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FACTORS AFFECTING EDUCATIONAL LOAN DEFAULT

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ABSTRACT

Education helps in the development of a society. It helps a person to achieve his goal and also, raises the standard of living of people in the country. The cost of education has gone up and became unaffordable to most of the people with the advent of Self-financing colleges and Deemed Universities. Thus, they begin to take loans for education. The education loans were taken by many students and default rates were high which led to increase in NPA's. The main objective of the paper is to analyse the factors such as student demographics, socio-economic factors, knowledge about education loans, Awareness of student loans, Parental influence, Post-collegiate characteristics, Attitude towards education loan debt and Level of repayment, which affects the education loan default.

KEYWORDS: Attitude towards loan debt, Level of Repayment, NPA & Education loan default

INTRODUCTION

Education is one of the vital factors that act as a catalyst, for the development of a Nation. Education has now become every expensive, since most of the institutions have deemed universities of late or most of them are self-financing colleges. They charge fees at an exorbitant rate, which makes it difficult for a middle class or lower level middle class society, to fulfil their ambitions. To overcome this situation, banks have developed a Model Frame Work for education loan in 2001, which provides guidelines in providing educational loans. This was first started by the public-sector banks and the private sector banks followed them later.

Educational loan was operational in India, since 1963, which was named 'National Scholarship Scheme'. At that time, only 1% students were taking loans for higher education. The National Loan Scholarship Scheme provided interest free loans to the needy and able students to provide financial assistance to them for full time higher education in India, starting from the post-matriculation level to the completion of higher education. In the very first year although 18000 loan scholarships were initially announced, only 9600 were actually given. The number of scholarships touched an all-time high level of 26,500 in 1965-66; and immediately declined to 18,000 in the following year (1966-67). The figure stabilized around 20,000, except in 1973-74 when due to 'economy' measures (necessitated by high rates of inflation etc) the number was reduced to 10,000 (Tilak, 1992). This scheme has been discontinued in 1991, owing to the non-recovery of the loans and financial difficulties of the Central Government.

Education loans have gained significance, due to the high expenditure involved in gaining education. After the education policies of 1986 and 1992 of the Government of India, private sector came into the picture. More self-financing colleges and Deemed colleges permitted in India. They charge high fees, which made gaining education a barrier to most of the students. The state owned or aided colleges, were not able to include all the eligible students. Education earlier was considered to be for those who can afford. In order to address and help those who cannot afford the education costs in 2001, the public-sector banks introduced educational loans at affordable rates. This model framework for educational loans, proposed up to INR 0.4 million, without any security other than personal security of the borrower. (Varghese K. X and Manoj P. K 2013). The repayment of interest will start after one year or six months, after gaining employment whichever is earlier. The private sector and co-operative banks had also started providing education loans after this. The repayment for loans up to 0.75m is 10 years and above 0.75m is 15 years.

The theoretical justification is that, higher education is a profitable investment, offering graduates a high returns in the form of better job opportunities and higher lifetime earnings. Thus, a loan would enable students from financially worse off families too, to take part in higher education, who otherwise would have been unable to pursue the same. Thus, availability of student loans gives students an opportunity to defer their expenses and make a repayment obligation, whether in fixed schedule of payments or as some percentage of borrower's earnings (Soumya Vinayan 2012). As pointed out by scholars like Tilak (1997, 1999, 2004, and 2007), Barr (1988, 2004), Woodhall (1989, 2006) and the studies made by the World Bank (1994) student loans are thus, seen as **cost sharing and cost shifting method**. In other words, students who avail the loan share the responsibility of cost with parents or government or institutions, as well as bear the burden of paying for her or his educational expenses. (Soumya Vinayan 2012).

Default of loans by borrowers is one of the major concerns, in providing education loans. (R. Sreenivasan and Debratadas 2011). While studying the factors associated with educational loan default rate in the USA (Steiner M. and Teszler N. 2005); the most likely defaulters on loan repayment, were the students with a low college grade point average; those who enter college at a late age; and the children born to less literate mothers. While studying the approach practiced by the Malaysian government agency; it was observed that, most defaulters were the borrowers who performed badly in their study and studying abroad (Abiddin 2005). He further adds that attitudes, influence of friends, economic recession and family commitment were other main factors for the borrowers, to delay/ default in their repayment of the educational loan.

ROLE AND IMPORTANCE OF THE EDUCATION LOAN SCHEME

The main objective of education loan is to provide financial support to the meritorious students, for pursuing higher education in India. Most of the students in India come from an average family background. The objective of education loan is, to provide the students who are poor with an opportunity to pursue education with financial support from the banking system, with the affordable terms and conditions. The deserving students will not be denied an opportunity to pursue higher education due to lack of financial support. A model scheme is adopted by all the banks and these schemes provides guide lines to the banks for operationalizing the educational loan scheme and implementing bank will have the discretion to make changes, which suits the requirements of the customer.

Table 1:

	STUDENT LOAN DIFFERENCES IN POLICIES IN 2001 AND 2010			
	2001		**2010**	
Margin	Up to Rs 2 lakhs	Nil	Up to Rs 4 Lakhs	Nil
	Above Rs 2 lakhs studies in India	15%	Above Rs 4 lakhs studies in India	5%
	Studies Abroad	25%	studies Abroad	15%
Security	Up to Rs 2 lakhs	No security	Up to Rs 4 Lakhs	Co-obligation of parents. No security
	Above 2 lakhs	Collateral security equal to 100% of the loan Amount	Above 4 Lakhs and up to Rs 7.5 lakhs	Co-obligation of parents together with collateral security in the form of suitable third

		of guarantee of third person known to the bank for 100% of the loan amount		party guarantee, the bank may at its discretion, in exceptional cases waive third party guarantee if satisfied with the net-worth means of parent who would be executing the document as "joint borrower".
	Nil		Above Rs 7.5 Lakhs and Rs 10 Lakhs	Co-obligation of parents together with tangible security of suitable value, along with the assignment of future income of the student for the payment of instalments
Rate of interest	Rate of interest: Up to 2 lakhs	PLR	Up to Rs 4 Lakhs	BPLR
	Above Rs 2 lakhs	PLR + 1%	Above Rs 4 Lakhs and up to Rs 7.5 lakhs	BPLR +1 %

BENEFITS OF EDUCATION LOAN SCHEME

Since, the fees structure of educational institutions are mounting at an increasing rate year by year, it has become difficult for the average income group of students to pursue a career of their choice. By taking education loans, students can get the following benefits.

- Helps in pursuing professional education such as B.Tech, MBBS, MCA, LLB, Nursing etc.
- Loan had to be paid only after the completion of their study.
- Expenses such as tuition fees, hostel charges and other college charges are covered under education loan.
- Easier and flexible repayment period.
- Loans up to Rs 4 Lakhs are available without security and up to Rs 20 Lakhs with security.
- Loans are available not only for studies in India but also for study in abroad.

LIMITATIONS OF EDUCATION LOAN

Education loans not only have Pros it also has Cons. Some of the Cons of the education loan are:

- In certain cases, bank norms are not presented very precisely and clearly. Since it lacks clarity it becomes difficult to understand the loan schemes and the risks involved in availing the credit.
- Proper assistance is not provided to the borrowers to face a tough time during repayments. They are not provided any remedies by the banks even if they are caught in debt trap.
- If the beneficiary is under-employed or unemployed, it becomes difficult to meet the repayment schedules. Most of the banks penalize them with the late fee and other charges for delayed payments, further increasing the overall cost of education loan.

EDUCATION LOAN DEFAULT TRENDS IN INDIA

Table 2: Education Loans Outstanding by Public Sector Banks in India

As on 31st March	Number of Accounts	Amount outstanding (in Crores)	Year on Year Growth (%)	
				(Rs in Crores
			No. of Accounts	Amount
2004	319337	4550	----------	--------------
2005	468207	6713	46.62	47.54
2006	679945	10012	45.22	49.14
2007	944397	14283	38.89	42.65
2008	1246870	19847	32.03	38.75
2009	1603385	27646	28.59	39.51
2010	1928350	35628	19.21	29.81
2011	2237031	43074	17.03	20.03
2012	2460493	49069	9.99	13.92
2013	2509465	53520	1.99	9.07
2014	2572716	58256	2.52	8.84
2015	2572716	61967	----	6.37
DEC 2015	2544672	65740	----	7.45

Source: Ministry of Finance Government of India (for various years)

The statistics shows a steady increase in outstanding loans provided by the Public sector banks. In 2004 the outstanding loan amount was Rs 5440 crores, which continued to increase steadily. In 2015 Dec, it reached an outstanding amount of Rs 65470 crores. Year on year, growth for the outstanding growth showed an increasing trend of education loan amount outstanding.

According to review of literature, students default due to the following reasons. 1) The defaulter's inability to pay 2) The imperfect knowledge or negative attitudes of some borrowers. 3) The incentives for default created by the program rules. (Saul Schwartz 1999).

Table 3: State- Wise Comparison of Educational Loans in India in Terms of Outstanding Amount.

State/Union Territory	Amount outstanding 2009 (In Rs Crore)	Amount outstanding 2010 (In Rs Crore)	Amount outstanding 2011 (In Rs Crore)
Delhi	1048 (3.77)	1227 (3.32)	1174.9 (2.73)
Punjab	624 (2.24)	781 (2.11)	838.2 (1.95)
Haryana	548 (1.97)	705 (1.91)	780.6 (1.81)
Chandigarh	157 (0.56)	183 (0.49)	187.4 (0.43)
Jammu & Kashmir	140 (0.50)	176 (0.48)	190.8 (0.44)
Himachal Pradhesh	137 (0.49)	195 (0.53)	249.0 (0.58)
Rajasthan	695 (2.50)	886 (2.40)	1032.9 (2.40)
Assam	193 (0.69)	269 (0.73)	305.4 (0.71)
Meghalaya	17 (0.06)	22 (0.06)	29.5 (0.07)
Mizoram	12 (0.04)	16 (0.04)	21.2 (0.05)
Arunachal Pradhesh	9 (0.03)	10 (0.03)	8.3 (0.02)
Nagaland	7 (0.02)	6 (0.02)	8.7 (0.02)
Manipur	28 (0.10)	32(0.09)	35.4 (0.08)
Tripura	15 (0.05)	21 (0.06)	24.8 (0.06)
Bihar	658 (2.37)	941 (2.55)	1382.2(3.21)

Jharkhand	513 (1.80)	691 (1.90)	930.4 (2.16)
West Bengal	970 (3.45)	1214 (3.29)	1393.6 (3.24)
Orissa	733 (2.64)	1006 (2.72)	1367.3 (3.18)
Sikkim	8 (0.03)	9 (0.02)	8.7 (0.02)
Andman& Nicobar Islands	5 (0.02)	7 (0.02)	10.1 (0.02)
Gujarat	949 (3.41)	1184 (3.21)	1130.6 (2.63)
Maharastra	2254 (8.11)	2968 (8.03)	3545.6 (8.25)
Daman & Diu	13 (0.05)	14 (0.04)	4.4 (0.01)
Goa	65 (0.23)	81 (0.22)	84.9 (0.19)
Dadra & Nagar Haveli	10 (0.03)	4 (0.01)	7.1 (0.02)
Andhra Pradhesh	3970 (14.28)	4843 (13.12)	5091.8(11.84)
Karnataka	2432 (8.75)	2916 (7.90)	3216.2 (7.48)
Lakhadweep	0	0	0.2 (0.0004)
Tamil Nadu	5185 (18.65)	7352 (19.91)	9582.3 (22.29)
Kerala	3142 (11.30)	4874 (13.20)	5282.1 (12.29)
Pndicherry	101 (0.36)	138 (0.37)	170.0 9 (0.39)
All India	**27799 (100.00)**	**36923 (100.00)**	**42922.5 (100.00)**

Note : *Figures in parentheses are percentages*
Source : *Rural Planning and Credit Department RBI (for various years)*

The above table, shows the performance of educational loans (Amount outstanding) in all states and Union Territories of India, in absolute terms and in terms of percentage. It shows that, highest amount outstanding under education loans was from Tamil Nadu (18.65 percent) and the second highest was from Andhra Pradesh (14.28 percent) in 2009. The least share in amount outstanding was of Andaman and Nicobar (0.02 percent) in 2009, followed by Nagaland (0.02 percent) in the same year. In 2010, largest share of amount outstanding under education loan was of Tamil Nadu (19.91 percent) and second highest was from Kerala (13.2 percent). The least percentage of amount outstanding was from Dadra & Nagar Haveli (0.01 percent), followed by Nagaland (0.02 percent). In 2011, largest contributing share in amount outstanding was of Tamil Nadu, with 22.29 percent followed by Kerala with 12.29 percent share. Minimum contribution in amount outstanding was made by Lakshadweep in 2011.

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 and developed world have established student loan programmes for providing opportunity to the students of lower income class to go for higher education. This has become more popular sources of financing higher education mainly because

- Steep hike of cost of higher education,
- Fast increasing demand for higher education
- Entry of private sector on a large scale.

Education loan default is a major concern to many countries. The objective of this study is to know about the factors affecting educational loans in both western and non-western aspects. Factors such as 1) Student demographics 2) Socio-economic factors 3) Knowledge of Education loans 4) Awareness of education loans 5) Parental influence 6) Post-collegiate employment 7) Attitude towards Education loan default 8) Repayment of education loan are analysed in detail.

Student Demographics

Student demographics play a significant role in student loan default. (Hira et al 2000, Abubakar et al 2006).

Student demographics include gender, age, marital status and number of dependents. (Volkwein & Szelest, 1995; Gjonca & Calderwood 2004).

(Christman, 2000; Harrast, 2004; Herr and Burt, 2004 and Woo, 2002) found that, age was directly proportional to default. As age increases, they are more likely to default because; they owe more than the younger students. Knapp and Sneaks 1992, found no relationship between age and default, while Steiner & Tezler 2005, found this pattern only among students older than 34. He also established that, younger students are three times likely to default than older students.

On the topic of gender, (Woo, 2002; Steiner & Tezler, 2005; Herr& Burt, 2004) it was found that, men’s probability of defaulting was significantly greater than others. Certain other studies suggest that, compared to male, female have been found to experience greater difficulty in repaying loans (Schwartz & Finnie, 2002; Davis & Lea, 1995). Female are likely to default, owing to child care needs, financial needs and more time taken off to raise a family (Moran, 1987; Myers & Siera, 1980). Knapp and Sneaks 1992, found no relationship between age and default. (Harrast, 2004; Volkwein& Szelest, 1995).

Marital status has been found to affect loan repayment (Volkwein et al 1998; Dynarski, 1994 and Myers &Siera, 1980). Certain other studies found that, there is no significant relationship between marital status and loan repayment. (Spencer, 1992; Gray, 1985; Stockham&Hesseldenz 1979). Number of dependents can also affect the loan repayment (Dynarski, 1994; Woo, 2002; Herr & Burt, 2005).

Socio-Economic Factors

Students with less access to financial resources rely heavily on student’s financial aid and often carry greater debt burdens, than their upper income peers. (Choy & Li, 2006; Soumya Vinayan, 2012; Kesterman, 2006). In contrast, students who came from upper-income families are more likely to receive help from their families, in repaying their debts, which reduces the likelihood of defaulting among wealthier students. (Baum &O Malley, 2003; Gross et al 2009). Total family income (including parental income) has typically been used as a measure of the socio-economic status of borrowers. Six studies (Dynarski, 1994; Gray, 1985; Knapp & Sneaks, 1992; Myers and Siera, 1980; Pattilo&Wiant, 1977; Wilms, Moore & Bolus 1987) states that, low levels of family income to be positively related to default. Family income and education are linked to student’s financial hardship, during college (Charles, Roscigno& Torres 2007). This is becoming a huge issue in today’s society since, it is widening the gap for economic and social mobility among low families (BelleyFrenette& Lochner 2014)

Knowledge of Student Loan

(Lee& Muller 2014) defined student loan debt literacy as, “The ability to identify, understand, interpret and navigate student loan options, principles and practices associated with responsible borrowing and debt management”. A loan agreement is a contract between the lender and the borrower, which regulates the terms of the loan (Vijayakumar &Subburaj 2010). Only two studies relating to loan agreement in the context of educational loan have been found in the literature, (Volkwein et al 1998, Abubakar et al 2006).

Awareness of Education Loans

Students have found that, students obtain this information from parents, peers, friends, professional bodies and media (Flint, 1997; Dynarski, 1994). The source of information comes from friends, professional and peers (Flint 1997).

Credibility of informants and the extent of information from friends, professional and peers were all found to influence subsequent attitudes and behaviours particularly in decision making contexts. (Davidson et al 1985). A study conducted by Herr 2001 shows that senior students in university are more aware about the information of loans than junior students.

Parental influence

Parents influence their children in terms of financial decisions and higher education enrolment (Living stone, 2003; Gillies et al 2001; Jones & Martin, 1999; Tomlinson, 1997). Parental knowledge in many issues also influences children in terms of the decision- making process (St. John 2000; Olson 1982). The influential relationship process exists when students work together with their parents in order to invest time and money for education (Cofer& Somers 1999). The role of parents is crucial and important so as to ensure that family income remains above family thresholds (Marks & McMillan, 2007; Volkwein *et al*., 1998).

Importantly, attitude is learnt from family during childhood and is permanent. Essentially, it attributes primary influence to parents owing to the fact that their contact with their children begins earlier and is better sustained. Owing to weakening ties, parents and family currently assisting their children will experience financial difficulties, whereby older students are more likely to default than younger students (Woo, 2002). Furthermore, constant communication between parents and children play a key role in influencing the positive attitudes of children (Grolnick & Slowiaczek, 1994).

Post Collegiate Characteristics

The students who are unable to find employment, upon leaving a college or become unemployed at some point during repayment, then they may face greater risks of entering into default. (Woo 2002) found that, unemployment also increases the odds of defaulting. This finding has been consistent across other default studies, since job loss results in fewer financial resources with which, they repay student loan debts (Dynarski 1994; Soumya Vinayan, 2012; Monteverde 2000). Another problem that is faced by education loan beneficiaries in Kerala is insufficient income. **Insufficient income** as per study conducted by Soumya Vinayan (2012) is due to the fact that, they have selected courses which are of high demand in a particular period and as soon as they finish their study the demand falls, one of such sector is Nursing sector. Hence, they are forced to work at a very low salary of less than Rs 6000 in Kerala and Rs10,000 outside Kerala until they are employed abroad or they require higher degree or qualifying for eligibility tests (such as M.sc in Nursing or TOEFL/IELTS), which calls for more monetary expenses.

Moreover, in Kerala Nursing colleges after the duration of internship (Six months for General Nursing and one year for B.sc), they are at times forced by the management to work in contract or bond for two years without pay. The beneficiaries were not informed about these facts at the time of admission.

Attitude towards education loan debt

Attitude in this sense refers to the borrower’s approach towards loans which could affect his or tendency to default (Gross et al 2009; Volkwein & Szelest 1995). Previous studies have explored the relationship between student’s attitudes towards debt and probability of default. (Abubakar et al 2006, Baum & O’Malley 2003, Volkwein & Szelest 1995, Living stone & Lunt 1992). Living stone and Lunt 1992 in their study found that those who repay loans are more concerned with personal achievement and self-direction. Positive attitude occurs when students consider that loans give them benefits in their lives. A study by (Abubakar et al 2006) shows that respondents in general have negative attitudes towards loan and loan repayments, and that negative attitude would impact the repayment of the loan upon graduates.

LEVEL OF REPAYMENT

Debt burden has increased for the borrowers. This was evident in low levels of repayment. (Soumya Vinayan 2012). The major reason for such high level of loan repayment and default has been mentioned by borrowers as either lack of regular job or sufficient income. The borrowers were regular reminded through telephone or letters prompting them to repay. Nonetheless, their capacity to repay has been constrained by low levels of income and other commitments like marriage, family and so on. This is especially true in case of female borrowers. (Soumya Vinayan 2012).

Borrowers who have ever been in deferment or forbearance are less likely to default, perhaps because borrowers who are organized enough to follow through on using deferments are also better able to handle repayment in general (Woo 2002). Borrowers who went into delinquency more than once were more likely to default. Each period of delinquency increases the borrower's chances of default by 4.8 percentage points, which is almost 50 percent of the original probability (Woo 2002). Follow-up studies of defaulters reveal that two out of three reported making payments since the official default first occurred. Not only did 66 percent resume payment, but 31 percent completed payment (Volkwein and Cabrera 1998).

CONCLUSIONS

This paper looks at the default trend in India, with the help of secondary data. It also analysed about the major factors that affect loan default rate. Factors such as Student demographics, Socio-economic characteristics, Knowledge about education agreement, Awareness about education loan and repayment, Parental influence, post collegiate characteristics, Student's attitude and level of repayment is analysed critically by using the previous studies.

In India education loan default is increasing on a steady rate. These can be due to many factors as mentioned. The growing debt burden of college graduates especially among those who graduated during and after the 2008 recession and entered a weak market has led many to worry that students will have greater difficulty in repaying their loans in full (Choi 2011, Shauhnessy 2012). Since, the banks are operating with financial products and services, their survival and growth depends on financial cycling; otherwise it will lead to the creation of NPA. The banks were forced to issue educational loans just because of the pressure from the Government. But, commercial banks complaint that the Government is doing nothing for the prompt recovery of this unviable loan scheme. By, availing the loopholes in the educational loan scheme majority of the beneficiaries have been accumulating over dues. It is happening with a little discrepancy (M. Paul Murugan 2011).

Banking sector plays an important role in developing an economy. Increase in Non-Performing assets affects the growth of the country. The banks are now advised to monitor the Credit score when the beneficiaries approach a bank. A negative score can lead to rejection of loans in future. Banking sector are rejecting job offers to beneficiaries, who have made a default in repaying the loans. Moreover, people should be given proper awareness about the Credit rating done by Credit Information Bureau India Limited (CIBIL), through which wilful default can be reduced. If proper awareness is given to the beneficiaries how this credit scoring can affect their lives in future wilful default can be controlled. Beneficiaries should gain seriousness of repaying the educational loans regularly; if not a single default can affect their credit scores.

Thus, banks have to focus on controlling the Non-Performing Assets, by adopting the credit scores and by giving proper awareness of the repayment time, moratorium period. Regular repayment of loans will enable the beneficiaries to get a good credit score which can be beneficial in getting home loans, car loans etc.

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