

A study of NPA and Higher Education Loan Komal Rawat

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ABSTRACT

Education is a key to solve various problems of life. Human capital, particularly with higher education, increases labour productivity and individuals' income and that of the economy. Hence, it is necessary to develop an education system which generates human capital for achieving social and economic development. Education is becoming a costly affair today. It is met by the public and private sector banks through educational loan system. The current paper discusses the growth of Education Loan provided by Banks and its annual growth rate in India. The paper is based on the 6 years, (2011-2016) non-performing asset data of various public and private sector banks. The main objective of the study is to find out the basic concepts of NPA. This paper also focuses on the reason behind the NPA and ways to tackle it. The paper concludes with recommendations on enhancing the utility of the educational loans to improve access and employability of the students.

1.1 INTRODUCTION

Education has a significant role in the Indian Economy. Education is not only a tool for making money – it can be good for our hearts and souls as well, and help us figure out how we want to live. Education can also be defined as the process of becoming an educated. If a person is educated that impacts in the human development economic growth and it also makes a person very responsible and a proper citizen, he/she will be given respect in the society so by educating we can eradicate poverty and can live a peaceful life. But Higher Education is increasing with the new paradigm. Education is becoming very costly in recent time. The fee structures followed by different institutions are different and higher. Mostly students cannot afford the costly education. Education becomes more purposeful when the student has to complete his/her studies to acquire the capacity to repay the loan. Employability of the student after completing the

course becomes important and therefore educational standards will have to go up.

Banks are playing a vital role in fulfilling the financial needs of people for Education. Different schemes are offered to lend the finance for Higher Education. Banks are facing the problem due to non-payment of loan amount by borrower. This default is known as Non-Performing Assets. This is a burning topic of concern for the public as well as private sector banks, as managing and controlling NPA is very important.

1.2 Research Methodology

The study is based on secondary data obtained from the annual reports, publications and accounts of various public and private sector banks and other related publications. Some information was collected from books. The banks were purposively selected based on data

availability from 2010-11 to 2015-16, and the consistency of identity between the periods. The study made use of descriptive statistics of trend analysis, percentage growth and averages to examine the performance of the banks.

This study is divided in to eight parts-the above being the introduction, the second part is research methodology, the third part gives the literature review. The fourth part is the conceptual framework of Non-performing assets. The fifth part is role of banks in Higher Education Loan. NPA in Higher Education Loan was elaborated in sixth part. The research suggestions and recommendation was in part seven and conclusions are given in part eight.

Objective of the study

- To identify the growth of Education Loan in India.
- To discuss the conceptual framework of Non-Performing Assets.
- To study the status of NPA in Education Loan of scheduled commercial Banks in India.
- To make appropriate suggestions to avoid future NPAs.

Limitation of study

Some important limitations are as follows:-

- The study of research is limited only to Indian Banks.
- The time period of study is only between the financial year 2010-16 on the public and private sector banks.
- NPA was only considered for Education Loan.

1.1 Review of Literature

S. S. Kohli (2004) concluded in his study that bank can revised their fixed rate loans higher, this is a risk management exercise to safeguard their asset, liability management. But a firming up to

lending rates can only be witnessed of the RBI increases the bank rate. He analyzed the higher education system of India and its Growth over the years 1947-48 to 2009-10 which indicates the rapid growth and increasing demand for higher education in India so that's why the enrolment of students for higher education has increased.

The study also indicates that Enrolment by women is less than the national share of 39.4 per cent in large number of states. He compared states like Maharashtra, Andhra Pradesh, West Bengal, and Uttar Pradesh and found that women enrolment is less than the national ratio. This issue needs to be addressed by increasing the number of women enrolling for higher education. State-wise GER (Girl Enrollment Ratio) for the year 2002-03 indicates that the number of people attending higher education is very less, as GER at all-India level is around 9 per cent. The state-wise picture reveals that Goa recorded a higher GER followed by Manipur, Himachal Pradesh, Maharashtra, Uttaranchal and others. But, in states like Nagaland, Jammu & Kashmir, Tripura and others the GER is very low. This lower participation in higher education results in lower human capital formation.

B. Navaneetha (2014) opined that Higher education involves creation of intellects of world standards and also training of skilled human power at mass level without compromising on quality. Education has become a costly affair recently. He defined the importance of public sector banks as well as private sector to provide the financial needs to students. In his study, the procedure of SBI was identified and suggestions given for improving bank services. He analyzed various relations between Age, No. of Family members, No. of Earning members, and Monthly family income of respondents with level of satisfaction. The study reveals that the students

studying in professional college are obtaining. There is significant relationship found between the monthly family income of the respondents and the level of satisfy action.

The researcher found that some special initiatives should be started for government aided colleges for the highest benefit of students. Parents involvement can also be done to know better about the satisfaction level because when students take Education Loan so it impacts the socio-economic life of parents also. Researcher suggests that some information can also be gathered from the students who have completed their education and doing job.

Sulagna Das and Abhijit Dutta (2014) expressed the importance of Non-Performing Assets as a burning topic of concern for the public sector banks, as managing and controlling NPA is very important. They with the help of secondary data, from RBI website, tried to analyse the 6 years, (2008-2013) net non-performing asset data of 26 public sector banks, by using Annova statistics, and with the help of SPSS software. The main objective of the study is to find out if there are any significant differences in the mean variation of the concerned banks. The paper also focused on the reason behind the NPA and its impact on banking operations.

The study was done on the State Bank of India and its associates, and the other public sector banks. An attempt was made to analyze the data, through statistical tool, ANOVA. The main objective of the study was to find out whether there is any difference in the NPA occurrence between the various banks during the period of the study. The study finds out that there is no significant deference between the means of NPA of the banks at five percent level of significance. Hence one can safely conclude that banks

irrespective of their operations have similar NPAs in the recent years.

Dutta. A (2014): This paper studied the growth of NPA in the public and private sector banks in India , and analysed sector wise non-performing assets of the commercial banks. For the purpose of the study data has been collected from secondary sources such as report on Trend and Progress of Banking in India, RBI, Report on Currency and Finance, RBI Economic Surveys of India.

Das, S. (2010): In this paper the author has tried to analyse the parameters which are actually the reasons of NPAs, and those are, market failure, willful defaults, poor follow-up and supervision, non-cooperation from banks, poor Legal framework, lack of entrepreneurial skills, and diversion of funds.

Vivek Rajbahadur Singh (2016) asserted on growth of Non-Performing Assets in Commercial Banks that has a direct impact on profitability of banks. Some steps have been taken to solve the problem of old NPAs in the balance sheets of the banks. He suggested to have a systematic evaluation of the best way of tackling the problem. A high level of NPAs suggests high probability of a large number of credit defaults that affect the profitability and net-worth of banks and also erodes the value of the asset. NPAs affect the liquidity and profitability, in addition to posing threat on quality of asset and survival of banks. The problem of NPAs is not only affecting the banks but also the whole economy. Although various steps have been taken by government to reduce the NPAs but still a lot needs to be done to curb this problem.

1.4 Non-Performing Assets (NPA)

NPA indicates the amount of loan that was not returned by the customer for a period of 90

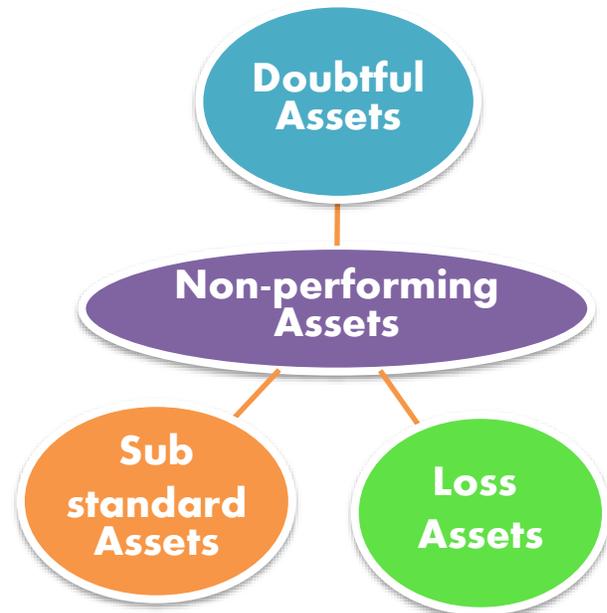
days. An asset becomes non-performing when it ceases to generate income for the bank.

Definition of NPA by RBI

- a) An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A 'non-performing asset' (NPA) was defined as a credit facility in respect of which the interest and/ or installment of principal has remained 'past due' for a specified period of time.
- b) a non-performing asset (NPA) shall be a loan or an advance where;
 - i. interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,
 - ii. the account remains 'out of order' as indicated at below, in respect of an Overdraft/Cash Credit (OD/CC),
 - iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
 - iv. the installment of principal or interest there on remains overdue for two crop seasons for short duration crops,
 - v. the installment of principal or interest there on remains overdue for one crop season for long duration crops,
 - vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitization transaction undertaken in terms of guidelines on securitization dated February 1, 2006.
 - vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the interest due and charged during any quarter

is not serviced fully within 90 days from the end of the quarter.



c) 'Out of Order' status

An account should be treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

d) 'Overdue'

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Classification of NPA

Non-performing assets are classified into three categories as given below:

- ➔ Substandard Assets
- ➔ Doubtful Assets
- ➔ Loss Assets

Substandard Assets

With effect from 31 March 2005, a substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. In such cases, the current net worth of the borrower/guarantor or the current market value of the security charged is not enough to ensure recovery of the dues to the banks in full. In other words, such an asset will have well defined credit weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the banks will sustain some loss, if deficiencies are not corrected.

Doubtful Assets

With effect from March 31, 2005, an asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

Loss Assets

A loss asset is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

1.5 Role of Banks in Higher Education Loan

Banks have become a part and parcel of our life. There was a time when the dwellers of city alone could enjoy their services. Now banks offer access to even a common man and their activities extend to areas hitherto untouched. Apart from their traditional business oriented functions, they have now come out to fulfill national responsibilities. Banks cater to the needs of the students for their higher education agriculturists, industrialists, traders and all other sections of the society.

Education Loan is a term loan granted to Indian Nationals for pursuing higher education in India or abroad where admission has been secured is called Higher Education Loan or Student Loan. Higher Education involves creation of intellects of world standards and also training of skilled human power at mass level without comprising on quality. But Higher Education is increasing with the new paradigm. Education is becoming very costly in recent time. The fee structure followed by different institutions are different and higher. Mostly students cannot afford the costly education. There are many Private and Public sector banks which offer the Education Loan. The purpose of Education Loan is to extend financial assistance to all eligible / deserving /meritorious students for pursuing higher education in India & in Abroad.

Table 1: List of Banks providing Education Loan

S. No.	Public Sector Banks	S. No.	Private Sector Banks
1.	<u>Andhra Bank</u>	1.	Axis Bank
2.	<u>Allahabad Bank</u>	2.	<u>Bassein Catholic Bank</u>
3.	<u>Bank of Baroda</u>	3.	<u>Catholic Syrian Bank</u>
4.	<u>Bank Of India</u>	4.	<u>City Union Bank</u>
5.	<u>Bank of Maharashtra</u>	5.	<u>Development Credit Bank</u>
6.	<u>Canara Bank</u>	6.	<u>Dhanalakshmi Bank</u>
7.	<u>Central Bank of India</u>	7.	<u>Federal Bank</u>
8.	<u>Corporation Bank</u>	8.	<u>HDFC Bank</u>
9.	<u>Dena Bank</u>	9.	<u>ICICI Bank</u>
10.	<u>Indian Bank</u>	10.	<u>Jammu & Kashmir Bank</u>
11.	<u>Indian Overseas Bank</u>	11.	<u>Karnataka Bank</u>
12.	<u>IDBI Bank</u>	12.	<u>Karur Vyasa Bank</u>
13.	<u>Oriental Bank of Commerce</u>	13.	<u>Lakshmi Vilas Bank</u>
14.	<u>Punjab & Sind Bank</u>	14.	<u>Ratnakar Bank</u>
15.	<u>Punjab National Bank</u>	15.	<u>South Indian Bank</u>
16.	<u>State Bank of India</u>	16.	<u>Tamilnad Mercantile Bank Ltd</u>
17.	<u>Syndicate Bank</u>		
18.	<u>UCO Bank</u>		
19.	<u>Union Bank of India</u>		
20.	<u>United Bank of India</u>		
21.	<u>Vijaya Bank</u>		

Source: https://www.successcds.net/Educationloan/Education_loan_Banks.htm

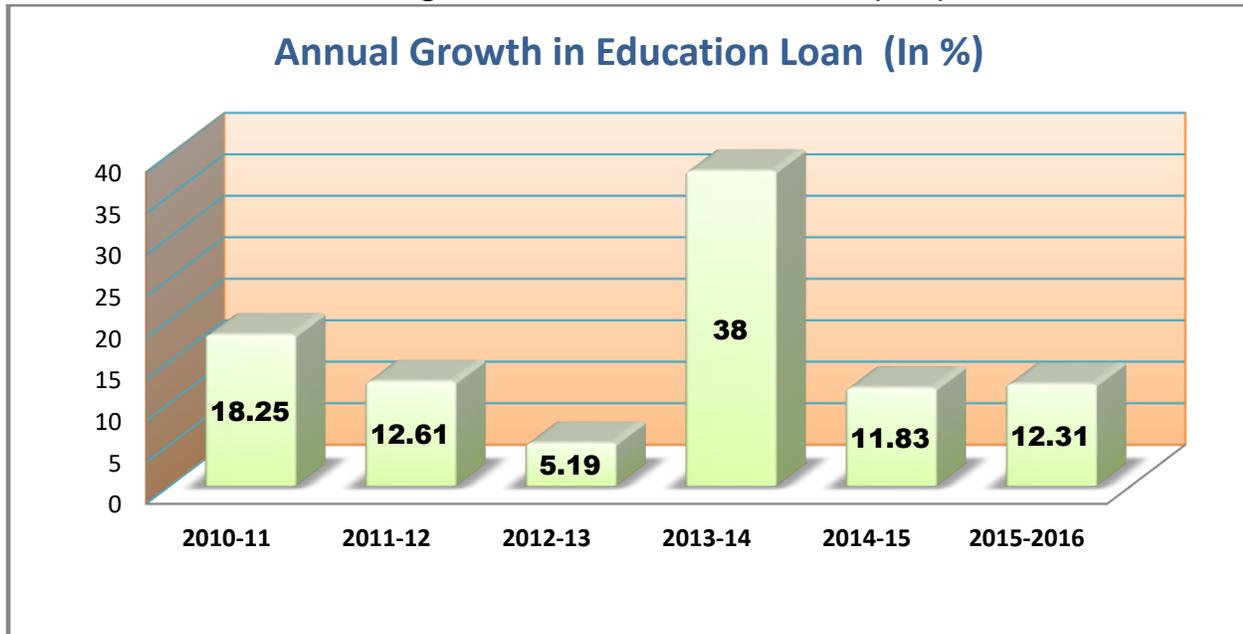
Table 2: Growth of Education Loan

S. No.	Year	Education Loan Amount (In Crore)	Annual Growth in Education Loan (In crore)	Total no. of A/c (In thousand)	Annual Growth in Education Loan A/c (In thousand)
1.	2010-11	42996	6636	2237	309
2.	2011-12	48416	5420	2461	224
3.	2012-13	50927	2511	2510	49
4.	2013-14	70282	19355	2573	63
5.	2014-15	78595	8313	2569	4
6.	2015-16	88269	9674	2435	-134

Source: Banking statistics relating to Banks, RBI Reports

As the table shows that Public as well as private sector banks are playing a vital role in providing Higher Education Loan. The performance of commercial banks under Education Loan disbursement process can be assessed by the data given in table above. The table shows the data regarding the total Education Loan amount, annual growth in Education Loan amount, No. of Education Loan accounts and its annual growth. In 2010-11 no. of beneficiaries of Education loan were 2,23,700 which was increased to 2,43,500 during the last 6 years with Loan amount Rs. 42,996 crore to Rs. 88,269 crore respectively. We can see in table that every year the no. of beneficiaries is increasing over previous year except 2015-16 which is a good sign for the people who are unable to afford high cost education in present time.

Figure 1: Growth of Education Loan (In %)



Source: Banking statistics relating to Banks, RBI Reports

In figure 1 the annual growth of Education Loan was shown. In 2010-11 the annual growth in Education Loan was 18.25% which decreases to 12.61% in 2011-12 and 5.19% in 2012-13. In 2013-14 it increases to 38% but decreased to 11.83% in 2014-15 and increased to 12.31% in the year 2015-16.

1.6 NPA in Education Loan

Table shows bad side of Education Loan during last 6 Years. The outstanding amount of Education Loan during last six years is continuously increasing. Students are availing loan but not paying on time. The outstanding Education Loan amount was Rs. 43,074 crore, 49,800 crore, 55,044 crore, 59,834 crore, 62,244 crore and 68,133 crore in 2011, 2012, 2013, 2014, 2015 and 2016 respectively.

The Non-performing asset (NPA) which borrowers have defaulted in on payments for more than 90 days in the segment of Education Loan in percentage of total Education Loan is constantly increasing.

The default rate in repayment rate was 3.71 in 2011, which rose to 4.5 in 2012, in 2013 again it increased to 5.4 and 5.75 in 2014, in 2015 it decreased to 5.44 in but increased to 7.35 in 2016.

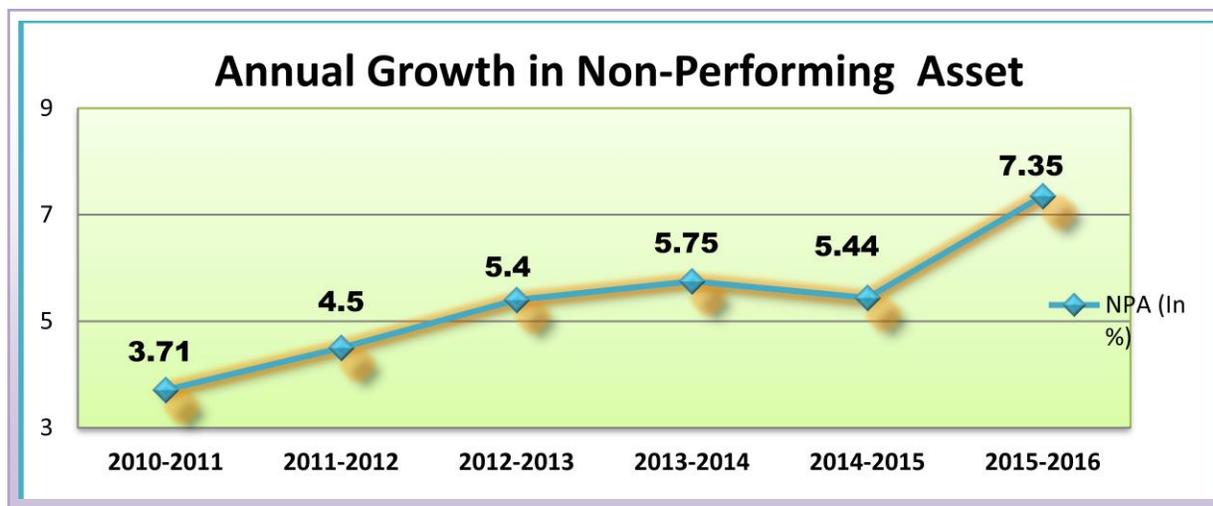
Table 3: Status of NPA in Higher Education Loan

S. No.	Year	Outstanding Amount (In Crore)	NPAs Amount (In Crore)	Annual Growth in NPA (In %)
1.	2010-2011	43074	1600	3.71
2.	2011-2012	49800	2241	4.5
3.	2012-2013	55044	2972	5.4
4.	2013-2014	59834	3439	5.75
5.	2014-2015	62244	3385	5.44
6.	2015-2016	68133	5006	7.35

Source: <https://www.bestcurrentaffairs.com/latest-data-npas-education-loans/>

Graph also indicates the NPA (Default) amount during the last 6 years 1,600 core, 2,241 crore, 2,972 crore, 3,439 crore, 3,385 crore and 5,006 crore in 2011, 2012, 2013, 2014, 2015 and 2016 respectively.

Figure 2: Status of NPA in Education Loan (In %)



Source: <https://www.bestcurrentaffairs.com/latest-data-npas-education-loans/>

In figure 2 NPA in Education Loan was shown by percentage over the period of 6 years. The trend presents an increasing direction of NPA. That means defaults in Education Loan are enhancing day by day that have an adverse impact on the profitability of Banks. In 2010-11 the annual growth of NPA was 3.71% which increased to 7.35% in 2015-16.

1.7 Suggestions and Recommendation

Education loan can be declared NPA by a bank once three consecutive EMIs go unpaid. Banks have distinct internal policies on handling NPA. Bank initiate legal proceedings against the borrower and the co-borrower. The bank may even take over the collateral, if any was submitted at the time of applying for Loan. Ideally, one should completely avoid defaulting debt repayments. It can severely damage one's CIBIL score, that way he or she will not be able to get any loans for bad credit score and their name will be registered in the bank's defaulter's list. If ever you need loans or credit card in future, the chances of you getting one will be bleak if you have unpaid (NPA) debts in your report. A poor CIBIL score literally cuts off access to credit in future. So everyone should act reliably and repay debts on time.

State Level Bankers' Committee (SLBC) Chairperson Usha Ananthasubramanian sent a strong message to banks in Punjab and Haryana when she told a committee meeting that, "The non-performing assets level is certainly on the higher side in case of education loan advanced collateral free. Only the meritorious rather than the deserving candidates should be considered for granting education loan."

Banks are required to make provisions for NPA to avoid the stoppage of income generation. Therefore, NPA is a double edged razor; damaging the profit, weakening the capital structure and reducing the rating of bank. Following steps may be taken by banks to tackle the problems of rising defaults.

1. Stringent NPA recovery rules

The government has over the years enacted and tweaked stringent rules to recover assets of defaulters. The Securitization and Reconstruction of Financial Assets and Enforcement of Security

Interest Act or Sarfaesi Act of 2002 was amended in 2016 as it took banks years to recover the assets. Experts have pointed out that the NPA problem has to be tackled before the time a borrower starts defaulting. This needs a risk assessment by the lenders and red-flagging the early signs of a possible default.

2. Reasonable recovery approach

The loan mechanism needs more reasonable approach so that all potential brilliant students are benefitted by the funding and not pushed to crisis before even their professional life begins. That means time to time follow-up should be taken regarding various information like relocation of borrower, change in mobile no., change in job and performance of borrower. The credit should be monitored effectively. Banks must initiate appropriate responses wherever early warning signals are seen.

3. Legal action

If the education loan account becomes NPA due to non-payment of interest and installment banks will resort to legal remedy to recover the dues including filing of suits against the borrower and guarantors for non-payment of dues. Legal action also includes recovery through Lok Adalat, DRT, SARFAESI proceedings, Filing Civil suit.

4. Qualitative appraisal of financial statements

At the time of sanctioning the Education Loan banks demand for financial statements of last 6 months and borrower is required to submit it. To reduce the NPA Banks need to appraise qualitatively the statements and make sure that there will be less chance of default.

5. Insurance

This is a new concept in Education Loan that now the banks are taking initiative for doing insurance of borrower of Education Loan. This will minimize

the risk factor for banks because in any case if the borrower will not repay the debt the insurance company will pay the sum assured.

6. Periodic assessment

There is a need to make periodic assessment of the health of the advances by noting some of the key indicators of performance of borrowers like academic records, activity level, family conditions and management of the unit and ensure that the loan given are effectively utilized for productive purposes and are well maintained. To identify early warning signals, if any, and initiate remedial measures.

7. Academic progress

Monitoring academic progress of student is really very necessary for banks to ensure asset quality of loans though subsequent installments can't be stopped for the mere reason that the student has not got any employment opportunity due to bad academic records. Banks may require from students to submit a certificate from institutes about the continuous academic progress. Students can approach their institutes to issue such a 'progressive certificate'.

1.8 Conclusion

India has been ranked fifth on the list of countries with highest Non-Performing Assets (NPAs) with a ratio of 9.9%, and is on top spot among the BRICS nations, a recent report by CARE Ratings revealed. A Non-performing asset (NPA) is *defined* as a credit facility in respect of which the interest and/or installment of Bond finance principal has remained 'past due' for a specified period of time. The current study deals with the types of NPA and the causes behind its growth. The paper analyzed the NPA in terms of Education Loan and find that NPA is increasing over the period of last 6 years. An attempt was made to highlight the role of public and private sector banks in providing Higher Education Loan.

A study was based on the secondary data, from the annual reports, of 6 years starting from 2011 to 2016. The paper concludes with the strategies and suggestions to reduce the NPA rate in Education Loan.

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