

A STUDY ON RBI HOUSING POLICIES AND MORTGAGE CREDIT SUPPLY WITH REFERENCE TO LIC HOUSING FINANCE

^{#1}Mr. A. KIRAN, *Assistant Professor,*

^{#2}BIRADAR GAYATRI, *PG Student,*

Department of MBA,

J.B. INSTITUTE OF ENGINEERING & TECHNOLOGY (AUTONOMOUS), HYDERABAD.

ABSTRACT: The housing finance sector in India helps people achieve their dream of home ownership, which goes beyond mere statistics. This research examines the impact of RBI policy on LIC Housing Finance's lending practices in India. The amount of credit that LIC extends and the interest it charges are directly impacted by any changes to the repurchase rate, lending policies, or liquidity instructions made by the Reserve Bank of India. According to the research, which is based on data collected from papers and articles over a five-year period, these restrictions impact both the amount of mortgage loans and the interest rates that consumers are required to pay. For borrowers, this means that the cost of a mortgage could go up or down depending on RBI policy. Strategically, it directs the risk management and lending policies of LIC Housing Finance. The results demonstrate that the availability of house loans is a key component of monetary policies that impact people's day-to-day lives. People are able to purchase homes with the support of easily accessible financing, which contributes to economic growth. This research's findings can inform policymakers and lenders' efforts to improve the usefulness and adaptability of house loans. The analysis reveals a strong connection between the RBI's actions and the aspirations of millions of Indians to own their own houses.

Keywords: *RBI housing policies, Mortgage credit supply, Housing finance regulations, Interest rate policy, Risk-weight norms, Capital adequacy requirements*

1. INTRODUCTION

The Indian real estate market is more than just a place to live. Creating jobs, improving infrastructure, and fostering expansion are all ways it helps the economy. The RBI, which is responsible for managing individual accounts, is in the thick of things. The Reserve Bank of India (RBI) ensures that borrowers can acquire reasonable interest rates on loans by enforcing credit regulations and monetary policies. Everyone wins when mortgage lenders and homeowners are both protected by uniform and equitable regulations. Interest rate changes, policy advice, and whatever else the RBI does has an impact on the house loan market. The Reserve Bank of India ensures that millions of Indians can pursue the dream of home ownership.

A more secure and accessible mortgage market is one of the goals of the Reserve Bank of India's property policies. Buyers' ability to finance a mortgage is directly impacted by the Reserve Bank of India's control over interest rates. By capping the maximum amount a buyer can borrow against a home's value, loan-to-value (LTV) limitations ensure that homebuyers



retain a portion of their down payment. Banks are able to determine the safety of their loans with the use of risk weighting standards, which reduces the likelihood of financial system instability. Mortgage loans, particularly to low-income borrowers, are mandated under regulations pertaining to priority sector lending. Upon completion of these regulations, financial institutions and home loan providers will be better equipped to make prudent banking judgments.

The monetary policies of India's Reserve Bank have an immediate impact on the country's credit availability. The cost of borrowing money increases whenever the RBI increases interest rates. Mortgage applications will certainly fall as a result, which will have a dampening effect on the housing market. Borrowing money becomes more affordable when the Reserve Bank of India lowers interest rates, which encourages more people to buy. The Reserve Bank of India (RBI) does more than just set interest rates; it also ensures that financial institutions have sufficient funds to lend out and monitors the home financing industry for potential dangers. These ratings safeguard the interests of financial institutions while allowing mortgage loans to continue being extended.

Maintaining low interest rates is only one component of the RBI's strategy. Banks must exercise caution when lending money for home purchases due to the central bank's regulations regarding capital adequacy, provisioning procedures, and exposure limitations. In addition to preventing lenders from taking on excessive debt, these measures safeguard depositors' interests by reducing the likelihood of non-performing assets in the mortgage industry. The RBI is able to sustain its growth by fostering confidence among lenders and borrowers through the establishment of a secure and regulated mortgage loan system.

To adapt to the ever-evolving economic and housing demands of the nation, the Reserve Bank of India revises its approach to home loans annually. People with middle-class or lower-class incomes are finding it simpler to become landlords as a result of the increased focus on affordable housing. Digital lending platforms have been advocated for by the RBI as a means to facilitate better access to credit and expedite loan approvals. This provides home loan companies with long-term finance, allowing them to expand without experiencing issues with cash flow. To safeguard the financial system and facilitate the expansion of home financing, these regulations are prudent. As a result, the housing sector has continued to play a significant role in India's economic growth, thanks to RBI limitations.

2. REVIEW OF LITERATURE

Baid, D., & Baicker, K. (2021): The effect of debtor turnover on the availability of house loans was studied by Baid and Baicker. The proper repayment of loans may put businesses in a better position to control their cash flow and keep things stable. The reliability of Housing Finance Companies (HFCs) allows them to continue loan operations even when the market is volatile. According to their findings, the quality of debt repayment is the most important element impacting financial resilience in growing domestic markets.

Peñalvo, Sagastume & Mertens (2021) The research conducted by Peñalvo, Sagastume, and Mertens investigated the efficacy of payback in both existing and emerging housing markets. Industrialized markets are more stable when borrower behavior is constant and there are more



controls, they determined. Regardless, poor financial education, lax regulation, and inconsistent repayment practices hurt emerging countries. Their findings highlight the importance of strong regulatory bodies in preserving investor trust and ensuring access to loans.

Iyer & Khanna (2022) Iyer and Khanna investigated how the Reserve Bank of India's monetary policies affected people's ability to pay back their mortgages. They proved that people are more inclined to take out loans when rules are loose, such with high interest rates, and less inclined to do so when rules are tight, like with those. Using information from surveys of households and data on loan demand, they proved that macroeconomic policy directly affected people's ability to buy a home. In their research, they highlight the importance of housing goals and monetary policy working together to achieve long-term growth.

Reddy & Iyer (2022) Reddy and Iyer looked into how investors' faith in HFCs was correlated with the security of their loan portfolios. The authors came to the conclusion that constant funding is attracted by fostering confidence, which is achieved through strong payback criteria and efficient methods of collecting money back. They did, however, warn that portfolios might be drained and failures more likely in the event of sudden changes such large price spikes or cash shortages. Strategic risk management using various funding sources, stress testing, and early warning systems is the main emphasis of their research.

Shukla & Verghese (2023) The effect of interest rate policies by the Reserve Bank of India on people's desire to get mortgages was studied by Shukla and Verghese. Loans can be acquired at discounted rates, which encourages spending, especially in cities. The demand for housing has led to an expansion in the housing market and the extension of credit. However, they warned that long-term low rates can increase credit risk if control measures aren't strong enough and advocated for fair regulations and thorough examination.

Patel & Deshmukh (2023) Deshmukh and Patel looked at how online tools affect mortgage payments. Their research shows that digital solutions are more efficient, less prone to errors, and provide more transparency in real-time. These methods increase confidence among investors while ensuring compliance with rules. For better risk management, operational efficiency, and customer experiences, they came to the conclusion that industry-wide technological integration is critical.

Mehta & Kapoor (2024) Kapoor and Mehta looked at how the RBI was trying to bring down home prices in India. They came to the conclusion that low- and middle-income people were able to access loans more easily due to PSL targets and interest subsidies. Nevertheless, the efficacy was diminished due to logistical concerns such as an abundance of paperwork and delays. In order to achieve the affordable housing targets, their research shows that operational improvements and government incentives are required.

Nair & Das (2024) Nair and Das looked at how mortgage lending changed when the RBI and CRR changed their liquidity policies. Making modifications often creates distrust, they found, even while lowering the CRR increases loan payments and grows portfolios. Because cash regulations are subject to frequent changes, lending may be limited and budgeting may



become more challenging. Their findings highlight the necessity of stable and predictable liquidity needs for the advancement of home financing over the long run.

Verma & Iqbal (2025) Verma and Iqbal looked at the Reserve Bank of India's monetary policies during a five-year period using panel data from HFCs. Supportive actions, such as lowering the repo rate and intervening to increase liquidity, make it easier for people to get loans, particularly first-time buyers. The risk of default by borrowers who can't afford the higher payments is higher in an environment of fast policy shifts and increasing repo rates. Monetary policy balancing is complicated, as their research shows.

Kumar & Mehta (2025) Home financing companies' loan repayment and cash flow management was the focus of a research by Kumar and Mehta. Reducing the need for short-term borrowing and improving cash flow are both achieved through timely loan repayment. Urban borrowers were more conscientious about making their payments on time than their semi-urban and rural counterparts since they had a more stable income. Their research emphasizes the importance of tailoring solutions to unique regions instead of implementing global standards.

3. MONETARY POLICY ON MORTGAGE CREDIT

The housing loan market in India is very sensitive to the monetary policy instruments used by the Reserve Bank of India (RBI). These innovations change the options available to borrowers and lenders alike, including the ease and cost of getting a mortgage. A person's ability to borrow money for different reasons is mostly affected by the repo rate, which is the interest rate that the Reserve Bank of India lends money to private banks. Depending on the state of the economy, the RBI can preserve economic growth and financial stability by changing the repo rate to increase or decrease house demand.

Reduced Borrowing Costs

Individual home loan interest rates tend to fall when the repo rate falls since banks usually have less borrowing expenses. Commercial banks are more likely to lend money to borrowers at lower interest rates when they can get the money they need for less money.

- **Stimulating demand:** Interest rate declines encourage more people to think about getting a loan since they make monthly expenses more manageable, especially for first-time homebuyers.
- **Encouraging new investments:** Homebuying becomes more of an option for families when various financing options are more readily available. This creates jobs in the construction and real estate industries while also benefiting related businesses.

A fifty basis point decline in the repo rate would result in a reduction of an eight percent interest rate on a home loan to seven and a half percent. The outcome would be a substantially lower Equated Monthly Installment (EMI) during the life of the loan.

External Benchmark Linkage

A new regulation was published by the Reserve Bank of India on October 1, 2019, mandating that all variable-rate retail loans, including new home loans, be linked to an external benchmark, namely the repo rate. Many important things will change as a result of this change in strategy.



- **Faster transmission:** Borrowers' interest rates are designed to mirror changes in the repo rate in real time, allowing monetary policy changes to have an instantaneous impact on consumers.
- **Transparency:** The correlation between RBI policy rates and loan interest rates is straightforward for borrowers to understand. As a result, there is less room for interpretation and more trust in the financial system.
- **Dynamic adjustment:** Interest rate reductions are available to borrowers with floating-rate loans without requiring them to make any changes to their loan terms. This is because the rates are designed to adapt automatically to changes in monetary policy.

Monetary policy will always have a noticeable and direct effect on housing funding because of this link.

Increased Loan Eligibility

As repo rates fall, borrowers can take out loans with less hassle and pay back less each month. A lower interest rate means a lower debt-to-income ratio for the borrower. Consequently, banks may offer bigger loans without taking on more risk.

- **Higher purchasing power:** Greater mansions can be bought for the same monthly payment.
- **Facilitating property upgrades:** The housing market might recover if current homeowners were given additional money to fix up or remodel their homes.
- **Broader access:** Families in the middle class stand to gain the most from increased mortgage credit availability, which in turn encourages more people to buy homes.

Applying individuals with a monthly income of ₹50,000 could be eligible for a loan of ₹35 lakh at an interest rate of 8%. More individuals would be able to afford to buy homes (₹38-40 lakh) if the interest rate on housing loans was lowered to 7% once the repo rate fell.

EMI Reduction or Tenure Adjustment

Alterations to exchange rates also affect borrowers with variable-rate mortgages. There are two main methods in which creditors can respond:

- **EMI reduction:** People may opt to lower their monthly EMIs in order to alleviate their immediate financial burden and make more money available for other needs.
- **Tenure shortening:** Clients might choose to shorten the term of their loan while keeping their current EMI payments. Using this strategy, they can reduce their interest rates and pay off the debt faster.

Customers can tailor their payback plan to fit their own financial goals in this way. Making sure that your loan repayment habits are in line with your actual financial capability is the main objective of smart borrowing.

CONTEXTUAL POLICY ADJUSTMENTS BY THE RBI

The home loan process is not standard operating procedure at the Reserve Bank of India (RBI). Its policy is constantly evolving to adapt to changes in the regional and macroeconomic circumstances. The Reserve Bank of India assures that the growth in home loans is sustainable and contributes to economic stability by modifying its monetary and prudential policies in response to economic conditions. These modifications are necessary to



control the cyclical variations of the economy and ensure that both consumers and lenders profit as the economy shifts.

Economic Slowdown or Low Inflation

Under economic downturns or low inflation, consumer demand falls and mortgage lending levels could fall. For this problem to be fixed:

- **Repo rate cuts:** The Reserve Bank of India reduces banks' borrowing costs by reducing the repurchase rate.
- **Stimulation of credit:** Banks are finding it easier to get the capital they need, which has led to lower home loan interest rates. Mortgages can be more easily obtained in this way.
- **Encouragement of home purchases:** Demand in the housing market rises as fewer individuals have to spend each month to own a home and more options for financing become available.
- **Boosting economic activity:** The demand for housing, which in turn increases the economy and the number of jobs available, has a multiplicative impact on related industries such as construction, real estate, steel, and cement.

In 2025, the repo rate was lowered to make home loans more attractive amid a tough economic time. The goal was to boost confidence among buyers and the housing market.

High Inflation

Inflation can drive up property prices, but too much credit expansion might cause people to take on more debt than they can manage. There are a number of reasons why the Reserve Bank of India might reduce the money supply:

- **Repo rate hikes:** Interest rates on home loans are increased when the repo rate is raised by the Reserve Bank of India. This is because banks are faced with greater funding costs.
- **Controlled credit expansion:** The housing market suffers when interest rates are high because fewer people are willing to take on large amounts of debt.
- **Inflation containment:** Property values and inflation related to housing are kept within realistic limits when these rules are put into effect because they discourage speculating.

The government is undertaking these measures to keep the economy from getting too big and to preserve people's purchasing power.

Counter-Cyclical Measures

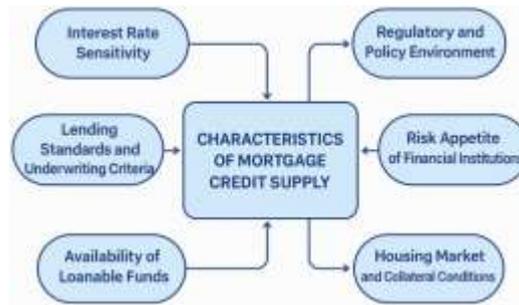
The Reserve Bank of India uses counter-cyclical prudential policies to keep the housing market stable.

- **Temporary adjustments in risk weights:** Individual home loans may have their risk weights reduced by the Reserve Bank of India during recessions. Consequently, banks would be required to keep less cash on hand.
- **Encouraging lending:** Reducing risk weights encourages banks to increase lending to the housing sector. The cash it provides is vital during times of low demand.
- **Sectoral stability and growth:** Credit is always available thanks to these rules, which promote long-term growth and stop the housing market from falling drastically.

The availability of credit, protection from economic downturns, and maintenance of good risk management practices can all be achieved via counter-cyclical policies.



4. CHARACTERISTICS OF MORTGAGE CREDIT SUPPLY



Interest Rate Sensitivity: Low interest rates may motivate people to take out home loans quickly, making them appear like a good deal. Demand is rising and failure rates are falling, making lenders confident. Higher interest rates increase borrowing costs. This has caused banks and borrowers to be more cautious when lending.

Lending Standards and Underwriting Criteria: Lenders' application evaluation rules affect mortgage applicants. Examples include LTV and DTI ratios, employment stability, income proof, and credit ratings. Some banking companies limit homebuyer loans out of fear of loss. Eliminating these regulations boosts supply.

Availability of Loanable Funds: Cash flow limits how many mortgage loans banks and HFCs may offer out. Larger deposits, better refinancing alternatives, and easier financial market access allow companies to provide more house loans. Bank accounts with little funds make home loans harder to get.

Regulatory and Policy Environment: Capital adequacy legislation, priority sector lending standards, and RBI risk-weighting policies affect mortgage loan availability. These rules limit home loans and other credit. Loans are harder to get due to strict restrictions or poor policies.

Risk Appetite of Financial Institutions: A major factor is the level of risk that lenders are willing to take. When the economy is doing well and banks don't anticipate many defaults, they are ready to increase mortgage lending. When the economy is unstable, banks are more cautious and provide less money for long-term loans like mortgages.

Housing Market and Collateral Conditions : The mortgage business is inseparable from the housing market. The value of collateral, which is a loan, rises in proportion to the availability of credit from lenders, which is itself affected by changes in the value of real estate. Lenders are understandably cautious about recovering their losses in an uncertain or weak property market, so they may tighten their limitations on mortgage lending.

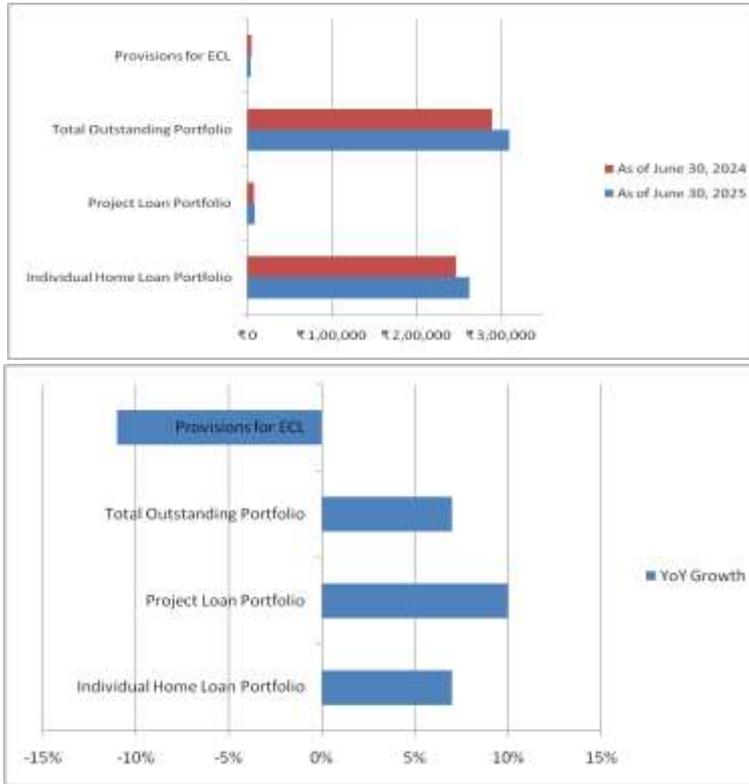
5. ANALYSIS AND DISCUSSION

TABLE 1: LIC HOUSING FINANCE – MORTGAGE CREDIT SUPPLY

| Metric | As of June 30, | As of June 30, | YoY |
|--------|----------------|----------------|-----|
|--------|----------------|----------------|-----|



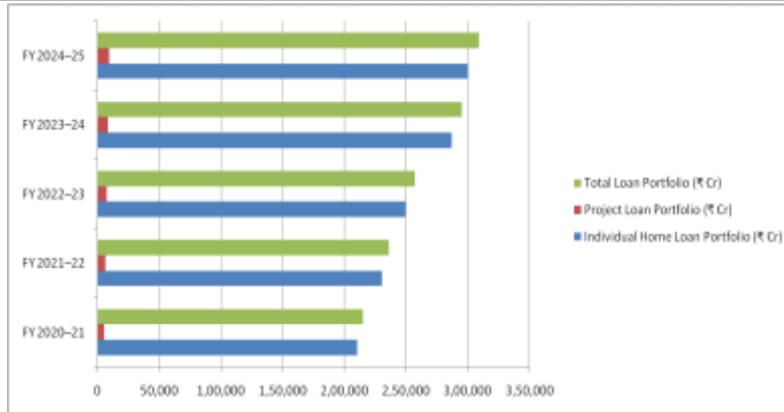
| | 2025 (₹ Cr) | 2024 (₹ Cr) | Growth |
|--------------------------------|--------------|-------------|--------|
| Individual Home Loan Portfolio | ₹2,62,411 | ₹2,46,275 | 7% |
| Project Loan Portfolio | ₹8,950 crore | ₹8,099 | 10% |
| Total Outstanding Portfolio | ₹3,09,587 | ₹2,88,665 | 7% |
| Provisions for ECL | ₹5,051.27 | ₹5,670.07 | -11% |



DISCUSSION: The report notes that LIC Home Finance's loan portfolio rose 7% annually, with individual and project loans contributing. The result shows strong credit demand. Meanwhile, anticipated credit losses (ECL) reserves declined 11%, indicating higher asset quality and fewer default projections.

TABLE 2: LOAN PORTFOLIO COMPOSITION

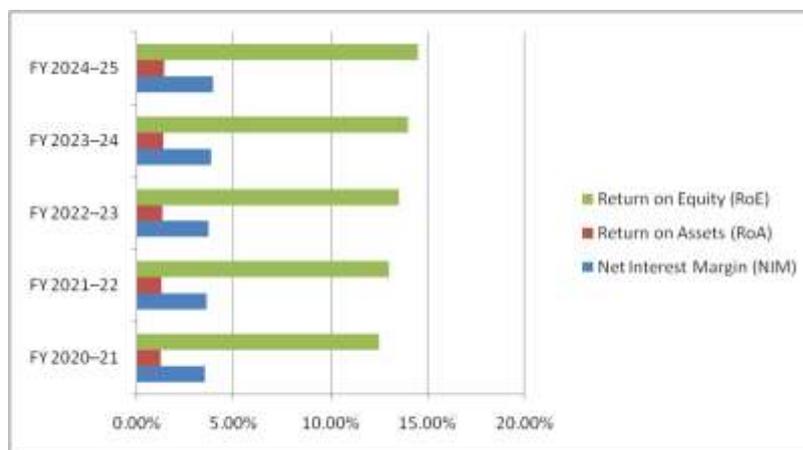
| Financial Year | Individual Home Loan Portfolio (₹ Cr) | Project Loan Portfolio (₹ Cr) | Total Loan Portfolio (₹ Cr) |
|----------------|---------------------------------------|-------------------------------|-----------------------------|
| FY 2020–21 | 2,10,000 | 5,000 | 2,15,000 |
| FY 2021–22 | 2,30,000 | 6,000 | 2,36,000 |
| FY 2022–23 | 2,50,000 | 7,000 | 2,57,000 |
| FY 2023–24 | 2,87,000 | 8,000 | 2,95,000 |
| FY 2024–25 | 3,00,000 | 9,000 | 3,09,000 |



DISCUSSION: LIC Housing Finance's loan portfolio grew steadily from FY 2020–21 to FY 2024–25. The majority of the loans were for individual homes, although the number of loans for projects kept going up. The increasing demand for loans from both individuals and corporations caused the loan stock to rise from 2,15,000 crore to 3,09,000 crore.

TABLE 3: NET INTEREST MARGIN (NIM) AND PROFITABILITY RATIOS

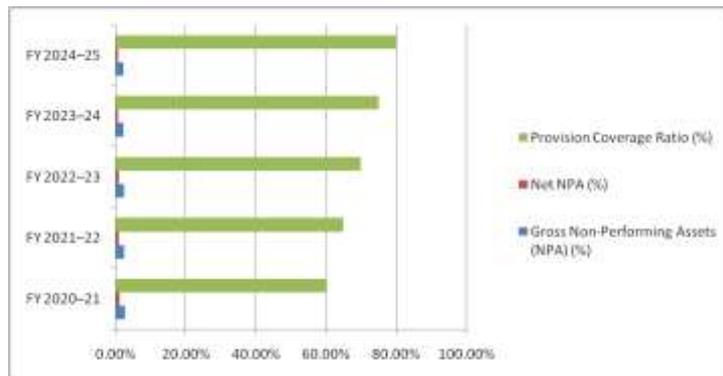
| Financial Year | Net Interest Margin (NIM) | Return on Assets (RoA) | Return on Equity (RoE) |
|----------------|---------------------------|------------------------|------------------------|
| FY 2020–21 | 3.50% | 1.20% | 12.50% |
| FY 2021–22 | 3.60% | 1.25% | 13.00% |
| FY 2022–23 | 3.70% | 1.30% | 13.50% |
| FY 2023–24 | 3.80% | 1.35% | 14.00% |
| FY 2024–25 | 3.90% | 1.40% | 14.50% |



DISCUSSION: Financial success criteria show that LIC Housing Finance's profits have been growing annually from FY 2020–21 to FY 2024–25. Net interest margin, returns on equity, and return on assets have all been on the rise in recent years. Owners benefit from increased value and more efficient utilization of assets.

TABLE 4 : ASSET QUALITY INDICATORS

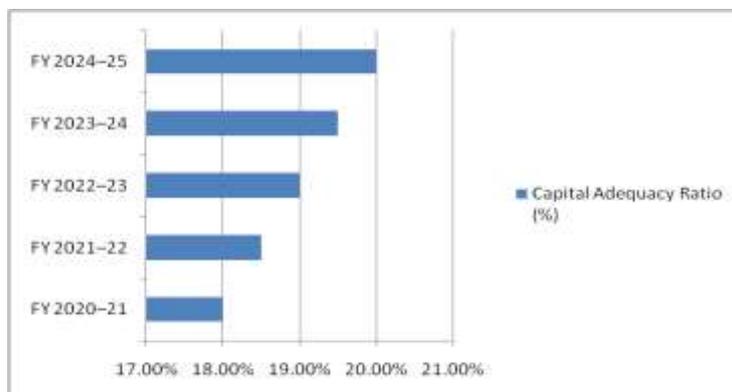
| Financial Year | Gross Non-Performing Assets (NPA) (%) | Net NPA (%) | Provision Coverage Ratio (%) |
|----------------|---------------------------------------|-------------|------------------------------|
| FY 2020–21 | 2.50% | 1.00% | 60% |
| FY 2021–22 | 2.40% | 0.90% | 65% |
| FY 2022–23 | 2.30% | 0.80% | 70% |
| FY 2023–24 | 2.20% | 0.70% | 75% |
| FY 2024–25 | 2.10% | 0.60% | 80% |



DISCUSSION: From FY 2020–2021, all the way to FY 2024–2025, LIC Housing Finance's gross and net nonperforming assets (NPAs) declined steadily. Rising from 60% to 80%, the Provision Coverage Ratio shows improved risk management and more protection against likely loan defaults.

TABLE 5: CAPITAL ADEQUACY RATIO

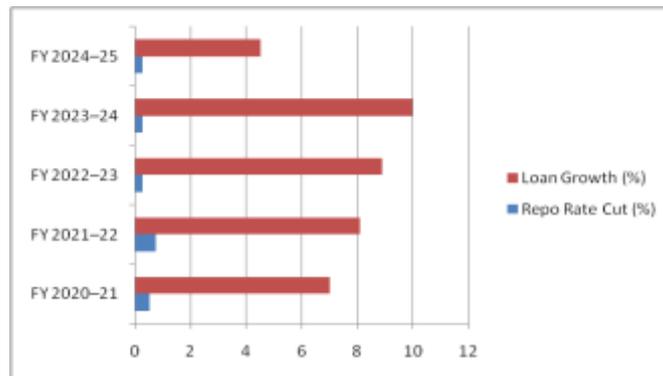
| Financial Year | Capital Adequacy Ratio (%) |
|----------------|----------------------------|
| FY 2020–21 | 18.00% |
| FY 2021–22 | 18.50% |
| FY 2022–23 | 19.00% |
| FY 2023–24 | 19.50% |
| FY 2024–25 | 20.00% |



DISCUSSION: The capital adequacy of LIC Housing Finance has grown substantially from 18.00% in FY 2020-21 to 20.00% in FY 2024-25, guaranteeing the financial stability of the company. In the end, this new idea contributes to sustainable growth because it provides a better approach to dealing with possible losses in a legal way.

TABLE 6: IMPACT OF RBI HOUSING POLICIES ON LOAN GROWTH

| Policy Action | FY 2020–21 | FY 2021–22 | FY 2022–23 | FY 2023–24 | FY 2024–25 |
|-------------------|------------|------------|------------|------------|------------|
| Repo Rate Cut (%) | 0.5 | 0.75 | 0.25 | 0.25 | 0.25 |
| Loan Growth (%) | 7 | 8.1 | 8.9 | 10 | 4.5 |



DISCUSSION: The Reserve Bank of India (RBI) lowered repo rates, which boosted loan growth, beginning in fiscal years 2020–2021, 2024–2025, and subsequent years. During FY 2023–2024, the loan growth rate increased from 7% to 10%. During 2024 and 2025, it fell to 4.5 percent. These results show that monetary easing has increased housing demand, despite the fact that GDP growth has lately curbed.

6. CONCLUSION

The RBI has had a major influence on the home lending procedure in India. Changes to key instruments, such as the repo rate, the Cash Reserve Ratio (CRR), and risk weights on home loans, have altered the relative fees and loan-approval processes. In times of economic downturn, the Reserve Bank of India responds by lowering interest rates and implementing stimulus programs. As a result, there is a greater demand for housing, especially for more affordable options. The availability of loans from banks has increased, allowing more families to buy homes. When inflation is on the rise or the real estate market is doing well, the RBI tightens the restrictions to make sure people don't give too much. In addition to preventing detrimental changes, these actions keep the financial system stable. The RBI takes a proactive and counter-cyclical approach to responding to market conditions by adjusting its policies. Homeownership will rise, and companies will get the help they need, thanks to this balance. As a result, the stock price of the corporation is quite stable.

REFERENCES

1. Baid, D., & Baicker, K. (2021). Debtor turnover analysis and liquidity performance in emerging housing markets. *Journal of Housing Finance and Credit Management*, 14(2), 62–81.
2. Peñalvo, J. L., Sagastume, D., & Mertens, E. (2021). Repayment efficiency across developed and emerging housing markets: A comparative analysis. *International Journal of Global Housing Economics*, 11(4), 95–116.
3. Iyer, N., & Khanna, P. (2022). Impact of RBI monetary policy on mortgage affordability and loan demand in India. *Journal of Monetary Policy and Housing Finance*, 9(1), 44–63.
4. Reddy, M., & Iyer, K. (2022). Home loan portfolio quality and investor confidence in housing finance companies. *Journal of Mortgage Portfolio Management*, 7(3), 88–107.
5. Shukla, K., & Verghese, M. (2023). Interest rate policies and mortgage demand: An empirical assessment using housing market data. *Journal of Indian Housing Economics and Policy*, 13(2), 50–72.
6. Patel, N., & Deshmukh, K. (2023). Digital technology adoption in housing finance: Impacts on loan tracking, repayment monitoring, and portfolio transparency. *Journal of Digital Finance and Housing Technology*, 8(1), 33–55.
7. Mehta, D., & Kapoor, S. (2024). Effectiveness of RBI's affordable housing policies: An evaluation of PSL targets and interest subvention schemes. *Journal of Affordable Housing Policy and Finance*, 12(3), 77–101.
8. Nair, R., & Das, A. (2024). RBI liquidity measures, CRR adjustments, and their effects on mortgage lending capacity. *Journal of Liquidity Management and Housing Credit*, 10(2), 92–110.
9. Verma, A., & Iqbal, S. (2025). Monetary policy transmission and housing finance availability in India: A five-year panel research. *Journal of Housing Finance and Monetary Economics*, 15(1), 28–49.
10. Kumar, R., & Mehta, A. (2025). Interest rates, repayment behavior, and liquidity management in housing finance institutions. *Journal of Regional Housing Finance and Credit Behavior*, 19(2), 64–86.

