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# A Study On Indulgence Of Educational Loans In Private Sector Banks

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*Abstract:* This This project of Indulgence of education loans in private sector banks introduces a new scheme which ease the loan repayment methods of all banks. The new scheme we introduce named LAVI (Loan Accounting and Valuation of Interest) enables the loan borrower to pay through UPI and a scanner which enables the borrower to track their payment, payment schedule, paid statements and the all the details necessary to track the loan.

The **LAVI (Loan Accounting and Valuation of Interest)** project aims to develop an efficient and user-friendly system for managing and enable the repayment of education loans in affordable manner. The primary goal of this project is to make educational loans, interest rates, payment statement in an open window which makes borrowers ease to track the deviations of interest rates, ensuring compliance with the terms of the loan agreement

***Index Terms* - LAVI (Loan Accounting and Valuation of Interest)**

## CHAPTER I

## 1.INTRODUCTION

The LAVI scheme will facilitate loan account management, repayment schedules, payment reminders, and easy access to loan details for the borrower. Additionally, it will allow for the tracking of payments, balance amounts, and interest accrual, providing users with real-time information on their outstanding loan balance with just scanning the UPI scanner allotted to the particular loan borrower.

Key features of the LAVI scheme include:

1. **Loan Accounting Scanner**: A personalized scanner that provides borrowers with a clear overview of their loan details, including principal balance, interest rate, repayment period, and the next due date and also the statement of amount paid.
2. **Automated Payment Reminders**: This scheme enables borrower receives notifications via email, SMS, or app alerts to remind borrowers of upcoming payments, overdue amounts, and payment deadlines, paid statements and required target amount to be paid monthly/yearly.
3. **Repayment Schedule**: This scheme enables a built-in tool that helps borrower to track the loans, repayment schedule in daily/monthly/yearly manner.
4. **Ease Payment Options**: This scheme allows borrowers to just use UPI id allotted for borrower to repayment or to just scan the scanner and to pay.
5. **Transaction History**: This scheme enables the borrower to track detailed payment history, showing past payments, remaining balance, and interest accrued over time.

The LAVI scheme will enhance user experience, reduce default repayment system, and improve customer satisfaction by simplifying the complex loan repayment process. This system will be designed with robust security measures to protect sensitive borrower information and adhere to legal and regulatory guidelines for financial transactions which eases the repayment systems. It aims to provide borrowers with a seamless, transparent, and flexible loan repayment journey and reduces NPA of educational loans.

Indian Educational system possesses significantly increasing literacy rate, parallelly displays the need of money for the students for their higher education, which in results the increase in demand of education loans. An education loan is a sum of money borrowed from banks/financial institutions to support the students who possess their higher education i.e. under Graduate and post graduate.

### 1.1. Importance Of Educational Loans

**Financial aspect:** Despite a large amount of NPA suffered by banks, educational loans involve in improving flow of money supply in an open window which helps banks to show their annual targets and supply of transaction transparently.

**Social Aspect:** students educational loans involve in uplifting students' education making next generation brainy and uprising the future of many families, who believes education as their last hope.

#### 1.1.1. Rising Cost of Education

- Tuition fees, book fees, hostel fees, travel expenses, book fees etc. have been increased a lot.
- Considering above in government and government aided colleges, private colleges and Engineering colleges are collecting too much fees than above.
- In private colleges over the years, extracurricular activities fees also increasing.

#### 1.1.2. Financial Support for Students from Middle & Low-Income Families

- Comparatively more students are not financially good, ads they need more support from government and private finance side for their backup.
- Education loans act as a bridge for students with finance for their quality education and also moving on without any financial constraints.

#### 1.1.3. Access to Better Opportunities

- After completing their school education finance supports from banks gives students an additional support for their higher education even for PG and often leads to better job prospects, higher salaries, and more career choices.
- Loans enable students to invest in themselves, aiming for prestigious institutions or specialized courses.

#### 1.1.4. Delayed Earning vs Immediate Expenses

- Students will be able to earn only after completing their studies.
- Loans allow them to manage expenses now and repay once they start earning.

#### 1.1.5. Encouraging Higher Education Participation

- Loans provide the motivation for students to complete the course with good percentage year by year and also giving them more confidence for students to pursue postgraduate or professional courses that might otherwise be out of reach.

#### 1.1.6. Promotes Equal Opportunity

- Education loans help all economic levels of students to pursue their education and also makes their next generation equal to the upper socio-economic people which makes their level the playing field.

#### 1.1.7. Flexible Repayment Options

- Many education loans offer grace periods and income-based repayment plans, making them student-friendly.

### 1.2. Types of educational Loans

There are two types of educational loans in India.

- **Education Loam with collateral:** The loans that provided by the banks with approved security in terms of gold, land, property or any shares that cover more than the loan value.
- **Education Loan without collateral:** The educational loans provided by the banks without any security, but just with trust and their performance in their school education.

### 1.3. Expenses covered under educational loans

- **Fees owed to educational institutions:** Tuition fees, book fees, library fees, hostel fees etc.
- **Travel cost associated with studying:** Cost of transportation in intra colleges and intercollege competitions, sports meet, symposium etc.
- **Laboratory cost:** Usage of laboratory by the students, their breakages and other expenses covered for library maintenance.
- **Exam cost**: It includes all end semester exams fees conducted by the associated university.

### 1.4. Documents Required for Educational Loans:

- **Letter of Admission**: The letter offered from the head board of education either by counselling of students or by entrance exam result after verification of their certificates and all other associated documents of the students.
- **Aadhar Card:** The Aadhar card of the parent/guardian or the student is the basic document required for all accounts opening to transaction.
- **Pan Card:** PAN (Permanent Account Number) of parent/guardian or the student is required.
- **Voter Id**: Voter id of parent/guardian is required in case of minor student admission and for higher education loans student's voter id is sufficient.
- **Loan Application form**: The loan application form provided by the bank in the particular or students nearest branch should be read carefully and filled without any mistakes and should be signed by the student.
- **Passport size photographs**: passport size photograph of parent/guardian or stident should be attested in the application form and should be provided additionally as per bank requirements.
- **Proof of residence**: Both students and parents/guardian should submit their proof of residence to the banks.
- **Proof of identity**: Both student and parent/guardian should submit their proof of identity while opening the account to the banks.

### 1.5. Things to be analyzed before taking a loan

**Amount of loan:** The borrower should prepare the data that what is the exact amount of loan required to complete the course.

**Repayment Period:** The borrower should decide the approximate repayment schedule and with long term repayment period would more beneficial for the borrower.

**Interest Rates:** The loan borrower should check interest rates of the banks at each interval of time as RBI changes CRR at every 3 months of period. Regular tracking at this will enables borrower to plan the outstanding amount to pay.

**Type of Bank**: The borrower should select the best affordable bank and the nearest branch for the future access and travel.

**Avail maximum amount:** The borrower should be planning on the fees of the organisation that he is going to join and try to avail the maximum amount from loan so that burden of the student will be less.

**Availing other scholarships:** The students should verify about the scholarships available for them from college and government and should apply at regular date so that it would reduce financial burden.

### 1.6. Importance of educational loans private sector banks

In India, private sector banks have become pivotal in the evolution of educational loans, complementing the efforts of public sector banks. Their agility, technological advancements, and customer-centric approaches have significantly influenced the accessibility and structure of education financing.

**Evolution of Educational Loans in Private Sector Banks**

Historically, educational loans in India were primarily offered by public sector banks. However, with the increasing demand for higher education, especially abroad, private sector banks recognized the need to diversify their offerings. Institutions like ICICI Bank, HDFC Bank, Axis Bank, and Kotak Mahindra Bank introduced specialized education loan products tailored to the needs of students pursuing both domestic and international studies.

**Key Features of Educational Loans Offered by Private Banks**

- Loan Amounts: Private banks offer substantial loan amounts. For instance, ICICI Bank provides loans up to ₹50 lakh for domestic studies and up to ₹1 crore for overseas education.
- Collateral Requirements: Many private banks offer unsecured loans up to a certain limit. For example, HDFC Bank provides loans up to ₹10 lakh without collateral for studies in India.
- Interest Rates: Interest rates vary based on the loan amount and the institution. ICICI Bank's rates start at 10.50% p.a. for secured loans and 10.75% p.a. for unsecured loans.
- Repayment Tenure: Private banks offer flexible repayment tenures, often extending up to 15 years, depending on the loan amount and course duration.
- Processing Fees: Processing fees are typically around 1% of the loan amount, though this can vary among institutions.

**Technological Integration and Customer Experience**

Private banks have leveraged technology to streamline the education loan process:

- Online Applications: Students can apply for loans through user-friendly online portals, reducing paperwork and processing time.
- Pre-Approval Mechanisms: Some banks, like HDFC Credila, offer pre-approved loans even before admission confirmation
- Digital Disbursement: Loan amounts are disbursed directly to the educational institution's account, ensuring transparency and timely payments.
- Mobile Applications: Dedicated mobile apps allow students to track loan status, make repayments, and access customer support.

**Challenges Faced by Private Sector Banks**

Despite their advancements, private sector banks encounter several challenges:

- High Non-Performing Assets (NPAs): Educational loans have witnessed increasing default rates, leading to higher NPAs. As of recent reports, the education loan segment has seen a 25% decline in disbursements over four years, attributed to rising NPAs.
- Risk Assessment: Determining the creditworthiness of students, especially those without a credit history, remains a challenge.
- Awareness and Financial Literacy: Many students and parents are unaware of the various loan products available, leading to underutilization of opportunities.
- Regulatory Constraints: While private banks have the flexibility to design loan products, they must still adhere to regulatory guidelines set by the Reserve Bank of India (RBI), which can sometimes limit innovation.

**Future Prospects and Innovations**

To address the challenges and capitalize on opportunities, private sector banks are exploring:

- Artificial Intelligence (AI) and Machine Learning (ML): Implementing AI and ML algorithms to assess credit risk more accurately and personalize loan offerings.
- Partnerships with Educational Institutions: Collaborating with universities and colleges to offer tailored loan products and streamline the disbursement process.
- Financial Literacy Programs: Initiating campaigns to educate students and parents about the benefits and responsibilities associated with educational loans.
- Alternative Credit Scoring Models: Utilizing alternative data sources, such as academic performance and family income, to assess loan eligibility.

Private sector banks have significantly contributed to the development of educational loans in India, offering innovative products and leveraging technology to enhance customer experience. While challenges like rising NPAs and credit assessment complexities persist, the proactive approach of these banks, coupled with ongoing innovations, positions them as key players in shaping the future of education financing in India

In India, private sector banks have played an increasingly significant role in the development of educational loans, responding to the rising demand for higher education financing. Unlike public sector banks, private banks are often more customer-centric and technologically advanced, offering quicker processing, customized loan products, and digital application platforms. This has made educational loans more accessible, especially for students seeking admission in private or foreign institutions.

Private banks like HDFC Bank, ICICI Bank, and Axis Bank offer education loans with competitive interest rates, flexible repayment options, and value-added services such as pre-admission loans or loans without collateral for high-ranking institutions. However, their eligibility criteria tend to be stricter, often relying heavily on the applicant's academic performance, co-applicant's creditworthiness, and institutional reputation.

One notable trend is the partnership between private banks and fintech platforms, enhancing loan delivery speed and expanding outreach. Despite these advances, challenges remain. Private banks typically prefer low-risk borrowers, which can marginalize students from economically weaker sections. Interest rates are also often higher compared to public banks.

Overall, private sector banks are instrumental in diversifying the educational loan market in India, but balancing profitability with inclusivity remains a key challenge for future development.

## CHAPTER II
## PROCESS OF EDUCATIONAL LOANS

The indulgence or leniency of educational loans provided by private sector banks varies depending on the bank's policies, the applicant's profile, and the specifics of the loan. Generally, here's what you can expect from private sector banks in terms of educational loans:

**2.1. Loan Amount:**

- Private sector banks typically offer educational loans for both domestic and foreign studies. Loan amounts can vary from INR 10,000 to over INR 50 lakhs or more, depending on the course and the institution.

**2.2. Interest Rates:**

- Interest rates for educational loans in private sector banks are usually higher compared to public sector banks. They can range from 9% to 15% per annum, depending on the applicant's creditworthiness, the course, and the institution.
- Some banks may also offer concessional rates for female students or for courses in certain high-demand fields like engineering, medical, and law.

**2.3. Repayment Terms:**

- Repayment terms in private sector banks tend to be flexible. Typically, the loan has a moratorium period of 6 months to 1 year after the course completion, giving time for the borrower to find employment.
- Repayment options may include regular monthly instalments, which start after the moratorium period ends. The tenure can range from 5 to 15 years, depending on the loan amount and agreement with the bank.
- This section by banks is struggling still and even borrowers are struggling to repay the loans with the above terms and conditions.
- It can be overcome by our method of payment.

**2.4. Eligibility Criteria:**

- Private banks often have stringent eligibility criteria, including a strong credit score, a co-applicant (usually a parent or guardian), and proof of admission to a recognized institution.
- Additionally, private banks may assess the student's academic performance, as well as the potential future income from the course being pursued, when evaluating loan applications.

**2.5. Collateral:**

• For loans above a certain threshold (usually INR 7.5 lakh), banks may require collateral (such as property or fixed deposits). For lower amounts, unsecured loans are available but at a higher interest rate.

**2.6. Processing Time:**

• Private sector banks tend to process educational loans faster than public sector banks. The approval and disbursement process can take from a few days to a few weeks, depending on the documentation and the bank's internal procedures.

**2.7. Additional Charges:**

• Private banks might charge processing fees, prepayment charges, and penalties for delayed payments, which can add to the total loan cost. It's essential to review the terms and conditions carefully.

**2.8. Financial Aid and Scholarships:**

• Some private banks also partner with educational institutions to offer financial aid programs, which may include scholarship options or interest subsidies, depending on the course or the student's profile.

## CHAPTER III
## PROBLEM STATEMENT

The main challenges faced by students and especially in private sector Banks include,

1. High Interest Accumulation,
2. Inaccessible Loan Structures, And
3. Increasing NPAs.

The problem with the current model is that students getting loans with high principal amount and the interest rate starts before graduation. In particular the private sector banks charges more interest rates than the centralized banks.

As a result, the students have to pay significantly high amount (Principal and interest). LAVI aims to address these issues by allowing real-time repayment through micro-transactions, lowering the principal amount before interest accrues.

### 3.1. LAVI Scheme

- Education loans are essential for students, but the existing models impose high financial burdens due to interest accumulation and rigid EMI structures. LAVI (Loan Accounting Valuation of Interest) proposes a UPI-based micro-payment model, allowing students to gradually reduce their loan principal during their study period, minimizing overall interest accumulation and financial stress.
- According to RBI data, 2.6% of NPA is still pending, and over 60% of them are education loans, leading banks to hesitate in offering loans.
- LAVI introduces a model where students can pay small amounts during their study period via a UPI-linked system, directly reducing the principal amount and making postgraduation repayments more manageable.
- On the contrary this system ensures profitable interest rates after the tenure of education for the banks. After the completion of graduation by students, actual interest rates directed by Reserve bank of India will be applicable.
- This system processes eases the current repayment process and also helps to reduce the Non-Performing Assets (NPA) of all banks.

### 3.2. Objectives of LAVI

The objectives of LAVI (Loan Accounting Valuation of Interest) are as follows:

- **Reduce NPAs for Banks**: LAVI minimizes the risk of Non-Performing Assets (NPAs) by ensuring regular micro-payments from students.
- **Encourage Financial Responsibility**: Students take financial responsibility early by contributing towards loan repayment during their studies.
- **Lower Interest Accumulation**: Principal reduction before the start of interest calculation significantly decreases the total repayment burden.
- **Enable Flexible Repayments**: The UPI-based model allows students to pay any amount at any time, increasing flexibility in loan management

# CHAPTER IV
# LITERATURE REVIEW

In India, the repayment of educational loans begins twelve months after completion of course or six months after employment, whichever comes first. The repayment can be done by all available options like internet banking, cheques or from direct debit/Credit Card. Here's a more detailed breakdown of the education loan repayment process in India:

## 4.1. Repayment Commencement

### Current model

For Student and Scholar Loan Schemes, the loan repayment by the method of equated monthly instalments (EMIs) starts twelve months after the completion of course or six months after joining in job, whichever is earlier.

For Global Ed-Vantage Loans, the loan repayments by EMI method starts from six months after the completion of the course.

### LAVI model

For all educational loans availed under LAVI scheme has no limitations or fixed durations for the loan repayment. It allows borrower at any time to repay the loan.

## 4.2. Repayment Options:

**Online:** This method include repayment through internet banking, mobile banking apps, online payment portals or payment by using credit/Debit cards.

The repayment amount would be starts from Rs.100 to any amount on the outstanding loan amount.

**Offline:** This method includes the repayment by depositing cheques, direct debit, or demand drafts.

### LAVI model

Here a special UPI and Scanner will be allotted to each borrower in which they can pay the interest or principal amount at any time through online payments.

## 4.3. Moratorium Period

- Lenders offers various periods of moratorium which allows the borrowers a grace period before starting loan repayment.
- This period can range from six months to one year after the completion of the course.
- No moratorium period requires for LAVI model as this scheme allows borrowers to repay even a smaller amount whichever they can, eases the contact between lender and borrower smoother.

## 4.4. Loan Restructuring

- In case of NPA by the loan borrowers, lenders may allow restructuring of loans, which benefits the loan borrowers by adjusting the repayment period or changing the interest rate etc. which results in easy repayment of borrowers and reduction of NPA.
- In LAVI scheme the loans are already structured monthly, yearly and eases the borrower to pay at any time with any amount to achieve the yearly target.

## 4.5. Interest Concessions

- In some cases, lenders can offer interest concessions to borrowers, which ease the borrowers to repay the loans.
- In LAVI scheme the interest concessions is not required as the interest and Principal are already calculated term wise.

## 4.6. Tax Benefits

- Borrowers can claim tax deductions on the interest paid on education loans, up to a certain limit.
- In LAVI scheme the loan paid is in open window which allows borrower to track the interest paid as they can claim it as per the rules.

## 4.7. How to Check Loan Balance

- Log in to your bank's online banking portal or mobile app. Navigate to the "Loan Services" or "My Loans" section to view loan details and repayment schedules.
- In LAVI scheme all details regarding the loan is linked with the scanner; by using the scanner we can see the details and can repay the amount.

- Comparing to existing model this model LAVI makes the best output for repaying the loans and also the best and easy process for accounting all educational in one sector.

**4.8. Cost of Current model**

- The cost of the current model of the banks is through banking website or by the transfer and deposit form which includes around Rs.50000 – Rs.500000.
- It also required regular debugging and providing regular update on the bugs of the website.

**4.9. Cost of LAVI model**

- This model requires a dynamic QR scanner which will be more secure than static QR scanner.
- The static QR is free of cost and Dynamic QR costs maximum up to Rs.1000 to Rs.5000 and required not update.
- This model doesn't contain any bugs only refreshing of payment partners is required in this model.

**4.10. Comparison of existing model and LAVI model**

| **Loan Model** | **Features** | **Challenges** |
|---|---|---|
| Traditional Education Loans | Fixed EMIs after graduation | Large initial EMIs, no flexibility |
| Government-Sponsored Loans | Subsidized interest rates | Limited access, bureaucratic approval process |
| Income-Based Repayment (IBR) | EMI based on post-study salary | Not widely available in India |
| LAVI UPI-Based Loan (Proposed Model) | Flexible repayments, reduces principal dynamically | Requires bank integration |

**Primary source data: Table 1**

## CHAPTER V
## RESEARCH METHODOLOGY

Research methodology refers to the systematic process used to conduct research, including the methods for data collection, analysis, and interpretation. For the topic **"A study on Indulgence of Education Loans in Private Sector Banks"**, the research methodology would be designed to explore how the newly introduced LAVI scheme is effective in providing educational loans. An outline of how we can approach the research methodology for this study:

**5.1. Research Objectives**

- To examine the role of LAVI scheme in private sector banks in providing education loans.
- To identify the key factors that influence the NPA of educational loans and how LAVI is used to reduce it.
- To analyse the impact of education loans on students' ability to pursue higher education and to track the repayment structure of educational loans.
- To assess the challenges faced by private sector banks in lending for education loans.

**5.2. Research Questions**

- What do you do currently?
- Have you taken any Educational Loans in private Banks?
- What is your average Daily expense?
- Can you spend Rs.200 daily or Rs.6000 monthly for your loan repayment from your salary?
- Do you get any scholarship amount While studying?
- Do you find Difficult in getting Education loans in banks?
- What is your thought of using UPI and QR scan payment system?
- What makes you difficult in getting educational loans?

### 5.3. Hypothesis

- **H1**: Private sector banks' education loans make quite difficult on students' access to higher education.
- **H2**: The approval rate for education loans is influenced by factors such as the student's academic background, loan repayment by borrower, non-collateral nature of the loan, creditworthiness, and the course or institution's reputation.
- **H3**: Students and parents are facing a lot of difficulties to choose private sector banks for education loans due to higher interest rates and collateral issues.

### 5.4. Research Design

- **Type of Study**: Descriptive and Analytical Research. The study would describe the education loan of private sector banks using LAVII scheme makes quite easier.
- **Approach**: Both **qualitative** and **quantitative** approaches will be used in LAVI scheme. Qualitative data can help in understanding personal experiences, while quantitative data will provide measurable insights.

### 5.5. Generation of QR code and UPI id:

- The QR used for the repayment options is the Dynamic QR which is more secure than the static QR scanner.
- The QR will enable borrowers to pay from a minimum of Rs.50 during the study of course. i.e.: the students can pay using QR or UPI at any time of study from the minimum amount of Rs.50 to any outstanding amount.
- After completion of the course the QR will gets updated and the QR allows the borrower to pay minimum of Rs.100 to any of the outstanding amount

### 5.6. Conditions for LAVI scheme:

- The student should have savings bank account in the same bank and same branch where the student applies for the educational loan.
- In other words, the e-kyc norms and Aadhar linked bank accounts will done by this savings account which makes the bank process will be more secure.
- The savings of the student should be completely as per the bank norms and legalities.
- The student should open a minor account in case of not complete the 18 years of age during starting of account and when the students complete 18 years of age, he/she should update his/her account to the major savings account.

### 5.7. Repayment targets

- The following table shows the model loan with 12% interest rate per annum from 5$^{th}$ year and repayment of principal from first year of loan sanctioned for total loan amount Rs.5,00,000.
- The first four-year repayment not only benefits banks by repaying principal amount but also encourages savings of students from the expenses which improves their social and financial responsibility from the beginning of their study.
- From the below table the repayment schedule express easy and effective methods of loan repayment system which enables students more affordable.
- This method also derived from the responses taken from the students and their expenses used daily, monthly and yearly.
- The calculative method of Rs.20000 enable the repayment of the borrowers of approximately Rs.55 daily.
- The borrowers can pay this amount daily, weekly, monthly or yearly whichever the borrower finds easy.
- The borrowers can track their status with scanning with QR or else by using the UPI id allotted to them (E.g. lavieduloan@okdbs).
- The QR will be linked to the savings banks account of the borrower which the repayment of education loan can be tracked easily by the borrower.
- The UPI id can be used in any online third-party payment partners like Gpay, Phone pay, BHIM, Paytm etc.

**Primary data source: Table 2 Repayment of loans during study**

| Year | Total loan (Rs) | Sanctioned loan (Rs) | Principal paid (Rs) | Balance principal (Rs) |
|---|---|---|---|---|
| 1 | 500000 | 125000 | 20000 | 105000 |
| 2 | | 125000 | 20000 | 210000 |
| 3 | | 125000 | 20000 | 315000 |
| 4 | | 125000 | 20000 | 420000 |

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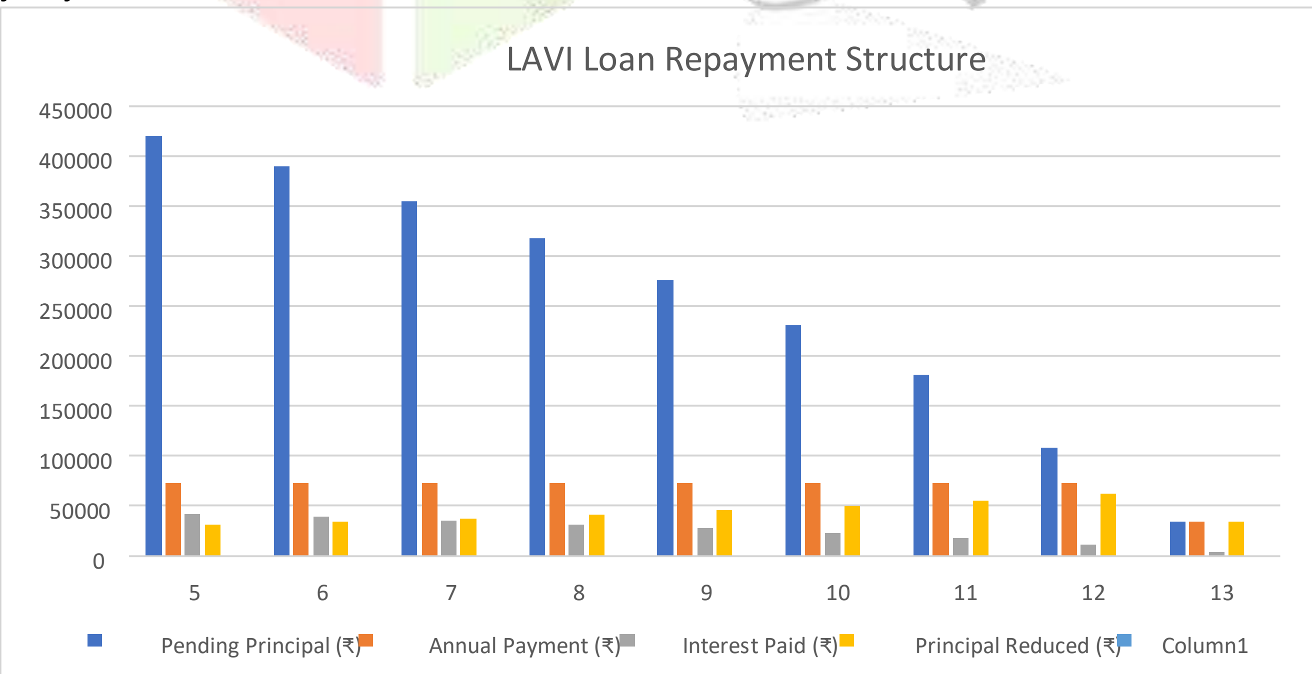
- The following table shows the repayment of loan by the borrowers after getting the job to the end of the loan recovers.

**Primary Data source: Table 3 Repayment of loans after employed**

| **Year** | **Pending Principal (₹)** | **Annual Payment (₹)** | **Interest Paid (₹)** | **Principal Reduced (₹)** | **New Principal (₹)** |
|---|---|---|---|---|---|
| 5 | 420000 | 73000 | 42000 | 31000 | 389000 |
| 6 | 389000 | 73000 | 38900 | 34100 | 354900 |
| 7 | 354900 | 73000 | 35490 | 37510 | 317390 |
| 8 | 317390 | 73000 | 31739 | 41261 | 276129 |
| 9 | 276129 | 73000 | 27612 | 45388 | 230741 |
| 10 | 230741 | 73000 | 23074 | 49926 | 180815 |
| 11 | 180815 | 73000 | 18081 | 54919 | 107815 |
| 12 | 107815 | 73000 | 10781 | 62219 | 34000 |
| 13 | 34000 | 34000 | 3400 | 34000 | NIL |

- The above tabular indicates that the borrower can repay the loan with ease and affordable payment rates within next nine years of getting employed.
- The above tabular also indicates that what is the yearly target to be paid by the borrower of the loan in yearly manner.




**Primary data source: Chart 1**

**5.8. LAVI scheme with micro finance**

- Microfinance in comparison with LAVI scheme makes understanding the traditional banking methods and repayment structure, their legal rules and formalities, target audience, and the impact on the target audience, how to increase educational loans in private sector banks. Here is the structured comparison and analysis.

**5.8.1. Microfinance vs LAVI model**

- Microfinance defines the small loans i.e. it is a financial service that provides small amount of loans, savings amount, insurance amount and the required business loans etc. to low-income individuals for their business etc. without any access to traditional banking.
- LAVI model enables the private sector banks to provide educational loans for the low-income people who seeks the financial crisis for their future. This model enables the low-income loan borrower can repay the loan with very small amount that they can pay affordably that without any fixed durations within a year.

**5.8.2. Traditional banking vs LAVI**

- Traditional banking defines the wide range of financial services offered by government aided and private financial institutions like banks to the required individuals, business man, government, includes property loan, collateral loan, medical emergency loans etc.
- LAVI breaks the traditional loan repayment system and converting the expenses of individual to loan repayment which starts from Rs.50 during studying and starts from Rs.100 on working persons.

**5.8.3. Target Audience**

- Micro finance targets the low-income people and make them uplifting by providing small financial supports for their income, in which they can fulfil all their need and they can manage all their expenses and can pay all their EMI and other debts.
- LAVI model targets the same low income and middle-class people to trust private sector banks and enter private banks to get education loans and vice versa. This scheme also breaks the private banks fear and moves strongly to provide loans to low income and middle-class people.

**5.8.4. Lending Approach**

- Micro finance often uses group lending models from the borrower to reduce the risk factors and still they break all risk factors minimise.
- LAVI model uses simple and trendy model of one touch payment system allied with online payment partners makes repayment easier (just via Dynamic Quick Response Code or by a Unified Payments Interface id).

**5.8.5. Social Impact**

- Microfinance is widely recognized for:
- Empowering women
- Reducing poverty
- Supporting informal sector businesses
- LAVI contribute to:
- Economic development at scale
- Easy repayment from Low-income people
- Hussle free schedule for banks

**5.8.6. Challenges**

- Microfinance challenges include
- High operational cost at each loan
- Over indebtedness of borrowers
- Sustainability and funding dependence.
- Lavi challenges includes
- Tracking of all payments
- Required traditional savings bank account link
- Statements should be availed from basic account portal

### 5.8.7. Integration Trends

- Banks are entering microfinance to enter and lead the emerging markets to show their access in banking sector.
- LAVI enables the banks to shine even more better in trending microfinance markets makes the banks to lead the banking sector.

### 5.8.8. Regulations

- Microfinance institutions have less regulated or specialized oversight bodies to control the organisations. Some microfinance institutions have their own rules and regulations for the loans they provide.
- LAVI follow the same rules and regulations followed by the particular branch which is oversighted by Reserve Bank of India.
- Microfinance plays a complementary role to banking, especially in financial inclusion.
- LAVI plays the best associated roles for banks in which the exact area of repayment where all banks are struggling.
- However, both sectors are gradually converging through digitization and policy initiatives, blurring the traditional boundaries

## CHAPTER VI
## FINDINGS ANALYSIS AND INTREPRETATIONS

### 6.1. Understanding Banks and Loans: An Interpretation

Banks and loans are fundamental components of any modern economy. Their interlinked roles not only facilitate the circulation of money but also influence economic growth, consumer behaviour, and business development. In this interpretation, we explore what banks and loans are, their purposes, how they interact, and the broader implications of their functions in society.

Banks are financial institutions that accept deposits from the public and create credit. Their core function is financial intermediation: they act as a bridge between depositors (who have surplus funds) and borrowers (who need funds). Banks provide a safe place for individuals and businesses to store their money, while also offering financial products and services such as checking and savings accounts, credit and debit cards, loans, and investment services.

Banks come in various types:

- Commercial banks: Focus on deposits, loans, and basic financial services for individuals and businesses.
- Investment banks: Specialize in complex financial transactions like underwriting, mergers, and trading.
- Central banks: Regulate the money supply and oversee the banking system (e.g., the Federal Reserve in the U.S.).
- Cooperative banks and credit unions: Member-owned institutions that provide banking services with a community-oriented focus.

A loan is a financial agreement in which one party (the lender) provides money to another party (the borrower), who agrees to repay the borrowed amount with interest over a specified period. Loans can be secured (backed by collateral) or unsecured (based solely on the borrower's creditworthiness).

Loans come in many forms, including:

- Personal loans: Used for individual needs like education, healthcare, or travel.
- Home loans (mortgages): Used to buy or build property, often long-term and secured by the property itself.
- Auto loans: Used to purchase vehicles.
- Business loans: Support capital expenditures, expansions, or daily operations for companies.
- Student loans: Help pay for education-related expenses.

The loan agreement includes terms like the principal (the original amount borrowed), interest rate, repayment schedule, and any fees or penalties.

### The Relationship Between Banks and Loans

Banks play a central role in the loan system. They utilize the deposits from savers to fund loans for borrowers. This process is known as credit creation. When banks lend money, they don't necessarily transfer existing deposits; instead, they create new money through the loan issuance process. This capability is a cornerstone of modern banking and monetary systems.

For example, when a bank issues a loan to a borrower, it credits their account with a deposit, effectively increasing the money supply. The borrower then spends the money, and it moves through the economy, potentially leading to increased consumption, investment, and production.

**Interest: The Cost of Borrowing**

Interest is the cost borrowers pay for accessing funds and the reward lenders receive for parting with liquidity. It is expressed as a percentage of the loan amount, typically calculated annually (Annual Percentage Rate or APR). Interest rates are determined by various factors:

- The central bank's policy rate
- Inflation expectations
- Loan term and amount
- Borrower's creditworthiness
- Risk factors (e.g., economic uncertainty)

Higher interest rates discourage borrowing but encourage saving, while lower rates stimulate borrowing and investment. Thus, interest rates are a key tool in monetary policy.

**Risk and Regulation in Banking and Lending**

Lending money carries risks, primarily the risk of default, where the borrower fails to repay the loan. Banks manage this risk through:

- Credit assessments: Evaluating a borrower's credit history and financial status.
- Collateral requirements: Securing the loan with an asset that can be claimed in case of default.
- Diversification: Spreading loans across sectors and customers to reduce exposure.

To prevent reckless lending and protect depositors, banks are subject to regulatory oversight. Regulatory bodies (like the Basel Committee or national financial authorities) enforce rules on:

- Capital adequacy: Banks must hold a certain percentage of their assets in capital to absorb losses.
- Liquidity requirements: Ensuring banks can meet short-term obligations.
- Loan-to-value (LTV) ratios: Restricting how much can be borrowed relative to the collateral value.

**Economic Impact of Banks and Loans**

The health of the banking and lending system directly affects economic performance:

- Growth: Easy access to credit fuels business expansion, infrastructure development, and consumer spending.
- Employment: Financing enables companies to hire more workers and invest in productivity.
- Inflation: Excessive lending can increase demand, contributing to price rises.
- Recession management: Central banks often cut interest rates to boost lending and stimulate the economy.

However, if not managed properly, banking systems can also cause instability. The 2008 financial crisis, for example, was rooted in excessive risk-taking and lax lending standards in the mortgage sector.

**The Digital Transformation of Banking and Loans**

In recent years, the financial industry has undergone a digital revolution. Fintech companies, digital banks, and peer-to-peer lending platforms now offer alternatives to traditional banking. Key innovations include:

- Online loan applications with instant approvals.
- AI-driven credit scoring based on non-traditional data.
- Blockchain-based lending, enabling smart contracts and decentralized finance (DeFi).

While digital tools improve accessibility and efficiency, they also pose new challenges in terms of data security, regulation, and financial literacy.

**Ethical and Social Considerations**

Banking and lending practices raise ethical questions. Predatory lending, discriminatory loan approval processes, and excessive fees can disproportionately harm vulnerable populations. Efforts to promote financial inclusion, ethical banking, and microfinance aim to provide fair access to credit and banking services for all.

Microloans, in particular, have become powerful tools in developing economies. They provide small amounts of capital to entrepreneurs who lack access to traditional banking, helping to reduce poverty and empower local communities.

Banks and loans are much more than financial tools—they are integral to the functioning and development of society. Banks help mobilize savings, allocate capital efficiently, and support both consumers and enterprises. Loans empower individuals to achieve personal goals and businesses to innovate and expand.
However, with this power comes responsibility. Ensuring the stability, transparency, and fairness of banking and lending systems is vital to economic sustainability and social equity. As technology reshapes financial services, the challenge will be to balance innovation with ethical practices and regulatory safeguards. Understanding the dynamics of banks and loans is essential for anyone navigating the modern financial world.

**6.2. Data Collection Methods**

**Primary Data**:

**Surveys/Questionnaires**: Students who have taken loans from private sector banks, parents, and bank officials and the employees who are repaying the loans. This data can help understand student satisfaction, in repayment of the loans.

**Discussions**: LAVI scheme is derived after several discussion with financial advisors and bank officials.

**Secondary Data**:

**Bank Reports and Financial Statements**: The interest rates are fixed based on the Rates range fixed by RBI and the running rates in banking market.

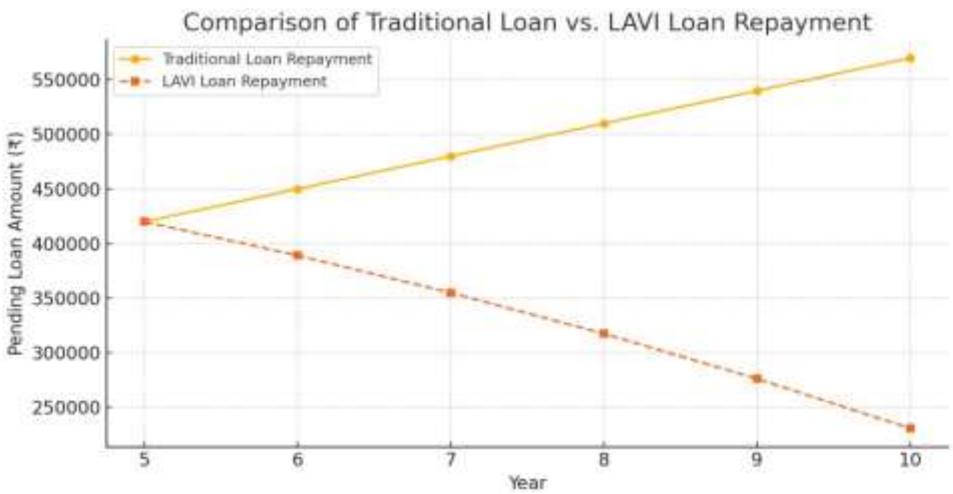
**Government and Regulatory Reports**: Reports from regulatory bodies like the Reserve Bank of India (RBI), Ministry of Education, and other financial organizations regarding education loans.

**6.3. Sampling Design**

- **Sampling Technique**: **Random sampling** is done for the derived interest rates which benefits both banks and loan borrowers.
- **sample Size**: An approximate of 104 responses have been taken includes students who have already taken loans, and yet to take loans, employees who are repaying the loans and self-employed people who express their necessity of educational loans for their future.
- **Population**: Students who have applied for education loans from private sector banks, bank officials involved in the loan approval process has suggested this LAVI scheme will be well benefitted with the modern world**.**
- **Questionnaire:** Students have to fill their answers to the questions asked which helps to analyse the mindset of them.
- The responses from various fields includes self-employed, employed, other organizations etc. which helps completely on their interest and their expenses to analyse the cost of their living and their expenses for repayment.

**6.4. Data Analysis Techniques**

**Comparison of LAVI model and old existing model:**




**Primary data source: Chart 2**

- **Descriptive Statistics**: It is summarized that maximum of 8 years from the student has been employed the loan would be cleared as per LAVI scheme and the interest rates assessed in this scheme doesn't affect banks too.
- **Regression Analysis**: The survey analysis indicates the approximate expenses of the students during studying and LAVI scheme derived Rs.1750(app)/month can be easily repaid by the students. This survey also explains the amount of 200Rs/day is easily payable after the borrower got employed.
- **Factor Analysis**: To identify the key variables affecting the loan repayment and accounting process.
- **Chi-Square Test**: To determine if there are significant differences in how different groups (e.g., based on gender, income, or academic background) view the education loan repayment and accounting process.
- **SWOT Analysis**: For analysing the strengths, weaknesses, opportunities, and threats in the education loan offerings of private sector banks.
- **Interpretations**:

From the questions asked from the analysis, and the responses received, the following tabular shows the analysis of LAVI scheme;

| **Description** | **yes** | **No** | **others** |
|---|---|---|---|
| Have you taken any educational loans in Pvt banks? | **10%** | **69%** | **21%** |
| Do you spend Rs.55 for your repayment of loan during studies? | **77%** | **18%** | **5%** |
| Can you spend ₹200 daily or ₹6000 monthly for your loan repayment from your salary? | **72%** | **14%** | **14%** |
| Do you get any scholarship amount while pursuing your education? | **61%** | **39%** | **NIL** |
| Do you find difficult in getting Education loans in banks? | **58%** | **39%** | **3%** |
| what is your thought of using UPI and QR scan payment system? | **92%** | **6%** | **2%** |
| Does paper work and interest rates makes you difficult in getting educational loans? | **62%** | **34%** | **4%** |

**Primary data source: Table 4 Responses from survey**

The above table indicates the following analysis

- Most of the students who are yet to get their educational loans prefers government aided banks than private sector banks.
- Even if they prefer private sector banks, the interest rates and formalities and loan without collateral makes them tensed.
- Most of the studying students have their average daily expenses more than Rs.150, interpreting this Rs.50 collecting for the repayment will be sufficient.
- After getting employed their daily expenses is more than 300Rs, so it is sufficient to collect Rs.200 on the minimum salary packages.
- Refer to the bank norms, if the students is on backlogs, banks can terminate the upcoming year loan amount.
- Over 90% of students and employee are using online payment system like gpay/phone pay/BHIM/Paytm etc. which enables them to pay easily via LAVI scheme.

- Interest rates and Paper work and bank formalities makes the students or borrower of the loan very difficult.
- The employee who already taken educational loans facing a lot of issues by tracking the interest rates and overload of bulk payment system and some fake political promises of liberalizing educational loans.
- In LAVI scheme the employee can make their repayment ease and no need to trust any fake promises.

**6.5. Limitations:**

- **Access to Data**: Confidential information regarding specific loan cases and bank policies might not be readily available for references. The data analysed is the approximate data driven from RBI reports.
- **Sampling Bias**: The sample might not represent the entire population of education loan borrowers for their accounting and repayment of loans if the survey is not well-distributed.
- **Time Constraints**: Due to time limitations, the study may not be able to cover all private sector banks.

## CHAPTER VII
## SUMMARY

- A comparative analysis of existing loan models highlights the need for a flexible repayment structure. Traditional models enforce fixed EMIs, government-sponsored loans have limited reach, and income-based repayment plans are unavailable in most Indian banks. The success of FinTech innovations in micro-lending proves that structured, small-amount repayments improve loan recoverability.
- LAVI leverages digital payment technologies to provide a seamless and sustainable solution.
- LAVI mainly enables the repayment of loan is their responsibility as the expenses they spent on the basic needs.
- LAVI mainly concentrates on MICROFINANCING system into the corporate banking system.
- LAVI model set the standards of targets during the study time so as they to complete their targets loan in a year.
- LAVI model enable the students like a work environment to complete their targets in the fixed targets.

## CHAPTER VIII
## CONCLUSION AND RECOMMENDATIONS

- Educational loans have emerged as a crucial financial tool in expanding access to higher education, especially in a country like India where rising tuition fees and living costs often act as barriers. By providing timely financial support, educational loans empower students from diverse socio-economic backgrounds to pursue quality education both in India and abroad. They help bridge the gap between ambition and affordability, fostering human capital development and long-term economic growth.
- Both public and private sector banks, along with non-banking financial companies (NBFCs), have developed a variety of educational loan products tailored to different courses, institutions, and financial backgrounds. While private banks are often more technologically advanced and customer-focused, they also come with higher interest rates and stricter eligibility criteria. Public banks, on the other hand, generally offer more inclusive lending but may involve slower processing.
- Despite their benefits, educational loans present challenges such as high interest rates, complex procedures, and increasing default rates. Improving financial literacy, simplifying the application process, and offering income-based repayment models can enhance the effectiveness of education financing.
- In conclusion, educational loans are not just a means of funding—when managed responsibly, they are investments in future potential, bridging opportunity gaps and contributing to a more educated and skilled society.
- Based on the findings, instead of lot of paper works, LAVI scheme enables a QR scanner (if scanned will display loan repayment structure, loan paid statements etc. and a "PAY" option to pay the loan), and UPI which can be used in any payment platform to pay directly to the loan account.
- There is no fixed EMI structure or difficult repayment structure in LAVI scheme. Once the Loan is processed the repayment is of any amount which will be calculated monthly and would be updated in database.
- Recommendations for private sector banks could include improving awareness campaigns for the ease process of educational loans and easy repayment structure of LAVI scheme.

- LAVI scheme considers all the loan borrowers is repaying their loan on time as per their yearly targets, if not the banks can pose the fine amount in a daily/monthly/yearly basis as per their formalities and legalities.
- LAVI scheme tries to impose micro-finance and micro payment linked with online partners with the corporate banking system, which makes simplified repayment of loans.
- If LAVI is imposed in banking system within next 15yrs the NPAs pending in educational would be completely settled and the new educational loans runs smoother with nil non-performing assets.
- LAVI scheme not only involves in financial aspect but also helps in students' mentality to get a backyard of money saving habit and responsibility to reduce unwanted expenses.

## CHAPTER IX
## REFERENCES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