

NON-PERFORMING ASSETS (NPA): ITS IMPACT ON THE INDIAN EDUCATION SECTOR

Vijeta V Rana*
Dr. Yogesh Parmar**

ABSTRACT

Non-performing assets are financial assets that, generally because of loan delinquency or default, are not producing income for the lender or borrower. They are sometimes known as "troubled assets" or "distressed assets". A loan or advance where the interest or principal payment was past due for 90 days or more. The Reserve Bank of India (RBI) defines non-performing assets as any advance or loan outstanding for more than 90 days. According to an RBI circular of 2007, when an asset becomes non-performing, it stops generating income for the bank. A financial instrument in which the borrower has not paid the pre-agreed interest and principal to the designated lender for a considerable period of time is called a non-performing asset (NPA). As a result, the lender is not receiving any income in the form of interest payments from the non-performing asset. The types of NPA, causes of NPA, safeguards against NPA, and benefits and drawbacks of the sector. In the Indian education sector, non-performing assets may include loans, bonds and other financial instruments such as mortgages, business loans and credit card loans. Impact of merits and demerits on the Indian education system.

Keywords: Non-Performing Assets, Preservation Measures, Merits -Demerits Impact, Education Loan.

Introduction

Education plays a crucial role in the Indian economy. Education can be helpful for our hearts and souls and helping us figure out how we want to live. Education can also be defined as the process of being education. If a person is educated, it has an impact on human development and economic growth. It also makes a person highly responsible and a proper citizen, and he/she will be given respect in society, therefore by educating, we may eradicate poverty and live a peaceful life. NPA's role is essential in the educational sector. NPA has many aspects such types, merits, demerits, and industries, including loans, bonds, mortgages, commercial loans, and credit card debt.

About

- **According to the Model** loan scheme: education loans up to Rs 4 lakh do not require collateral of any kind to be provided by the applicant, educational institutions loans up to Rs 7.5 lakh can be obtained with collateral in the form of an appropriate external ensure, and higher education loans above Rs 7.5 lakh require tangible security.
 - In all of these situations, parental co-obligation is required.
- **Relaxation of Educational Loans:** After completing their studies, students are given a moratorium period of up to 12 months.
 - If the student begins to work, the repayment period begins sooner.
- **Interest rates:** The various schemes charge a mark-up of 2-3% above the marginal cost of funds-based lending rate (MCLR)/external benchmark, based on the repute of the course/institutions.
 - The repayment duration is between 10 and 15 years.

* Research Scholar, Sabarmati University, Ahmedabad, Gujarat, India.

** Research Guide, Assistant Professor, Sabarmati University, Ahmedabad, Gujarat, India.

Objective of NPA's in the Education Sector

Types of NPA

- **Standard Assets**
 - A standard asset is a type of inefficient asset that does not have any flaws or hazards Other than those associated with ordinary company activities.
- **Substandard Assets**
 - A substandard asset is one that has been designated as a non-performing asset (NPA) for a Period of less than or equal to 12 months.
- **Doubtful assets**
 - An asset is categorized as a problematic asset if it remains an NPA for more than 12 months.
- **Loss Assets**
 - A loss asset is one that is "uncollectible" and having such a low value that it is not suggested
That it continues to function as a bankable asset.

Causes of NPA

- **Financial Downturns**
 - Financial slowdowns, downturns, and slowing industrial expansion reduce the demand for goods and services. This, in turn, impacts on companies"- cash flows, and they may default on their loans.
- **Borrower Failure**
 - Borrowers can fall behind on the loans they owe for various reasons, including financial hardship, fraud, or mismanagement. This results in NPAs.
- **Inadequate Credit Evaluation**
 - Banks and financial organizations may not always conduct proper credit evaluations before issuing loans. This could result in the borrower defaulting on the loan and the loan being an NPA.

Merits of the NPA

- Provides well-developed infrastructure
- Makes commercial and industrial parks available.
- Provided large tax breaks to businesses
- It has low operational costs.

Demerits of the NPA

- Inefficiency in operations
- Political intervention
- Traditional sector funding
- Increased provisioning for non-performing assets

Safeguards Against NPA

- **Prevention**
 - Before lending, examine a person's or corporation's Credit Information Bureau (India) Limited (CIBIL) score.
 - Agree or use alternative dispute resolution methods.
 - Use alternate dispute resolution procedures, such as LokAdalats and Debt Recovery Tribunals, to settle debts more quickly.
 - Constantly disseminated information about defaulters.
 - Take tough measures against huge NPAs.
 - Use an Asset Reconstruction Company.
 - Legislative reforms, such as the Insolvency and Bankruptcy Code, have already occurred.

- **Reporting**
 - A 'non-performing asset' (NPA) was defined as credit in which interest and/or capital instalments have been 'past due' for a particular amount of time.

- **Accountability**

The year 2021 is enclosed. inquiries toward bank officers/workmen, has independently issued a Guidelines on Staff Accountability for NPA Accounts up to Rs. 50 crores (not including scams accounts), which aims to protect employees for their legitimate options while maintaining accountability for wrongdoing or inaction.

NPAs Management in the Education Sector

- Access Control, Dashboards based on roles
- Borrower profiling includes debt profiles, loan papers, security documents, charge status, valuation details, and so on.
- Case management, Notices/Legal Status Management, Calendar and Reminders
- Quantum data upload and recounting module
- Associate Details, and Performance Management
- Expense Control Knowledge management
- Outlook plug-in, analytics, and conflict resolution

Education Loan Interest Subsidy

The Reserve Bank of India (RBI) has introduced rules to grant government subsidies on education loans, with the goal of making higher education more affordable and accessible to deserving students. These interest subsidy programs are critical in alleviating the burden of excessive interest rates. Let us look at the various interest subsidy programs available under RBI guidelines:

CSIS stands for Central Sector Interest Subsidy Scheme

- Students from the Economically Weaker Section (EWS) with parents or families earning an annual gross income of up to Rs. 4.5 lakh are targeted beneficiaries.
- **Interest Subsidy Coverage:** During the moratorium period, education loans secured under the Model Education Loan Scheme of the Indian Banks'. Association (IBA) are eligible for full interest subsidies of up to 10 lakhs.
- **Course Eligibility:** This scheme provides financial assistance to students studying technical and professional degrees in India.
- **No Security Protection Required:** These interest subsidies are available to students without the need for collateral or a third-party guarantee.

Dr. Ambedkar Central Sector Interest Subsidy Scheme for Education Loans

Students from other backward classes (OBCs) and economically backward classes (EBCs) having an annual gross family income of less than Rs.8 lakh and Rs.5.00 lakh, respectively, are targeted beneficiaries.

- **Interest Rate Subsidy:** The interest rate subsidy typically covers the course term as well as an additional 12 months following completion of the program or 6 months after securing a job, whichever comes first.

The interest subsidy scheme is only accessible on loans of up to Rs. 20 lakh.

Students must enroll in professional or technical courses approved by NAAC-accredited institutions or NBA-accredited professional technical schools to be eligible for the Dr. Ambedkar Central Sector Scheme of Interest Subsidy for Education Loans. After completing Class XII, students may apply to programs, institutions of national importance, or centrally funded technical institutions (CFTIs).

- **No Collateral Security Required:** Students can benefit from these interest subsidies without providing collateral security or a third-party guarantee.

Interest Subsidy Schemes Sponsored by State Governments

In addition to federal government programs, some Indian state governments have implemented interest subsidy schemes for education loans. These programs are intended to assist students from

specific states by providing interest subsidies based on specific eligibility criteria. Students must investigate and take advantage of applicable state-sponsored initiatives to reduce the financial burden of college loans.

Education Loan Interest Subsidy Scheme in Padho Pardesh

The scheme, which was established in 2006, provides a scholarship for students from economically disadvantaged parts of registered minority communities to provide better higher education prospects overseas and increase their potential for employment.

Education Loan Offers 2023

The Reserve Bank of India (RBI) recently established guidelines for providing duty subsidies on education loans to make higher education more affordable and accessible to eligible students. The subsidy ratio for native and international students was a set by all banks.

Name of Bank	Interest Rate (p.a.)	Processing Fees
SBI	8.15% to 11.15%	<ul style="list-style-type: none"> Up to Rs.10,000 No charge required for loan amount below Rs.20 lakh Loan amount above Rs.20 Lakh: Rs.10,000 (plus taxes)
Canara Bank	9.25% onwards for women borrowers 8.60% onwards for other borrowers	0.50% of the loan amount up to Rs.10,000 (for collateral security coverage of 100% and above)
IDBI Bank	10.60% to 11.10%	1% of the loan amount (Maximum: Rs.5,000)
Bank of Baroda	8.55% onwards	No processing charges up to Rs7.50 lakh 1% of loan amount up to Rs.10,000
Bank of India	10.95% to 11.75%	No processing fee for studies in India
ICICI Bank	9.85% onwards	Up to 2% + GST
Axis Bank	13.70% to 15.20%	2.00% of the loan plus GST
Federal Bank	12.55% onwards	Contact the bank
DCB Bank	9.65% per annum	<ul style="list-style-type: none"> Up to INR 4 Lakhs: Nil Above INR 4 Lakhs: INR 5000
Tamilnadu Mercantile Bank	<ul style="list-style-type: none"> Non collateral: 12% - 14% Collateral: 9% - 11% 	1% of the sanctioned loan amount

Note: These interest rates are effective September 2023 and are subject to change in accordance with the bank's rules and regulations.

These interest rates are effective September 2023 and are subject to change in accordance with the bank's rules and regulations. The first step toward strength is education. It is also becoming more expensive, making it difficult for Indians to exercise this fundamental right. This is when an education loan comes in handy. The Indian government has implemented several educational initiatives, and banks and non-banking financial companies help this cause by providing the best education loans in India.

This blog evaluates the top ten college loan lenders and lists their education loan interest rates. Examine the blog and start your educational adventure right away!

Bank/NBFC	Interest Rate (India)	Interest Rate (Abroad)	Processing Fee
The State Bank of India	8.30% – 11.50%	10.90%	NIL to INR 10,000
Bank of Baroda	8.85% – 12.20%	10.25% - 10.90%	NIL to 1%
Punjab National Bank	9.25% – 11.75%	Up to 11.40%	NIL to 1%
Axis Bank	13.70% – 15.25%	13.70% – 15.25%	Up to 2%
Canara Bank	9.15% – 11.25%	10.75% – 11.25%	Up to INR 20,000
Federal Bank	12.30% onwards	12.30% onwards	Not disclosed
ICICI Bank	9.50% onwards	9.50% onwards	Not disclosed
IDBI Bank	8.85% – 10.5%	10% -10.50%	NIL to 1.5%
Tata Capital	10.99% onwards	10.99% onwards	Not disclosed
Avanse Financial Services	Not disclosed	Not disclosed	Up to 2%

Year-wise Outstanding Balance toward Education Loans by All Scheduled Commercial Banks as Reported by the Reserve Bank of India (RBI) from 2017-18 to 2021- 22

Financial Years	Amount Outstanding (Amount in Rs. Crore)
2017-18	73940.33
2018-19	75968.49
2019-20	78743.98
2020-21	81041.27
2021-22	83997.56

Education Loan Type

- **Secured Education Loan**

The Reserve Bank of India (RBI) has issued detailed rules to facilitate secured loans for education, ensuring that students pursuing advanced study have a variety of affordable and efficient funding options. The criteria and processes for obtaining such loans, which entail the provision of collateral or security in exchange for the loan amount, are outlined in these rules. Let us look at the key components of the RBI's guidance on guaranteed education loans

Collateral Requirement

Under RBI guidelines, banks and financial institutions may ask borrowers to provide collateral or security while obtaining education loans. Immovable property, fixed deposits, government bonds, and various other assets can be used as collateral. The value of the collateral is critical in determining the loan quantity sanctioned. Lenders must extensively study collateral requirements and assess the potential risks associated with pledging security.

- **Loan Amount:** Since property includes collateral, secured loans provide consumers with larger amounts to borrow. The loan amount can range between INR 10 lakhs and INR 1.5 cores, based on criteria such as the value of the collateral, the level of study selected, and the recipient's capacity to repay it.
- **Interest Rates:** Banks often offer competitive interest rates on secured school loans ranging from 8% to 11%. Because of the inclusion of a security interest, these interest rates are lower than those for unsecured loans. Lenders can benefit from lower borrowing costs.
- **Risk and Eligibility:** Because collateral reduces the lender's risk, secured loans are more accessible to applicants with low credit scores or a limited credit history. Eligibility requirements for an unsecured educational loan.

Unsecured Education Loan

The Reserve Bank of India (RBI) has issued detailed rules for unpaid education loans to ease the procedure of acquiring funding for individuals seeking further education. These standards eliminate the need for collateral or security, making educational loans more accessible and inclusive. Let us now look at the fundamentals of the RBI's criteria for unsecured education loans

- **No Collateral Required:** Under RBI standards, banks and financial institutions are permitted to make unsecured education loans that do not require collateral or security. This means that students can obtain funding for their educational needs without having to pledge assets or secure guarantors. This option allows students from diverse backgrounds to pursue their academic goals without being constrained by financial restrictions.
- **Loan Amount:** Unsecured loans typically have lesser loan amounts than secured loans. Loan amounts typically range from INR 4 lakhs to INR 60 lakhs and they are determined by factors such as the chosen course, educational institution, and the borrower's repayment capacity.
- **Interest Rates:** Unsecured educational loans often have higher rates of interest, ranging from 10% to 15%. Lenders demand higher interest rates because there is no collateral, which raises the lender's risk. Higher interest rates help offset this additional risk.
- **Eligibility Criteria:** Unsecured loans often have eligibility requirements. We consider academic achievement, entrance to reputable universities, and the borrower's creditworthiness first. Lenders use these parameters to determine the borrower's ability to repay the loan in the absence of assets.

Pros and cons of Education Loan in NPA's

Secured education loans are usually preferable to unsecured education loans.

A straightforward comparison of the two loan choices: - Advantages of Secured Loans

Pros of Secured Loans

- **Simple Application:** Secured loans necessitate the pledging of security. Collateral can be owned by a third- party if they are willing to do so for you. They are easier to obtain because you have pledged collateral.
- **Acceptance of Various types of Collateral:** Collateral can be real estate property/plot with boundary/flat/house. Although that gold is a tangible item, it is not accepted as a security for college loans. You could also use an FD or LIC policy.
- **Low Interest Rate:** The interest rate starts at 8.85% for women and 9.35% for men. Public sector banks provide this rate of interest.
- **Greater Likelihood of Approval:** Because you are providing collateral as a backup for your loan amount, the likelihood of approval has increased.
- **Payback Period:** The payback duration has also been extended. It can last up to 20 years.
- **Moratorium Period:** An additional benefit of a secured loan is the moratorium period, which is the period during which the applicant is not expected to return anything. Most lenders consider it to be the study time plus a 6-month grace period. Therefore, if you take out an education loan for a master's degree, you must begin repaying the debt after 2.6 years. When applying for a secured loan, the income of the co-applicant is not considered. Only the property's value and associated documentation are necessary.

Cons of Secured Loans

Longer procedure - Because you are pledging property, the bank must analyse the property and verify the documentation, which takes time.

Pros of Unsecured Loans

Unsecured loans have a quick turnaround time because there are not many procedures. As a result, they are granted quick when the applicant presents all the required documentation. It may even be approved within a week.

Cons of Unsecured Loans

- **Rate of Interest:** The rate of interest on an unsecured loan starts at 11.25% in the case of private sector banks. In the case of non-banking financial companies (NBFCs), it might range from 12% to 16%.
- **Vague Terms and Conditions:** Unsecured loan terms and conditions are frequently vague and opaque. They may have hidden expenses that increase the cost of your loan.
- **Co-applicant:** A co-applicant is required for unsecured loans. The loan will not be granted unless there is a co-applicant. It is the fundamental criterion.
- **Repayment throughout the Study Term:** Throughout the study period, the co-applicant must pay partial or full interest. This signifies that no moratorium period exists.
- **Income and CIBIL Score:** Another disadvantage is that if the co-applicant's income is insufficient, the loan application will be rejected. This is due to the previously mentioned point. The lender will also look at the applicant's and co-applicant's CIBIL scores. It should be higher than 650.
- **ITR and Form 16:** If the co-applicant fails to file an ITR or Form 16, his or her income will not be included and the application will be denied.

As you can see, the advantages of a secured loan outweigh those of unsecured loans. Therefore, it is prudent to apply for secured loans.

Conclusion and Suggestions

Suggestions

- It is preferable to lower the fascination rate on an educational loan.
- It would be beneficial if the financial institution extended the break to allow students greater leeway in loan payments.

- When selecting applicants for loans for higher education, institutions should closely consider their commendable achievements.
- Because the most students who obtain loans for education are unemployed, the government should either create a platform for them to find work or absorb their liabilities.
- The government should implement the system, such as interest waivers and subsidies, on a standardized platform. Otherwise, some people may gain an advantage while others do not.
- For willful defaulters, the government should enact different legal policies and norms.

The financial institution that issued the loan must make arrangements to link the loan applicants' earnings accounts to the specific sector, so that customers can cut a fair amount toward the loan due based on their salary.

- It is preferable to treat IBM and non-IBM schemes as the same for calculating loan interest rates.
- The financial institution that made the loan must make arrangements to link the loan seekers' salary accounts to the specific branch so that they can cut a check. a reasonable sum for the debt payable in accordance with his or her pay.
- It is preferable to treat IBM and non-IBM schemes as the same in the computation of the loan's rate of interest

Conclusion

Non-performing assets (NPAs) are loans or advances made by banks or financial institutions that no longer generate revenue for the lender because the borrower has failed to make principal and interest payments on the loan for at least 90 days. The presence of merits is notable in front of demerits also. safeguards against NPA are useful for the educational sector.

The objective of a loan for education is to help deserve students complete their studies without financial constraints. However, in the future, because of particular norms, laws, and increased seats in educational institutions, more people without meritorious performance will be eligible for education loans. Because the increased number of institutions, each year lakhs of graduates graduate, and the majority of them do not find excellent jobs due to intense competition. An unemployed cause defaults on education loans, which results in NPAs on education loans. We cannot deny that education is a fundamental human right.

References

1. [https://www.studyiq.com/articles/npas-in-education-loan/#:~:text=are%20relatively%20secure.non%20performing%20asset%20\(npa\),or%20equal%20to%2012%20months.](https://www.studyiq.com/articles/npas-in-education-loan/#:~:text=are%20relatively%20secure.non%20performing%20asset%20(npa),or%20equal%20to%2012%20months.)
2. <https://groww.in/p/non-performing-assets>
3. <https://blog.ipleaders.in/management-non-performing-assets-npa/>
4. https://www.google.com/search?q=accountability+in+banking+sector+npa&sca_esv=569134136&rlz=1c1ongr_enin972in972&biw=1366&bih=651&ei=8xgvzdknjonwsempitej-ac&ved=0ahukewis5nolrs2baxuja2wghypran8q4dudcba&uact=5&oq=accountability+in+banking+sector+npa&gs_lp=egxnd3mtd2l6lxnlcnaifjy291bnrhymIsaxr5igluigjhbmtpbmcgc2vjd9yig5wy tifeceyoaeybrahgkabmggqirgwgwb4yhtieeeyfhgegb1iybtqqwzynhbwxgbkaeamahfaaabiaaqaquw ljmumbgba8gbapgbacicchaagecy1gqysapcagyqabgwgb7caggqabgwgb4yd8icbaagiofgiydwgik eceyfhgega8yhcticbxahgkabgariawqyacbbiaybkayi&scient=gws-wiz-serp
5. <https://www.wemakescholars.com/education-loan/rbi-guidelines>
6. <https://www.financialexpress.com/money/do-you-know-about-govt-subsidies-on-education-loans-know-the-features-benefits-and-eligibility-2683234/>
7. <https://www.bankbazaar.com/education-loan.html>
8. source - rajyasabha session - 258 unstarred question no 687. answered on, 13th december 2022. data figures are in rs. crore. source - reserve bank of India.
9. https://www.urbanmoney.com/blog/education-loan-plart/#best_education_loan_in_india_2023

