

# **HIGHER EDUCATION FINANCE CHALLENGES: A STRUCTURAL EQUATION APPROACH**

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## **ABSTRACT**

The last few years have witnessed a high increase in students aspiring for professional courses in India, leading to a spurt in educational loans. Many public and private sector banks have forayed into Higher Education (HE) Finance Industry. These banks are increasingly boosting their education loan portfolios to serve the financial needs of the meritorious and deserving students. Banks are now having a direct tie-up with the educational institutions to cash in on the opportunity. Higher Education Finance Industry is the segment where banks can utilize assets for good return. However, the market competition in this industry poses many challenges for the bank managers. In this study we attempt to identify the challenges, primarily faced by managers in financing HE based on expert guidance from practitioners and consultants in this field. These challenges have been further classified with the help of factor analysis technique by using principal component analysis with varimax rotation. The various challenges have been logically classified into five categories as: credit worthiness, bank's policy on HE loan, reasons for borrowing, subsidization of HE loan, and the growth of HE finance. A confirmatory model was tested using structural equation modeling to prove hypotheses: H1: Understanding of credit worthiness challenges helps managers in making decisions relating to sanctioning of loans: H2: Understanding of subsidization of HE loan challenges helps managers in assessing student credit worthiness and deciding about collateral: H3: Understanding of reasons for borrowing challenges helps managers in assessing both, the credit worthiness as well as the need of government subsidy on HE finance: H4: Understanding of challenges relating to bank's policy on HE finance shall help managers in designing and practically implementing government's HE loan subsidization policy: H5: Understanding challenges of growth of HE finance shall help in understanding credit worthiness, subsidization of HE loan and reasons for borrowing. Taken together, all these challenges will guide managers in making well informed decisions relating to provision of funds for Higher Education. The data were collected from public and private sector banks operating in Punjab state of north India. All the results are validated using rigorous statistical analysis.

**KEY WORDS:** Financing higher education, financing higher education challenges, structural equation modeling, factor analysis.