

## CREDIT PERFORMANCE OF THE PRIVATE AND PUBLIC SECTOR BANKS TOWARDS THE EDUCATIONAL LOAN – A COMPARATIVE STUDY

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### ABSTRACT

Educational loan form a part of the priority sector advances offered by the commercial banks and most of the educational loans are taken for pursuing higher educational courses in India and abroad. In the present scenario the higher education has gained significance all across the world. The India also faced financial crisis in the early nineties and higher education suffered in terms of allocations of credit for this sector. The pursuit and access ratio of higher education is huge, in this regard the private institutions entered the field and there has been steep rise in user charges in most sought of the 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 fruitful one for upward the higher education to the below poverty line students, the educational loan scheme comes in to focus in order to raise access ratio in higher education. This paper is a humble attempt to review its performance of allocation of credit to higher education during the period 2002-03 to 2011-2012 in India.

**KEYWORDS:** Educational Loans, Priority Loan Advances, Public Sector, Private Sector

### INTRODUCTION

The prime objectives of government policy since the nationalization of fourteen commercial banks in 1969 and that of six commercial banks in the year in 1980 was to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit. The sectors that were initially identified for this purpose were agriculture, small industry and self-employment and so on. These sectors were to be accorded priority status in credit allocation by the banks. The commercial banks were advised to grant at least 40 percent of their total advances to the priority sector comprising of agriculture, small scale industries, small road and transport operators, retail trade, small business, professional and self employed persons, educational and the like. Under the priority sector advances, Educational loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions.

Making educational loans accessible to a wide section of students has been one of the priority areas of the government of India. The present day around 18 lakh students all over India are enjoying benefits of educational loans and advances the worth Rs. 16000 crore have been disbursed to the needy students. 40 percent of total advances of the commercial banks are advanced to the priority sectors like agricultural loans, small scale industry, and self employed persons and so on. The educational loans also form a part of these priority sector advances of the commercial banks, as higher education has gained significance all across the world in the present era and in these times of globalisation. In India the access ratio of higher education is merely 12 percent against the world average of 23 percent.

## **STATEMENT OF THE PROBLEM**

The Government of India introduced Educational Loan Scheme through the commercial banks (Private and public sector banks) in India for the purpose of developing higher education. The early 2000, the banking sectors educational loan portfolio has been growing at a robust rate of 40 percent per year. Faced with a bulging middle class and large section of population living below poverty line, the scheme needs to be softer. The Ministry of Human Resource Development (MHRD) is working out to provide education loans to the needy with annual family income below 2.5 lakh at a subsidized rate of interest of four percent (current rate being around 12 percent). And the Government of India would act as the guarantor for the loan and so there would be no need for any collateral. Hence, this paper made an attempt to highlight the performance and growth of educational loan by the schedule commercial banks in India during the year 2002 to 2012.

## **OBJECTIVES OF THE STUDY**

This paper would be undertaken with the following objectives.

- To evaluate the educational loans offered by the public sector banks in India.
- To analyze the educational loans offered by the private sector banks in India.
- To compare the educational loans offered by both the private and public banks in India.

## **SCOPE OF THE STUDY**

This study examines the performance of credit disbursement towards educational loan by the commercial banks in India. The study covered the eligibility of students and course, lending performance, trends and growth of the private and public sector banks in India. Hence the study is undertaken to analysis the performance of educational loans of public and private sector banks in India.

## **RESEARCH METHODOLOGY OF THE STUDY**

The present study comprises only secondary data and would be collected from the annual accounts, reports on trends and progress of banking in India, reports of state level bankers committee, IBA bulletin, political and economic weekly and form RBI bulletin of the private and public sector banks in India.

## **EDUCATIONAL LOAN SCHEME OF THE SCBs IN INDIA: GROWTH AND PERFORMANCE**

Educational Loan Scheme is being run by the Public Sector Banks of India from 2001 onwards under different names likewise the Bank of Baroda has named the scheme for educational with in India as Baroda Vidya and for educational from abroad as Baroda Scholar. The Punjab National Bank has two schemes namely, Vidya Lakshya Purti, and Sarvottam Shiksha. The latter scheme provides loans at concessional rate of interest (less than BPLR) for specified educational institutions. Another scheme runs by the State Bank of India under the name of Gyan Jyoti Scheme. Educational loans extended by public sector banks are a hit with the student community and have been witnessing steady increase ever since the scheme was introduced in the year 2001 onwards. Over the years the ratio of education loans as a percentage of Public sector banks' total advances has shown an improvement from 0.64 percent in the year 2003 and 1.80 percent in the year 2012, almost doubled. The loan is mostly taken for higher studies. The performance of Public Sector Banks under Educational Loan Scheme of Indian Banks' Association (IBA) shows continuous growth in educational loans, in terms of amount, as well as, number of accounts. Moreover, educational loans still remain largely in

the domain of public sector banks, as they offer better terms than the private banks. The educational loans are now popular across all segments of society and are extended to only those students who have confirmed admission.

## **ELIGIBILITY CRITERIA FOR AVAIL EDUCATIONAL LOAN UNDER SCHEMES COURSE ELIGIBILITY: A. STUDIES IN INDIA AND ABROAD**

- School education including plus 2 stages.
- **Graduation Courses:** BA, B.Com., B. Sc and the like
- **Post-Graduation Courses:** Masters degrees, M. Phil, and Ph.D.
- Professional courses: Engineering, Medical, Agriculture, Veterinary, Law, Dental, Management, Computer and the like.
- Computer certificate courses of reputed institutes accredited to Dept. of Electronics or institutes affiliated to university. Courses like ICWA, CA, CFA and other institute.
- Courses conducted by IIM, IIT, IISc, XLRI, NIFT and so on.
- Courses offered in India by reputed foreign universities. Evening courses of approved Institutes.
- Other courses leading to diploma/ degree etc. conducted by colleges/ universities approved by UGC/ Govt. AICTE/AIBMS/ICMR and the like.
- Courses offered by National Institutes and other reputed private institutions. Banks may have the system of appraising other institution courses depending on future prospects/ recognition by user institutions.
- **Graduation:** For job oriented professional/ technical courses offered by reputed universities.
- **Post-Graduation:** MCA, MBA, MS, and other courses.
- Courses conducted by CIMA-London, CPA in USA and other countries.

### **Student Eligibility**

- Should be an Indian National
- Secured admission to professional, technical courses through Entrance Test/ Selection process.
- Secured admission to foreign university, institutions.
- Should have scored minimum 60 percent (50percent for SC/STs) in the qualifying examination for admission to graduation courses.

### **Expenses Considered for Loan**

- Fee payable to college, school, hostel.
- Examination, Library, Laboratory fee.
- Purchase of books, equipment's, instruments, and uniforms.
- Caution deposit, building fund, refundable deposit supported by Institution bills, receipts.
- Travel expenses, passage money for studies abroad.

- Purchase of computers - essential for completion of the course.
- Any other expense required to complete the course - like study tours, project work, thesis work and so on.

### **Margin**

- Upto Rs.2 lakhs there is no margin, above Rs. 2 lakhs, if student studied in India there is 15 percent of margin and student studies in abroad there is 25 percent.
- The margin may be brought in on year- to- year basis as and when disbursements are made on a pro- rata basis.

### **Security**

Upto Rs.2 lakhs there is no security, and above Rs.2 lakhs there must be submit collateral security equal to 100 percent of the loan amount or guarantee of third person known to bank for 100 percent of the loan amount. The document should be executed by the student and the parent or guardian.

The security can be in the form of like as land, building, Govt. Securities, Public Sector Bonds, Units of UTI, NSC, KVP, LIC policy, gold, shares, debentures, bank deposit in the name of student, parent, guardian or any other third party with suitable margin. In case the loan is given for purchase of computer the same is to be hypothecated to the Bank. Banks who wish to support highly meritorious deserving students without security may delegate such powers to a fairly higher level authority.

### **Rate of Interest**

As per the RBI regulation upto Rs.2 lakhs they consider the Prime Lending Rate (PLR) and above Rs.2 lakhs on the basis of PLR plus one percent. The interest to be debited quarterly and half yearly on simple interest basis during the repayment holiday and penal interest of two percent the charged for above Rs.2 lakhs for the overdue amount and overdue period.

### **Sanction/Disbursement**

- The loan to be sanctioned as per delegation of powers preferably by the branch nearest to the place of residence.
- Educational loan application is should not rejected without the concurrence of the next higher authority of the banks.
- The loan to be disbursed in stages as per the requirement of the institutions, vendors of books, equipments, instruments to the extent possible.

### **Repayment**

The course period of one year or six months after getting job, the loan to be repaid in five to seven years after commencement of repayment, if the student is not able to complete the course within the scheduled time extension of time for completion of course may be permitted for a maximum period of two years. If the student is not able to complete the course for reasons beyond his control, sanctioning authority may at his discretion consider such extensions as may be deemed necessary to complete the course such as.

- The accrued interest during the repayment holiday period to be added to the principal and repayment in Equated Monthly Instalments (EMI) fixed.

- One to two percent of interest concession may be provided for loans if the interest is serviced during the study period when repayment holiday is specified for interest/ repayment under the scheme.

### Other Conditions

No due certificate need not be insisted upon as a pre-condition for considering educational loan, the banks may obtain a declaration/ an affidavit confirming that no loans are availed from other banks.

Loan applications have to be disposed of within a period of 15 days to one month, but not exceeding the time norms stipulated for disposing of loan applications under priority sector lending. In order to bring flexibility in terms like eligibility, margin, security norms, banks may consider relaxation in the norms on a case to case basis delegating the powers to a fairly higher lever authority.

### Educational Loan by the Commercial Banks in India

The better educational only creates a better world. so government has decided that encourage banks to lend more financial support to the poor and who are the below poverty line students, in this regard the banks were offered educational loans up to Rs.7.50 lakh per student for studies in India and Rs.15 lakh for studies abroad, respectively. Table 1 shows that performance of the commercial banks.

**Table 1: Credit Disbursement by SCBs to Educational Loan (Amount in Crore)**

Years	Amount	Percentage
2002-03	29867	-
2003-04	43714	46.36
2004-05	66738	52.66
2005-06	111846	67.58
2006-07	143897	28.65
2007-08	203535	41.44
2008-09	277094	36.14
2009-10	363597	31.21
2010-11	429962	18.25
2011-12	484155	12.60

**Source:** Address by Dr. K. C. Chakrabarty, Deputy Governor, RBI at the Yes Bank–GIZ–UNEP Sustainability Series event on Environment and Social Risk Management, on April 23, 2013 at Mumbai

It is evident from Table 1 elucidates that performance of the commercial banks which extend their support to the development of higher education. In the year 2005-06 was contributed by the banks is 67.58 percent to the educational developments followed by 52.66 percent were offered in the year 2004 – 05. Remaining years from 2002 to 2012 the credit disbursement was increased of Rs 29867 crore to Rs.484155crore made by the commercial banks.

It is concluded that the lending performance of scheduled commercial banks were increased every year during the period.

### ADVANCES DISBURSEMENT BY THE PUBLIC SECTOR BANKS

In Indian pupil concern most of them fail to pursue higher education due to poor financial condition in their family background. The government of India takes decision policy towards give better education to the financially poor students. In this regard the education loans also bringing under the head of priority sector loans and advances in order to avoid unequal distribution of credit. Table 2 elucidates that lending performance of public sector banks.

**Table 2: Advances Disbursement by the Public Sector Banks (Amount in Million)**

Years	Amount	Percentage
2002-03	28703	-
2003-04	41795	45.61
2004-05	63978	53.07
2005-06	108038	68.86
2006-07	140120	29.69
2007-08	198442	41.62
2008-09	269127	35.61
2009-10	352921	31.13
2010-11	413438	17.14
2011-12	467405	13.05

**Source:** Ibid

Table 2 shows that the lending performance of public sector banks (nationalized and SBI associates banks). In the year 2005 – 06 were increased the lending performance (68.86 percent) by the banks. During the study period in the year 2011 – 12, the banks were restricted their lending performance (13.05 percent) compare with previous year. The amount of credit disbursement were made by banks was increased gradually of Rs.28703 crore to Rs. 467405 crore during the year 2002-03 to 2011-12.

It is concluded that the public sector banks were offered credit continuously to educational sector, but their offering minimum level lending for avoiding nonperforming assets in the banks.

### **ADVANCES DISBURSEMENT BY THE PRIVATE SECTOR BANKS**

The private sector banks also provide educational loan to the pupil who is financially backward. The banks provide a better platform to pursuing higher education in India and abroad. Table 3 shows that the credit disbursement by the private sector banks towards the development of higher education in India.

**Table 3: Advances Disbursement by the Private Sector Banks (Amount in Crore)**

Years	Amount	Percentage
2002-03	1164	-
2003-04	1919	64.86
2004-05	2760	43.82
2005-06	3808	37.97
2006-07	3777	0.81
2007-08	5093	34.84
2008-09	7967	56.43
2009-10	10676	34.00
2010-11	16524	54.77
2011-12	16750	1.36

**Source:** Ibid.

It is inferred that the lending performance of the private sector banks is gradually increased of Rs.1164 crore in 2002-03 to Rs.16750 crore in 2011-12 during the study period. Among the study period 2003–04 was increased the lending performance (64.86 percent) by the banks. During the year 2011 – 12, the banks were shows the decreasing trend of their lending performance (1.36 percent) compare with previous year.

Hence it is concluded that the private sector banks were offered credit to education sector, but their lending performance were some ups and downs during the analysis period.

## CREDIT DISBURSEMENT OF PUBLIC AND PRIVATE SECTOR BANKS

As per the policy framed by the RBI and Government of India the commercial banks need to achieve the 40 percent target under the head of priority sector advances. Among the priority sector, the educational loan is most vital one. Hence the banks need to make an equal distribution to all segments under priority sector. Table 4 elucidates that credit disbursement of public and private sector banks in India.

**Table 4: Credit Disbursement of Public and Private Sector Banks in India (Amount in Million)**

Years	Public	%	Private	%	Total	%
2002-03	28703	96.10	1164	3.90	29867	100
2003-04	41795	95.61	1919	4.39	43714	100
2004-05	63978	95.86	2760	4.14	66738	100
2005-06	108038	96.60	3808	3.40	111846	100
2006-07	140120	97.37	3777	2.63	143897	100
2007-08	198442	97.50	5093	2.50	203535	100
2008-09	269127	97.12	7967	2.88	277094	100
2009-10	352921	97.06	10676	2.94	363597	100
2010-11	413438	96.15	16524	3.85	429962	100
2011-12	467405	96.54	16750	3.46	484155	100

Source: Ibid

It is evident from Table 4 that the amount of lending performance of the commercial banks (Public and Private sector). Comparatively the public sector banks lent more number of educational loan rather than private sector banks. In the year 2007 – 08 were increased the lending performance (97.50 percent) by the public sector banks. The amount of credit disbursement of private sector is gradually increased Rs 1164 crore in 2002-03 to Rs.16750 crore in 2011-12.

As per the analysis it is concluded that the lending performance of public sector banks was huge rather than the private banks, because their restricted lending performance for avoiding nonperforming assets in the banks.

## FINDINGS OF THE STUDY

The findings are presented below

- The lending performances of all scheduled commercial banks were significantly increased every year during the period.
- The public sector banks were offered credit to educational sector, but their restricted lending performance for avoiding nonperforming assets in the banks.
- The private sector banks were offered credit to educational sector, but their lending performance were some ups and downs during the study period.
- The lending performance of public sector banks was huge rather than the private banks, because their restricted lending performance for avoiding nonperforming assets in the banks.

## SUGGESTIONS OF THE STUDY

- The bankers should create awareness about educational loan and financial literacy to the students as well as the parents.
- The bankers should be friendly and loyal to the educational loan holders.
- There is a poor response of providing services by the bank employees which should be avoided.

- The banks should provide loan without any delay to the students.
- The private sector banks should improve their credit disbursement to educational segments.

## CONCLUSIONS

The service industry has always been a vital component of all economic growth. Banking sector is not an exception too. The bank cannot sell services to the customers but they can provide effective services to the students as well as general public. Hence through the bank credit more number of students will be benefited. The same thing will be continued sure the India will become an educated world.

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