

Influence of parents on priority to repay education loan

Shakthi Priya R

Amrita School of Business,
Amrita Vishwa Vidyapeetham University
Coimbatore, India
shakthi.kaashyap@gmail.com

Sangeetha Gunasekar

Amrita School of Business,
Amrita Vishwa Vidyapeetham University
Coimbatore, India

Abstract— Education loan default has been recently rising across several countries. For the lending institutions it would be important to understand how students prioritize their repayment of loan borrowed. The present study tries to contribute this to the literature, on what factors influence the students who have borrowed education loan to pay it back, considering it their priority. The results indicate that parents advice to repay, student's intention to repay through salary deduction, expectation of ease of repayment and higher age of the borrower all significantly lead to a higher priority to repay the education loan borrowed..

Keywords — Education loan; Priority to repay; Parental influence

I. INTRODUCTION

Education plays a vital role in the life of any individual as it supports them with the required skills to carry on with their life. On one hand the cost of education in private institution has been rising creating a higher demand for students loan to help students complete their desire course of education while on the other we see a rise in the default rates of education loan repayment[14]. This also impacts the development of a nation at the outset. The demand for private educational institutions has been rising in India due to factors like cut down on expenditure by government such as scholarships for public educational institutions and the quality of education. The cost of expenditure on education in private educational institutions for individuals has been sharply rising. This increase in cost of acquiring education has created demand for student loans to help students to complete their desired course of education [3][4]. And thus has further lead to increase in defaults of educational loan repayment. Factors have been identified in various papers that affect an individual's repayment behavior. Communication has the ability to alter one's behavior if conveyed effectively and thus this paper will help in understanding the effectiveness of communication by parents on priority to repay education loan. While studies in the literature have identified several factors influencing the repayment behavior of students which gets affected by measures including parental influence and individual characteristics [2]. Not many studies are found to focus on the impact of parental influence on setting repayment of loan as a priority for students and the present paper intends to add to this

literature. The influence can be by parents, loan authorities, previous loan experience and other demographics.

The paper is constructed in such a way that the literature review helps in deducing the research gap, following which the conceptual model, variables and hypotheses are developed, which finally leads to the results explaining the method used to arrive at the implications.

II. LITERATURE REVIEW

On the perspective of theory from the literature review, it has been recognized that factors affecting repayment can be segregated using three perspectives from the following disciplines: economy, sociology and psychology. These perspectives have been identified to capture the essence of factors that affects the repayment behavior of borrower [1]. These perspectives which effect the loan repayment are identified to also capture the essence of the borrower's priority to repay the education loan borrowed by students. Several studies in the literature has been identified which specifies parental influence, perceived quality of loan along with the demographic factors influence the repayment behavior of education loan, while the same aims to find how these variables affect the priority to repay. Each variable is discussed below. Other studies on education and post graduate students have also been read for the literature [14] [15].

III. CONCEPTUAL MODEL AND HYPOTHESIS DEVELOPMENT

The above conceptual model has been identified using a comprehensive literature review. Literatures have mostly concentrated on factors affecting repayment behavior which are parental influence, student's attitude and intention to repay, media awareness and perceived quality of loan and agreement [1] [2], while this study aims to understand if external factors like parental quality of communication through loan document and sanction authority's impact on priority to repay the education loan borrowed.

A. Parental influence

Influences of parental advice to repay the education loan were studied in literatures [4] and [5] which were done in Delhi and Malaysia. The results from [4] and [5] indicate that parental advice to students to repay their education loan has a positive

correlation on the priority to repay. Hence the hypothesis being tested in the present study is

H1: Parental advice has a significant impact on priority to repay education loan.

Further the bad experience the family may have had with their previous loan may also impact the student's priority to repay. It has been argued that borrowers with high indebtedness, individually or with the family are less likely to default on a repayment. The survey included 1500 undergraduate students from Malaysia, and the students were also found to have a negative attitude towards repayment of their loan [5]. Hence the study hypothesizes that

H2: Students whose parents have a bad experience with previous loan have a higher priority to repay

H3: Students who are ready to pay their education loan by salary deduction have a higher priority to repay

B. Received quality of loan

Quality of education loan represents the perception of students towards behavior of sanction authorities, loan agreement's content and their awareness about education loan and [2] has shown impacts their repayment behavior. Thus the hypotheses tested are

H4: Students who feel a satisfying behavior about sanction authorities of education loan have a higher priority to repay

H5: Students who feel that the loan agreement was understandable or clear and wasn't difficult to read have a higher priority to repay

H6: Students who expect the repayment of education loan to be difficult do not have a higher priority to repay

C. Demographic variables

Priority to repay is found to vary based on respondents demographics like age of the borrower, family income and gender [9] [10]. While [12] finds that male borrowers are safer to trust with repayment when compared to the female borrowers and [9] does not find age or number of family members to affect the repayment decision. Hence the hypotheses tested are

H7: Students who do not have siblings with education loan have higher priority to repay

H8: Students who are from low or middle income family have a higher priority to repay

H9: Students who are males have higher priority to repay

H10: Students who are of higher age have a higher priority to repay

Hence the conceptual model developed is given in figure 1

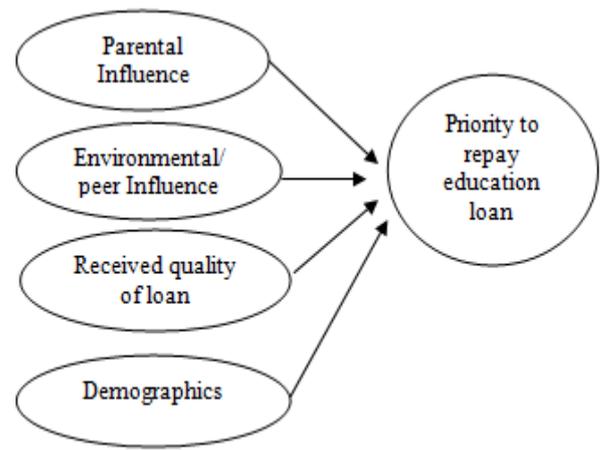


Fig 1. Conceptual model

IV. RESEARCH METHODOLOGY

A. Questionnaire development

A questionnaire was designed to understand the influence of parents on priority to repay the education loan borrowed. Questions were based on priority to repay, if their parents advised them about repayment, experience during sanction of loan, loan procedure, perception about loan document and their age, annual income, gender, members in the family, bank from which education loan is borrowed etc.

B. Measures

The students who have borrowed education loan and took were enquired to quantify their priority to repay from least important to very important, perception of repayment, and experience during sanction of loan and loan procedure from very easy to very difficult. All the variables were measured in terms of a 5 point Likert scale, all taken from the literature [2]. Other demographics considered for analysis of students who have borrowed education loan to measure their priority to repay are their age, family income, gender and siblings who have borrowed education loan.

C. Data description

The sample collected for this study was from 57 respondents who have borrowed education loan from locations across India and across various age groups, annual household income levels, and educational qualifications.

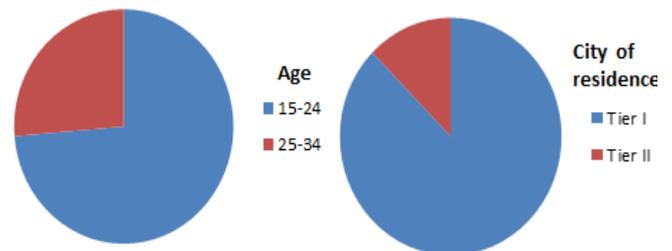


Fig 1 Demographics: Age Fig 2 Demographics: City

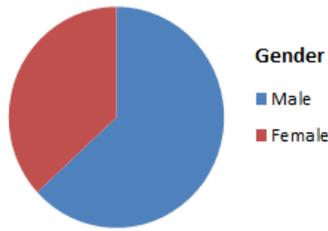


Fig 3 Demographics: Gender

D. Empirical Model

The empirical model used to test the hypotheses is Ordered Logistic Regression. The model was chosen as the Dependent/ Y- Variable is measured using a 5 point Likert scale which ranges from Very low (1) to Very high (2).

The following model was used to test the hypothesis

$$PR = \beta_1 + \beta_2PAR + \beta_3EXP + \beta_4SAL + \beta_5SAN + \beta_6LOA + \beta_7EXL + \beta_8SIB + \beta_9Age + \beta_{10}Inc + \beta_{11}Gen + U \quad (1)$$

Where,

PR = Priority to repay

PAR = Parent advice on repayment

EXP = Parent with bad experience on repayment

SAL = Students ready to pay through salary deduction

SAN = Students satisfied with sanction authorities

LOA = Students clarity of loan agreement

EXL = Student's expectation about repayment

SIB = Number of siblings with education loan

Age = Student's age

Inc = Income of the family

Gen = Gender

U = Error term

V. RESULTS AND DISCUSSION

The model got through ordinal logistic regression suggests that various variables such as Students whose parent advise them to repay the education loan borrowed by acquiring some job, Students who have intentions to repay the loan borrowed through salary deduction, Students who have the expectation of repayment to be not difficult and students who are of higher age have higher priority to repay education loan borrowed. However, variables like parent's experience of previous loans, sanction authority's behavior while borrowing the loan, content of loan agreement and time given to read that, number of siblings with education loan and gender do not have a positive correlation towards priority to repay education loan.

Age	3.55	1.89	0.059 (*)
Parents experience with other loans	1.44	1.29	0.198
Sanction authorities were helpful	.71	-1.14	0.253
The loan agreement's content cannot be read in the minimal given time	1.05	0.27	0.786
Number of siblings with education loan	.79	-1.43	0.153
Gender	.85	-0.25	0.800

Table 1. Results

Thus it can be understood from the above table that

The more the parents advise about repaying the educational loan, the more is the probability that the priority to repay increases for the student. The more the student feels likely towards repaying the loan borrowed through salary deduction, the more is the probability that the priority to repay increases for the student. The more the student expects the repayment of education loan to be easy the higher is the priority to repay. The higher the age of the student, the higher is the priority to repay and the priority to repay education loan borrowed by a student does not seem to get affected by Parent's experience with previous loans, Behavior of sanction authorities, Content communicated through loan agreement, Number of siblings in the family who have borrowed education loan and Gender of the borrower of education loan.

VI. CONCLUSION

The studies in the literature have been suggesting that there is a constant rise in defaulting of education loan [1]. While a lot of studies have researched about reasons and factors affecting default in repayment, this study's aim was to find out the extent to which parents can influence an education loan borrower's priority to repay.

And results display that variables like students whose parents advise about repayment, students who have the intention to repay through salary deduction and students who are higher in age have higher priority to repay. While what is surprising is students who feel that expectation of repayment is easy have higher priority to repay than students who feel repayment is difficult as what was expected was that the expectation of difficulty will trigger the increase in priority to repay [2].

VII. FURTHER SCOPE FOR STUDY

This study was circulated among borrowers of education loan and the number of responses was 57, while further research can be done with increase in number of responses. The respondents were current students who have borrowed education loan, while further research can be done with people who have borrowed education loan and are currently working and a comparison on what influences their priority to repay can also be done.

Independent Variables	Odds Ratio	Coefficient	P-Value
Parents advice to repay by securing SOME job	1.84	2.33	0.020 (**)
Intention to pay through salary deduction	2.82	2.57	0.010 (***)
Expectation on repayment	.53	-1.60	0.100 (*)

REFERENCES

- [1] Flint, T. A. (1997). Predicting student loan defaults. *The Journal of Higher Education*, 68(3), 322-354.
- [2] Ismail, S. (2011). Students' attitude to educational loan repayments: A structural modelling approach (Doctoral dissertation).
- [3] Tilak, J. B. (2005). Global trends in funding higher education. *IAU Horizons*, 11(1), 1-2.
- [4] Srinivasan, R., & Das, D. D. (2003). Analysis of Education Loan: A Case Study of National Capital Territory of Delhi. *International Journal of Management and Strategy*, 2(3), 1-14.
- [5] Zainal, N. R., & Ismail, N. (2012). Debt Composition and Attitude towards Education Loan among Malaysian Graduates. *Procedia-Social and Behavioral Sciences*, 36, 280-286.
- [6] Gross, J. P., Cekic, O., Hossler, D., & Hillman, N. (2009). What Matters in Student Loan Default: A Review of the Research Literature. *Journal of Student Financial Aid*, 39(1), 19-29.
- [7] Abiddin, N. Z. „Issues in Educational Loan Repayment in Malaysia“.
- [8] Baird, I. I. (1988). The college environment revisited: A review of research and theory. *Higher education: Handbook of theory and research*, 4, 1-52.
- [9] Angamuthu, B. (2015). Role of Educational Loan in the Coimbatore District (Trend Pattern and Students' Satisfaction). *Chanakya International Journal of Business Research*, 1(2), 133-140.
- [10] Banarová, M. (2014). Students' Satisfaction as a Competitive Advantage in the Financial Products Market: A Comparative Study. *Journal of Competitiveness*, 6(1).
- [11] Ogeisia, S. K., Musiega, D., & Manase, G. W. IMPACT OF BORROWER CHARACTER ON LOAN REPAYMENT IN COMMERCIAL BANKS WITHIN KAKAMEGA TOWN.
- [12] Bandyopadhyay, A. (2016). Studying borrower level risk characteristics of education loan in India. *IIMB Management Review*, 28(3), 126-135.
- [13] Special correspondent, Mumbai (2016, June). RISE & RISE OF STRESSED LOANS.
- [14] Devasia, T., Vinushree, T. P., & Hegde, V. (2016, March). Prediction of students performance using Educational Data Mining. In *Data Mining and Advanced Computing (SAPIENCE)*, International Conference on (pp. 91-95). IEEE.
- [15] Janakiram, C., & Gardens, S. J. (2014). Knowledge, attitudes and practices related to healthcare ethics among medical and dental postgraduate students in south India. *Indian J Med Ethics*, 11(2), 99-104.