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# "A STUDY ON HOUSING FINANCE ACCESSIBILITY FOR LIG IN URBAN AREAS"

***SANIDHI SUNIL KIRTE[1], Dr. JYOTI SAH[2]***

[1] BBA SEM 6, AMITY BUSINESS SCHOOL AMITY UNIVERSITY MUMBAI, MAHARASHTRA (kirtesanidhi@gmail.com)

[2] Assistant Professor, Amity Business School Amity University Mumbai, Maharashtra (jyoti2855sah@gmail.com)

**ABSTRACT**

Provision of cheap and secure homes continues to be an inherent necessity but is still beyond the reach for a majority of India's Lower Income Group (LIG) households. The housing finance environment aimed at LIG segments, institutional drivers, government policy responses, and emerging technologies facilitating a bridging of the housing deficit are explored and critically assessed in this research study. Based on secondary data from government reports, industry journals, and policy documents, supplemented by primary survey responses, the research assesses the accessibility, efficacy, and inclusivity of major schemes like Pradhan Mantri Awas Yojana (PMAY) and the Affordable Rental Housing Complexes (ARHC) scheme.

The study finds that though formal housing loan disbursements are dominated by public and private sector banks, Housing Finance Companies (HFCs) are crucial in extending credit to underserved segments through flexible credit products. The research also points towards the increasing importance of FinTech innovations like AI-driven underwriting, e-KYC, and mobile-enabled loan platforms in simplifying the borrowing process for informal sector workers. New technologies such as blockchain-based land record systems are also being investigated for their ability to lower fraud and enhance transparency.

Despite significant advances, the study finds ongoing impediments such as low financial literacy, irregular documentation, and poor scheme awareness among LIG borrowers. The paper concludes with specific suggestions for policymakers, financial institutions, and technology providers to enhance outreach, streamline procedures, and expand sustainable housing finance models. By framing inclusive housing finance as both a social necessity and an economic opportunity, the study adds to the debate on equitable urban development and financial inclusion in India.

***Keywords:*** Housing Finance, Lower Income Groups (LIG), PMAY, ARHC, FinTech, HFCs, Financial Inclusion, Affordable Housing, India.

## 1.Introduction

Housing is a basic human requirement, but millions of Low-Income Group (LIG) families in urban India find it difficult to get access to formal housing finance. Housing is seen as the driving force for economic growth and can provide a huge boost to the economy through its forward and backward linkages with over 250 ancillary industries. The industry has high inter-industry linkages and investments in housing can have multiplier effects on income generation and employment in the nation.

Realizing the priority of housing as a primary human need, the government has released various schemes to further focus on housing in the nation. Banks typically have a tight eligibility criterion, making it challenging for economically weaker segments to avail loans. Additionally, exorbitant property prices, irregular income cycles, and absence of collateral make financial access even tougher. While initiatives by the government like Pradhan Mantri Awas Yojana (PMAY) and Credit-Linked Subsidy Scheme (CLSS) try to make housing finance accessible, their impact is not even across geographies. In India, it's one of the biggest investments in most people's lives and carries a lot of importance. Given the sizeable population, a good home is something many invest their entire lifetime in achieving for. According to the report of household finance committee released by RBI in 2017, an average Indian household keeps 77% of its entire asset in real estate in the form of residential buildings, buildings for farm and non-farm activities, construction like recreational centers, and rural and urban lands.

This study examines the challenges, availability, and accessibility of housing finance for LIG households in urban areas while evaluating the effectiveness of government and private sector initiatives in improving financial inclusion.

## 2.Statement of the Problem

The lack of access by LIG households to housing finance at reasonable costs has contributed to rising informal settlements, unauthorized dwellings, and housing insecurity in cities. Even though housing finance products are available from banks, Non-Banking Financial Companies (NBFCs), and microfinance institutions, many LIG families remain outside the reach of these.

Availability of affordable housing finance continues to be a major challenge for Low-Income Groups (LIG) in cities. Despite the rising housing demand from LIG households, the provision of formal housing finance to them is hampered by income volatility, absence of collateral, high loan qualification requirements, and limited financial literacy. Most LIG households are employed in the informal economy, earning irregular and unrecorded wages, which pose challenges to meeting the standards imposed by conventional financial institutions. Consequently, most LIG families remain in poor-quality rental accommodation or turn to high-interest informal lending sources, which further exacerbates their financial fragility. The central issue tackled in this research is the low availability of housing finance for LIG families in cities, despite the availability of government-backed programmes and other lending institutions. This research aims to determine the major challenges that bar LIG families from getting housing finance, assess the adequacy of current models for housing finance, and examine possible policy and financial reforms to enhance accessibility.

## 3.Objectives of the Study

1. 1.To analyse the availability and accessibility of housing finance schemes for LIG households in urban areas, viz., bank loans, microfinance institutions (MFIs), and government schemes.
2. 2.To explore major obstacles hindering LIG households from accessing formal housing finance, e.g., income uncertainty, absence of credit history, collateral demand, and high-interest rates.
3. 3.To assess the efficacy of government housing finance programs, such as Pradhan Mantri Awas Yojana (PMAY) and Credit Linked Subsidy Scheme (CLSS), in enhancing LIG housing finance access.
4. 4.To analyse the contribution of financial institutions, such as banks, NBFCs, and MFIs, to making housing finance accessible to LIG households at affordable costs.
5. 5.To analyse innovative housing finance models, such as digital lending, fintech-based solutions, and community financing, to enhance housing loan access among LIG borrowers.
6. 6.To make policy suggestions and fiscal plans for improving the accessibility of housing finance for LIG households to bring more financial inclusion and homeownership possibilities.

## 4. Literature Review

### *4.1 Housing Access vs. Housing Need*

India's urban housing deficit is less a matter of supply and more one of affordability and access, as stated by Kundu (2012). The Ministry of Housing and Urban Affairs (MoHUA) approximates that more than 90% of the housing deficit falls under the EWS and LIG segments, where access to formal credit is still restricted. In spite of huge-scale policy interventions such as PMAY (Urban), numerous households still self-build homes using informal finance.

### *4.2. Role of Financial Institutions*

Studies by Batra and Bilolikar (2019) and RBI (2023) suggest that public sector banks and HFCs are still the major channels of housing finance for LIG borrowers. Still, conventional underwriting structures tend to leave out informal workers based on no proof of income or credit history. HFCs such as Aavas and Shubham have come up with alternative credit assessment models, thus becoming more inclusive but also largely at a higher rate of interest.

### *4.3. Effectiveness of Government Schemes and Subsidies*

Several assessments of PMAY (e.g., IIM Bangalore, 2021) identify the Credit Linked Subsidy Scheme (CLSS) as a commendable but unevenly utilized scheme. Procedural complexity, unawareness, and weak targeting have constrained its delivery in various states. The Affordable Rental Housing Complexes (ARHCs) policy launched in 2020 holds promise but is at the pilot stage, with sparse empirical analysis presented.

### *4.4. Emerging Technologies and Housing Finance*

Recent studies, including BCG (2023) and the World Bank (2021), identify the revolutionary role of FinTech technologies in affordable housing. Mobile loan apps, e-KYC, risk models based on AI, and digital payment are facilitating quicker, paperless, and more convenient loan disbursal. Such technologies are especially useful for informal sector borrowers who had no access to traditional lending.

### *4.5. Blockchain and Land Record Digitization*

Open ownership of property is essential for lending based on mortgage. Dey and Som (2022) explain how blockchains-based land registries will increase trust, decrease fraud, and enhance the security of lending and borrowing for both lenders and borrowers. Early pilot projects in Maharashtra and Andhra Pradesh are promising but as yet not scaled up.

### *4.6. International Models and Comparative Learning*

Literature comparing experiences of other countries such as Kenya (Housing Microfinance) and Brazil (Minha Casa Minha Vida) provides useful insights. Community-based finance, tenure security, and cross-subsidized public-private partnerships are key features of such models, which can be replicated in the Indian context.

**Identified Gaps & Barriers**

Although there is vast literature on housing shortage and affordability, there are fewer studies that bring finance, technology, and policy together in an integrated perspective, especially from the perspective of LIG households. Additionally, beneficiary views and grassroots-level impact analyses of schemes such as PMAY and ARHCs are less explored. This paper attempts to bridge these gaps by providing a multi-dimensional analysis that brings together institutional trends and real-world problems along with technological advances.

## 5. Research Methodology

Research methodology is a methodical procedure used to obtain results in answer to a specified issue or concern, commonly known as a research problem. It involves a systematic inquiry using established scientific methods to solve problems and produce new, generally applicable knowledge.

The research design for this study is descriptive, as it seeks to examine the accessibility of housing finance for Low-Income Groups (LIG) within urban communities. The research will employ both qualitative and quantitative methods, making use of primary data (interviews) and secondary data (reports, scholarly articles, and government reports). The use of a mixed method will assist in acquiring an extensive understanding of the influencing factors on housing finance accessibility. The study will pay attention to the following areas: Importance of Housing Finance for LIG Households, Challenges in Housing Finance Accessibility for LIG, Role of Microfinance Institutions (MFIs) and NBFCs, Digital Lending and Fintech Innovations in Housing Finance & Effectiveness of Government Schemes for LIG.

This research employs a mixed-methods approach, wherein both qualitative and quantitative research methods are used together, to undertake an in-depth examination of the housing finance market for LIG in India. The objective was not merely to analyze policy and institutional frameworks, but also to document on-ground experience, efficiency, and deficiencies in the system.

### *5.1 Research Design*

The dissertation follows an **exploratory-descriptive design**:

- **Exploratory**, because affordable housing finance—particularly for LIG—is still an evolving field with emerging innovations (e.g., FinTech, ARHCs, Blockchain).
- **Descriptive**, as it attempts to map the current structure, stakeholders, models, and performance of various housing finance mechanisms through data and reports.

### *5.2 Data Collection*

**Secondary Data Sources**

Most of the data used in this dissertation is drawn from credible and recent secondary sources, such as:

- Government reports (PMAY, MoHUA, NHB, RBI)
- Industry publications (BCG, McKinsey, World Bank)
- Journals and research papers
- Official portals (pmay-urban.gov.in, nhb.org.in)
- News articles and think tank reports (PRS India, Habitat for Humanity, IndiaSpend)

**These sources were essential for:**

- Understanding market size and growth trends
- Comparing different institutional approaches (banks vs HFCs)
- Assessing scheme implementation performance

### *5.3 Tools of Analysis*

The study employed several tools for better understanding and presentation of the data:

•SWOT Analysis: To evaluate the Strengths, Weaknesses, Opportunities, and Threats within the LIG housing finance sector.

•Tabular and Graphical Representation: For clearer insights into market share, scheme participation, and financial distribution.

•Thematic Analysis: Used to interpret open-ended survey responses and draw broader inferences.

•Comparative Charts: To contrast institutional performance (public vs private banks, HFCs, etc.)

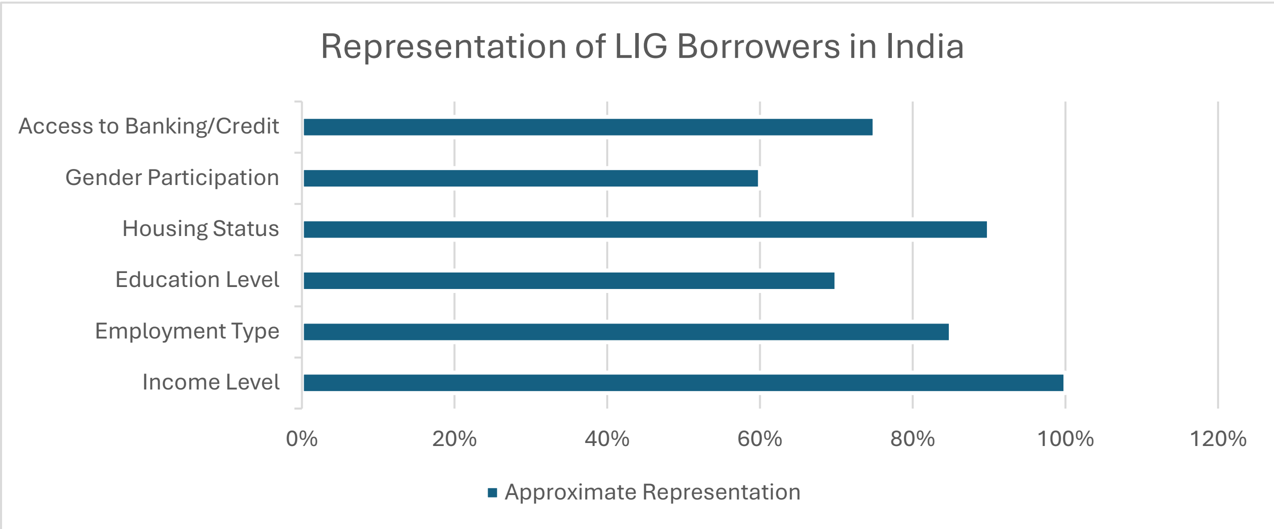
### *5.4 Data Analysis*

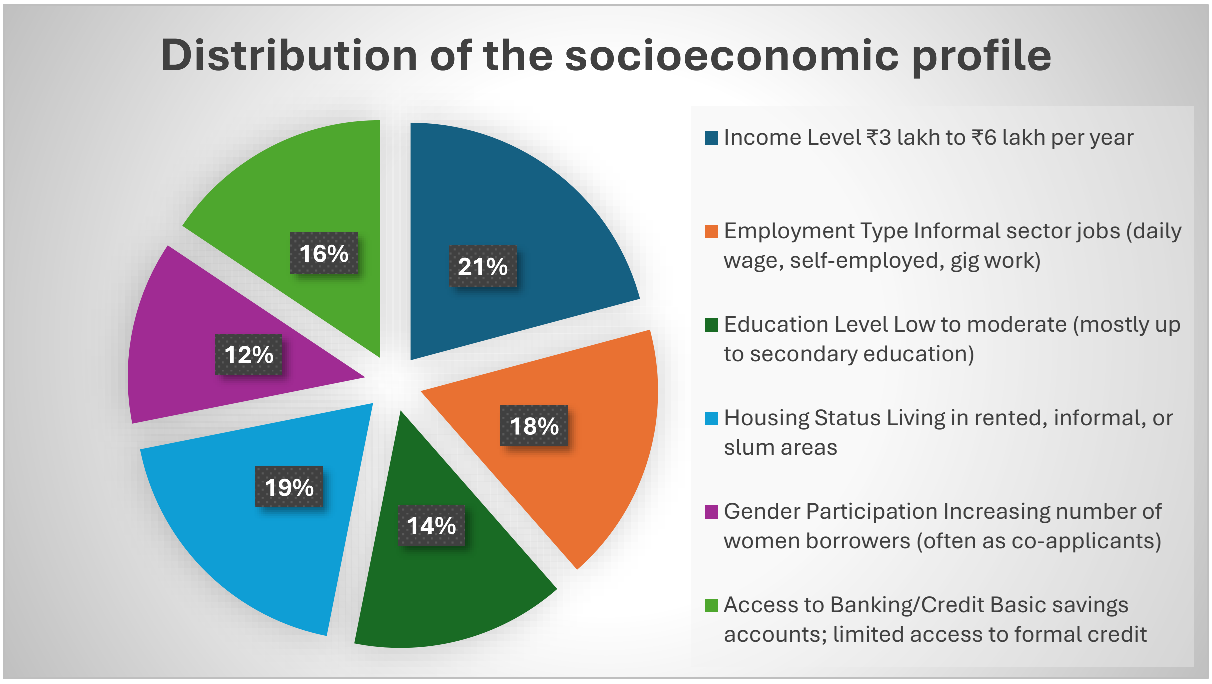
**5.4.1Socioeconomic Profile of LIG Borrowers**

LIG borrowers, generally, are individuals or families with an annual income between ₹3,00,001 and ₹6,00,000, and they are often seeking housing solutions through programs like Pradhan Mantri Awas Yojana (PMAY). They may be from diverse backgrounds, including manual scavengers, women (especially widows), members of Scheduled Castes/Tribes/Other Backward Classes, minorities, persons with disabilities, and transgender individuals, according to the National Housing Bank. These borrowers often rely on a combination of self-savings, bank loans, and other financial institutions for housing purchases.

| Category | Details | Approximate Representation |
|---|---|---|
| **Income Level** | **₹3 lakh to ₹6 lakh per year** | **100%** |
| **Employment Type** | **Informal sector jobs (daily wage, self-employed, gig work)** | **85%** |
| **Education Level** | **Low to moderate (mostly up to secondary education)** | **70%** |
| **Housing Status** | **Living in rented, informal, or slum areas** | **90%** |
| **Gender Participation** | **Increasing number of women borrowers (often as co-applicants)** | **60%** |
| **Access to Banking/Credit** | **Basic savings accounts; limited access to formal credit** | **75%** |

**Table 5.4.1 Socioeconomic Profile of LIG Borrowers in India**



**ANALYSIS:**

Income & Employment: LIG households have an income of ₹3–6 lakh/year, primarily from unorganized sector jobs (e.g., vendors, drivers, daily-wage labourers). Their earnings are irregular and mostly unrecorded, which makes it difficult to get formal housing loans.

Lack of Documentation: They work in the unorganized sector with no fixed pay or employment benefits, which results in a lack of proof of income—one of the largest obstacles to getting loans.

Low Financial Literacy: Most LIG individuals lack education and understand banking procedures poorly. This prevents them from approaching or availing themselves of housing finance schemes.

Housing Dreams vs. Reality: Though they dream of owning legal and secure homes, problems such as excessive down payments, uncertain land titles, and unavailability of ID/address proof restrict their access to affordable housing.

Gender and Social Barriers: Women are playing more active roles in homeownership, facilitated by government incentives. Yet, caste-based exclusion still affects access, particularly for SC, ST, and OBC groups.

Limited Credit Access: Even with bank accounts (under schemes like Jan Dhan Yojana), formal credit remains inaccessible. The majority depend on informal sources due to ignorance or documentation needed for schemes like PMAY.

**5.4.2 India Trends and Progress of Housing In India: NHB REPORTS**

This is a report that provides valuable insights into the housing situation of the present day, covering major trends in house prices, top government initiatives, and the changing role of lenders. It also examines more closely the performance of Housing Finance Companies (HFCs) and the future of the industry.

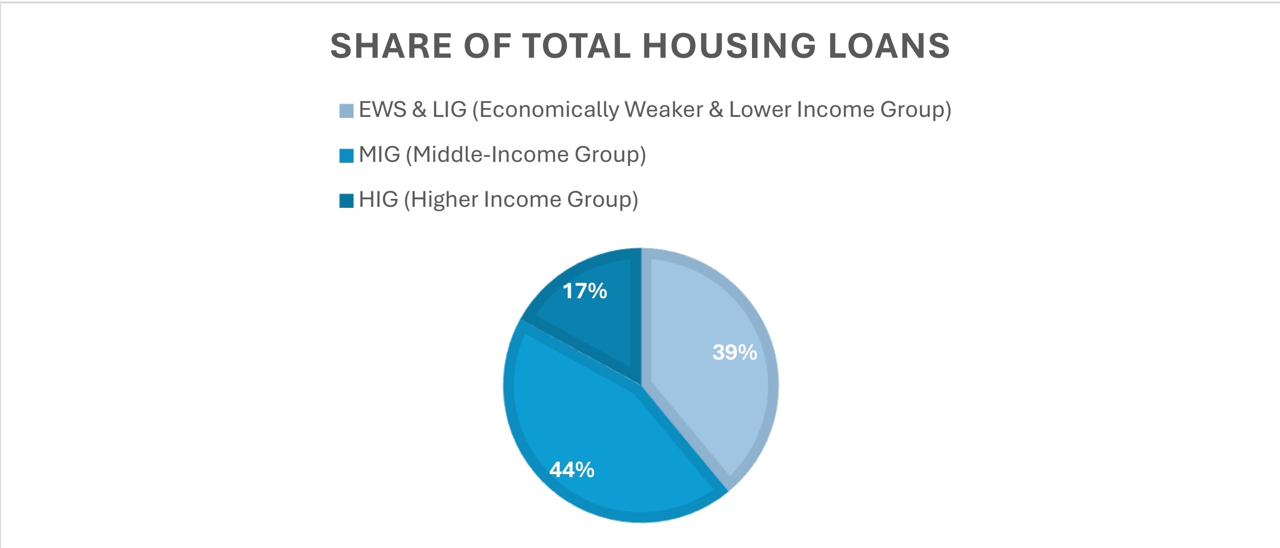
As of September 30, 2024, individual house loans in India stood at a staggering ₹33.53 lakh crore — a respectable 14% increase from last year at the same period. This increase represents the increased desire for homeownership among Indians and reflects the overall strength of the economy in the country. Financial institutions have played a crucial role in driving this growth, with more people able to make their dream of homeownership a reality.

Distribution of Housing Loan Categories

The distribution of individual housing loans shows a balanced spread across different income groups:

| Income Group | Share of Total Housing Loans |
|---|---|
| EWS & LIG (Economically Weaker & Lower Income Group) | 39% |
| MIG (Middle-Income Group) | 44% |
| HIG (Higher Income Group) | 17% |

**Table 5.4.2 Distribution of Housing Loan across Income Categories**




**Key Findings:**

**Middle-Income Group (MIG) – 44%:**

MIG has the most significant portion of housing loans, which indicates that this segment has both the willingness and the means to invest in ownership of a home.

This may also indicate higher affordability on account of government schemes, subsidy on interest, and urban aspirations.

**Economically Weaker Section & Lower Income Group (EWS & LIG) – 39%**

This segment is responsible for a substantial 39%, indicative of successful attempts at financial inclusion and increasing credit accessibility through mechanisms such as PMAY (Pradhan Mantri Awas Yojana).

Specialized Housing Finance Companies and Microfinance Institutions must be contributing significantly here.

**Higher Income Group (HIG) – 17%:**

The HIG lends the lowest proportion of housing loans.

Reasons could be increased preference for self-financing, slowdown in premium segment, or investment in other asset classes such as commercial property or mutual funds.

***Implications:***

The pattern indicates that housing finance in India is increasingly democratized, with middle- and lower-income segments emerging as major players.

It indicates a change in priority from luxury housing to affordable and mid-segment housing, which is in sync with the changing economic structure of the country.

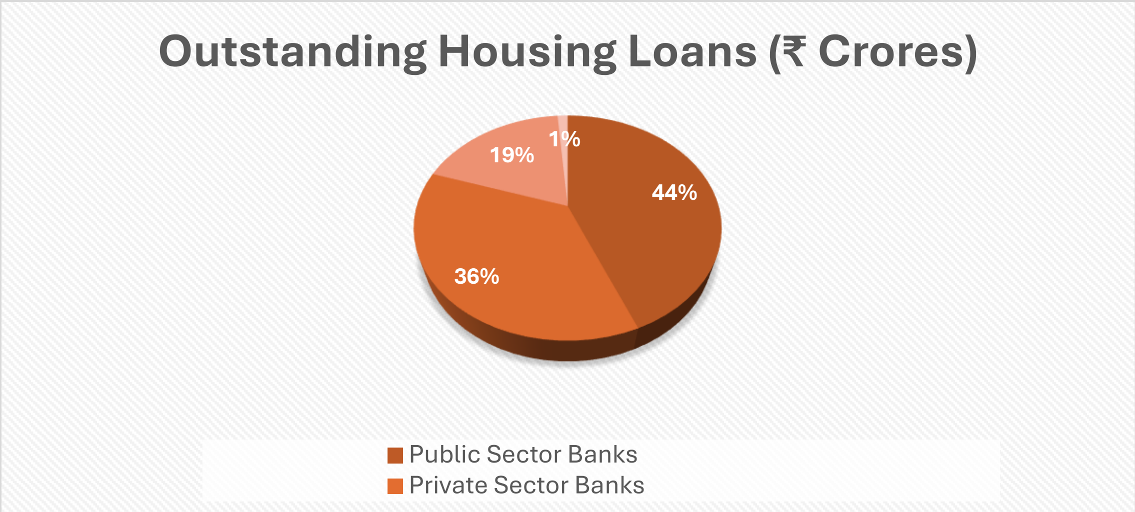
The lenders, developers, and policymakers will have to keep supporting the EWS & LIG segments through innovative loan products and risk mitigation instruments.

### 5.4.3 Housing Loan Disbursements in India: NHB REPORT FEB 2025

Public and private sector banks command a whopping 80% of the market—clearly showing that housing finance has become a core part of the formal banking sector. Yet, HFCs continue to be instrumental in driving financial inclusion, especially for borrowers at the base of the pyramid.

As the demand for housing continues to rise and government support remains strong, all lending institutions are expected to ramp up their efforts. But with that comes increased competition—each player will need to innovate and adapt to stay ahead.

| **Primary Lending Institution (PLI) Category** | **Outstanding Housing Loans (₹ Crores)** | **Share (%)** |
|---|---|---|
| Public Sector Banks | ₹ 15,53,583 | 44% |
| Private Sector Banks | ₹ 12,89,428 | 36% |
| Housing Finance Companies (HFCs) | ₹ 6,61,866 | 19% |
| Regional Rural Banks (RRBs) | ₹ 45,359 | 1% |
| Total | **₹ 35,50,235** | **100** |




**KEY FINDINGS**:

Public Sector Banks Take the Lead **(44%):** Public sector banks remain the market leaders in housing loans, with the biggest chunk at 44%. Their extensive reach and ingrained credibility among borrowers, particularly in the middle- and low-income classes, make them a natural choice for most would-be homeowners. And, to boot, they are usually the lenders of first choice under government housing programs and credit obligations in urban and rural India.

Private Sector Banks Finding Favour **(36%):** Not far off, private sector banks have had impressive growth, grabbing 36% of the market share. With a mobile-first attitude, faster turnaround time, and options for tailormade loans, they're proving to be favoured among city-centric, technology-reliant youngsters who desire ease in borrowing money.

Housing Finance Companies (HFCs) – The Unsung Heroes (**19%):** Though their total portion is smaller, HFCs have a critical role in the ecosystem.

They are best at serving the underserved borrowers, more so in the EWS and LIG segments who might not have formal credit tracks or traditional documentation. Their niche focus meets a significant gap that bigger banks tend to ignore.
Regional Rural Banks (RRBs) – Small but Significant (**1%):** While RRBs represent only 1% of the housing loan slice, their existence counts—particularly in far-flung and rural areas where access to larger institutions is poor. Their localized focus can be a game-changer in smaller towns.

## 6. Conclusion & Recommendations

**6.1** Through this research, we explored the landscape of housing finance for Lower Income Groups (LIG) in India and uncovered both progress and persistent challenges. From understanding the distribution of housing loans across income segments to analysing the roles of Public Lending Institutions (PLIs), Housing Finance Companies (HFCs), and government-led schemes, it's clear that India is making commendable strides—but the journey is far from over.
The rise in home loan disbursements, especially to EWS and LIG segments, highlights a growing demand for homeownership and a shift toward formal housing finance. However, structural issues like land ownership disputes, income informality, limited credit histories, and low awareness levels still prevent many deserving households from accessing loans. While government initiatives like PMAY and ARHCs have brought momentum, their reach and impact remain uneven across states and populations.
Innovations in FinTech, Blockchain for land records, and green housing solutions offer exciting pathways for inclusion, transparency, and sustainability.

### *6.2 The Future of Housing Finance for Lower Income Groups (LIG)*

**Digital-First, Human-Centric Lending:** Focus on quicker, accessible digital options with compassion for informal sector dynamics. Products such as mobile apps, e-KYC, AI-based underwriting to simplify loan access for low-documentation borrowers.
**Voice-enabled and regional language interfaces:** to enhance accessibility for first-time users. Chatbots and digital guides to assist users without bank trips.
**Alternative Credit Systems:** Transition away from legacy credit scores and toward alternative data such as rent, utility bills, or mobile behaviour.
Social underwriting through SHGs or community authentication to substitute formal documentation. Embedded finance models through cooperatives or micro-insurance platforms to increase credit availability.
**Green + Affordable**: The New Standard: Next-generation housing finance to have green elements such as solar panels, rainwater harvesting, and insulation. Green subsidies and tax credits to encourage green, climate-resilient affordable housing. "Economic" will mean affordability, and "environmental" will mean sustainability.
**Community-Led & Rental Housing Growth:** Awareness that not every LIG household aspire to home ownership; many require stable rentals. ARHCs (Affordable Rental Housing Complexes) to cater to migrant and urban poor.
**Emergence of cooperative and NGO-led housing systems.:** Increased popularity of "rent-to-own" models providing incremental ownership to long-term occupants.
**Policy Innovation & Public-Private Synergy**: Shift towards real-time monitoring, feedback mechanisms, and evidence-based policymaking.
**Enhance PPP** (Public-Private Partnerships) to provide scalable, inclusive funding. Form local housing finance cells for last-mile assistance, particularly in urban pockets.

### *6.3 Recommendations*

**1. Support Credit Accessibility for Informal Workers:** Incentivize PLIs and HFCs to use alternative credit scoring models (e.g., AI-driven underwriting, behavioural data). Foster micro-mortgages and adjustable EMI choices for individuals with fluctuating income sources.
**2. Build Digital Housing Finance Ecosystems:** Up-scale FinTech platforms and mobile loan apps designed for low-income and semi-literate users. Provide multilingual, user-friendly interfaces and financial literacy tools to facilitate borrowers' informed choices.
**3. Digitize and Secure Land Records**: Place a high-priority Blockchain-based pilot for digitizing land titles in high-demand housing areas. Start awareness campaigns to enable citizens to understand and confirm their digital ownership of land.
4. Upgrade Government Schemes with Improved Outreach: Enhance beneficiary identification, grievance management, and last-mile delivery for schemes such as PMAY, ARHCs, and CLSS. Collaborate with local NGOs and self-help groups to raise awareness and application support in slum and peri-urban settlements.
**5. Encourage Affordable Rental Housing:** Facilitate private and public partnerships to develop affordable rental schemes, particularly for migrant workers and seasonal workers. Ease compliance and incentivize landlords under ARHCs to increase supply and uptake.
6**. Encourage Green and Sustainable Housing:** Provide interest subsidies or tax incentives for LIG borrowers investing in energy-efficient houses. Encourage green building materials and rooftop solar integration in low-cost housing.
**7. Data Transparency and Policy Monitoring:** Develop an open dashboard for disaggregated housing finance data by region, gender, and income level. Perform independent annual audits to assess the performance and effectiveness of government housing programs.

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