A PRIMER ON

Deepening Access to Low-Income Housing Finance

November 2025

Habitat for Humanity®
Terwilliger Center for Innovation in Shelter

Sa-Dhan
Fostering Inclusive Impact Finance

Contents

List of abbreviations

AHF	Affordable Housing Fund
ALM	Asset-Liability Management
BLC	Beneficiary Led Construction
BC	Business Correspondent
BF	Business Facilitator
CRGFTLIH	Credit Risk Guarantee Fund Trust for Low Income Housing
DFI	Development Financial Institution
EMFIL	ESAF Microfinance and Investments Private Limited
Habitat	Habitat for Humanity International
HUDCO	Housing and Urban Development Corporation
HFC	Housing Finance Company
HFA	Housing for All
HMF	Housing Microfinance
HSS	Housing Support Services
IHL	Individual Housing Loan
ISS	Interest Subsidy Scheme
LIHF	Low-Income Housing Finance
LTV	Loan to Value
MHF	Micro Housing Finance
MFI	Microfinance Institution
NABARD	National Bank for Agriculture and Rural Development
NCGTC	National Credit Guarantee Trustee Company
NHB	National Housing Bank
NRLM	National Rural Livelihood Mission
NSO	National Support Organisation

List of abbreviations

NBFC-MFI	Non-Banking Financial Company - Microfinance Institution
PMAY-G	Pradhan Mantri Awaas Yojana - Gramin
PMAY-U	Pradhan Mantri Awas Yojana - Urban
PMAY	Pradhan Mantri Awas Yojana
PLI	Primary Lending Institution
PSL	Priority Sector Lending
PVB	Private Sector Bank
PSB	Public Sector Bank
RRB	Regional Rural Bank
RE	Regulated Entity
SRO	Self-Regulatory Organisation
SFB	Small Finance Bank
Terwilliger Center	Terwilliger Center for Innovation in Shelter
ULI	Unified Lending Interface

Over the past decade, dedicated government support for low-income households pursuing self-construction has contributed significantly to reducing India's ever increasing housing shortage. The full potential of the self-construction channel for low-income housing can be realised by unlocking **low-income housing finance** at a national scale.

Images: Habitat for Humanity International

Sa-Dhan

Sa-Dhan is an association of impact finance institutions (in the microfinance sector) and an RBI-appointed self-regulatory organisation for microfinance institutions. Formed over two decades ago, it is the largest association of community development finance institutions in India focused on supporting and strengthening the inclusive finance agenda in the country.

Sa-Dhan strives to build better understanding of the microfinance sector among policymakers, funders, banks, governments, researchers, and practitioners. It has about 220 members working in 33 states/UTs and over 646 districts. These include both for-profit and not-for-profit MFIs, SHG promoting institutions, banks, rating agencies, capacity-building institutions, and more. Sa-Dhan's members have diverse legal structures and operating models, and collectively reach out to approximately 94 million clients with total outstanding loans of more than ₹3,44,396 crores. Sa-Dhan is also recognised as a national support organisation by National Rural Livelihood Mission.

Learn more: sa-dhan.net

Habitat for Humanity's Terwilliger Center for Innovation in Shelter

Habitat for Humanity International is a global nonprofit working to bring people together in order to build thriving communities where everyone has a safe and affordable place to call home. Since its founding in 1976, Habitat has helped more than 62 million people globally build their futures on their own terms through access to decent housing.

The Terwilliger Center for Innovation in Shelter is a unit of Habitat working to expand access to innovative services, products, and financing so that households can improve their shelter more effectively and efficiently. By engaging and partnering with housing market actors – financial institutions, manufacturers, retailers, academic and vocational institutions, and civil society organisations, among others – the Terwilliger Center strives to build inclusive housing markets that better address the needs of low-income families.

Learn more: habitat.org/tcis

Background

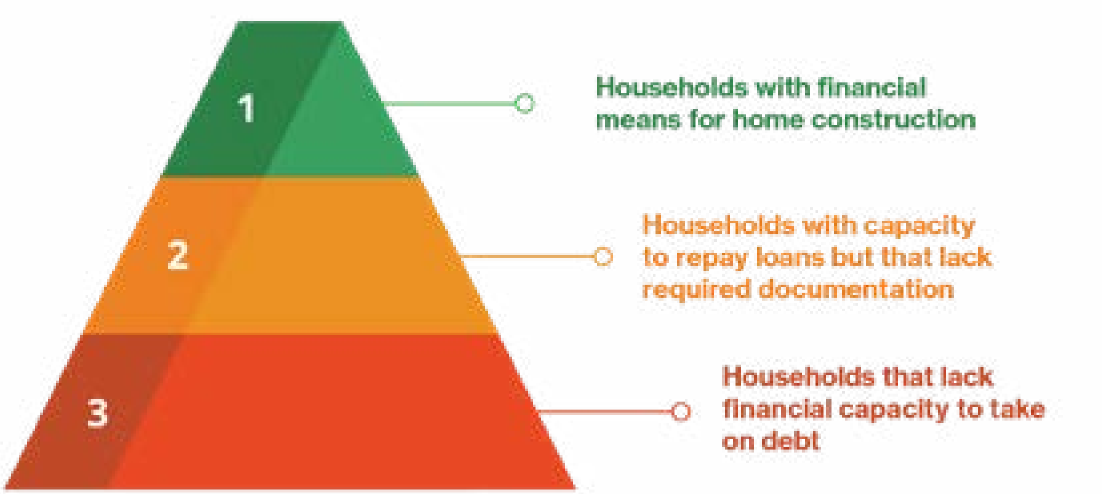
Over the last decade, both Habitat for Humanity's Terwilliger Center for Innovation in Shelter (Terwilliger Center) and Sa-Dhan - as a result of their respective efforts to improve the supply of low-income housing and promote inclusive finance - have identified a gap in the market when it comes to the financing needs of low-income households.

In 2023, the Terwilliger Center partnered with Sa-Dhan to jointly explore pathways for improving access to housing finance for low-income households in India. As part of this partnership, a study was commissioned to comprehensively assess the scope of various formal financing channels in addressing the shortfall for these households. The study was required due to a lacuna in available and recent literature regarding this gap, especially involving loans with ticket sizes below ₹10 lakhs (low-income housing finance).

The study is primarily designed to examine the barriers that low-income households face in accessing financing to fulfill their housing aspirations and identify a set of solutions for overcoming them. While these households have sound repayment capacity, they often lack necessary income documentation.

This primer provides a summary of key findings, insights and recommendations emerging from the study. The study was conducted in 2024-25, and involved extensive literature review, conclaves, expert interviews and roundtable discussions. An assessment of the market and regulatory landscape for LIHF was followed by identification of the gaps and challenges that inhibit access for low-income households. These findings were used to develop potential regulatory and market-based solutions that are presented towards the end of the document. Multiple perspectives – social, business and policy – have been tied together to arrive at a more nuanced and comprehensive blueprint for the way forward.

Low-income households in terms of need for institutional finance and repayment ability



Note: *The segment of low-income households with extremely low repayment capacity (represented at the base of the above figure) cannot be served through the housing finance market and is excluded from the scope of this study. The needs of these households should be addressed through targeted subsidies designed to advance the larger goal of housing for all.*

Focus of the study

Despite government programs that have added nearly 4 crore housing units to the country's housing stock during 1961-2014[i], there was a national housing shortage of 6-8 crore units, according to 2012[ii] estimates. The shortage is due to a rapid increase in the number of households, fast-paced urbanisation, prevalence of temporary constructions, congested houses and ageing housing stock. Demand and needs assessment surveys under the Housing for All (HFA) mission revealed an actual demand for 4 crore new housing units across both urban and rural areas in 2015-16, and an additional 3 crore new housing units in 2024[iii]. Up until January 2025, a total of 3.66 crore new houses were built under Pradhan Mantri Awas Yojana - Urban (PMAY-U), launched in 2015, and Pradhan Mantri Awaas Yojana - Gramin (PMAY-G), launched in 2016[iv].

After factoring in the number of houses completed so far and revised targets under PMAY-U and PMAY-G, the current housing shortage is estimated at over 3 crores. Given the effectiveness of self-construction as the primary channel for housing supply under PMAY[v], the shortage can best be addressed through PMAY-G in villages and the Beneficiary Led Construction (BLC) vertical under PMAY-U in small towns and cities. However, low-income households often face further funding constraints. This is a problem that needs to be addressed.

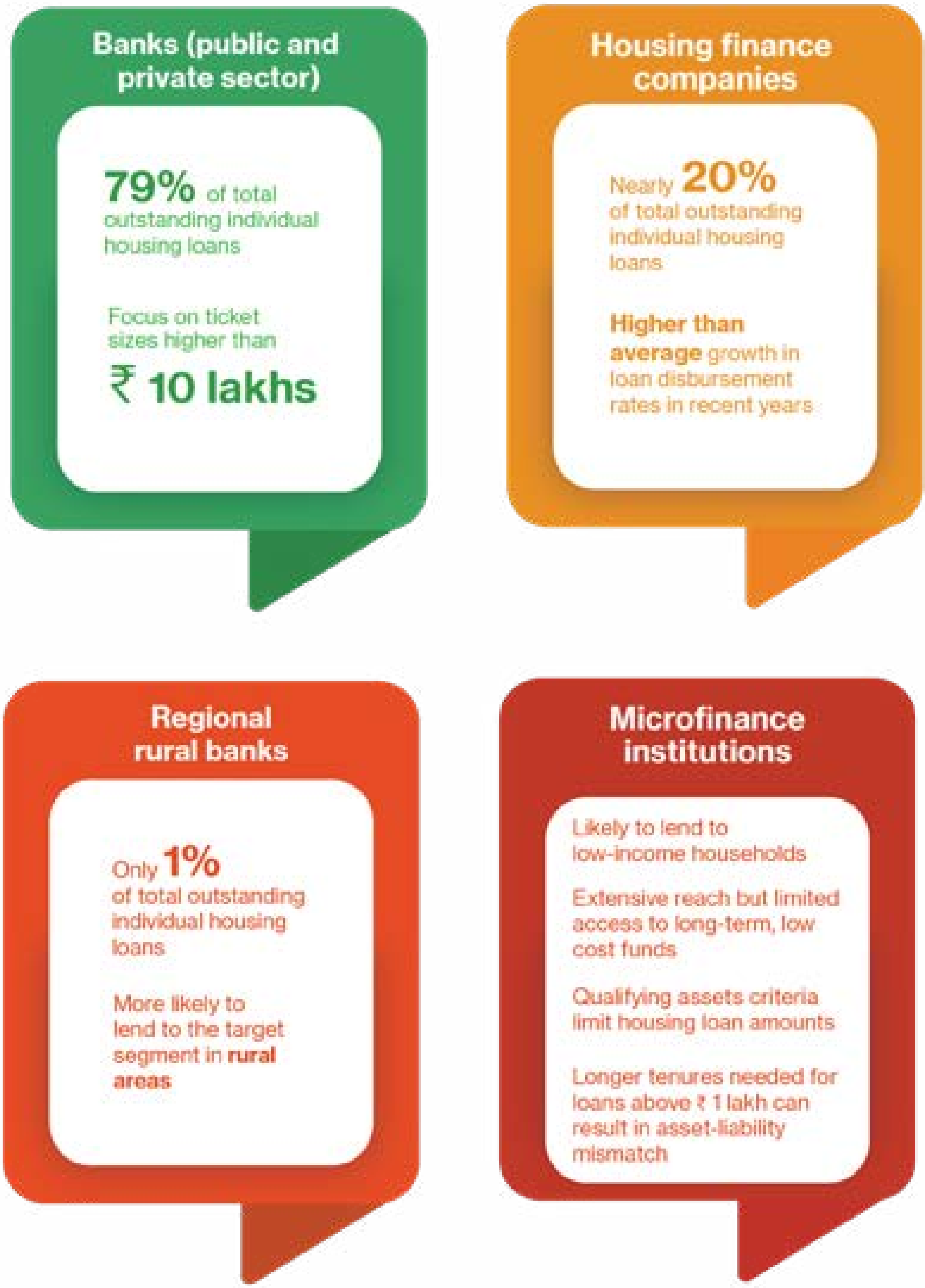
Nearly a fifth of houses sanctioned under the first phase of PMAY are experiencing delays due to obstacles, particularly a lack of gap financing[vi]. This affects a sizeable proportion of low-income households with loan requirements ranging from ₹50,000 to ₹6 lakhs that have financial capacity to avail loans but lack formal income and documentation. Hence, **the success of PMAY in contributing to India's HFA vision depends on expanding access to adequate low-income housing finance for about 1.6 crore new self-constructed houses.**

Field assessments, research and consultations with many financial institutions across various states, by the Terwilliger Center and Sa-Dhan, indicate that home improvement loans below ₹1 lakh are usually available as microfinance loans. On the other end, collateralised housing loans above ₹10 lakhs are also easily available due to a preference for high ticket size[vii] among primary lending institutions (PLIs[viii]). As of March 2024, 93 percent of the total amount oustanding and 68 percent of the total units outstanding of individual housing loans (IHLs) in the country were in ticket sizes higher than ₹10 lakhs (₹1 million)[ix]. **Clearly, the need for housing loans with ticket sizes between ₹1 lakh and ₹10 lakhs is currently underserved.** This underserved segment needs to be distinguished from the umbrella definition of affordable housing finance[x].

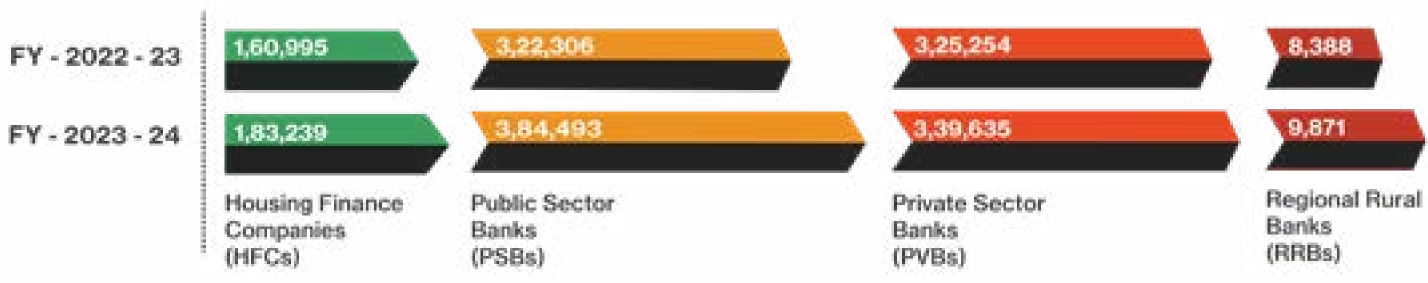
For the purposes of this study, housing loans for construction, completion, extension, improvement and renovation of houses – in ticket sizes ranging from ₹1 lakh to ₹10 lakhs – are defined as low-income housing finance (LIHF). The segment has been further categorised into three sub-categories: from ₹1 lakh to ₹3 lakhs; ₹3 lakhs to ₹6 lakhs; and ₹6 lakhs to ₹10 lakhs. In addition, all such loans that are secured based on conventional housing finance principles (including alternate forms of security) are classified as micro housing finance (MHF). Unsecured LIHF loans, typically (though not necessarily) under ₹3 lakhs, are classified as housing microfinance (HMF).

The landscape for low-income housing finance (LIHF)

Housing finance is provided formally by a variety of primary lending institutions (PLIs), including public sector banks (PSBs), private sector banks (PVBs), regional rural banks (RRBs), small finance banks (SFBs), housing finance companies (HFCs) and non-banking financial company - microfinance institutions (NBFC-MFIs and MFIs). However, there is considerable disparity among them in terms of market share and lending priorities.



Disbursement of individual housing loans by primary lending institutions (₹ crore)



Source: Annual Report 2023-24, National Housing Bank (Table 1.3)

There is also considerable regional disparity in housing finance availability, both in terms of the urban-rural divide and geographic regions, especially for eastern and northeastern regions. PVBs and HFCs have a larger share of outstanding IHLs in the western and southern regions of the country, while the eastern (including northeastern) region is served primarily by PSBs[XI].

Regulatory and institutional landscape

The LIHF market, like the larger financial market, is shaped largely by the country's monetary policy as well as regulatory and facilitation frameworks aimed at housing finance.

Policy and regulation

RBI is the apex authority for monetary policy in the country and the regulator for all regulated entities (REs), including banks, SFBs, HFCs and NBFC-MFIs. With this unique influential position, RBI has the ability to direct all REs to jointly work towards serving the housing finance needs of low-income households, a priority sector.

In addition, the Government of India (GoI) – through its Ministry of Finance, Ministry of Housing and Urban Affairs, and Ministry of Rural Development – plays a key role in influencing the LIHF market through various schemes and subsidies. Currently, PMAY-U and PMAY-G are the main schemes being implemented.

Development Financial Institutions (DFIs)

There are a few critical intermediaries that channel long-term funds to PLIs. Key DFIs include National Housing Bank (NHB) and National Bank for Agriculture and Rural Development (NABARD). In addition, Housing and Urban Development Corporation (HUDCO) plays an important role. DFIs provide concessional funds, refinance facilities, project finance and market promotion and development. Specifically, NHB serves as the nodal agency for the Affordable Housing Fund (AHF) that offers refinancing at concessional rates to financial institutions for providing individual affordable housing loans. In addition, the Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH), under the National Credit Guarantee Trustee Company (NCGTC), provides credit guarantees on affordable housing loans from banks and HFCs.

Support and facilitation

Academic institutions (such as Indian Institute of Technology and School of Planning and Architecture), research organisations, institutions providing technical assistance (such as the Building Materials and Technology Promotion Council or BMTPC), third-party service providers and self-regulatory organisations (SROs) and industry associations have an important support and facilitation role in this sector.

Key study findings

1. The housing finance market in India is **top-heavy**; LIHF loans with ticket sizes between ₹1 lakh to ₹10 lakhs are **underserved.**

2. **Successful** implementation of PMAY-U and PMAY-G holds the key to **resolving over half** of India's housing shortage, especially for low-income households.

3. Access to LIHF (loans between ₹1 lakh - ₹10 lakhs), amounting to a total ranging from **₹3.3 lakh crores to ₹22.4 lakh crores,** will be needed over the next five years to meet the combined nationwide target of nearly **3.2 crore self-constructed houses** under PMAY (Annexure 1).

4. Continuing business as usual in the housing finance market would mean that **less than half of the gap financing needed** in LIHF is generated, for self-construction of all houses sanctioned under PMAY-U (BLC) and PMAY-G up to 2029.

5. There are **sufficient funds** in the financial system waiting to be **optimally allocated** for meeting the need for LIHF loans.

6. The LIHF market is underserved because many PLIs interested in this segment find market conditions to be **less than conducive** to doing business in a **financially sustainable** manner.

Supply side gaps: challenges for primary lending institutions

Certain operational and regulatory constraints adversely impact profitability and escalate costs of operating within the LIHF segment.

Relatively high operational costs

Given the informality of income and documentation typical for this segment, the cost of onboarding and processing a LIHF loan is high. Operational costs can be as high as 10 percent[xii].

Limited availability of long-tenure funds

The availability of reasonably priced long-term funding is sparse for HFCs and MFIs. When combined with higher operational costs, this translates into low profitability and pricing concerns.

Asset-Liability Management (ALM)

MFIs typically secure funds of short tenures (1-2 years) in line with their business of collateral-free loans. They avoid long-tenure housing loans[xiii] to prevent ALM issues. MFI loans of ticket sizes above ₹2 lakhs with short tenures, at 18-24 percent interest, could result in high EMIs.

Risk management

LIHF is associated with higher risk due to lack of formal documentation and security, which makes pricing difficult.

Attrition and change in leadership

Employee attrition and management changes in PLIs working with low-income households lead to interruptions in customer relationships, intellectual property and business practices, resulting in customer attrition. Lack of institutional capacity also raises challenges.

Inability to scale to newer geographies

An innovative model that might work well in a particular state or geography with the right team and policies may not be available/suitable in nearby states, leading to scale-up difficulties.

Information asymmetry

PLIs keen on the LIHF segment are unable to access lists of housing scheme beneficiaries to facilitate customer acquisition.

Demand side gaps: challenges for borrowers

Low-income households face unique challenges in accessing LIHF due to limited reach, information, and capacities.

Lack of financing options

Low-income households have very few financing options for key capital expenses. Hence, they build incrementally.

Lack of gap financing

They might find it challenging to raise initial funds to build the plinth before subsidies are released. Similarly, households struggle if the subsidy schedule differs from the construction schedule.

Lack of fiscal discipline

At times, these households strategically borrow more than the amount needed for housing, to cover emergencies or loan repayments (with more than one active loan for the household at any point of time)[xiv]. This increases their exposure to external economic shocks.

Information asymmetry

Low-income households undertaking self-construction often have limited knowledge of construction, financial planning, and other important aspects of home building.

Limited financial planning capacity

Many low-income households initiate house construction without a schedule, detailed budget or related planning.

Insufficient documentation

Low-income households often lack basic documentation such as registered title deeds.

Successful models leveraging partnerships and innovation

Intermediaries for loan facilitation

Business Correspondents (BCs) and Business Facilitators (BFs) perform basic services on behalf of a larger PLI in underserved locations. HFCs can employ MFIs as their BCs for community connect and last mile delivery of small-ticket housing loans. A 2015-17 test of this model with ESAF Microfinance and Investments Private Limited (EMFIL, converted to ESAF Small Finance Bank in 2017) operating as BC was successful in facilitating loans by MicroBuild India in Kerala and Swarna Pragati in Maharashtra.

Grassroots partnerships and utilisation checks

Good business practices have enabled Ahmedabad-based MFI, Pahal Financial Services, to reach a total housing portfolio of 6 percent in value, covering 3 percent of their 1.2 million-strong customer base. Practices such as grassroots partnerships and strong utilisation checks were adopted under a pilot program conducted by Asian Development Bank (ADB) in partnership with the Terwilliger Center, to improve the MFI's capacity to expand into housing microfinance.

Embedded loan products

Habitat's Housing Support Services (HSS) model has shown promising results in multiple countries, including the Dominican Republic, the Philippines and India. Despite the initial cost, MFIs investing in high intensity HSS are able to scale up faster with low delinquencies. These services can be delivered through partnerships, such as with local masons and materials suppliers, and can include regular follow-up visits by trained field staff.

Combined loan products

The model of combining a non-income generating individual loan (such as housing) with an income generating business loan to cover multiple needs of the household in parallel has been successfully tried by a few MFIs. For instance, BWDA Finance Limited offered "combo loans", where a predefined percentage of an income generation loan is allocated for housing within the loan agreement. This strategy ensures good repayment outcomes and better risk control.

Access to funding

MFIs can do more housing microfinance loans of higher ticket sizes and longer tenures if they have access to long-term funds at concessional rates. In 2024, Sa-Dhan launched a pilot in partnership with National Scheduled Castes Finance and Development Corporation (NSFDC), during which NSFDC onboarded five MFIs in Bihar, Jharkhand, and Odisha as part of its Aajeevika Microfinance Yojana[xv]. Under the scheme, NSFDC provides funds at 5 percent to the selected MFIs, who can further on lend to eligible households with an interest cap of 15 percent.

Insights from successful models

Product innovation and tailoring product offerings based on income and socio-economic patterns for low-income clients improves their access to housing loans.

Products and services for this segment should be **designed primarily to enable** customers to improve their **quality of life**. Underwriting and collection processes should focus on continuously understanding and engaging with customers.

Speed and efficiency are needed in underwriting and decision making. This requires an empowered local team, especially in rural and remote areas, to support with financial planning for customers and enable retention.

Periodic and regular data insights empower PLIs to seek funding and make improved decisions for the segment.

Leveraging an existing customer base with proven repayment record leads to high collection rates (above 90 percent) in collateral-free loans.

Robust and equitable partnerships for lending and capacity building are necessary for all PLIs to serve a larger market, through co-lending and technical assistance.

Innovation (digitisation, product diversification and cost-saving technologies) is essential for financial sustainability, given the lower profit margins and higher risk in this segment.

Estimating the funding gap

MARKET SIZE FOR LOW-INCOME HOUSING FINANCE IN INDIA

?

Difficult to estimate due to lack of precise and current data on housing shortage and demand in the low-income segment

MINORITY
Purchase/Rehabilitation

MAJORITY
Self-Construction

Bulk of the demand for self-constructed new housing is being addressed through PMAY. Program design requires PMAY-U/ PMAY-G beneficiaries to raise gap financing to cover construction costs post subsidies (which helps ensure that they are fully invested)

Gap funding through housing loans required for completing houses likely to be self-constructed under PMAY can serve as a reliable lower-bound estimate for market size

1 Self-constructed houses not completed under the previous phase of PMAY-G and BLC (PMAY-U)

\+

2 Newly sanctioned self-constructed houses under PMAY-G 2.0 and BLC (PMAY-U 2.0) up to 2029

=

Upcoming self-constructed houses under PMAY-G 2.0 and BLC (PMAY-U 2.0) till 2029

of which

50%

Reliable lower-bound estimate of market size

₹ 80,000 to ₹ 10 lakhs
Estimated individual household level beneficiary contribution, depending on location

₹ 3.3 - 22.41 lakh crores
Overall gap funding required for the next five years (Annexure 1)

Simplifying assumptions (Annexure 2)

₹ 5.79 lakh crores
Estimated amount required from PLIs in small-ticket housing loans for PMAY self-constructed houses

1.6 crores
Estimated number of low-income PMAY beneficiary households needing loans

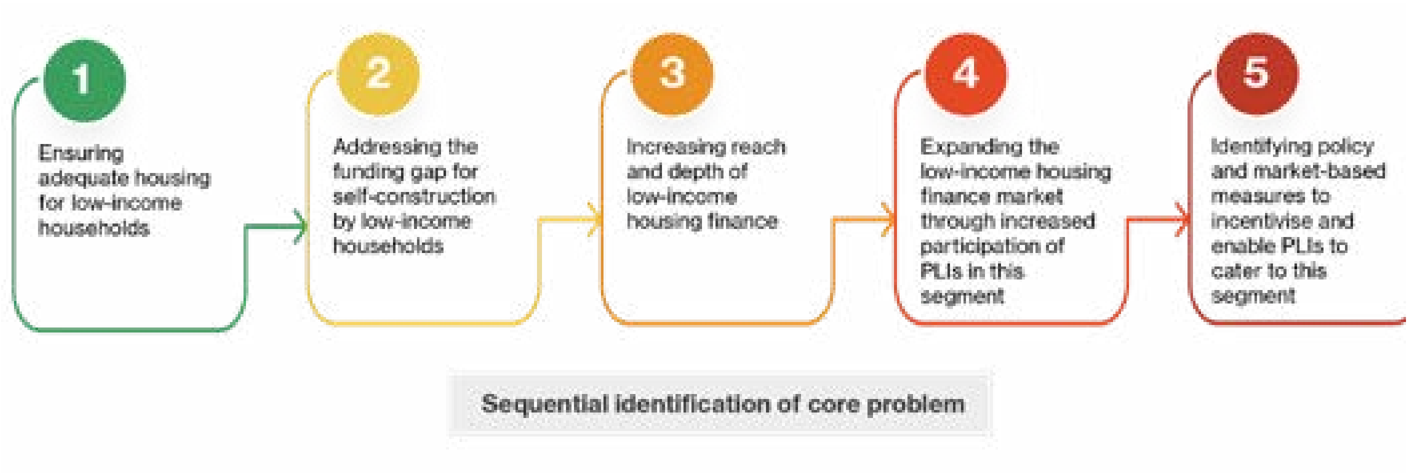
₹ 1.16 lakh crores per year, over next five years

The actual market size for low-income housing finance is greater than the demand under PMAY. Moreover, with rising construction costs, the beneficiary contribution required under PMAY is also expected to further increase with time, especially with subsidies remaining at the same levels[xvi]

Roadmap for deepening access to LIHF

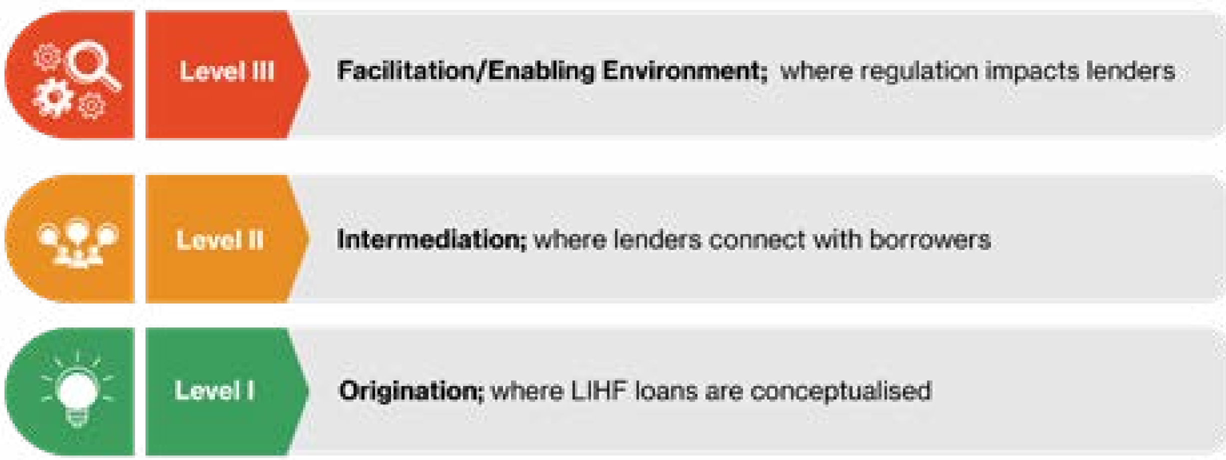
As self-construction has emerged as the most preferred channel of housing supply, this is where the mismatch in the housing finance market needs to be largely addressed. Market-based gap financing for 1.6 crore plus households receiving subsidies under PMAY-U (BLC) and PMAY-G can be unlocked through policy interventions that ease the current constraints for different types of PLIs in providing LIHF. The need for LIHF is huge and can only be addressed through the participation of all types of PLIs.

Identifying the core issue



PRIMARY GOAL	To enable and incentivise all stakeholders operating within the housing finance market nationwide to cater to the gap financing needs of low-income households - particularly beneficiaries under PMAY - through LIHF loans.

To incentivise optimal participation by all types of PLIs through policy and market-based measures, the housing finance market is studied at three levels:



This section outlines six pathways to increase the reach of low-income housing finance at different levels or stages in the market. The underlying objectives are to bring dedicated focus to this segment and optimise existing resources and capacities.

Framework for policy interventions to increase the reach and scale of low-income housing finance

Level III : Facilitation/enabling environment
This is the stage where lenders are impacted by regulators and policymakers

Gaps identified	Key stakeholder concerns
1 Effectively managing the trade-off between financial prudence and financial inclusion 2 Lack of cooperation and partnerships among various concerned stakeholders	**Policymakers:** 1 Increasing financial inclusion 2 Ensuring financial prudence and sound economy 3 Preventing financially unsustainable practices **PLIs:** 1 Finding suitable partners 2 Resolving regulatory constraints 3 Meeting compliance needs
Pathways identified for policy interventions	**Prudent financial inclusion I Partnerships**

Level II : Intermediation
This is the stage where lenders connect with borrowers

Gaps identified	Key stakeholder concerns
1 Limited number and reach of PLIs involved in small-ticket housing loans 2 Operations costly and risky, with low risk-taking ability of certain PLIs such as MFIs, RRBs and smaller HFCs	**PLIs:** 1 Managing costs and credit risk 2 Understanding client needs **Customers:** 1 Getting credit quickly as per need 2 Affordability 3 Simplicity in processing
Pathways identified for policy interventions	**Participation/inclusion I Cost**

Level I : Origination
This is the stage where LIHF loans are conceptualised

Gaps identified	Key stakeholder concerns
1 Not enough products and services suitable to the asset and income class (low-income households) 2 Pricing inefficiencies, whereby lender's financial sustainability is at the expense of borrower's affordability	**PLIs:** 1 Meeting compliance needs 2 Maintaining credit rating 3 Managing costs 4 Ensuring profitability **Customers:** 1 Access to LIHF loans at favourable terms 2 Timely and reliable information about products and pricing
Pathways identified for policy interventions	**Product I Price**

An estimated ₹5.79 lakh crores (roughly 10 percent of the size of the Union Budget 2025-26) will be needed in LIHF loans to address the financing needs of 1.6 crore low-income PMAY beneficiary households over the next five years. There is sufficient capital in the financial system to meet this need, waiting to be optimally allocated through a mix of policy incentives and business innovations.

Recommendations for expanding LIHF access

Prudent financial inclusion

Balancing financial inclusion (increasing access to all financial products, including home loans, for low-income households) with financial prudence (ensuring well-functioning markets based on sound economic, risk and recovery principles without exploitative practices).

1) Bringing undivided focus and assigning highest priority to the ₹1 lakh to ₹10 lakhs housing loans segment as a separate category called low-income housing finance (LIHF).

- Defining a 5 percent sub-target for LIHF below ₹10 lakhs under priority sector lending (PSL).
- Organising sensitisation workshops to encourage all PLIs to focus on the segment.
- Sharing stories of successful loan repayment as part of PMAY communications to support the image of low-income customers as bankable borrowers with differentiated needs.

2) Empowering borrowers of low-income segment for responsible borrowing and optimal loan utilisation.

- Launching an educational campaign for financial and digital literacy; discussing responsible borrowing, specifically for the target segment; including modules for families and masons regarding sound financial practices for materials procurement and construction processes.
- Introducing individual credit score for each member of an SHG to complement the Grameen Credit Score which banks will now be required to maintain for SHGs, according to Union Budget 2025 announcements.
- Lender conducting loan utilisation checks regularly - with complete client cooperation - and offering incentives and superior credit score on successful loan utilisation, enabling them to qualify for larger loans.

Cost

Enabling a reduction in all four elements of cost – cost of funds, operational expenses, taxes/ subsidy, and cost of risk – to allow for affordable pricing.

1) Enabling MFIs and HFCs to reduce their cost of funds and cost of operations.

- Prioritising access to low-cost funds, such as the AHF for LIHF, especially for PMAY beneficiaries. This can be achieved through dedicated targets for AHF utilisation by PMAY beneficiaries; explicit criteria to use AHF only for first-time home buyers (including self-built houses); prioritising SFBs, RRBs, smaller HFCs and MFIs under AHF; using a standardised external benchmark to rationalise on-lending caps for AHF and Credit Guarantee Fund based on the higher cost of operations for non-bank entities; and facilitating credit enhancement of LIHF loans using blended capital.
- Customer acquisition costs can be reduced by sharing beneficiary lists for PMAY with verified and vetted lenders through secure MIS portals.

2) Enabling measures to manage risk-related costs associated with target segment.

- Existing platforms that offer credit risk guarantees for loans in this segment should be fully leveraged, due to the higher risk associated with the LIHF segment and the inadequate documentation that is typical among low-income households.
- Utilising more nuanced data gathered from all relevant lending institutions can generate better AI models for risk assessment and credit scoring.
- Enabling digital platforms for submission and verification of documents with quick turnaround, especially for customers in remote locations.

Partnerships

Enabling equitable partnerships that leverage the core competency of each stakeholder while sharing risks and returns proportionately.

1) Strengthening forums and platforms that resolve concerns and build capacity and confidence among PLIs operating in the LIHF segment.

- Given the dynamic nature of this segment, it is essential to address industry level concerns on a regular basis to enable the LIHF market to mature and expand. This could be achieved through state-wise sub-committees for micro housing finance (similar to the state level bankers' committees – SLBCs), complemented by a Central committee of different government departments involved in housing and housing finance.
- Featuring representation from civil society and industry associations, these committees could meet periodically to discuss and resolve matters.
- In addition, a single business platform of all PLIs serving this segment, facilitated by a non-partisan entity (such as an SRO), could be considered as a platform to deliberate on innovative business practices and alternate business models, and to frame industry-level responsible lending guidelines.
- These platforms could also enable the collection of nuanced data at regular intervals.

2) In addition, the government can optimise the reach and distribution of liquidity within the financial system by facilitating co-lending arrangements and partnership-based models among stakeholders, specifically for LIHF loans.

- Conducting regional workshops with PLIs to explain co-lending and facilitate pilot partnerships between select PLIs showing interest and initiative for co-lending.
- Encouraging third-party providers that facilitate co-lending integration between technology platforms of different PLIs.

Participation/Inclusion

Enabling a diverse set of PLIs to participate in the LIHF segment, especially small players with niche markets and outreach.

1) Promote fintech innovation that enables fast scale-up of the LIHF segment.

- Leveraging the Unified Lending Interface (ULI) specifically for expanding access to LIHF. This can enable secured login-based access to authenticated information such as lists of beneficiaries of housing schemes, satellite data and geotagging information, digitised state land records, and more.
- Utilising an existing incubator setup to promote focused R&D around tech-based MHF.

2) Capacity building at the grassroots level to enable quick scaling up of the LIHF segment.

- Ensuring certification of skilled professionals through a bureau for finance professionals. This can also provide advanced training for banking professionals serving the LIHF segment, and simultaneously monitor for and penalise unethical business practices.
- Initiating intra-industry collaborations for training and sharing best practices

3) Addressing obstacles to increased business volume in the LIHF segment.

- Increasing ease of doing business in the LIHF segment, through innovative approaches to property titles.
- Acceptance of alternate forms of security.
- Explicitly eliminating the need for approved building plan for units under 100 sq metres.

Product

Enabling more product configurations (tenure, security, repayment) suitable to the asset and income class.

1) Introducing new and innovative products and services customised to the specific characteristics and needs of low-income households.

- PLIs, especially those providing microfinance, could adopt a lifecycle credit approach in designing their product offerings. Under this approach, low-income housing finance is one product among a range of loan offerings to meet diverse needs over a typical borrower's lifetime. Such a holistic approach can help low-income households achieve upward social mobility and escape poverty. Within the housing portfolio, PLIs can further diversify by offering differentiated micro loan products for home improvement, repairs and renovation, home extension and new construction.

- Some examples of innovative products and services include:

  - Savings-linked loan products for MFI clients with established and recurring deposit history at a partner bank;

  - Combo loans (business + housing) for home-based enterprises;

  - Multi-year sequential housing loan products linked to past progress and based on pre-determined stages or milestones in a borrower's construction plan;

  - Advanced AI tools for holistic credit assessment and scoring based on income, savings, assets, expenditure and consumption profile of the household.

- In addition, PLIs need to be enabled to offer affordable green financing solutions within the LIHF segment. Some ways to facilitate this are:

  - Enlisting the support of academic institutions under PMAY-G, similar to the practice under PMAY-U, with new initiatives for disaster resilient green housing;

  - Organising awareness programmes for PLIs to understand green certifications for houses and participate in green MHF with greater cost efficiency;

  - Enabling PLIs to access cheaper green finance through international climate funds, while ensuring compliance in construction.

Price

Enabling pricing with financial sustainability for PLIs as well as affordability for customers.

1) Making interest subsidies more impactful, specifically for LIHF.

- Expanding the interest subsidy scheme (ISS) under PMAY-U to provide universal coverage across urban and rural households and enable upfront payment of subsidies;
- Encouraging NBFC-MFIs to sign MoUs with any of the nodal agencies to participate in ISS.

References and notes

i. Assuming new housing stock came primarily from government programmes in the early decades post-independence, 3.8 crore housing units were added to the national housing stock during 1961-2001. In addition, 8.2 lakh (0.82 million) housing units were constructed under various programmes during 2005-2014, indicating a comparatively slow pace and scale of progress of government-sponsored housing as compared to the housing shortage. Sources: "Housing in India: A Statistical Compendium 2011",
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Key Initiatives for Inclusive Housing for All", Karan Sharma, Jones Lang LaSalle Property Consultants (India) Pvt Ltd (JLL) and Indian Chamber of Commerce (ICC), February 2016, New Delhi.
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"Poor Show of Housing Plans under JNNURM Exposed", The Pioneer, July 21, 2014 (https://www.dailypioneer.com/2014/india/poor-show-of-housing-plans-under-jnnurm-exposed.html, accessed on August 14, 2025)

ii. Sources: Question No. 10.12.2009, Sitaram Yechury, Rajya Sabha. 'Housing Shortage in India'. Ques tion to Ministry of Housing and Urban Poverty Alleviation (https://sansad.in/getFile/annex/218/Au2366.pdf?source=pqars); "Housing Shortage in India", Press Information Bureau, January 13, 2010 (https://www.pib.gov.in/newsite/erelcontent.aspx?relid=56880); National Buildings Organization; Singh, Shamsher "Housing Shortages in Rural India", Madhura Swaminathan and V. K. Ramachandran, Review of Agrarian Studies, Vol. 3, No. 2, July 2013to January 2014 (https://ras.org.in/index.php?Article=housing_shortages_in_rural_india); Bharti, Madhu, "Rural Housing Policy In India: Achievements And Challenges", IMPACT: International Journal of Research in Humanities, Arts and Literature (IMPACT: IJRHAL), Vol. 7, Issue 4, Apr 2019, pp. 43-58 (https://oaji.net/articles/2019/488-1558072230.pdf)

iii. Total assessed demand of houses as validated by States/ UTs in the year 2017 through the demand survey conducted under Pradhan Mantri Awas Yojana – Urban (PMAY-U); ** - Total assessed demand under PMAY-G based on SECC data and its field validation by states through the Awaas Soft portal. Source: "MoHUA implements PMAY-U for giving Central assistance to States/UTs for providing all-weather pucca houses to all eligible urban households including homeless", Press Information Bureau, April 4, 2022 (https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1813188);

iv. PMAY-U Progress Update January 2025, Ministry of Housing and Urban Affairs (https://pmay-urban.gov.in/, Accessed on January 31, 2025); PMAY-G Dashboard, Ministry of Rural Development (https://pmayg.dord.gov.in/netiay/PBIDashboard/PMAYGDashboard.aspx; Accessed on January 31, 2025)

v. Self-construction significantly increased since the launch of PMAY in 2015, with over 50.77 lakh (5 million) housing units completed in urban areas under the Beneficiary Led Construction (BLC) vertical of PMAY-U and 2.65 crore (26.5 million) houses completed in rural areas through self-construction under PMAY-G by January 2025.
Sources:
PMAY-U Progress Update January 2025, Ministry of Housing and Urban Affairs (https://pmay-urban.gov.in/, Accessed on January 31, 2025);
PMAY-G Dashboard, Ministry of Rural Development (https://pmayg.dord.gov.in/netiay/PBIDashboard/PMAYGDashboard.aspx; Accessed on January 31, 2025)

vi. Assuming a higher (70%) share for BLC under PMAY-U 2.0. Sources: Same as v.

vii. Having a relatively small portfolio of IHLs with ticket sizes below ₹10 lakhs allows PLIs to meet their PSL targets and maximise returns by focusing on fewer IHLs of higher ticket sizes at lower processing cost as compared to multiple smaller-sized loans. Source: Report on Trend and Progress of Housing in India, 2024 National Housing Bank.

viii Primary Lending Institutions (PLIs) are financial entities that extend credit and loans to the public, especially within the context of government schemes like the Pradhan Mantri Awas Yojana (PMAY) where PLIs are identified for channelling interest subsidies to beneficiaries. For the purpose of this paper, PLIs include all Scheduled Commercial Banks (Public Sector Banks and Private Sector Banks), Housing Finance Companies, Regional Rural Banks, Cooperative Banks, and approved Small Finance Banks and NBFC-Micro Finance Institutions, as well as other Microfinance Institutions.

ix Source: Annual Report 2023-24, National Housing Bank

x. While there are many ways in which affordable housing gets defined, the term 'affordable housing finance' under the priority sector lending (PSL) norms has gradually expanded in the past decade to include housing loans up to ₹50 lakhs (₹5 million) in centres with population of 50 lakhs (5 million) and above, loans up to ₹45 lakhs (₹4.5 million) in centres with population between 10 lakhs (1 million) and 50 lakhs (5 million), and loans up to ₹35 lakhs (₹3.5 million) in centres with population of below 10 lakhs (1 million). Source: Master Directions on Priority Sector Lending, 2025. Reserve Bank of India. https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12799#13

xi. Source: Report on Trend and Progress of Housing in India, 2024 National Housing Bank, Table 3.4

xii. For MHF loans, specialised processes such as case-based unique underwriting practices, dedicated field assessment teams, continuous outreach and personalised collection can drive up costs. For HMF loans, the initial process of onboarding and preparing clients with group loans before individual loans is resource intensive.

xiii. Even a loan of ₹2-2.5 lakhs would require a tenure of 3-6 years to keep EMIs economical and stable for a low-income household. Moreover, as construction costs increase, the average ticket size of such loans may need to be increased to ₹3 lakhs.

xiv. Paul, Saibal. "Microfinance: How to manage borrowers of non-income generating loans." Fortune India. September 3, 2024.

xv. The selected MFIs must possess minimum of 5 years of lending experience with not more than 3 percent net NPA level, no default in repayment of loans in the last 3 years, profitability for at least 3 years out of the last 5 years, a gross loan portfolio of at least ₹100 crore in the last 5 years, and promoters' having background in finance and development. The MFIs must also possess a minimum MFI5 credit grading, offer credit plus support after loans, and have presence in the relevant states with SC portfolio.

xvi. The central subsidy component under PMAY-U and PMAY-G, even with revised targets in 2025, have continued to be the same since 2015. Meanwhile, construction costs have continued to increase considerably since 2021 (post Covid).

Annexures

Estimating the market size for low-income housing finance using self-built housing units under PMAY (Urban and Gramin) as the lower estimate.

Annexure 1:
Determining the gap funding needed under PMAY-U and PMAY-G

Construction cost of housing unit based on size (₹ lakhs)

Construction price (per sq m)∞		25 sq m	30 sq m	45 sq m†
Large cities	₹16,700 (₹1,500 per sq ft)	4.18	5.01	7.51
	₹27,800 (₹2,500 per sq ft)	6.95	**8.34**	12.51
Small towns and villages	₹11,000 (₹1,000 per sq ft)	**2.75**	3.30	4.95
	₹16,700 (₹1,500 per sq ft)	4.18	5.01	7.51

Estimating the funding gap for house construction under PMAY-U and PMAY-G

(1) Scheme wise construction cost per unit (₹ lakhs)

	25 sq m	30 sq m	45 sq m†
PMAY-U	N/A	3.30 - 8.34	4.95 - 12.51
PMAY-G	2.75 – 4.18	3.30 – 5.01	4.95 – 7.51

(2) Scheme wise subsidy amount available for construction (₹ lakhs)

PMAY-U	2.50#
PMAY-G	1.60^

(3) Gap funding required by house size (₹ lakhs)	25 sq m	30 sq m	45 sq m†
Urban (PMAY-U)	N/A	0.80 - 5.84	2.45 – 10.01
Rural (PMAY-G)	1.15 - 2.58	1.70 - 3.41	3.35 – 5.91

Total nationwide funding gap (projected) under PMAY-U and PMAY-G

Construction price (per sq m)∞	Total no. of houses to be constructed (₹ lakhs) (4)	Per unit funding gap (from (3) above) (₹ lakhs) (5)	Total funding gap ((4)*(5)) (₹ lakh crores) (6)
PMAY-U	92.5	0.80 – 10.01	0.74 – 9.25
PMAY-G	222.7	1.15 – 5.91	2.56- 13.16
Total	315.2	-	3.30 – 22.41

Notes:

∞ - Ranges have been presented for construction costs based on national averages. Construction costs may vary based on:

d) Location (plain vs. hilly vs. remote areas)
d) Quality of materials and labour costs
d) Convergence with other government schemes or subsidies (which can reduce out-of-pocket expenses)
d) House size and design specifics

† - While the guidelines for both PMAY-U and PMAY-G prescribe a unit size of minimum size of 30 sq metres and 25 sq metres respectively, in practice, rural households build houses up to 45 sq metres based on their standards of living and lifestyles as well as availability of space. PMAY-U also allows units up to 45 sq m to be covered under the subsidy. Hence, this reality has been factored as the upper threshold for these calculations.

* - Subsidy under PMAY-U (BLC) and PMAY-G is released directly to the Aadhar-linked bank account of the beneficiary in four equal tranches, linked with physical milestones achieved in the house construction.

- The central subsidy for each beneficiary under PMAY-U is fixed at ₹1.5 lakhs, while the state government is required to add a state share to this amount. Under PMAY-U 1.0, the state share varied from ₹35,000 in Himachal Pradesh to ₹2 lakhs in Gujarat. However, under PMAY-U 2.0, the state share has been fixed at a minimum of ₹1 lakh. Hence, the subsidy for the above calculation has been taken as ₹2.5 lakhs.

^ - This includes ₹39,000 in additional convergence benefits over and above the PMAY-G central subsidy of ₹1.2 lakhs -₹1.3 lakhs.

Sources

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2. Construction price for small towns and villages – Roy, Debarpita, "Deconstructing PMAY-U: What the Numbers Reveal", Rasmi Kundhu, August 2024, Centre for Social and Economic Progress
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Annexure 2: Low-income housing finance required for completion of self-constructed houses under PMAY-U (BLC) and PMAY-G up to 2029

	Beneficia-ries seeking loans* (lakhs) (7)	Per unit funding gap^ (₹ lakhs) (8)	Total funding gap ((7)*(8)) (₹ lakh crores) (9)	Loan amount per beneficiary† ((8)*0.9) (₹ lakhs) (10)	Total amount needed as loans † ((7) * (10)) (₹ lakh crores) (11)
PMAY-U	46.25	5.40	2.50	4.86	2.25
PMAY-G	111.35	3.53	3.93	3.18	3.54
Total	157.60	3.53 – 5.40	6.43	3.18 – 4.86	5.79

Notes:

* - Assuming 50 percent beneficiaries fall in Category 2 of pyramid figure on Page 8 (needing loans and capable of repayment)
^ - Assuming the gap funding needed per house is in the middle (average) of the range calculated in Column (5) of Table 4.
† - Assuming beneficiaries will borrow 90 percent of the total gap funding needed by them to build a house as per current loan-to-value (LTV) ratio norms.

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