CHAPTER II
REVIEW OF LITERATURE

In this chapter, the researcher gives a detailed account on what has been written and published in the area of priority sector lending and educational loans by accredited agencies, scholars and researchers. To achieve this end, the researcher has surveyed literature on the issue of priority sector advances made by commercial banks. In all about 100 articles, both published and unpublished articles has been reviewed to understand the key focus areas of research in this domain to identify research gaps, develop research questions for further empirical investigation. In the section that follows, the researcher presents an overview of some of the key works on priority sector advances carried out at the National and International level.

2.1. Studies on Priority Sector Lending in India

Several researchers have attempted to shed light on priority sector loan in India. An account of some of the key researchers is given below.

Rangarajan (1991) has find out that developing the quality of loan assets proves developed efficiency of banking system.

Krishnaswamy (1992) argued that several of the recommendations made by the committees on priority sector advances have considered only the interests of large industrialists, which have on one side laid its hands towards reducing government regulations as well as improving profitability of the private industrialists.

Rajeevkumar (1993) study on PSL by commercial banks found significant growth in the development of institutions and institutional credit for priority sector in India. However, the study observed that both under-banked and backward states still continue to be neglected and therefore measures such as incentives and concessions has to be floated to these areas. Further, the study suggested that certain measures like loan mela, debt relief schemes and similar other measures that paralyze financial discipline among consumers needs to be stopped. Moreover, political interference in the management of commercial banks such as during bank appointments, promotions, transfers and operations have be stalled if the social objective of nationalizing bank’s operation has to be achieved.

Singh (1997) identified two factors- exogenous and endogenous, which create stress and strain to banking system in India. Increase in SLR, CRR, industrial sickness, expansion
of banking operation to unbanked areas, emphasis on social goals, unfavorable changes of deposit mix and growth of financial disintermediation are found to be significant causes which inflicts stress the commercial banking system in India.

Angadi (1998) the study has observed that concentration of priority sector lending for general and agricultural loan and advances, in several states of India is due to rapid branch deposit mobilization, expansion, adoption of high yielding variety, privileged cropped area, etc.

Ganesan (1998) study found an increase in priority sector credit outstanding 80 times from Rs.765.11 Crores during 1969 to Rs.61794 crores during 1995 with a growth rate of about 19.20 percent. The study observed that PSL to agricultural sector increased to 15.13 percent (1980) from 6.95 (1969). However, the share of agriculture sector among other sectors has indeed declined. During March 1997, agriculture sector was allotted 18 percent, but the data has revealed that the target-set by RBI could not be achieved by private sector banks. With regard to small scale sector advances, the percentage has increased (16.60 percent in 1997). The study concluded that priority sector lending performance by commercial banks are yet to reach the unreached, the neglected sectors. Therefore, the author has recommended for redefining the definition of priority sector and suggested RBI to beef up the activities to ensure that approaches to increase the effectiveness and efficiency of PSL are well grounded, taking into consideration of all the constraints that it faces in the current economic scenario.

Ram (1998) study on students’ loan program in Singapore reported significant success of the loan program among students. The study contended that opportunities for employment, demand for skills and competencies, shortages in skilled labor and return on investment of educational strategy have significantly contributed to the economic prosperity in Singapore. Therefore the study recommended for implementation of educational loans through public debate, persuasion and effective follow-up.

Mujumder (1998) study on the credit support to priority sector and found that there are at least three reasons why Priority Sector Lending is granted. In the first place, the financial sector reform (1991-1996) has highly affected the interest rates of the priority sectors. The new interest rate was found to be regressive and partial against priority sectors. Secondly, this paper deals with the ninth plan (1997-2002), according to which agricultural and rural development activities are given importance for future growth. Hence, credit policy has found to have no impact on the Ninth plan. Thirdly, the priority given to
Priority Sector Lending by RBI in Post November 1997 will be effective only when commercial banking and ‘social banking’ are supported.

Muhammed Yunus (1998) strongly agree that credit without proper discipline will be a failure so that instead of supporting the needy it will trouble them. Loan recovery mechanism is critical for support PSL as well as in improving the overall delivery of Priority Sector Lending.

David (2000) observed that priority sector lending has indeed increased the flow of capital to the unregulated markets; however, the extent to which this translates into economic opportunity for small borrowers in India is rather unclear. The author also contended that given all the rosy pictures about the policy framework on priority sector lending and the growing emphasis of RBI, greater majority of the formal financial institutions continues to fail to serve 94 per cent of the rural and urban poor.

Narasimham Committee (2001) has pointed out the importance of gradually phasing out of credit programmes to improve financial discipline and accountability to the overall system of credit advances.

Majumdar (2001) contended that financial sector reforms have bypassed the priority sector his evident from the low level of credit allotted to priority sector. Due to which public sector banks (PSBs) face heavy loss and mounting of non-performing assets. However, the author observes that an internal working group set by RBI under the headship Murthy to evaluate the need to continue with existing PSL prescriptions. Based on the recommendations forwarded by the working group, the guideline for PSL were revised on April 30, 2007 and overall target set for domestic banks is 40 per cent and for foreign banks is 32 percent. The agricultural advances are aimed as 18 per cent for domestic banks and the target in case of SSI was fixed at 12 per cent for foreign banks (RBI, 2009).

Niranjana and Anbumani (2002) stated that the bankers are anxious about the loss of interest rate in the income due to high advances granted to priority sectors. Further, RBI and government agencies are putting enormous pressure on commercial banks to provide for the priority sector and the demand for funds is also increasing leaps and bounds.

Rajagopal (2004) observed that concessional credit should be granted only to the unprivileged sect of the society and the Commercial rate of interest could be collected from the privileged section of the society which can afford.

The World Bank (2004) white paper on ‘Sustaining India's Service Revolution’ asserted that ownership of government on nationalized banks not only increases competition
but also the cost associated with lending. The report stated that the RBI's norms regarding PSL is responsible for the weakening the financial health of commercial banks, both domestic and foreign. The report indicated that government’s ownership has also leads to insufficient competition among the banks, which in turn results in lowering capital allocation efficiency, increased cost of intermediation, and lower levels of lending to the needy private sector.

RBI (2005) report suggested that the extraordinary lending of banks must be the grounded framework employed for computing priority sector obligations, especially with regard to NBC. The report observed shortcomings in obligations and lending has declined due to better recovery, write-offs, etc. and the impact of NPAs is significant on PSL. Further, the report observed that performance of banks with regard to PSL has been directly linked to the total lending performance during the same period. Therefore, to improve the flow of PSL to priority sectors, it is important that both policy measures as well as tangible action plans to be instituted to ensure adequate flowing of funds to the commercial banks, both domestic and foreign.

Shirline Lawrence (2005) Stated that though commercial banks loan increased the percentage of loan to small scale industries which results in expending the proportion allotted to priority sector, the small scale industry has not received the same ratio. Weak infrastructure facilities are a constraint that place checks on the flow of credit. Therefore, the study recommended for conducting awareness programs and industrial training for entrepreneurs as a remedial measure to improve the situation at hand.

Patel (2006) contended that changes are expected from the traditional banking ethics to match the needs of economic development. Unless the hold of the commercial banks in the rural and neglected areas is strengthened there is no possibility for balanced development. Hence the fundamental changes in the traditional banking norms will contribute to improve credit access to the unbanked household sector so as to mainstream the sector for national development. The author contends that this is the way forward to make a move from security based credit to program oriented credit.

Rao (2006) observed the contribution of priority sector’s progress for economy during the period 1994-95 to 2003-04. The study highlighted that priority sector credit including farm credit of scheduled commercial banks declined during the said period indicating the preference of banks for bigger borrowers with higher credit limits instead of large number of small borrowers. Further, the study observed the decline in indirect credit to
agriculture and small scale industries sector but relatively better position in credit to other priority sectors during the study period. Rao referred the recommendations of the Narasimham Committee 1991 and 1998 to redefine the concept of priority sector and the observations of RBI committee to stress much on direct agriculture lending, small scale industrial lending, lending to water transport operators and small, retail trade and small business under priority sector. The author recommended several measures to improve the input delivery system, water management system, power supply, irrigation facilities, market information and general rural infrastructure, educational and medical facilities, reforming RRBs, state and central co-operatives and scheduled commercial banks for extending rural credit in rural areas to ameliorate the problems associated with the decline of credit to the priority sector.

Singh Kaur (2008) observed that academic inflexibility stand as the reason behind the involvement of the private initiatives in higher education and they as the providers/stakeholders and loaners who struggled to change the formal system to cater to the needs of the students in many of these private institutions.

Uppal (2009) has found that performance of priority sector advances by public and private sector banks as better when compared to foreign banks during 2006-07. The study observed the failure of public sector banks to achieve the plan outlay, however, private sector has comfortably achieved the target. However, private sector banks could not achieve the target for weaker section. Further, foreign banks also have shown significant achievement of target for priority sector, small scale industries sector and export sector. The study also observed PSL as the reason for increasing NPAs among commercial banks in India. Agriculture sector advances is the most significant contributor for increasing NPAs in public and private sector banks. Low profitability, more NPAs, Government interference and high transaction cost are said to be the key determinant for NPAs among public sector banks in India.

Veerakumar (2012) observed that the Indian banking sector is facing serious problems, especially with regard to NPAs. The author contended that since the nationalization of banks in 1969 NPAs affect the entire banking industries. It also pulls down the quantum of credit, creates asset-liability mismatches and regulates the recycling of funds. It also lays hold of solvency position, liquidity and profitability of the Indian banking sector. The author argues that 'Direct Lending System' under ‘Social Banking’ is one of the major reasons for higher NPA among public sector bank. 'Direct Lending System' is the guiding
principle adopted by RBI, through which commercial banks are mandated to lend 40% of its credit outlay to the priority sector to enhance economic development. The study observed higher net returns and growth both in percentage and in absolute terms has been achieved by NPAs of the priority sector over the years.

2.2. Studies on Educational Loan Sector: International Level

Graham Fowler (2000) observed that while an increase in the number of students taking up higher education has been welcomed, finance availability for supporting higher education has not met the same enthusiasm and success in almost all countries. As higher education is highly privatized, requirement of loans to sponsor studies has become an important necessity today, more than ever. The author contended that the fruits of higher education can only be achieved if adequate funding both by public expenditure as well as to private funding that helps students across social levels to have access to quality higher education. Better education would invariably results in better qualified and skill human resources, which in turn would contribute to the economic development and prosperity of a nation.

Christman (2000) study among students, staff, and faculty examined the factorial reasons for lower repayment of educational loans. The study found that student characteristics is the most important determinants of loan default, student’s attitude towards debt and the dissatisfaction about the course and institution they study also results in them developing poor attitude towards loan and debts.

Monteverde (2000) study on loan default by students observed that neither the course nor the institution plays any role in explaining poor repayment behaviour of borrowers. The study observed that borrowers’ willingness to repay and his/her ability to repay are the significant determinants of repayment intentions among borrowers.

Flint (2000) contended the role of adequate disposable income in explaining the repayment behaviour of borrowers. The author observed that disposable income is not a sufficient condition for borrowers’ commitment to repayment student loan.

Johnstone (2002) study in Tanzania observed that the educational loan scheme is necessary for improving access to quality higher education for poor students. As the foundation of the speculation for the poor students, the achievement of the loan is probable to be suitable to them in all aspect. The features comprise the measures for application, distribution and reimbursement. With suitable techniques it is careful that the students will
therefore capitalize in themselves concluded higher education and obtain the information and services which will qualify them to get developed incomes – presumptuous that the employment marketplace motivation be on their lateral. And for that substance reimbursement of the loan may not be a problematic for persons who decide to pay back, leave alone purposeful debtors.

Vossensteyn (2002) study on the context of higher education system in Netherlands observed significant changes as students today are expected to contribute more towards the cost of securing higher education. The author observes that in Netherlands, tuition fees for higher education are going up on one hand and educational subsidies or scholarships available to students are going down or replaced by loans or grants. This situation is said to significantly affect both students’ enrolment as well as their choice to take up a particular program of higher education and higher net returns.

Nyborg (2003) reopened the role of public expenditure for financing higher educational needs of the members of a state. The author observed declining proportion of public expenditure on education and asserted that private money can accompany public funds, however, it should not be a reason for authorities reducing their level of commitment and public resources for education. Public authorities indeed should be responsible and accountable for ensuring increased access, equality in opportunities including policies and student finance, if it aims to make higher education as a public good.

Adrian (2003) Student loan schemes are prevalent in more than fifty countries but they differ from one another on the basis of the central objective and policies they hold. Hence five different objectives are chosen and the level of influence (design as well as operations) of the scheme and the financial sustainability are taken into consideration. The chosen different objectives are: pure cost recovery; meeting specific manpower needs; facilitating the expansion of the higher education system; easing student financial burdens.

Corak, Lipps and Zhao (2004) analyzed the impact of family income and post-secondary participation of students from affluent families. The study found that individuals from higher income families opt to attend university and the relationship examined has gained strength during mid 1990s. During the study period, participation of study became weaker, which reflects the changes in policy about the maximum loan amount and the changing tuition fees structures as a result of privatization of higher education.

Erik (2004) observed the importance of providing financial assistance to students pursuing tertiary education. The author asserted that students of tertiary education are a
significant contributor for accumulation of capital. This can be achieved through increasing the total enrollment of students to the tertiary education sector and by improving students’ academic performance in a consistent manner.

Canton and Bloom (2004) analyzed student’s loan program (SOFES) implemented by private universities in Mexico. The study indicated the relevance and importance of student loans on students’ enrollment and academic success, as demonstrated in the form of higher enrollment percent in upper secondary education from higher secondary to about 24 percent. Further, the study also found that SOFES recipients also excelled in their academic performance compared to other students. However, the authors contended that these results cannot be generalized as the impact of the student’s loan program, since the impact also could reflect the individual discretion and self-selection of students to choose a particular course and direct their energies by engaging in learning behaviour through self-determination.

Holdsworth (2004) study about Higher Education Act (1965) in the United States of America asserted that the monopolistic performance of U.S federal government in sponsoring the student financial aid schemes. The study observed that non-repayable grants such as Pell grants constitute a majority portion of federal aid to support education. However, the study observed significant changes in both the policy as well as the operational atmosphere around student aid system – to an interest-based student loans from grant-based system.

Saratha Sinha (2005) analyzed the importance of women development through education and the importance of financial support in this relationship. To the author, educational development and the acquisition of vital skills are necessary for women to improve their income generation ability, which is critical for women as well as the economic development of a nation, by and large. The study also highlighted the increasing motivation among women to adopt career on their own.

Ziderman (2005) contended that the old and most actual technique of ornamental, the educational admission of the poor has been the complete delivery of funds; confirmed contributions (scholarships) to concealment training fees (in that case schooling is not free) and frequently existing expenditures as healthy. Though contended, a extensive studentship arrangement is probable to be exclusive, consequently the use of loans somewhat than subsidies suggestions a technique that together growth admission for the poor and decreases, or at minimum comprises, public disbursement above the lengthier time, as loan repayments
figure up. Debatably, advance arrangements are predestined in a way that unreached population segment (poor) should be reached; if not, the social mosaic and the relevance of the scheme, effectiveness of such arrangements will be lost.

Birch and Miller (2007) study on educational loans found that students from poor background take educational loan to further their studies and develop their potential to become employable. The study observed that the parameters of loan schemes do not seem to be influenced by family background and history of taking advances or credit. Students from poor households are likely to utilize education loans because of short-term credit constraints. The authors demonstrated that educational loans schemes provide a significant opportunity for students from poor population segment to see the light of higher education, a key for social mobility and economic mainstreaming.

Elisa Rose Birch (2008) investigated the determinants of student’s loans at university level. The study found that socio-economic status of student is a significant determinant for securing government-funded educational loans. Furthermore, demographic factors and enrolment characteristics also found to be significantly influencing determinants of success of securing educational loans.

Andrew Austin (2008) analyzed the impact of interest rates and subsidies on student loan volumes for two periods (1988-1994 and 1996-2006). This study suggested a model of student loan segment. The study observed if when lenders receive rents (economic) due to subsidies, which are generous, in that situation any small change in subsidy will have no effect on the supply level of loans. Based on a variety of estimators, for instance, GMM, the study concurred that the link between higher SAP margins and loan volumes is relatively weak for both the periods. Finally, the study suggested that subsidy reduction play no effect on loan volumes, however, when the real borrower interest is increase, student loan volumes are likely to be reduced.

Shamsuddoha (2008) demonstrated several essential conditions for successfully landing educational loans among poor students. By scrutinizing loan applications effectively based on eligibility conditions and criteria are pro-acting targeting of beneficiaries are critical for identifying most deserving students for educational loans. To ensure that the loan scheme is effective, the scheme has to expanded nationally to ensure that deserving poor students and those who are highly motivated to pursue higher education are covered.

Chapman and Hunter (2009) observed the changes as well as reasons for instability of student loan policies in Thailand. The consequence of disparate possible approaches to the
payment of tuition fees is found in two main respects and they are compared and contrasted. The study contended that effect on internal rates of repayment for higher education investments and the implications of different approaches are time bound. Moreover, due to inefficiency in policy design, income contingent loans are quite population compared to other models of student loans.

Don Hossler (2009) asserted that student characteristics as well as their attitude, willingness and their ability to repay significantly determine borrowers’ propensity to repay. The study found that the role of institutions as well as the course pursued plays no role in explaining the repayment behaviour of the borrowers.

2.3. Studies on Educational Loan Sector: India

Baum and Saunders (1998) study on cost benefit analysis of student debt compared to total indebtedness at graduation to the total gross annual income of students. The study found that in the first six years of practice, the graduates experience a great deal of burden in repaying loans. However, the figures after year six demonstrate that students will be at a marginal level of cost to benefit ratio with an average 95% of total income to total debt. This figure goes well over this margin if students reach the projected loan amounts of $123,334 to 139%. According to this research, although this would not be uncommon for professionals, but indebtedness may cause dissatisfaction among students with their education. It will definitely cause those who are indebted to these levels to delay some decisions and purchases in their life circumstances. According to the analysis of this data, the return on the investment of this population should occur after year six in practice, at which time the monetary benefit level would better meet the indebtedness of the student.

Kamath (2000) model illustrated the need, relevance and significance of providing financial assistance to deserving students of higher education in India. The model suggested that it is the duty of the government and the commercial banks to provide financial help to students to pursue higher education and their economic status should have no binding on the selection of the students. The model also suggested that banks take up PSL seriously and with regard to educational loans, bankers should work out affordable terms and conditions to ensure that the access to such financial assistance is not influenced by the socio-economic profile of the applicants.

Mishra (2003) discussed the scenario of higher education system in India and the role played by the government in providing for the educational needs of the citizens of India. The
Author concurred the importance of change in the public expenditure, which is necessitated by changes in the economic landscape and coupled with the proliferation of private players in the education market. This study supported that self-sustaining model of financing for education is the emergent phenomenon and under financial constraints, it is very difficult for the government system to full sponsor for the educational needs of the people in India. It is timely that banking institutions take up PSL to educational sector seriously to identify meritorious students pursuing courses that are in high demand as well as professional courses that embody students with most sought off skills and competencies. Only when students have good access to quality higher education enabled through sustainable financing model, the impact of education on the economic development of a country will be lop-sided and ineffective. As more professional courses are on the offing, it is necessary that students are financed to pursue these courses, develop employability skills and contribute towards economic independencies of themselves and society, by and large.

Srinivasan (2003) analyzed the process involved in selecting a beneficiary for educational loans to pursue higher education in the study area New Delhi. The probity model is used for statistical analysis and certain issues like the background of the problematic borrowers, the problems faced by the applicants, and measures needed to overcome inadequacies associated in securing educational loans. The study has also demonstrated that a student opting to continue his or her post graduate education after under graduation prefer education loan than those who go for under graduation. With respect to bankers, the study found that banker prefers to sanction loans to students of government-run professional colleges and universities. However, prior work experience of the students is not taken into consideration for granting education loan. The study also points out the reluctance lying on the part of the private sector banks to provide educational loans.

Shatrugna Committee (2004) examination of the pattern of utilization of the educational grants to the higher education sector suggested that the UGC may institute newer mechanisms of providing grants, perhaps in the form of a matching grant to motivate universities to generate its own resources. The committee recommendations are more or less the same in regard to the aided deemed universities.

Narayana (2005) asserted that every meritorious student should provide educational loans with affordable interest rates and conditions irrespective of the social status of the borrowers. Current financial inefficiency or social status should not stand as a reason for a deserving student to be denied higher education.
Tilak (2005) analyzed the importance of public funding for higher education in India. The author observed that the costs of higher education can be categorized into three components such as, student welfare costs, academic support cost, and academic costs. The author also highlighted the readiness of the industrial sector to make huge investment in the higher education and research development and hence recommended that efforts should be taken to raise funds from non-governmental sources. Further, the author posited the dominant role played by the state and the union government in financing higher education. UGC also should institute mechanism to monitor and govern the growth of universities and the institutes of higher education. Finally, the author concluded that all forms of financial assistance or grants provided to the higher education from internal and external sources should be completely transparent.

Sahu and Rajasekhar (2005) analyzed the trends in credit flow to educational loan by scheduled commercial banks during 1980-81 to 1999-2000. They observed that the credit to educational loan in total bank credit for all the bank groups declined significantly, especially after banking sector reforms in spite of many efforts. They analyzed that scheduled commercial banks provided large quantum of funds to better-off farmers and to the activities earning high interest income only. They established the negative relationship between educational credit and investment in government security, credit subsidy and proportion of credit provided by the commercial bank. They recognized that increasing lending rate reduced the credit disbursed to educational loan by scheduled commercial banks and affected the average quality of their loan portfolio. So they suggested in not to increase the interest rate to offset losses from defaults or to meet the lending cost, but to strengthen the quality of credit delivery system and ensure prompt repayment of loans for supporting the educational loan borrowers.

Akeem A (2006) Student loan indebtedness has been increasing over time, especially for non-white pharmacy students. Future research should be done to examine other factors that might influence student debt load, work contributions and choice of practice settings. The affordability of pharmacy education for students and how salaries may or may not help off-set these costs also should be examined closely.

Murali Patibandla (2008) examined the contribution of higher education in making India successful in being part of globally traded services, with special reference to software engineering. The author has found that the institutional structure has major role in producing a quality engineer to match to the current needs. This stand as a remarkable achievement.
based on the rapid change in both job requirements and the role of people in higher education. The author contented that while it is too early to assess whether the currently emergent needs, particularly in project management, research, and entrepreneurship, will meet the current structure. They argue that the state’s role as regulator will be problematic. The state has so far proved its capabilities of being an effective regulator. They also argue that new regulatory capabilities are required for the state to address the evolving problems.

Department of Banking supervision (2006) The analysis also found that the during the reform period banking sector mainly gone in favor of the medium and large farmers which is against the core principle of equity.

Ismail (2008) highlighted the importance of ‘asset-backed securitization’ for overcoming problems of repayment in student educational loans segment. The author suggested that this securitization process as well as the utilization of newer financial instrument will benefit student as well as the government.

Rugambuka (2008) questioned the effectiveness of HESLB (Higher Education Students’ Loan Board) – with regard to procedures adopted, disbursement process and measures of loan recovery. The author observed that to a greater extent, the application process is cumbersome with delays and not convenient to the borrowers. These inconveniences are likely to create negative attitude among borrowers, which in turn may results in difficulty for the bankers to recover the loan given. The author also found that although there are established structures and measures to enhance loan repayments, in practice, achieving loan recovery is a huge challenge for the bankers.

Gandhar (2010) observed that educational loan segment is becoming popular among the students of higher education in India. The author contended for the need to work on the weakness and shortages of the scheme and suggested several measures to be undertaken by the authorities.

Babli Dhiman (2011) observed that education is the backbone of a cultured society, but it has become more commercial or money-making and in order to ensure the best possible education, it is an expensive affair. Therefore, the education loans are biggest support for the needy persons. The study primarily focused on professional education through banking services (loans) which includes the role of various banks in providing education loan service and its effect on the education system of Indian economy. The comparative part of the banking services (education loans) provided by the various banks shows the significant effect on education sector prior and post availability of banking
services. The study found that there is a significant effect of education loans in development of Indian education sector because educational institutes started increasing after education loans were introduced. So that students are also benefited from education loan schemes. The study observed that SBI & PNB both have education loans income at increasing rate which is the significant part of the total income. Therefore, the banks should have to encourage more education loans for the growth of the banks as well as for the education developments.

Bhattacharya (2011) observed the difficulties that students face to meet the loan repayment commitments promptly. The situation also threatens the bankers and places them in a confusing and conflicting situation. As a result, the bankers habitually look at the government policy to offer educational loan with caution.

Srinivasan (2011) found that students or borrowers find it more convenient to receive educational loans from public sector banks compared to private sector banks. Furthermore, students are more likely to successfully land up educational loans if they are pursuing post-graduate or professional courses from government institutions and also if their social status is good.

The Times of India (2012) report on educational loan observed that some banks make the educational loan a real business despite the good intentions of the central government. They expect the payment of interest for the educational loan in the moratorium period itself, excepting a student to start repaying the loan still in college. Sometimes the parent has to take the additional burden of repaying the student loan if their daughter is married soon after graduation in order not to embarrass the groom.

Rekha Goel (2013) suggested that the procedure and processes associated with educational loans should be made easier for the students and their parents; low interest rates and quicker processing of application and disbursement are critical to start the lending process in a positive state.

Navaneetha (2013) highlighted the importance of educational loan for higher enrollment as well as the development of human capital for sustainable economic development of India. As education has become an expensive proposition because of privatization, the fee structure have increased leaps and bounds thereby crippling students from economically weaker section to have an higher education dream. In the light of growing importance of education to quality of life, the author contends and suggests why educational loan is a key catalyst for social mobility and economic development of India.
Raman (2013) it is evident that the Non-performing asset in India has adversely affected the profitability and efficient functioning of the banks. To enhance the situation at hand and to improve efficiency of commercial banks and its profitability, NPA segment has to be redefined and rescheduled. While it is appreciable to commend the several steps taken by government to keep the NPAs of bank in check, however, it is very difficult to achieve low or zero percentage NPA. Banks are therefore expected to see a further improvement in the operating cost structure of public sector banks as they improve their scale of operations.

2.4. Studies on Educational loan and Non Performing Assets

Volkwein (1998) contended that lack of knowledge about the importance of repayment for efficiency of loan mechanism and poor attitude towards repayment as determinants of loan default. The study observed that a greater majority of the loan borrowers are quite aware of repayment terms, however, the borrowers are found to be little wary about the loan repayment process and majority of them are likely to look for extended time for repayment of educational loans.

Boyd (2000) observed that educational loan default may be associated with the housing markets discrimination. Regardless of one’s educational attainment or credit worthiness, borrowers face discrimination in the housing market, which reduces their ability to protect credit scores by repaying loans on schedules.

Woo (2002) examined the relationship between repayment default and post-college characteristics of the borrowers (for instance, highest degree, occupation, income and indebtedness status), marital status, and number of dependents. The study found significant relationship between post-school characteristics and loan default, especially among borrowers who reported unemployment status immediately after the course for which the loan was received.

Szelest (2002) found that students of short-term (for instance, two-year programs) have higher default rate compared to students who pursue programs that are longer in duration (four-year) programs. While the institutions play no role in explaining default behaviour, student characteristics tend to explain loan default behavior better than other factors.

O’Malley (2003) has studied on the perception of the student borrowers on their education loan. The students of ‘Pell Grants’ (i.e. low-income borrowers) reported debt and poor repayment levels similar to overall averages. Furthermore, these students are also likely
to draw lower starting salaries compared to other borrowers. As a result higher average payment-to-income ratios in turn make repayment difficult.

Teszler (2003) study among borrowers in Texas found association between number of semesters and default rate of borrowers. This indicates the need for integration of courses, institutional framework and student experiences in understanding successful loan repayments.

Vinayagamoorthy (2003) study observed that less than two-third of the borrowers are dissatisfied about the procedures and dimensions of educational loan services provided by banks.

Monge-Naranjo (2004) contended that in addition to ethnicity, the post college earning of African-Americans are found to be lower. Further, loan default is reportedly found higher among borrowers who attended not-so-premier institutions as well as those who were unemployed immediately after the program.

Choy Li (2006) found increase in loan defaults in some kind of institutions to about 60 percent. It is therefore no surprise for policy makers to enquire into the details of how much default is acceptable. Further, the author asserted the need for defining ‘loan default’ and whether loan defaults should be used as indicators of the quality of educational institutions and loan program efficiency. However, these are complicated questions to find answers.

Ziderman (2009) has observed that loans schemes benefit from government subsidies are likely to suffer repayment defaults as well as administrative costs, which are not passed on to the student borrowers. The study found considerable variation in repayment and recovery ratios. However many loans schemes display repayment ratio as 40 percent or less and thereby ensuring that total loan recovery is always low.

Ahmed (2010) through their report has observed that poor attitude among banking authorities with respect to educational loan also becomes a reason for the falling number of accounts across the different categories of priority sector. The author has also suggested the establishment of several measures to curb loan default and loan recovery methods which requires the attention of the policy makers.

Harsh (2010) observed that educational loans in India are in general provided to those who have the capacity to repay. The terms and conditions as well as collateral security should be made little more flexible and customer friendly to enhance the reach of this novel scheme to the poor. Further, the author suggested that Government of India has to work
closely with Indian Banking Association and ensure adequate flow of funding to the priority sector as softer loans. By bringing about reforms in policies and operational methods, educational loan schemes will gain more relevance at times of inclusive banking.

Ismail (2011) found the role of at parental influence on loan repayment and quality of life of borrowers. Borrowers’ perceptions about loan repayment also significantly influence quality of life perception after graduation. Further, the study observed significant relationship between students' attitude and intention to repay educational loans.

Norhasni (2011) observed that the practices adopted by government agencies as too lenient. The author suggested that by publishing the name of the borrowers in local newspapers, recovering payment dues can be increased.

Unnikrishnan (2012) study on loan default observed that privatization of higher education has led to emergence of large scale sub-standard educational institutions with poor faculty quality, lack of infrastructure and amenities. The study contended that as employers are vary about these institutions, they are likely to ignore student from these institutions in their recruitment process, which in turn, contribute to low employability of these graduates and default of educational loans.

Sridhar (2012) contended that there will be no willful defaulters in educational loans. As parents are involved as co-obligates, there is an emotional angle to repayments. Banks are not pen to extending repayment periods in deserving cases.

Vinayan (2012) found that majority of the students borrow to pursue career in the field of Nursing especially in private institutions situated outside the state. Majority of them shun repayment for want of proper employment. In view of the foregoing it may be noted that studies on educational loans are quite scarce in India. In the above context, this study seeks to bridge the above research gap by attempting an empirical study on six hundred samples and analyses the courses pursued by them for eventual possession of pass and placement in jobs.

Goldin and Katz (2012) examined whether loan default is the effect of student-level factors or because of the characteristics of educational institutions. The author contended that extant literature does not provide convincing evidence on this issue, hence studies are required to delineate what individual factors and institutional factors are critical for improving loan recovery of educational loans. The authors observed that institutions (particularly for-profits) are not helping the banks in the process. These sub-standard
institutions contain a high-risk pool of students who are likely to default because of their poor employment status after graduation.

Veronica (2010) found that three major factors are likely to explain repayment behaviour of borrowers. Attitude of the borrowers, age and gender of the borrowers explain loan repayment propensity among borrowers. While the effect of gender on repayment is less convincing, other factors are likely to influence repayment of educational loans, by and large.

Dora Gicheva (2011) has studied on the probability of delay in marriage for students on education loans. She has found that borrowing an additional $10000 resulted in the decreased probability of marriage by 7 per cent. There is a high degree of correlation between the student debts and expected marital status.

Manoj (2013) observed that greater majority of educational loan borrowers are landing up good jobs in foreign countries, but they are also found lagging in the repayment of loans, however, they are more likely to make one time settlement. Therefore, the concept of NPA in their case should be reconsidered. The best way to tackle the issue is to constitute the Credit Guarantee fund to periodically give relief to the scheduled banks with respect to the NPAs. At the same time, the author suggests that a ‘debts recovery cell’ be constituted at the state level to take over NPA or educational loan issued to students without mortgage. The issue of the loan is now vitiated by arbitrary decisions of some of the officers of the bank branches. A national level eligibility test for the issue of educational loans should be introduced.

Janetius (2013) study among rural population in Coimbatore and Tiruppur districts in Tamil Nadu identified the unconventional reasons for non-payment of education loan by rural graduates. The study identified three categories of willful defaulters. The study concluded that the freebees and loan-waiver schemes of political parties make the people irresponsible and therefore could be minimized at various levels.

Sethi (2013) identified a popular mistake committed by many fresh graduates, which play a major part in preventing them from repaying. In the process of waiting for the big fish, the fresh graduates often ignore the initial job offers which are offered by the college placement cells because they are not so attractive in terms of salary; it is much better than sitting idle in the expectation of an ideal job. Accepting a low paying job in dare situations will keep the loan amount with in original limits i.e. interest will not be due and repayment will never be tough.
Varghese (2013) observed that the best way to tackle the issue is to constitute the ‘Credit Guarantee Fund’ to periodically give relief to the scheduled banks with respect to the NPAs.

2.5. Research Gap

Increasing enrollment in higher education, increasing tuition fees and the emergence of private sector in education are creating huge pressure on both the government and the general public to fund for education. Given the contribution of the priority sector advances to support general public, several authors have suggested for studies to examine the educational loan segment. Puducherry UT has seen the mushrooming of higher educational institutions in recent years. However, no study has been taken so far to identify the problems and satisfaction of the borrowers of educational loans. To address this gap, a study has been undertaken to examine the bankers and borrowers perceptions about educational loans in Puducherry UT.