

Rate cuts new sales pitch for affordable home loans

HFCs pitching lower EMIs in future in rush to meet year-end credit targets

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Affordable housing lenders are increasingly luring borrowers with promises of future reductions in loan repayments as competition intensifies in the January-March quarter and firms rush to meet year-end credit targets, according to analysts.

According to analysts, affordable housing lenders are at a disadvantage, as policy rate cuts have not translated into a meaningful reduction in borrowing costs. Moreover, competition for small home loans has risen, pushing some to adopt aggressive marketing strategies. Industry leaders said the aggressive push is not limited to affordable housing finance companies (HFCs), while some acknowledged there could be instances of mis-selling.

“Competition in the January-March quarter is always high in every industry, including housing finance companies, because every company has an annual target. A lot of action is seen during this quarter,” said Deo Shankar Tripathi, executive vice-chairman at Aadhar Housing Finance.

Assets under management of affordable housing financiers stood at ₹1.7 trillion in September 2025, which forms 15% of the outstanding housing finance credit for non-banking financial companies (NBFCs) and HFCs, said a January report by Icra.

Affordable housing refers to homes below ₹45 lakh, and loans of ₹5-25 lakh to low-income and self-employed borrowers outside the traditional mortgage market.

A 10 March Ambit Capital report said some lenders are pitching potential interest rate cuts to customers within six to twelve months of loan disbursement to ease equated monthly instalment (EMI) burdens. “One of the experts admitted that this is being done only to lure the customer to get the loan, whereas the actual reduction rarely happens.”

However, such promises may not always materialise. The Reserve Bank of India (RBI)



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has lowered the policy repurchase rate by 125 basis points (bps) since February 2025 to 5.25%, and is now expected to keep the rates unchanged over the next few policy reviews.

HFCs' risk-taking appetite remains elevated, given signs of over-estimating customers' loan serviceability and underwriting shortcuts, the

ing financial services at Fitch Ratings, said.

“So, they face margin pressure unlike the non-mortgage non-banking financial institutions (NBFI)s, whose lending interest rates are primarily fixed and consequently have the ability to be flexible about it. To retain market share, some housing financiers may adopt aggressive marketing strategies in an already highly competitive housing loans market,” Goel said.

Some housing financiers argue that selling floating-rate loans with the possibility of future rate cuts is not inherently misleading.

“Almost 90-95% of entire home loans, not only affordable but also in the prime segment, are on a floating rate basis, so conceptually and factually, it is correct,” a senior executive at a private housing finance company said, requesting anonymity.

EMIs on loans linked to floating rates may rise or fall when interest rates change.

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TARGET TAKE

HOUSING lenders are in a fix as rate cuts didn't translate into a reduction in borrowing costs

THEY are now adopting aggressive marketing strategies since competition has also risen

COMPETITION in Jan-Mar quarter is always high as every company has an annual target

Ambit report said.

“Majority of the housing loans are on floating rate basis, either based on an external benchmark or on an internal benchmark. This leads to housing financiers facing pressure on the lending yield side, while banks are not commensurately reducing funding cost towards them,” Siddharth Goel, director of non-bank-