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Public Sector Surge Squeezes Private Banks in India's Home Loan Market

July 22, 2025

– Categories: Finance



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Private sector banks in India are facing mounting pressure in the home loan segment as public sector undertakings (PSUs) and housing finance companies (HFCs) ramp up their presence with competitive offerings. According to recent industry data, PSUs have reclaimed significant market share in housing finance, leveraging lower interest rates and government backing to attract new borrowers.

As of March 2024, private banks held 47.7% of outstanding home loans, a slight drop from the previous year, while PSUs saw their share rise to 42.6%. HFCs held a modest but notable 9.7%, driven largely by growth in tier-2 and tier-3 cities. The trend suggests a shift in borrower preference toward institutions offering more affordable and accessible credit.

The pivot comes at a time when private banks have scaled back on aggressive lending in the housing segment, focusing instead on risk management and higher-yield sectors. Meanwhile, PSUs like State Bank of India (SBI) have launched strategic campaigns targeting middle-income families with attractive fixed-rate options and government-linked subsidy programs.

“Public sector banks are capitalizing on their wide reach and ability to offer lower-cost loans, especially under government schemes like PMAY (Pradhan Mantri Awas Yojana),” a senior banking executive told *The Economic Times*.

HFCs are also making a comeback after a period of regulatory tightening. Companies like LIC Housing Finance and PNB Housing Finance are regaining ground with renewed focus on retail borrowers and competitive rates.

In response to the pressure, private lenders are revisiting their strategies. Some have begun offering rate concessions to salaried borrowers or tying up with real estate developers to provide bundled deals. However, analysts warn that this margin compression may affect profitability over time.

The shift in market dynamics shows a broader realignment in India's home loan sector, where public sector institutions are reasserting their dominance by capitalizing on affordability and scale. While private banks continue to play a crucial role, their aggressive growth in housing finance appears to be moderating.