

Business Standard

Education loan growth rate dips from 17% to 2%, NPAs jump from 5.5% to 7.5%

The education loan market is estimated to be Rs 733 billion

Sahil Makkar | New Delhi March 30, 2018 Last Updated at 02:14 IST



The growth rate of education loan declined to 2 per cent in 2017 from 17 per cent in 2015 and non-performing assets (NPAs) of public sector banks (PSBs) in the segment increased to 7.7 per cent from 5.7 per cent during the period, CARE Ratings said on Thursday.

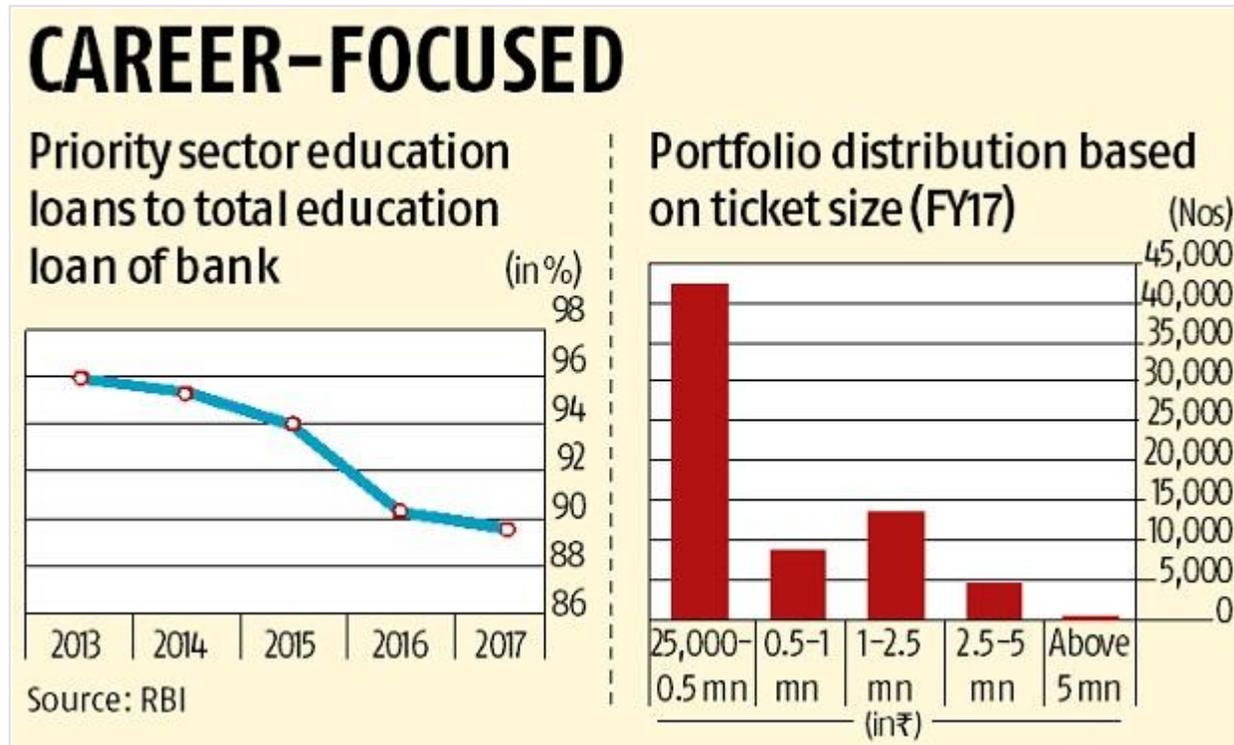
The education loan market is estimated to be Rs 733 billion. Of this, 95 per cent is funded by PSBs. Cooperative banks offer education loans worth around Rs 20 billion and non-banking financial companies (NBFC) provide around Rs 50 billion.

“The growth rate has declined because of delinquencies experienced by PSBs and lack of specialised lending institutions in the segment. Public banks largely focused on domestic students pursuing under-graduate courses. Further, they usually don’t take collateral against the loan, as most loans are below Rs 0.4 million size, where there is no requirement for collateral. The students couldn’t pay back because of lower employment opportunities after completing such courses,” says Mitul Budhbhatti, associate director at CARE Ratings.

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higher education. The southern region got 56 per cent of education loans, followed by the eastern region (13 per cent), the west (12 per cent) and the central region (10 per cent). The northern region received 9 per cent of loans, while the Northeast got only 1 per cent. Tamil Nadu and Kerala together received 36 per cent of loans. These two states also showed higher delinquencies of around 10 per cent. Andhra Pradesh, Telangana and Madhya Pradesh have bad loans of around 5 per cent.

“The delinquencies are likely to be higher in undergraduate courses vis-à-vis post-graduate ones, as employment opportunities are commensurate with the financial costs on account of lower competition in those segments,” the report noted.



The banks were skewed towards the southern region while disbursing loans because of higher literacy rate and students’ inclination towards

Budhbhatti said NBFCs follow a different model. “They have NPAs of less than one per cent in this segment. They loan mostly to students pursuing technical, post-graduation and foreign education. They also take collateral against the loan, as the ticket size here is higher,” Budhbhatti said, adding that loans from NBFC was a recent phenomenon and only a few companies are focused on providing loans. NBFCs are focused on Delhi, Chennai, Mumbai, Bengaluru, Hyderabad and Pune.

India has 864 universities, 40,026 colleges and 11,669 standalone institutions offering higher education. Most colleges (77.8 per cent) belong to the private sector and are not funded by the government.

According to the report, education loans under the priority sector have also declined to 90 per cent in 2017 from 96 per cent in 2013. Education loans of

up to Rs 1 million are eligible to be classified as priority sector loans.

On Wednesday, the Cabinet also approved continuation of a credit guarantee fund for the education loan scheme and central sector interest subsidies. Under the scheme, the government provides interest subsidies for students whose annual parental income is up to Rs 450,000. Such students can avail of Rs 750,000. The government said around 2.5 million students have benefitted from the scheme since its launch in 2009. About Rs 66 billion have been kept for the scheme for the next three financial years.