

# EDUCATION LOAN IN INDIA: AN ASSESSMENT OF RISK

Dr. Rajinder Kaur  
Assistant Professor  
MRSPTU, Bathinda (Punjab)

## Abstract

This paper delves into the Student Loan (SL) risk assessment practices followed by commercial banks in Punjab State of India alongwith various measures adopted to minimise the default risk. The default on education loan is a common problem faced by banks in Punjab state. This problem worsens especially, when the employment scenario is gloomy and the students leave the country for pursuing higher studies abroad. However default is more noticed in the case of collateral free loans up to ₹4 lacs. In this case no security is asked by banks from students, so the yearly income of the students' parents becomes the deciding factor in extending loan to their wards. Undoubtedly, with the expansion of lending activity, there has also been an increase in loan defaults. The level of Non Performing Assets (NPAs) in Education Loan segment is currently high and expanding. Thus, banks in the private sector, particularly, are gradually showing reluctance towards such advances to the students. To tackle this issue, banks need to create a sound credit monitoring framework by staying in contact with the borrowers/co-applicants occasionally by dispatching reminders, talking to them at regular intervals and taking a strict action against wilful defaulters. To help out the genuine candidates, EMIs can be restructured to match to their monthly earnings. It is suggested to increase the repayment tenure in legitimate circumstances. More significantly, banks need to adopt a professional approach for adequate recovery of dues. Timely guidance and counseling of students and co-applicants would help in reinforcing of lender-loanee relationship and develop a positive atmosphere for recovery of dues.

**Keywords:** Education Loan (EL), Education Loan Scheme (ELS), Risk Assessment, Default, Non Performing Assets (NPAs), India

## 1.1 INTRODUCTION

The amount of loan mainly depends on the type of course and the prospects for finding employment post-education along with other factors. A study loan mostly covers the charges of tuition, hostel, mess and examination, alongwith the cost of books, equipments and other instruments required by the students while studying a professional course. For studies abroad, banks also provide for travelling expenses. The maximum loan amount is ₹10 lacs and ₹20 lacs for education in India and abroad respectively, but, most importantly, it depends on the course for which the loan is being taken and the institution selected. The banks usually estimate the loan amount by taking a salary of parents or guardians as base, i.e., 6 to 10 times the monthly salary. These days banks conduct proper evaluation of loan applications due to the growing rate of education loan defaulters, especially wilful ones. The credit worthiness of the borrower and the feasibility of the scheme are important in any commercial lending decision. There exists no credit history of the students, if he or she is taking loan for the first time. In this case the bank relies on the creditworthiness of either parent. If the parent has a loan account with the bank and his or her loan is treated as an NPA, the bank obviously feels under pressure to deem that loan also as NPA ab-initio. Hence, in case of unpleasant credit history of the parent of the borrower, the bank, as a judicious measure demands a creditable joint borrower. Usually, a third party guarantee is demanded by the banks on priority basis.

## 1.2 BANKS' RISK ASSESSMENT PROCEDURE FOR STUDENT LOANS

The discussion held with various branch managers further helped to get a better insight of the risk assessment criteria followed by their respective banks. It came up during conversations that all the scheduled banks follow almost similar procedures to ascertain credit risk of their SL portfolio. The parameters which are generally followed by the banks both in public and private sectors include:

- The advance is endorsed for eligible courses and approved institutes as per the criteria prescribed in IBA's Model ELS. Additionally, all such paramount information is effectively accessible online from the bank's official website.
- All the necessary documents relating to student's eligibility are particularly asked by the banks

- The credit worthiness of the loanee is appraised before approving him/her an education loan. The borrower's past academic record is very well analysed. Borrower's family conditions and income from all sources is evaluated. All the more significantly student's future employment prospects and expected income range is additionally assessed. Banks also ensure that loanee should be in a position to pay the required margin money.
- The repayment possibilities by banks are ascertained on the basis of forecasted future remuneration of the loanee on degree attainment. Banks practically fix the EMIs (repayment) around anticipated future income of the borrower. Banks for most of the part keep on evaluating in the light of changed circumstances, the earning potential for different courses along with the fraction of the salary to be considered for reimbursement.
- The banks take into account the financial position of parents/guardians or guarantor while considering loan to the needy and deserving students. If satisfied, some of the banks even offer relaxations in margin money, the collateral required and the rate of interest etc. While computing loan amount, scholarship/fee waiver, if any, available to the student is taken into account. The scholarship amount is generally considered as margin money by the banks
- Public sector banks, as reported by their staff during discussions held with them, disburse the loan amount in stages, as per the requirement of the study course. It is directly sent to the educational institution through a cheque. However, the total sanctioned amount is not disbursed to the institute in one go; instead it is released in stages. This thing emanates from conversations with loan recipients. Hence, this practice also provides a safety cover to the banks as they release the loan amount which is required to be paid towards tuition fee and a few kinds of security deposits at the time of the beginning of the academic year or semester. The rest of the portion of the sanctioned loan amount is disbursed by the banks, as and when the student approaches them for further funds with documentary proofs from the institute in support of such request for funds.
- With the help of the college authorities, banks monitor student's progress report of previous semester/year before releasing further instalment of the loan to the educational institution in the beginning of every academic semester or year. If the student fails in two-three or more subjects,

many banks strictly stop releasing a further loan instalment to the academic institute. As reported by the banking staff, in such cases the needy student has to apply afresh for credit. However, if institutes allow such students to get enrolled for next semester, banks generally dispense with the ensuing portions of sanctioned loan amount.

- Suitable collateral is secured by banks against the loan amount to be sanctioned. If the educational loan requirements are less than ₹4 lacs, banks do not ask for any collateral, but co-obligation of parents or guardians to the loan deed is ensured. For loans above ₹4 lacs and up to ₹7.5 lacs, third party guarantee is preferably obtained. For loans above ₹7.5 lacs banks accept Fixed Deposit, LIC policy and property documents etc. as security besides the assignment of future income of the student. These conditions apply to loan for studies in India
- Generally, there is no particular limitation as to the age of the student to be qualified for a loan. Notwithstanding, if the borrower is a minor and the guardian executed loan application, the bank can acquire a letter of ratification from him/her upon attaining majority. However, as mentioned earlier in this study, some of the banks have a fixed age band for the borrowers and the co-applicants to ensure adequate and timely repayments in future. As per the branch managers, the minimum and maximum age limits of the borrower are expected to be between 16-18 years and 35-40 years respectively. But there is no hard and fast rule for age of the borrower or co-borrower. More important is to fulfil the minimum monthly/annual income criteria asked by the banks. Also, The co-applicant is told to supply the documentary proofs supporting his identity, residence, bank accounts, and the income claims (generally the salary slip with latest Form 16). Additionally, the co-applicant is required to submit documents regarding qualifications and income if he/she is a self-employed professional like a chartered accountant or a doctor
- Student borrower is motivated to take LIC Policy from the lending bank to minimise its financial risk. An increasing number of parents (co-signatories) are taking out insurance policies on their wards` life in an effort to avoid being left with the debt, if their child dies and they can't repay the loans. Under the insurance cover, the bank receives the entire loan amount from the insurer if the borrower dies. Nearly 2-3% of the aggregate EL size is taken as the cost of insurance cover and total

value of the loan becomes the final amount of the policy. Ultimately the policy is assigned in favour of the bank

- Up to date track record of employment type and residence of the student borrower is maintained, especially when he or she had taken loan for pursuing education from a foreign institution
- For all courses, admissions under management quota are considered beyond the purview of ELSs by many banks due to mounting default rates
- Banks permits borrowers to submit loan requests either at bank branches nearer to their residence or at bank branches close to the academic institutions. However, know your customer (KYC) formality is completed by the branch nearest to the place of the student`s residence. Once the loan is sanctioned the student`s file is moved to the branch near to the institution, for better handling and convenience
- It is at the discretion of banks to give loans for part-time courses, research studies and other job oriented specialised short term programs
- As a tool for improving asset quality, banks base their lending decisions on the rating of educational institutions. Banks offer differential interest rates based on rating of the course of study, the rating of the academic institute and previous academic performance of the student

The above discussed points are the basic precautionary policy measures taken into account by banks while approving education loan to buddy professionals. However, these policy measures may vary from bank to bank depending on its type, size and customer base.

### 1.3 DATA ANALYSIS AND INTERPRETATION

Taking into consideration the various norms of Model Education Loan Scheme of IBA and the amendments made to it from time to time, a ten-item questionnaire was developed to analyse the credit risk assessment practices followed by various public and private sector banks in Punjab state. These ten items emanate from discussions with the branch managers. Hence, ten items have been assumed as the part and parcel of the credit risk assessment practices of the banks. The survey questionnaire comprised the 10 items to be

**Table 1.1: Set of Banks` Risk Assessment Practices**

Sr. No.	Items (Risk Assessment Practices)
1	The credit worthiness of parents is well assessed
2	Parents are generally asked to be the co-signatories or guarantor
3	Current national and global economic and employment scenario is also considered
4	Preferably loan for high-income professional courses is given
5	The interest rate is kept high for likely risky cases EL cases
6	If a loan case seems risky, bank`s practice is to sanction less amount than what is demanded by the loanee
7	Institute rating/reputation is well taken care of before sanctioning loan
8	Loanee is well evaluated in terms of his/her academic performance
9	Before sanctioning further loans, a student`s performance & other details are verified from the academic institution
10	Student borrower is asked to get a LIC policy and assign the same to the bank against EL taken

*Source: Primary Data*

replied by the dealing bank official/staff as exhibited in table 1.1. The questionnaire is rated on 7-point Likert-scale, ranging from 1 for very strongly disagree to 7 for very strongly agree. The same was distributed among the ten banks to get the completed responses. Ten banks are: State Bank of India (SBI), State Bank of Patiala (SBP), Punjab & Sind Bank (PSB), Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), ICICI Bank, AXIS Bank, HDFC Bank, J&K Bank and City Union Bank. Collected responses were tabulated in order to find out some meaningful inferences. Average score of risk assessment practices is calculated for each of the ten banks along with their respective average item scores. Similarly, in table 1.2 mean scores of credit assessment practices and items have been calculated separately for PSUs and private sector banks.

The table 1.2 shows the results of the survey. For risk assessment, amongst the five PSUs, the Oriental Bank of Commerce has the greatest average of 5.70 followed by State Bank of India (5.40). While SBP, PNB and PSB are in third place with a mean score of 5.10. Among private sector banks, AXIS and

HDFC banks have the highest mean score of 5.40 for credit risk assessment. ICICI bank is at second place with mean score of 5.30 followed by City Union and J&K banks to be at fourth place with 5.10 as mean score.

The table 1.2 also shows the average score given to ten items included in the survey questionnaire. According to the results, ten banks gave the maximum score to the parents` credit worthiness (7.00). Second highest score (6.70) they give to the item “making the parents the co-signatories” to the loan. The third highest score (6.60) has been given to the item “academic performance of the student borrower”. At fourth (6.40) and fifth (6.10) places are the items “institute rating” and “follow up with academic institutes before sanctioning further loans” respectively. The item “current economic scenario” gets the sixth average score (5.60) with item “high-income courses” at seventh place (4.10). At eighth, ninth and tenth place are the items “disburse less than the amount sanctioned”, “high interest rate for risky cases” and “LIC required” with average scores of 4.00, 3.30 and 2.80 respectively.

Hence, the financial condition of the student borrower`s parents is given the priority while sanctioning EL by banks because they are made a party to the loan deed of their ward. Generally, either of the parents is considered as co-signatory or guarantor to the loan deed. Other important factors are the academic performance of the student borrower, academic institute`s reputation in which he/she has secured admission, economic and employment scenario etc.



Table 1.2: Result of Banks` Risk Assessment Practices

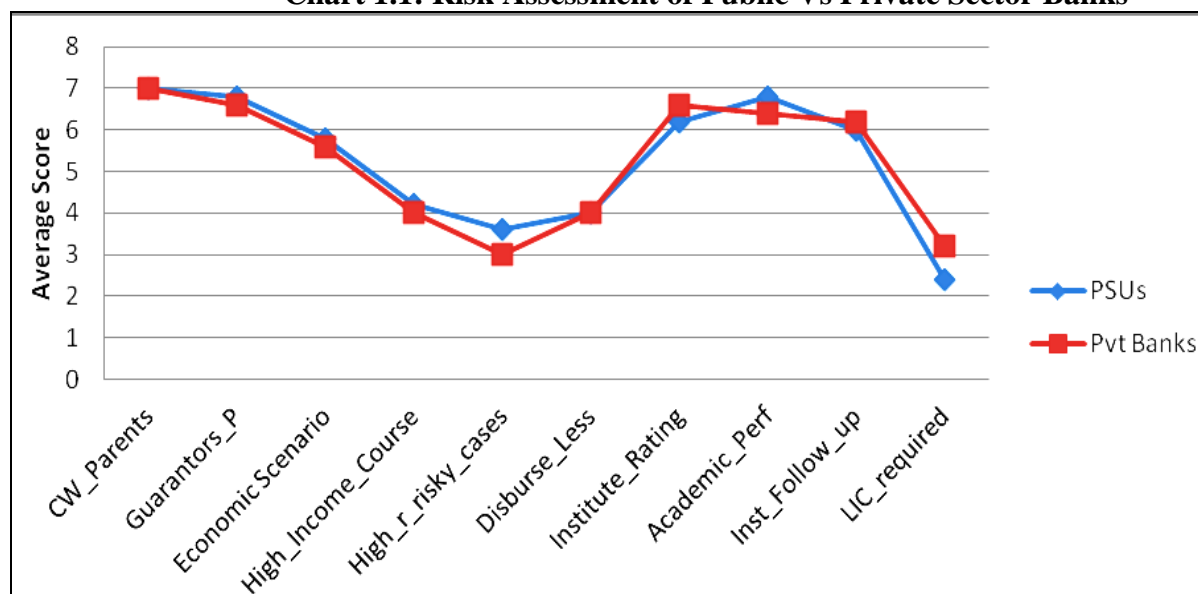
Items (10) / Lending Banks	SBI	SBP	PSB	OBC	PNB	Average Item score (PSUs)	City Union	AXIS	ICICI	J&K	HDFC	Average Item score (Pvt. Banks)
Relies on creditworthiness of parents	7	7	7	7	7	7.0	7	7	7	7	7	7.0
Takes parents as co-signatories or guarantor	7	6	7	7	7	6.8	6	6	7	7	7	6.6
Attention to economic and employment scenario	6	5	5	6	7	5.8	5	6	6	5	6	5.6
More loans to high income fetching courses	4	4	4	5	4	4.2	4	4	4	4	4	4.0
Charges high rate for risky cases	3	3	3	6	3	3.6	3	3	3	3	3	3.0
Disburses amount less than sanctioned for risky cases	4	4	4	4	4	4.0	4	4	4	4	4	4.0
Considers institute rating/reputation	7	6	6	6	6	6.2	7	6	6	7	7	6.6
Considers academic performance of borrowers	7	7	7	7	6	6.8	6	7	7	6	6	6.4
Follows up with the institute for borrower details	7	7	5	6	5	5.6	6	7	6	5	7	6.2
LIC required for borrowers	2	2	3	3	2	2.4	3	4	3	3	3	4.0
Average Risk Assessment Practices	5.40	5.10	5.10	5.70	5.10		5.10	5.40	5.30	5.10	5.40	
	5.28						5.26					
Average Item Score						5.24						5.34

Source: Primary data



The chart 1.1 given below shows the average score given to each factor by officials of ten banks. The combined average of risk assessment for public sector banks is 5.28 while for private sector banks it is 5.26. No major differences have been found in the credit risk assessment approach of public and private sector banks. However, slight variations in risk assessment practices of both categories of banks have been reported. Firstly, public sector banks being under direct control of government and RBI have to meet

**Chart 1.1: Risk Assessment of Public Vs Private Sector Banks**



Note: N=10 (5=Public Sector banks, 5=Private Sector Banks), CW\_Parents=Rely on creditworthiness of Parents, Gurantor\_P= Takes parents as Guarantors, Economic\_Scenario=Considers current Economic Scenario, High\_Income\_Course=More loans for high income fetching courses, High\_r\_risky\_cases=Charges high interest rate for risky cases, Disburse\_Less= Disburses less than sanctioned amount for risky cases, Academic\_perf=Considers academic performance of the borrowers

the criteria of priority sector lending. They have to offer the EL to students to meet the social and national welfare objectives. Hence, these banks in order to contain credit risk, offer variants of Model ELS, i.e. OBC bank has 3-4 variants of ELS with varying interest rates. However, private sector banks offer education loans in-line with the Model ELS only. They do not offer variants of it. Hence, students get an access to 1-2 ELSs in private sector, that too with rigid interest rate criteria. Private Banks though do not give high ranking (average) to the item “charging high rate for risky cases” but in general these banks keep rates of interest higher on their education loan products as compared to public sector banks. This information has been confirmed by the student borrowers during discussions with them. Secondly, now-a-days private sector banks emphasise that student borrowers should get a life insurance policy as soon as the loan is sanctioned and that same policy should be assigned to banks against the education loans extended by them. The main motive here is again to contain the default risk. However, public sector banks do not emphasise much on

insurance linked education loans. Thirdly, private banks have been much organised in maintaining proper communication with the academic institutes for knowing about the performance and whereabouts of the loan recipients. Private Banks give more importance to the rating of the academic institutions while deciding about a loan request. However, public sector banks are more cautious about the academic performance of the students seeking loans.

#### **1.4 DEFAULT RISK IN EDUCATION LOAN SEGMENT**

“Common Bond, November-2012”<sup>[2]</sup> a publication by The All India Bank Officers' Confederation (AIBOC) reviews the scenario relating to default risk for education loans in India. According to the report, data of NPAs for education loan industry are not collected at national level as efficiently as it should be; meanwhile, some evidence about default risk is accessible from the daily nationals. The NPA rate of the education loan portfolio of the banking sector has been as high as 6% for 2011-12. Subsequently, this calls for an examination of the motives behind credit defaults. The discussions held with the branch managers on the credit default revealed that the rate of default is higher in male students than in female borrowers. Further, the default rate has been reported to be higher for long term courses than the short term courses. Likewise, defaults are higher in cases where the loan is dispensed for studies abroad. There are numerous explanations behind this credit default on the part of students. These may include: low satisfaction with academic institutions and the course of study eventually leading to academic failure; dropout; unemployment; underemployment; individual issues like separation of parents, demise of parents, more dependents in family and higher debt obligation. Similarly from banks' view point reasons for default could be: wrong choice of a borrower, insufficient monitoring of advances and disappointment in debt collection. Many of these reasons are internal to the lending institutions for which certain recovery strategies have been suggested in the approaching paragraphs.

#### **1.5 REMEDIAL MEASURES TO MINIMISE DEFAULT RISK**

Indian Bank's Association (IBA) has revised the Model Education Loan Scheme-2001 many times in order to improve it and make it more suitable both for students as well as the banks. IBA recommends that from the approval of loan application to providing individual counselling on loan repayment when students leave, academic institutions and banks together can take many suitable steps to help students avoid

default. Banks and academic institutions can also maintain contact with students after they leave campus, communicating with them about their loan repayment status. And sometimes, personal tactics, i.e., a reminder and an acknowledgement (of EMI received) in the form of short messages or email can be very effective in keeping students out of default. By adopting the above methods, banks will be in a position to track effectively the student on course completion if they remain in contact with the educational institutions. Academic institutions can also provide students' placement details in the initial years after course completion. In this context feedback can be obtained from the alumni associations of concerned colleges/universities. Banks may ask for Permanent Account Number (PAN) of students (if exists) for tracking in the future. The measures given below also include the significant recommendations made by IBA and other committees set up by GOI in this context from time to time:

- **Rating as an evaluation tool:** IBA's Revised Guidance Notes (2012)<sup>[1]</sup> on model education loan scheme states that banks can use the rating of the educational institution and students as a tool for targeting student borrowers and improving asset quality. A rating matrix can be created by taking into account academic institution's placement record and the average pay package offered to its passing out student. Similarly, rating of students could also be carried. Academic record and ranking in the entrance test would be the core points for rating. Further, student rating can be updated from time to time by adding the academic performance during the course year/years. Loans with a lower rate of interest can be offered to students with high ratings and also to those who are getting admission in reputed institutions.
- **Employment Scenario:** The banks are suggested to fix and update periodically the earning potential for various study courses. Similarly the proportion of student's annual income to be accounted for as repayment EMI must be fixed. A well laid assessment process will ensure that the choice to endorse an education loan is focused around sound business rationale, other than serving a noble social cause
- **Repayment:** Keeping in mind the end goal to motivate students to repay the credit out of their future income, repayment period can additionally be expanded to give them more noteworthy relief. The finance ministry has already instructed the banks to extend the repayment from 5-7 years to 10-15 years, depending upon the loan amount and the income of the borrowers

- **Follow Up/Monitoring:** Supervision of loans during the study period may be assigned to the branch dealing with the academic institution or the one located closer to it. The institute authorities could be requested to provide progress report after every semester/year.
- **Use of Technology:** The Banks might investigate the likelihood of sending instalment towards the fees to the establishments through electronic channels. Progress reports might additionally be accepted electronically wherever conceivable.
- **Education Credit Guarantee Fund:** These days scheduled commercial banks have become very cautious in their approach towards the EL requests of students. The increasing level of NPAs in the education loan segment of such banks is the reason behind it. Hence, the GOI should take necessary and immediate steps to set up an Education Credit Guarantee Funds in order to provide much desired relief to the sufferer banks. According to “The Hindu Business Line (2012)”<sup>[3]</sup> and “The Hindu (2012)”<sup>[4]</sup> banks are trusting that the government will announce a fund to guarantee education loans up to ₹7.5 lacs in the Union Budget. It will give a guarantee against default in repayment of credits stretched out by banks. When a bank gets the guaranteed sum from the fund, the borrower becomes a debt holder to the GOI. Notwithstanding, banks are supposed to closely monitor the borrower record, catch up for repayment of the loan, and share with the Government the recoveries made proportionally. As reported by various national newspapers, the Credit Guarantee Fund for Education Loan with a corpus of ₹5000 crore is proposed to be set up by the GOI in order to decrease default connected with ELs. If a student defaults, the fund will ensure that 75% of the loan amount is returned to the concerned bank. In this case, banks even do not require any security/collateral for loans up to ₹7.5 lacs. Banks need to pay 1% to the Fund towards administrative expenses. Along these lines, this fund will facilitate the process of containing NPA level.
- **Students seeking admission under management quota:** as per the IBA Guidance Note (2012), banks have been instructed to enforce stringent loan terms, if students are admitted in the academic institute under the management quota. Loan to such students would not fall under the purview of

model ELS. However, the banks may find it unreasonable on commercial grounds to deny service to such students. Hence, it is obviously better if banks fix suitable internal norms for such credit

- **Repayment Period:** perceiving that not all students secure well paying jobs on course completion, the repayment period has been increased to 10 years of credits up to ₹7.5 lacs and 15 years for advances above ₹7.5 lacs. The broadened repayment period is supposed to simplify the burden of EMIs of borrowers, particularly those who completed the course from private institutions/universities but are not able to secure well paying positions. Banks will be benefited from the expanded period. When the Once the load of high EMIs is taken off, defaults will descend, in this manner sparing banks from making provisioning.

## 1.6 CRUCIAL ISSUES ASSOCIATED WITH ELS

If India has to become a developed nation by 2020, increasing number of youth should go for higher and professional education. Keeping this in mind only, the Government of India has evolved friendly schemes to benefit the industrious and needy students. Some of the main issues associated with student loan scheme operating in India are given below:

- **Complex Process:** Getting an Education Loan is a difficult process for the students. A number of formalities need to be fulfilled in the initial stage. In case educational institute has not yet tied up with any of the bank offering education loan, the entire process becomes more complex. Beneficiaries reported that the process is rather more complex in case of public sector banks
- **No Mechanism to deal with Student Bankruptcy:** The biggest problem with the education loans in India is that there exists no sound mechanism to address to the issues relating to student bankruptcy. In the event of a borrower going bankrupt, his credit won't be pardoned. Later on it becomes the headache of the bank to either spend more on its recovery or ultimately bear the loss due to bad debt. While framing student loan scheme, IBA left this real issue unaddressed
- **Difficult to track students after they pass out:** Bank managers show reluctance while sanctioning fresh loans to students due to shortage of funds. This shortage is felt because of low repayments by students who have passed out and earning now. In certain cases, unemployment or even underemployment may be the reasons for nonpayment by students. Indeed, there could be repeated

change of occupations and place of employment and thus residence. This actually is a problem in case of loans extended for studies abroad. This further multiplies the problems of bankers

- **Lack of Focused Approach:** RBI entrusted the public sector units (PSUs) in Indian banking sector to achieve the social and financial goals of Model education loan scheme, 2001-02. Even the GOI has categorised ELs as a constituent of banks` priority sector lending programs. So public sector banks, especially, need to adopt a more focused approach towards education loan programs. Banks can have an exclusive branch or department to focus on education loans
- **No loan development bank:** There is no such centralised agency which can coordinate the student loan related efforts and activities of various banks in India. This reduces the efficiency of education loan scheme. The prime motto of such a bank should be to provide parents and their wards with the financial and informational resource for continuing higher education
- **Rising Defaults:** Education debt is turning into NPA for many public sector banks especially. In the under- ₹4 lacs category, loans are sanctioned without any collateral. It leads to sharp rise in default rates on such loans. Similarly, default rate also remains high in the case of education credit for studies abroad due to the large amount, long period of the loan and difficulty in student tracking
- **Seasonal demand of education loan:** Student finance is a seasonal business. Banks by and large get a large number of loan applications during the admission period. Consequently, loan approvals get delayed because of a shortage of time for processing. Sometimes the branch offices need to check with their respective head offices on education loan matters. This further delays the loan approval process.
- **Lack of customised offerings:** At present banks do not offer student loan products to suit to the specific requirements of the individual student borrowers. Loan products essentially remain the same for all students and courses irrespective of the type of course and the financial status of student borrowers. Sometimes, students do not get adequate amounts of loan from banks.
- **Non-standard products:** A lot difference is found in the tuition fees and other college charges across academic courses. Also such fees and charges keep on rising, making it difficult for the banks to standardise student loan products. Education institutes` accreditation and its validity, the validity



of the courses being run, employability of buddy graduates and rating of the course are some of the key issues faced by banks while approving student loans

- **Rising costs of loan recovery:** The number of wilful defaulters is increasing in the education loan segment of banks as reported by branch managers. Sometimes, Students do not take education loan seriously resulting in bad debts for banks. Banks have to take much pain in terms of additional efforts, time and costs for loan recovery
- **Low Recovery:** The loan recovery ratio has been low with banks either in the public or private sector. The banks feel paucity of funds for sanctioning fresh loans as old loans are being repaid at a rather slow rate. There is a dire need to improve efficiency of loan schemes, especially loan recovery so as to make funding more secure for the banks.
- **Lack of expertise:** Banks do not possess sufficient expertise in handling various issues and activities relating to student loan collection and recovery. Banks also lack efficiency in following up with the students on expiry of the moratorium period in order to collect interest payments or principal amount. The government can set up a central agency which will take care of various aspects related to student loan collection and recovery. Individual bank then can approach this agency for help.

The above discussed issues relating to education loans came across during discussions held with the bank managers, beneficiaries and the dealing staff of SLBC, Punjab. These issues affect the decision making processes of various parties to a lending and borrowing activity i.e. students, parents, banks, and the government. Hence, these issues need to be carefully addressed by all the concerned parties in the light of changed circumstances and varying HE needs.

### 1.7 MODIFYING PRESENT EDUCATION LOAN SCHEME (ELS)

Some suggestions came up during discussions with academicians, student borrowers, policy consultants and the bank officials. These recommendations can play a significant role in addressing the various issues associated with the student loan scheme operating in India:

- **Customised Education Loan Products:** Banks should innovate and provide education loan products to suit to the individual requirements of student borrowers. This will definitely add to the satisfaction level of students who are taking education loans



- **Separate Student Loan Cell:** Banks ought to have a different cell to manage student loan applications and information requests in order to take care of the seasonal demand of education loans effectively. Additionally, this different cell can better focus on potential borrowers and planning of innovative offerings for borrowers
- **Making loan procedure less cumbersome:** At present loan procedures adopted by the banks are very complex, requiring many formalities to be completed by the applicants. Hence, banks need to reduce the formalities and paperwork requirements relating to student loan approvals. Even if the process is complex, still students and parents can be counseled and helped by the dealing staff
- **Student loan development bank:** To give financial assistance at a reduced rate to the various banks that are extending education loans, there is an earnest need to set up a student loan development bank at national level. This bank ought to likewise assume responsibility of coordinating the lending efforts of all the banks offering education credit
- **Loan serving agency:** This agency will ensure hassle free education loans to the student borrowers. This agency should make efforts to reduce student loan defaults by maintaining better relationships with student borrowers and educational institutes. It should also be held responsible for designing innovative and customised products for potential loan seekers
- **Expertise in collecting and recovery mechanism:** There is no government loan agency which provides expertise to the lending institutions. Hence, both public and private sector banks in order to improve collections and recovery should come up with a distress alleviation measure to help students who do not get better paying jobs. The relaxation to such students can be given in the form of extending the moratorium period. Moreover the expert services can be taken from an independent agency which is better equipped to handle issues relating to the collection and recovery of the interest/loan amount from students in case banks experience wilful defaults
- **Proper advertisement of loan schemes for students:** There should be proper promotional activities in order to spread awareness about education loan schemes among students and their parents in semi-urban and rural areas. Banks can hold advertisement campaigns for the public on off days.

- **A system to track students after they graduate:** After passing out from educational institutes, students remain reluctant in repaying their education debt. The banks should have well developed systems to keep track record of students' residence, job placement, area or location of job, current pay package, etc. This would minimise default risk to some extent if not altogether.

## 1.8 SUMMARY

It is hard to say that the student loan scheme working in India is the perfect one. It is not flawless; some real issues connected with current student loan scheme need to be dealt in sincerely and quickly in order to render maximum service to the student borrowers and the parents. This will help in further generation of a better qualified class of professionals to serve the nation in its best interest by effectively serving the country with their learned professional knowledge and skills, at the same time ensuring proper and timely loan repayments to the banking system. Hence, this class of professional is expected to contribute effectively to the social and economic welfare of the nation thereby taking it to new heights in terms of economic growth.

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