

# A Study on Recital of Education Loan Lent by Banks in Tamilnadu

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## ABSTRACT

Education is central to the Human capitals improvement and empowerment in any country. The success of any nation depends on the skill and competence of its human resources. With nearly 30 per cent of India's population are young, educational industry in India provides great growth opportunity and scope for higher education has widened. In India, It has one of the largest pools of talent with excellent educational background, qualifying them for numerous higher educational programs in India. The cost of education is rising. With the increasing cost of higher education, the students who want to satisfy their higher education dreams For achieving their objectives, they are ready to stretch beyond their capacities and means. When their personal financial resources do not provide them with sufficient support, they go for external finance. This is where the role of financial institutions assumes great importance. In India, though finance of education is provided by the Government, commercial banks and other private institutions. Education loan supported through bank could prove to be the best unconventional channel for funding higher education. The banks play a predominant role in financing the education loan in India and in the state. With the high cost of education and the need of education loan, it is necessary to evaluate the bank-wise performance of public sector banks providing education loan in Tamil Nadu. The bank-wise distribution of education loan were analyzed by collecting secondary data for a period of five years (2013-2017) from the various annual reports of State Level Banker's committee and various banks. The percentage analysis of setting out of bank wise education loan had resulted that, public sector banks had contributed more in the disbursement of education loan in the state of Tamil Nadu. Though private sector and regional rural banks are also giving their contribution in imparting education finance, steps would be taken by RBI and State Level Banker's committee along with the State Government to distribute the education loan scheme by all the banks evenly so that the maximum number of students in Tamil Nadu would be benefited by the education loan scheme.

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## 1. Introduction

Education is the life blood of human civilization and progress of the country as a whole. The role of basic education and an increase in contribution of the Government, as a percentage of Gross National Product, that is to be devoted to universities and research institutions, are the important determinants to ensure balanced development of education and an improved education systems at all levels. Higher education is recognized as an engine of economic growth and as a concierge to individual positions of high remuneration and status. Advanced education particularly in high technology, information processing, and sophisticated management and analysis is thought to be essential to maintaining economic position in the increasingly competitive global economy. Privatization and commercialization of education will retard our human resource development. Hence education has become prohibitively expensive and unaffordable for the vast multitude. To overcome the snag in the availability of funds for the deserving students, who wants to continue higher education, Government of India along with RBI and Indian Banking Association had introduced an Education loan Scheme in 2001. The scheme is executed and advances for education has been done by the banks in all the states in India. Bank wise performance of public sector banks is all the most important for the constant review of the education loan scheme in the state

of Tamil Nadu, to know how for the education loan is performing in the state.

## 2. Objectives

- To analyze the growth and performance of education loan scheme offered by public sector bank in the state of Tamil Nadu.

## 3. Methodology

### 3.1. Sources of Data

The descriptive study is conducted using secondary data obtained from the Publications of the Reserve Bank of India, NABARD, the annual reports of Tamil Nadu State Level Banker's committee , Annual Reports of Ministry of Human Resource Development, Ministry of Finance and annual reports of Lead Bank Tamil Nadu .

### 3.2. Sampling Technique

The sampling technique adopted for the study was census sampling. All twenty eight public sector banks were taken for the study.

### 3.3. Period of Study

The data related to educational loans have been collected for the period from 2013-14 to 2016-2017.

## 4. Review of Literature

### 4.1. National Studies

**Narayana (2005)** has made an empirical analysis about the role of commercial banks in financing the budgetary subsidy to general collegiate education by government and private aided colleges in Karnataka state in India. He concluded that the current model schemes of student loan and subsidies should be encouraged and be made equally supportive to the changing needs of the students pursuing studies in India and abroad.

**Mukherjee (2007)** thesis examined the growth and disbursement of educational loan in India using yearly data over the period from 1998 to 2004. In addition to this, the researcher also highlights the major characteristics of the borrowers of nationalized banks of Mumbai by a primary survey of 125 students. The results show that the loan amount sanctioned by the banks depends on the family income of the students as well as their educational background. The empirical study shows that both the future stream of study as well as the past streams of study is having an effect on the loan amount. The researcher suggested that effort should be done by government and RBI to make the educational loan scheme a unique way of providing greater access to the higher and professional studies for meritorious and needy students.

### 4.2. International Study

**Vossensteyn (1999)** studied the Student Loan Program in Netherlands. Student loans are provided in the Netherlands to cover tuition fee and maintenance cost. Part of the loan, including a basic allowance that is not "means-tested," plus another means tested component, can be converted to a grant if satisfactory academic progress is maintained. Interest rate on the remainder varies annually at the government's borrowing rate plus about 1 per cent to cover administrative costs. Repayments are fixed after a two-year "grace period," with an income contingent payment feature for those whose incomes are low. Repayments remaining for those repaying on an income contingent basis are forgiven after 15 years. The system to recover study debt seems very efficient as the default rate on student loans is very low.

## 5. Education Loan

### 5.1. Education Loan –World Scenario

Loan financing to education has emerged as one of the most popular alternatives sources of financing and this scheme is currently in operation in more than 80 countries around the globe. In view of the rising costs of higher education (both tuition fee and maintenance cost), a number of countries in the developing developed world have established student loan programmes for providing the opportunity to the students of lower income class to go for higher education. As in case of Ghana and Kenya in Africa student loan programs are open to all students regardless of need or ability. In case of UK and Australia also, all students have access to credit, regardless of income. But open access can be expensive to governments,

particularly if support is subsidized. In the US, support is available to students below the specified income threshold. Alternatively, loan amounts can vary according to the difference between an individual's available resources and the costs of a given course of study, as in Canada, Barbados, Brazil and Sweden. In Norway, Netherlands and Sweden, this assets & income of the students over 19 years of age are assessed independently as they are treated as financially independent.

### 5.2. Education Loan in India

A major objective of banks' nationalization in July 1969 was to extend the reach of bank credit both geographically to unbanked regions and functionally to agriculture and other neglected sectors, designated as "priority sectors". At a meeting of the National Credit Council held in July 1968, it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. Later, a few more categories were also added to this list, namely housing, Self Help groups and self-employed persons, retail trade and small business and education.

Based on the endorsements of various study group formed by Government of India, IBA has prepared an Educational Loan Scheme in the year 2001 which would be distributed through the commercial banks in the country. The Government of India has taken initiative to promote the turf of educational loans during 2002-2007; there were rapid changes in providing the loans by commercial banks especially in the minimum limit and maximum limit. The same model education loan scheme is continuing with certain modification at regular intervals.

### 5.3. Education Loan in Tamil Nadu

The scope of education has widened both in India and in abroad covering new courses in diversified areas. The government both central and state is frequently issuing instructions and guidelines to public sector banks to actively be involved in educational financing. As per RBI guidelines, Forty per cent of total advances of the commercial banks are advanced to priority sectors like agriculture, small-scale industry etc. Educational loans also form a part of these priority sector advances of public sector banks, as higher education has gained significance all across the world in the knowledge era and in these times of globalization.

Two states Tamil Nadu and Kerala, have accounted for nearly 40 per cent of the total education loans disbursed by commercial banks in the country so far, indicating the skew in the tapping of bank funds for education. Banks have disbursed Rs.16,380 crores in Tamil Nadu, over 23 per cent of total disbursals, as per data prepared by the Department of Financial Services, Ministry of Finance. According to the data, collated from states across the country, over 54 per cent of education loans have gone to applicants in south India. Hence it has become all the most important to analyze the performance of the commercial banks in lending education loan particularly in Tamil Nadu.

**Table 5.3.1: Bankwise Distribution of Total Number of Education Loan Accounts in Tamilnadu (Figures In Lakhs)**

Banks	YEAR				
	2017	2016	2015	2014	2013
<b>PSBs</b>	9.36 (94%)	9.19 (93.9%)	9.00 (94%)	8.76 (93.9%)	86.07 (95.2%)
<b>PvSBs</b>	5.76 (5.8%)	5.67 (5.9%)	5.45 (5.7%)	5.50 (5.9%)	4.06 (4.5%)
<b>RRBs</b>	0.019 (0.2%)	0.019 (0.2%)	0.016 (0.3%)	0.019 (0.2%)	0.020 (0.2%)
<b>Cop Bks</b>	---	---	---	---	0.012 (.1%)
<b>Total</b>	9.96 (100%)	9.78 (100%)	9.56 (100%)	9.33 (100%)	9.05 (100%)

Source: State Level Bankers Committee (SLBC), Annual Reports and Background Papers, IOB Central Office, Chennai.

The table 5.3.1 elucidates the performance of educational loans (outstanding number of accounts) provided by the various banks in Tamil Nadu for the period from 2013-2017 in absolute term and percentage term. The table shows a vibrant picture of share of Public sector banks, private sector banks, regional rural banks and co-operative banks in advancing the number of student loan accounts for the year 2013 to 2017. Among the various banks, the public sector banks contribute nearly 94% of the total education loan lent in Tamil Nadu for the continuous period of 4 years from 2014-2017, except for the year 2013 the percentage of contribution of public sector banks was 95%. This obviously shows that the highest number of beneficiaries was from the public sector banks with a total number of education loan accounts followed by Private sector banks was nearly 6% and regional rural banks was only 0.2%. There is no contribution from the co-operative banks regarding the education loan for the past four years from 2017-2014.

**Table 5.3.2: Bankwise Distribution of Total Amount of Education Loan in Tamilnadu (Amt Rs. In Billion)**

Banks	YEAR				
	2017	2016	2015	2014	2013
<b>PSBs</b>	164.91 (95.6%)	153.44 (95.4%)	157.26 (95.4%)	147.88 (95.4%)	134.55 (95.8%)

<b>PvSBs</b>	7.28 (4.2%)	7.20 (4.4%)	7.32 (4.4%)	6.95 (4.4%)	5.59 (3.9%)
<b>RRBs</b>	0.17 (0.2%)	0.19 (0.2%)	0.24 (0.2%)	0.25 (0.2%)	0.26 (0.19%)
<b>Cop Bks</b>	---	---	---	---	0.025 (0.01%)
<b>Total</b>	172.36 (100%)	160.85 (100%)	164.82 (100%)	155.09 (100%)	140.42 (100%)

Source: State Level Bankers Committee (SLBC), Annual Reports and Background Papers, IOB Central Office, Chennai.

The table 5.3.2 expounds the performance of educational loans (outstanding loan amount) provided by the various banks in Tamil Nadu for the period from 2013-2017 in absolute term and percentage term. The table shows a vivacious picture of share of Public sector banks, private sector banks, regional rural banks and co-operative banks in advancing the total amount of student loan outstanding for the year from 2013 to 2017. Among the various banks, the public sector banks contribute nearly 95.4% of the total education loan amount lent in Tamil Nadu for the continuous period of 5 years from 2013 to 2017. This obviously shows that the maximum amount of education loan amount was given by the public sector banks followed by Private sector banks contributing nearly 4.4% and regional rural banks contribute only 0.2% of the total education loan amount outstanding in Tamil Nadu. The co-operative bank has lent only Rs. 0.025 billion during the year 2013. However the total amount of education loan stood at Rs. 172.36 billion at the end of 31 March 2017.

## 6. Conclusion

In south India, particularly in Tamil Nadu the scheme of educational loan is running effectually by the public sector banks. The growing magnitude of educational loans indicates that the scheme is getting very popular amongst the higher education aspirants all over Tamil Nadu. Among the various banks' lending education loan, the public sector banks contributes the maximum share of education loan in term of number of education loan accounts and amount of education loan outstanding. But there is strong need to work on the weaknesses & deficiencies of the scheme and efforts should be made by all the sectors of the banks to lend more number of education loans, as education is the national priority. The banking system keeps education loans under priority sector advances but the real purpose would be served when these loans are subsidized and specialized branches for education loan would be opened with the concern of Reserve Bank of India (RBI) and State level Bankers committee .

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