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REVIEW ARTICLE

Housing finance by banks and housing finance companies in India: A review

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ABSTRACT

Housing is a major pre-requisite of human life. So, housing development and housing finance are the governmental priorities worldwide, and Government of India (GOI) is no exception. In India 'Affordable Housing for All' has been a national goal since 2017. Though this national goal was supposed to be attained by 2022, it could not be attained, partly because of the crisis due to the global pandemic, Covid-19. The revised target of the GOI is 2025. This paper looks into the major players in the housing finance market viz. Commercial Banks (CBs) and HFCs and their role in attaining the national housing goal. Better presence of specialized agencies that have only minor role now, like Affordable Housing Finance Companies (AHFCs), Small Finance Banks (SFBs), and Apex Co-operative Housing Federations (ACHFs) also discussed.

Key Words: affordable housing; MGR; CBs; HFCs; AHFCs; SFBs; ACHFs; ICT; AI

1. Introduction

Housing being an essential requirement of human life, its availability is vital for the overall development of the individual, family, society and even the whole nation. Naturally, providing housing facilities to the masses, ensuring availability of credit (finance) for housing purpose for those who need it, putting in place a transparent regulatory mechanism etc. are all falling under the responsibilities of any responsible government. Of these, provision of finance for housing purpose to the masses, probably, is the most important issue; because raising huge funds required for housing is unaffordable to the masses. Worldwide, housing development as well as provision of various incentives and subsidies (like, public housing, social housing etc.) for the shelter-less poor are governmental priorities. In India too, housing has long been a key governmental priority since the independence; particularly since the early 1970s. HUDCO was established in 1970 under the GOI with the mandate of housing finance and infrastructure project finance, and later in 1977 HDFC (promoted by ICICI) was incorporated as a public limited company in the private sector for providing housing loans to the middle-income population, mostly the salaried class or those with regular business income. The late 1980s, witnessed the entry of specialized housing finance companies (HFCs) that focused on housing loans alone, unlike the commercial banks (CBs) which were providing housing loans to a limited extent along with a large number of

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other types of loans. However, in the late 1990s the Reserve Bank of India (RBI), the banking regulator in India, relaxed the norms to facilitate CBs to extend housing loans to the end-users directly. Thus, CBs became an aggressive player in the housing finance market, just like HFCs – hitherto the players who had near monopoly. With the CBs becoming aggressive players in the market, the share of HFCs started coming down and in 2003 CBs had overtaken the HFCs in the market share. Till then, CBs and HFCs have been the major players in India's formal sector housing finance market. Over the last one decade, roughly two-third of the market is served by CBs and the rest one-third by HFCs.

In India, '*Affordable Housing for All*' has been the country's national goal since 2017. Accordingly, by 2022 (i.e. on attaining 75 years since the independence of the India in 1947), India should not have any home-less population. However, because of the incidence of the global pandemic of Covid-19 and also other reasons the national housing goal could not be attained in 2022. Hence the target year has been extended to 2025. The major players like CBs and HFCs that control the housing finance market have a key role to play in this regard.

2. Significance of the study

Apart from the familial, social, economic and other dimensions that influence an individual as he or she possesses 'own house' housing development as an organized activity in an economy could bring in huge macro-economic benefits in the shape of rapid economic development. This is because of the linkage effects of housing with hundreds of allied industries. Housing investment, thus, is deliberately promoted by the Governments during periods of recession as it can simultaneously prompt the development of the respective 'linked' (allied) industries also. The linkages (both forward and backward) of housing exist with such industries as steel, cement, etc. (backward) and also consumer goods, electrical items, paint etc. (forward) etc. Linkages ensure rapid economic development of the whole nation. So, there is an economic sense in the promotion of housing in a developing economy like India. This is over and above the benefits that accrue to individuals due to higher standard of living and better productivity; and so also the greater social status, opportunities nurture their talents, and so on. Its benefits to the individual, family, society, community, state and the whole nation are beyond any doubt.

Given the unfulfilled national goal of *Affordable Housing for All* there is an imminent need to attain the above goal. The major players in the formal housing finance market viz. CBs and HFCs have a major role in attaining the above vital goal of the GOI. In the above context, it is relevant make a detailed study of structure of the housing finance market in India with a focus on the major players, including the need for specialized players in housing finance.

3. Objectives of the study and methodology

The objectives the present study are: (i) To study the structure of housing finance market in India and its competitive dynamics; (ii) To study the performance of the major players in the market and the penetration of mortgage market into the economy; (iii) To suggest strategies for the fast and equitable housing development in India and hence the national economic growth.

This study is structured into a descriptive-analytical cum exploratory study which is based primarily on secondary data from authentic sources like the publications of the Govt. of India (GOI) and Govt. of Kerala (GOK) as well as those of regulatory bodies, like, National Housing Bank (NHB) and Reserve Bank of India (RBI).

4. Previous studies

The need for environment-friendly housing and hence sustainable housing has been noted by many recent studies; like, Assetmonk (2023)[1] deals with the dynamics of private market investments in India's real estate investments and the good scope for expanding the market. ICRA (2023)[2] has discussed the bright prospects of affordable housing finance companies (AHFCs) – the specialised HFCs that provide housing finance to the poor and the marginalised. Harris and Arku (2006)[3] have concluded based on an detailed analysis of post-1945 global experiences that housing drives economic development. A report by IBEF (2023)[4] has noted the vast growth potential of India's real estate sector. GOI's journal *Yojana* (2023)[5] has noted the India's high GDP growth vis-à-vis other nations. Similarly, GOI's annual publication on the Indian economy *Economic Survey* (2023)[6] has noted the India's high economic growth. National Housing Bank (NHB)(2024)[7] has discussed the developments in housing finance sector in India as of FY 2023, and also key events till Sept. 2023. HDFC Securities (2023)[8] has discussed the major developments in housing finance, including the gradually declining share of 'small-ticket' housing loans and ever growing trend in big-ticket (luxury) loans. Manoj, P.K. (2022)[9], has noted the utmost need for ESG adoption for the sustainability of business in the ongoing globalised regime. So, almost all of these studies have noted the high economic growth (GDP growth) of India, and high growth potential of the housing sector. Manoj, P.K. (2005)[10] 'Cost accounting systems in Banks-for strategic advantage through effective cost management' observes the key relevance of scientific cost management in banks. Manoj, P.K. (2005)[11], 'Scientific pricing of bank products through cost accounting-a vital need in the LPG regime', has noted the special need for scientifically pricing the bank products. Manoj, P.K. (2014)[12], Role of ICT in Women Empowerment: A Study with a Focus on 'Kudumbashree' programme in Kerala State of India, has noted the vast scope of women-based empowerment programme *Kudumbashree* in empowering women through its own women-run SHGs. Knight Frank (2023)[13] has noted the vast scope of SFH (single family housing) while the report by IFC (2019)[14] has noted that 'Green' options can ensure sustainable housing. K.K Nasar and P.K Manoj (2014)[15] Factors influencing the purchase of apartments: some empirical evidence. have identified the main factors influencing purchase decision of apartments, like, reputation of the developer, quality, price etc. The crux of these studies is financial inclusion and the need for inclusive and environment-friendly growth through civil society organisations, banks etc.

Many studies have noted ICT adorns a key position as a catalyst of fast economic growth, including growth of diverse sectors like housing; as well as the growth of the rural economy, empowerment of women, etc. The prospects of the ICT industry too were studied by some scholars, like, Manoj (2007)[16] 'ICT industry in India: a SWOT analysis' who made a macro level study of India's ICT industry and noted its vital significance in India. Pickens (2009)[17] has noted how a common ICT gadget (mobile phone) played a key role in financial inclusion, women empowerment and rural development through 'banking the unbanked' in Philippines. Manoj (2010)[18] 'Impact of technology on the efficiency and risk management of old private sector banks in India: Evidence from banks based in Kerala' has noted that ICT usage by banks could make them more efficient. Growing role of ICT in banking, including housing finance, is also noted in two reports: (i) *Banking*, (ii) *Real Estate*, of India Brand Equity Federation.(IBEF. 2023)[19]; thus ICT adoption has become an imperative in India's banking and health sectors. A study by Nasar and Manoj (2013)[20] 'Customer satisfaction on service quality of real estate agencies: An empirical analysis with reference to Kochi Corporation Area of Kerala State in India' has noted that greater awareness be provided to real estate agents, and that transparency and social networking are needed for customer service and business growth. Manoj (2013)[21] 'Prospects and Challenges of Green Buildings and Green Affordable Homes: A Study with Reference to Ernakulam, Kerala' has noted the good growth potential of green homes as they create huge employment avenues and ensure fast economic growth also. Varghese, K.X, and Manoj, P.K. (2013)[22], 'Educational loans and the higher education sector in India' have noted that study loans can improve HR quality and youth employability, and so they must be promoted. Manoj, P.K. (2015)[23] 'International Container Transhipment Terminal (ICTT) and its impact on coffee exports from India: An analysis' has noted ICTT's key role in boosting exports and economic growth. Manoj, PK (2009)[24], *Special economic zones in India: financial inclusion: challenges and opportunities* has noted the role of SEZs for fast economic growth. Manoj, P.K.(2017)[25] 'Segmentation Strategy for Promotion of Ecotourism Products: Evidence from Thenmala Ecotourism' the author suggests meticulous planning with tourists' segmentation for economic growth via tourism. Manoj, P.K. (2010)[26] 'Determinants of profitability and efficiency of old private sector banks in India with focus on banks in Kerala state: An econometric study' has sought to pinpoint the exact influencing variables that drive the efficiency and operational performance of Kerala-based private banks.

Manoj, P.K. (2010)[27] 'Prospects and Problems of Housing Microfinance in India: Evidence from "Bhavanashree" Project in Kerala State' has sought to probe into the major prospects and problems faced by HMF (housing micro finance) in Kerala with a focus on 'Bhavanashree' project of Kerala-Govt. sponsored 'Kudumbashree' which strives to empower poor women.

Manoj, P.K. (2010)[28]. 'Benchmarking housing finance companies in India: Strategies for enhanced operational efficiency and competitiveness' has sought to make a comparative study of the performance of HFCs (housing finance companies) in India using benchmarking and hence to suggest strategies for their superior financial performance and competitiveness. Manoj (2016)[29] "Bank marketing in India in the current ICT era: Strategies for effective promotion of bank products" observed ICT-enabled marketing as a key need for India's banking sector in this digital era. A study by Lakshmi and Manoj (2017)[30] "Service quality in rural banking in north Kerala: A comparative study of Kannur district co-operative bank and Kerala Gramin bank" has pointed out that KGB could make greater use of ICT than KDCB.

A paper by Lakshmi and Manoj (2017)[31] "Rural Customers and ICT-based Bank Products A Study with a Focus on Kannur District Co-operative Bank and Kerala Gramin Bank" has observed that ICT-enabled services of Kerala Gramin Bank(KGB) have been accepted to a greater level than KDCB's non-ICT-enabled services. A joint study by Joju, Vasantha, and Manoj (2017)[32] "Future of brick and mortar banking in Kerala: Relevance of branch banking in the digital era" has observed the vital need for 'human touch' as in 'brick and mortar' banking even if ICT or virtual banking is the new normal. Another study by Joju, Vasantha, and Manoj (2017)[33] "Financial technology and service quality in banks: Some empirical evidence from the old private sector banks based in Kerala, India" has observed that Fin-Techs could significantly enhance quality of banking service and they have become essential for superior service delivery by banks. Manoj (2017)[34] "Construction costs in affordable housing in Kerala: Relative significance of the various elements of costs of affordable housing projects" ordered the different elements of cost based on their relative priority for effective control of costs, and ICT has been noted to be a vital tool for effective cost control. Manoj (2017)[35] "Cost management in the construction of affordable housing units in Kerala: A case study of the relevance of earned value analysis (EVA) approach" has demonstrated that EVA could be a powerful tool for effective control of construction costs.

A study by Joju, Vasantha, and Manoj (2017)[36] "Electronic CRM & ICT-based banking services: An empirical study of the attitude of customers in Kerala, India" has noted the key significance of ICT-based banking practice called e-CRM (Electronic Customer Relationship Management) as an enabler of efficient and competitive banking, along with noting good feedback of customers to latest ICT-based products like e-CRM. Another CRM paper relating to bank management area by Manoj (2018)[37] "CRM in old private sector banks and new generation private sector banks in Kerala: A comparison" has noted that CRM adoption by the new private sector banks (NPBs) being to a greater extent than that of the old private sector banks (OPBs) particularly in respect of the latest ICT-enabled or Electronic version of CRM (i.e. e-CRM); thus enabling the NPBs to get a clear competitive edge in the market vis-à-vis the OPBs. Manoj (2019)[38] "Social banking in India in the reforms era and the case of financial inclusion: Relevance of ICT-based policy options" has suggested ICT-based strategic options to enhance social banking that fits into the current digital banking regime. Manoj (2019)[39] "Dynamics of human resource management in banks in the ICT era: A study with a focus on Kerala based old private sector banks" observed the key relevance of ICT-enabled policies for the management as well as development of bank staff in this very competitive digital era. Manoj (2019)[40] "Competitiveness of manufacturing industry in India: need for flexible manufacturing systems" pointed out the vital significance for adoption of ICT and other technological advances like flexible manufacturing systems (FMS) in India. A paper by Joju and Manoj (2019)[41]"Digital Kerala: A study of the ICT Initiatives in Kerala state" has studied the main ICT initiatives in Kerala, the State with many unique 'firsts" in India (topmost internet penetration, universal literacy etc.) and has suggested strategies for the better use of Kerala's vast ICT potential for its faster economic development.

Joju and Manoj (2019)[42] "Banking Technology and Service Quality: Evidence from Private Sector Banks in Kerala" have observed ICT as an enabler of banking quality and as such ICT-adoption should be boosted. Ali and Manoj (2020)[43] 'Impact of Falling Price of Rubber-A Case Study of KothamangalamTaluk in Ernakulam District' has noted that frequent price falls affect the livelihood of rubber farmers and that governmental interventions are vital. Manoj (2015)[44] 'Prospects of Responsible Tourism in Kerala: Evidence from Kumarakam in Kottayam District' has noted that responsible tourism has vast potential for supporting economic growth, if duly promoted. Manoj (2016)[45] 'Determinants of sustainability of rural tourism: a study of tourists at Kumbalangi in Kerala, India' has identified the key factors that affect rural tourism sustainability and offered strategies like upgrading digital (ICT) resources. Manoj (2015)[46] 'Impact of Rural Tourism on the Environment and Society: Evidence from Kumbalangi in Kerala, India' noted that adverse impacts are imminent in rural tourism and hence it is vital to curb them. Manoj, P.K. (2023)[47] 'Housing Sector in India: An ESG Route into a Greener Future' has noted imminent need for an ESG approach for the long term sustainability of the housing sector in India. Manoj (2019)[48] "Tourism Sector in Kerala in the Post-Flood Scenario: Strategies for its Sustainable Growth With a Focus on Responsible Tourism" observed the crucial part that RT could play for revival of flood-hit Kerala economy. Saritha and Manoj (2023)[49], 'Social inequalities in IT sector: Evidence from Kerala State in India' find inequality among Kerala's IT sector employees and argue that it must be curbed.

Manoj, P.K. (2015)[50] 'Housing Microfinance: A Study on Quality, Cost and Default Rate with Respect to Bhavanashree in Kerala' has noted that housing microfinance (HMF) home loans have lower quality (higher NPAs) and also that their transactional costs are higher. Manoj (2023)[51] 'Affordable Healthcare and Affordable Housing: Need for an Integrative Approach for the Holistic Growth of the Digital Economy of Kerala, India', has noted that a knowledge society of Kerala must promote housing and healthcare sectors together using ICT. Krishna, S. and Manoj, P.K. (2023)[52] 'Technological Advances and the Sustainability of Natural Rubber Cultivation in Digital India: A Study with a Focus on Kerala State' has noted the key need of technology for the sustainability of rubber cultivation. Manoj, P.K. (2023)[53] 'ICT for Sustained Community Development in India in the 5G Era' has noted that high-end ICT resources and internet connectivity boost economic growth. Pagani, et.al. (2023)[54] have noted spatiotemporal links between factors like housing, health etc. Khan, F. et. al.(2023)[55] 'Housing Loans by Banks in Kerala and the Assurance Aspect of Service Quality: Housing Finance Strategies for the Banks in the Digital Era' have noted the key role of the assurance aspect of service quality in the housing loan business of banks. Jose, A.K. et. al. (2023)[56] 'Responsible Tourism, Economic Growth and Tourism Policies of Kerala' have noted the need for ICT-based tourism policies for Kerala's economic growth. Manoj, P. K. (2023)[57] 'Health Aspect in Housing Development for Attaining Greater Social Value: The Case of 'Affordable Housing For All' Goal in Digital India' has noted the need for an integrative housing and health policy in India. Khan, F. et. al. (2024)[58] 'Empathy of Bank Employees and Its Influence on Service Quality of Banks: Evidence from the Knowledge Economy of Kerala in Digital India' have noted that empathy is key to effectively deliver housing finance by banks. Sruthy, K.and Manoj, P.K.(2024)[59] 'Sustainable Rubber Cultivation in Digital India: Technology-Based Interventions, Skill Development and Rubber-Based Enterprises' find technology imperative as a key factor in rubber farming. William George, A.J. and Manoj, P.K. (2014). 'Promotion of Green and Affordable Housing and Allied Sectors in India: For the Faster and Sustainable Economic Development in the Digital Era' observe green housing as an imperative in India.

5. Research gap and the relevance of the present study

In view of the foregoing reviews it is noted that no study focuses on the slab-wise pattern of housing finance disbursements and the need for scaling up the fast declining small-ticket loans. This study looks into this fact, with due regard to the quality aspect of small-ticket home loans.

6. Structure of housing finance market in India and its competitive dynamics

There has been commendable GDP growth in India compared with other major nations and also the average growth of the whole world. India's performance has been well ahead of other nations and also the globe as whole. While the economic (GDP) growth is appreciable per se, there is a need to ensure that this growth is equitable. **Figure 1** is self-explanatory.

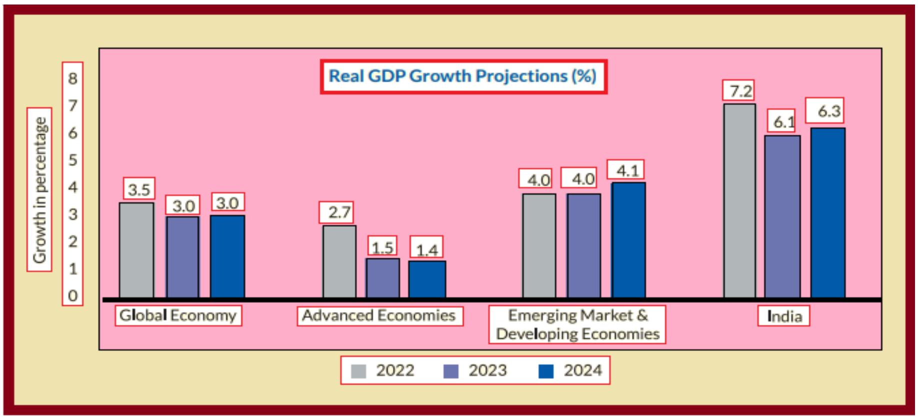

Figure 1: Superior economic growth in India (2022-2024).
Source: NHB (2023), Annual report, p.190. (www.nhb.org.in).

Regarding the growth in the formal system of housing finance, there has been steady growth in the housing loan disbursements by the major players in the housing finance market in India viz. CBs and HFCs. As of the FY-ended 31 March 2023, the outstanding of the total housing loans disbursed by CBs and HFCs together was Rs. 28.65 Lakh Crores. (**Figure 2**).

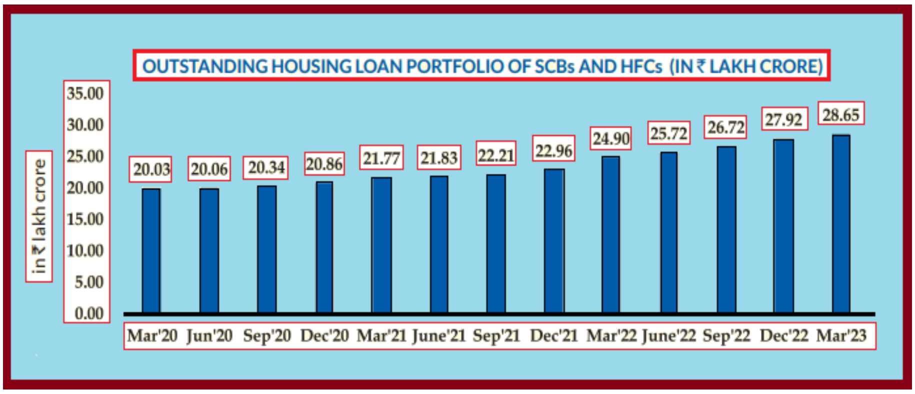

Figure 2. Outstanding housing loan outstanding of CBs and HFCs (March 2020 to 2023).
Source: NHB (2023), Annual report, p.193. (www.nhb.org.in).

It may be noted that there has been a gradual growth in the individual housing loans to GDP of India from as low as 0.70 percent in FY 1987 to as high as 10.52 percent in FY 2023. Still, it may be noted that India's ratio of 10.52 percent (as of 2023) is no way comparable with other nations like the UK and Denmark, UK and US. Or, in other words, there is enough scope for the expansion of this market. (**Figure 3**).

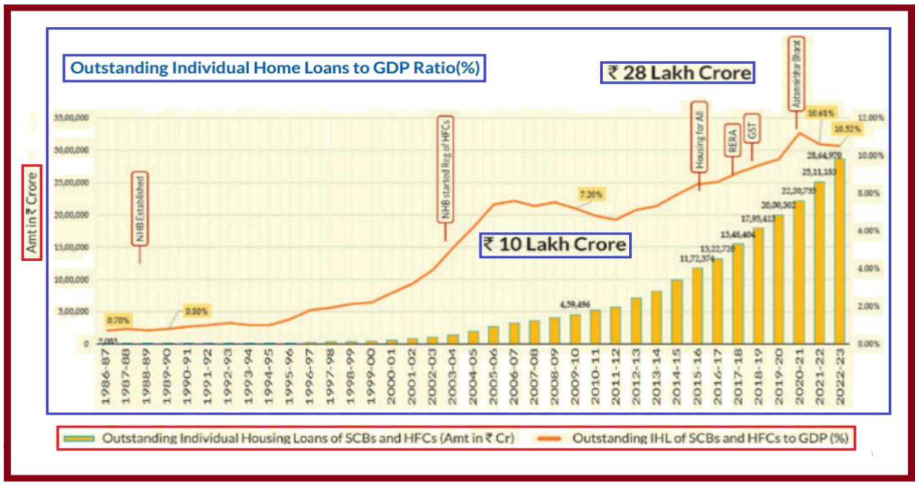

Figure 3. Outstanding individual housing loans to GDP of India (Percent).
Source: NHB (2023), Annual report, p.194. (www.nhb.org.in).

Over the years there has been constant and steady improvement in the mortgage to GDP ratio (MGR) or Individual housing loans to GDP ratio of India; because it has gone up from 0.70 percent in FY 1986-87 to as high as 10.52 percent in FY 2022-23. However, it may be pointed out here that the present MGR of about 10 percent is nowhere compared with other nations of the world. In fact, MGR is as high as 88 percent in respect of Denmark and it is 67 percent in respect of the UK. For an emerging nation like China, that is comparable to India, the MGR is as high as 18 percent. (**Figure 4**)

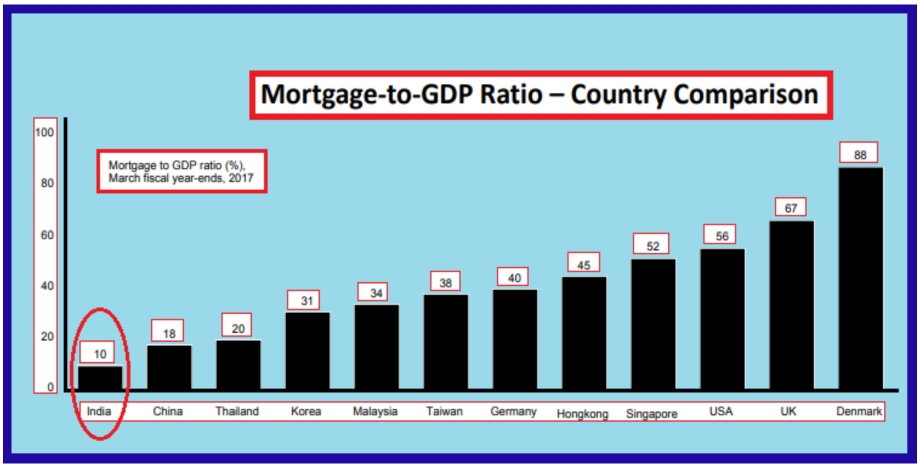

Figure 4. India's mortgage to GDP ratio is very low compared with other nations.
Source: RBI (2019), Report on housing finance securitisation market, p.12.

Regarding the competitive dynamics of housing finance market, it may be pointed out that during the initial years of the growth of the organised housing finance industry in India i.e. starting from FY 1986-87 onwards the CBs had more than three-fourth of the market and the rest less than one-third only was the share of HFCs. In due course, however, the share of CBs has steadily went up year after year and that of HFCs came down. Thus, by FY 1995-96 HFCs started leading the market and the share of HFCs went up every year and the reverse happened to CBs resulting in their loss of relative share year after year till FY 1997-98. (**Figure 5**).

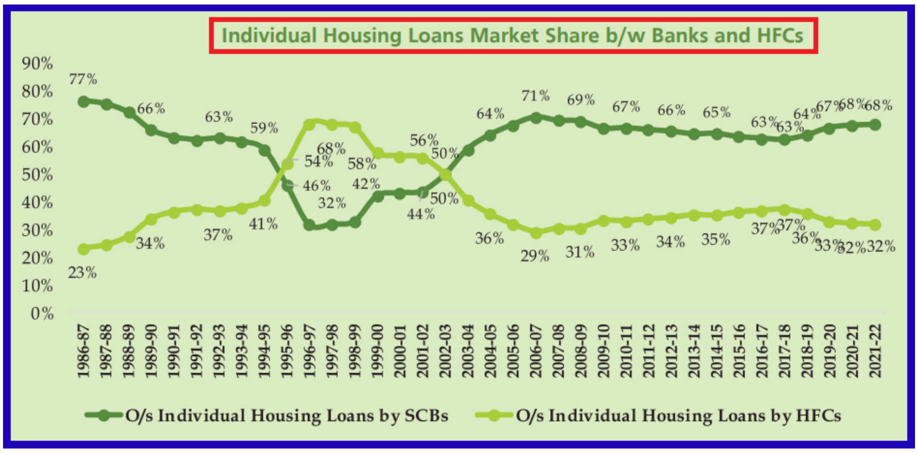

Figure 5. Competitive dynamics of the housing finance market in India.
Source: NHB (2023), Trend and progress of housing in India 2022, p. 126.

It may further be noted that from FY 1997-98 there was a reversal of trend, and the share of HFCs started declining from the highest level of about two-third of the market (68 percent) year after year to reach 50 percent by FY 2002-03 i.e. half the market share. On the other hand, the share of CBs started going up every year from about one-third of the market (32 percent) to reach about half the market share (50 percent) by FY 2003. Since FY 2002-03, the share of CBs increased by roughly 15 to 18 in a few years at the cost of the share of HFCs which fell to that extent. In effect, there has been some sort of consolidation in the housing finance market whereby CBs and HFCs share the market at ‘two-third’ and ‘one-third’ ratios over the last 15 years or so till FY 2021-22. This ‘two-third and one-third’ pattern is clear from Figure V.

7. Major players in the housing finance market and their reach: A closer look

As already noted the major players in the housing finance market are CBs and HFCs, which share the market with ‘two-third’ and ‘one-third’ shares roughly – throughout the last 15 years or more. It may also be noted that after every decade roughly 3.5 to 4 percent addition has been there in the MGR of India which is over 10 percent now, which is very low as per global norms. The above state of affairs indicate the urgent need for a faster growth in MGR of India and this in turn translates into rapid economic development of the whole nation, given the vast linkage effects of housing industry. **Table 1** is self-explanatory regarding the slow growth in MGR.

Table 1. Major players in housing finance market: Their penetration (MGR) into the market.

Housing Loan Portfolio of Banks & HFCs	2001-2002	2011-12	2021-2022
O/s Individual Housing Loans of SCBs & HFCs (A+B)	74,670	5,73,243	25,11,183
O/s Individual Housing Loans of SCBs & HFCs to GDP (in %)	3.2%	6.6%	10.6%
O/s Individual Housing Loans of SCBs: A	32,826	3,78,744	17,05,816
O/s Individual Housing Loans of HFCs: B	41,844	1,94,499	8,05,367

Source: NHB (2023), *Trend and progress of housing in India 2022*, p. 126.

Another vital point regarding the urgent need for faster economic development is the fact that the major players viz. CBs and HFCs are growingly targeting the ‘big-ticket’ segments and not the ‘small-ticket’ ones (like, ‘affordable housing’ or ‘budget housing’ segments). This in turn results in the ‘Real Housing Problem’, i.e. the housing problem of the masses – the LIG and EWS groups which constitute about 97 percent of the total home-less in India unattended.

Table 2. Housing requirement (Projected as of 2022) in India.

	Analyst estimate	Govt of India estimate
Shortage and requirement (mn)		
EWS	33.6	45.0
LIG	44.0	50.0
MIG and above	6.4	5.0
Total	**80.0**	**100.0**
Value of units, LTV to be financed by HFCs, SCBs (Rs Lakh Cr)		
EWS	25.2	33.8
LIG	88.0	100.0
MIG and above	51.2	40.0
Total	**164.4**	**173.8**
Total (US$ tn)	**2.3**	**2.5**
Construction costs (Rs Lakh Cr)		
EWS	26.9	36.0
LIG	55.0	62.5
MIG and above	19.2	15.0
Total	**101.1**	**113.5**

Source: RBI (2019), *Report on housing finance securitisation market*, p.11.

Given the fact that the vast majority of about 95 percent of the total demand for housing relates to the marginalised groups like LIG and MIG, there is an imminent need to focus on such groups (Table II). Then only the national goal, *Affordable Housing for All* can be attained at least as per the revised target of 2025, if not the original one of 2022. The slab-wise exposure of HFCs for the last three years is suggestive of the growing trend towards 'big-ticket' housing loans and declining trend of 'small-ticket' housing loans. It may be noted that there is a generally falling trend in the "Upto 2 lakhs" "2 lakhs to 5 lakhs", and "5 lakhs to 10 lakhs" categories of loans, and quite naturally in the broader basket of "Upto 10 lakhs" group. A very similar pattern could be observed in respect of "10 lakhs to 15 lakhs" and "15 lakhs to 25 lakhs" categories. But, in respect of "Over 25 lakhs" category there is a growing trend. (**Table 3**).

Table 3. Slab-wise distribution of housing loans by HFCs.

Loan Size	Disbursements during FY			Slab wise share as a % of total IHL disbursements		
	2019-20	2020-21	2021-22	2019-20	2020-21	2021-22
	(Amount in ₹ crore)					
Upto ₹ 2 lakh	1,356	467	1,157	0.7%	0.2%	0.4%
>₹ 2 lakh and upto ₹ 5 lakh	2,030	1,727	2,294	1.1%	0.9%	0.9%
>₹ 5 lakh and upto ₹ 10 lakh	13,014	12,135	14,614	6.9%	6.4%	5.6%
Upto ₹ 10 lakhs	**16,400**	**14,329**	**18,065**	**8.7%**	**7.5%**	**7.0%**
> ₹ 10 lakh and upto ₹ 15 lakh	19,278	18,379	21,505	10.2%	9.6%	8.3%
> ₹ 15 lakh and upto ₹ 25 lakh	40,849	40,446	48,577	21.7%	21.2%	18.7%
> ₹ 25 lakhs	1,11,707	1,17,841	1,71,124	59.3%	61.7%	66.0%
Total	**1,88,233**	**1,90,995**	**2,59,270**	**100.0%**	**100.0%**	**100.0%**

Source: NHB (2023), *Trend and progress of housing in India 2022*, p. 143.

It may be noted that as in the case of typical HFCs which are witnessing growth in the 'big-ticket' category (over 25 lakhs) alone, similar is the case of CBs in India also. In short, a clear shift in favour of 'big-ticket' and luxury type housing finance is very obvious. Given the fact that about 95 percent of the home-less people belong to LIG and EWS groups (Table II), the need for extra focus on all types of 'small-ticket' housing loans is essential. Quite naturally, there is high significance for specialized institutions that provide housing loans to the marginalized segments like the LIG and EWS groups. The practical feasibility and also the empirical evidence relating the above argument, however, need to be checked. These aspects are covered in detail, based on available evidence in the next part of this paper.

8. Analysis and discussion

The gradually falling share of the low-end housing market is beyond doubt. For both CBs and HFCs this type of home loans is falling, and is only about 35 percent at present. (**Figure 6**).

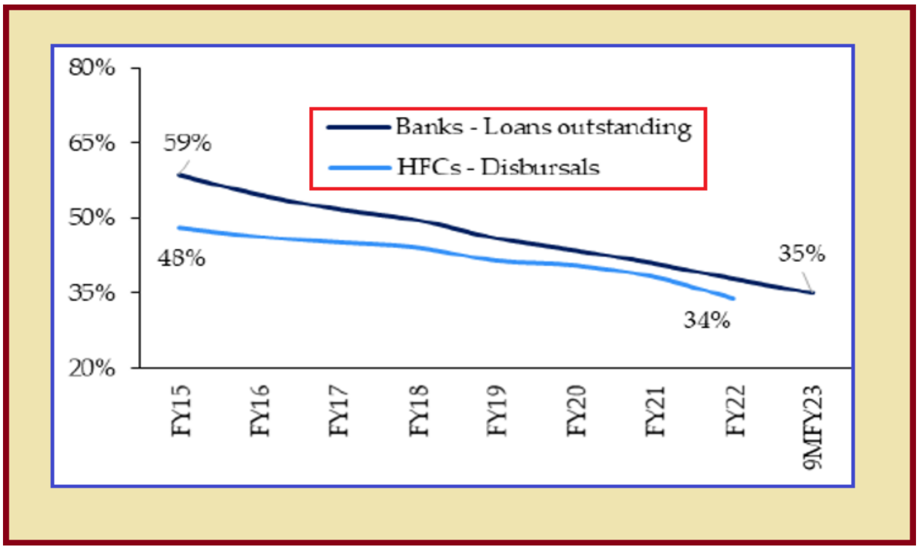

Figure 6. Housing loans upto 25 Lakhs of HFCs and CBs.
Source: HDFC securities (2023), Housing thematic, April.

Regarding the quality of housing loans it may be noted that the lowest strata home loans (upto 5 lakhs) alone have quality (NPA) issues and not for other group. That is, for loans upto 5 lakhs tighter due diligence (scrutiny) is required than all other groups. Given this risk factor an allowance of 10 percent in respect of EWS (economically weaker section) is logical from the total EWS housing shortage of about 34 percent (Table II), once we fix an attainable target in the context of *Affordable Housing Finance for All.* Or, in other words, as against 100 percent 90 percent attainment of total housing target be considered as adequate. (**Figure 7**).

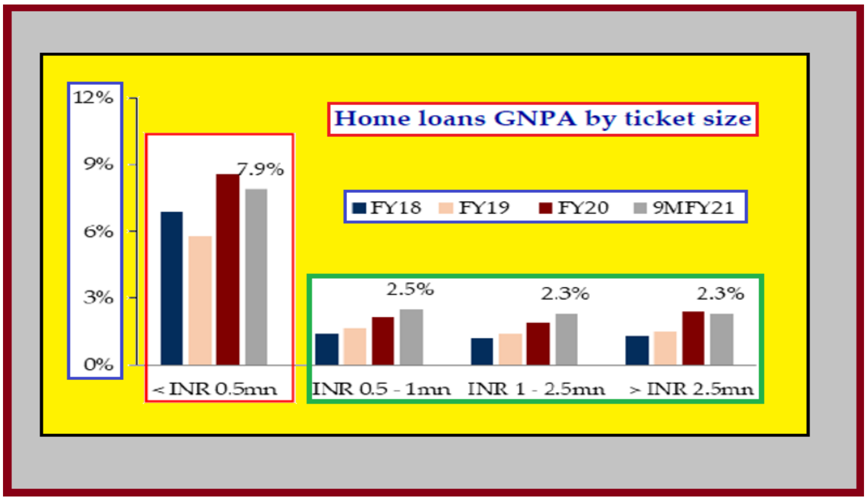

Figure 7. Assets quality (GNPA) of housing Loans.
Source: HDFC securities (2023), Housing thematic, April.

9. Minor and specialized players in housing finance – needs to be promoted

At present, given the special pattern of the growth of housing finance in India whereby the common masses are sidelined, promotion of the following specialized institutions (whose presence is insignificant now), is vital for the fast and equitable growth of the housing sector:

- ***Affordable Housing Finance Companies (AHFCs):*** AHFCs are specialized housing finance institutions that are recognized as such by the NHB, and as the name suggests the AFHCs focus on the poor and other marginalized segments alone. As of 2023, there are 82 AHFCs in India. After a subdued growth till FY 2022 because of Covid-induced crisis, the AHFCs have made a resurgence in FY 2023 with about 26 percent growth. AHFCs could grow at 17 percent in FY 2019 and after a temporary setback they grew at 26 percent in FY 2023. In the future too AHFCs are estimated to grow at 25 to 30 percent. AHFCs deserve special attention in the current scenario and the government need to promote them through subsidies and such other incentives like refinance facilities, so that they can cater to the housing finance needs of the poor and other marginalized groups. Since the priority sector lending (PSL) category home loans are on decline in India's housing finance system over the last few years, the significance of AHFCs is very high.
- ***Small Finance Banks (SFBs):*** SFBs starting functioning in India from 2015 onwards subsequent to RBI's final guidelines on SFBs dt. 27 Nov. 2014. At present, as of 2023, there are 12 SFBs in India. The idea behind SFBs is the promotion financial inclusion, and they are permitted to accept deposits and provide loans. For, SFBs at least 75 percent of the loans must be PSL loans and at least 50 percent loans must be of size upto 25 lakhs. So, SFBs expedite financial inclusion, and provide PSL and affordable housing loans.
- ***Co-operative Housing-Apex Cooperative Housing Federations (ACHFs):*** Co-operative sector too provide housing finance and the beneficiaries are the common masses. Apex Co-operative Housing Federations (ACHFs) are still providing housing loans. But their share is negligibly low over the last so many years. Hence, only CBs and HFCs are considered to be the major institutional players and not ACHFs, unlike in the past.
- ***Regional Rural Banks (RRBs):*** RRBs or Gramin Banks focus on rural lending. They too can cater to the housing finance needs of the poor and other marginalized segments. RRBs have higher level of PSL lending than the CBs in general.

It may be noted that specialized institutions as above are vital in the current context in India in view of the general trend of fast growing non-PSL home loans and fast declining PSL credit. This limits the housing credit flow to the poor and marginalized masses. (**Figure 8**).

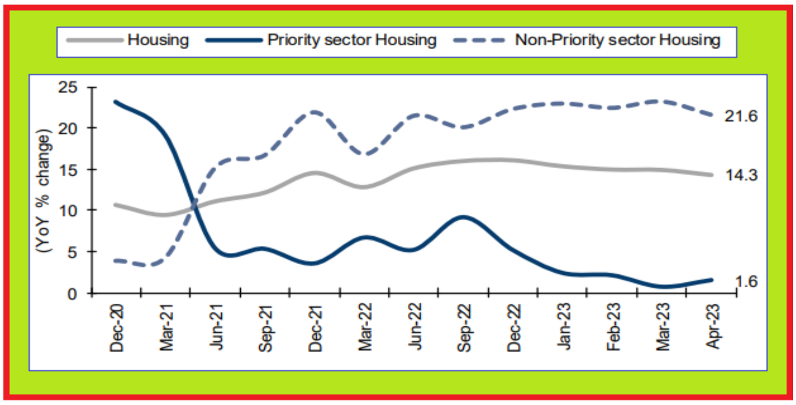

Figure 8. Growing PSL home loans and falling non-PSL home Loans.

Source: ICICI securities (2023), Banking, Sector thematic dt. 26 June, p.10.

10. Leveraging ICT for lending to the poor: learning from global experiences

Last, but not the least, learning from the global experiences such as the one in Philippines that is discussed by Pickens (2009)[17] India could attain financial inclusion as well inclusive and equitable housing development by way of promoting the use of ICT tools. In the global success story explained by Pickens (2009)[17], a simple ICT device (Mobile phone) was instrumental in bringing about financial inclusion, rural development and women empowerment. The growing affordability of this common ICT devise could make this elaborate empowerment process easier. In India too, financial inclusion in general and inclusive housing development in particular, could also leverage on various ICT tools including mobile phones. Phone banking and such other financial innovations can reach even the rural areas of India. Mobile phones and other ICT-enabled devices are becoming growingly affordable and popular among the masses. India is quite ahead in mobile phone usage and time spent on Apps. (**Table 4** & **Figure 9**).

Table 4. Smartphone penetration of various nations of the world.

Rank	Country/Region	Total population	Smartphone users	Smartphone penetration
1	PRC	1430.00M	974.69M	68.4%
2	India	1420.00M	659.00M	65.5%
3	United States	338.29M	276.14M	81.6%
4	Indonesia	275.50M	187.70M	68.1%
5	Brazil	215.31M	143.43M	66.6%
6	Russia	144.71M	106.44M	73.6%
7	Japan	123.95M	97.44M	78.6%
8	Nigeria	218.54M	83.34M	38.1%
9	Mexico	127.50M	78.37M	61.5%
10	Pakistan	235.82M	72.99M	31%

Source: Newzoo (2022), *Top countries by smartphone users*, Nov.

At present as high as 13 percent of the GDP of India is contributed by the ICT and digital economy. India seeks to make it 20 percent (USD 1 Trillion) by 2025. Table IV shows that India is one of the nations with high smartphone penetration level, it being 65.5 percent as against 68.4 percent of China (PRC). Also, India is a nation having high level of average time spent on Mobile applications (Apps) and is fourth in the whole world. (Figure 9).

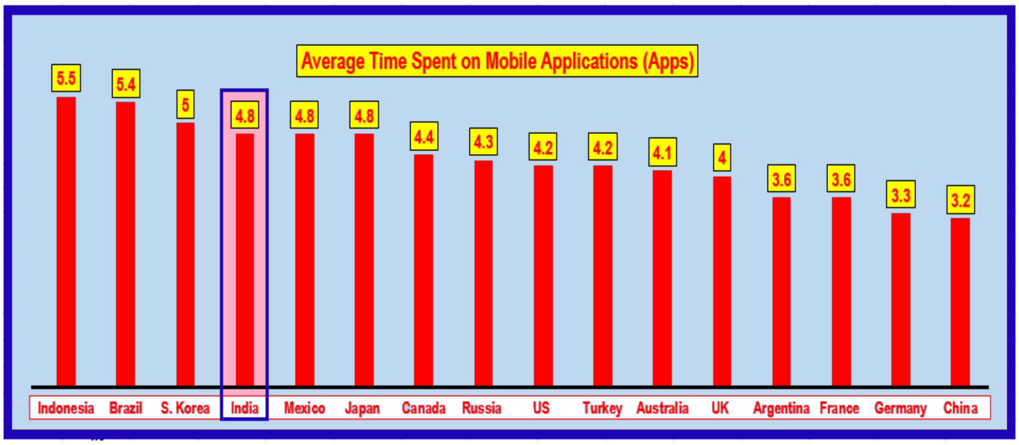

Figure 9. Average time mobile applications (Hours).

Source: Adapted from statista (2021) data.

Given the growing affordability of mobile phones and also the very comfortable position of India in respect of mobile phone (smartphone) penetration (Table IV) as well as in the average time spent on mobile applications (Figure IX) there is good sense in ICT-adoption, especially through mobile phones and mobile applications, for the purpose of financial inclusion in general and inclusive and sustainable housing development in particular. The *Digital India* drive of the GOI and India's the national goal of *Affordable Housing for All* provide the policy support (and policy compulsion as well) for the above strategic option.

11. Suggestions and concluding remarks

Based on the foregoing analysis, it is noted that besides the major agencies in the formal sector housing finance industry in India (CBs and HFCs), there must be the active role of the minor and specialized agencies like AHFCs, SFBs, ACHFs and RRBs for serving the really deserving categories of the shelter-less population, like, the LIG and EWS groups. Then only we can address the so called 'Real Housing Problem' in India. The following are the suggestions:

- The Government should give strict directives to the CBs and HFCs to focus more on the affordable housing segments and further extend to the CBs and HFCs extra subsidies and other incentives (like, refinance at more attractive rates) for lending to such segments;

- The Government should encourage the specialized agencies like AHFCs, SFBs, ACHFs and RRBs, and also provide special subsidies and other incentives including refinance facilities for onward lending to the affordable housing segments like LIG and EWS;

- ICT adoption be encouraged across all the financial intermediaries for faster and equitable economic growth through financial inclusion. Special thrust on the promotion of mobile phones and phone banking is advisable, learning from the international experiences in this field, like the experience of Philippines of financial inclusion using mobile phones. The concomitant infrastructure like telecommunication and internet facilities be also ensured so as to ensure meaningful use of broadband internet facility.

- Simultaneously with the expansion of the infrastructure for internet, telecommunication and allied services, there is the vital need to educate the masses as to how to use ICT devices properly through training classes. Financial literacy, especially digital literacy is vital for the meaningful use of the ICT-based tools and services, like, kiosks, ATMs etc.

- In short, the promotion of affordable housing development be dovetailed with the larger agenda of financial inclusion and ICT and allied services should play a catalytic role in this process. ICT should ensure that the services reach the masses with the least hassles.

- Stricter due diligence (scrutiny) be exercised, especially in respect of the lowest strata housing loans (viz. upto 5 lakhs) because their GNPA level is almost 3 times higher than all other category of loans about 7.5 percent. That is, greater vigil is required while granting housing loans to the above category. For all other categories, however, there is no significant difference in asset quality.

Let us hope that the GOI will go ahead with its housing promotion activities through PMAY and such other schemes and at the same time integrate ICT with all its initiatives by falling in line with its *Digital India* mandate. Through a holistic approach to housing finance and development in the country, let us hope that the GOI will attain its national housing goal of *Affordable Housing for All* at least by the year 2025. Here, as already noted in view of the riskier nature of 'Upto 5 lakhs' loans and hence the need for a tighter due diligence (scrutiny) an allowance of 90 percent be given while striving to attain housing for all. Or, in other words, attaining at least 90 percent of the total target be fixed as a realistic and pragmatic target to be attained by 2025.

This in turn needs the active participation of the minor and specialized players like AHFCs, SFBs, RRBs etc. along with the two major players viz. CBs and HFCs.

Conflict of interest

The authors declare no conflict of interest.

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Appendix: Abbreviations

ACHFs	Apex Co-operative Housing Federations
AHFCs	Affordable Housing Finance Companies
AI	Artificial Intelligence
CBs	Commercial Banks
EWS	Economically Weaker Section
GDP	Gross Domestic Product
GNPA	Gross Non-Performing Assets
GOI	Govt. of India
GOK	Govt. of Kerala
HDFC	Housing Development Finance Corporation
HFCs	Housing Finance Companies
HUDCO	Housing and Urban Development Corporation
ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communication Technology
LIG	Low Income Group
MIG	Middle Income Group
MGR	Mortgage to GDP Ratio
NHB	National Housing Bank
NPA	Non-Performing Assets
RBI	Reserve Bank of India
SFBs	Small Finance Banks