

### HIGHER EDUCATION FUNDING - via LAS v/s Edu Loan

We all know how important it is go for higher education and how much value it adds to self as well as the organisation or even country for that matter. Since this is one of the major goals one could have, it requires planning as well as funding in the right way. In this article, let us analyse which funding methodology is better in terms of the net outflow and how it is going to affect us.

#### **EXAMPLE:**

Let us consider a loan amount of ₹ 80,00,000 and evaluate in both cases – availing an education loan v/s availing a loan against securities (LAS). Let us consider a tenure of 8 years (The interest paid on an education loan is tax-free for eight years) to have an apple to apple comparison.

#### **Education Loan Calculation**

Assuming an interest rate of 12%, we can see how the interest component is calculated every month and the corresponding tax saved on it (assuming you are in 30% tax slab). So though the total outflow is around 1.24 Cr, the net outflow considering the tax amount saved i.e. about 13.44 lakh, would be much lower i.e. about 1.11 Cr.

Education Loan							
Loan Amount	80,00,000		Interest Rate	12%		<b>Total Outflow</b>	<b>1,24,82,182</b>
Tenure	96					<b>Total Tax Saved</b>	<b>13,44,655</b>
Date	Month	Loan Amount/OS	EMI	Interest	Principal	Closing	Tax Saved
01-09-2023	1	80,00,000	1,30,023	80,000	50,023	79,49,977	24,000
01-10-2023	2	79,49,977	1,30,023	79,500	50,523	78,99,454	23,850
01-11-2023	3	78,99,454	1,30,023	78,995	51,028	78,48,426	23,698
01-12-2023	4	78,48,426	1,30,023	78,484	51,538	77,96,888	23,545
01-01-2024	5	77,96,888	1,30,023	77,969	52,054	77,44,834	23,391
01-02-2024	6	77,44,834	1,30,023	77,448	52,574	76,92,259	23,235
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Higher Education Funding- A comparative Analysis of LAS vs Education Loan

01-06-2031	94	3,82,395	1,30,023	3,824	1,26,199	2,56,196	1,147
01-07-2031	95	2,56,196	1,30,023	2,562	1,27,461	1,28,735	769
01-08-2031	96	1,28,735	1,30,023	1,287	1,28,735	0	386

Similarly let us have a look at:

**Loan Against Security Calculations:**

Assuming the rate @ 9%, we can see that the interest pay out at the end of the 8 year term would sum up to around 32.5 lakhs. So the net outflow would be around 1.12 Cr.

**LAS\_Repaying Monthly**

LAS 80,00,000  
Interest Rate 9%

					<b>Total Interest Payout</b>	<b>32,51,356</b>
<b>Date</b>	<b>Month</b>	<b>Loan Amount/OS</b>	<b>Payout Monthly</b>	<b>Principal Paid</b>	<b>Interest Payout</b>	
01-09-2023	1	80,00,000	1,17,202	57,202	60,000	
01-10-2023	2	79,42,798	1,17,202	57,631	59,571	
01-11-2023	3	78,85,168	1,17,202	58,063	59,139	
01-12-2023	4	78,27,105	1,17,202	58,498	58,703	
01-01-2024	5	77,68,607	1,17,202	58,937	58,265	
01-02-2024	6	77,09,669	1,17,202	59,379	57,823	
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01-05-2031	93	4,60,147	1,17,202	1,13,751	3,451	
01-06-2031	94	3,46,396	1,17,202	1,14,604	2,598	
01-07-2031	95	2,31,792	1,17,202	1,15,463	1,738	
01-08-2031	96	1,16,329	1,17,202	1,16,329	872	

**BIRD'S EYE VIEW OF THE ANALYSIS:**

Education Loan	
Total Intetest pay out for 8 Year	44,82,182
Principal	80,00,000
<b>Total</b>	<b>1,24,82,182</b>
Tax Saved over 8 year Period	13,44,655
<b>Total Net outflow</b>	<b>1,11,37,528</b>

LAS	
Total Intetest pay out for 8 Year	32,51,356
Principal	80,00,000
<b>Total</b>	<b>1,12,51,356</b>
<b>Total Net out flow</b>	<b>1,12,51,356</b>

**CONCLUSION:**

It is clear that, with LAS at a lower interest rate of 9% and Education loan at a higher interest rate of 12% for the same tenure of 8 years, the net outflow that we incur is lower with Education loan when compared to that of LAS. In this particular case, we pay 10 lakh more in LAS than we do in Education Loan. It is always recommended to weigh the options available before taking a call.

**Research Desk****Dilzer Consultants Pvt Ltd**