India’s Education Loan Framework: Expanding Access to Lower- and Middle-Income Students

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Introduction

Education is an invaluable tool in facilitating personal and national growth. Every additional year of schooling raises national GDP growth rate by 0.37%, on average (Hanushek and Woessmann 90). Those with higher levels of education are known to report a stronger sense of control and greater satisfaction with their life (OECD 2021). Education systems around the world are distinct in the method they are financed, and the way students afford higher education. In developed countries, notably, the central government substantially contributes federal aid – the United States spent $40.47 billion (USD) on student loans and subsidies, and $3.89 billion (USD) on grants (U.S Department of Education). However, in the global south, such as in India, education loans to finance higher education for lower and middle-income students are disbursed either by the Indian Banks Association (IBAs), largely Public Sector Banks (PSBs) whose loans are subsidised by governments, or by Non-Banking Financial Companies (NBFCs), operating on market principles, driven by profit. India's higher education system is the largest in the world.

There was a 26.5% increase in the General Enrolment Rate (GER) in higher education from 3.42 crores in 2014-15, to 4.33 crores in 2021-22 (Government of India i), and the Government aims to reach a GER of 50% by 2035, mandating a sound policy framework to facilitate the same. There are certain differences in the way PSBs and NBFCs disburse loans, which have implications on affordability and quality of loans – eventually impacting the beneficiaries as well. Most notably, these loans are utilised by different economic sections, with public sector loans more often being availed by lower-income students, and NBFC loans utilised by higher income students (Crif High Mark).

This research paper aims to highlight the key functional differences across accessibility, cost and affordability, performance, delivery and operational efficiency between government-subsidized education loans offered by banks under the IBA Model Education Loan Scheme and private NBFC loans - and discern what structural policy changes are required to make the NBFC model favourably accessible to low- and middle-income students in India.

Literature Review

Varghese (2021) characterises education as a merit good, under-provided by market structures due to the "spillover" benefit outside of the individual student. Thus, he advocates for government funding as markets fail to optimise funding for higher education, crucially for India's large poor population. Further, Varghese highlights how India fails to meet the 6% benchmark of education expenditure from GDP, and the budget allocates only 1.5% for higher education. Further, the proportion of government expenditure on higher education from the central education budget declined from 18.8% in 2000-2001 to 17.4% in 2016-17. He thus makes the case for the need to expand the affordable education system as PSBs fail to deliver, through regulation of NBFCs. As the volume of loans has increased from Rs. 1,028 Cr. In 2000-01, to Rs. 70,282 Cr. (2013-14), outpacing central government expenditure on higher education, the status of education loans as a pillar of financing higher education has been made extremely clear. Rani (2017) notes the growth of education loans to become more important than grants in the Indian context. Varghese additionally underscores the failure of the Indian educational framework to equitably include poor, rural and marginalized, emphasising the need for targeted use of public resources. As concluded, the Government of India has a pivotal role to play in restructuring and regulating the delivery of private loans in its pursuit of expanding access to higher education to lower-and middle income students.

Chalil (2021) presents a rigorous comparative public-private analysis of education loans in India. Highlighting the rapid expansion of education loans post the Model Education Loan Scheme post-2001, he goes on to expose the regional concentration and access divide in education loans, where 54% of all loans go to Southern states (Tamil Nadu, and Kerala, most notably), and North Eastern states receive extremely low loan volumes. The role of NBFCs bridging this gap is eventually highlighted, with an emphasis placed on the need for affordable education schemes from the private sector, facilitated by the government through incentives, due to the PSBs inability to scale.

The paper also explains the Indian public education loan framework, through the Central Sector Interest Subsidy Scheme (CSIS) and Credit Guarantee Fund for Education Loans (CGFSEL). Through the CSIS, the government subsidies the interest during the *moratorium* period (the period of education + 1 year), applicable only to loans ≤ Rs. 4.5 lakh per year, taken from banks under the IBA Model Education Loan Scheme. The CGFSEL provides a credit guarantee to banks, where the government promises to bear the cost if the student default, covering loans ≤ Rs. 7.5 lakh per year, under the banks of the IBA Model Scheme. While the CSIS's aim is to reduce repayment stress during education periods, to reduce dropouts among economically weaker sections (EWS), the CGFSEL incentivises banks to lend to low-income students who are unable to provide collateral, with the goal of reducing exclusion in loan provision.

However, Chalil highlights the limited efficacy of this system as banks increasingly favour larger, collaterized loans. This is evidenced by the Compound Annual Growth Rate (CAGR) of 13% in amount of loans disbursed, but CAGR of only 1% in number of accounts, (2014-2019) highlighting how banks are increasingly disbursing larger loans to lesser number of individuals. Chalil similarly concludes on a policy call for the need to structure affordable education loan programmes, potentially in collaboration with NBFCs. Further, he highlights the role of the CSIS and unsecured loans as a primary cause for high delinquency and NPA rates among PSBs.

Amar and Agarwal (2024) note the significant challenges in education loans in India, through a comparative analysis with developed countries. The paper notes the delineation between key players in the provision of education loan, Public Banks - State Bank of India (SBI) , Punjab National Bank (PNB), Private Banks under the IBA Model Education Loan Scheme – ICICI, HDFC Bank, and NBFCs (Credila, Avanse etc.) operating under competitive market pressures. The authors also enumerate the key barriers as high interest rates, collateral issues, repayment burdens and a lack of awareness among the rural Indian population.

The paper contextualises the education loan interest rates in 2023 from 7.5% - 15% and highlight the key difference of some NBFCs requiring repayment during the *moratorium* period considered by loans by the IBA, citing affordability concerns. It also questions affordability despite the CSIS, as education loan NPAs at 9% for PSBs are said to be the highest among any loan product (Chalil, 2019), while NPA rates for NPAs are substantially lower at 0.1-0.2%. The comparative analysis provides key features to consider and incorporate within the Indian education loan framework, such as income-driven repayment in the United States, the payment of interest according to income thresholds in the United Kingdom and federal forgiveness for public workers. While the existing literature and research on the education loan framework in India highlight certain challenges and reforms to varying extents, none focus on the structural reform required to enable NBFCs to sustainably serve low and middle-income students. This paper aims to synthesize the challenges in the current system, under both private and public sector loans, and suggest a structure to remedy the same.

Methods

This paper makes extensive use of Handbook of Statistics on Indian Economy, Credila, Avanse, PNB, and SBI Annual Reports (FY24), CareEdge Ratings and CRISIL Documentation, and online education loan databases such as Gyandhan and BankBazaar, along with Ministry of Education and Central Government provided answers during sessions of parliament as the major sources of data.

After representing the data in the results section, this paper discusses the findings and what the data reveals about the Indian education model framework, before suggesting the structural policy changes to mitigate the shortfalls in the current system and bridge the gap, based on other nation’s models, other loan product models and general efficiency improvement.

Results

Accessibility

Metric	SCBs	NBFCs
Eligibility on the basis of income level	Income certificate for proof of income ≤ ₹4.5L required for availing CSIS	Co-applicant income ranges from Rs. 3.6L to Rs. 7.2L depending on loan tier
Target borrower	Students studying at domestic undergraduate post-graduate Tier 1 and 2 institutions, accredited by the National Assessment and Accreditation Council (NAAC)	Students studying abroad (USA, UK, Canada, Australia etc.) at QS-ranked top private universities for undergraduate or post-graduate
Academic requirement	No standardized test score requirement, or minimum grade cut-off. Admission proof required through offer letter or entrance exam (JEE/ NEET/ CAT) results. Academic achievements are not a precursor to loan disbursement.	Requires strong academic record, and pre-requisite test scores in the GRE, IELTs or TOEFL to display proficiency. Certain NBFCs (Avanse, InCred) require confirmed admission along with proven academic achievements before loan disbursement.

Collateral requirements	Collateral-free loans upto Rs. 7.5L as per Model Education Loan Scheme. Collateral required above Rs. 7.5L in the form of tangible assets.	Small loans are rarely collateral free, and collateral is required for any loan above Rs. 10L, crucially for students studying abroad.
Co-signer requirements	Mandatory in the form of parent/ guardian, no credit score requirement.	Mandatory, and required to have a good CIBIL score (usually above 720).

Table 1 Metrics for Accessibility of Education Loan (SCBs vs. NBFCs)

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Company	Amount of Loan Disbursed	Number of Students Funded	Average Ticket Size (ATS)
Credila (FY24)	**₹14,089 crore**	**53,603**	**26,28,397**
State Bank of India- SBI (FY23)	**₹15,086 crore**	**1,13,793**	**13,25,740**

Table 2 Average Ticket Size of SBI vs. Credila

	Credila	Avanse	InCred
Rate of interest (p.a.)	10.5-13%	9.5-14%	10 - 13.5%
Loan amount	Up to Rs. 75 Lakh	Up to Rs. 50 Lakh	Up to Rs. 80 Lakh
Co-applicant minimum income (per month)	Varies depending on credit score, university and academic scores. Usually, Rs. 25,000+	Varies depending on credit score, university and academic scores. Usually, Rs. 25,000+	Varies depending on credit score, university and academic scores. Usually, Rs. 25,000+
Monthly instalments during moratorium	Simple interest	Simple interest	Simple interest

Table 3 Information on Accessibility of Education Loans for Domestic Higher Education for Credila, InCred and Avanse

Affordability

	GRE > = 310	**GRE 300 = < 310**	**GRE 285 = < 299**
Rate of interest (p.a.)	11.25 - 11.75% - Credila, 12.5 - 12.75% - Avanse **12.25 - 12.75% - InCred**	11.75% - 12.5% - Credila, 12.75% - 13% - Avanse **12.75% - 13% - InCred**	12.5 - 13% - Credila, 13 - 14% - Avanse and InCred
Loan amount	Up to Rs. 75 Lakh – Credila Rs. 50 Lakh – Avanse Rs. 60 Lakh – InCred	Up to Rs. 50 Lakh – Credila Rs. 40 Lakh – Avanse and InCred	Up to Rs. 40 Lakh – Credila Rs. 35 Lakh – Avanse and InCred
Co-applicant minimum income (per month)	Rs. 20,000– Credila Rs. 30,000 – Avanse and InCred	Rs. 30,000 - Credila Rs. 35,000 – Avanse And InCred	Rs. 30,000 - Credila Rs. 35,000 – Avanse and InCred
Monthly instalments during moratorium	Partial simple interest – Credila, Avanse and InCred	Partial simple interest – Credila, Avanse, and InCred	Simple interest – Credila, Avanse, and InCred

Table 4 Information on Accessibility of Education Loans in the United States for Credila, InCred and Avanse(Gyandhan)

	Oceania	Canada	United Kingdom	Germany/ Italy/ France/ Ireland
Rate of interest (p.a.)	12 - 13% - Credila 12.5 - 12.75% - Avanse 12.25 - 13% - InCred	11.75 - 12.5%- Credila 12.5 - 13% - Avanse 12 - 13% - InCred	12 - 13% - Credila 12.5 - 13.5% - Avanse and InCred	12 - 12.75% - Credila 12.5 - 13.5% - Avanse and InCred
Loan amount	Rs. 25 Lakh – Credila Rs. 40 Lakh – Avanse Rs. 20 Lakh - InCred	Rs. 40 Lakh – Credila Rs. 20-25 Lakh – Avanse Rs. 30 Lakh – InCred	Rs. 40 Lakh – Credila, Avanse and InCred	Rs. 25 Lakh – Credila Rs. 20 Lakh – Avanse and InCred
Co-applicant minimum income (per month)	Rs. 60,000 – Credila and InCred Rs. 35,000 – Avanse	Rs. 35,000 – Credila, Avanse and InCred	Rs. 35,000 – Credila Rs. 40,000 – Avanse and InCred	Rs. 35,000 – Credila, Rs. 40,000 – Avanse and InCred

Table 5 Information on Accessibility of Education Loans in other Countries for Credila, InCred and Avanse (Gyandhan)

Scheduled Commercial Banks (SCBs) Data

	State Bank of India (SBI)	**Punjab National Bank (PNB)**	**Bank of Baroda (BoB)**
Rate of interest (p.a.) for Domestic Education	8.15-11.15%	Starting at 8.55%	7.90 – 11.70%
Rate of interest (p.a.) for Foreign Education	9.65-11.15%	9.15-12.35%	Starting at 10.90%
Loan amount	Upto Rs. 10L (Domestic), Rs. 1.5 Cr. (Study Abroad)	Upto Rs. 10L (Domestic), Rs. 20L (Study Abroad)	Upto Rs. 20L (Premier Domestic Institutes), Rs. 10L (Non-Premier Standard), Rs. 1.5 Cr. (Study Abroad)

Table 6 Affordability information on PSBs under IBA for Education (Note - All PSBs are capped at 7.5L without Collateral)

	ICICI Bank	Axis Bank	HDFC bank
Rate of Interest	10.85 – 12%	13.7-15.2%	Starting at 10.50%
Loan Amount (Without Collateral)	Upto Rs. 50L depending on university, academic profile and co-signer	Upto Rs. 40L depending on university, academic profile and co-signer	Upto Rs. 45L depending on university, academic profile and co-signer
Loan Amount (With Collateral)	Upto Rs. 1 Cr.	Upto Rs. 1 Cr.	Upto Rs. 3 Cr.

Table 7 Affordability information on Private Sector Banks under IBA for Education

When collateral is required, it is usually in the form of Non-Agricultural Land, Fixed Deposits (FD), Apartment, House, Mutual Fund, Life Insurance, Shares. The value of collateral required is decided on the basis of amount of loan, financial profile, academic background and institution ranking and prestige.

Summary of Government Schemes (CGFSEL and CSIS)

Credit Guarantee Fund Scheme for Education Loans (CGFSEL) provides a 75% guarantee on loans up to 7.5L amounts by the Government of India, without collateral, and Central Sector Interest Subsidy (CSIS) scheme guarantees full interest subvention during study period for students with family income below 4.5 L income per year.

Student Type	Interest Support	Repayment Principal	Interest Rate	EMI (₹/month)	Total Repayment
Low-income (≤ ₹4.5L)	CSIS + 3% subvention	Rs. 10L	7% for 5 years	₹19,801.20	**₹11,88,072.00**
Middle-income (₹4.5L–₹8L)	3% subvention, interest capitalized during moratorium	Rs. 11.4L	7% for 5 years	₹22,573.37	**₹13,54,402.20**
High-income (> ₹8L)	No support, interest capitalized during moratorium	Rs. 13L	10% for 5 years	₹25,496.45	**₹15,29,787.00**

Table 8 Rs. 10L loan for a period of 5 years at a standard 10% interest rate, under the IBA Model Education Loan Scheme with 3 year moratorium period (2 year education period) (Note - Repayment principal reflects accrued interest during the 3-year moratorium added to the repayment amount assuming borrower does not pay simple interest during the moratorium)

Component	Amount
Monthly interest (during moratorium)	₹8,750
Total interest paid during moratorium	₹3,15,000
Monthly EMI (post-moratorium)	₹21,493.90
Total EMI repayment (60 months)	₹12,89,634
Total repayment (interest + EMIs)	**₹16,04,634**

Table 9 Rs. 10L loan for a period of 5 years at a 10.5% interest rate, under the ICICI Model with 3 year moratorium period (2 year education period) with optional repayment of interest during moratorium period to prevent interest capitalisation.

Component	Amount
Monthly interest (during moratorium)	₹10,416.67
Total interest paid during moratorium	₹3,75,000
Monthly EMI (post-moratorium)	₹22,497.94
Total EMI repayment (60 months)	₹13,49,876
Total repayment (interest + EMIs)	**₹17,24,876**

Table 10 Rs. 10L loan for a period of 5 years at a 12.5% interest rate, under the Credila NBFC Model with 3 year moratorium period (2 year education period) with compulsory repayment of interest during moratorium period to prevent interest capitalisation.

Note – SCBs have moratorium of deferred repayment with interest capitalisations. NBFCs do not allow this, mandating Simple Interest payments.

Delivery and Operational Efficiency

	PSBs	Private Banks	NBFCs
Processing Time	15-30 days	7-15 days	3-7 days
In-person or Online	Physical visits for in-person KYC, co-applicant verification and documentation. Application process is online through Vidyalakshmi portal yet backend process is largely offline and manual.	Sometimes -physical KYC, document and co-applicant verification, especially for applicants living in non-metropolitans. Offline visits sometimes waived for premium customers.	Completely online, from sanction to disbursement. Documents can all be uploaded. KYC can be done on doorstep or online. Minimal to no offline interaction.

Table 11 Delivery and Operational Efficiency of NBFCs, Private Banks and PSBs

Performance

	Credila	Avanse	PNB
GNPA	0.08%	0.53%	13.86%
Outstanding Loans (FY24)	₹28,187	₹13,303	₹5,874

Table 12 Performance of Key Education Loan Banks (Credila, Avanse, PNB)

Programme	% of educational loans which become NPAs
Nursing	21.28
Engineering	9.76
Other Professional courses	9.49
Medical	6.06
MBA	5.59

Table 13 NPA rate per programme (Chalil)

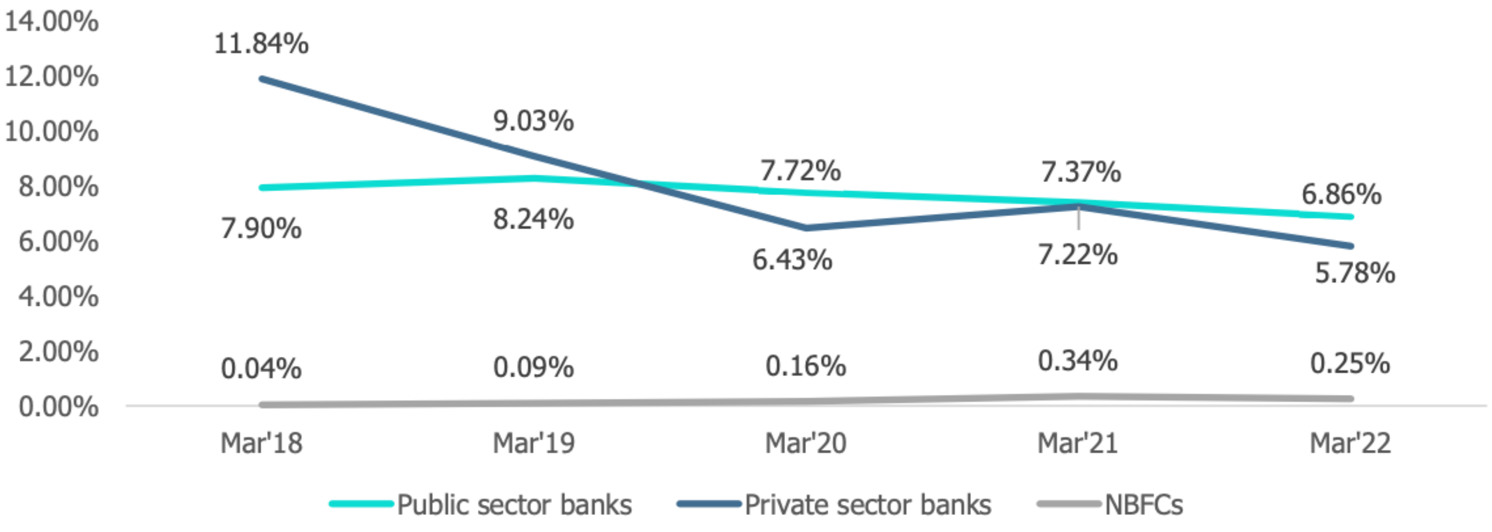

Figure 1 Trend of Asset Quality in Education Loan Segment (Banks: GNPA %; NBFCs: Gross Stage 3%.)

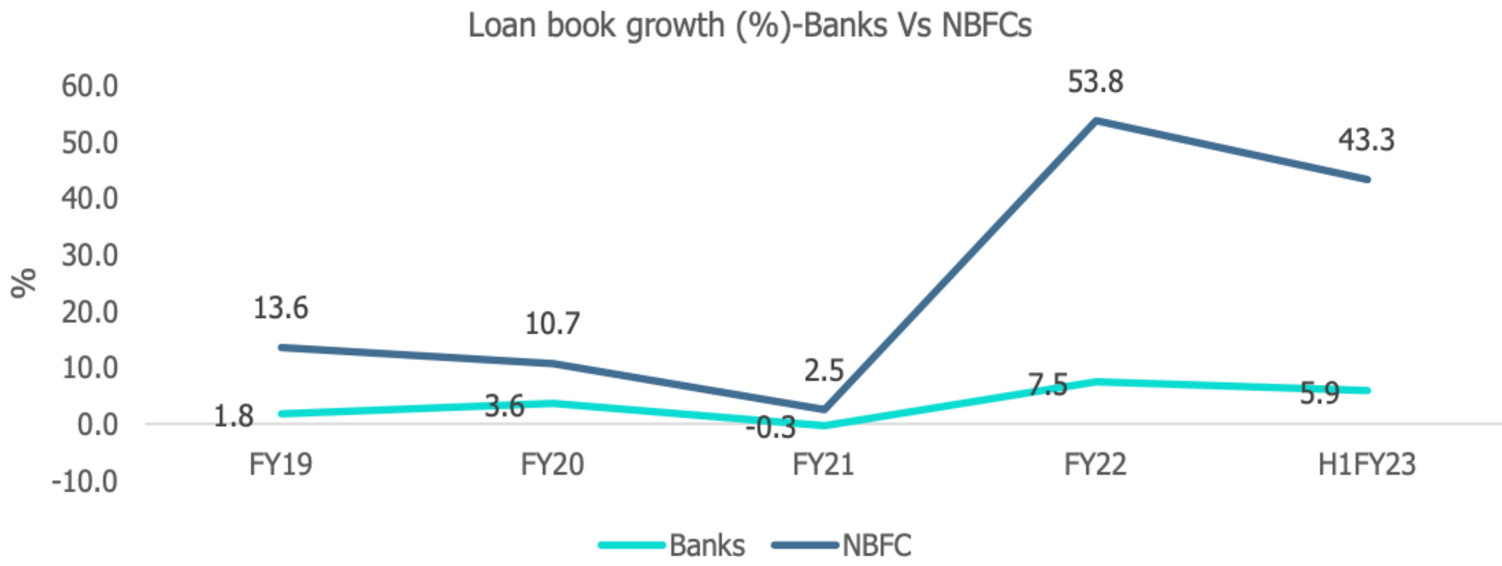

Figure 3 Trend in Loan Book Growth (Banks vs. NBFCs)

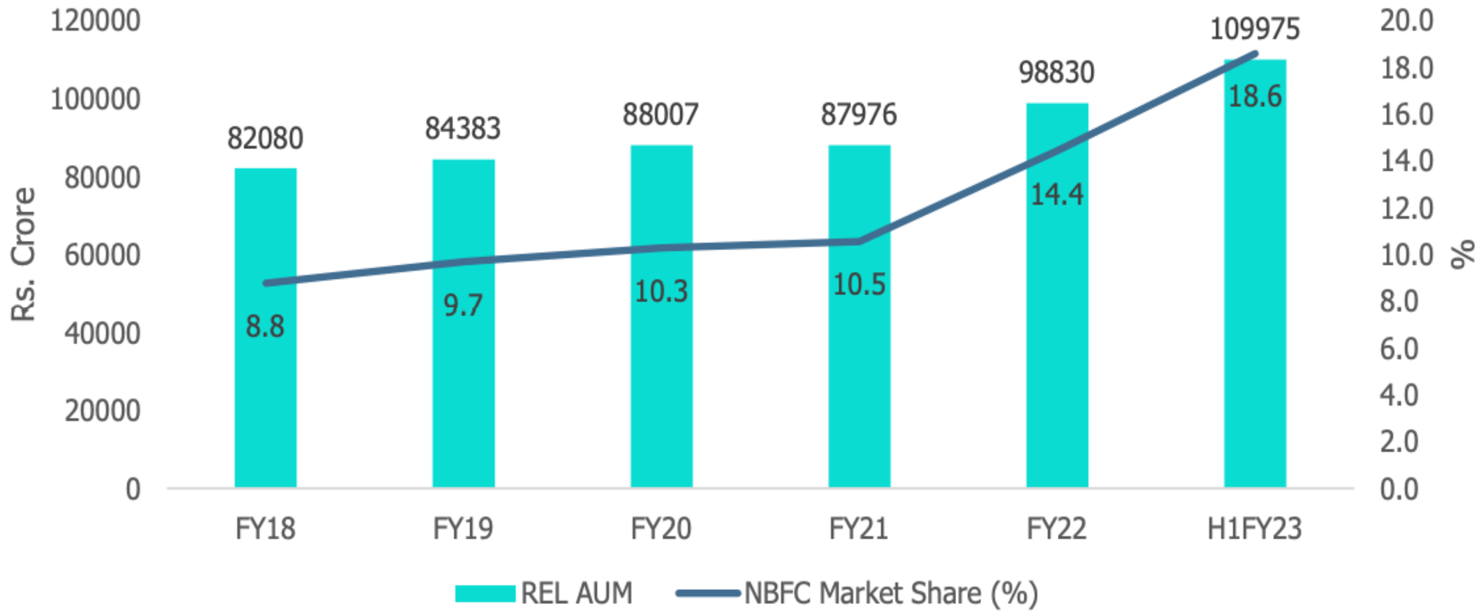

Figure 2 Growth in Assets Under Management (AUM) and Market Share for NBFCs in Education Loan Market

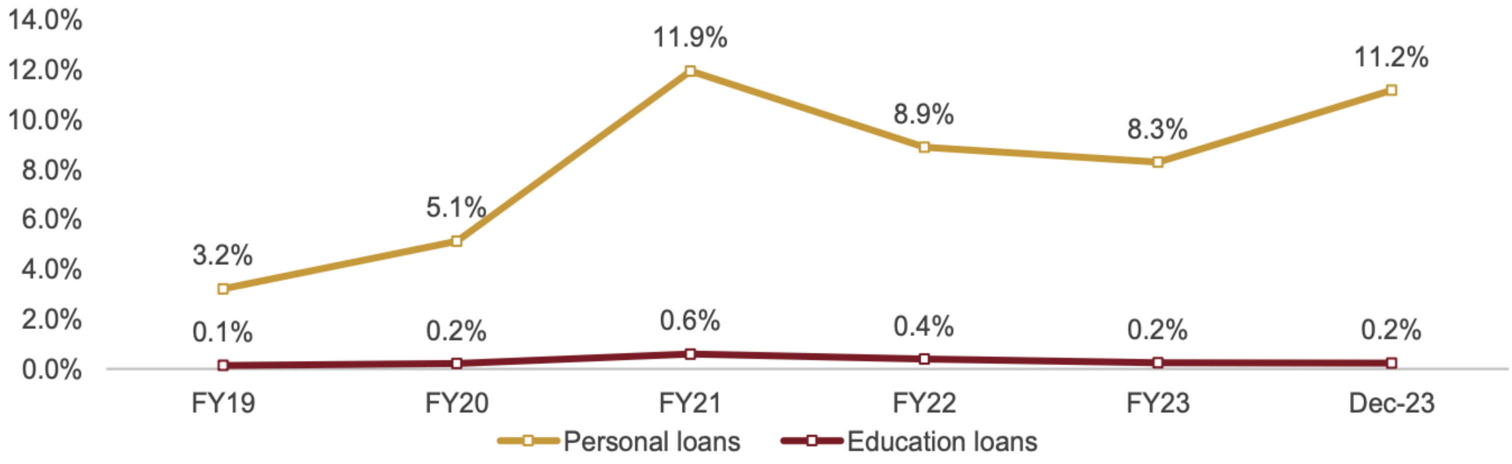

Figure 4 NPA% of personal loans and education loans for NBFCs

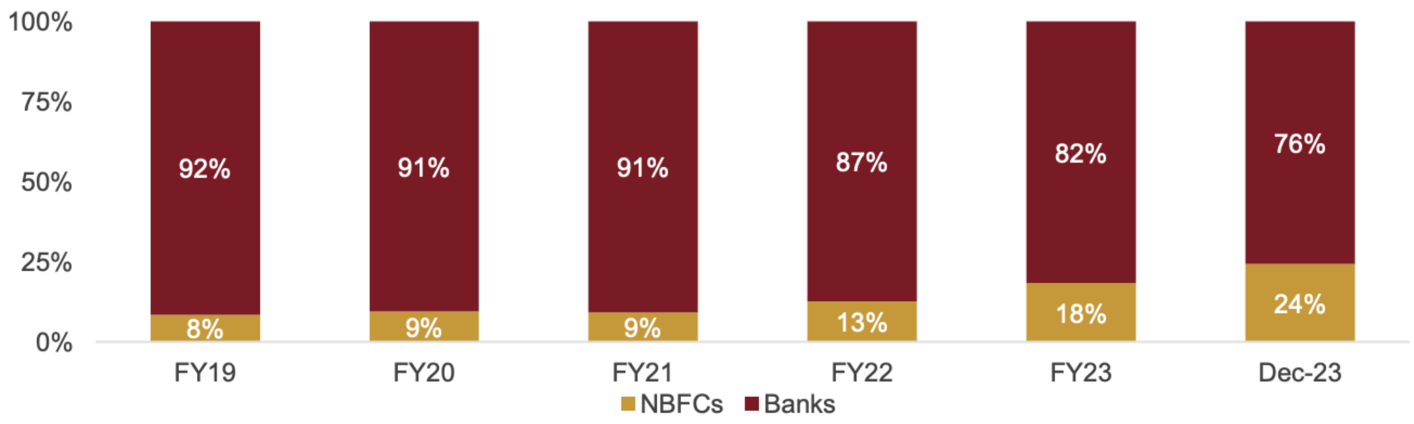

Figure 5 NBFCs’ share in overall education loan market increased from 8% in fiscal 2019 to 24% as of 31st December

Discussion

NBFCs vs. SCBs in the Education Sector

Before understanding the issues of accessibility, affordability and performance of education loans it is crucial to understand the differences between the models of the SCBs vs. the NBFCs in providing these loans. Overall, NBFC loans are more efficiently disbursed (Table 12), providing a complete online process. However, this provides an additional barrier to low and middle-income students who might not be completely digitally literate. The reliance on digital platforms of NBFCs thus poses a potent challenge to such students. Additionally, recent initiatives by the Government of India such as the PM Vidyalakshmi Portal (Table 12) and the transition to an online loan application, while increasing the efficiency for those able to navigate the portal, can also impede students without a stable network, or the required devices, above the aforementioned digital literacy. Thus, while such government measures aim to increase access to education loans through the MEL scheme, it might exclude the most vulnerable populations as a result.

The operational inefficiency in PSBs through the manual backend process sometimes leads to customers to drop out before the loan is processed, reducing the efficacy of government programmes as these students are forced to resort to other Private Banks or NBFCs, charging higher interest rates. This includes large wait times, physical KYC documentation and co-applicant and document verification. PSBs can take as long as 30 days from the loan application date to disbursal, while NBFCs average 4-5 days, offering a significant advantage, especially to those who require loans immediately.

Lastly, while NBFCs are able to provide their services to areas where their branch is not located through their online customer base, PSBs are unable to access this benefit due to their reliance on offline procedures. Thus, populations from rural and other underrepresented areas by bank branches may have to travel far to receive education loan.

NBFCs have steadily grown in market share, and loan book (Figure 2 and 3), estimated to have a market share of 18.6% and loan book growth of 43.3% (compared to SCBs' 5.9% growth) as of FY23. As of December 2023, their market share had already grown to 24% (Figure 5) and as the demand for higher education, especially abroad, skyrockets in India, in tandem with the Government's aims to achieve a GRE of 50% by 2035, NBFCs are likely to increase their market share through their efficient products, and larger loan sizes.

However, this growth for NBFCs, till recently, has been limited to the *foreign* higher education market, Credila's overseas education demand outpacing domestic growth by more than 6x over the last 3 years, as of FY24 (Credila Annual Report – Citation Needed). In Avanse too, only 5.61% of loans disbursed and 2.71% of Assets under Management (AUM) were domestic education loans. This highlights the increasing divide of NBFCs' tendency to cater to higher-income students aspiring to study abroad, while SCBs, primarily PSBs, cater to domestic education. This is problematic as it limits lower-income students from studying abroad, as the pre-requisites to achieve a loan, as discussed below, are extremely non-conducive to their conditions, from collateral requirements to interest rates.

Accessibility and Affordability

There is a clear distinction in the model of education loans for NBFCs vs. Scheduled Commercial Banks (SCBs) under the IBA, especially PSBs. Through the Model Education Loan Scheme, SCBs waive collateral requirements for loans upto Rs. 7.5L (Table 1) which is extremely effective in catering to low and middle-income students. This disposition of PSBs to serve lower and middle-income students is reflected in the Average Ticket Size (ATS) of SBI loans as 12.25 Lakh, whereas Credila's ATS for FY24 was 26.28 Lakh (Table 2).

The inaccessibility of NBFC's education loans to lower income students is due to high co-signer income requirements of around 3.6 Lakh p.a. for domestic loans, (Table 3) oftentimes even higher, the requirement of a strong academic and credit history, and collateral requirements. NBFCs vary interest rate, maximum loan amounts and co-applicant's minimum income based on credit history and academic scores, which SCBs, especially PSBs, refrain from. This is reflected in lower interest rates for higher GRE scores (Table 4), with GRE scores above 310 paying 11.25%, and GRE scores of 285 paying as high as 14% to NBFCs. While specific data for varied interest rates for domestic higher education is unavailable, the structure for US Education Loans is likely mirrored and highlights academic background as a barrier to accessing larger loans. This barrier is furthered through the co-applicant minimum income varying from 3L p.a. and above, depending on credit score, university enrolment and academic scores. This is contrasted by PSBs, who do not factor in academic history nearly as strongly while considering interest rates (citation needed), especially for lower loan amounts. Additionally, under the CGFSEL by the Government of India, PSBs and Private Banks under the IBA Model Education Loan Scheme offer loans without collateral requirement (under 7.5L) to students pursuing domestic higher education. While this is beneficial in increasing accessibility, 7.5L is often less for a quality higher education, and thus lower and middle income students seeking to attend prestigious institutions too require higher loans, though they lack the required collateral in assets required to attain such large loans from PSBs. This exposes the access barrier - while NBFCs offer unsecured loans up till 50-70L, these products often structurally lock out lower income students as discussed.

The Government of India Model Education Loan (MEL) Scheme notably increases the affordability of domestic higher education for students. A low-income student (income below 4.5L) with a 10L loan for 5 years (excluding period of study), can avail CSIS and the 3% subvention facilitated by the Government paying only a total of 11.8L as repayment, while a high-income student would pay 15.29L, at the same conditions (Table 8). Taken further, through the Credila NBFC model, without interest capitalisation, the student would pay 17.24L in total repayments. However, the problem of interest capitalisation is worth noting while contrasting NBFCs and SCB education loan model, discussed in detail later.

While NBFCs such as Credila and Avanse mandate the payment of Simple Interest during the moratorium period, SCBs have a deferred payment with interest capitalisation. The payment of interest during the moratorium on one hand brings financial awareness in student's life, reduces EMI/month (25.4K in Private Banks with interest capitalization vs. 22.4K in Credila without interest capitalization) which means a reduced burden after moratorium period, and is said to play a role in NBFCs' low NPA rates (Table 13) compared to PSBs like PNB. However, lower income students, especially those who are unable to get a high-paying job during their study period (more typical of PSB beneficiaries than NBFC beneficiaries) might struggle with interest payments during their education period, and thus PSBs prefer interest capitalization. For those who do not qualify for the CSIS subsidy, though, capitalization results in higher EMI cost.. The NBFC requirement to prevent interest capitalization although oftentimes seems more favourable than Private Banks' deferred payment. Further, NBFCs even allow EMI payments on the principal amount during education period, which further reduces burden of repayment, especially for middle and high income students. This flexibility increases the attractiveness of NBFC loans.

As 35% of first-time education loan applications in India face rejection (per RBI estimations) due to incomplete documentation, these documentation problems are likely to be more common among lower income people due to: inadequate income proof (lacking salary slips or ITR returns – if they are employed in the informal sector or self-employed) or weak or absent creditor history (no CIBIL files). Such records are treated as insufficient documentation by NBFCs and private banks, and oftentimes are ground for rejecting loans, or citing unsustainably high interest rates to middle income earners.

Performance

The Gross Non-Performing Asset (NPA) rate for education loans is substantially lower for NBFCs such as Credila (0.08%) and Avanse (0.53%), compared to PSBs such as PNB with a 13.86% NPA rate (Table 13). Even Private Banks' loans are at a 5.78% NPA rate, far above NBFC quality. Note, this is not solely due to "NBFC" status – NPA% of personal loans stood at 11.2% towards the end of FY24, while NBFCs on average maintained 0.2% education loan NPA in the same time period (Figure 4). These figures consistently demonstrates the superior quality of education loans as an asset, particularly for NBFCs. The high quality of these loans is due to: high security requirements for large loans, rigorous credit and academic background verification, co-borrower income thresholds, and other metrics that ensure NBFC education loanees are primarily higher income earners.

While the NBFC model itself, through efficient customer support, online assistance and regular check-in sessions might improve asset quality, it is the higher-income customers itself that create the substantial difference in NPA % between NBFCs and SCBs. While NBFCs benefit from higher-income earners, SCBs through the MEL and the low security requirements cater to lower income earners. Without security requirements and low family income levels, borrowers from SCBs invariably have higher NPA rates on their loans. Additionally, though *guaranteed* by the Government of India through the CGFSEL, public banks often report incomplete documentation, incorrect information or unreported income slips etc. as reasons where the banks aren't re-imbursed.

Thus, at the end, with the current education loan landscape in India, there are multiple contentions to be resolved. These include:

1. Functional gaps (underserved students):
    a. Low-income meritorious students wishing to study abroad
    b. Low and middle-income students with weak co-signers
    c. High-income students with weak academic scores
2. PSBs are inefficient in their service
3. PSBs are left only fulfilling PSL requirements due to high NPAs
4. Growth of ATS of loans means scalable NBFCs exclude lower-income
5. Growing education loan AUM reflects larger loans for foreign education and higher-income borrowers – domestic education is underserved

The context provided mandates the suggestion of a policy framework to resolve the structural problem India's education loan industry faces – as PSBs absorb risk and crack under it, and NBFCs reject risk by catering to higher income earners and grow exponentially. To serve the growing demand in education, and promote domestic education urgent action to redistribute, share and subsidise risk is required, along with a restructuring loan programmes to increase affordability and accessibility, this paper has highlighted the required structural reform.

NBFCs can largely be restructured to increase the overall public good. Though currently operating under RBI through the Companies Act (citation needed), due to the social relevance of education loans as a unique product, RBI may mandate fixed Priority Sector Lending (PSL) in terms of income brackets for NBFCs. This would entail mandating a number of amounts and/or amount of funds disbursed to lower and middle-income students by NBFCs, potentially below 7.5L p.a. family income. By mandating this, NBFCs would have to comply with this regulation by law.

Further, the Credit Guarantee provided through CGFSEL can be extended by making it *lender agnostic*. This would mean it is not claimed by the institution (PSB, Private Bank or NBFC), yet in the case of defaulting or inability to pay the loan, could be claimed by student (of the same criteria) to reimburse the bank. While preserving the element of risk-reduction for lenders, this policy expands its reach to include NBFCs, substantially increasing the lender base for lower income students.

Next, the Central Sector Interest Subsidy scheme can be made portable, to extend to NBFCs. The Government of India should extend the interest subvention during moratorium period (to borrowers, who meet the current criteria, to those of the NBFC as well. This should be done in lieu of the growing demand for education loans and contrastingly the PSB’s disinterest in the industry due to their high GNPA rates.

Lastly, while yet operating independently, the NBFC model should be integrated into the PM Vidyalakshmi portal, to spread awareness of the presence of it is an alternative, for interested students, as unawareness related to the education loan model is a root problem (citation needed), as discussed below.

Next, there is a need for structural changes in the repayment system under the current education loan scheme across all SCBs and NBFCs alike.
Firstly, an income-based payment should be considered, inspired by the United States Federal Education Loan framework, to include income-based repayment (IBR) and Pay as you Earn (PAYE) repayment plans. Instead of fixed-Equated Monthly Instalment (EMI) payments, students can pay off their loan on the basis of their income, as calculated by the bank, varying at around 5-15% of *discretionary* income, which is the income above the poverty line. In the UK, the repayment rule is 9% of earnings about the repayment threshold, changed periodically by the United Kingdom government. The Government of India can adopt a hybrid model of this system, suitable for the Indian context, deciding repayment thresholds, and the extent of usage of discretionary income. In principal, the income-based payment model would work to reduce the financial burden on students which may disincentivise some to pursue or complete their education.

Additionally, the Government of India should adopt forgiveness for public workers. This would extend to those who conduct serve the public good. This should include, at the very least, those who complete their education to go on to become: government school teachers, professors at public universities, government hospitals doctors, public health workers, police officers and armed personnel, rural development officers, judicial officers, civil servants, workers in registered not-for-profits under government contracts or official collaborations. Emphasis should be placed on those who serve Tier 3 cities, remote rural areas, or tribal and underdeveloped areas, and an income cap of approximately 6-8L family income should be placed. This increases the likelihood of more individuals entering these noble professions, and would reduce the burden on those who choose to do work for the public good.

Setting up refinancing within education loans. After completing education, or if other factors causes an increase in the creditworthiness of a student, resulting in a better interest rate for the same principal, refinancing their loan would effectively mean *taking out a new loan to repay the old loan.* This results in a lower overall cost of repayment. This is extremely useful in the current education loan framework – as lower-income students can avail government subsidies and credit guarantees for the initial period, and after the risk is reduced (as education period lapses, stable income source is found etc.), NBFCs can refinance the loan at a lower interest rate, reducing the PSBs NPA burden, helping continue the expansion of the currently growing NBFCs, and ensuring the borrower the best deal. To incentivise refinancing in the interest of lower income earners, the Government should extend partial credit guarantees to NBFCs (25-40%) to reduce risk.

Lastly, there is an urgent need for awareness on all parts of the current education loan framework. Current problems due to unawareness include: higher interest rates due to insufficient documentation, unfavourable deals due to limited information on available products, limited information among low income earners on Government support, and lack of understanding of EMI structures, moratoriums, and interest capitalization concepts. Oftentimes, the *true cost* of the loan is also not conveyed, which hides processing fees, moratorium interest and thus the complete burden. Studies that indicate only 10% of eligible borrowers avail CSIS benefit in certain district highlight the need for the Government to expand awareness amongst low income earners. Further, digital literacy and/or options for manual processing and application for those who are unable to complete loan application online is also required. Awareness through campaigns, on-campus and in-school literacy sessions, and mandating information disclosure among lending institutions must be used to reduce the barriers to all the information required.

Conclusion

As the fastest-growing major economy, and with aspirations to achieve developed status by 2047, education will invariably play a vital role in the country's future. Thus, education loans, the tools used to finance the dreams of lower and middle-income students too will be crucial in enabling higher education, and increasing India's GRE. This paper has discussed the strengths and weaknesses of the current education loan framework across the different pillars of accessibility, affordability, and performance under the backdrop of SCBs and NBFCs, and goes on to discuss the structural policy changes required to expand access and benefit to lower income students. Through an exploration of estimations, current valuations, and different lending institution's policies, this paper has aimed to comprehensively breakdown the current limitations under the current framework, both by private players such as the NBFC, and by the Government of India through schemes such as the CGFSEL and CSIS. As noted, while the education loan industry has been positively growing in recent years, the reform required by all key players is vital in serving the public good. Drawing interest from different student loan models, the policies suggested aim to assist a more equitable and accessible student loan framework in India.

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