

## A STUDY ON THE PERCEPTION OF COMMERCIAL BANKS TOWARDS PRIORITY SECTOR LENDING WITH REFERENCE TO EDUCATION LOAN IN TAMILNADU

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### Abstract

The topic of the study is about “the perception of commercial banks towards priority sector lending with reference to education loan in Tamil Nadu”, the aim of the study is to evaluate the performance of Priority Sector lending with reference to Education Loan, to analyse the perception lenders of Education Loan, to examine the problems faced by the lending institutions. i.e. Bankers in this regard and suggest measures to improve the performance and to enhance the positive perception of customers with regards to Education Loan, A primary survey of selected lending institutions (bankers in this regard) of education loan using structured questionnaire. 260 bank branches were taken as a sample of which 50 percent (130 samples) from public sector and the remaining 50 percent (130 samples) from private sector. The selection of bankers according to their financial performance of both Public sector and Private sector banks in Tamil Nadu, the present study consists of five banks from Public sector viz., Indian Bank, State Bank of India, Indian Overseas Bank, Canara Bank and Central Bank of India as well as five banks from Private sector viz., Axis Bank, Federal Bank Ltd., HDFC Bank, Lakshmi Vilas Bank and Karur Vysya Bank officials respectively from Tamil Nadu, for the purpose of conducting these interviews with the bank officials regarding problems in sanctioning and recovery of loans, attitudes and achievements of the bankers, etc. covering both rural and urban areas, in all the 32 district in Tamil Nadu. The researcher used simple random sampling for conducting the survey. The descriptive method of research has undertaken for the study. The collected data had been analyzed by applying statistical tools such as factor analysis, cluster analysis, discriminate analysis, analysis of variance (ANOVA), Karl Pearsons co-efficient of correlation, chi-square test and t-test methodologies of the research. The Empirical results suggest that recipients show better academic performance and the student’s credit plays a vital role on improving the social community. When the banks were given freedom in case of placing branches they seem to bypass the needy and poor society,

**Key words:** Priority Sector lending, Performance of Education loan, Perception of lending institutions and the Problems faced by the bankers during loan process.

### Introduction

Priority sectors are the sectors which are entitled to financial faculties in preference to others. The concept of priority sector lending has been evolved to ensure that bank credit flows in an increasing measure to certain vital sectors of economy which might be included in the priority sector for the purpose of lending by banks. This concept has been reviewed from time to time to make necessary changes, according to national planning priorities. Prior to liberalization of economy since ninety’s the definition of “Priority sector includes agriculture, small sale scale industries (including setting up of industries estate), small road and water transport operator, small business, retail trade, professional and self-employed person, state sponsored organizations, SC/ ST’s education loan granted to individuals by bank under schemes, credit schemes to weaker section and refinance by sponsored banks to rural banks”.

### Education loan

Education loan is a special purpose loan given by banks and financial institutions to cover the cost of any higher degrees or specialized courses. The education loan provided by banks in India cover the fee Payable to the College, School or Hostel. It also covers the examination fee, library fee, lab fees, caution deposits, refundable deposit asked by the institution. Building fund supported by Institution bills or receipts, Purchase of Books, equipments, instruments, uniforms, Travel expenses/passage money for studies abroad, purchase of computers - essential for completion of the course and any other expense required to complete the course - like study tours, project work, thesis, etc. are also covered.

Banks provide great financial help needed to cover almost all the expenses incurred for a successful completion of the desired course. Banks in India now cover a wide spectrum of courses in their education loan schemes. Catering both to under graduate and post graduate courses, banks readily provide education loans for Management, Engineering, Medicine, MCA, Fine Arts, Designing, Architecture, Hotel Management, Agriculture, Pure Sciences, Arts and Commerce courses. Banks do consider the reputation and affiliation of institute from where the course is being conducted, before giving any educational loan. Indian banks while providing education loans require that the applicant must be a resident Indian having secured admission in any of the bank's list of approved course or universities. Whether you get 100% of the cost of education as education loan or not, depends on individual banks. Government takes an initiative to render financial assistance to meet the higher education expenses. Nowadays it is easy to get assistance with banks. Former finance minister Mr.P.Chidambaram made the statement during 2005 "Education has been democratized. The Government is paving the way to facilitate education for all. It would therefore be impossible to give scholarship to the entire community of students. In such a situation, financial assistance/support has become inevitable. Also stating that while appreciating the bankers for extending financial support to the needy students, the Finance Minister categorically stated that it would be the duty of the beneficiaries to repay the loan

### Review of literature

This research has reviewed the various literatures pertaining to financing of priority sector advances particularly in education loan schemes, published in various research related journals namely, Finance India, Journal of Economic Studies, International Journal of Bank Marketing, Journal of Service Research, Indian doctoral abstracts and so on in India and Abroad. The researcher has visited a number of Indian Universities and thoroughly checked various research work done and this research topic and nearly 100 articles have been collected originally. After thorough examination it is found that only 36 articles are the most relevant to this study and hence presented a separate chapter. Based on the literature survey, the objectives of the study were also decided keeping in view the scope as well as need for covering uncovered areas.

1. A study by Graham Fowler (1990), plans to increase the number of students entering higher education are welcomed; although it is argued that student loans do not fit in with this policy and that in reality higher education requires extra funding. The way to expand higher education is seen as through a high-status vocational route.
2. Evelyn Brody, (1994), in his "Paying Back Your Country through Income Contingent Student Loans", Chicago, has stated the study which was conducted in Chico-Kent College of Law, regarding the case of paying for a college education. This article explores the difficulties of trying to determine an individual's financial resources, so that the government can best target its subsidies.
3. Erik J.F. Canton & Andreas Blom (2004), in his "Can Student Loans Improve Accessibility to Higher Education and Student Performance? An Impact Study of the Case of SOFES," tells about financial aid to students in tertiary education can contribute to human capital accumulation through two channels - increased enrollment and improved student performance. Canton and Blom analyze the quantitative importance of both channels in the context of a student loan program (SOFES) implemented at private universities in Mexico.
4. Eliza Ahamed & Valerie Braithwaite., (2004), Australia's, paper investigates the relationship between making additional payments to the state for student loan (via the Higher Education Contribution Scheme) and child support (via the Child Support Scheme) and compliance with tax law. Data are taken from the Community Hopes, Fears, and Actions Survey based on a random sample of 2040 individuals.
5. Norhasni Zainal Abiddin (2005), 's the objectives of this research were to understand the practices that being used in recovering the educational loan, the cause of the problems, the background of the problematic borrowers and steps taken to overcome the problems in collecting the repayment provided by one of the major government agencies in Malaysia that providing such facilities to the students in higher learning institutions.

### **Research gap**

Early research in banking industry was mainly concerned with estimating the quality of services. The objective of the study is to evolve the performance of commercial banks towards education loan. Previous studies reveal that nobody has made an attempt to study the financing of education loan scheme. In order to fulfill the gap identified above, the researcher was motivated to do this work with the following main objectives. (1) To evaluate the performance of commercial banks in terms of education loan in Tamil Nadu, (2) To analyze the bankers perception, the problems faced by them with regard to education loan.

### **Research methodology**

This study employs both analytical and descriptive type of methodology. Descriptive research studies are those studies which are concerned with describing the characteristics education loan borrowers, it helps the Bank officials to choose among the various courses of action. A descriptive study attempts to obtain a complete and accurate description of a situation. This study further employed quantitative research techniques instruments like Factor analysis, cluster analysis, discriminate analysis, analysis of variance (ANOVA), Karl Pearsons co-efficient of correlation, chi-square test and t-test methodologies of the research. Data for this study were collected through two sets of questionnaires.

#### ***Research design:***

The researcher adopted three stages methodology. Pre-test stage, Pilot study and Main study. In the Pre-test stage the research instruments and their customers have been subject to reliability and validity. Cronbach's alpha method is applied to check the reliability of the questionnaire by measuring the individual and the total variance of variable in research instruments.

#### ***Sampling Design***

The data has been collected from the selected lending institutions (bankers) of education loan using structured questionnaire. Convenience sampling method is adopted for the study, it is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher., 260 bank branches were taken as a sample of which 50 percent (130 samples) from public sector and the remaining 50 percent (130 samples) from private sector. The selection of bankers according to their financial performance of both Public sector and Private sector banks in Tamil Nadu, the present study consists of five banks from Public sector viz., Indian Bank, State Bank of India, Indian Overseas Bank, Canara Bank and Central Bank of India as well as five banks from Private sector viz., Axis Bank, Federal Bank Ltd., HDFC Bank, Lakshmi Vilas Bank and Karur Vysya Bank officials respectively from Tamil Nadu, for the purpose of conducting these interviews with the bank officials regarding problems in sanctioning and recovery of loans, attitudes and achievements of the bankers, etc.

#### ***Sources of data collection***

The present study has used both primary and secondary data. The primary data was collected from the bank officials of both public sector and private sector through questionnaire. And the secondary data at the national level was collected from the publishers of Government of India (RBI), and Indian banks association such as economic survey, lead banks annual report, report on trends and progress in banking, Report on currency and finance, statistical tables relating to bank in India etc. The state level data and district level data has been collected from the periodical reports of State Level Bankers Committee (SLBC), IOB Central office, Department of Priority Credit Section (PCD), Chennai and Commercial Banks in Tamil Nadu. The above said levels of secondary data are authentic and reliable to make the analysis meaningful for drawing a conclusion.

#### ***Tools for Data Analysis***

The following tools used for data analysis such as Factor analysis, cluster analysis, discriminate analysis, analysis of variance (ANOVA), Karl Pearsons co-efficient of correlation, chi-square test and t-test methodologies of the research thereby draw necessary conclusions.

#### ***Objectives of the Study***

1. To evaluate the performance of Priority Sector lending with reference to Education Loan
2. To analyse the perception lenders of Education Loan

3. To examine the problems faced by the lending institutions. i.e. Bankers in this regard
4. To suggest measures to improve the performance and to enhance the positive perception of customers with regards to Education Loan

***Limitations of the study***

The study has the following limitations:

1. The study is restricted to Tamil Nadu only
2. There are large number of bank branches issuing education loan of which the study attempted to 260 bankers from both public sector and private sector banks
3. The district wise analyses is not possible due to widespread illiteracy among education loan borrowers of both category of Public sector and private sector banks, from which the researcher could not study the district wise analyses.

However, the researcher is being made all possible efforts to ensure that the quality of the thesis may not suffer on account of any of these limitations.

**Results and discussion**

The analysis reveals that the bank group-wise analysis consists of 50 percent bank officials from Public sector Banks and the remaining 50 percent private sector banks. It is found that most of the bankers use Loan Mela (62.3%) and Direct Marketing (59.6) as a medium to create awareness among the public.

**Table-1 Bank group-wise analysis**

	<b>Banks</b>	<b>Frequency</b>	<b>Percentage</b>
<b>A. Public Sector Banks</b>			
1	Indian Bank	40	15
2	State Bank of India	30	11
3	Indian Overseas Bank	20	8
4	Canara Bank	20	8
5	Central Bank	20	8
<b>B. Private Sector Banks</b>			
1	AXIS Bank	30	12
2	Federal bank	20	8
3	HDFC Bank	40	15
4	Lakshmi Vilas Bank	25	10
5	Karur Vysya Bank	15	5
<b>Total</b>		<b>260</b>	<b>100</b>

**Source:** Primary Data

- It is observed from the analysis that more than 80 percent bankers select the borrowers through the followed eligibility criteria and 77.7 percent bankers select the borrowers through personal interview.

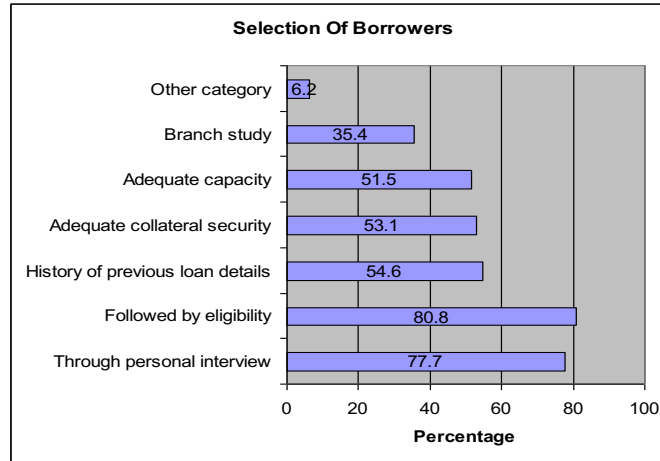


Figure I selection of borrowers to sanction education loan

- The analysis reveals that the majority of the bankers (89.2%) admitted that there was sufficient time to screen application.
- It is observed from the analysis that the bankers of both public sector and private sector banks, more than 60% of the respondents opined that Bankers time taken to process the loan required is less than a month for sanction and disbursement of education loan.
- It is found that the majority of the respondents (79.2%) opined that there is no deposit that is collected from the loan borrowers and the remaining (20.8%) respondents said that the deposits are collected for the following reasons viz., increase in deposits, probable adjustments in the event of default, and increase in the habit of savings.
- Among 91.5 percent bankers agree that the follow-up action done on the basis of weekly, fortnightly, monthly, half-yearly and annually of which the majority (60.5%) agreed that the banks preferred to take follow-up action on monthly basis. It is clear that the bankers were very close to the borrowers towards the process of loan and also keen on the recovery.
- As far as the regularity in repayment of loan was concerned, (61.2%) respondents were regular at repayment of loan whereas (38.8%) respondents were irregular.

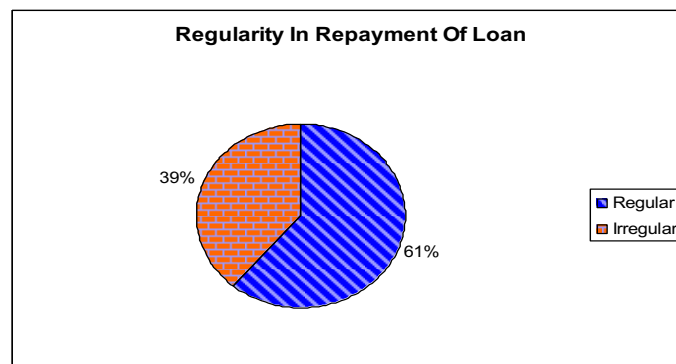


Figure.2 Regularity in repayment of loan

- It is found that most of the bankers (51.9%) opined that they used development agency for loan recovery and the remaining (48.1%) bankers were not used for any assistance.
- It is observed from the analysis that among the bankers response who gave suggestions, majority of respondents (60.4%) had suggested that loan dues could be recovered through effective supervision, respondents (56.5%) suggested that educating the borrowers (avoid misuse), respondents (38.8%) suggested that the loan dues could recover through periodical recovery camps.

- It is evident that the majority (80.4%) of bankers had taken an effort to meet the physical and financial targets towards Education loan.
- It inferred from the analysis that the valuable suggestions given by the various bankers to improve the existing credit scheme with regard to Education loan. Among 260 bankers, 66.9% bankers suggest to avoidance of the political interference, 39.2% bankers suggest more funds to be allocated, 59.6% bankers recommend increase in the eligibility conditions of the borrowers, 66.2% bankers recommend creating a separate institution for control and monitoring and 48.8% bankers suggest stopping the attitude of waiving the loan by the government.

### Major suggestions

During the survey, the researcher has posed a question to the bankers and the regularity in repayment of loan. It reveals that 38.8 percent of the bankers expressed that the borrowers are not regular in repayment of loan. The study has led to the findings that the recovery performance of loan by both public sector and private sector banks is generally poor. To impose the recovery performance, the following measures are suggested by the researcher:

- (i) The bankers should identify and select the borrowers without taking into consideration the recommendations from political, bank officials, sponsoring agencies and also the bankers may be allowed to appoint agents to collect the due from the borrowers.
- (ii) Subsidy may be given to the education loan borrowers based the proportionate repayment of each installment by the borrowers.
- (iii) Create a separate institution for control and monitoring the loan schemes.
  - Most of the borrowers have used influence in getting their education loan, the sources of influence being the Councilors, MLA's, NGO's, Bank officials etc., among the respondents 23.8 percent have used influence for getting education loan. It is suggested that the bankers should provide financial assistance under education loan scheme leading only to those who fulfill 100 percent eligibility conditions.
  - Majority of the education loan borrowers both from public sector and private sector banks (especially the rural population) have faced the problem of political and sponsoring agency interference and the attitude of bank officials like unnecessary delay, insufficient amount of loan sanctioning, non availability of infrastructure facility at banks and caste bias. Therefore instruction by the government to the bank officials to avoid the above issues and the bank officials would make the education loan scheme effective.
  - It is observed that nearly 11.5 percent of the bankers from both public sector and private sector banks have not done prior inspection (pre-sanction) while sanctioning the loan. It is suggested that the before sanctioning of loan, the bankers should do individual screening of all the loan application. It leads to identify and to select the genuine eligible borrowers of education loan.
  - It is found that among the bankers 20.8% (54 out of 260) have given various reasons for collecting deposits from the borrowers. The reason stating increase in deposits, it may be adjusted in the event of defaults, increase in the habit of savings. The RBI should advice the bankers not to insist on making deposits from the borrowers to get loan under education loan scheme.
  - It is observed that 91.5 percent of the bankers from both public sector and private sector banks have taken follow-up action after sanctioning of loan. The bankers said that they had taken the follow-up action weekly, fortnightly, monthly, half yearly and yearly. It is suggested that all banks should adhere to a uniform follow-up action so that the functioning of unit and the timely follow-up may yield high performance to the bankers.
  - It is found that 19.6 percentages of the bankers have not achieved the physical and financial targets fixed by the RBI. Therefore RBI should formulate a separate guideline to achieve the target under education loan scheme.
  - It is observed that out of 260 bankers, 51.9 percent respondents have sought assistance from sponsoring agency at the time of recovering the loan due (DIC, DRDA etc.). The rest 48.1% have not used the development/ sponsoring agency for due collection. The sponsoring agencies need to have proper staff and legal support especially for public sector banks to recover the loan dues form the borrowers.
  - The analysis revealed that more than 50 percent of the education loan borrowers have not reached the high level of satisfaction. Therefore the bankers should take initiatives by providing the financial assistance to meet the required objectives and make them to satisfy in all levels.

## Conclusion

The following are the important conclusions arrived at by the researcher keeping in mind the objectives, analysis and the experiences gained during the course of this research work. It is observed that there has been a tremendous growth of commercial banks in Urban area and more so in Rural areas. As a result of branch expansion, comparatively lending to rural households has also gone up at present. Even government has also given responsibility to different banks in giving loan to weaker community whether it may be an asset creation or self-employment generation or some other productive purpose. On the basis of the recommendations made in September 2005 by the Internal Working Group, set up in Reserve Bank to examine, review and recommend the changes, if any, in the existing policy on priority sector lending, including the segments constituting the priority sector, targets and sub-targets, etc. and the comments/suggestions received thereon from banks, financial institutions, public and the Indian Banks' Association (IBA), RBI has decided to include only those sectors as part of the priority sector, which impact large segments of population & the weaker sections, and which are employment intensive.

Bank Group wise Credit to Priority Sector by both public sector banks as well as private sector banks play a major role on the development of the society by providing services and financial assistance to the needy groups. Hence it is concluded that even though there is good recovery preference less delay in sanction and disbursement of loan, less entering of influence, rendering good co-operation and supply to the students community to grow better by having financial assistance and better services to education segment and achievement of target (both Physical and financial) fixed by RBI in Tamil Nadu.

## Scope for further study

The phenomenal increase in the country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of priority sector financing, which in turn will help them take positive steps to maintain a competitive edge. The study perception and their level of satisfaction can be applicable to the varied classes of Priority sector financing by various banks. Agriculture loan, Housing Loan, loan to Small industries, loan to women entrepreneurs etc.,

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