



A COMPARATIVE STUDY ON EDUCATIONAL LOANS PROVIDED BY PUBLIC AND PRIVATE SECTOR BANKS

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Abstract

“Education is the most powerful weapon which you can use to change the world,” - Nelson Mandela. Education gives not only knowledge but also gives a good income, and knowledge about right and wrong and makes people good human beings in Society. For middle-class people, higher education is becoming a big dream because of financial inability. To solve this problem government has launched many schemes. Banks are providing educational loans to students who want to do their higher studies in India or abroad. This paper concentrated on the educational loan provided by various Banks. This paper focuses on the comparative study of educational loans provided by public and Private sector banks.

Keywords: Educational loans, Public sector Banks, and Private sector Banks.

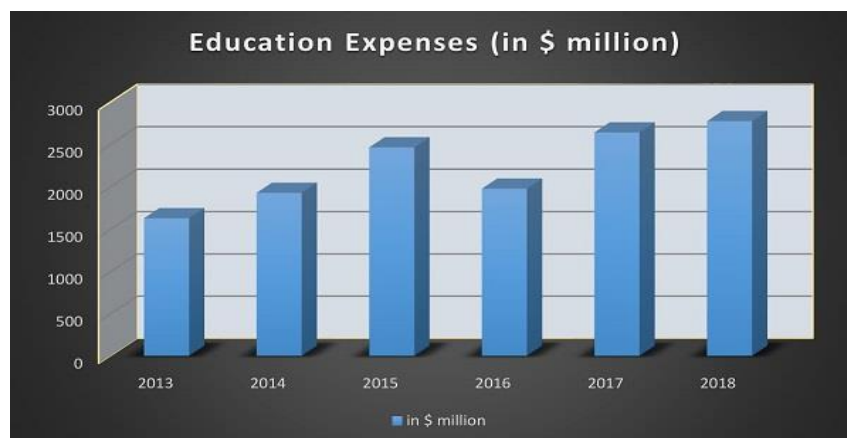
Introduction

“The goal of education is the advancement of knowledge and the dissemination of truth” –

John Kennedy.

Knowledge is the biggest wealth that we get from quality education. To get this quality education many of them turn abroad for the best education. As per RBI-provided data, the students spending money on hostels and tuition abroad has increased by the Indian students, 44% from \$1.9 billion in 2013-14 to \$2.8 billion in 2017-18, and is maybe by 1.8 million approximately by 2024. By this data, we can analyze those students preferring to pursue education abroad.

Day by day the expenses for education are been increasing. The students are facing the biggest challenge in arranging funds for their higher education. So to overcome this challenge the students are helped with education loans provided by both public and private sector banks. However private sector banks growing rapidly the students are attracted to public sector banks as they provide a loan with low-interest rates, low processing fees, and no pre-payment charges. Whereas the private sector banks provide better customer service fast processing, and high-interest rates compared to public sector banks.



Source: Reserve bank of India



The objective of the study

1. To know about the criteria of educational loans provided to the students
2. To compare the educational loan provided by Public and the private sector banks

Scope of the study

The study focuses only on educational loans provided by private and public sector banks. Research design:

Secondary data

The information collected for the research is from Public and Private sector Bank websites, and articles on the internet.

Review of Literature

Shromona Ganguly and Deepa S. Raj(2020):

This study examined why the educational loan provided by Banks are becoming NPA. It is conducted in the state of Tamil Nadu. Reasons for failure of the educational loan as per this study are high-interest rate, the inability of the borrower to repay the loan, and unwillingness to pay the loan back. It has been suggested that how to reduce the default in repayments is the longer duration of the loan period and Banks should do the follow-up of the borrower through Aadhaar information.

Determinants of Educational Loan by Commercial Banks in India Jinusha Panigrahi(2010)

This paper examined how the educational loan system is available in India at present. It had talk about the support of government policies. It analyzed the effective use of the education loan through commercial Banks. It has been mentioned that students' financial and educational background and residential area decide the bank people's behavior and level of sanctioning the educational loan, poor people are not getting much importance as financially well-off people.

Documents required for education loan

1. ID Proof (Aadhar card / Pan card)
2. Address Proof (Ration card / Electricity bill)
3. Salary slips.
4. Bank Statement
5. ITR Proof
6. Passport size photograph
7. Visa Proof and Valid Passport (if education is to be done in abroad).

Comparison of public sector banks with private sector banks towards education loans:-

1. Interest rate

The interest rate in public sector banks is comparatively low and changes in repo rate effect immediately on customers.

Whereas the interest rate in private sector banks is very high and there is no result in changes of repo rate towards existing customers.

2. Prepayment charges

The public sector banks do not charge any prepayment charges which is a great advantage for the students.



Whereas the private sector banks charge 2% on loans to their customers as they don't want to take the risk of losing out on interest they are earning.

3. Prepayment Period

In a public sector bank, there is no condition to repay the loan. The borrower can complete a loan whenever it has been arranged.

Whereas in the private sector banks after completing six months of loan the borrower should repay the loan.

4. Processing fees

The Processing fees charges in public sector banks are comparatively low than private sector banks. The fee charged by banks is around 0.5% to 1% of the total loan amount.

Whereas the private sector banks charge up to 2% of loan amount and the banks increase the rate of processing fee if case they are provided Commission two agents in bringing customers to take a loan.

5. Trust factors

We can trust the public sector banks as the policies and procedures are transparent and terms and conditions don't affect the loan.

Whereas the private sector bank's main aim is towards profit making and they don't disclose the layout of loans. So before applying for a loan the candidate should carefully read the terms and Conditions of the loan.

Interest rate of Education loan without collateral from Private lenders

| Banks | The interest rate starts at |
|-------------------------|---|
| The State Bank of India | 8.65% 0.5% concession granted to female candidates |
| The Bank of Baroda | 9.85% 0.5% concession granted to female candidates |
| Punjab National Bank | 9.50% 0.5% Concession granted to female candidates |

Interest rate of education loan without collateral from

| Banks | The interest rate starts at |
|-----------------|-----------------------------|
| Axis Bank | 13.70% |
| ICICI Bank | 11.00% |
| IDFC First Bank | 9.5 % |



Conclusion

Most banks are providing educational loans to students for their higher education. But there is a difference between Public and Private sector Banks in giving educational loans. The interest rate of private sector banks is higher than the public sector Banks, the high processing fee is there for private banks, no pre-payment charges in public sector banks, and also its policies are very transparent. Private banks respond very quickly to their customers and they render good services compared to public sector banks. If in case you need better and faster service you can approach private sector banks. If you need benefits from the loan, you can approach public sector banks. So that students as per their necessities can approach banks to satisfy their financial needs to achieve their goals and develop themselves.

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