



JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)

An International Scholarly Open Access, Peer-reviewed, Refereed Journal

EDUCATION LOANS IN INDIA: CHALLENGES, IMPACT, AND COMPARATIVE ANALYSIS WITH GLOBAL SYSTEMS

Kaushal Naresh Amar¹ & K K Agrawal²

¹Research Scholar, Jiwaji University

²Professor, MLB College Gwalior

Abstract

This paper examines the landscape of education loans in India, focusing on their role, accessibility, challenges, and impact on students and the education system. Through a comprehensive analysis of policies, financial mechanisms, and socio-economic implications, this study aims to provide a holistic understanding of how education loans facilitate higher education in India and what improvements can be made to enhance their efficacy. Additionally, a comparative analysis with international education loan systems is conducted to identify best practices.

Introduction

The rising cost of higher education has made it increasingly difficult for many students in India to afford quality education. Education loans have emerged as a crucial tool to bridge this financial gap, enabling students from diverse economic backgrounds to pursue their academic aspirations. This paper explores the evolution, current state, challenges, and potential solutions related to education loans in India, with insights drawn from international comparisons.

Historical Context

Evolution of Education Loans

Education loans in India have evolved significantly since their inception. Initially introduced in the early 2000s, these loans aimed to provide financial assistance to students pursuing higher education both domestically and internationally. The government, in collaboration with public and private sector banks, established various schemes to make higher education more accessible.

Key Milestones

- **2001:** Introduction of the Model Educational Loan Scheme by the Indian Banks' Association (IBA).
- **2004:** Launch of the Education Loan Interest Subsidy Scheme by the Government of India.
- **2015:** Introduction of the Pradhan Mantri Vidya Lakshmi Karyakram, an integrated platform for students seeking education loans.

Current Landscape

Types of Education Loans

Education loans in India can be broadly classified into several categories based on factors such as the level of education, nature of the course, and the institution. Key categories include:

- **Domestic Education Loans:** For studies within India.
- **Overseas Education Loans:** For pursuing education abroad.
- **Vocational Education Loans:** For skill development and vocational courses.

Major Providers

The primary providers of education loans in India include public sector banks, private sector banks, and non-banking financial companies (NBFCs). Major players include:

- State Bank of India (SBI)
- Punjab National Bank (PNB)
- ICICI Bank
- HDFC Bank
- Credila (HDFC subsidiary)

Accessibility and Eligibility

Eligibility Criteria

Eligibility for education loans typically depends on various factors including academic performance, course and institution, creditworthiness of the co-borrower, and the repayment capacity. Common eligibility requirements are:

- Indian citizenship.
- Admission to recognized educational institutions.
- Co-borrower with a stable income.

Application Process

The application process involves several steps including filling out application forms, submitting required documents (such as admission letters, fee structure, and co-borrower income proof), and undergoing credit assessment. The Vidya Lakshmi portal has streamlined this process by providing a single-window for loan applications.

Challenges

High Interest Rates

One of the major challenges faced by students is the high interest rates on education loans, which can significantly increase the overall cost of education. As of 2023, interest rates on education loans in India range from 7.5% to 15%, depending on the bank and the loan amount.

Collateral Requirements

Many banks require collateral for higher loan amounts, which can be a barrier for students from economically weaker sections. Typically, loans above INR 7.5 lakh require collateral.

Repayment Burden

The repayment burden can be substantial, especially for students who are unable to secure high-paying jobs post-graduation. This can lead to financial stress and default. According to a report by the Reserve Bank of India, the non-performing asset (NPA) rate for education loans stood at 9% in 2022.

Awareness and Outreach

There is a lack of awareness about the availability and benefits of education loans, particularly in rural areas. This limits the reach and effectiveness of these financial instruments. According to a survey by the Ministry of Education, only 35% of students in rural areas are aware of education loan schemes.

Impact on Higher Education

Increased Enrollment

Education loans have played a significant role in increasing enrollment in higher education, particularly in professional and technical courses. They have enabled students to access institutions that would otherwise be unaffordable. Data from the All India Survey on Higher Education (AISHE) indicates that the gross enrollment ratio (GER) in higher education increased from 19.4% in 2010 to 27.1% in 2020.

Quality of Education

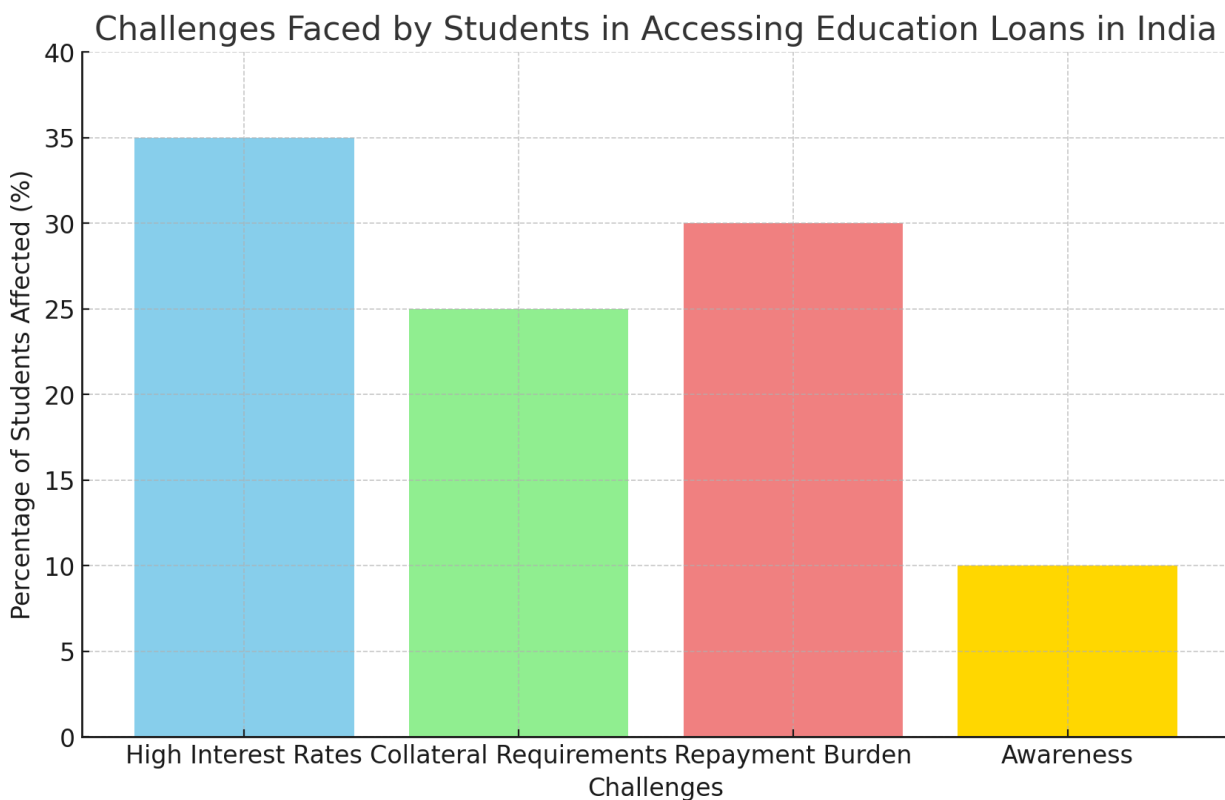
By providing financial support, education loans have allowed students to choose better quality institutions, thus improving the overall quality of education. This, in turn, has led to better educational outcomes and employability.

Socio-Economic Mobility

Education loans have contributed to socio-economic mobility by enabling students from diverse backgrounds to pursue higher education and secure better employment opportunities. Studies show that graduates who availed education loans have a higher likelihood of securing jobs in organized sectors compared to those who did not.

Challenges faced by students in accessing education loans in India

The survey was conducted in Gwalior and out of 100 respondent 70 responses was received and result showed the percentage of students affected by each challenge as below.



- **High Interest Rates:** 35%
- **Collateral Requirements:** 25%
- **Repayment Burden:** 30%
- **Awareness:** 10%

Comparative Analysis: International Perspectives

United States

In the United States, federal student loans are a significant source of funding for higher education. These loans come with benefits such as fixed interest rates and income-driven repayment plans, making them more manageable for borrowers. The U.S. also offers loan forgiveness programs for public service workers.

United Kingdom

In the United Kingdom, student loans are provided by the government with repayment terms based on income. Repayment starts only after the borrower earns above a certain threshold. Interest rates are also income-contingent, making the system more equitable.

Australia

Australia's Higher Education Loan Program (HELP) provides income-contingent loans, where repayments are made through the tax system once the borrower's income exceeds a minimum threshold. This ensures that repayments are affordable and aligned with the borrower's financial situation.

Key Takeaways

- **Income-Driven Repayment Plans:** Aligning repayment with income can reduce the financial burden on borrowers.
- **Government Guarantees:** Government-backed loans can make education loans more accessible and reduce the risk for financial institutions.
- **Awareness Campaigns:** Extensive outreach programs can improve awareness and uptake of education loans.

Policy Recommendations

Interest Rate Subsidies

The government should consider increasing subsidies on interest rates for education loans, particularly for students from marginalized communities. This could help reduce the financial burden and make higher education more accessible.

Flexible Repayment Plans

Banks should offer more flexible repayment plans tailored to the individual earning potential of graduates, including income-contingent repayment options. This would help mitigate the risk of default and financial stress among borrowers.

Enhanced Awareness Programs

There should be concerted efforts to enhance awareness about education loans through campaigns, especially in rural and semi-urban areas. This can be achieved through collaboration between banks, educational institutions, and government bodies.

Government Guarantees

Government guarantees for education loans can reduce the risk for banks and make loans more accessible to students without collateral. This would particularly benefit students from economically weaker sections who are unable to provide collateral.

Conclusion

Education loans are a vital tool for enabling access to higher education in India. While significant progress has been made in making these loans more accessible, there are still several challenges that need to be addressed. By implementing targeted policy measures and enhancing awareness, the education loan system can be made more effective, thus contributing to the broader goal of inclusive and quality education for all.

References

1. "Education Loan Interest Rates," State Bank of India, 2023.
2. "Education Loan Rates," HDFC Credila, 2023.
3. "Collateral for Education Loans," Punjab National Bank, 2023.
4. "Report on Trend and Progress of Banking in India," Reserve Bank of India, 2022.
5. "Survey on Education Loan Awareness," Ministry of Education, Government of India, 2023.
6. "All India Survey on Higher Education (AISHE)," Ministry of Education, 2020.
7. "Impact of Education Loans on Employment," National Sample Survey Office (NSSO), 2022.

