



# A STUDY ON THE BORROWERS PERCEPTION OF EDUCATION LOAN WITH SPECIAL REFERENCE TO MADURAI DISTRICT

## AUTHORS

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## ABSTRACT

Education loans form a part of the priority sector advances of the Public Sector Banks (PSB) and most of the educational loans are taken for pursuing higher education courses. In the knowledge era, higher education has gained significance all across the world. Like other developing nations, India also faced financial crunch in the early nineties and higher education suffered in terms of allocations. And in the pursuit of raising access ratio in higher education, private institutions entered the field and there has been steep rise in user charges in most-sought-after professional courses like engineering and management in India in the post-reforms period. In the light of the facts that scholarships going to higher education have declined, in real terms, and it is a vehicle of upward mobility, the education loan scheme comes in to focus in order to raise access ratio in higher education. In 2001 the Indian Banks Association has come up with a model frame work for educational loans in the country. With the approval of the Central Government the public sector banks in India started to give education loans. The private and cooperative banks also joined the fray. Due to growing NPAs and the intervention of the Government these norms were modified in 2011. The budget allocation for the primary and higher secondary education is on the increase in India. However, higher education has been of late relegated or left to the mercy of the private players. There has been a steady growth of educational loans disbursed, private colleges and deemed universities started and enrolments of students in higher education during the years 2001 to 2011.

**Key words:** Education loan, banking service and college students

## 1. INTRODUCTION

The right to education has been recognized as a human right in a number of international conventions, including the International Covenant on Economic, Social and Cultural Rights. It recognizes a right to free and compulsory primary education for all, an obligation to develop secondary education accessible to all, in particular by the progressive introduction of free secondary education, as well as an obligation to develop equitable access to higher education, ideally by the progressive introduction of free higher education. The importance of education is underlined in each and every discussion on economic development. A pre-condition to achieve sustainable economic growth is education.

Education loan of banks and financial institutions is a special purpose loan available to cover the entire expense of any kind of higher degrees or specialized courses. In India educational loans of bank include the fee payable to the college or hostel. It also permits loans to exam fees, lab fees, library fee, caution deposits and institutions refundable deposit. It extends loans for building fund aided with institutional bills, purchase receipt of books, equipment's, uniforms and instruments. Abroad studies travel expenditure; procurement of computer and other essential expense for completion of project work and thesis are also included<sup>1</sup>.

## 2. STATEMENT OF THE PROBLEM

The study was carried out for the sustainability of education loan scheme as visualized by the government, the nature of education loan scheme of commercial banks in terms of its structure, growth and performance, the borrowers evaluate the education loan in terms of awareness, eligibility, adequacy, affordability and acceptability, the problems encountered by the education loan borrowers, the borrowers satisfied with the prevailing education loan scheme of commercial banks, the problems faced by the managers of commercial banks in relation to education loan scheme and the managers of commercial banks satisfied with the prevailing education loan scheme of commercial banks.

## 3. NEED OF THE STUDY

Education loan scheme offered by commercial banks in Madurai district are subject to severe criticism from different corners especially from the borrower's side. Though it was conceived as a boon to the education sector, it turned out to be bane to ordinary students who availed education loan and also for banks in the form of mounting NPA. The different stakeholders tried to figure out what happened to this education loan scheme in Madurai district so that suitable corrective measures can be taken. A detailed study of education loan scheme and the perception of borrowers towards it may bring out the real issues that confronting this sector thereby bringing relief to both borrowers and banks. Therefore the present study assumes significance of need in the study area (Madurai District).

<sup>1</sup> Ghosh, M.H. (2008). *Educational loans getting lot easier*, Times News Network, [www.timesofindia.com](http://www.timesofindia.com).

#### 4. SCOPE OF THE STUDY

The scope of the study is limited to education loan scheme of major commercial banks operating in Madurai district. The theoretical scope of the study is limited to the evaluation of education loan scheme of major commercial banks from the perspective of borrowers and managers only. The evaluation from the borrower's perspective covers awareness, eligibility, adequacy, affordability and acceptability of education loan scheme, problems encountered by them and their level of satisfaction. The manager's perspective covers the problems faced by them and their level of satisfaction. The scope of the study is extended to borrowers, bankers, academicians, researchers, policy makers and government which means, this study would benefit the borrowers and bankers within banking sector providing Education loan in understanding borrower's perception and how they can effectively adopt and implement to improve borrowers need. To the academicians and researchers, the finding would contribute to professional extension of existing knowledge on education loan schemes available. The study would provide useful basis upon which further research on education loan and borrower's perception can be undertaken. For the policy makers and government, the findings and recommendations of the study will serve as empirical information.

#### 5. OBJECTIVES OF THE STUDY

1. To examine the nature of education loan scheme provided by commercial banks.
2. To evaluate the education loan scheme of commercial banks in Madurai district in terms of its awareness, eligibility, adequacy, affordability and acceptability from the perspective of the borrowers.
3. To analysis the awareness level of borrowers towards education loans schemes of commercial banks in the study area.
4. To determine the opinion towards education loan by borrowers in the study area
5. To analysis the perception of borrowers towards education loan in the study area
6. To assess the level of satisfaction of the borrowers as regards the prevailing education loan scheme of commercial banks in the study area.
7. To find out the problems encountered by the borrowers in relation to education loan scheme in the study area.
8. To analyze the terms of its structure, growth, preference and performance.

## 6. METHODOLOGY

Selection of the Sample	✓ Banking sector in Madurai district
Sampling method	✓ Stratified Random sampling method ✓ Census method
Formation of the Questions	✓ Interview schedule
Collection of Data	✓ Primary: Respondents ✓ Secondary: DIC Madurai – Hand Book, Lead Bank Manager, Canara Bank, Madurai
Consolidation of Data	✓ Master table – Ms-Excel ✓ Variable view - SPSS
Analysis of Data	<ul style="list-style-type: none"> <li>▪ Simple percentage</li> <li>▪ Reliability</li> <li>▪ Weighted average score(WAS)</li> <li>▪ Simple ranking</li> <li>▪ Chi-square</li> <li>▪ ANOVA</li> <li>▪ Correlation</li> <li>▪ Regression</li> <li>▪ Factor analysis</li> </ul>

## 7. FRAMED HYPOTHESIS

H<sub>1</sub>: There is no significant relationship between Personal profile and Reason for poor repayment of loan.

H<sub>2</sub>: There is no significant relationship between Course profile and Create awareness among borrowers on loan.

H<sub>3</sub>: There is no significant relationship between Bank profile and Level of borrower's satisfaction.

H<sub>4</sub>: There is no significant relationship between Information on availability of Education loan and Opinion towards Education loan.

H<sub>5</sub>: There is no significant relationship between Issues associated to loan schemes and Reason for rejecting of loan.

H<sub>6</sub>: There is no significant relationship between Student's awareness (Sanctioning loan) and Problems (Pre-loan sanction period).

H<sub>7</sub>: There is no significant relationship between Student's awareness (Sanctioning loan) Problems and (Post-loan sanction period).

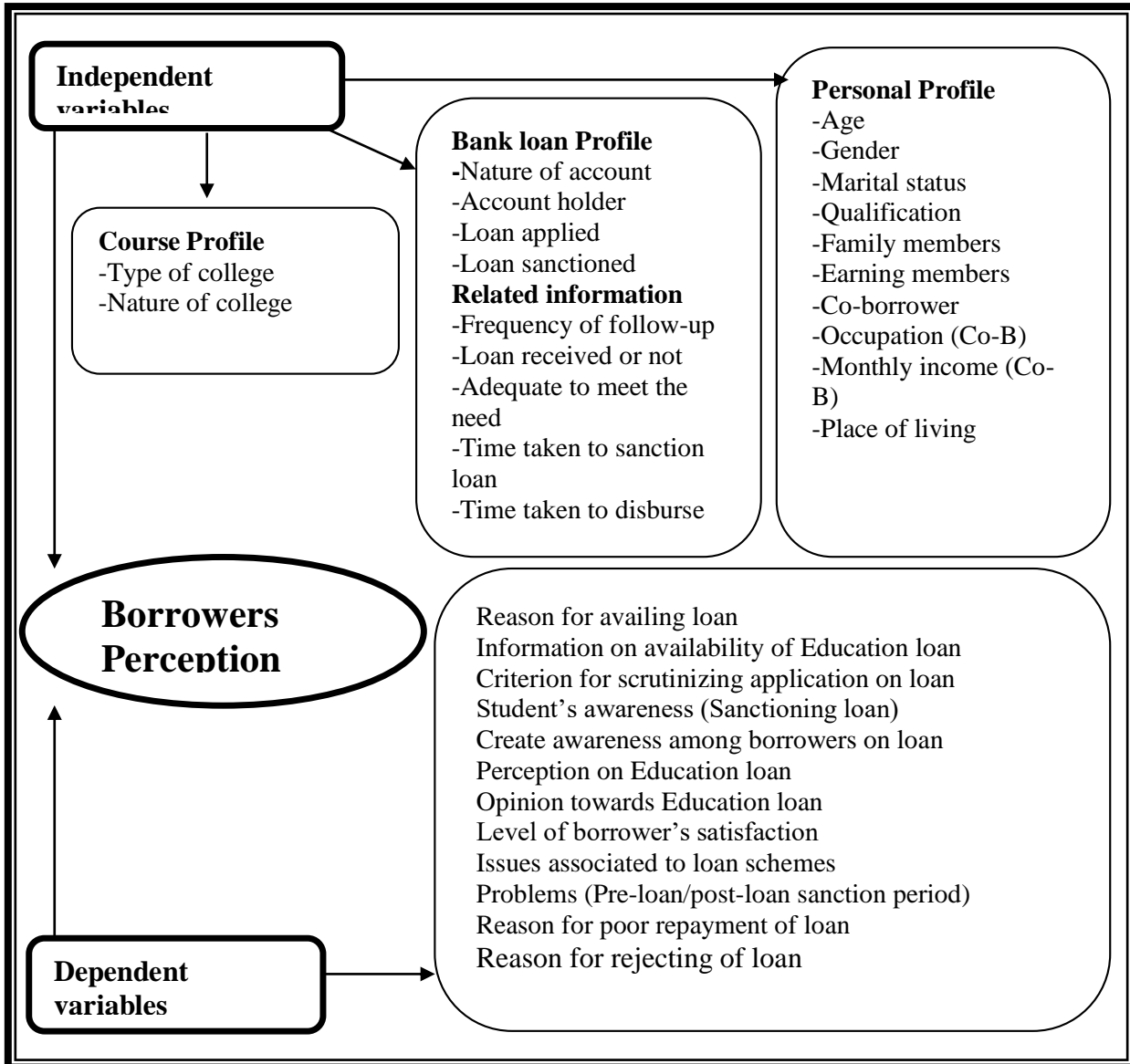
## 8. LIMITATIONS OF THE STUDY

In education sector the study is limited to Higher education (Tertiary Education) only.

The study is limited only to banking sector and that all other financial sectors like NBFC's banking sector are ignored and not taken for the study.

Borrower's perception is in itself a complex topic; therefore, there may be certain mistakes in the assumptions made.

## 9. FRAMEWORK OF THE STUDY



## 10. ANALYSIS AND FINDINGS OF THE STUDY

**Table 1**  
Distribution on overall result of Profile of respondents (Majority only)

Sl. no	Particulars	Variable	No. of respondents	Percentage
<b>Personal Profile</b>				
1	Age	18-19 years	213	44
2	Gender	Female	330	68
3	Marital status	Unmarried	427	88
4	Educational qualification	Bachelor Degree	286	59
5	Number of family members	More than 5 members	163	33
6	Number of Earning members	Two	243	50
7	Co-borrower of respondent	Father	300	62
8	Occupation of Co-borrower	Agriculture	359	74
9	Monthly income of Co-borrower	Less than 3000	209	43
10	Place of living	Rural	247	51

Source: Primary Data

**Table 2**  
**Distribution on overall result of Profile of course & Bank loan (Majority only)**

Sl.no	Particulars	Variable	No. of respondents	Percentage
<b>Course Profile</b>				
1	Type of College	Teacher training	225	34
2	Nature of College	Self-financed	247	51
<b>Bank loan profile</b>				
1	Nature of Account	Saving deposit	189	39
2	Account holder in bank	4-5 years	179	37
3	Amount of loan applied	1,50,001-3,00,000	218	45
4	Amount of loan sanctioned	60,001-1,50,001	160	33

Source: Primary Data

**Table 3**  
**Reliability Statistics**

Sl.no	Particulars	Cronbach's Alpha Based on Standardized Items	No. of Items
1	Reason for availing loan	0.767	4
2	Information on availability of Education loan	0.783	10
3	Criterion for scrutinizing application on loan	0.767	8
4	Student's awareness (Sanctioning loan)	0.779	19
5	Create awareness among borrowers on loan	0.799	9
6	Perception on Education loan	0.802	10
7	Opinion towards Education loan	0.770	10
8	Level of borrower's satisfaction	0.823	16
9	Issues associated to loan schemes	0.774	13
10	Problems	0.899	9
	Pre-loan sanction period		6
	post-loan sanction period		6
11	Reason for poor repayment of loan	0.823	12
12	Reason for rejecting of loan	0.777	9

**Table 4**  
**Overall result related information (majority)**

Sl.no	Particulars	Variable	No. of respondents	Percentage
1	Frequency of follow-up	Not at all	204	42
2	Time of sanctioning the loan	2-3 months	276	57
3	Time of disburse of the loan	More than 4 mts	301	62
4	Applied loan amount received or not	Yes	485	100
5	Adequate to meet expenditure	No	403	83

Source: Primary Data

**Table 5**  
**Distribution on overall result of Chi-square @ 5% level of significance**

Sl.no	Independent variables	Dependent variables	Sig value	Chi-square value	d.f	Result
<b>Personal Profile</b>						
1.	Age	Students (borrowers) perception on education loan	.035	40.113	27	Significant
	Gender		.003	16.919	9	Significant
	Marital status		.000	16.919	9	Significant
	Educational qualification		.000	50.998	36	Significant
	Number of family members		.000	28.869	18	Significant
	Earning members of the family		.000	28.869	18	Significant
	Co-Borrowers		.000	50.998	36	Significant
	Occupational status of Co-borrowers		.003	40.113	27	Significant
	Monthly income of Co-Borrowers		.002	40.113	27	Significant
	Place of living		.004	16.919	9	Significant
	<b>Course Profile</b>					
2.	Type of college	Reason for availing loan	.005	21.026	12	Significant
	Nature of college		.001	12.592	6	Significant
<b>Bank Profile</b>						
3.	Nature of account	Students awareness towards education loan	.004	79.490	54	Significant
	Account holder		.000	79.490	54	Significant
	Loan applied		.003	100.425	72	Significant
	Loan sanctioned		.001	100.425	72	Significant

Source: Computed Data

**Table 6**  
**Distribution on Overall result of ANOVA test [ @ 5% level of significance]**

Sl.no	Dependent	Independent	P-Value	Result
1	Reason for poor repayment of loan	Age	0.003	<b>Associated</b>
		Marital Status	0.000	
		Gender	0.001	
		Education Qualification	0.003	
		Number of family members	0.003	
		Earning members	0.001	
		Co-borrowers	0.002	
		Occupational status of Co-borrowers	0.003	
		Monthly income of Co-borrowers	0.002	
		Place of living	0.002	
2	Create Awareness among Borrowers	Type of the college	0.005	<b>Associated</b>
		Nature of college	0.003	
3	Create Awareness among Borrowers	Nature of account	0.002	<b>Associated</b>
		Account holder	0.001	
		Amount of loan applied	0.003	
		Amount of loan sanctioned	0.003	
	<b>Dependent</b>	<b>Dependent</b>		
1	Information on availability of education loan	Opinion towards education loan	P-value < 0.05	<b>Associated</b>
2	Issues associated to loan schemes	Reason for rejecting loan		
3	Students awareness (sanctioning loan)	Problem (Pre-loan)		
4	Students awareness (sanctioning loan)	Problem (Post-loan)		

Source: Computed Data

**Table 7**  
**Distribution on Overall result of Correlation test [ @ 5% level of significance]**

Sl.no	Dependent	Variables	P-Value	Result
1	Frequency of follow up	Student awareness	0.005	<b>Positively correlated</b>
		Create awareness	0.003	
		Student awareness	Create awareness	
2	Information on availability of education loan	Perception	0.003	<b>Positively correlated</b>
		Opinion	0.001	
		Perception	Opinion	
3	Criterion for scrutinizing application on loan	Issues associated	0.004	<b>Positively correlated</b>
		Problems on sanction period	0.005	
		Issues	Problems	

Source: Computed Data

**Table 8**  
**Distribution on Overall result of Regression**

Sl.no	Particulars	R <sup>2</sup>	t (constant)	Result
1	Frequency of follow up	.067	12.767	<b>Positively associated</b>
2	Adequate to meet the need	.071	10.268	<b>Positively associated</b>
3	Time taken to sanction the loan	.021	12.325	<b>Positively associated</b>

Source: Computed data



**Table 9**  
**Distribution on overall result of factor analysis**

Sl.no	Particulars	Result	
<b>Correlation Matrix</b>			
1	Information about the availability of education loan	Strongly associated	
2	Criteria for scrutinizing application on education loan	Strongly associated	
3	Create awareness on education loan	Strongly associated	
4	Borrowers perception	Strongly associated	
5	Borrowers opinion	Strongly associated	
6	Problems pre-loan	Strongly associated	
7	Problems post loan	Strongly associated	
8	Reason for rejecting loan applications	Strongly associated	
<b>Component Matrix</b>			
	Particulars	$h^2$	Result
9	Students awareness: Factors 4	0.946	Positively loaded
10	Borrowers satisfaction : Factors 3	0.941	Positively loaded

**Source: Computed Data**

## 11. SUGGESTIONS

1. Terms of collateral security vary for individuals. It can be less than 100 percent for cases known to bank staff and can be 100 percent in case of no acquaintances.
2. In cases of meritorious students from very poor background, as bankers said, the conditions can be relaxed if people from their neighborhood can give guarantee and convince the staff.
3. Collateral security can be provided in the form of liquid assets, Policies of Life Insurance Corporation, Kisan Vikas Patra, National Saving Certificate for the loan amount or amount less than it, as decided at the time of finalisation of loan.
4. As per the guidelines of the scheme, the loan is to be carried forward and next installment is to be given only after the progress report from the institution reaches the bank. But the reality deviates from the requirement mentioned in the scheme. The candidate himself intimates the bank about his/ her result of the professional year. These observations were vindicated by the observations of the concerned officials of the banks and the officials of the professional institutions.
5. Unlike National Loan Scholarship Scheme (1964-1991) there was no link between the professional institution and the bank under this new scheme; and the academic performance and loan disbursement were noticed not to be related at all.
6. The experience of the bankers regarding loans advanced for foreign education is that many people used it as a mode of going abroad and settling there permanently. After reaching the country of destination, they preferred premature adjustment of loan sometimes after only a few months. It points towards the rich people making misuse of the scheme. This loophole needs to be plugged.
7. The banks were found to be happy with their performance, as far as repayment of loans was concerned. The main reason behind it was that the loan was provided only after the financial status of family was confirmed and the repayment of loan was assured.
8. Students of self-financing college have got the highest benefit when compared to the students of Government and Aided colleges. Hence it is suggested that it is necessary for creating awareness and providing services about Educational Loan for Aided and Government college students.

9. The students studying in the professional colleges avail the highest amount of the Educational Loan.

Therefore, the bank should make some new initiatives for providing loans for the other courses.

10. The banker should maintain their service, dealing with their customer and period for loan repayment.

## 12. CONCLUSION

Banks are now trying to push their educational loan products with insurance cover to make them more attractive for the customers and safer for themselves. A majority of the educational loans with the Andhra Bank now carries insurance. The Bank has a tie up with life Insurance Corporation for the purpose. In case of any tragedy, the loan repayment will be taken care of by the insurer. Similarly, a Working Group set up by the Indian Bank Association (IBA) has come up with alternative suggestion to minimize defaults on education loans, to make it mandatory for parents and guardians of the students borrowing loans, to be co-borrowers thereby making them liable for repayment; disbursing loans from branches situated close to the permanent residence of the student-borrower; setting up of Rs. 250 crore Credit Guarantee Fund on the lines of the Credit Guarantee Trust Scheme for small scale industries to provide cushion to banks on loan defaults. The one half of the corpus may be funded by the Central Government while the other half could be shared by the banks and the borrower. The study concludes that presently, the scheme caters to only those who have the repayment capacity. The terms of collateral security are quite stringent and need to be made flexible and people friendly. The Government of India needs to collaborate with the Indian Banking Association and other such agencies to create a fund for helping the needy and the meritorious in terms of softer loans. In the times of inclusive banking, the proposed reforms in the educational loan scheme run by commercial banks of India become even more relevant.

## 13. AGENDA FOR FUTURE RESEARCH

- Distribution of educational loans across income groups in India.
- Comparative study of Educational loans in other developing and developed countries.
- Educational Loans in Total Loan Advances and Priority sector advances.

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