



Impact Of Economic Factors On Housing Finance: An Economic Analysis

Dr. VENKATESHA .T.K

Assistant Professor
MPBIM, R.C Road, Bengaluru

YASHODHA .G

Associate Professor of Economics
GFGC Koppa, Maddur Taluk, Mandya District

Dr. SHIVAKUMARASWAMY

Assistant Professor
Department of Economics, KSOU, Mysuru

Abstract

The following research question guides this study: How do economic factors affect housing finance and the major indicators that influence interest rates or housing affordability? They are as follows: To find out the said economic indicators, appraise their changes and analyze their impact on housing finance. Working hypotheses for the purpose of carrying out the research studies are as follows: In order to compare and contrast the interest rate policies of various types of banks, including those in the public and private sectors as well as HFCs and international banks? What relationship exists between inflationary pressures and housing affordability? Secondary data is collected with the help of using renowned online databases, government reports, and financial magazines to study the trends in the interest rates of the recent times and the other economic indicators. Some of the important quantitative techniques for analyzing data and presenting relationships between economic variables and housing finance indicators are data visualization techniques. These literature theories are then supplemented with secondary data in order to arrive at a synthesis which consists of current theoretical and empirical literature. It is possible to note that public sector banks show a relatively steady competition on interest rates, while private sector banks indicate a wider arsenal of interest rates. Variability is seen in some HFCs, while others have kept rates standard and some have a slight or big gap. Global banks follow this pattern with interest rates from 8.45% and above. Furthermore, this work finds inflationary pressures have an inverse relationship with housing affordability, further affirming the difficulties that prospective homeowners are likely to encounter due to escalating property prices and flatlining incomes. Policymakers, financial institutions, and other interested parties can use these results to better understand how to manage economic volatility and promote long-term homeownership by expanding our understanding of the complex relationships between housing finance and macroeconomic indicators.

Keywords: Economic Impact, Housing Finance Companies (HFC's), Interest Rate, House Affordability.

Introduction:

In the world of finance, housing finance can be described as an important sub-sector responsible for providing homeownership opportunities and spurring economic activities. The existing research defines housing finance as the process that involves issuing funds for the acquisition, development, or upgrading of residential units (UN-Habitat, 2020), this is essential for investment, affordability, and economic stability. Homebuyers' access to affordable mortgages and other financing options is very sensitive to the interest rate policies of many types of lending institutions, including national and regional banks, private lenders, housing finance companies, and international banks.

There is a consensus among scholars and practitioners that the topic of housing finance is relevant to broader economic considerations. Smith de Energía Nuclear (2005) covers the stages and issues related to housing finance markets in transition economies. The book helps explain housing finance in changing countries and their issues and potential. Chiquier and Lea (2009) further explore housing finance policy in emerging markets. Policymakers and practitioners will benefit from this comprehensive volume that provides an in-depth analysis of policy frameworks and interventions in the context of housing finance in emerging economies.

Turk (2023) examines the incorporation of private finance into affordable housing construction in two cities: Copenhagen and Istanbul. This paper uses a comparative case analysis to examine two cities' experiences of delivering affordable housing using private finance and shares the key findings and recommendations that can inform future private sector engagement for affordable housing. Higgins and Sapci (2024) investigate the impact of time-varying volatility on the real estate market. In particular, their work sheds light on the persistently turbulent housing market and its possible consequences for housing financing and policy interventions, making it an important contribution to the field of macroeconomics and volatility in stability and housing. Collectively, these studies fill gaps in the extant body of knowledge on the structure and performance of housing finance markets, policy measures, economic effects, and macroeconomic forces, affirming the value of research aimed at providing robust and credible insights.

It is the usefulness of this study that consists in the propagation of the findings to policymakers, lending institutions, and other stakeholders for the purpose of better understanding what influences housing finance and how the dynamics affect socioeconomic advancement. Knowledge of how economic factors influence housing finance market can inform policy solutions aimed at increasing affordability and access to housing finance, and improving sustainable homeownership. However, based on the information derived from this analysis, it is possible to equip future homebuyers with knowledge regarding their financing choices that would be helpful in a rapidly evolving economic world.

This study analyzes house loan interest rates from 15 top public sector banks, 15 top private sector banks, 10 housing finance businesses, and ten top international banks in India. Looking forward to 2024, the research aims to capture the present trends and variables impacting the home financing sector in connection to the economy that year. Although the focus of the analysis is drawn to the interest rate policy, this is done in the context of factors like inflation and their implications as seen in the ability of average citizens to afford houses. In an attempt to advance the knowledge and practice of housing finance dynamics in this study, as well as to offer policy recommendations based on empirical analysis and literature review, the following objectives have been considered:

Given this background, the article "An Analysis" in the research "Impact of Economic Factors on Housing Finance" examines how inflationary pressures affect Indian home finance. This research's main goal is to examine how banks' interest rate policies affect the housing market. Thus, this study compares home loan interest rates from public and private banks, HFCs, and overseas operations to identify trends, disparities, and links that can illuminate the economy.

Objectives:

The objectives for this study are as follows:

- To determine that certain economic variables have an effect on home loan financing
- To assess how changes in these variables are affected by economic swings

Hypothesis:

H1: Compared to commercial banks, public sector banks will use quite different interest rate tactics.

H2: It is believed that international banks and housing finance companies (HFCs) would use comparable interest rate strategies.

H3: House prices will fall as a result of the current inflationary pressures.

Methodology:

To obtain secondary information on the important economic factors and housing finance parameters, the writer will research valid and credible online networking sites, official records and registers, bulletins of the related authorities, as well as relevant trade magazines and journals. The emphasis will be on the up-to-date and essential information about interest rates, and the relevance to the project. Maps and charts will be used to analyse the interaction between economic indicators and housing finance and to present the information in the most comprehensible manner. Primary data is combined with the findings of previous studies covering

the link between economic indicators and housing finance. This helps in giving a synthesis to enhance the theoretical framework of the study.

Key Economic Indicators on Housing Finance:

There is overwhelming evidence that indicates that the housing market is sensitive to changes in the global economy and tends to have a linear relationship with various economic trends. The relationship between economic factors and housing finance is crucial for policy decision-makers, financial institutions, and households.

a. Interest Rates: Other key economic variables that play a significant role in the sector and more specifically in regulating the flow of housing finance include the rate of interest. Interest rates are just the price that may be paid or received for the use of money through lending or placing capitals. As a percentage, interest rates are determined by financial institutions, central banks, or impact the market and have an effect on the cost of borrowing, investing, saving, and lending. In order to stimulate the economy, the central bank uses monetary policy, which involves controlling interest rates, to impact inflation. Mortgage payments are directly affected by interest rates, which in turn affects homebuyers' ability to purchase properties. To regulate the economy as a whole, the Federal Reserve of the US, for example, controls the money supply by adjusting the federal funds rate (Federal Reserve, n.d.). Adjustments to interest rates affect mortgage rates, which in turn affect the affordability of homes due to changes in the cost of borrowing (Mortgage Bankers Association, 2022). In the end, the analysis reveals that house loan rates at various banks are directly related to changes in the central bank's interest rates in 2024, when the author aims to compare these rates. Since customers may get loans at lower costs when interest rates are low, borrowing and housing activity tend to increase (Housing Finance, 2024). On the other hand, because of higher interest rates, the cost of borrowing goes up, thus the housing market activities may be affected.

H1: Compared to commercial banks, public sector banks will use quite different interest rate tactics.

Table 1: Home Loan Interest Rates of Top Public Sector Banks in 2024

Name of Lender	Above Rs. 30 Lakh & Up to Rs. 75 Lakh	Up to Rs. 30 Lakh	Above Rs. 75 Lakh	
BOB	8.40% – 10.65%	8.40% – 10.65%	8.40% – 10.90%	
PNB	8.40% – 10.15%	8.45% – 10.25%	8.40% – 10.15%	
Punjab & Sind Bank	8.50% – 10.00%	8.50% – 10.00%	8.50% – 10.00%	
SBI	8.40% – 10.05%	8.40% – 10.15%	8.40% – 10.05%	
UBI	8.35% – 10.90%	8.35% – 10.75%	8.35% – 10.90%	
Bank of India	8.30% – 10.75%	8.30% – 10.75%	8.30% – 10.75%	
UCO Bank	8.45% – 10.30%	8.45% – 10.30%	8.45% – 10.30%	
BOM	8.35% – 11.15%	8.35% – 11.15%	8.35% – 11.15%	
CB	8.45% – 11.25%	8.50% – 11.25%	8.40% – 11.15%	
Indian Overseas Bank	8.40% onwards	8.40% onwards	8.40% onwards	

Note: Interest rates as of 6th March 2024

Table 1 shows the existing home loan interest rates of the leading public banks in India in 2024, segmented by loan sizes.

The current interest rates on home loan sanctioned by the most popular public sector banks in the year 2024 based on loan amount is shown below in table 1. A number of prominent and prominently recognised financial institutions have been selected for this comparative study. These include Canara Bank (CB), Bank of Maharashtra (BOM), Union Bank of India (UBI), Bank of India (BI), UCO Bank, Punjab National Bank (PNB), Punjab & Sind Bank (PSB), SBI, Bank of India (BOI). In this case, several of these banks provide or cut interest rates within a given range of interest rates. For a loan amount of up to Rs. 30 Lakh, the interest rate

varies between 8.30% to 8.50%. The indicated interest rates are quite low and do not increase significantly with the loan amount; however, the nominal interest rates for loans above Rs.75 Lakh range from 10.05% to 11.25%. Most noteworthy is the fact that, in terms of interest rate, Bank of India provides an average interest rate of 8.30% to 10.75% on all loans. Likewise, on the consistency aspect, SBI has rates lying between 8.40% – 10.15%. However, Indian Overseas Bank offers interest rates starting from as low as 8.40%.

Table 2: Rates Offered by Leading Private Sector Banks for Home Loans in 2024

Name of Lender	Above Rs. 30 Lakh & Up to Rs. 75 Lakh	Up to Rs. 30 Lakh	Above Rs. 75 Lakh
HDFC Bank Ltd.	8.50% onwards	8.50% onwards	8.50% onwards
Kotak Mahindra Bank	8.70% onwards	8.70% onwards	8.70% onwards
ICICI Bank	8.75% onwards	8.75% onwards	8.75% onwards
Axis Bank	8.75% – 13.30%	8.75% – 13.30%	8.75%- 9.65%
Karur Vysya Bank	9.00% – 11.05%	9.00% – 11.05%	9.00% – 11.05%
South Indian Bank	9.84% – 11.04%	9.84% – 11.24%	9.84% – 11.69%
Karnataka Bank	8.60% – 10.60%	8.60% – 10.60%	8.60% – 10.60%
Federal Bank	8.80% onwards	8.80% onwards	8.80% onwards
Dhanlaxmi Bank	9.35% – 10.50%	9.35% – 10.50%	9.35% – 10.50%
Tamilnad Mercantile Bank	8.60% – 9.95%	8.60% – 9.95%	8.60% – 9.95%
Bandhan Bank	9.16% – 13.33%	9.16% – 15.00%	9.16% – 13.33%
RBL Bank	8.90% onwards	8.90% onwards	8.90% onwards

Note: Interest rates as of 6th March 2024

Table 2 displays the interest rates, split down by loan amount, for home loans issued by the top private banks in 2024. In this comparison analysis, several important banks are included, such as: Axis Bank, Federal Bank, Dhanlaxmi Bank, Karnataka Bank, Kotak Mahindra Bank, ICICI Bank, Axis Bank, South Indian Bank, Bandhan Bank, RBL Bank, and Karur Vysya Bank. The research shows that private banks often provide more interest rate options than their public sector counterparts. With rates beginning at 8.50% for sums up to Rs. 30 Lakh, HDFC Bank offers the most competitive and consistent interest rates across all loan kinds. Large loan amounts highlight the wide range of interest rates offered by different banks. Axis Bank offers interest rates between 8.75% and 13.30% on loans over Rs. 75 Lakh. Interest rates starting at 8.50% and more are consistently offered across all loan categories by private sector banks such as Kotak Mahindra Bank, ICICI Bank, and HDFC Bank. Bandhan Bank and RBL Bank have rates that start at 8.90% and go higher from there.

H2: It is believed that international banks and housing finance companies (HFCs) would use comparable interest rate strategies.

Table 3: Home Loan Interest Rates of Top Housing Finance Companies (HFCs)

Name of Lender	Above Rs. 30 Lakh & Up to Rs. 75 Lakh	Up to Rs. 30 Lakh	Above Rs. 75 Lakh
LIC Housing Finance	8.35% – 10.55%	8.35% – 10.35%	8.35% – 10.75%
Tata Capital	8.70% onwards	8.70% onwards	8.70% onwards
Bajaj Housing Finance	8.50% onwards	8.50% onwards	8.50% onwards
PNB Housing Finance	8.50% – 14.50%	8.50% – 14.50%	8.50% – 11.45%
Repcro Home Finance	9.50% onwards	9.50% onwards	9.50% onwards
GIC Housing Finance	8.80% onwards	8.80% onwards	8.80% onwards
Indiabulls Housing Finance	8.75% onwards	8.75% onwards	8.75% onwards
Aditya Birla Capital	8.80% – 14.75%	8.80% – 14.75%	8.80% – 14.75%
ICICI Home Finance	9.20% onwards	9.20% onwards	9.20% onwards
Godrej Housing Finance	8.55% onwards	8.55% onwards	8.55% onwards
L&T Finance Limited	8.60% onwards	8.60% onwards	8.60% onwards

Note: Interest rates as of 6th March 2024

The interest rates for house loans from the best Housing Finance Companies (HFCs) in 2024, broken down by loan amount, are shown in Table 3. L&T Finance Limited is one of several well-known entities included in this comparative study. Others include Tata Capital, Bajaj Housing Finance, PNB Housing Finance, Repcro Home Finance, GIC Housing Finance, Indiabulls Housing Finance, Aditya Birla Capital, ICICI Home Finance, Godrej Housing Finance, and Tata Capital. With starting rates as low as 8.35% across the board for all loan categories, LIC Housing Finance provides competitive rates to a wide range of clients. The rates are same across all three companies: GIC Housing Finance, Tata Capital, and Bajaj Housing Finance. The rates start at 8.80% and go up from there. It should be noted, nevertheless, that certain HFCs provide a more extensive range of interest rates; for example, Aditya Birla Capital offers rates up to 14.75% and PNB Housing Finance offers rates up to 14.50%. This variation might be impacted by how each company evaluates risk, their market strategy, and the costs of finance. Representative of their respective market positions, Repcro Home Finance offers competitive rates beginning at 9.50% while ICICI Home Finance offers rates beginning at 9.20%.

Table 4: Interest Rates Offered by Top International Banks on Home Loans

Name of Lender	Above Rs. 30 Lakh & Up to Rs. 75 Lakh	Up to Rs. 30 Lakh	Above Rs. 75 Lakh
HSBC	8.45% onwards	8.45% onwards	8.45% onwards
Standard Chartered Bank	8.60% onwards	8.60% onwards	8.60% onwards

Note: Interest rates as of 6th March 2024

You may see the interest rates given by major international banks, such as HSBC and Standard Chartered Bank, for house loans in Table 4. It is worth noting that both banks adhere to a consistent policy, providing loan categories with interest rates beginning at 8.45% and going up.

B. Inflation Rates: Inflation rates, which monitor the overall level of prices for goods and services over a certain time period, indicate that the purchasing power of an economy decreases and living expenditures grow. That is why inflation has such a profound effect on the dynamics of home loans. Low to moderate inflation is indicative of a robust economy, but high inflation rates have the reverse impact, driving up housing prices and eroding people's purchasing power. As a result of inflation's effects on interest rates, construction costs, and property values, home finance is affected. One possible response from central banks to increased inflation is to raise interest rates (U.S. Bureau of Labour Statistics, 2022). The subsequent increase in homebuyers' borrowing costs has the ability to dampen demand in the property market. However, if inflation were to decline, central banks may be prompted to maintain low interest rates, creating a more favourable climate for house financing.

C. Employment Levels: The employment rate is a measure of the labour force participation and an indicator of the state of the labour market. It is calculated as the proportion of the working-age population that has a job. A key economic factor that affects home financing is the degree of employment, which in turn affects family and individual earnings. When the economy is doing well and unemployment is low, people tend to have steady

jobs and incomes, which makes it easier for them to get mortgages and pay them back. Income instability, on the other hand, might impact people's capacity to purchase and maintain a property during economic downturns and high unemployment rates. A stronger housing market might be a result of low unemployment rates, which attract more financially secure people who are looking to buy a property. On the other hand, a robust labour market may not be as beneficial if interest rates are also rising, which would break this favourable association.

D. GDP Growth: An indicator of a country's economic well-being is its GDP growth rate. Rising consumer confidence, new employment opportunities, and a robust housing market are common outcomes of robust GDP growth (U.S. Bureau of Economic Analysis, 2022). Strong economic expansion has the potential to influence mortgage lending habits and increase home prices by boosting demand for houses. On the other hand, problems may arise from an inflated property market if it becomes unsustainable due to outpacing income growth. You may learn a lot about the larger economic trends that are influencing the real estate market by looking at the ratio of GDP growth to home financing.

Impact of economic fluctuations on housing affordability

H3: House prices will fall as a result of the current inflationary pressures.

Table 4: From 2011–2023 fiscal year, housing affordability in India as a percentage of yearly income

Year	Year	House Affordability	House Affordability
FY 2011	FY 2018	4.8	3.7
FY 2012	FY 2019	4.6	3.5
FY 2013	FY 2020	4.7	3.3
FY 2014	FY 2021	4.6	3.2
FY 2015	FY 2022	4.4	3.2
FY 2016	FY 2023	4.1	3.3
FY 2017	-	3.8	-

Property prices as a percentage of yearly income from fiscal year 2011 to 2023 is shown in graph 1.



At the peak of a two-decade trend towards greater affordability, housing in India reached an affordability index of 3.3 in the fiscal year 2023, when property prices were balanced by yearly income (Statista, 2023). Inflationary pressures have been the main obstacle to this once-promising outlook's realisation in the succeeding years. The affordability environment in India has been greatly affected by the spike in inflation rates, as seen by important economic indicators. When people's buying power is dwindling due to high inflation, it becomes more challenging for them to afford the rising cost of housing. In cities, where property prices have risen sharply over the last several years, the impact of inflation on affordability is most noticeable. The RBI reports that inflation in 2024 has been on the rise, hitting levels not seen in recent years (RBI, 2024). The real estate industry has seen a rise in input prices, such as building materials and labour, due to the recent inflationary spike. As a result, developers have driven up house prices by passing on these additional expenses to consumers. An obvious effect on the affordability index has resulted from the meeting point of increasing house prices and flat or slow-growing earnings. As a result of the rising cost of housing, the indicator is falling from its optimistic 3.3 in 2023. This is a reflection of the difficulties faced by the typical Indian family. This change highlights the precarious equilibrium between home affordability and economic volatility, with inflation emerging as a key variable impacting this equilibrium. This worsens existing socioeconomic gaps in housing accessibility as the effect is not consistent across income groups. Homeownership becomes more of a challenge for middle- and lower-income groups as a result of these economic changes.

Major Findings:

- House loan interest rates given by significant public sector banks in 2024 range from 8.30% to 11.25%, indicating a steady competitive market.
- The interest rates offered by private sector banks cover a wider range, giving clients more alternatives. Notable examples are HDFC Bank, Kotak Mahindra Bank, and ICICI Bank, which typically provide rates beginning at 8.50% and higher, highlighting a standardised approach.
- PNB Housing Finance has the widest variety of interest rates among HFCs, with rates ranging from 8.50% to 14.50% for loans over 75 Lakh, showcasing the diversified options in the market.
- A consistent approach is used by prominent international banks, such as HSBC and Standard Chartered Bank, with house loan interest rates beginning at 8.45% and going up across all categories.
- Housing affordability in India is greatly affected by inflation-driven economic changes in 2024. Homebuyers face obstacles in 2023 due to growing property prices and slow wage growth, even if the affordability index is 3.3.

Discussion:

That "public sector banks and private sector banks will have significantly different interest rate strategies" was the first hypothesis put forward (H1). In 2024, a steady competitive environment was noticed when looking at the house loan interest rates across leading public sector banks (Table 1), with rates ranging from 8.30% to 11.25%. All of the public sector banks that were investigated in this study had similar interest rate policies, according to the results. It was clear from the interest rate patterns that this was a common practice in the sector, with rates often showing a little rise as loan quantities rose. The SBI and Bank of India (BoI) stood out, however, since they kept their rates low in every category. Another important feature of Indian Overseas Bank was the fixed rate that began at 8.40%. There seems to be a coordinated effort by the leading public sector banks to provide competitive home loan packages, since their interest rate offers are quite similar to one another. It seems like these banks are all on the same page when it comes to making sure that all types of borrowers can pay their loans. These findings raise questions about the theory's veracity. The data shows that the top public sector banks are more competitive and consistent in their interest rate strategies, rather than a glaring difference between the public and private sectors. Based on what we know thus far, it seems reasonable to reject the null hypothesis.

The alternative theory postulates that foreign banks and home finance firms (HFCs) will most likely use similar interest rate policies. According to the statistics in Tables 3 and 4, there are large discrepancies, but some firms within each group have similar interest rate practices. Interest rates for all loan kinds are set at 8.35% by LIC Housing Finance, 8.70% by Tata Capital, 8.50% by Bajaj Housing Finance, and 8.80% by GIC Housing Finance, among a few more HFCs. Interest rates supplied by certain lenders are more flexible than others. For example, PNB Housing Finance may go as high as 14.50% while Aditya Birla Capital can go as low as 14.75%. The interest rates offered by well-known multinational institutions like HSBC and Standard Chartered Bank start at 8.45% and go higher for all loan kinds. The fact that international banks all use the same interest rate strategy while HFCs have different ranges casts doubt on the idea that the two groups' interest rate strategies are similar. This is true even if there are some commonalities in the ways that the two camps view interest rates. Thus, whereas HFCs and foreign banks do share certain interest rate strategies, there are also important differences that indicate they may not always use the same approach. Accordingly, the data does not entirely back up the theory. Substantiating the third hypothesis, It is clear that "the observed inflationary pressures will have a negative impact on housing affordability. "From 2011 to 2023, the housing affordability index fell, as seen in Table 4. Homebuying has become out of reach for people of all income brackets due to inflationary pressures driving up property costs. This establishes a causal relationship between the inflationary pressures we have been experiencing and the decline in house values.

Conclusion:

Interest rates for house loans in 2024 as compared by public and commercial banks as well as HFCs and international banks showed a number of noteworthy trends. In terms of interest rates, public sector banks maintained a constant competitive environment, although private sector banks offered a wider range of products and services to its consumers. While major international banks stuck to a uniform strategy, HFCs showed interest rate variations between firms. There is a clear link between inflationary pressures and falling house affordability, which further highlights the difficulties that would-be homeowners confront. Affordability of housing is becoming a more pressing issue as house prices climb and wage growth stays flat. Policymakers, financial institutions, and potential homeowners should take note of these results. Targeted actions and policy changes may be necessary for policymakers to manage inflationary pressures and concerns about home affordability. To better serve their clients, financial institutions should think about ways to be more transparent,

such as standardising interest rate practices and making more information easily accessible. To lessen the blow of increasing property prices, would-be homeowners may need to diversify their funding sources and put financial preparation first. For future suggestions to be well-informed, it is crucial to closely monitor market trends, regulatory measures, and economic statistics. Exploring new forms of affordable finance could help alleviate inflationary pressures and guarantee that all segments of society have long-term access to housing.

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