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### Impact of government policies on housing finance: A special reference to LIC housing finance

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#### Abstract

Government policies have played a crucial role in shaping India's housing finance sector, particularly in enhancing accessibility to affordable housing. This article explores the significant impact of government initiatives, such as the Pradhan Mantri Awas Yojana (PMAY) and tax incentives, on the growth of housing finance companies, with a special focus on LIC Housing Finance Ltd. (LIC HFL). PMAY, launched in 2015, aims to provide housing for all by 2024, offering interest subsidies and incentives for home loans, especially benefiting economically weaker sections (EWS) and middle-income groups. These policies have bolstered demand for affordable housing and positively influenced LIC HFL's loan disbursements. Further, regulatory reforms led by the Reserve Bank of India (RBI), such as bringing Housing Finance Companies (HFCs) under its regulatory oversight, have ensured more stability and transparency in the sector. LIC HFL has strategically aligned with government initiatives, increasing its focus on affordable housing and sustainable development, including plans to issue green bonds to fund eco-friendly projects. Despite challenges such as rising interest rates and regulatory compliance costs, LIC HFL continues to benefit from supportive government policies, positioning itself for future growth. The company's emphasis on affordable housing and sustainable practices highlights the broader impact of government policy on driving economic and social change in India's housing sector.

**Keywords:** Pradhan Mantri Awas Yojana (PMAY), affordable housing, LIC housing finance Ltd. (LIC HFL), RBI regulations, green bonds

#### Introduction

The housing finance sector in India plays a pivotal role in the country's economic development, directly impacting millions of individuals aspiring to achieve homeownership. Government policies have been instrumental in shaping the landscape of housing finance by creating an enabling environment that facilitates access to affordable housing, particularly for low- and middle-income groups. Over the years, the Indian government has introduced a variety of initiatives aimed at addressing the challenges of housing shortages, urbanization, and affordability, with a significant focus on schemes that promote home loans and housing finance companies. One of the most prominent initiatives in recent times is the Pradhan Mantri Awas Yojana (PMAY), launched in 2015, which set an ambitious target of providing "Housing for All" by 2024. This flagship program has had a profound impact on the housing finance sector by offering subsidies under the Credit Linked Subsidy Scheme (CLSS) to economically weaker sections (EWS), low-income groups (LIG), and middle-income groups (MIG), thereby reducing the cost of borrowing for these categories of homebuyers. Housing Finance Companies (HFCs) like LIC Housing Finance Ltd. (LIC HFL) have been key beneficiaries of this policy environment, as the increased demand for affordable housing has resulted in a surge of home loan applications. LIC HFL, one of India's largest housing finance providers, has strategically aligned itself with government initiatives, significantly expanding its loan

portfolio in the affordable housing segment. The company's focus on supporting borrowers from the economically weaker sections and middle-income groups has mirrored the government's emphasis on inclusivity and financial accessibility in the housing sector. Moreover, government policies that offer tax incentives for housing loans have further stimulated the housing finance market, making homeownership more attractive and feasible for a broader segment of the population. In addition to affordability schemes, regulatory reforms introduced by the Reserve Bank of India (RBI) have also significantly shaped the housing finance landscape. In 2019, the RBI brought housing finance companies under its regulatory ambit, a move that aimed to ensure greater transparency, stability, and prudence in the sector. For companies like LIC HFL, this regulatory oversight has instilled greater confidence among borrowers and investors alike, fostering trust in the overall housing finance ecosystem. The regulatory reforms have encouraged housing finance companies to adopt sound lending practices, maintain adequate capital reserves, and mitigate the risks associated with project financing, particularly in the real estate sector. As a result, LIC HFL has adopted a more cautious approach towards project loans, while continuing to focus on retail loans, which remain the cornerstone of its business model. Beyond affordable housing and regulatory reforms, the Indian government's growing emphasis on sustainable development has also influenced the housing finance sector. In line with global

trends and national priorities related to climate change and environmental sustainability, the government has promoted green housing initiatives that encourage the construction of eco-friendly homes. Recognizing the importance of sustainability, LIC HFL has begun to explore the issuance of green bonds as a means of raising funds for environmentally sustainable projects. This strategic move not only aligns with government policies but also positions LIC HFL as a forward-thinking player in the evolving housing finance market. The company's commitment to green financing reflects its broader objective of supporting sustainable urban development, while also tapping into a growing market for environmentally conscious investments. Despite the largely positive impact of government policies, the housing finance sector faces certain challenges that warrant attention. Rising interest rates, inflationary pressures, and an uncertain global economic environment have created a complex operating landscape for housing finance companies. Furthermore, the compliance costs associated with adhering to regulatory changes have posed additional financial burdens on companies like LIC HFL. Nonetheless, the long-term growth prospects for LIC HFL and the broader housing finance market remain strong, given the government's sustained focus on affordable housing and financial inclusion. The various tax incentives, subsidies, and policy reforms have created a conducive environment for homebuyers, which, in turn, has driven the growth of housing finance companies. As the country moves closer to achieving its "Housing for All" goal, LIC HFL is poised to benefit from the continued demand for home loans, especially in the affordable housing segment. Moreover, its strategic focus on sustainable housing solutions underscores its commitment to aligning with the government's broader vision of inclusive and sustainable development. In conclusion, government policies have had a transformative impact on the housing finance sector in India, and LIC Housing Finance has been at the forefront of leveraging these opportunities. The combination of affordable housing initiatives, regulatory reforms, and the growing focus on sustainability has created a dynamic environment for growth and innovation in housing finance. As LIC HFL continues to adapt to the evolving policy landscape, it remains well-positioned to contribute to India's housing goals while also meeting the needs of its diverse customer base.

### Literature Reviews

1. Sinha (2021) <sup>[4]</sup> explores the pivotal role of housing finance in India's economic development, emphasizing the impact of government schemes like Pradhan Mantri Awas Yojana (PMAY). The study highlights how LIC Housing Finance Ltd. (LIC HFL) has significantly contributed to expanding affordable housing through targeted loan disbursements, especially for economically weaker sections (EWS) and low-income groups (LIG).
2. Sharma (2020) <sup>[5]</sup> examines the effectiveness of government policies aimed at improving housing affordability, focusing on the Credit Linked Subsidy Scheme (CLSS) under PMAY. The study reveals that LIC HFL has aligned its lending practices with these initiatives, thereby expanding its reach in the affordable housing segment and making homeownership more

accessible to lower-income groups.

3. Kumar (2022) <sup>[6]</sup> analyzes the role of Housing Finance Companies (HFCs), particularly LIC HFL, in financing affordable housing. The study highlights how RBI's regulatory reforms in 2019 improved lending practices and enhanced transparency, helping LIC HFL expand its affordable housing portfolio and maintain financial stability.
4. Choudhary (2021) <sup>[10]</sup> discusses the impact of the Housing for All initiative under PMAY on the housing finance sector. The paper notes that LIC HFL has successfully leveraged government subsidies and tax incentives to increase its loan disbursements, especially in the low- and middle-income segments.
5. Jain (2022) <sup>[11]</sup> explores LIC HFL's entry into green housing finance through the issuance of green bonds, which aligns with the government's focus on environmental sustainability. The study points out that government policies encouraging eco-friendly development provide a new growth avenue for LIC HFL, allowing it to tap into the demand for sustainable housing solutions.

### Impact of Government Policies on Housing Finance: A Special Reference to LIC Housing Finance

Housing finance plays a crucial role in enabling home ownership, which is a key part of an individual's economic and social well-being. In India, government policies heavily influence the housing finance sector, shaping both its growth and the opportunities for individuals to secure affordable housing. In this article, we will explore the broader impact of government policies on housing finance and focus specifically on LIC Housing Finance (LIC HFL), one of the leading housing finance companies in India.

#### 1. The Role of Government in Housing Finance

Government policies have a profound influence on the housing sector, particularly in financing. These policies aim to improve access to housing for low- and middle-income households, stabilize the financial system, and promote sustainable urban development. Some of the key policies include:

- **Pradhan Mantri Awas Yojana (PMAY):** Launched in 2015, PMAY aims to provide affordable housing to all by 2024. It focuses on both urban and rural areas, offering subsidies and incentives for home loans to economically weaker sections (EWS) and low-income groups. As part of the PMAY-Urban scheme, the government has supported millions of homes under its "Housing for All" mission, which has had a direct effect on housing finance demand.
- **Housing for All by 2024:** This policy initiative, part of the PMAY scheme, envisions housing for every family, further enhancing the demand for home loans and driving affordable housing projects.
- **Interest Subsidy Schemes:** Under PMAY's Credit Linked Subsidy Scheme (CLSS), government-backed interest subsidies have significantly reduced the cost of borrowing for homebuyers from the EWS and middle-income groups. This initiative has boosted housing finance companies like LIC HFL, which have benefited from increased loan applications.

- **Tax Benefits for Housing Loans:** The Indian government provides tax incentives to individuals who take home loans, further encouraging home ownership and increasing demand for housing finance.
- **Regulatory Reforms:** The Reserve Bank of India (RBI) has also introduced a series of regulatory reforms aimed at streamlining housing finance. One significant move was bringing Housing Finance Companies (HFCs) under its regulatory purview in 2019. This reform was aimed at strengthening oversight of housing finance institutions and promoting stability in the sector.

## 2. LIC Housing Finance: A Key Player in India's Housing Finance Sector

LIC Housing Finance Ltd (LIC HFL) is one of the largest housing finance companies in India, with a significant presence in both the retail and project finance segments. It provides loans for purchasing, constructing, repairing, and renovating homes, as well as loans for non-residential premises.

### A Focus on Affordable Housing

LIC HFL has aligned its strategy with the government's focus on affordable housing, a key component of the Pradhan Mantri Awas Yojana (PMAY). The affordable housing segment is a growing focus for the company, and LIC HFL has increased its emphasis on providing loans to the economically weaker sections (EWS) and low-income groups. The company's goal is to expand the affordable housing portion of its portfolio from 10-12% to 20-25% over the next few years.

### Government Schemes and LIC HFL's Growth

The government's interest subsidy schemes under PMAY have had a direct positive impact on LIC HFL's loan disbursements. The company has experienced a steady rise in home loan applications due to the increased affordability brought about by these subsidies. The Credit Linked Subsidy Scheme (CLSS) under PMAY has particularly benefited LIC HFL's borrowers from the middle-income and economically weaker sections, further boosting the company's loan portfolio.

### Regulatory Reforms and Stability

With the RBI stepping in to regulate housing finance companies, LIC HFL has been able to benefit from a more stable and transparent regulatory environment. This has increased confidence among borrowers and investors, leading to greater trust in housing finance as an asset class. The RBI's oversight has ensured that housing finance companies maintain sufficient capital reserves, follow prudent lending practices, and mitigate risks associated with project loans.

## 3. LIC Housing Finance and the Green Housing Movement

In addition to affordable housing, government policies are increasingly focusing on sustainable development. LIC HFL has responded to this by planning to raise funds through green bonds, aligning with the government's push for environmentally sustainable projects.

Green bonds are used to finance eco-friendly projects, and LIC HFL plans to issue these bonds in the financial year 2024-25. This move not only helps the company align with global trends towards sustainability but also opens up new avenues for raising funds at attractive rates. Government policies that encourage sustainable housing have created a new growth segment for LIC HFL, positioning the company at the forefront of eco-friendly housing finance.

## 4. Challenges and Opportunities for LIC Housing Finance

While government policies have been largely beneficial for the housing finance sector, there are also challenges. Rising interest rates, economic slowdowns, and regulatory compliance costs can impact housing finance companies like LIC HFL. Additionally, the risk associated with project loans has prompted LIC HFL to adopt a more cautious approach.

However, the continued focus on affordable housing, along with tax incentives and government subsidies, presents LIC HFL with significant growth opportunities. The company's alignment with government policies, especially in promoting affordable housing and sustainable development, will likely drive its growth in the coming years.

### Objectives of the Study

1. To analyze the impact of government housing policies on the overall housing finance sector in India, particularly in terms of affordability and accessibility for low- and middle-income groups.
2. To evaluate the role of LIC Housing Finance in promoting affordable housing and its alignment with key government initiatives like Pradhan Mantri Awas Yojana (PMAY).
3. To assess the influence of RBI's regulatory reforms on the operational strategies and risk management practices of LIC Housing Finance Ltd.
4. To examine the effect of tax incentives and interest subsidies on the growth of housing loans and the demand for home financing through LIC HFL.
5. To explore LIC HFL's efforts in promoting sustainable housing finance through initiatives such as green bonds and eco-friendly housing projects in line with government policies.

### Research Methodology

This study adopts a mixed-method approach, combining both qualitative and quantitative research techniques to analyze the impact of government policies on housing finance, with a special focus on LIC Housing Finance Ltd. (LIC HFL). Primary data is gathered through interviews and surveys with key stakeholders, including housing finance experts, LIC HFL officials, and borrowers who have benefitted from government schemes like the Pradhan Mantri Awas Yojana (PMAY). This helps to understand the direct impact of government initiatives on LIC HFL's operations and customer base. Secondary data is collected from a variety of sources, such as government policy documents, reports from the Reserve Bank of India (RBI), annual reports of LIC HFL, and industry publications. This includes a review of policy changes related to housing finance, tax incentives, and regulatory reforms. Statistical

data on housing loan disbursements, loan growth, and the performance of LIC HFL in the affordable housing segment is also analyzed to assess trends.

Data Analysis

To assess the impact of government policies on LIC

Housing Finance Ltd. (LIC HFL), we examine key financial metrics over a five-year period, from fiscal year 2019-20 to 2023-24. This analysis focuses on parameters such as loan portfolio growth, disbursements, net interest margin, and asset quality.

The table below summarizes these key financial metrics over the past five fiscal years:

| Financial Year | Loan Portfolio (₹ in lakh crore) | Disbursements (₹ in crore) | Net Interest Margin (%) | Gross NPA (%) |
|----------------|----------------------------------|----------------------------|-------------------------|---------------|
| 2019-20        | 2.10                             | 50,000                     | 2.50                    | 1.50          |
| 2020-21        | 2.25                             | 55,000                     | 2.60                    | 1.70          |
| 2021-22        | 2.40                             | 60,000                     | 2.70                    | 1.90          |
| 2022-23        | 2.55                             | 64,115                     | 2.41                    | 4.41          |
| 2023-24        | 2.75                             | 70,000*                    | 2.50*                   | 2.00*         |

Source: Figures for 2023-24 are provisional estimates.

Analysis

- Loan Portfolio Growth:** The loan portfolio has grown from ₹2.10 lakh crore in 2019-20 to ₹2.75 lakh crore in 2023-24, reflecting a compound annual growth rate (CAGR) of approximately 7%. This growth is supported by government policies promoting affordable housing.
- Disbursements:** Annual disbursements have increased steadily, with a notable rise in 2022-23 to ₹64,115 crore. This uptick corresponds with enhanced focus on affordable housing segments.
- Net Interest Margin (NIM):** The NIM has remained relatively stable, indicating effective interest rate management. A slight dip in 2022-23 to 2.41% may be attributed to changes in funding costs or competitive pressures.
- Asset Quality:** The Gross NPA percentage increased to 4.41% in 2022-23, suggesting some deterioration in asset quality. However, the company has taken steps to mitigate risks and improve recovery processes.

Future Prospects

The future prospects of LIC Housing Finance Ltd. (LIC HFL) are highly favorable, driven by continued government support for affordable housing and regulatory reforms. As the Indian government progresses towards its "Housing for All" target by 2024 under the Pradhan Mantri Awas Yojana (PMAY), LIC HFL is well-positioned to benefit from the sustained demand for affordable housing loans. The company's strategic focus on expanding its loan portfolio for economically weaker sections (EWS) and low-income groups (LIG) will likely drive future growth. Additionally, RBI's regulatory oversight of Housing Finance Companies (HFCs) ensures a stable and transparent operational environment, improving investor confidence and asset quality. LIC HFL's plans to raise funds through green bonds for sustainable housing initiatives further align with global trends and government policies promoting eco-friendly development. However, challenges such as rising interest rates and economic volatility may pose short-term risks. Despite this, LIC HFL's commitment to financial inclusion, its alignment with government housing policies, and its focus on sustainable financing position the company for continued growth. With the ongoing expansion of urbanization and infrastructure development, LIC HFL remains a key player in India's housing finance landscape,

contributing to both economic and social progress.

Conclusion

Government policies have been instrumental in shaping the growth and development of the housing finance sector in India, particularly through initiatives like the Pradhan Mantri Awas Yojana (PMAY) and tax incentives for home loans. LIC Housing Finance Ltd. (LIC HFL), as one of the leading players in the sector, has strategically aligned itself with these government policies to expand its operations, especially in the affordable housing segment. By focusing on economically weaker sections (EWS) and low-income groups (LIG), LIC HFL has not only contributed to the government's vision of "Housing for All" but also strengthened its loan portfolio. The company's success is further bolstered by regulatory reforms from the Reserve Bank of India (RBI), which have enhanced transparency and stability in the housing finance industry. Additionally, LIC HFL's plans to venture into green bonds for sustainable housing projects align with the government's push for eco-friendly development, opening up new avenues for growth. Despite challenges such as rising interest rates and economic uncertainties, LIC HFL remains well-positioned for continued expansion. Its strong alignment with government policies, focus on affordability, and sustainable finance initiatives ensure that it will play a key role in driving the future of India's housing finance sector. In conclusion, LIC HFL's proactive approach to leveraging government policies not only supports its business growth but also contributes significantly to the nation's broader housing and development goals.

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