

# MARGIN LOANS

## STAR RATING METHODOLOGY



### WHAT IS THE CANSTAR *margin lending star ratings*?

CANSTAR *margin lending star ratings* is a consumer-friendly benchmark or value index, unique to CANSTAR that compares both the Price and Features across margin lenders. CANSTAR star rated lenders represent a short list of quality institutions. This short list narrows the search for consumers to lenders that have been independently assessed and ranked. Five-star lenders are considered to offer outstanding value for money.

CANSTAR's rating methodology is transparent and extensive. The methodology compares all types of margin lending products for an array of characteristics such as:

- Interest Rates
- Fees and charges
- Loan to Value Ratio (LVR)
- Features
- No. of shares/funds available

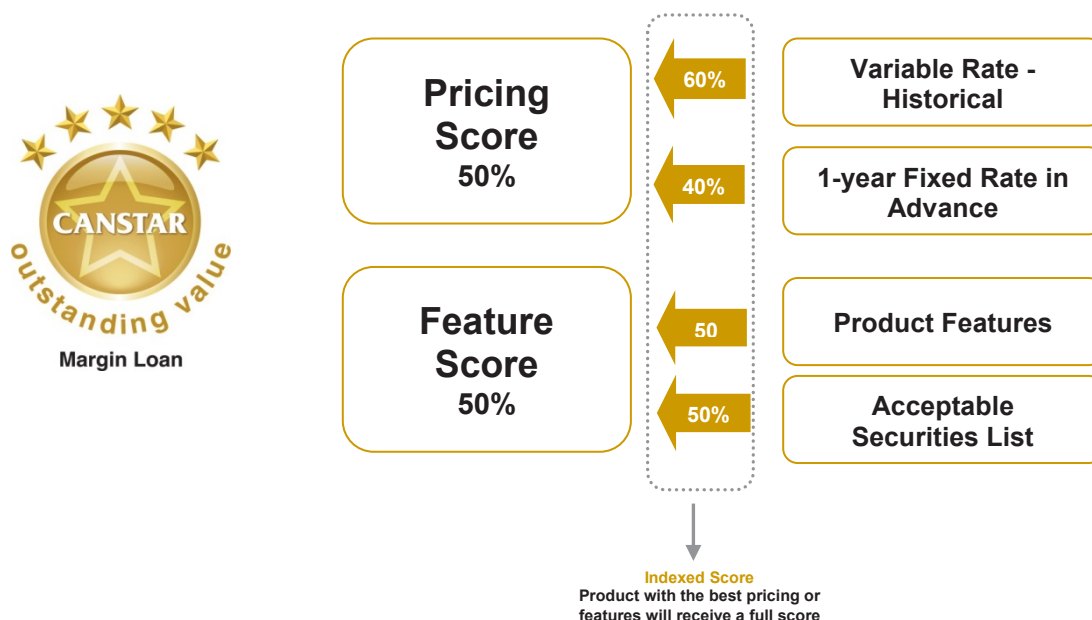
The results are reflected in a consumer-friendly *5-star* concept, with a 5-star product denoting one that offers outstanding value.

### HOW ARE THE 'STARS' CALCULATED?

CANSTAR ranks margin lenders based on value-for-money measures and then awards a star rating according to rank. Typically the top 3 lenders will be awarded a 5 star (or outstanding) rating. The number of lenders awarded each of the 3 to 5 star ratings will ultimately depend of the dispersion of final scores. Scores are awarded to each lender on the basis of rates, fees, services and list of approved securities. The methodology is revised and parameters are updated on a regular basis to make sure that the products are analysed using the most up-to-date information capturing all industry developments. A detailed methodology is provided below.

CANSTAR assesses margin lenders from the perspective of two different consumer profiles: the Share Investor, and the Managed Fund Investor. Each profile assumes that the consumer will have a preference over one of these forms of security against the other, but will also seek some content from their secondary security type. To arrive at the total score CANSTAR applies a weight against the Pricing score, Features score and Acceptable Securities List score. This method can be summarised as:

$$\text{TOTAL SCORE} = w_1 \text{PRICING} + w_2 \text{FEATURES SCORE} + w_3 \text{ASL SCORE}$$



## WEIGHTINGS

The Pricing, Features and Acceptable Securities List scores are weighted for each product to reflect the relative importance of each component in the determination of value for money. Current weights are:

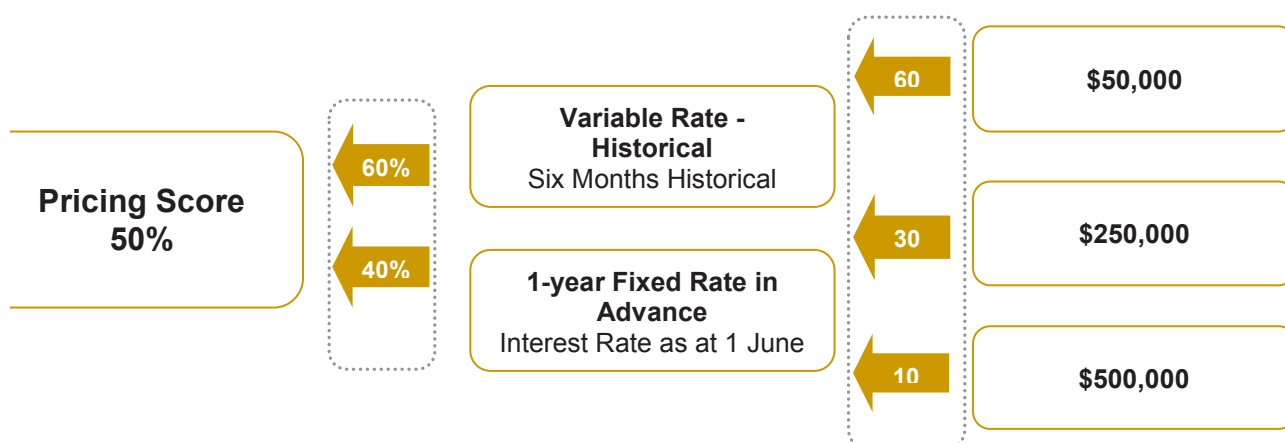
Profile	Pricing Weighting	Features Weighting
Share Investor	50%	50%
Managed Funds Investor	50%	50%

## PRICING

CANSTAR accounts for both current and historical interest rates in the calculation of the PRICING component of each product's overall score, which comprises of:

1. **Standard 1 Year Fixed Rate in Advance** – rates as at June for \$50,000, \$250,000 and \$500,000 loan amounts;
2. **Historical Performance of Standard Variable Interest Rates** – average of rates over the past 6 months for \$50,000, \$250,000 and \$500,000 loan amounts.

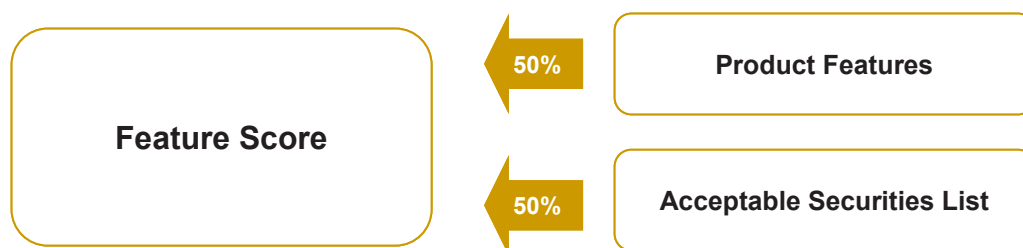
Those products with the lowest price receive the highest score in the pricing scenario analysis.



## FEATURES

CANSTAR allocates points for over 250 Features of a margin lending product. These include flexibility, operating terms and conditions, investor tools and imposed product parameters. The points are totalled for each product and then indexed to determine the product's Feature ranking.

Features have been assessed separately for the two investor profiles (Share Investor and Managed Fund Investor), to take into account the fact that each of these two main categories of investor will have differing priorities when choosing their margin lender.



## Feature Categories

Category/Sub Category	Shares	Managed Funds	Description
Margin Loan Trading	28%	25%	Features available for trading
<i>Settlement Account and Risk Management</i>	33%	37%	Availability of CMT's and settlement account functionality
<i>Options Trading</i>	20%	15%	Availability and cost of Option Trading
<i>Discount Broker Partnerships</i>	4%	4%	Broker partnerships
<i>Portfolio Platform</i>	10%	10%	Loan available through a platform
<i>Third Party Trades</i>	3%	4%	Allocation of a purchase or proceeds of a sale to a third party
<i>Execution Options and Costs</i>	30%	30%	Trade execution options and cost to trade either by phone or internet
Loan Features	12%	14%	Loan application avenues and approval turnarounds
<i>Cash Advance</i>	9%	9%	Availability of cash advances
<i>Dividend Distribution</i>	9%	9%	Dividend distribution options
<i>Progressive Drawdowns</i>	9%	9%	Availability of progressive drawdowns and flexibility
<i>Repayments</i>	55%	55%	Repayment options and restrictions
<i>Split/Combination Features</i>	9%	9%	Able to split loan fix/variable or arrears/advance
<i>Switching</i>	9%	9%	Switch between managed funds
Direct Client Services	14%	8%	Customer service- newsletters, account managers, statements
Advisor Services	5%	12%	Advisor services - access to client information and advice
Fees And Charges	12%	10%	Initial, ongoing, behavioural and discharge fees
<i>Charges</i>	50%	50%	Initial, ongoing, behavioural and discharge fees
<i>Transaction Costs</i>	50%	50%	Fees applicable on loan transactions
Margin Information	10%	10%	Information relating to margin call, period to fulfil and options
Lending Terms	9%	5%	General info relating to credit facility e.g. min/max loan amounts
Security	6%	6%	The types of security able to be used as security
Instalments Gearing	3%	10%	Availability of Instalment gearing
International Shares	1%	0%	Availability of international shares

## ACCEPTABLE SECURITIES LIST

CANSTAR currently reviews the Acceptable Securities List (ASL) for only those securities that have either an APIR (Managed Funds) or ASX (Australian shares) code. International shares are not included in the calculation of the ASL score.

The score for ASL is comprised of:

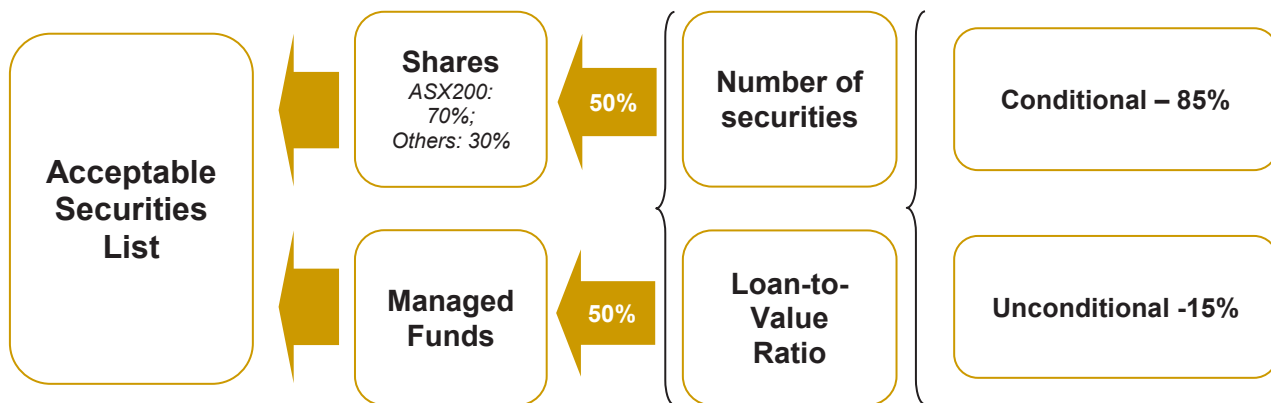
- The number of Listed Shares and Managed Funds available against which to borrow funds
- A product's average LVR for Listed Shares and Managed Funds
- Diversified and undiversified portfolio offerings

Each of the above components are calculated at six points during the six months preceding the star ratings calculations. This provides an ASL score on historical performance and benefits the institutions with a consistent high offering on both the number of stocks/managed funds and the LVR.

A higher number of funds and shares on a menu, along with a high average LVR, will result in a high relative score. Contribution of shares and managed funds to overall ASL scores will be reviewed in relation to their market size for each star rating.

As with Features, the ASL score is assessed differently for the two investor profiles, with scoring weighted towards the more relevant of the two main security types in accordance with the profile.

Profile	Share Investor	Managed Funds Investor
Shares	90%	20%
Managed Funds	10%	80%



## How often are products reviewed for star ratings and Award purposes?

All ratings are fully recalculated every twelve months, based on the latest submissions from each institution. CANSTAR also monitors changes on an ongoing basis.

## Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at [www.canstar.com.au](http://www.canstar.com.au) if you would like to view the latest star ratings reports of interest.



- Account Based Pensions
- Agribusiness
- Business banking
- Business life insurance
- Car insurance
- Credit cards
- Deposit accounts
- Direct life insurance
- Health insurance
- Home & Contents
- Home loans
- Life Insurance
- Managed Investments
- Margin lending
- Online Banking
- Online Share Trading
- Package banking
- Personal loans
- Superannuation
- Travel Insurance

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