

## Demonetization: The Effects on Home Loan Customers in India

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### Abstract

*The demonetization had a great significant and immediate impact on the state of the Indian economy. It becomes necessary whenever there is a change in the national currency. The purpose of this study is to analyze the effects of demonetization on the home loan customers in India. This New Year, to bring a smile to the customer face and to his family members, major banks of the country have slashed their home loan interest rates to a large extent. This article also covers the various benefits which are like the golden dreams for the customers and The results of this study help to avail a home loan at the cheapest interest rate with the lowest monthly EMIs. Largest home loan providers and bankers have reduced the home loan interest rates. Thus, the findings*

*of this study reveal that, it will create a huge positive impact on the home loan customers for a long period of time. The paper is based on secondary data collected from different newspapers and online sources, mentioned in references.*

**Keywords:** Demonetization, effects of demonetization on home loan, home loan borrowers, banks, government etc.

### Introduction:

Demonetization is the process of withdrawal of a particular form of currency from circulation. It is the most important and necessary when there is a change of national currency. The old unit of currency must be retrieved and replaced with a new currency unit. It involves either introducing new notes

or coins of the same denomination or completely replacing the old denominations with the new denomination which is usually used for funding terrorism and for cracking down on black money in the country. On 8 November 2016, India's Prime Minister Narendra Modi announced the Government of India's decision to cancel the legal tender character of Rs. 500 and Rs.1,000 banknotes with effect from 9 November 2016. He also announced the issuance of new Rs. 500 and Rs. 2,000 banknotes in exchange for the old banknotes.

The act of demonetization 2016 is not happening for the first time in India, but before it, has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978.

The second demonetization has taken place in the year of 1978 by the Janata Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year.

Several impacts have occurred due to demonetization like controlling on the fake

Indian notes that could be contributing to terrorism, corruption reduced automatically by removing black money from economy, reduction in cash transactions in real estate sector helps in reducing the prices of property and one of the most important impact i.e. reducing the interest rate for various type of loans like home loan, education loan, personal loan etc. demonetization takes play a vital role in reducing the rate of interest on the home loan and helpful for minimizing the EMIs of the housing loan customer.

## Objectives

The main objective of this paper is :-

- ◆ to work out on the effects of demonetization on the home loan customers
- ◆ to study on falling the prices of property
- ◆ to analyze the rate of interest loan
- ◆ to study on the home loan eligibility for any person
- ◆ to find the change in EMIs of the home loan customers
- ◆ to compare the offers of banks after demonitisation

## Methodology

The paper is based on the secondary data. The secondary data was collected from various published sources like reports, magazines, journals, newspapers and other references etc.

## Effects of Demonetization on Home Loans

Demonetization is the word that took Indians by surprise on 8th November when Prime Minister addressed the nation at 8 p.m. Since then this word has caught up with every citizen & everyone wants to know what impact it is going to have on his/her life.

With the current study regarding the effect of demonetization on home loan, firstly knowing about the home loan, Home Loan is a Secured Loan offered against the security of a house/property which is funded by the bank's loan, the property could be a personal property or a commercial one. The Housing Loan is a loan taken by a borrower from the bank issued against the property/security intended to be bought on

the part by the borrower giving the banker a conditional ownership over the property i.e. if the borrower is failed to pay back the loan, the banker can retrieve the lent money by selling the property.

Home is an integral part of an individual, who since his / her birth and childhood, dreams to have living space of his / her own. Once in a lifetime investment requires loan to accomplish it and that is how the home loan comes into scheme of things. Buying a home is dream for everyone. it is the best time to fulfill the dream of its own home for any person. It will get the loan instantly if customer complete the requirements of bank's formalities. With the interest rates are falling, it is a golden time to be a borrower.

For the person who have already take home loans there might be an impact on the lending rates at which loans have been taken. Market expectations are that the rates might come down in the near future which will be beneficial for the home loan customers; as the new policy states that deposit rates might reduce, leading to decrease in lending rates in the near future.

This would ultimately result in profiting the individuals.

**Home Loan Interest Rates Updated on demonetization and effects on banks:**

Saving up for that first home isn't easy – especially during these days of unreasonably high house prices. A clear understanding and comparison of these costs can help a customer choose between two loan providers offering similar interest rates. There are several banks have reduced its lending rates and offered home loan at a very lowest

EMIs with many more benefits. **Some bank's offers are:**

**i. State Bank of India (SBI)**

The State Bank of India, popularly known as SBI, is one of the leading banks in India. The bank traces its origin to the first decade of the 19th century on 1 July 1955. The State Bank of India is India's largest commercial bank. The bank has been striving sincerely to adhere to the efforts of providing utmost customer satisfaction to the best possible extent. SBI Home Loans come to a person on the solid foundation of trust and transparency built in the tradition of State Bank of India.

Loan Amount (Rs.)	10 lakh	15 lakh	20 lakh
Tenure	20 Years	20 Years	20 Years
Old Interest Rate	9.40%	9.40%	9.40%
New Interest Rate	9.35%	9.35%	9.35%
OLD EMI (Rs.)	9256	13884	18512
New EMI (Rs.)	9224	13835	18447
Savings (RS.)	32	49	65

**SBI Home Loans Unique Advantage**

- ☐ No Processing Charges (Limited Period Offer)
- ☐ Package of exclusive benefits.

- Low-interest rates. Further, it will charge interest on a daily reducing balance.
- No hidden costs or administrative charges.
- No prepayment penalties. Reduce interest burden and optimally utilize the surplus funds by prepaying the loan.

**ii. LIC Housing Finance**

LIC Housing Finance Ltd. is one of the largest Housing Finance company in

Know Saving after 30 bps cut in LIC Housing Finance Interest Rate (Monthly):

India. Incorporated on 19th June 1989 under the Companies Act, 1956, the Company was promoted by LIC of India and went public in the year 1994.

LIC Housing Finance offers competitive interest rates, no hidden cost, loan approval on the basis of customer financials.

- **Home Loan Interest Rate:** 9.60% for loan up to Rs. 3 Crore
- **Processing Fee:** 1.5% (For ING Salary Account Holder), otherwise 1.75% – 2%

Loan Amount (Rs.)	15 lakh	20 lakh	25 lakh
Tenure	15 Years	15 Years	15 Years
Old Interest Rate	9.90%	9.90%	9.90%
New Interest Rate	9.60%	9.60%	9.60%
OLD EMI (Rs.)	16027	21370	26712
New EMI (Rs.)	15754	21005	26257
Savings (Rs.)	273	365	455

**iii. HDFC Bank Ltd.**

The Housing Development Finance Corporation Limited (HDFC) was amongst the first to receive an ‘in principle’ approval from the Reserve Bank of India (RBI) to set up a bank in the private sector. The bank was incorporated in August 1994 in the name of 'HDFC Bank Limited', with its registered office in Mumbai, India. HDFC Bank commenced operations as a Scheduled Commercial Bank in January 1995. HDFC is

a leading provider of Housing Finance in India. HDFC Ltd offers pleasant interest rates, no hidden charges, repayment options, best services & more.

- **Home Loan Interest Rate:** For Women\* (Any Loan Amount): 9.40% to 9.90% & For any other: 9.45% to 9.95% (Any Loan Amount)
- **Processing Fee:** Up to 0.50% of the loan amount or Rs.2,000 whichever is higher, plus applicable taxes.

Know Saving after 25 bps cut in HDFC Ltd. Home Loan Interest Rate (Monthly):

Loan Amount (Rs.)	20 lakh	25 lakh	30 lakh
Tenure	25 Years	25 Years	25 Years
Old Interest Rate	9.45%	9.45%	9.45%
New Interest Rate	9.40%	9.40%	9.40%
OLD EMI (Rs.)	17404	21756	26107
New EMI (Rs.)	17335	21669	26003
Savings (Rs.)	69	87	104

**iv. Punjab National Bank (PNB)**

**Punjab National Bank** is an Indian multinational banking and financial services company. It was incorporated in the year 1895 at Lahore, undivided India. The

Bank has the distinction of being the first Indian bank to have been started solely with Indian capital. PNB was nationalised in July 1969. it reaches out to the customer with fast, friendly and most convenient home loans under Normal and Flexible variants.

☐ **PNB Home Loan Interest Rate:** Punjab National Bank Base Rate = 9.45%

☐ **Processing Fee:** As applicable under Bank's regular Housing Loan Scheme for public.

Loan Amount (Rs.)	20 lakh	25 lakh	30 lakh
Tenure	240 Months	240 Months	240 Months
Old Interest Rate	9.60%	9.60%	9.60%
New Interest Rate	9.45%	9.45%	9.45%
OLD EMI (Rs.)	18773	23467	28160
New EMI (Rs.)	18577	23222	27866
Savings (RS.)	196	245	294

**PNB Home Loans Unique Advantage**

- ☐ Option to choose between Floating and Fixed interest rates.
- ☐ Longest Repayment period of 25 years
- ☐ Flexible/graduated repayment option
- ☐ No hidden charges
- ☐ Quick and Fast processing
- ☐ Lowest EMI of Rs.919/-\* per lakh for a 25 years loan

**Some key benefits of demonetization for home buyers and home loan borrowers:**

- I. Property prices likely to drop by 20-30%
- II. Home loan interest rates likely to fall by 100-150 bps
- III. Loan eligibility to increase due to lower rates and all cheque transactions
- IV. Reduction in EMIs burden on the home loan customers; Rs.89 per lakh

**I. Property prices likely to drop by 20-30%**

Property has for long been considered a safe haven for parking black money in India. Crackdown on black money

and demonetization of large denomination notes (Rs. 1,000 and Rs. 500) are likely to constrain further supply of black money to property markets and result in drop in property prices. This will benefit end users and make homes more affordable for them. Experts of real estate sector estimates a 20-30% drop in prices as below. Extent of drop in prices may depend upon location and the type of property.

## II. Home loan eligibility to increase due to lower rates and all cheque transactions

Typical cash component in property transactions in India is estimated at 25%. The cash component tends to be higher in land transactions and high value properties while it is lower in case of flats and apartments, particularly those in the affordable segment. Salaried customers buying self use property tend to prefer all cheques transactions while self employed borrowers tend to prefer paying more in cash. We expect that the cash component in property transactions will reduce significantly post demonetization. Home loan eligibility depends upon the EMI paying capacity of the borrower but is limited to 75-90% of property value. Banks such as SBI, Citibank, PNB and many others

use the lower of market value and agreement value as property value. Other banks such as HDFC, ICICI and Axis Bank use the market value of property as property value. So, home loan is not available for funding the cash component of the property. Hence a reduction in cash component and increase in cheque component will increase the overall loan eligibility, which will be beneficial to home loan borrowers, particularly end users and first time buyers.

## III. Home loan interest rates likely to fall by 100-150 bps

Banks are witnessing large inflows of fresh deposits and the country's top bank SBI itself has received over Rs. 2 lakh crores in fresh deposits post demonetization. On the other hand, expectation of slower economic growth would mean lower demand for bank loans from both corporate and individual borrowers. These factors may result in 100-150 bps (or 1.0 - 1.5%) reduction in home loan rates over next 3 - 12 months. The situation may be similar to 2004 and 2010 when easy money conditions resulted in home loan interest rates in the 7-8% range. This reduction in loan rates would benefit to the new borrowers.



#### IV. Reduction in EMIs burden on the home loan customers; Rs.89 per lakh

After the demonetization effect, there was a lot of question in the mind of the borrowers what will be the effect of the Demonetization. Immediately after the New Year the MCLR and Bps reduction by banks, will give a huge benefit to the loan borrowers it will reduce the amount they pay after taking loan to their respective bank. Through which the burden of EMIs has been reduced approx. Rs. 89 per lakh on the home loan borrowers. In case bank or home loan company does not pass on the benefit of lower rates to borrower, he/she would consider transferring his/her loan to another bank.

#### Conclusion

Demonetization is a historical step taken by the Government of India which is effected to tackle black money in the economy, eliminate the fake currency, controlling on the terrorism and to grow up the banking sector. This decision of govt. will definitely fetch results in the long term. From the banking sector perspective, Banks are now in a stronger position due to increased deposits and will look for lending options.

Due to this need, banks will find prospective customers & being in competitive world, the banks now provide loans at a very lower interest rates. The home loan interest rates are likely to go down from 9.25% to 8.25% or 7.25% and this will led to the cheapest home Loan EMIs. This would come as a relief to people who cannot afford the high EMIs on housing loans. So, a lower interest rate means lower EMIs, longer tenure, cut down in total interest amount paid and other benefits to count on. So, it is without doubt said that '*Achee din*' for all home buyers is not a distant dream any more.

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