



# An Evaluative Study of Perceptions Regarding Educational Loans in India

Mohammad Junaid Alam<sup>\*</sup>, Uznain Haji<sup>\*\*</sup>, Duha Masoodi<sup>\*\*\*</sup>

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## ABSTRACT

This research focuses on analysis of the market demand and nature of student loans. We have used the demand and supply model to address the student loan crisis. It serves as a framework for analysing the student-borrower motivations (the demand side) and the bank-lender motivations (the supply side). Analysis of the model shows a correlation between employment, budgeting, inflation, current economic conditions, family background, type of the university, enrolment in different courses and demand for student loans. The data is an amalgamation of primary and secondary sources collected by means of sample investigation, followed by regression analysis. The research results obtained are finally analysed and reasonable explanations are put forward.

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## 1. Introduction

Education loan is a feasible option for students who want to peruse their career in academics as well as for those who wants to actually study. On one hand, It provides the accessibility for the new and high fees structure courses, while in other hand repayment of loans is another vital factor of Education financing. The increasing demand of the loans in the Private Education sector can be witnessed through the enrolment rate of students in Private Colleges and Universities (Khushboo et al., 2021). According to National Economic Policies (NEP), more funding in Education is required in order to pace up with increasing demand of quality education. Due to the increasing demand of funds, the system is also facing some challenges such as improper allocation of funds, irregularity of sunds, etc. (Nivedha 2021).

Higher education plays a pivotal role in imparting the knowledge through the Research and Development, this emerging role of knowledge towards development is now attracting the different drivers of education such as Government, stakeholders, individuals towards investment (Ali, 2021). The growth in Education sector is not planned and irregular due to several market conditions. Engineering and Management courses always showed a rapid growth as these are the most demanding streams and courses, while Social science and humanities are considered to be stagnant in nature (Jandhyala 2021).

The main emergence of the education financing lays with the range of parental income to High fees structures. Low earnings of parents are an important factor contributing towards the increased rate of demand of student loans (Lauce et al., 2018). Due to the increased demand rate, loan debt crisis has occurred which in turn resulting to build the various models to pace up the demand crisis of loans. The government is working proficiently is pacifying the repayment of debts to the loan borrowers and it is working proficiently (Gleeson, 2015). Along with the Government, Public sector banks are providing a well-studied and applied model of educational loan schemes. The model is based on the transparency as it provides the revelations of different data sets of imparted loans and outstanding loan repayments amount and there is a strong need to work on the weaknesses and deficiencies of schemes on loans and also some efforts should be made by public sector banks to give more education loans (Thulasi et al., 2018).

The persons or students who generally avail the loaning or credit from market, they generally affect few market prevailing conditions such as market rate, delinquencies, bankruptcy, medical defaults, mobility, income and durable consumption. This interne concluded in the deleveraging the negative shocks to the borrowers (Marco et al., 2019).

<sup>\*</sup> Faculty Economics & IB, Sharda School of Business Studies, Sharda University, India, <sup>\*\*</sup> IAMAI, India, <sup>\*\*\*</sup> University of Nottingham, United Kingdom. E-mail addresses: [mjunaidalam@gmail.com](mailto:mjunaidalam@gmail.com) (M. J. Alam – Corresponding author), [uznainhaji@gmail.com](mailto:uznainhaji@gmail.com) (U. Haji), [masoodidoha3642@gmail.com](mailto:masoodidoha3642@gmail.com) (D. Masoodi)

**Table1. Data of different banks with their current interest rates and processing fees**

Education Loan schemes	Interest Rate	Loan Amount	Processing Fees
<b>PNB</b>	7.30% onwards	Up to 15 Lakhs	1% of loan amount
<b>SBI</b>	7.97% p.a. to	Above Rs.20 Lakh	Rs.10,000 + tax
<b>Axis</b>	13.70% to	Up to 7.5 Lakh	Nil to Rs.15,000 + tax
<b>Bank of Baroda</b>	8.25% to 10%*	Up to 4 Lakh and above	1% of loan amount up to 10,000
<b>HDFC</b>	For preferential	Max Apr	Up to 1.5% of loan

This research aims to analyse the demand Side of a student loan in comparison to the supply side; to understand the availability of student loans in the market, to analyse the stream-wise course debt repayment for the students and employment opportunities, to access the gravity of the dependence on parents in taking up the student loans, to understand the factors interrelated with the demand of student loans and to analyse the extent of unawareness of general public regarding student loans and their ideology and perspectives regarding student loans.

The above-mentioned objectives have been derived from the gaps of various researches, as previous research papers have analysed student loans from the lion's share of viewpoints yet there are hardly any papers that recognize the loss of banks and public money at the opportunity cost of unrecovered loans. On contrary to the other papers this research study aims to form a comparison between demand and supply side whilst trying to understand the key role that bank employees play in the distribution of student loans. Also, this study is highlighting the overall failed system of lending(banks) and borrowing(students) which the other papers steered clear of. Based upon the aforesaid objectives it is quite clear that few questions related to the study arises such as What are the factors affecting the demand of the student loans and how are they related? And how student perceives loan a trap prevalent in society or is it just herd mentality? There are many factors that can affect the Demand for student loan, such as the economic development, employment level, budgeting, inflation, GDP, enrolment in different courses and family background. However, this research mainly focused on the effect of different variable on the demand for student loan rather than the lack of affect. In the economic analysis, the analysis variables include Inflation, Employment level, GDP and enrolment.

In this research paper both qualitative as well as quantitative methods have been used. The data is a mixture of secondary sources (journals, reports, articles, research papers) and primary data (questionnaire) telephonic questionnaire was used to understand the supply perspective of the student loan. In parallel, Computer questionnaire was used for the demand perspective of the student loan. The questionnaire consisted of open-ended, multiple choice, grid, intervals scale and Likert scale.

One of the major problems in the data collection was the lack of a streamlined secondary data there was a suspicious death in the information.

We have made use of the data from the secondary sources such as Indian Business Organization, World Bank, IMF, RBI and AISHE. The employment rate has been regressed on the independent variables such as Gross Domestic Product (GDP), inflation rate and unemployment rate and enrolment rate to get the result of how all these affects the demand for student amount.

**Table 2. Data Analysis and Interpretation**

OUTPUT REGRESSION					
Statistics					
Multiple R	0.94963				
	9272				
R Square	0.90181				
	4747				
Adjusted R Square	0.82326				
	6542				
Standard Error	2.38281				
	912				
Observations	10				
r=0.95	alpha = 0.5				
ANOVA					
	Df	SS	MS	F	Significance F

Regression	4	260.749	65.1873	11.481	0.00983	
		3452	3631	361	1162	
Residual	5	28.3891	5.67782			
		348	696			
Total	9	289.138				
		48				
	Coefficients	Standard Error	t-Stat	P-Value	Lower 95%	Upper 95%
Intercept	-	53.4666	-	0.01151	-	-
	208.05	6616	3.89121	758	345.49	70.61
	5176		9195		9585	7681
GDP (Annual %)	-	0.69063	-	0.01227	-	-
	2.64334	1144	3.82743	9739	4.41866	0.868
	4759		3476		8632	20886
Interest Rate	-	51.4385	-	0.05756	-	5.9361

**Table 3. Regression analysis**

	GDP (annual %)	Interest Rate	Unemployment rate	Inflation Rate	Enrolment rate in %	% of Education Loan Amounts
GDP (annual %)	1					
Interest Rate	-	1				
	0.279674					
	685					
Unemployment rate	0.433417	0.504616	1			
	91	29				
Inflation Rate	-	0.551242	0.471522	1		
	0.120087	75	34			
	541					
Enrolment rate in %	0.455641	-	0.373574	-	1	
	58	0.136123	55	0.55196		
		19		841		
% of Education Loan Amounts	-	0.44062	0.572827	0.73983	-	1
	0.288481	88				
	59					

The model equation:

$$Y = \beta_0 - \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 - \beta_5 X_5 + \mu$$

In the above equation:

- Y is the demand of student loans in India,
- X1 is the total enrolment in higher education, X2 is the inflation rate,
- X3 is the unemployment rate, X4 is the interest rate,
- X5 is the GDP.
- $\mu$  is the residual value and  $\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  are the respective coefficients.

There was noticed a random set of interrelations between different variables and demand of student loan. This just facilitates and streamlines the point of how much the people are unaware and ignorant about the market reality. The inflation and the demand of educational loan exhibits a positive correlation. This relation may be accredited to the fact that due to the increase in inflation, college/education prices soars upwards. Due to that more and more students would need financial assistance thus resulting in the increase of demand of student loans.

The interest rate and opting of student loan was showing positive correlation. The learnt would say that it is illogical, more interest rate would discourage people from taking loans, but the ground scenario is that borrowers hardly check on all the factors before taking up a loan also. The factors that they do check are whether they have some inner source in the bank, or do they have an account in the bank and they completely neglect to check the prevalent interest rates. This also is the reason for the accumulation of loan debts. Likewise, the unemployment rate and disbursed education loan were positively correlated. This could be mainly because of two reasons. First students don't look in to the job scenario before opting for student loan and second, as the primary data reveals it was often bank employees who were the parents or parents in general, who got them

involved in student loan; Upholding all the information regarding the same and leaving the student with little or no information, as the loan is dealt by parents (co-borrowers; already employed, or have job security).

GDP and demand of student loans depict a negative correlation. This may be reasoned with the fact that increase in GDP leads to increase income which in turn makes less people prone to opt for student loans as they are now comparatively more financially stable. Identically, enrolment and demand for student loans represent a negative correlation. This may be accredited to the fact that the enrolment rate was increasing substantially since India was in the demographic divide. Most of the young school going were ready to be enrolled in college. The enrolment rate increased drastically whereas education loan sector which is not that upgraded and convenient took time and loan amount dispersed was in frequent. It had the greatest spike in 2013 about 19% approximately at that time. Given the crying need for student loans in India's current demographic context, banks need to be pushed too, to make these loans more borrowers friendly. Their current practice of unofficially insisting on collateral or personal guarantees, rigid loan tenors and repayment terms and the whimsical powers that bank officers seem to enjoy in turning away deserving candidates, results in student loans being accessible largely to those who can do very well without them. The fact that banks' aggregate education loan portfolio stood at just ₹67,000 crores by October 2019 at 0.8 percent of gross bank credit, is ample proof that they haven't met even a fraction of the demand.

Indeed, education loans are a magic solution to the education funding crisis, a sort of bridge between accessibility and sustainability. The unfortunate truth is that education loans are more like a bandage holding together an increasingly fragile system that is globally experiencing a flight of public capital at precisely the time when public higher education investment is most needed. Even if one chooses to ignore the philosophical issues of student loans, there are ample global lessons to suggest that a loan-based education system is not a system at all.

The primary data pointed out to the lack of awareness and it wasn't just that, but the data even revealed the disparities between the banks employees versus any other occupation. Our Study puts forward several policy changes for a better and convenient system.

## 2. Policy and Implications

Several rights have been formulated by the Government to preserve the rights and liberties of the consumers (the borrowers):

- Right to ample notice- This safeguards the borrower to have a reasonable timeline before which they can be given some leeway. Defaulting on a repayment does not amount to being viewed as a criminal and there is a certain level of humane justice around that viewpoint, from a constitutional standpoint. The banking system is supposed to provide a stipulated time to the borrower and under a system, proceed with requisite steps. Such activities fall under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act. In special cases, where the borrower is declared as a NPA (non-performing asset), with more than a 90-day delay in repayment, it is the lender's legal binding to give at least 2 months' notice for the same.
- Right to guarantee fair value: Succeeding the notice period, and in condition of incapacity to pay, the procedure of auctioning of the defaulter's property can commence. However, this is not unrestrained penalty which can be unfairly imposed by the banks or law, rather a pre-notified process to clearly state how much the borrower owes according to the assessment by the bank's evaluators. Additionally, the borrower is also granted the right to raise an objection if his property stands undervalued in assessment by the banks.
- Realise balance Proceeds-Borrowers are encouraged to not write-off their asset mortgaged as soon as it is put on auction. As e-auctions are commonplace these days, it can be conveniently tracked. Additionally, to safeguard the borrower in the most transparent manner, the lender is supposed to return any excess amount over and above the sale price of that property.
- Right to be heard- Constitutionally, the borrower is given the right to secure a representation against the possession notice, if found undue. A hold period of seven days is available to the officer for his response.
- Right to humane treatment- There is a certain financial dignity that the banks have to adhere to in such cases of lending and borrowing, which is in stark difference to the large-scale unauthorised money lenders in rural India. The RBI took a serious note of such practices by commercial banks and other financial institutions, a few years back. Thus, came into existence the popularity of adhering to some best practices ensuring their loyalty and ethical behaviour to customers.

A significant step in this direction is the prerogative given to borrowers to choose a place where agents can contact them. The agents can meet either the residence or their workplace, if the borrower agrees to it. Furthermore, their privacy has to be strictly maintained and civil behaviour has to be endorsed. Ungodly hours are not allowed for such dealings and such decisions are entitled to the borrower first. Humiliation, intimidation of either the borrower or his/ her family is not permissible for agents. All of these rights ensure that the borrower's treatment is fair, humane and legally rightful.

Prior to conducting this research endeavour, we fostered an assumption that banks may be nefarious with their intentions. This, however, transformed as we journeyed through our study and starting finding the actual issues at the grass root level. A strikingly different perspective started to emerge which showed how financial institutions are in reality very supportive, inclusive and customer-friendly when it comes to student loans. This necessitates the fact that banks need to be given their rightful due when it comes to the constructive and progressive roles they play in supporting the education of students by giving them access to a plethora of financial options to choose from.

### **3. Consequences of non-repayment of educational loans**

Timely and requisite payment of student loans is critical to avoid the consequences of defaulting it. Given below are some of the effects of defaulting of student loans:

- Tax Refund Offset- this pertains to loss of tax refunds, in case of missing payments of student loans. Delinquency reflecting under the account of student loans forces you to fall into an unreliable financial situation, with you being unable to fulfil other plans from the expected refund. This incentivised scheme shall render itself void if loan payment is defaulted.
- Litigation- Non-payment of student loans can also lead to being prosecuted by law, substantially increasing your burden if the lender forfeits his cost as penalty for the student. So eventually, a baggage of costs adds up, magnifying the overall financial penalty and burden on student.
- Wage Garnishment- In case of default in timely reimbursement of loans by students, the amount can be confiscated from a persons' wages, at around 15% of disposable income. This aspect is correlated to the level of pay and frequency of delinquency.
- CIBIL score impacted by default on education loan: Repeated non-payment of loan severely affects a person's CIBIL score, which is an assessment of a person's credit profile and financial credibility. Past credit history is scrutinised through data from financial organisations in India and is evaluated to reveal a person's credit worthiness. The score is comprehensively calculated through a complex system of algorithm pertaining to various parameters of financial transaction history.
- Denial for Military Service-Defaulting repayment of loans not just affects a person's legal and financial status, but also their worthiness to be part of the Indian Military Service. While this may be inconsequential for some; it could be a primary propeller to pay loans on time for others. A basket of financial services renders out-of-reach to a person who defaults on timely payments, some of which are extremely beneficial for students who may need to borrow money occasionally.

### **4. Conclusions**

Requisite and free access to education reserves its right to be available for everyone who dreams of development. Financial aid and a smooth, sustainable process for the same ensure that it does not become a nightmare for the borrowers or the dreamers who strive hard to better their lives and the society at large.

The apparent notion that financial loans and debt-trap are inextricably interlinked needs to be slowly deconstructed by addressing the reasons for this fear amongst generic consumers.

Why should borrowing for a purpose as constructive and long-lasting as education be drowned in any kind of fear? As citizens of a welfare-driven constitution, it is as fundamental a right as is any other human right enshrined for the citizens.

The fear that financial loans shall present an unending chain of issues, both for the borrowers and the lenders and the stigma associated with defaulting, needs to be broken down with up gradation of the financial system and spreading awareness about education loans.

The system needs to be fair to all the stakeholders involved and be equally incentivised and fairly designed for the ones needing a loan and the ones giving the loan. The binding principles of egalitarianism need to be carefully but surely ensured. Neither can our economy afford to give unrestrained, unlimited loans and expose itself to the possibility of bankruptcy, nor can it afford to go education less. There has to be a fine balance between judiciousness and imprudence. This study offers many such deep-rooted nuances of how education loans should be operational in the most optimum manner.

A stark lack of awareness among general public, and specifically students, on the availability of and conditions of student loans came about during the course of this study. Providing a system where people are educated about education loans is a primary need of today's times, where global outreach is also available for one's development. Laws related to financial aid must be clearly laid out and modified to incentivise the one who want to study but may not have the means to. Education loans should be a medium of facilitation to realise our dreams and be up skilled.

The study also revealed certain latent observations as to how education loans can be completely transformative for some individuals, essentially multiplying into national progress as years go by. This follows the adage of 'education spreads across generations'.

Given certain conditions, education loans can be transformative. To assume that this success can scale up to a national system, however, is a mistake that thankfully is yet to actually become reality? The United

States has only just begun to recognise this fact, for India, finding an alternative path to sustainable and affordable higher education will be difficult, but is necessary.

The unfortunate truth is that education loans are more like a bandage holding together an increasingly fragile system that is globally experiencing a flight of public capital at precisely the time when public higher education investment is most needed. Even if one chooses to ignore the philosophical issues of student loans, there are ample global lessons to suggest that a loan-based education system is not a system at all.

We concluded with both the model and primary research that banks have a particular image in the Indian society which needs to be changed, government should look inside the student loan pattern and that both the lenders and borrowers need to be held equally accountable for the various glitches in the system. Furthermore, random correlations were noticed between different variables and the demand for student loans giving an overall haphazard pattern of demand. Following from this, we surmise that there needs to be created some awareness portal regarding the student loans which would make this process of opting loan more thorough and efficient.

Moreover, the government if willing to do can systemise the whole sector as it has the benefit of being unbiased towards both lenders and borrowers. Efficient student loan provision and a stable employment rate would be non-peril for the economy of India.

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