

“Education loan delivery by banks in India: A qualitative enquiry”

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EDUCATION LOAN DELIVERY BY BANKS IN INDIA: A QUALITATIVE ENQUIRY

Abstract

Education financing is a key retail banking product for most commercial banks and a lifeline for large numbers of students seeking professional courses. This study aimed to identify the impediments in the successful delivery of this loan product in India, where it is marketed majorly by public sector banks under a common scheme devised by the government. The study adopted a qualitative approach to probe behavioral issues related to the credit appraisal process, which is the most suitable approach for unstructured exploratory design. Since credit managers in banks work with applicants for education loans, their insight becomes essential to understanding the issues plaguing with the smooth implementation and delivery of this scheme. Thus, ten public sector bank managers working in different geographical locations were selected using a homogeneity purposive sampling technique. The study collected 41 responses, which were then divided into 4 major categories. The responses were simultaneously transcribed manually to ensure that data remained close to the original verbatim of the participant. All transcribed interviews were imported into ATLAS.ti 8 Software for analysis. The 4 observational categories lead to a broad understanding that product accessibility, operational hurdles, scheme features and limitations in bad loan recovery are key bottlenecks in managing education loans. These responses had over 80% commonality on key issues of product feature and cost. It was concluded that education financing can perform better by improving access, rationalizing interest rates and liberalizing repayment terms. These findings can be used as input for tweaking the product for better performance.

Keywords

education loans, credit, moratorium, repayment,
recovery, collateral, interest rates

JEL Classification

G21, I22

INTRODUCTION

In their pursuit of financial sustainability, higher education institutions across the world, including India, are always pushing for higher course fees and thus making it difficult for average middle-class students to enroll in technical courses without the help of bank financing. Education loans in India have traditionally been targeted at meritorious students from middle and lower class financial status, and the product has been designed around the model education loan scheme of the Indian Banks Association (IBA). Under this scheme, interest gets accrued during the course period and is capitalized with the repayment starting from one-year post completion of the course. Under the Central Sector Interest Subsidy (CSIS) scheme of the Government of India, students belonging to the economically weaker sections of the society get interest subsidies for the moratorium period. Loans are the collateral and guarantee to free up to INR 750,000 (approximately USD 10300) and normally require co-obligation on part of the parents. Some banks offer collateral-free loans up to a higher limit for admission into courses offered by certain categories of premier institutions. Interest rates vary from 2-2.5% above the deposit costs of banks. The repayment period is generally fixed up to a maximum of 15 years from

the first installment. RBI (Reserve Bank of India) data reveals that more than 90% of the education loans in India are offered by the public sector banks, indicating low returns and riskiness perceived by the private sector lenders towards these unsecured loans.

Most of the time, credit processing officials at public sector banks are not aware of the market potential of the course for which they are lending, and since education loans are the priority sector, they are either apprehensive about the sanction of the loan or grant them without proper consideration of risk. The Credit Guarantee Fund Scheme for Education Loans (CGFEL) has been initiated by the government to tide over unwarranted defaults, but the impact is yet to be seen. Developing countries like India with large populations and lower per capita income cannot follow a structure like that of European countries, since they have neither the means to support funding, nor any mechanism to administer and control defaults. While increasing incomes and growing aspirations have pushed the demand for higher education, funding remains a crucial question.

With high default rates in the segment and the onus of disbursement of education loans largely resting with the public sector banks, bank managers with the sanctioning powers need to be sensitized on the issues pertaining to this product. Bank branches are the units that cater to applicants at rural, semi-urban and urban centers, and it is hard to follow up with borrowers once they finish education and migrate to far-off places, as well as the bank staff gets changed on a regular basis. The unsecured category of small educational loans that need to be made available to deserving weaker sections of society also needs a transparent, robust, and successful sanctioning and monitoring mechanism.

1. LITERATURE REVIEW

Broadly, two types of approaches have been prevalent with regard to education loans across countries (Barr, 2004). The United States mainly has mortgage-type education loans in which the repayment periods are shorter and the amounts are higher. Although the approach believes that the borrower has all the information and understanding of the debt agreement being entered, there has been outrage against such loans being discriminatory towards poor students. A report by the Urban Institute quoted by CNBC (*More than 1 million people default on their student loans each year*, *cnbc.com*, August 13, 2018) states that the number of people defaulting on their education loans each year in the United States is more than one million, and the default rate is expected to touch as high as 40% by 2023. The other category of loans prevalent in Australia, England, Germany, Sweden, and many other countries are those under the Income-based repayment methods. These are designed in such a way that the borrower pays more when incomes are higher and less when incomes are lower. Also, if earnings fall below a certain threshold limit, there are no payments. Once the outstanding period goes beyond a fixed period like 20 to 30 years, they are written off. These types of loans

have very long repayment periods owing to their small installments. The repayment in countries like Australia happens through taxation so that students are protected from any adverse economic situation due to personal incidents or macro-environmental conditions. In Sweden and Germany, public Universities offer free education, but students still avail of loans to cover the cost of living. While the mortgage style loans as in the United States and India offer high amount of loans, the income-based state-backed lending in Australia and England caters to lower denominations.

The last five years' data reveals some definitive trends. While the number of students receiving education loans and hence the total disbursement has been steadily declining, the average loan size has increased substantially from 5.30 lacs to Rs.9.02 lacs, indicating that banks are now leaning towards funding high ticket loans of elite institutions, and the collateral-free category of small ticket loans is being ignored. Much of this has to do with the fact that the NPA levels in the education loan are the highest in the retail loan category and have risen by a staggering 78% since 2015 (Table 1). The rise has mostly been attributed to poor employment conditions, selection of mediocre students by colleges, as well as bankers, and

unregulated expansion of private colleges leading to uneven demand-supply job market conditions (Chitra, 2019).

Table 1. Education loan portfolio at Indian banks in 2015–2019

Source: Chitra (2019).

Parameter	2015	2016	2017	2018	2019
Number of students receiving loans (in 100,000)	3.34	3.12	2.92	2.74	2.50
Amount disbursed (in Rs.100 million)	2255	2090	1950	1810	1680
NPA as a percent of loans (%)	7	8.7	10.2	12	12.5

The ever-increasing cost of higher education makes it inaccessible for students with middle-class backgrounds (Mukherjee & Satija, 2012), and therefore students seek financial assistance. It is observed if the qualification offers a higher return on investment as it becomes the highest influencer for the decision (Gurgand et al., 2011; Solis, 2012). Population, which forms the workforce for any economy, delivers dividends only when it falls in high skill and high skill engagement category (Talreja, 2014), and only higher education helps in achieving better work profiles and earning potential, which ultimately improves the standard of living with enhanced job security (Connor et al., 2001). Literature highlights that the more demand for skills leads to inclination towards higher education and that is easily possible for everyone today because of financial assistance primarily in the form of loans (Barr, 2016; John, 2016; Avery & Turner, 2012). Although higher education is accessible to all willing candidates, it is made affordable to all sections of society only in few countries (Williams & Light, 1999; Tilak & Varghese, 1991; Tumen & Shulruf, 2008; Canton & Blom, 2010).

Government policies directing financial institutions and banks to cater to the need of higher education aspirants and making financial assistance available to them at affordable cost in most of the countries are highlighted by Barr (2004) and, therefore, result in making education loans accessible to the majority of the desired segment of the population. Especially in India, inclusion of education loans in the priority sector, subsidies interest rates, and relaxed terms and conditions for collateral and repayment has motivated several students to fulfill their dreams for higher ed-

ucation and ultimately getting a high paying job (Liu et al., 2016; Johnston & Barr, 2013; Narayna, 2005; Wang, 2001). Despite these measures, the awareness level of terms and conditions of education loan policy is low for a deserving candidate and the cost of higher education is spiraling with the passage of time (Rani, 2016; Dynarski, 2014; Varghese, 2015; Mark, 2013).

Product features of student loans or the elements of the student loan process i.e. repayment terms, the number of their monthly payments, and loans' interest rates are not understood by all (Whitsett & Mishory, 2012). Students generally did not understand the major differences between their funding options and the cost of each alternative and the relaxations provided by the government to students to make education loans affordable (Lochner & Monge-Naranjo, 2016; Hays, 2018; Gale et al., 2014). When probing further the studies by Anderson et al. (2018) to know the state of financial knowledge of applicants, it was found that there is a low level of financial literacy, and students are not familiar with inflation, interest, risk, diversification, and loan repayment policies. The major issue identified by Lochner and Monge-Naranjo (2016) is that some students appear to receive too little credit, whereas others seem to have accumulated more than what they can repay. These hurdles create operational difficulties not only for the higher education aspirant but also for policymakers and those who are at the helm to implement such policies. To address this, Lochner and Monge-Naranjo (2016) also suggest that optimal modification in student loan contracts may address moral hazards for a loan application, costly income verification, and limited commitment by the borrower and make it more convenient to operate.

The limited access to the literature available on the financing of higher education (Puttaswamaiah, 2010) and particularly education loans is a hurdle that motivates researchers time and again to explore more and more about the best fit policy across different countries. This is the result of this explanation, when academicians and bankers contemplate taking up studies to draw a suitable credit policy. The publication of annual reports on Higher Education (Deloitte, 2017) and news items have also created adequate enthusiasm to investigate the

relationship of financing of higher education and rules to outline a sound arrangement to convey the advantages to the majority in India. The education loan segment is primarily catered by public sector banks, and private banks are not inclined to this product even though it is part of priority sector lending (Thulasi Priya & Esakkiammal, 2018). The Government instituted the National Loan Scholarship Scheme in 1963 to facilitate the higher education of meritorious students (Srivastava, 2019). This scheme had to be discontinued when recovery of amount became difficult and created financial woes for government authorities (John, 2016). It was constantly imagined by the administration, strategy producers, and academicians that constructive support helps in accomplishing the objective of progress in the personal satisfaction of individuals. The point to be noted by most of researchers across different countries is that a higher level of education enrolment is possible only when a government comes together with the private sector to improve the system (Sonavane-Shelke, 2015; Srivastava, 2019).

The skills that are imperative today to acquire a good job in India and abroad are the unique selling proposition of private autonomous institutions and are a major attraction for a good number of students (Varghese & Manoj, 2012). A push to make credit accessible to students helps in enrolment in higher education, however, certain obstacles to achieve this goal have also been noted all the while (Barr, 2016). Educational loans are a potent strategy to motivate students to focus on higher education subject to their affordability that may be a cause of psychological stress (Varghese & Manoj, 2012). It is also being noted by Armstrong et al. (2019), Dewan et al. (2013), and Zainal and Ismail (2012) that education loans are a major cause of psychological stress for young students and it also affects their planning for further education (Bing, 2012). Hardship and financial difficulties are common among student loan borrowers. Having student loans is associated with the difficulty in meeting basic needs and managing finances resulting in undue mental stress (Pisaniello et al., 2019; Despard et al., 2016; Nissen et al., 2019).

Indian policymakers make every effort to improve this scenario, and the result is that enrol-

ment in higher education in thousands is close to 34,211 (18,488 for males and 15, 723 for females), out of which 89 percent are regular and 11 percent are enrolled in distance learning mode (Srivastava, 2019). Government of India in consultation with “RBI and Indian Banker Association (IBA) formed a comprehensive educational loan scheme to provide interest subsidy to ensure that all deserving students of the country are deprived of higher education for want of finances” (Narayan, 2005). To make higher education more accessible to all deserving candidates, this number has to increase to the level of 30 percent by 2020–2021. But the numbers are really dismal as another news item highlights that the education loan segment in India has shrunk to 25 percent in the last four years (Chitra, 2019).

Education loans over a period have become a major liability item after housing loans when we look at the balance sheet of average families in Europe (Brown et al., 2014). The major concern for government, policymakers, and potential loan applicants is that students with low expected career earnings have a higher risk of default (Gross et al., 2009). Edwards (2016) has also observed that one of the reasons that increased the default on education loans is loan forgiveness as it incentivizes students to borrow more and attend college whether they will be able to pay it or not. Walsh (2014) also emphasized the need for mentoring of poor applicants who do not understand the administration of education loan liability and get trapped in problems associated with it. There is a greater risk of default in providing loans to low- and moderate-income students who often come from families with weak credit histories and who may be at greater risk of not graduating or of ending up in jobs with lower incomes (Hershbein & Hollenbeck, 2014; Clendaniel, 2016). Barr et al. (2018) criticized the uncertainty associated with earning prospects of borrowers, which leads to higher inequality in the system. Economic outcomes, both for individual borrowers and consumer credit markets, as suggested by Hays (2018), will be dependent on policymakers’ decisions as they look to legislation to address the serious concerns that currently exist in the student loan market.

The literature review shows a clear gap of an investigation regarding education loans in India

from the service provider's point of view. The public sector banks are the major driving force of education loans in India and branch/credit managers play a key role in deciding upon the sanction of proposals. They also decide to what extent they would like to push education loans in their portfolio. Customers get their first point of contact with the banker, and it is very important to know the impediments in smooth implementation of the scheme from the service provider's point of view. Hence, based on the above literature review, a qualitative enquiry from education loan providers was deemed necessary to explore the barriers to successful product delivery.

2. METHODS

This study used a qualitative research approach that usually emphasizes words rather than quantification of data and is primarily used for a deep understanding of the problem or phenomenon (Bryman & Bell, 2015). In the study, bank managers who had sufficient experience and knowledge of handling educational loans were selected as 'study participants'. While selecting the participants from various banks, it was assured through the rapport building process that they had either worked in handling the credit department or were involved in the loan approval process in one way or another.

To select participants, a homogeneity purposive sampling technique was used, which allows selecting those individuals purposefully who can inform and articulate about the phenomenon under study (Bryman & Bell, 2015; Creswell, 2002). This method involves identifying and selecting the individuals or groups of individuals that have experience related to a phenomenon of interest (Creswell & Plano Clark, 2011). A prominent public sector bank was selected as the study center, which has uniform spread of branches all over the country. Since the education loan scheme is universal across the country in all public sector banks, so geographical variation was considered to be more meaningful. Initially, 15 to 20 participants were targeted to be interviewed. But, after conducting five inter-

views, the data was found saturated as most of the information became repetitive. However, to ensure the richness of the information and to reconfirm the data saturation point, five more participants were interviewed and the final sample size reached to ten participants. The participants were selected from various geographical locations across the country to find homogeneous responses. Managers interviewed were serving in the states of Gujarat, Uttar Pradesh, Uttarakhand, New Delhi, Haryana and West Bengal. They were selected from the same public sector bank to weed out any differences occurring due to operational strategies at the top administrative levels in the bank.

For the purpose of data collection, an 'in-depth interview' technique was used to obtain rich and thick data. The languages used in the interviews were English and Hindi. The main question that was asked to participants was, "According to you, what are the challenges in the successful implementation of education loan scheme in your branch?"

Other than this, follow-up questions were asked to probe the participants during interviews. All participants were ensured about the privacy and confidentiality of the data that was collected for the research purpose. The collected data was simultaneously transcribed manually by ensuring that transcribed data was as close to the original verbatim of the participant as possible. All transcribed interviews were imported to the ATLAS.ti 8 Software for analysis.

For analysis purposes, a two-level coding process was followed. In the first level coding, 'primary coding' was done where the main purpose was to identify the important data segments and to label them with the 'word(s)' or phrases known as codes. After the first-level coding, forty-one codes emerged from the data. In the second level coding process, all the 41 codes were grouped into four categories such as *Product Accessibility*, *Operational Hurdles*, *Product Feature*, and *Loan Recovery*, based on the similarity among codes, and these categories were named accordingly. The categories represented the major problems in education loans. The classification of the codes is provided in Table 2.

Table 2. Coding and categorization of responses from respondents (through Atlas.ti)

S.N.	Code	Category
1	Borrower traceability	Recovery
2	Calculation of EMI	Product Accessibility
3	Collateral security	Product Accessibility
4	College favoritism	Operational Hurdles
5	Expensive insurance cover	Product Accessibility
6	Fixing of Moratorium	Operational Hurdles
7	Full terms	Operational Hurdles
8	High NPA	Recovery
9	High Rate of Interest	Product Accessibility
10	Interest application dates	Operational Hurdles
11	Lack of awareness about Vocational Courses	Product Accessibility
12	Lack of awareness about scheme features	Operational Hurdles
13	Lack of guidelines	Operational Hurdles
14	Learning curve of the online portal	Product Accessibility
15	Limited processing	Operational Hurdles
16	Loan monitoring	Operational Hurdles
17	Long moratorium period	Operational Hurdles
18	Long tenure of Loan	Operational Hurdles
19	Low coverage of universities	Product Accessibility
20	Manual feeding of dates of EMI	Operational Hurdles
21	Meritorious students criteria is subjective	Operational Hurdles
22	No direct application at bank	Product Accessibility
23	No finance for short term courses	Product Accessibility
24	Not sure about the job prospects	Recovery
25	Online portal not reachable	Product Accessibility
26	Opt-out from course due to repayment pressure	Product Feature
27	Parent income criteria	Product Feature
28	Parents surety	Product Feature
29	Portal awareness among students	Product Accessibility
30	Problem of guarantee cover	Operational Hurdles
31	Excluded expenses from loan quantum	Product Feature
32	Quality of students	Product Feature
33	Repayment problem on foreign settlement	Operational Hurdles
34	Start of Repayment	Operational Hurdles
35	Suggestion: Application direct to bank	Product Accessibility
36	Suggestion: EMI fixation	Operational Hurdles
37	Suggestion: Making portal simpler	Product Accessibility
38	Suggestion: Subjectivity of merit	Operational Hurdles
39	Suggestion: More automation needed	Operational Hurdles
40	Suggestion: Need based assessment	Operational Hurdles
41	Wrong perception of one-time settlement	Operational Hurdles

3. RESULTS AND DISCUSSION

Interviews with the respondents selected using homogeneity purposive sampling brought out four major categories of impediments beleaguering the education loan delivery by public sector banks. These four categories are Product Accessibility, Operational Hurdles, Product Features, and Loan Recovery. The bank and credit officer's personal identity has been kept confidential as the respondents agreed to voice their views on the condition of anonymity. They have been codenamed for the purpose of quoting them verbatim.

3.1. Product accessibility

Banking products designed around social development normally suffer from accessibility issues to the targeted customers. Education loans primarily are marketed at public sector banks in India that have a large presence in semi-urban and rural landscapes. Lower to middle-income group customers are prominent beneficiaries of the product. However, the accessibility to education loans still remains elusive for many people in the segment. The IBA created a model scheme so that the product remains standard across all banks and is easier to implement. The prominent hitch that emerged from the conversations was the use of a portal-based application system.

AA: "People are not aware how they can apply for education loan. ... But no publicity of the Vidya Lakshmi portal. Now branches can lend only those files, which are routed through this portal only."

PK: "Customers can't apply for the loan directly with the bank branch, they have to go through the Vidya Lakshmi portal, which in itself involves a learning curve. Application through Vidya Lakshmi should be made more simple, customers may be allowed to apply for the loan in branches also and for tracking purposes in Vidya Lakshmi the details may be fed from banks side through some API."

AS2: "...Online portal is not reachable to many."

Online glitches during filling up of the application form, internet connectivity, and complexities in the application form is a hurdle to clear

as the bank branches do not accept any offline applications, and neither any support is available for applying online. Bankers suggest making the process simple, as well as allowing a secondary channel at the branch level like other loan applications. Many times people are either unaware of the online portal or shy away from applying after facing hindrances. Also, as per the scheme, the loan is collateral-free only up to Rupees four lakhs, while the majority of the courses have far higher fees than that. Even public sector institutions have higher fee structures for engineering programs and post-graduate management programs. Arranging personal guarantees (of individuals with high net worth) and collateral as security for the loans becomes difficult and limits access to the product. Many parents in rural areas have agricultural land as property, which is not considered suitable for a mortgage under loans other than for agriculture. This seriously mars the eligibility of the candidate to avail of loans beyond seven lakhs.

SP: *“The quantum of unsecured loan is 4.00, whereas except IIT n IIM the cost of tuition fee is too high, and it gets difficult for a student to get the guarantee cover. Not all major universities and professional, vocational courses like diplomas are covered under education loans. Failing to which students fail to get finance for short-term industry courses like nursing and bartending. Moreover, a major hassle is in case if the education loan is opted for graduation, despite the fact that loan can be taken again for post-grad, many students opt out from studies, due to repayment pressures....”*

AS2: *“Lack of knowledge of courses and vocational courses is eligible for finance.”*

Many courses taken up by students in vocational education are not considered as mainstream professional courses and are either not covered under the scheme or bankers are apprehensive in sanctioning courses. These courses are normally attended by students from modest to poor financial background that is in need of funds but the product fails to cater to this category. That accessibility failure limits the product's market worthiness in far-flung areas. Sometimes, the loan taken for graduation starts repayment demands due to which the candidate has to unwillingly drop plans

to apply for post-graduation or cannot apply for a loan again for higher studies that are integral to many disciplines like medicine.

3.2. Operational hurdles

Education loans are categorized as priority sector lending under the Reserve Bank of India's classification. Since banks have to achieve their targets of priority sector lending, education loan becomes a lucrative tool for bankers but there are operational hurdles, which lead to bankers shirking away from the product.

AS1: *“No proper guidelines for borrower/student selection...Small education institutes providing admission to non-meritorious students.”*

VS: *“Most often the colleges direct students to the banks from where the college is being fundedSometimes college offers direct seats to students without any entrance exam..”*

SP: *“Education loans financed to minors have legal issues.”*

PK: *“Lack of collaterals for small loans is a major hindrance as default rates are high, bankers are normally uncomfortable with collateral-free loans.”*

NS: *“Bankers still try to find the financial stability of the parents, even if the child is meritorious.”*

One of the prime reasons for the unwillingness of bank managers to consider education loan requests is the ambiguity in the directions regarding the selection of candidates. Managers are not aware of the market potential of the course or the quality and placement standing of the college due to which they fear selecting undeserving candidates, especially for unsecured loans. The interviews clearly bring out the selection issue of the applicant in the college. The private sector investment has led to mushrooming of various institutions across the courses, and they compromise on student quality for revenue. Many of them are running courses with vacant seats and they are always on the lookout for candidates who can take admission and bring in fee revenue. Such candidates either apply for education loans on their own or are directed to banks by the colleges themselves, since easy access to fund-

ing helps them gain admissions. In such a scenario, the admission tests undertaken by the colleges appear to be deceptive for the banker. In such cases, when the applicant presses for sanction of the loan, managers stress obtaining collaterals to secure the loan. Unable to make a decision on the suitability of the candidate and the Institution, the appraisal of the loan application squarely rests on the type and quantum of security on offer. This may lead to many deserving students being left out of the fray, while many belonging to affluent families are able to secure bank finance. For undergraduate courses, most of the time, the applicant is a minor, and documentation becomes cumbersome.

3.3. Product feature

Although being a standard product across all banks, the education loan product has lingering issues with its features. The study has evinced a lot of responses on this front with the interest rate being the most critical. It is evident that the interest rate has been decided upon by IBA, considering the generic risk profile of customers rather than the utility for which the loan is being taken. This loan is pricier than a car loan, which, due to the compounding effect of interest accumulation during the study period, actually turns out to be fairly expensive. The rates are staggered for secured and unsecured loans, and the rates offered by private-sector lenders are steep. The rates charged for overseas courses or for study in foreign institutions are costlier and difficult to afford. Banks do provide a marginal relief in interest rate if the interest on the loan is serviced or paid during the tenure of the course, but that is quite difficult for the majority of the limited-income households.

AA: *“Rate of interest is very high... Rate high as compared to other loans even than a Mortgage loan. Long EMI tenure of course period + 15 years.”*

AS1: *“High Rate of interest.”*

SP: *“The major issue arriving with education loan from a customer point of view is the high rate of interest. Due to 5 years moratorium of interest, the interest gets piled up, which is actually difficult to repay until the student qualifies for a great package. From bank’s issue also, it gets difficult to calculate the correct installments.”*

SP: *“The quantum of finance does not cover the real-time expenses incurred by the student, which is disheartening.”*

AS2: *“Margin money issues.”*

PK: *“The term ‘Meritorious Students’ in the IBA model scheme is very subjective. This discretionary term ‘Meritorious’ must be removed, and if the Banks are to implement an IBA model scheme, only then they should modify the scheme to make it more objective.”*

VS: *“The prospect of employment does not ascertain after education.”*

AJ: *“Higher rate of interest... requirement of collateral security above 7.5 lacs. Poor families could not raise the margin money and there is no collateral security”*

Some banks have either entered into an understanding with top colleges of the country in various disciplines or have come up with their list of prominent colleges where admission can lead to lower interest rates. However, looking at the market, this seems to be a case of too far and too few. The insistence on margin money may also be an issue for marginal families as a 20 percent margin (usual share asked by banks) can burn a hole in the pocket of the parents with limited means and whose children get admitted into top institutions on merit. To get both the margin money, as well as the collateral security equal to the loan amount, becomes an uphill task for the applicants. Another issue is that there are various other out-of-pocket campus expenses incurred during the course that is to be borne by the students not covered by the scheme. The scheme says that the product is for ‘meritorious’ students, while the term meritorious is nowhere clearly explained or quantified. This creates opportunities for discretion leading to subjective biases prevailing among the bankers, and there is no objective way to assess the creditworthiness of the applicant student. The absence of these parameters creates confusion, and the sanctioning authority (banker) takes the decision based upon internal sources, which usually carry stereotypical information.

3.4. Loan recovery

The unsecured nature of education loans makes it a risky proposition for the banker. The students normally take admission in colleges, which are far away from their native or from the place where their parents reside. After completing the course, they land up in another city for jobs, and during the early stages of their career, it is very common to find many candidates switching jobs very frequently. All this makes it very difficult for bankers to track the candidates for any follow-up regarding repayment of the loan. The parents remain their point of contact as they are made co-applicants (that too only for loans above four lacs), but many times the parents simply do not have much information about the employment details and earning capacity of their wards. The situation turns more complex in the case of students who leave the country for better work opportunities and stop responding to communication from banks regarding overdue payments.

AA: *“If parents are co-borrowers, then EMI should be fixed as per other loans and not wait for the completion of the study period. It is only my suggestion.”*

ASI: *“Borrower/Student traceability after completion of course...High NPA ratio because of various reasons like Unemployment, Unawareness, etc.”*

SP: *“In many cases, the loan amount is covered under insurance, which is again very expensive,*

failing which the loan also stands clean in case of any casualty... The major flaw, why bankers don't hail education loans is due to high default in the education loan segment. In many cases, the students are Education loans get absconding, and it is difficult to trace them even. Cases of students shifting to different nations have also been a trend.”

PK: *“It has also become common for customers to default as the banks have started to go for Onetime settlements of these loans and it has become a practice with enough guides in the market.”*

VS: *“Problem in repayment as some students settle abroad after completing the course and didn't repay.”*

Many students take admissions without being aware of the market potential of the course they are enrolled in, and it becomes very difficult for them to get jobs after completing the course. Many students get jobs, but their earnings are not sufficient enough to pay for loan installments. They keep defaulting on EMIs on a regular basis and eventually give up. All these factors make credit monitoring and recovery a very challenging task for public sector bankers who have limited resources for tracking customers. High NPA levels in the education loan segment lead bankers to shy away from sanctioning fresh cases due to which the genuinely talented applicant also has to suffer.

CONCLUSION

Education loans are a critical product for a vast segment of low to middle-income families in developing economies like India. The product, although commercial in execution, is an important social intervention by the government through its vast network of public sector banks. However, it has not been able to efficiently cover the target beneficiaries. The purpose of the study was to look at the gaps from the service providers, i.e. the banker's point of view. The study was based on qualitative feedback from branch heads of a public sector bank posted in various geographical locations around the country. The interviews that formed the methodology of the qualitative study offer key insights into the parameters by which the product and its delivery can be improved. Broadly, the key responses from banking officials related to product accessibility, operational hurdles, features, and difficulties in recovery. Various issues pertaining to these parameters were revealed. Based on these results, it can be concluded that easier access to the product should be provided, especially for applicants from rural and suburban areas. It is also necessary to facilitate personal guarantees and collateral requirements from parents on the basis of objective criteria that should be designed in a way to support talented applicants. It is also suggested that a central database providing employability potential rankings may be provided to banks to decide

upon job potential of the applied course. Oftentimes, credit managers are not aware of the scope of concerned professional course and are unable to determine the earning potential. The interest rates need to be aligned with other priority sector loans, especially for students with low income background and post sanction of the loan; a central registry should be created at the bank to track student movements after the completion of the course. These measures are necessary to unlock the potential of human capital, which is unable to get access to education finance. Future research may be taken up with wider coverage of banks as well as with the borrower's perception of service quality.

AUTHOR CONTRIBUTIONS

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