
Repayment of Education Loan

Sheena Sebastian

Assistant Professor Department of Commerce, Alphonso College, Pala, Kerala

ABSTRACT

KEY WORDS:

Education Loan
and its
Composition,
Repayment of
Education Loan,
Moratorium Period

The most effective tool you have to alter the world is education. The enlightenment, empowerment, and emancipation of society are promoted by education. Due to escalating higher education costs, education loans are becoming more necessary. The purpose of an education loan is to give worthy meritorious students the financial assistance they need to pursue higher education both domestically and abroad. In this light, this paper is an attempt to highlight the major factors affecting the repayment of education loans by the students and also what are the measures taken by the respective banks for repayment.

1.0 INTRODUCTION

Education is crucial in a nation like India, where the right to education is a fundamental freedom and where the young, literacy rate is 81.1%. The expense of top university and college programs is rising in India, as evidenced by the ticket size of education loans, which increased 47% in the most recent fiscal year despite decline in the number of students requesting aid. Studies show that school costs are rising at an average rate of 15% annually.

The main focus is on giving every deserving student, regardless of their financial situation, the chance to complete their education with financial assistance from the banking system under reasonable terms and circumstances. Additionally the banks offer a moratorium period during which the borrower is exempt from repayment obligations. there is a waiting period before EMI repayment can start. Although education loan is the only way to fund the higher education of a student, the present reality is that the student neither after the completion of the course nor after finding a job, is in the position of repaying the loan. In the current situation, many students and their parents are reeling under the pressure of very high interest rates, tight term periods for repayment and practically no jobs after completion of studies. Even though, if a student managed to find a job he\she is under paid that the salaries becomes insufficient to meet his\her requirements and repay the loan amount. From the banker's point of view, there is a high rate of Non- Performing Assets (NPA) in education loan due to the default of education loans in large scale. The need of the hour is employment generation as the statistics itself shows that unemployment rate is at 45 years high (rana, 2021) the aim of this study was to identify the factors affecting the repayment of educational loans on the students' perspective and the measures taken by the banks for repayment.

1.1 RESEARCH PROBLEM

A whole and successful life depends on having received a good education. It is often compared to earning a degree from a prestigious university. Education is becoming increasingly expensive. In order to fill the gap between the shortfall and the necessary amount an education loan is crucial in such a situation. Education loans demand the

repayment of the loan amount only after the completion of the course or after the job whichever is earlier. Loan repayment for education purposes must be made as soon as the student has finished the course or found employment. Education loans have significantly lower interest rates than other loans. Education loans were created to assist students who have goals for the future but were unable to realize them due to a lack of funds. However, with the passage of time and the easing of norms, and restrictions, today everyone with a valid entrance to a course becomes eligible for student loans, regardless of prior academic standing or the admissions procedure. This is causing a high percentage of student loan default. Once you have availed the loan, there is always the pressure of repayment. The borrowed money must be repaid, and within the allotted time frame. As a result, there is more pressure on the pupils to succeed academically and financially. Many borrowers struggle to find work within a year of borrowing. In other instances, salaries fall short of providing assurances of assured pay-backs. Some cunning institutions base their fee structures on the number of bank- offered, collateral-free student loans. Exam failure rates are increasing, which is worsening the issue and leading to a significant increase in Past-sue debts. In addition, some debtors just refuse to make payments despite landing well-paying employment. It has been discovered that sanctioning loans without collateral security and a third party guarantor results in a greater rate of default instances.

Banks are currently having a lot of trouble keeping track of the beneficiaries once they have finished their program. It has been noted that almost all the students joining professional courses and abroad studies are now availing educational loans. (Motiani, 2018)

1.2 OBJECTIVES OF THE STUDY

1. To identify the major factors affecting the repayment of education loan.
2. To analyze the measures taken by the banks for repayment of education loans.
3. To evaluate the awareness of people about policies on education loan.
4. To study the impact of taking an education loan

1.3 REVIEW OF LITERATURE

(Bing, 2012) Made a study of “state educational loan demand diversity and its influencing paths —an empirical analysis based on SEM Model” The sample is from 431 student loaners of two universities in Hubei province. The researcher concludes that diversity of colleges and universities is the outstanding problem of fairness and efficiency of the whole higher education system and the manifestation of serious uneven distribution of state educational loan in reality. There is need to fill the large gap between the inputs of state educational loan into different college and universities. (Nyahende, 2013) Made a study on “The influence of students’ loans borrowers’ characteristics on default rate in Tanzania”. The primary data were collected from 150 respondents who were selected by cluster sampling and purposive sampling. Data collected were analyzed using Software Package for Statistical Science (SPSS) technique. The researcher found that age, gender and attitude has an influence on the student’s loan default rate. (Bandyopadhyay, 2016) Made a study on “ The borrower level risk characteristics of education loan in India”. The sample size of 5000 randomly selected borrowers was used. Various univariate and multivariate analysis were used to analyze the borrower risk level. The researcher found that if the age of the borrower is high, then there is a higher chance of default. The researcher concluded that education loan defaults are mainly

influenced by security, borrower margin, and repayment periods.

1.4 EDUCATION LOAN AND ITS COMPOSITION

Banks and financial organizations offer education loans as special purpose loans to help people pay for advanced degrees and specialized training. The fee payable to the college, school or hostel is covered by the education loan offered by Indian banks. The test price, library charge, lab fee, caution deposits and any refundable deposits required by the university are also covered. The cost of travel and passage for study abroad, the cost of computers, which are necessary for finishing the course, and any other costs, associated with finishing the course, such as study tours, project work, thesis etc. are also covered.

1.5 CRITERIA OF EDUCATION LOAN

Banks offer the significant financial support required to pay for practically all of the costs associated with successfully completing the desired course. In their education loan programmes, banks in India currently offer loans for a wide variety of courses. Banks readily offer education loans for management, engineering, medical, MCA, fine arts, designing, architecture, hotel management, agricultural, pure sciences arts and commerce degrees. These loans are available both undergraduate and graduate programmes. Before granting any educational loan, banks do take the reputation and connection of the institution from which the course is being performed into account. When applying for an education loan from an Indian bank the applicant must be a resident of India and have been accepted into one of the universities or course on the Banks's list of approved institutions. Whether you receive an education loan for 100% of the cost of your education or not depends on the specific banks.

1.6 REPAYMENT OF EDUCATION LOAN

The advantage of student loans is that, unlike most other loans, they do not need immediate repayment. Repayment generally begins one year after course completion or six months after finding job. Whichever comes first, according to bank policy, the repayment terms for the student loans are respectably long, lasting up to 10 years in some institutions. The repayment terms for the student loans are respectably long, lasting up to 10 years in some situations. The moratorium period is included in the payback period. Good banks offer simple services and a quick loan approval procedure. The banks may choose to disburse the loan straight to your educational institute depending on the fee structure in place at the time of loan acceptance. The advantage of student loan is that unlike most other loans, they do not need immediate repayment. Repayment generally begins one year after course completion or six months after finding job, whichever comes first, according to bank policy. The repayment terms for the student loans are respectably long, lasting up to 10 years in some situations. The moratorium period is included in this payback period. Good banks offer simple services and a quick loan approval procedure. The banks may choose to disburse the loan straight to your educational institute depending on the fee structure in place at the time of loan acceptance.

1.7 MORATORIUM PERIOD

There is a time throughout the loan term known as a moratorium period during which the borrower is not required to make any repayments. Prior to the start of EMI repayment, there is an awaiting period. After the loan is disbursed, the payback period typically starts, and installments are due every month. However, because of the moratorium period, the payment

does not begin right away. Loans for education offer this function. This is so that students may repay their student loans once they begin working and establishing their finances. The possibility of a delay between their finishing their studies and finding employment led to the creation of the option for a moratorium.

1.8 REPAYMENT OF EDUCATION LOAN

One must submit specific documentation to the bank in order to obtain an education loan from them. These include the co-applicant's income documentation, evidence of age (often a birth certificate), proof of domicile, the student's most recent mark sheet, an institution's letter of acceptance, and a document outlining the cost breakdown of the course. Banks will want a recommendation letter from the department head of the relevant university, authorized visa paper work, travel documents, and GRE, GMAT, or SAT scores if a student wishes to pursue their education abroad. The applicant will also need to provide the bank with an affidavit or statement stating that he is not applying for a loan of a similar nature from any other banks or financial institutions, in addition to submitting all the documentation listed above. The availability of educational loans has made it incredibly straightforward to secure funding for your ideal study.

1.9 INTEREST RATE

The most crucial component of every loan, including student loans, is the interest rate. The total cost of the loan is determined by the interest rate. The interest rates for student loans are often higher than those for home loans but lower than those for personal loans. The interest rate charged varies from lender to lender and is also based on the size of the loan. The interest rate increases with the loan amount and vice versa. While some banks offer fixed 'rates of interest, others offer floating rates'. It is therefore wiser to choose a fixed rate as these loans have a shorter repayment duration of 7 to 10 years if the difference between the two types of rates, is only approximately 1%.The lender may change the interest rate whenever it sees fit, however some banks offer fixed interest rates with reset clauses. It is preferable in this circumstance to choose a variable rate. This rate is correlated with the bank's prime lending rate (PLR). Although some banks also charge interest on a monthly lowering basis, which is preferable, it is typically due on a quarterly declining basis.

2.0 COLLATERAL

The Reserve Bank of India (RBI) and the Indian Banker's Association (IBA) have outlined the country's Comprehensive Educational Loan Scheme, under which students can apply for loans up to 7.5 lakh rupees to pursue their education in India and up to 15 lakh rupees to pursue their education abroad. Following this, if the loan amount surpasses 7.5 lakhs, the majority of banks now require collateral or a security of equal value. In order to determine the repayment duration, banks also require an assignment of the student's anticipated future income as well as co- obligation from the student's parents, guardians, or other associated third party. Only a reliable third party guarantee is needed as security for loans between Rs. 4 lakh and Rs.7.5 lakh.

2.1 EXPENSES COVERED BY EDUCATION LOAN

Typically, the majority of costs spent during the study time are covered by an education loan. However, these costs vary once more from bank to bank. The following costs are typically covered by an education loan:

-
1. Fees for college, school, and hostel housing, including the tuition
 2. Fees including the tuition price, due to the college or school and the hostel.
 3. Costs for tests, libraries, and labs.
 4. Buying books, tools, instruments, and uniforms.
 5. Building fund, refundable deposit, and caution deposit backed by invoices or receipts from the institution.
 6. Additional costs like study abroad trips, project work, thesis, etc. that are necessary to finish the course. Nearly all banks are now prepared to support your pursuit of greatness with educational loans, but a candidate should exercise caution while signing the contract.

2.2 RECOMMENDATIONS

1. Students need to be more careful while taking an education loan and compare between loan packages of various banks, so as to identify the most beneficial packages.
2. The students should clearly understand about the policies and terms of repayment of the loan before taking the loan.
3. The banks should provide feasible packages of education loan, which is beneficial to the student community of the era.
4. Decreased interest rate may help the banks to gain momentum in the education loan sector, as education loan is availed by a larger section of the student community.
5. The general public must be educated about the government policies and benefits provided to the students for higher education.
6. The students and parents should be more caution while selecting the course.
7. The courses should be selected on the basis of interest and not by following the trend.

CONCLUSION

Education loan plays a vital role in the development of young and talented students. Majority of the students who choose for high fees structured courses avail education loan for financing their needs. Most of the banks provide education loan in a low interest rate than the other loans. It covers not only term fees but also various other expenses. The repayment will only begin after a moratorium relaxation period. All these features attract more students to these loans. But sometimes the students faces difficulties of repayment due to either insufficient salary, joblessness and various other factors the affects the repayment of the loans. The study conducted, helps in concluding that most of them are not able to repay their loans. Factors affecting repayment are high interest rate, insufficient salary or joblessness, some are unemployed after the completion of the course, were they depends on the salary of elders in the family for repayment of the loan. So these issues must be tackle, the youth must be provided with guaranteed employment.

REFERENCES

1. Bandyopadhyay, A. (2016). Studying borrower level risk characteristics of education loan in India. *IIMB Management Review*, 126–135.
2. Bing, Z. (2012). A Study of State Educational Loan Demand Diversity and its Influencing Paths —An Empirical Analysis based on SEM Model. *Energy procedia*, 1932 – 1939.

3. Motiani, P. (2018, October 15). What is education loan? Here's a guide. The Economic Times.
4. Nyahende, V. R. (2013). The Influence of Students' Loans Borrowers' Characteristics on Default Rate in Tanzania. Higher Education Studies; Vol. 3, 26-49.
5. rana, u. (2021, December 14). Why education is important for the development of India. times of India.