CHAPTER I
INTRODUCTION

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1.1 INTRODUCTION

Education is the most important lever for social, economic and political transformation. It is central to Human Resources Development in every country and to the empowerment of every individual citizen, especially the young. Education is a subject coming under the concurrent list in the federal scheme of the Constitution of India, apportioning responsibilities to the Central and State governments equally. National and state level policies are therefore framed to ensure that this basic need of the population is met through appropriate public and private sector initiatives. While government responsibility to provide primary education to all on a universal basis has become mandatory by elevating the right to education as a fundamental right, higher education is seen to be progressively moving to the domain of private sector, in keeping with the agenda of economic liberalization that the nation has adopted. Consequently, there has been a gradual reduction in government subsidies in higher education, thereby rendering college studies more and more costly. Accessibility, affordability and equity have been considered as fundamental principles that should govern education, but the rising cost of higher education has emerged as a major challenge for policy makers. There is, therefore, a growing realization of the urgent need for providing institutional funding in this area. Apart from the paramount need for developing human capital and promoting equity in a developing society like India, imparting higher education is also crucial to provide requisite skills and knowledge required to remain in competition in the current globalized environment governed by the market economy. Seen against this background, financial assistance in the form of education loans for the needy should be viewed as an investment for the growth of human capital and for the economic development of the country as a
whole (John, 2013). The high priority of education loans springs from the sober realization that knowledge and information would be the driving forces for economic growth in the coming years.

Recognising the importance of education in national development, the study group constituted by the Indian Banks Association (IBA) prepared a Model Education Loan Scheme in the year 2001. It signaled a willingness to acknowledge that education loan could assume the status of a socially and economically relevant theme for the Indian banking industry. In tune with this, commercial banks provide loans for the education of young persons studying in a variety of courses such as graduation, post-graduation including technical / professional courses (IBA, 2012).

1.2 SIGNIFICANCE OF THE STUDY

Education loan scheme offered by commercial banks in Kerala are subject to severe criticism from different corners especially from the borrower's side. Though it was conceived as a boon to the education sector, it turned out to be bane to ordinary students who availed education loan and also for banks in the form of mounting NPA. The different stakeholders tried to figure out what happened to this education loan scheme in Kerala so that suitable corrective measures can be taken. A detailed study of education loan scheme may bring out the real issues that confronting this sector thereby bringing relief to both borrowers and banks. Therefore the present study assumes significance in Kerala's context.

The review of literature reveals that no specific studies have been carried out to evaluate education loan scheme of commercial banks in Kerala. The
present study is an attempt to fill this gap. The study provides insights into the
different dimensions of education loan scheme, it acts as a torch-bearer for both
central and state governments and RBI to take appropriate measures, either by
way of creating and implementing new policies and programmes or revamping
the existing education loan scheme which in turn would be beneficial to both the
borrowers and the banks.

1.3 STATEMENT OF THE PROBLEM

Both central and state governments are committed to enhance the student
enrollment in higher education substantially. As an initiative for the development of
higher education, the government has framed education loan scheme and has brought
it under priority sector advances. This development brings forth both opportunities
and challenges to commercial banks. On the one hand they can provide education loan
under priority sector and on the other hand they find it difficult to recover the same as
majority of these loans are given without collateral security.

In Kerala education loan disbursement by commercial banks increased
more than four times within a decade. It has increased from ₹352.7 crores in
March 2006 to ₹1,456.64 crores in 2017. Along with this NPA of commercial
banks on account of education loan also increasing that has erode banks profit
considerably. NPA rose by 63.9 times i.e., from ₹19.32 crores in March 2006 to
₹1234.53 crores in March 2017 (SLBC report). Inspite of this growing NPA
there is heavy social pressure on banks to provide education loan even for the
less needy and people with little credit worthiness. The borrowers are also under
severe stress, often leading to suicides and other family problem, as they find it
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difficult to repay the loan. Given this peculiar education loan scenario, the researcher doubts whether the implementation of education loan scheme in Kerala by commercial banks was effective or not. In this juncture this study was carried out to answer the following pertinent questions which are so important and urgent that need immediate solution for the sustainability of education loan scheme as visualized by the government.

1. What is the nature of education loan scheme of commercial banks in Kerala in terms of its structure, growth and performance?
2. How do the borrowers evaluate the education loan in terms of awareness, eligibility, adequacy, affordability and acceptability?
3. What are the problems encountered by the education loan borrowers?
4. To what extent are the borrowers satisfied with the prevailing education loan scheme of commercial banks in Kerala?
5. What are the problems faced by the managers of commercial banks in relation to education loan scheme?
6. To what extent are the managers of commercial banks satisfied with the prevailing education loan scheme of commercial banks in Kerala?

1.4 OBJECTIVES OF THE STUDY
1. To examine the nature of education loan scheme of commercial banks in Kerala in terms of its structure, growth and performance.
2. To evaluate the education loan scheme of commercial banks in Kerala in terms of its i) awareness, ii) eligibility, iii) adequacy, iv) affordability and v) acceptability from the perspective of the borrowers.
3. To find out the problems encountered by the borrowers in relation to education loan scheme.

4. To assess the level of satisfaction of the borrowers as regards the prevailing education loan scheme of commercial banks in Kerala.

5. To identify the problems faced by the managers of commercial banks in relation to education loan scheme.

6. To assess the level of satisfaction of managers of commercial banks with regard to the prevailing education loan scheme of commercial banks in Kerala.

1.5 HYPOTHESES OF THE STUDY

$H_{01-05}$ There is no significant difference among borrowers according to their personal, course and loan profile with regard to awareness, eligibility, adequacy, affordability and acceptability of education loan scheme.

$H_{06-07}$ There is no significant difference among borrowers according to their personal, course and loan profile with regard to the problems relating to education loan.

$H_{08}$ There is no significant difference among borrowers according to their personal, course and loan profile with regard to their level of satisfaction of education loan.

$H_{09}$ There is no significant difference among managers of commercial banks according to the bank’s ownership, loan intensity and area with regard to the problems relating to education loan.
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There is no significant difference among managers of commercial banks according to the bank’s ownership, loan intensity and area with regard to their level of satisfaction of education loan.

1.6 SCOPE OF THE STUDY

The scope of the study is limited to education loan scheme of major commercial banks (SBI [erstwhile SBT], Canara Bank, Federal Bank and South Indian Bank) operating in the select districts (Ernakulam, Alappuzha and Kasargod) of Kerala based on the education loan outstanding.

The theoretical scope of the study is limited to the evaluation of education loan scheme of major commercial banks from the perspective of borrowers and managers only. The evaluation from the borrower’s perspective covers awareness, eligibility, adequacy, affordability and acceptability of education loan scheme, problems encountered by them and their level of satisfaction. The manager’s perspective covers the problems faced by them and their level of satisfaction.

1.7 RESEARCH METHODOLOGY

The present study attempts to evaluate in detail the education loan scheme of commercial banks in Kerala from borrower’s and bank manager’s perspective by using both primary and secondary data. The secondary data is sourced from books, journals, websites and official publications of Government of India, RBI, IBA, State Level Bankers Committee (SLBC) and commercial banks in Kerala. The primary data was collected from education loan borrowers (appendix I) and bank managers (appendix II) through structured and pre-tested questionnaires during January 2016 to February 2017. A pilot study was carried out among 24 borrowers and 12 bank managers and necessary modifications were made in the
questionnaire based on the feedback received. The content validity of the instrument is ensured by collecting expert opinion of the bank managers, office bearers of education loanees association, education loan borrowers and their parents. The measurement scale adopted for the collection of primary data was fine-tuned by checking their reliability. The reliability test using Cronbach Alpha indicates that all the constructs have the required reliability score of above .70 (Nunnally, 1978) except one. The details are furnished in table 1.1

Table 1.1

<table>
<thead>
<tr>
<th>No</th>
<th>Constructs</th>
<th>No of items</th>
<th>Cronbach’s Alpha value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Awareness</td>
<td>10</td>
<td>0.889</td>
</tr>
<tr>
<td>2</td>
<td>Eligibility</td>
<td>3</td>
<td>0.790</td>
</tr>
<tr>
<td>3</td>
<td>Adequacy</td>
<td>5</td>
<td>0.816</td>
</tr>
<tr>
<td>4</td>
<td>Affordability</td>
<td>3</td>
<td>0.723</td>
</tr>
<tr>
<td>5</td>
<td>Acceptability</td>
<td>4</td>
<td>0.781</td>
</tr>
<tr>
<td>6</td>
<td>Problems- Sanction and Disbursement (borrowers)</td>
<td>4</td>
<td>0.781</td>
</tr>
<tr>
<td>7</td>
<td>Problems-Repayment (borrowers)</td>
<td>7</td>
<td>0.813</td>
</tr>
<tr>
<td>8</td>
<td>Satisfaction (borrowers)</td>
<td>7</td>
<td>0.853</td>
</tr>
<tr>
<td>9</td>
<td>Problems (bank managers)</td>
<td>14</td>
<td>0.825</td>
</tr>
<tr>
<td>10</td>
<td>Satisfaction (bank managers)</td>
<td>8</td>
<td>0.668</td>
</tr>
</tbody>
</table>

Source: Primary data

Sampling

Population of the study consists of all the education loan borrowers and all the branch managers of commercial banks in Kerala that provide education loan. The population of education loan borrowers in Kerala as on 30th June 2015 is 390740 (SLBC Kerala, 2015). Though the total number of education loan borrowers in Kerala are available, their complete list is not made available to the public by banks. In spite of the best efforts on the part of the researcher, the
request for such information was denied by banks citing confidentiality. Since the sample frame was not available to the researcher in respect of education loan borrowers in Kerala and to ensure due representation in terms of education loan outstanding the sample borrowers were selected through a multi stage sampling procedure as given below.

In the first stage a stratified random sampling method was used to identify the districts in terms of education loan outstanding. All the districts in Kerala were divided into three strata on the basis of quartiles of education loan outstanding viz., low intensity, medium intensity and high intensity districts. There were 3 districts in the low intensity category, 8 districts in the medium intensity category and 3 districts in the high intensity category. From each of these strata one district was randomly selected. The selected districts were Kasargod, Alappuzha and Ernakulam from low intensity, medium intensity and high intensity respectively (Appendix III).

The present study was confined to major commercial banks in Kerala in terms of education loan outstanding. The major commercial banks identified were SBI [erstwhile SBT], Canara Bank from public sector and Federal Bank, South Indian Bank from private sector. Therefore, in the second stage 6 branches from public sector and 6 branches from private sector were selected randomly from each of the select three districts. This resulted in the selection of a total of 36 branches, 18 from public sector and 18 from private sector banks.

In the third and final stage, 10 sample borrowers were selected conveniently from each of the selected 36 branches thus making the sample size to 360. The
adequacy of sample size is determined using the strategy suggested by Panjali and Kasilingam (2015) in their study on ‘Perception of bankers and beneficiaries towards education loan (With special reference to UT of Puducherry)’. The formula used for the computation of sample size is given below.

\[
n = \left( \frac{\sigma \times 1.96}{\mu \times 0.05} \right)^2
\]

Where ‘\(n\)’ is Sample Size, ‘\(\sigma\)’ is Standard Deviation, ‘\(\mu\)’ is Mean.

The above procedure showed that sample size of 336 is adequate for the study. The sample respondents from the manager’s side were selected from the 36 branches so identified. The details are given in table 1.2.

Table 1.2

*Distribution of Sample Respondents – Bank managers and Borrowers*

<table>
<thead>
<tr>
<th>Districts selected</th>
<th>Commercial banks selected</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bank managers</td>
</tr>
<tr>
<td><strong>Low intensity District</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malappuram Kasargod</td>
<td>Public sector banks</td>
<td>6</td>
</tr>
<tr>
<td>Wayanad Kasargod</td>
<td>Private sector banks</td>
<td>6</td>
</tr>
<tr>
<td><strong>Medium intensity District</strong></td>
<td>Alappuzha</td>
<td>Public sector banks</td>
</tr>
<tr>
<td>Kollam Trivandrum Kannur</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thrissur Alappuzha Palakkad Pathanamthitta Idukki</td>
<td>Private sector banks</td>
<td>6</td>
</tr>
<tr>
<td><strong>High intensity District</strong></td>
<td>Ernakulam</td>
<td>Public sector banks</td>
</tr>
<tr>
<td>Ernakulam Kottayam Calicut</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>36</td>
</tr>
</tbody>
</table>
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Tools for Analysis

The suitability of parametric test was also confirmed using normality test (Kolmogorov- Smirnov test). The statistical tools such as Percentage, Trend analysis, Mean score analysis, Independent samples t – test and One way Analysis of Variance were used for analyzing the data by using SPSS (version 20).

1.8 OPERATIONAL DEFINITION OF CONCEPTS

1. Major commercial banks: Major commercial banks are those banks that occupies prominent position in providing education loan in Kerala as on 30th June 2015. They are are SBI [erstwhile SBT] and Canara Bank from public sector banks, Federal Bank and South Indian Bank from private sector banks (Appendix IV).

2. Low, medium, high intensity districts: In this study all the 14 districts of Kerala were grouped into three viz., low intensity, medium intensity and high intensity district on the basis of total amount of education loan outstanding as on 30th June 2015 as per the report of SLBC, Kerala (2015). The districts are divided under low, medium and high intensity category by calculating quartiles. The districts which have education loan outstanding below ₹42,038.35 lakhs are treated as low intensity districts, education loan outstanding ₹42,038.35 lakhs to ₹77,890.73 lakhs are treated as medium intensity and education loan outstanding above ₹77,890.73 lakhs are treated as high intensity districts (Appendix III).

3. IBA scheme: The education loan scheme for those students who obtain admission on merit basis

4. Non IBA scheme: The education loan scheme for those students who obtain admission on management quota.
5. **Education loan outstanding**: The principal and interest (EMI) that remains to be recovered is called outstanding.

6. **Borrowers**: Students who availed education loan.

7. **Awareness**: Awareness refers to knowledge of the borrowers regarding the various aspects of education loan such as sanctioning duration, calculation of EMI, necessity to remit the EMI regularly, eligibility criteria, moratorium period of repayment, repayment period, repayment ability, security requirements, rate of interest and borrowing limit.

8. **Eligibility**: Eligibility means quality of a borrower to avail education loan as indicated by three variables viz., income status of the joint borrower, eligibility criteria and CIBIL rating.

9. **Affordability**: Affordability is the extent to which an education loan is affordable to the borrowers in terms of rate of interest, EMI and insurance premium of education loan.

10. **Adequacy**: Adequacy refers to the sufficiency of the loan amount for the purpose of education in terms of loan amount, moratorium period, repayment period, interest subsidy and expenses considered for education loan.

11. **Acceptability**: Acceptability is the degree to which a borrower accept the terms and conditions of bank while availing education loan in terms of mode of disbursement, linking repayment with salary, insurance coverage and security requirements.

12. **Problems**: The problems faced by the borrowers during loan sanction and disbursement are measured by complicated formalities, repeated visit to bank,
lack of proper guidance and delay in sanction and disbursement. Whereas loan repayment problems are measured by unemployment, insufficient income, lack of family support, unforeseen events in the family, high EMI, lack of reminder from bank and delay in getting job.

The problems encountered by the managers while granting education loan are measured by variables such as political pressure, unfavorable attitude (procedural delays) of educational institution, increasing NPA, inadequate documents from borrowers, complexity in education loan procedure, poor CIBIL rating of joint borrowers, willful default by the borrowers, loanees association intervention, lack of security for education loan, difficulty to locate borrowers due to change in the address, busy schedule of bank staff, inadequate government support, inadequate support from parents and inadequate insurance coverage.

13. **Satisfaction:** Level of satisfaction of the borrowers are measured by terms and conditions of loan, attitude of bank officials, attitude of educational institution, government support and policy intervention, sanction and disbursement procedure, repayment schedule and recovery methods of education loan. Whereas level of satisfaction of the managers were measured by terms and conditions of the education loan scheme, attitude of borrowers, attitude of educational institutions, security norms, attitude of bank staff in loan processing and recovery, government policy, loan repayment by the borrowers and NPA recovery of education loan.

1.9 **LIMITATIONS OF THE STUDY**

1. Managers were too busy with their official work. Some of the managers were reluctant to divulge some details that might have been fruitful for
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the study. The researcher has taken extreme care in dealing with managers who are very busy. Survey were conducted at their convenience and by building good rapport through frequent visit to the branches.

2. Many of the borrowers did not have the habit of maintaining proper records relating to different aspects of education loan scheme. Therefore the details supplied by them from their memories had to be relied upon for this study.

3. Borrowers can include both students and their parents/ guardian. However in this study only students who availed education loan is considered.

4. Being a sample study, it suffers from all the limitations of a sample study. Even though the study suffers from above limitations, due care and diligence was exercised by the researcher to overcome the same.

1.10 CHAPTERISATION

The research report is divided into six chapters as described below.

Chapter I- Introduction: This chapter contains a description about the problem under study, the objectives, hypotheses, scope, methodology and limitations of the study.

Chapter II- Review of literature: This chapter contains a detailed review of prior studies in the area of education loan.

Chapter III- Education loan scheme of commercial banks in Kerala – Structure, growth and performance: This chapter presents the structure, growth and performance of education loan scheme.

Chapter IV- Education loan scheme of commercial banks in Kerala – Borrower’s perspective: This chapter presents the profile of the borrowers,
evaluation of education loan scheme in terms of awareness, eligibility, adequacy, affordability, acceptability, problems faced by the borrowers and their level of satisfaction.

Chapter V- Education loan scheme of commercial banks in Kerala – Bank manager’s perspective: This chapter analyses the problems faced by the managers of commercial banks and their level of satisfaction.

Chapter VI- Findings, suggestions and conclusion: This chapter carries a summary of the major findings of the study, suggestions and conclusion. The chapter also suggests the areas for further research.

REFERENCES


