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## **RBI HOUSING POLICIES AND MORTGAGE CREDIT SUPPLY WITH REFERENCE TO LIC HOUSING FINANCE**

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**ABSTRACT:** The Indian economy and homebuyers both benefit from the home financing industry. We investigate the impact of the Reserve Bank of India's housing policies on LIC Housing Finance's home loan programs. Regulations dictate the amount of money that a bank may lend. These regulations govern repurchase rates, liquidity requirements, and lending restrictions for specific enterprises. The paper employs secondary data from annual reports, RBI publications, and industry databases to investigate the influence of monetary policy and regulations on mortgage payments, interest rate structures, and eligibility for house loans over a five-year period. The data indicates that RBI policy influences the quantity of home loans issued and interest rates. The amount of money that an individual can afford to pay is contingent upon these laws. Finally, the paper underscores the efficiency and adaptability of India's home financing system. This data is of critical importance to financial institutions, members of parliament, and other stakeholders.

**Keywords:** Reserve Bank of India (RBI) Policies, LIC Housing Finance, Housing Finance, Home Loans, Monetary Policy, Interest Rates, Lending Regulations, Mortgage Payments,

### **1. INTRODUCTION**

The housing market in India has resulted in a thriving economy, new employment, and improved infrastructure. The Reserve Bank of India is accountable for the enforcement of laws that protect consumers in India. The Reserve Bank guarantees that mortgage lending is affordable, accessible, and consistent for both consumers and housing finance businesses by means of monetary policy, sector-specific regulations, and credit laws. Its policies influence the affordability and simplicity of home loans.

The Reserve Bank of India's housing policy addresses a variety of issues. It regulates the transmission of risk to critical businesses, limits loan-to-value ratios, and regulates fluctuations in interest rates. The

Reserve Bank of India (RBI) modifies these requirements to regulate the ease with which banks and home financing companies can lend money to homebuyers and contractors. These regulations not only protect the economy but also facilitate the acquisition of financing and mitigate real estate speculation.

#### **RBI GUIDELINES FOR HOME LOAN**

The Reserve Bank of India periodically updates its regulations concerning home loans in response to fluctuations in the economy.

#### **Shift Between Fixed and Floating Interest Rates**

The Reserve Bank of India mandates that lenders in India provide borrowers with the option of fixed interest rates during restarts, as opposed to variable ones.



Banks and mortgage lenders should disclose the cost of this modification to borrowers in an ethical manner. The revised information should be included in the loan acceptance letter if the interest rate changes.

### **Penal Charges vs Penal Interest**

The Reserve Bank of India has advised banks and NBFCs that defaults will not be subject to "penal interest" after 2023. There is a distinction between the "penal interest" rate and the borrowing rate. Your lender may impose additional penalties if you fail to pay your loan on time. The user should not be obligated to cover these expenses until they have obtained all the necessary information to treat all individuals appropriately.

### **Prepayment Charges**

Borrowers are permitted to either extend or increase their EMIs under the new policy implemented by the Reserve Bank of India. Lenders should not neglect deadlines, which could lead to negative amortization. This implies that there is no alternative to increasing or delaying interest-bearing capital. This ensures that creditors are not subjected to any concealed fees and that the repayment terms are clearly defined.

### **Loan to Value Ratio (LTV ratio)**

This is the property's fundamental value. The LTV ratio is defined by a single term. The RBI authorizes lenders to lend up to 90% of the value of a property after stamp duty and other administrative expenses have been paid.

### **Check out the available LTV ratio for different brackets of home loan amounts.**

- Lenders will repay 90% of loans up to 30 lakhs.

- We are capable of providing coverage for loans ranging from 30 lakh to 75 lakh, up to 80%.
- The maximum LTV ratio that can be applied to loans exceeding ₹75 lakh is 75%.

### **Repo Rate**

Institutions in India are permitted to acquire funds from the Reserve Bank of India (RBI) provided that they consent to repay the loan. Everything undergoes a transformation when inflation rises. In response to a decrease in the repo rate, demand increases as a result of reduced lending costs. A rise in rates leads to an increase in interest rates and EMIs for users. It has become increasingly difficult to make mortgage payments since interest rates rose by 25 basis points to 6.5%.

### **Loan Tenures**

A real estate loan may be extended for a maximum of 30 years in accordance with applicable RBI regulations. Loan approval and other prerequisites must be satisfied prior to the issuance of extensions. Renters are at risk of losing their residences and incurring additional expenses if they fail to make their loan payments.

### **Easier Balance Transfer**

Thanks to the Reserve Bank of India's regulations regarding default fees, there is increased flexibility in refinancing. Those who are in search of low-interest loan providers may find this useful. Borrowers have been able to enhance their loan terms and decrease their repayment obligations as a result of this rule of thumb.

## **2. MONETARY POLICY ON MORTGAGE CREDIT**

The instruments at the Reserve Bank of India's disposal are of significant

importance when it comes to home loans in India. By altering the parameters of mortgage loans, these instruments influence the conduct of both borrowers and lenders. The repo rate is the dominant factor in the regulation of mortgage rates and the allocation of credit among assets.

### Reduced Borrowing Costs

If the swap rate decreases, financial institutions may be able to borrow funds at a reduced interest rate or even for free. Consumers may anticipate decreased interest rates on home loans. By offering debtors the chance to borrow at a more reasonable interest rate, commercial banks assist them in saving money.

- **Stimulating demand:** First-time debtors should capitalize on the benefits of low loan interest rates, which simplify their monthly payments.
- **Encouraging new investments:** A greater number of individuals being able to purchase residences results in increased employment opportunities in the construction industry and increased profits for businesses.
- The interest rate on a house loan may decrease from 8% to 7.5% as a result of a fifty basis point decrease in the repo rate. The Equated Monthly Installment (EMI) for a long-term loan will be substantially reduced.

### External Benchmark Linkage

On October 1, 2019, the Reserve Bank of India (RBI) announced that new variable-rate consumer loans, including house loans, must be linked to an external indicator, frequently the repo rate. The consequences of this policy change will be catastrophic.

- **Faster transmission:** The interest rates on loans and repo rates are

identical. The positive effects of changes in monetary policy can be rapidly assessed by customers through this approach.

- **Transparency:** Borrowers can readily observe the impact of the RBI's interest rate decisions on their loan rates. As a result, the financial sector is now perceived as more reliable, and there is less space for uncertainty.
- **Dynamic adjustment:** Borrowers are granted access to reduced interest rates without the necessity of renegotiating variable-rate loans. Interest rates will inevitably fluctuate when the Federal Reserve modifies its monetary policy.

This website provides a straightforward, dependable, and efficient approach to understanding the impact of monetary policy on family budgets.

### Increased Loan Eligibility

It becomes simpler to obtain loans and EMIs decrease as the currency rate decreases. Banks can lend more money to borrowers with reduced debt-to-income ratios due to low interest rates, which reduces their overall risk.

- **Higher purchasing power:** Despite the fact that the value of their properties has increased, individuals continue to pay the same monthly amount.
- **Facilitating property upgrades:** Supplementary financing options may be available to homeowners who are currently in the process of updating or repairing their homes. We implemented this measure to ensure that a greater number of individuals purchase it.
- **Broader access:** The ease with which middle-class families can obtain financing from banks has resulted in an



increase in the number of individuals purchasing homes.

Individuals with a monthly income of ₹50,000 are eligible for a loan of ₹35 lakh at an interest rate of 8%. If repurchase rates were reduced to 7%, it would be simpler to secure home loans ranging from ₹38 lakh to ₹40 lakh.

#### ➤ **EMI Reduction or Tenure Adjustment**

Individuals who have variable interest rates on their loans will experience the consequences of fluctuations in the repo rate. Creditors generally respond in one of two ways:

- **EMI reduction:** Individuals who are experiencing financial hardship may be able to reduce their monthly EMI payments and allocate the surplus funds to other expenses.
- **Tenure shortening:** Borrowers could expedite the repayment of their loans by making consistent monthly installments. This can be accomplished by decreasing their interest rates and expediting the repayment of their debt. The high degree of flexibility allows borrowers to establish repayment plans that are tailored to their individual financial circumstances. Prudent borrowing is promoted by ensuring that repayment plans are reasonable and align with the borrower's financial situation.

### 3. LITERATURE SURVEY

Verma, A., & Iqbal, S. (2025): Verma and Iqbal explored the influence of the Reserve Bank of India's monetary policy on the availability of housing loans. Over the course of five years, the investigation monitored the impact of repo rates, cash on

hand, and other liquidity variables on mortgages. The research concentrated on panel data from substantial mortgage lenders. They discovered that loan volumes increased when lenders provided liquidity support and reduced the repo rate. The loan application procedure was simplified for individuals who were applying for their first loan.

Mehta, D., & Kapoor, S. (2024): Mehta and Kapoor investigated the Reserve Bank of India's endeavor to mitigate housing expenses. In order to gather information regarding the loan payments and lending objectives of significant companies for our research, surveys were administered to consumers and home finance companies. Additionally, we examined refinancing methods and interest assistance programs.

Shukla, K., & Verghese, M. (2023): Shukla and Verghese investigated the influence of the Reserve Bank of India's interest rate policy decisions on the demand for housing loans. Following the reduction of policy rates, a greater number of individuals, particularly those residing in urban areas, pursued home loans, as indicated by data from housing finance companies, loan application records, and macroeconomic statistics. Urban centers' population density is a significant factor in this regard.

Iyer, N., & Khanna, P. (2022): Iyer and Khanna investigated the influence of the Reserve Bank of India's interest and inflation policies on the capacity of individuals to repay loans. Tight monetary policies resulted in a rise in the cost of borrowing, which in turn exacerbated the difficulty of obtaining loans.

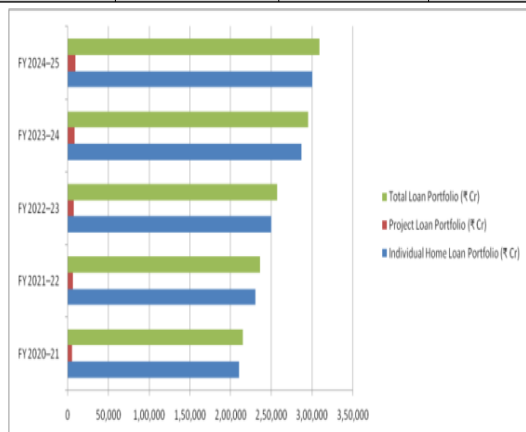
Desai, A., & Roy, S. (2021): Desai and Roy investigated the outcomes of the Reserve Bank of India's sector-specific

banking policies with respect to the eligibility of housing loans. First-time buyers have an easier time obtaining mortgages that meet these criteria in regions where property prices are increasing at a rapid pace. The diverse economic circumstances and the capacities of various institutions were the primary factors contributing to the wide spectrum of efficacy.

## 4. RESULTS

### 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

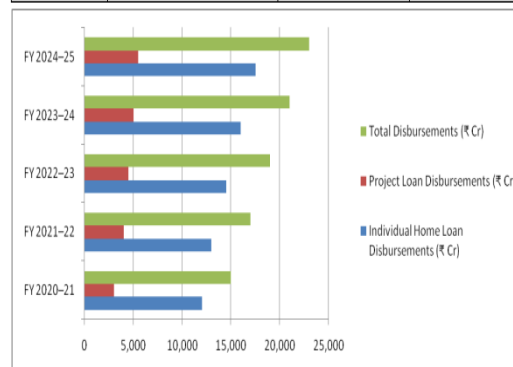


**INTERPRETATION:** Records indicate that the majority of project loans were for single-family residences, despite a consistent increase. LIC Housing Finance's loan portfolio expanded during the fiscal years of 2020–2021, 2024–2025, and subsequent years. The retail and project lending sectors continue to be undercapitalized, as evidenced by the

increase in the loan portfolio from 2,15,000 crore to 3,09,000 crore.

### LOAN DISBURSEMENTS BY SEGMENT

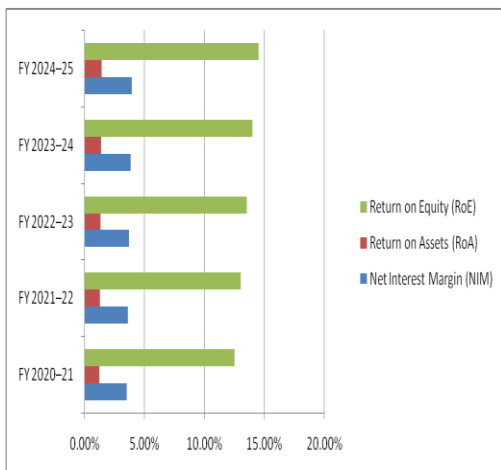
Financial Year	Individual Home Loan Disbursements (₹ Cr)	Project Loan Disbursements (₹ Cr)	Total Disbursements (₹ Cr)
FY 2020-21	12,000	3,000	15,000
FY 2021-22	13,000	4,000	17,000
FY 2022-23	14,500	4,500	19,000
FY 2023-24	16,000	5,000	21,000
FY 2024-25	17,500	5,500	23,000



**INTERPRETATION:** The disbursement data from FY 2020-21 to FY 2024-25 demonstrates a consistent increase in LIC Housing Finance's banking activity. The disbursement was primarily comprised of personal mortgages. As the disbursed quantity increased from ₹15,000 crore to ₹23,000 crore, there was a rise in the demand for project and retail loans.

### NET INTEREST MARGIN (NIM) AND PROFITABILITY RATIOS

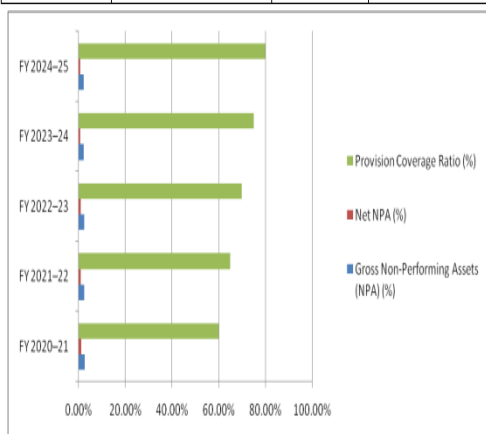
Financial Year	Net Interest Margin (NIM)	Return on Assets (RoA)	Return on Equity (RoE)
FY 2020-21	3.50%	1.20%	12.50%
FY 2021-22	3.60%	1.25%	13.00%
FY 2022-23	3.70%	1.30%	13.50%
FY 2023-24	3.80%	1.35%	14.00%
FY 2024-25	3.90%	1.40%	14.50%



**INTERPRETATION:** LIC Housing Finance has consistently generated a profit from FY 2020–21 to FY 2024–25, as evidenced by the financial performance criteria. All three metrics—ROE, net interest margin, and ROA—have demonstrated improvement over time. The stock price is expected to increase as a result of the company's prudent utilization of its resources.

### 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%

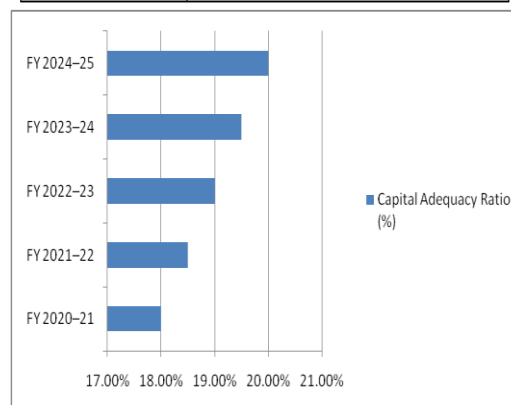


**INTERPRETATION:** The gross and net nonperforming assets (NPAs) of LIC Housing Finance experienced a substantial

decline from FY 2020–2021, FY 2024–2025, and FY 2026–2027. The Provision Coverage Ratio increased from 60% to 80%, necessitating increased security and risk management to prevent future loan defaults.

### 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%



**INTERPRETATION:** LIC Housing Finance's safety net increased from 18.00% in FY 2020-21 to 20.00% in FY 2024-25 as a consequence of a consistent increase in capital adequacy. The fact that it is now easier to manage losses while adhering to legal requirements is a significant step toward facilitating long-term growth.

## 5. CONCLUSION

Mortgage financing has been substantially affected by the Reserve Bank of India's property restrictions. The industry has experienced significant growth in recent years as a result of the RBI's consistent adjustments to the repo rate, Cash Reserve Ratio (CRR), and house loan risk weights.



These innovations have made it simpler to obtain credit and have reduced its cost. The economy has maintained stability in the face of high inflation or a housing surge due to credit constraints. Because financing rates are lower and regulations are fewer during economic downturns, affordable housing is in high demand.

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