

Awareness , Adequacy and Utilization of educational loan on loanees as factors of loan utility ; A study among Loanees of Alappuzha

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ABSTRACT

The imperatives of higher education financing for sustainable development is a felt need of all developing states. Higher education and subsidised provision of tertiary education is becoming an unsailable target for most of the state due to increasing unit cost and tax payers cost of fund ,Bankers concern over enormous bad assets in this sector of lending makes it very sensitive from the point of supply and recovery mechanisms. India , being a state with eniormous potential from human capital and with her unique demographical claims cannot neglect the sector. The rbi has chalked a model educational loan scheme to support the aspirations of meritorious economically weaker students following various reports for commercial banks. Ever since its inception , public and media is showing a mioyopic attention towards the administration of the loans and an over sencitisation of the debt recovery process of banks. The flip side of this issue is the demand for educational loans. In Kerala parents are buoyant about the E L than the students since governments can no longer keep offering free higher education and keep subsidizing higher education (Johnstone et al 2008). Thus, governments have started encouraging more and more cost sharing in higher education. According to Johnstone et al, cost sharing is “the shift of some of the higher educational per-student costs from governments and taxpayers to parents and students” (2008: 9). The hue and cry on this issue by parents and media gained good public sentiments when the applications are turned down by the certain Banks. The awareness on the Scheme bears a significant hold on the utility of any welfare scheme of the state . The awareness level comprising the under standing on the objectives , the eligibility, the security requirement, morotorium period , repayment conditions , concequences on failure , Credit Information Beareau of India Limited (CIBIL) implications etc., the adequacy of various loan properties also influences the utility of loan for clear reasons. The utilisation is a factor that how efeectively the loan is used for higher education. The

present study makes an effort to weigh the reliability of this factors for a model loan utility. The present paper is under taken with an intention to weigh the factors like awareness on the loan scheme , adequacy of loan and utilisation of the loan by the loanees of commercial banks in Alappuzha District of Kerala

Introduction

Education plays a pivotal role in human resources development and empowerment of any sect in a society. The policies of central and state governments are generally directed to meet this end. When the primary education is made available to all as a matter of right higher education is moving to the domain of private sector. As the government gives lesser subsidies to the machinery of higher education the cost of the same is always on the higher side.

Nevertheless, the importance of higher education for the economic development of a country cannot be challenged. Bray argues that "... While basic education is necessary, it is not sufficient for economic development" (1998: 638). Brock-Utne states that the attitude of World Bank towards higher education in African countries led to the neglect of higher education in these countries. This perception of the World Bank has changed now and they have started to see the significance of higher education in the development process of developing countries (Brock-Utne 2000).

Educational Loan Scheme

In the backdrop of diversified courses and widened scope of educational perspectives institutional funding is regarded as the only remedy for human capital appreciation. The Indian economic conditions too, endorse the need and significance of institutional financial support for social and economic development of her subject. The first initiative in this direction was made by a study group under the chairmanship of shri R J Kammath, M D of Canara Bank which submitted its report in August 2000. Following this report ,the Education Loan Scheme aims at providing financial support from the Indian banking system to deserving meritorious students to pursue higher education both in India and abroad.

Importance of the study

Knowledge and information would be the driving force for economic growth in the coming decades and can also eliminate many vices from the society. The institutional financial support given to avail higher education to the deserving hands as a policy of the state therefore implies heavy social responsibility and ethical dimensions. State Bank Group with other public sector banks is offering educational loans to the students for the past several years. But the tradeoff between commercial /business interest with social responsibility is explicit and the apprehensions need to be cleared. Chairman State Bank of India Shri Pratip Haudhuri's remark (Times of India TNN Sep18,2013) "The Bank recorded its highest ever profit of Rs 14105 crores but this was marred by a surge in bad loans due to educational loans" is a matter deserving further investigation. There are differences of opinion in extension of years for repayment among various banks. All the banks in this domain have made it very clear that they are very sensible to the needs of the society and do understand the importance of human capital development in the literature part of their annual statements. To verify this claim, a study to reckon the core concerns of banking industry in this region is a good suggestion. It will yield vital information that have heavy social bearing. The general policy makers are insisting the dilution in the structure/policy of these loans by making favorable revisions in different terms like repayment period, interest rates, waiver of outstanding loan amount etc.,. On the contrary banks are insisting strict monitoring. Moreover it considers moral suasion as an irrational and unproductive tool for recovery of loans. The data available on educational loans from March-end 2005 to March-end 2012 from various issues of RBI Annual Report is worth mentioning. During this period, Educational Loan (E L) increased from Rs 5,700 crores to Rs50,200 crore, yielding a Compounded Annual Growth Rate (CAGR) of 36.5 per cent compared to that for gross bank credit (GBC) at 22.7 per cent and Priority Sector Credit (PSC) at 20.7 per cent. The performance of EL scheme looks impressive due to its low base. Against this, its year-on-year growth, which was 75.4 per cent in 2006, nosedived to 14.9 per cent in 2012.

The flip side of this issue is the demand for educational loans. In Kerala parents are buoyant about the E L than the students since governments can no longer keep offering free higher education and keep subsidizing higher education (Johnstone et al 2008). Thus, governments have started encouraging more and more cost sharing in higher

education. According to Johnstone et al, cost sharing is “the shift of some of the higher educational per-student costs from governments and taxpayers to parents and students” (2008: 9). The hue and cry on this issue by parents and media gained good public sentiments when the applications are turned down by the certain Banks. The present paper is under taken with an intention to weigh the factors like awareness on the loan scheme , adequacy of loan and utilisation of the loan by the loanees of commercial banks in Alappuzha District of Kerala.

Statement of the problem

Being a priority sector item educational lending requires much assistance from state. But raising it to the status of productive means of lending is important in pure banking perspectives. The original scheme of educational loans i.e. National Loan Scholarship Scheme was initiated in India in the year 1963 and it continued till 1991. The government sponsored National Loan Scholarship Scheme proved to be a failure when assessed in terms of recovery of loans. Moreover, the economic crisis facing Government of India in the early nineties necessitated the winding up of the scheme. Hence, it was dropped in the beginning of the nineties. At the same time, it was realized that a similar type of educational loan scheme was required to cushion the impact of rising user-charges in India. Accordingly, a new scheme of education loans, namely, Education Loan Scheme, was started. The main canon of the scheme was its economic viability. Since its inception the terms and conditions were revised many times taking into account the diversified needs of students. A lot of studies have been reported addressing the problems in this area. But a thorough survey of literature revealed that there is dearth of studies about certain vital factors of EL. The awareness on the Scheme bears a significant hold on the utility of any welfare scheme of the state. The awareness level comprising the understanding on the objectives, the eligibility, the security requirement, moratorium period, repayment conditions, consequences on failure, Credit Information Bureau of India Limited (CIBIL) implications etc., the adequacy of various loan properties also influences the utility of loan for clear reasons. The utilisation is a factor that how effectively the loan is used for higher education. The present study makes an effort to weigh the reliability of these factors for a model loan utility.

Objectives

The paper was initiated with two specific objectives.

1. Assees the awareness as a factor in a group of sample respndent of Educational loanees
2. Examine the factors such as adequacy and utilization of loan to the student loanee

Methodology

A very simple methodology was adopted for the study with a questionnaire containing twenty statements scaling the factors like awareness of the educational loan scheme , adequacy of the loan and utilization of the loan . The reliability and validity of the questionnaire was done with Cronbach's Alpha values giving a result more than .6 for all the factors. A five point likert scale has adopted for scaling their response. A conveyient sampling has been used covering Alappuzha District of Kerala State , which has the credit of one of the highest loan disbursement as per the statistics of State Level Banking Committee, Kerala (SLBC).

1.1 Awareness on educational loans scheme and loanees response

The study has initiated with three specific objectives . The awareness level of any scheme or project has a direct link with the success of such endeavour ,as such the level of awareness of loanee scales the general under standing of educational loans . The twelve statement selected for the response to scale the awareness and their corresponding mean values , standard deviation and total correlation is presented in table 1.1 . It will prove specific insights in to the general understanding of the respondents on the scheme of Educational loan as a whole.

Table 1.1**Awareness on educational loans scheme and loanees response**

Sl. No	Statements on Awareness	Mean	SD	Total Correlation
1	The objectives of this educational loan scheme and my eligubility	2.26	1.601	.107
2	The Borrowing Limit of the loan scheme was clear to me	2.56	1.740	.791
3	Rate Of Interest of this scheme and other rates	2.64	1.638	.639
4	The Moratorium period provided by banks for repayment and the implications of default	2.96	1.749	.736
5	The Security Required by the banks and the seriousness	2.76	1.623	.771
6	The Formalities involved for sanctioning of loan	2.16	1.583	.616
7	The Subsidy availed by the other loanees for puntual repayment	1.60	1.069	.475
8	The CIBIL functions and credit rating,its implications in future financing	1.84	1.131	.152
9	The size of the loan ampount , the repayment potentials and consequences on default	1.72	1.262	.232
10	The loanee Associations and functions,role	1.52	.953	.432
11	Central scheme of interest subsidy for EI (CSIS)	1.80	1.457	.412
12	The web portal for sc/sc students	1.36	.898	.149

Among the statements intended to grade the awareness ,as regard awareness on moratorium, seriousness of security,interest rates of Educational Loan and other loans are average but all other statements are securing a very low smean score on their

awarenesslike The Formalities involved for sanctioning of loan ,The Subsidy availed by the other loanees for puntual repayment ,The CIBIL functions and credit rating,its implications in future financing The size of the loan ampount , the repayment potentials and consequences on default The loanee Associations and functions,Central scheme of interest subsidy for EI (CSIS) and The web portal for sc/sc students. As far as the correlation of statements on this particular factor is concerned a value more than .3 is indicating a better corelation. Questions on Web portal and CIBIL awareness is giving a response away from the genereltrend. The aspects like moratorium, interest rate,security requirement are much cared while approaching the bank for Educational loans. Where as the size of loan amount,the repayment potentials, concequences on failure on repayment are least bothered/ aware of. However, on five point scale of awareness the values of 2.5 or around does not support a fruitfull discussion or serious thinking before opting for educational loan by the loanees. Thew overall awareness level is very low.

1.2 Adequacy of educational loans and loanees

In order to draw the the information on the adequacy of loans , the quistionnaire has incorporated another six statements regarding the adequacy factor . It includes the amount of loan,rate of interest applied,time for sactioning loan, security aspects ,and the documents asked for sactioning. Except the rate of inerest all other aspect are positively approved by the respondents with mean score equating more than three points. Regarding amount, security and time , the respondents are showing a good corelation among the aspects in the factor.

TABLE 1.2

Adequacy of educational loans and loanees response

Sl. No	STATEMENTS OF AGREEMENT	Mean	Std. Deviation	Total Correlation
1	<i>Amount sanctioned as EL loan is sufficient to meet cost of education</i>	3.52	1.432	.209
2	Rate Of Interest applied on the EL is reasonable in terms of other finances	2.76	1.465	.253
3	Time For Sanctioning EL is comparatively less for the admission	3.48	1.374	.495
4	Security demanded by the bank is manageable	3.64	1.367	.497
5	Documents demanded by the bank is very important and relevent	3.04	1.628	.220
6	Educational loanees are charged high rate of fees than other students with out loans	3.20	1.666	.558

Statements like *Amount sanctioned as EL loan is sufficient to meet cost of education* ,Security demanded by the bank is manageable and Time For Sanctioning EL is comparatively less for the admission. It is clear that the adequacy , as it is based on the fee structure of the college that the amount is sanctioned . However the other expenses ,esoepecially the item which is connected with staying outside the state and other heads of expenses remain unattended. Regarding time and security loanees are not concerned and they are comfortable. But the rate of interest and documentation the loanees are well off. The overall correlation of statements on time and security the loanees are showing a pattern of agreement. The loan is adequate only to an average level.

1.3 Utilization of educational loans

This section covers the utilisation aspect of the educational loans by the loanees.The facor is supported by aspects such as other sources , distribution of expenses over the semesters or years ,monitoring element by the bank for fair utilization , time for

disbursement to college, payment other than the scheduled one and the communication part of results to the parents were also incorporated. The likert scale used for the response was as same as before.

TABLE 1.3

Utilization of educational loans and loanees response

Sl. No	Statements of agreement	Mean	Std. Deviation	Total Correlation
1	I have to arrange other finance to meet the total cost of education	4.28	1.161	.193
2	The expenses were spread evenly over the semesters during the course	1.84	1.299	.401
3	The payments were monitored by the banker for fair utilization	4.28	1.126	.524
4	The amount was disbursed in time for the proper utilization	4.28	1.011	.492
5	I have remitted the balance of fees at the counter of the college	3.36	1.367	.392
6	I informed my parents about the suplimentary subject exams result in time	3.80	1.400	.299

Table 1.3 shows the response of loanees on the utilization aspect of loan amount. Regarding the monitoring of utilization and time of disbursement, the loanees have no difference of opinion as they agree on the statements with highest meanscore and low standard deviation. It is also evident that there are some expenses which are not covered by the loan amount but are remitted directly by the loanee at the counter of the college. The first statement and the last statements on other sources and communication of results to the parents are deviating from the general trend with very less correlation. The utilization more than average.

Conclusion

Looking at the exhibits annexed the awareness is not so high as it would be there for any successful projects. The student loanees are not much aware of the aspects which are crucial for the scheme. Following the trend many students are availing the loans as a matter of financing alone, But the pivot of the Educational loan scheme is all about the meritorious students and their economic backwardness is not much cared. Besides, awareness is a vital parameter for weighing the eligibility of loan as an option for finance on the different points of scheme and its applicability. In the study the respondents are showing not very convincing meanscore on the factor awareness. It can mar the repayment potential of the loanees as they have not understood the implications of loan and subsequently the loanee may turn as a defaulter.

The adequacy of loan is giving a better position than awareness. Loanees have shown response on adequacy as moderate and the responses are convincingly correlated. The utilization part do confirm the statements positively sufficient for the higher education requirements. The successful loanees are those who have successfully placed and having good sense of commitment towards the repayment.

Leaving a good scope for furtherance of research these three factors are very relevant for a thorough factual enquiry.

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