. The principal amount is excluded from the deduction; only the interest rate is considered.

Drawbacks of Education Loan

There are certain drawbacks in availing education loan. They are listed below,

The banks offer excellent assistance to students by offering loans for educational purposes. Nonetheless, it has been speculated that the bank's decision to grant the student an educational loan was motivated by more than just providing a service; it was also an attempt to boost its profit. They thus create a confidential rule for this. It might not have been disclosed when the education loan was taken out. To encourage individuals to their educational facilities, banks are offering excellent benefits for educational loans. The loan may not be used to fulfil it.

Due to incorrect information and a lack of understanding of the educational loan process, students have the potential of becoming entangled in a network of inappropriate educational loans. The student needs to have researched the most appropriate loan for the studies in order to prevent this. If an educational loan is not repaid, the bank will impose extreme pressure on the borrower. The borrower could attempt suicide as a result of this.

Occasionally banks would make the applicant wait while they ask for several credentials, making it difficult to get an educational loan. While applying for an educational loan, the bank could not reveal all late payments and additional fees. By offering study loans, banks are extending their gains in some covert ways. Because of its intricacy, it is quite difficult for most people to comprehend.

Features

One can pursue undergraduate, graduate, or postgraduate studies in many fields, including engineering, medicine, management, and information technology, with the aid of an education loan. The money borrowed will be used to pay for books, computers, hostel fees, tuition, and other costs.

Term, Amount, & Down Payment:

The sum being borrowed might change depending on the borrower's and their parents' income in addition to the overall cost of the course. Several banks provide loans of up to Rs 1.50 crore for education at prestigious colleges globally. Loans up to Rs 20 lakh fall under priority sector financing, incidentally. For loans up to Rs 4 lakhs, banks will often not ask a margin or down payment. The margin is 5% for degrees offered in India and 15% for degrees offered overseas for loans in excess of that amount.

Rate of Interest:

Due to the unsecured nature of education loans, the interest rate is greater. Students have the choice between a fixed rate and a fluctuating rate. The interest rate changes depending on the university's classification, which for IIMs and IITs is either AA, A, B, or C. For admission to colleges outside the category or list of top universities, the interest rate will be higher than 10%. A few banks provide reduced interest rates to female borrowers and those who purchase life insurance and assign it to the bank.

Period of moratorium and payback:

Most banks grant a moratorium period (holiday period) of up to one year after the course is completed or six months after obtaining employment, whichever arrives first. During this time, students are exempted from owing EMI payments. One might choose to pay the interest during the Holiday period. Depending on the loan amount, the payback duration might range from a few years to a maximum of 15 years.

Required documentation and collateral:

For loans up to Rs 7.50 lakhs, most banks really should not require collateral security. Banks need collateral security, such as fixed deposits, life insurance policies, or property and buildings, for loans greater than Rs. 7.50 lakhs.

The most crucial document will be the acceptance letter or offer letter from the institution outlining the breakdown of fees, in addition to the standard ones like the ID proof, address evidence of the borrower and the co-applicant who would be the parent or guardian, and income and bank statements. Students must present their passport, TOEFL, IELTS, GRE, and/or GMAT results, as appropriate, for study abroad. The co-applicant must have a strong CIBIL score of at least 700 for the loan to be approved.

Tax advantages for student loan debt:

Under Section 80E of the Income Tax Act of 1961, interest paid by students on their education loans could well be deducted without limitation. From the day they commenced repaying the loan or until the interest component is paid off, students have eight years to make a claim for the benefit. For meritorious and competent students, the Credit Guarantee Fund Program for Education Loans offers a guarantee to banks for education loans up to Rs 7.5 lakh.

Web portal:

The government offers support via the Vidya Lakshmi Portal as part of the Pradhan Mantri Vidya Lakshmi initiative. Students may apply for loans and get information about the various education loan programs offered by banks through the portal's single point of access. Students can apply for educational loans at several banks by downloading the loan application form. Through the platform, they can additionally track the progress of their loan application.

Literature Review

India has the worst NPA issue among the growing BRICS nations. India's banking sector has played a critical role in the growth of our nation. After the economy was liberalized, the banking sector has encountered more challenges, but because of its sound management and foundation, it has weathered all following challenges, including the subprime mortgage crisis of 2008. But the current problem has been a major one. Poor performance by the public sector banks diminishes shareholder returns, which lowers the amount of dividends given to the Indian government. As a result, it may slow down the allocation of funding for social and infrastructural development, which would have negative social and political repercussions. NPA cases add to the pressure on cases that are still ongoing in the court system. (Pradhan and Raj Kishor, 2018)

According to the authors, the bank's poor management is to blame for the inverse link between Total Advances, Net Earnings, and NPA. The reason why NPA and earnings have a positive link is because banks choose the wrong clients. This has a detrimental effect on the bank's liquidity. The bank is unable to lend money to new clients due to a shortage of resources brought on by NPA. The government cites several factors as the primary causes of the rise in non-performing assets, including the recent downturn in domestic GDP, the delayed recovery of the global economy, and the persistent volatility of the global markets (NPAs). These elements have resulted in decreased exports of several items, including leather and textiles. Banks' advised advances must go through pre-sanctioning examination and post-disbursement management in order to lower NPA. Banks need to employ appropriate management techniques to lower the degree of NPA. Proper selection of borrowers and follow-up are required in order to get payments on schedule. Banks advised advances must go through pre-sanctioning examination and post-disbursement management in order to lower NPA. Banks need to employ appropriate management techniques to lower the degree of NPA. Proper selection of borrowers and follow-up are required in order to get payments on schedule. (Rathore et al. 2016)

According to Sunil Sangwan et al. 2021, study’s households with low incomes, high levels of debt and loan diversion, as well as high borrowing costs, are more likely to go into default, according to their results. On the other hand, those who have a stronger sense of community and shared duty as well as more financial knowledge are more inclined to follow the law. Loan default is mostly caused by a lack of MFI oversight. Nonetheless, it is possible that MFIs' prejudices against lending to the poor are exaggerated. With sufficient oversight and steps taken to minimize ineffective loan use, the tendency for payback is expected to rise.

According to the examination of private sector banks, NPA growth is less than that of nationalized banks, SBI, and its affiliates, according to the study's findings, which were published in Agarwala, V. and Agarwala, N. (2019). The increase of such loans has been incredibly large as a result of the nationalized banks' and SBI's partner banks' inability to control the issue of subprime loans.

The numerous causes that raise NPAs, their magnitude, and the effects they have on Indian banking operations were examined in the 2008 article by Karunakar et al. The adoption of suitable risk assessment and management strategies is one of the remedies they provided for reversing the banking sector's unfortunate trend of NPA build-up.

The critical requirement for early monitoring and management of lent money is examined by Barge (2012). In order to keep the asset from degenerating into a non-performing asset, this research presents several recommendations, including tighter control over how money is eventually spent, awareness of the borrower's credit history, and assistance for borrowers in fostering their entrepreneurial talents.

The NPA problems of the State Bank of India (SBI), its affiliates, and other public sector banks are evaluated in Gupta's (2012) research. The study's conclusions lend credence to the notion that each bank should set up its own credit assessment agency to assess the solvency of borrowers. Moreover, it implies that a committee of financial professionals is required to supervise and maintain tracks on the NPA situation.

With an emphasis on the agriculture sector, Shalini (2013) examined at the underlying reasons of NPAs in Indian public sector banks and brought out workable solutions. An analysis of the numerous issues Indian farmers face shows that banks should take caution before making a loan. A few of the suggested strategies include training the farmers about the effects and repercussions of defaulting, post-sanction inspections, and the earlier gathering of information on the generosity of the farmers.

These subpar loans are a big issue for the public sector banks, which have seen consistent increase over the years, according to Singh's (2013) analysis of the situation of Indian commercial banks about NPAs. Loans for programs targeted at decreasing poverty and the microeconomic sector make up the bulk of the contribution.

In their research published in 2016, Bhaskaran et al. examined the NPAs of both public and private sector banks over a decade. (2004-2013). Their study unambiguously shows that private sector banks are outperforming public sector banks in terms of lowering the number of non-performing assets. Authors' recommendations emphasize early implementation of organized NPA management solutions with a focus on NPA prevention.

In their recent analysis on Indian banks' loan recovery tactics, Thomas and Vyas (2016) proposed the preventative and remedial techniques. The article also discusses a number of remedial actions that should be taken to recover the non-performing loans, including extra-legal, statutory, and legal ones.

Singh (2016) revealed that the problem is greater for public sector banks than for private sector banks in a more recent study on NPAs and recovery status. The scholarly analysis highlights the need for rigorous lending regulations in order to ensure quick loan repayment.

Meher (2017) looks at how the government's move to demonetize affected Indian banks' NPA in the years after the announcement. The study concludes that the incident had both beneficial and bad effects on the financial industry.

The study was done on two periods of post-liberalization banking crises, one of which started in the late 1990s and the second in 2008, after the global financial meltdown that dragged up the NPAs issue. The authors contend that effective governance, strict banking rules, and a strong legal framework for NPA resolution might all help address the NPA issue. Yet, regulatory slackness would make the banking crisis worse. (Sengupta and Vardhan, 2017)

In their 2017 study, the authors examined the number of non-performing loans in the Indian banking industry as well as the factors that contributed to their increase. Bankers should be proactive in creating well-structured plans to regulate NPAs, according to experts, even if the government has taken various initiatives to lessen the problem of NPAs. Prior to approving the loan, the ROI of the suggested project and the borrowers' creditworthiness should be considered. (Mittal and Suneja, 2017)

Authors emphasized about gross and net non-performing assets (NPAs) in private sector banks and public sector banks in order to understand their impact on the asset quality of the banks. The main causes of the rise in NPAs include wilful loan defaults, poor credit management strategies, and loan approvals given without considering borrowers' risk-bearing capacity. The need of creating and putting into action plans more effectively should be emphasized by the banks. Government regulations that are more stringent might minimize the amount of NPAs.(Banerjee et al.2018)

According to Kumar's (2018) research, The profitability and liquidity of the banking industry are significantly harmed by NPAs. According to the author, if the NPA issue is effectively resolved, numerous microeconomic problems, including poverty, wage stagnation, and balance of payments inequities, can be decreased, the money market can be solidified, and as a result, the stance of the Indian banking system on the global market can be enhanced.

This study emphasizes the banking industry's function as a vehicle for fostering economic expansion and development. The report examines the increasing impact non-performing assets (NPAs) are imposing on banks, particularly public sector banks. To lower the concentration of NPAs, the author suggests several preventative measures. A strong financial industry in India may be made possible by efficient regulatory standards and their prompt enforcement. (Sharma, 2018)

Dey (2018) has conducted research on recovering subprime loans from Indian commercial banks. As opposed to recovery through Lok Adalat and the SARFASEI Act, the author believes that DRTs play a far more beneficial function.

Intriguing research by Kumar et al. (2018) reveals the main reasons for NPA build-up. NPAs reduce bank capital, making it harder for them to make payments. It is also a political and a financial issue. Non-performing assets have always been an issue for the Indian banking sector since they have a direct impact on the profitability of the banks. Failure in the financial sector could have a bad impact on other sectors. Banks are in the situation to take the required action to address the problem if the banking sector is to continue operating without stress. The implementation of a sensible and well-organized non-performing asset management plan by the banks and financial institutions should emphasize preventing non-performing assets.

Education Loan NPAs crisis

As of December 31, 2021, 9.55% of the education loans made by public sector banks were designated as non-performing assets, according to the RBI's database. According to statistics from the finance ministry, the education loan NPA rate was much higher than in the fiscal year 2019–20 and was the highest rate in the preceding three fiscal years. Undoubtedly, the government is anxious about student loan defaults. According to the research, 8,587 crores of the total amount of outstanding student loans are currently uncollectible debt. The percentage of delinquent student loans was 7.61, 8.29, and 8.11 in the years 2020, 2019, and 2018.

The majority of the 65% overall NPAs on student loans came from South India, with Tamil Nadu solely claiming NPAs of Rs 3,490.75 crore. NPAs were greatest in the state of Bihar (25.76%), next with Tamil Nadu (20.3%). The largest contributors to the NPAs for education loans are nursing graduates, who represent for 9.7% of the outstanding student loan debt as of December 2020, followed by engineering graduates. The State-Level Bankers' Committees (SLBC) forecasts that 3,53,000 beneficiary accounts for school loans would be deemed non-performing by the end of 2020, costing Rs. 8,263 crores. Medical students acquired 11.9% of the remaining education loan amount, engineering students placed second with 39.2%, nursing students finished in third place with 4.3%, management students came in at 11.2%, and all other courses together dropped in at 33.2%. Nursing ranks highest in terms of NPAs compared to the outstanding student loan total with a percentage of 14, followed by engineering (12.1%), management (7.1%), medical (6.2%), and all other disciplines combined (8.4%). Future earnings needed payback terms, knowledge of updates on floating interest rates, creating a lifestyle after studies, and unanticipated events that might affect future earning capacity are the five factors that students should consider before obtaining an education loan (McWade,1993).

Seven true causes

The Education Task Group Convener, Mr. Sreenivasan, claims that there are seven factors that contribute to NPAs because banks are insensitive, which eventually traps students in a debt cycle. According to complaints from different students, ELTF concludes that the banks improperly categorize NPA and unduly place the burden on the students.
These are the seven causes:

1.The Indian Banking Association calls for a flexible payback period of ten to fifteen years, with smaller monthly instalments at first and gradually rising monthly payments as time goes on. Most managers set extremely high EMIs during the first five years. As a result of the set EMI exceeding the student's income, they are burdened.

2. The regional and bank managers' unwillingness, even in justified situations, to reschedule the EMI.

3. The incorrect categorization of education loans paves the way for a greater number of NPAs. If the student loan debt is properly categorized, roughly 75% of the current NPA will turn into profitable assets. Banks intentionally declare higher NPA to avoid making student loan payments.

4. From the moment students apply for an education loan, they are subjected to harassment. As a result, the students get annoyed with the bank and become discouraged. Managers fail to educate learners on the bank's rules.

5. To preserve positive relationships between banks and beneficiaries, the educational task force advised that banks organize an annual gathering of all students who have taken out educational loans even by branches or regions. However, banks are not yet ready to adopt this proposal.

6. Even though students are eligible for a 100% subsidy, the branches fail to timely submit the proper claim.

7. Individual banks and the Indian Banks Association have little interest in raising public knowledge of issues like student loans, interest subsidies, and payback. The banks and IBA did not take any action to publicize the extension date when the Ministry of HRD extended the interest subsidy due date for SC/ST students.

Conclusions

By granting education loans, banks play a supporting and enabling role. They also have a big obligation to make sure that no meritorious student is prevented from pursuing higher education owing to financial constraints. The fact that NPA in the category of education loans is on the upswing is also a major source of concern. The public sector banks and this industry were formerly thought to be quite safe and secure. But the government and banks are already battling to address the issue of increasing NPA.

Stopping the issuance of new student loans is now unavoidable due to the significance of these loans. The sole choice open to banks and other financial organizations is carefully choosing the student borrower for the appropriate course. The educational background, previous academic success, university credentials to which the applicant has applied, and the applicant's employability should all be considered in the student's profile. Particularly about unsecured, smaller-ticket loans, more vigilance is called for. The legislative framework also requires certain changes so that the lender has some freedom in determining the loan conditions, including the need for collateral, based on the student's profile and employability. Compared to higher education expenditures, the market penetration for student loans is barely 20%. So, there is still a sizable untapped market that might provide considerable growth for lenders and the development of a viable business model for the participants in this market.

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