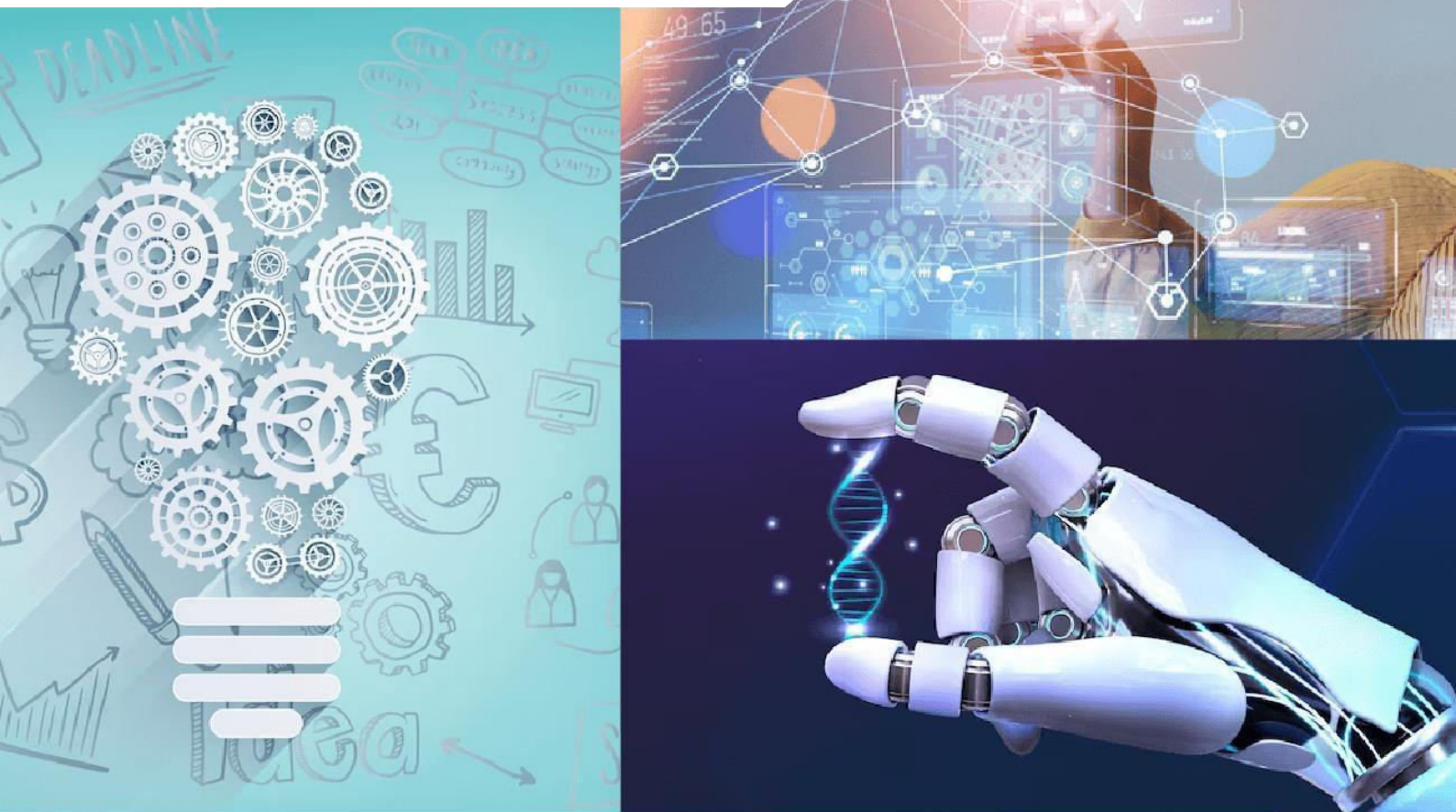




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Assessment of the Indian Home Loan Market: Borrower Behaviour, Challenges, and Strategic Implications

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ABSTRACT:

Purpose — This study assesses the Indian home loan market by examining borrower behaviour, identifying operational challenges, and evaluating factors that influence housing finance decisions.

Design/Methodology — A descriptive and analytical research design was adopted. Primary data were collected through a structured questionnaire from 170 respondents (86 active home loan borrowers). Secondary data were sourced from RBI and NHB reports, peer-reviewed journals, and bank publications. Data were analysed using percentage analysis, logistic regression, and the K-Nearest Neighbours (KNN) classification model.

Findings — Interest rates, documentation complexity, loan tenure, and customer service quality significantly influence borrower decisions. Private sector banks are preferred by 58% of borrowers due to faster processing and superior service. Approximately 71% of respondents expressed dissatisfaction with documentation procedures. Government schemes such as PMAY improve accessibility, though awareness remains limited.

Practical Implications — Financial institutions should simplify documentation, enhance transparency in fee disclosures, and accelerate adoption of digital loan processing platforms.

KEYWORDS: Indian home loan market, borrower behaviour, housing finance, interest rates, customer satisfaction, digital banking.

I. INTRODUCTION

The housing sector is a cornerstone of economic development, and housing finance is the primary instrument through which individuals translate homeownership aspirations into reality. In India, the home loan market has expanded substantially over the past two decades, driven by rapid urbanisation, rising disposable incomes, a growing middle class, and sustained government commitment to affordable housing through flagship initiatives such as the Pradhan Mantri Awas Yojana (PMAY).

The institutional architecture supporting the market is well-developed. The National Housing Bank (NHB), established in 1987, regulates Housing Finance Companies (HFCs) and provides refinancing support, while the Reserve Bank of India (RBI) governs the broader lending environment through repo rate decisions, Loan-to-Value (LTV) guidelines, and interest rate benchmarking mandates. Public sector banks, private banks, NBFCs, and small finance banks together form a competitive marketplace offering a diverse range of home loan products.

Despite this growth, the market is characterised by structural frictions: complex documentation requirements, information asymmetry between lenders and borrowers, interest rate volatility, and uneven awareness of government subsidy schemes. The COVID-19 pandemic further exposed vulnerabilities, as job losses and economic uncertainty constrained demand and increased non-performing assets (NPAs). The subsequent recovery — with disbursements growing 13.6% in FY 2021-22 and 16.2% in FY 2022-23 (Reddy & Prasad, 2022) — was supported by historically low

interest rates and stamp duty concessions, but borrowers on floating rate loans subsequently faced significant EMI increases following the 2022-23 RBI rate hike cycle.

India's mortgage-to-GDP ratio, estimated at approximately 11-12%, remains well below the 40-70% range observed in developed economies, indicating substantial untapped growth potential. Realising this potential requires a deeper understanding of what drives and constrains borrower decision-making. The present study addresses this need by combining primary survey data with secondary market analysis to provide an integrated assessment of the Indian home loan market.

II. REVIEW OF LITERATURE AND THEORETICAL FRAMEWORK

2.1 Prior Research

Existing scholarship on the Indian home loan market largely examines macroeconomic determinants. Bandyopadhyay (2021) demonstrated that income levels and loan availability are central to housing demand, while Rao (2020) linked GDP growth, interest rates, and government policy to loan market expansion. Kulkarni and Deshpande (2023) documented that the RBI's 250-basis-point rate hike between May 2022 and February 2023 increased monthly EMIs on a Rs. 50 lakh, 20-year loan by approximately Rs. 4,200, causing a measurable slowdown in new applications. Ghosh (2023) further identified asymmetric transmission: banks pass rate increases on quickly to floating-rate borrowers but transmit reductions more slowly, disadvantaging this group systematically.

From a supply side, Mishra and Banerjee (2022) found that the External Benchmark Lending Rate (EBLR) system, mandated by the RBI in 2019, significantly improved interest rate transparency. Acharya (2024) highlighted that regional HFCs outperform large commercial banks in reaching lower-income and Tier-3 city borrowers. Jha and Srivastava (2022) identified documentation barriers as the primary obstacle for informal-sector workers, while Tripathi (2023) found implementation gaps in PMAY, including delays in subsidy disbursement and limited rural awareness. Mani and Ekambaram (2024) established that transparency, processing speed, and staff competence are the strongest predictors of borrower satisfaction.

2.2 Theoretical Framework

The study draws on three theoretical lenses. Consumer Behaviour Theory explains how borrowers evaluate multiple financial and non-financial attributes before selecting a lender, treating the home loan decision as a complex, high-involvement purchase. Financial Intermediation Theory positions banks and HFCs as market-makers whose efficiency directly determines loan accessibility and affordability. Credit Risk Assessment Theory explains lenders' documentation and eligibility requirements as rational risk-management tools that simultaneously create barriers for informal-sector and first-generation borrowers. Together, these frameworks motivate the independent variables examined in this study: interest rate, loan tenure, documentation complexity, customer service quality, loan approval time, processing fees, government policy awareness, and digital loan accessibility.

III. RESEARCH METHODOLOGY

3.1 Objectives and Hypotheses

The study's primary objective is to assess the Indian home loan market and analyse borrower experiences, challenges, and decision-influencing factors. Specific objectives include: (i) examining market growth and structure; (ii) identifying borrower decision-making factors; (iii) evaluating satisfaction with home loan services; (iv) assessing the impact of government policies; and (v) providing actionable recommendations for financial institutions.

Five hypotheses were formulated: H_1 — Interest rates significantly influence borrower decisions; H_2 — Documentation complexity significantly affects borrower satisfaction; H_3 — Customer service quality significantly influences lender preference; H_4 — Government policies positively impact home loan accessibility; H_5 — Digital loan processing improves borrower satisfaction.

3.2 Data Collection and Sample

A mixed-methods approach combined primary and secondary data. Primary data were collected via a structured questionnaire distributed through online platforms. The instrument incorporated closed-ended and Likert-scale questions covering interest rates, documentation, approval timelines, repayment schedules, customer service, and government scheme awareness. The sampling strategy was convenience sampling. Of 170 respondents drawn from urban, semi-urban, and suburban populations across India, 86 (50.6%) had previously availed home loans. Secondary

data were sourced from RBI Monetary Policy Reports, NHB Annual Reports, peer-reviewed journals, and bank publications. The study period is 2025-26, with secondary trend data spanning 2010 to 2025.

3.3 Analytical Methods

Quantitative analysis employed three techniques: (1) Percentage and descriptive analysis to summarise demographic and preference data; (2) Logistic Regression to model the binary outcome of whether a respondent availed a home loan, with gender, occupation, documentation requirements, approval time, interest rates, customer experience, and loan type as independent variables; and (3) K-Nearest Neighbours (KNN) classification to identify borrower decision-making patterns based on multi-variable similarity. Both models were used for exploratory predictive analysis rather than inferential generalisation, given the convenience sample.

IV. FINDINGS AND ANALYSIS

4.1 Respondent Profile

The sample skewed younger: the majority of the 86 loan-availing respondents fell in the 21-35 age bracket, with 34% in the 36-50 age group. Gender representation was near-equal — 44 males (51.2%) and 42 females (48.8%) — reflecting a structural shift toward joint or female-led home loan decisions. Home purchase loans were the most common loan type (34%), followed by home renovation (32%) and construction loans (23%), indicating a diverse set of housing investment goals among responders.

Table 1: Summary of Key Survey Findings (n = 86 home loan borrowers)

Variable	Finding	Implication
Bank preference	Private banks: 58%, Public banks: 42%	Speed & service drive choice over rate
Documentation satisfaction	71% dissatisfied	Major friction point for borrowers
Loan approval time	~3-4 weeks (majority)	Moderately acceptable; room to improve
Interest rate bracket	8%-10% (majority)	Reflects 2022-23 rate hike environment
Interest rate type	Fixed rate: ~55%, Floating: ~45%	Fixed preferred for predictability
Repayment problems	63 of 86 faced issues (73%)	High financial stress among borrowers
Customer service satisfaction	65 of 86 satisfied (76%)	Banks performing reasonably well
Overall loan satisfaction	Majority neutral; 21% dissatisfied	Significant room for improvement

4.2 Lender Preference: Private vs. Public Sector Banks

Fifty of the 86 loan-availing respondents (approximately 58%) chose private sector banks, while 36 (42%) used public sector banks. This preference persists despite public banks typically offering marginally lower headline interest rates — SBI at 8.50% and Bank of Maharashtra at 8.40% versus Axis Bank at 8.75% and YES Bank at 9.15%. Respondents cited processing speed, digital convenience, relationship manager accessibility, and clearer communication of loan terms as the primary reasons for choosing private banks. This finding corroborates Mani and Ekambaram's (2024) conclusion that service quality outweighs marginal interest rate differentials in borrower decision-making. Public sector banks retain a loyal segment, particularly among government employees and those prioritising the absolute lowest EMI.

4.3 Interest Rates and Loan Tenure

Interest rate emerged as the single most cited factor influencing the loan decision across all respondent subgroups, consistent with H_1 . The majority of respondents reported effective rates between 8% and 10%, reflecting the post-hike environment of 2023-24. Approximately 54.7% of borrowers held fixed-rate loans, reporting higher financial predictability and satisfaction; floating-rate borrowers (45.3%) experienced more varied outcomes, with many reporting

unexpected EMI increases following the 2022-23 rate cycle. This asymmetric impact — aligned with Ghosh's (2023) findings on incomplete rate reduction transmission — has significant implications for borrower financial planning. Longer loan tenure (reducing monthly EMI burden) was the second most cited preference, with most respondents favouring tenures of 15-20 years.

4.4 Documentation Process: A Persistent Barrier

The documentation process was the most consistently negative theme in the survey data, supporting H₂. Approximately 71% of respondents reported dissatisfaction with documentation requirements. The key pain points were the volume of documents required (identity, income, employment, property, and banking records), inter-bank and inter-state inconsistency in requirements, slow physical verification timelines, and particular difficulty for self-employed and informal-sector applicants who lack standardised income documentation. This finding resonates with Jha and Srivastava (2022), who recommend alternative income verification using GST invoices and bank statement analytics.

4.5 Customer Service and Digital Processing

Approximately 76% of respondents who chose private banks rated customer service as satisfactory, consistent with H₃. Key service dimensions valued by borrowers were proactive communication on application status, transparency in fee disclosures, and staff responsiveness. Regarding digital processing (H₅), respondents demonstrated a clear preference for online applications and digital document submission. Awareness and positive experience with tools such as EMI calculators, digital loan tracking portals, and Aadhaar-based e-KYC were positively correlated with overall satisfaction. However, digital literacy gaps among older and semi-urban respondents indicate that a hybrid service model — digital front-end with accessible human support — remains necessary.

4.6 Government Policies and Scheme Awareness

The study found that government schemes, particularly PMAY, positively influence loan accessibility among those aware of them, supporting H₄. However, a significant proportion of respondents — particularly those in non-metro areas and older age groups — lacked awareness of available subsidies and tax benefits (Section 80C and Section 24(b) of the Income Tax Act). This awareness gap limits the policy effectiveness of schemes that are otherwise well-designed. Tripathi's (2023) identification of PMAY implementation gaps — slow subsidy disbursement and insufficient rural outreach — is corroborated by this study's primary data.

4.7 Quantitative Model Insights

The logistic regression model identified interest rate, documentation complexity, and customer experience as the strongest predictors of the binary outcome (availed vs. did not avail a home loan). Respondents who rated documentation requirements as highly complex were significantly less likely to have completed the loan process, reinforcing the importance of procedural simplification. The KNN classification model confirmed clustering patterns: younger respondents with higher digital literacy and employment in the formal sector were more likely to favour private banks and digital channels, while older respondents clustered around public bank preferences and branch-based interactions.

V. DISCUSSION

5.1 PESTLE Context

The findings must be situated within the broader macro-environment shaping the market. Politically, PMAY continues to provide structural demand support, though subsidy delivery efficiency needs improvement. Economically, the 2022-23 rate hike cycle tested affordability, and India's low mortgage-to-GDP ratio (~11-12%) underscores the market's long-term expansion potential as financial inclusion deepens. Socially, the shift from joint to nuclear families, rising female financial participation, and a large young borrower cohort sustain structural housing demand. Technologically, the RBI's Account Aggregator framework and video KYC mandates are reshaping documentation and verification, with early evidence showing significantly shorter processing times for AA-enabled applications (Nair & Krishnan, 2023). Legally, RERA has materially reduced project risk for under-construction property buyers. Environmentally, green building incentives and growing climate risk consciousness are beginning to influence property valuations and lender policies.

5.2 The Digitisation Imperative

The study confirms that digitisation is not merely a convenience feature but a competitive differentiator. Fintech entrants — Navi Technologies, Bajaj Housing Finance, Tata Capital — have built digital-first loan journeys that attract tech-savvy younger borrowers. Traditional lenders must respond by investing in mobile-first interfaces, AI-based credit

scoring (to expand eligibility beyond CIBIL-based assessments), and seamless integration with the Account Aggregator framework to eliminate paper-based document collection. Simultaneously, the digital divide must be addressed: rural and older borrowers require accessible branch-based and telephonic support pathways.

VI. RECOMMENDATIONS

Based on the findings, the following recommendations are directed at financial institutions, regulators, and policymakers:

- Simplify and standardise documentation: Adopt a unified national documentation checklist for home loans. Integrate the Account Aggregator framework across all lenders to enable consent-based digital income verification, particularly benefiting self-employed and informal-sector applicants.
- Enhance interest rate transparency: Provide borrowers with scenario-based illustrations of EMI changes under floating rate loans at the point of sanction. Proactively communicate the implications of RBI policy decisions to existing floating-rate customers.
- Accelerate digital transformation: Invest in mobile-native loan applications, AI-driven eligibility engines that incorporate alternative credit signals, and real-time application tracking. Maintain hybrid (digital + human) service models to prevent digital exclusion.
- Increase government scheme awareness: Launch targeted financial literacy campaigns, particularly in semi-urban and rural areas, to improve PMAY awareness. Streamline subsidy disbursement timelines to close the gap between policy design and delivery.
- Develop life-stage products: Design differentiated loan products for distinct demographic segments — first-home purchase loans for young professionals, renovation and extension loans for mid-career borrowers, and shorter-tenure products for older applicants facing retirement constraints.
- Promote green housing incentives: Offer preferential interest rates for certified green buildings to align housing finance with sustainability goals and emerging regulatory expectations around climate risk.

VII. CONCLUSION

This study provides an integrated assessment of the Indian home loan market combining macro-market analysis with primary borrower data. The findings confirm that the market is at an inflection point: structural tailwinds — demographics, urbanisation, a low mortgage-to-GDP ratio, and digital infrastructure investment — position India for sustained growth in housing finance. Yet significant friction remains. Complex documentation, inadequate transparency in interest rate disclosures, uneven government scheme awareness, and patchy digital access constrain both market growth and borrower welfare.

The dominant preference for private sector banks (58%) signals that borrowers are willing to pay a modest rate premium for superior service and processing speed — a clear signal to public sector institutions about where competitive investment is needed. The near-equal gender split among borrowers (51% male, 49% female) reflects a meaningful structural shift toward inclusive homeownership that lenders should actively support through tailored product design.

For policymakers, the study underscores the need to close implementation gaps in PMAY and intensify financial literacy outreach. For regulators, maintaining pressure on fee transparency and expanding AI-based credit assessment frameworks will deepen market accessibility. For financial institutions, the imperative is clear: digitise, simplify, and communicate — without leaving behind the borrowers who most need housing finance support.

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