

# 2015

AWARD  
REPORT

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Fixed Rate  
Home Loans



# Fixed Rate Home Loans

September 2015

## Foreword

To fix or not to fix: it's a question that many home buyers struggle with. On the one hand, locking in an interest rate provides certainty of repayments over the term (which can provide peace of mind when it comes to budgeting). On the other hand, staying variable means you can get the instant benefit of future rate cuts.

Analysis of the more than 130,000 visitors to the Canstar Home Loan tables this year has found a shifting preference towards fixed-rate home loans throughout the year. In January 2015, 45% of Canstar searches were for variable rate home loans, with 21% of visitors looking for 5-year fixed rates and 17% looking for a 3-year fixed rate. By May, after two cuts in official cash rate, the number of visitors looking for a variable loan had dropped to 37%, with the demand for 5- and 3-year fixed rate loans rising to 25% and 22% respectively. These figures have remained stable throughout the second half of the year to date.



**Mitchell Watson**  
Research Manager

For what it's worth, analysis by our Research team has found that borrowers have a 50/50 chance of getting it right: comparing average 3-year fixed rates against average standard variable rates over the past twenty years has found that borrowers were ahead by fixing in approximately half of the 240 months considered.

That's the history, but what about right now? Currently on Canstar's database, average 1, 2, 3 and 4-year fixed loan interest rates are cheaper than the average standard variable home loan rate. The average 5-year fixed home loan rate is just one basis point (that's, that's 0.01%) higher than the average standard variable rate. Those figures indicate that our financial institutions are expecting further cuts to the official cash rate in the not too distant future. As I mentioned before though, they tend to be right about half the time!

Averages are only half the story though, and there is a great deal of financial benefit in shopping around for a competitively-priced home loan. Currently, eligible borrowers can potentially lock in a 1-year fixed home loan rate as low as 3.50% and a 5-year fixed home loan rate as low as 4.24%.

Borrowers shouldn't forget about loan features; some of the most commonly-searched home loan features by the more than 130,000 visitors to Canstar's Home Loan online selectors this year are offset accounts, redraw facilities and the ability to make extra repayments. These are all important features that our Research team also looks for when determining which fixed-rate loan providers provide a winning product line.

The CANSTAR Fixed Rate Home Loans Awards recognise the lenders across three segments (banks, customer-owned and non-banks) who are offering both competitive prices on their fixed rate loans and product flexibility. We hope you enjoy the report.

# WHAT HAVE INTEREST RATES DONE?

There has been a lot of movement in the Reserve Bank of Australia's (RBA) official cash rate (OCR) in 2015, with two cuts in February and May 2015. In September, it now remains at a historic low of 2.00%.

Such a low official cash rate has definitely trickled down into our rates for home loans – hallelujah!

Our database shows decreases in interest rates for all types of fixed rate home loans, not to the full extent of the 50 basis point cut in official cash rate, but certainly encompassing a large portion of that. Fixed rate home loans up to three years currently have lower average rates than the average standard variable rate loan, perhaps to reflect the expectation of banks that the RBA may yet lower the cash rate further.

The table below compares the minimum, maximum and average interest rates on the fixed rate home loans on CANSTAR's database, listing the rates in late September 2014 and the rates in late September 2015.

**Comparing 2014 and 2015 interest rates for fixed rate home loans on CANSTAR database**

|   |      | 1 Year Fixed | 2 Year Fixed | 3 Year Fixed | 4 Year Fixed | 5 Year Fixed |
|---|------|--------------|--------------|--------------|--------------|--------------|
| Average Min   | 2015 | 4.47%        | 4.48%        | 4.54%        | 4.80%        | 4.84%        |
|   | 2014 | 4.79%        | 4.89%        | 4.99%        | 5.25%        | 5.28%        |
| Max Average   | 2015 | 3.50%        | 3.69%        | 3.89%        | 4.24%        | 4.24%        |
|   | 2014 | 3.89%        | 4.39%        | 4.49%        | 4.79%        | 4.84%        |
| Min Max   | 2015 | 5.84%        | 5.74%        | 5.74%        | 6.04%        | 6.04%        |
|   | 2014 | 5.79%        | 5.84%        | 5.89%        | 6.39%        | 6.43%        |
| <b>Movement in average rates Sept 2014- Sept 2015</b> |      | <b>0.32%</b> | <b>0.41%</b> | <b>0.45%</b> | <b>0.45%</b> | <b>0.44%</b> |

Source: [Canstar.com.au](http://Canstar.com.au).

Based on rates on the CANSTAR database for a \$300,000 fixed rate home loan.

These search results do not include all home loan providers, and may not include all features relevant to you.

## What do those rates mean for mortgage repayments?

Based on the average three year fixed home loan rate above and a loan over 25 years, borrowers could expect their home loan debt to cost the following amounts.

You can calculate the long-term cost of your home loan using our website's [monthly repayments calculator](#).

| Size of loan | Interest rate | Monthly repayment | Cost over three years |
|--------------|---------------|-------------------|-----------------------|
| \$200,000    | 4.54%         | \$1,116           | \$40,184              |
| \$300,000    | 4.54%         | \$1,674           | \$60,275              |
| \$400,000    | 4.54%         | \$2,232           | \$80,367              |
| \$500,000    | 4.54%         | \$2,791           | \$100,459             |
| \$600,000    | 4.54%         | \$3,349           | \$120,551             |

*The figures calculated above do not account for any additional fees including ongoing, establishment, application, or discharge fees.*

# THE BOTTOM LINE FOR BORROWERS: WHAT ARE WE LOOKING FOR?

With record low rates, it's not surprising that our database here at CANSTAR shows an increase in consumers looking for fixed rate home loans since the first cut in February. In fact, since May, a whopping 63% of visitors to our home loan selector tables have been looking for a fixed rate home loan, typically for \$350,000 or more, with the majority of them looking for a 3 to 5 year fixed loan. Just 37% of consumers have still been looking for a variable rate home loan.



- 25% want a 5-year fixed loan.
- 22% want a 3-year fixed loan.
- 8% want a 2-year fixed loan.
- 8% want a 1-year fixed loan.

It's definitely a great time to be shopping around for a low rate for your home loan. As always though, it's a tricky call to make, as rates could potentially decrease further.

If you're among the 60% majority of CANSTAR visitors who are looking for a home loan that's received our 5-star rating, take a visit our [website](#).

## WHAT FEATURES DO WE WANT IN A HOME LOAN?

Our database shows that Australian consumers often look for a home loan with an offset account or another redraw facility, and the ability to eliminate their mortgages faster with additional payments.



Across our database, we have found that not every fixed rate home loan offers these features – which is why it's important to shop around.

- 26% want an offset account – but only 32% of banks and 36% of customer-owned institutions offer them.
- 20% want to make additional payments – and thankfully, 86% of banks and 90% of customer-owned institutions offer them.
- 15% want a redraw facility – 32% of banks and 55% of customer owned institutions offer them
- 12% want an interest-only loan.
- 9% want to make lump sum repayments – 91% of Banks, 88% of customer owned offer this.
- 6% want a split loan option to make the most of fixed and variable rates.
- 4% want to get pre-approval for their loan - 95% of banks pre-approve loans, 94% of customer-owned pre approve loans.

# THE WINNERS – FIXED RATE HOME LOANS AWARDS

CANSTAR congratulates all award winners!



## Winner – Bank: ING DIRECT

### Why they won:

The overall driver for ING DIRECT'S top position is their low price and their good feature score. ING DIRECT was the overall leader in price, and they had the lowest 2-year fixed average rate over the period considered. They do not charge any cost to refix your home loan at the end of the fixed rate term with a new fixed rate.

The impressive features of their fixed rate home loans include the following:

- Additional repayments are allowed of up to \$10,000 per annum.
- Borrowers can obtain a guaranteed rate pre-approval for up to 90 days for a cost of \$749.
- Your loan can be split up to five times with no additional costs.
- Both principal-and-interest loans and interest only loans are available, with

interest only loans available up to 5 years.

### About the company:

ING DIRECT is the trading name of ING Bank (Australia) Limited. They have had 1.5 million customers and counting since they got their Australian banking licence in 1999. In their time, they have financed more than 475,000 home loans.

They state simplicity of approach as the key to their success. For example, they offer home loans with no ongoing, annual, or monthly account-keeping fees. They aim to make it easy for customers to make sound financial decisions at every stage of life.

ING Direct supports three key community partners to help Australian communities:

- Cerebral Palsy Alliance
- The School for Social Entrepreneurs
- United Way



## Fixed Rate Home Loans



ING Direct is also committed to three main sustainability goals:

- Reduce carbon emissions by 15% by 2015.
- Reduce paper usage by 30% by 2015.
- Raise awareness about being environmentally conscious and engaged.

ING Direct have won multiple awards for their financial products, and we congratulate them on adding the CANSTAR award for Bank of the Year – Fixed Rate Home Loans to their wall of honour.



## Fixed Rate Home Loans



## Winner – Non-Bank Financial Institution: Mortgage House

### Why they won:

The overall driver for Mortgage House's top position is their range of features. Mortgage House do not charge any cost to refix your home loan at the end of the fixed rate term with a new fixed rate.

Their impressive features include the following:

- Additional repayments are allowed for up

to \$20,000 per annum.

- They have a 100% offset account and a full redraw facility is available.
- Borrowers can obtain a guaranteed rate for up to 90 days at no extra cost.
- Borrowers can split their loan up to five times, with a \$50 charge per split.
- Borrowing for construction is available.
- Both principal-and-interest loans and interest only loans are available, with interest only loans available up to 10 years.

### About the company:

Mortgage House was founded in 1986 by Ken Sayer and began operations as a mortgage broker, before they became a home loan lender in their own right in 2007.

After a loan has settled, Mortgage House has a customer care scheme that includes wealth creation, managed debt reduction, and loan refinancing and re-structuring. Since 2010, they have maintained 30 home loan centres around the country. You can find a Mortgage House home loan centre near you on their website.

### Winner – Customer-Owned Institution: Newcastle Permanent

#### Why they won:



The overall driver

for Newcastle Permanent's top position is their low price. They have the lowest fixed interest rates for all loan terms – 1, 2, 3, and 5 years. They do not charge any cost to refix your home loan at the end of the fixed rate term with a new fixed rate. Their impressive features include the following:

- Additional repayments are allowed for up to \$25,000 per annum.
- Borrowers can obtain a guaranteed rate for up to 60 days at no cost.
- Your loan can be split unlimited times at no extra charge.
- Borrowing for construction is available.
- Both principal-and-interest loans and interest only loans are available, with interest only loans available up to 10 years.

### About the company:

Newcastle Permanent was established in 1903 as a building society to help low income families own their own home.

Their company was based on the Starr-Bowkett cooperative model

The team at Mortgage House love their sports, so whether it's local clubs or junior teams, the company is pleased to provide support through sponsorship.

The Mortgage House Academy has been developed to ensure continual professional development for all of its staff members.

Mortgage House has received many industry awards in its time, including some from CANSTAR, and we congratulate them on their success in winning the Non-Bank of the Year – Fixed Rate Home Loans award.



### Institution of the Year Fixed Rate Home Loans

- Charitable Foundation partners with environmental organisations such as Native Animal Trust, Koala Preservation Society of NSW, and the Junior and Cadet Ranger programs.

They also sponsor initiatives to benefit their local community through their Charitable Foundation in areas such as health, education, the arts, sport, and community-based projects.

At the time of writing, Newcastle Permanent staff members receive two days of community service leave every year so they can volunteer for the charities and causes they believe in. Staff members also benefit from a Wellness Program that partners with local fitness centres and health centres.

Newcastle Permanent continue to add to their award cabinet and we congratulate them on their success of receiving the Customer Owned Financial Institution of the Year – Fixed Rate Home Loans.





# METHODOLOGY

## Fixed Rate Home Loans Awards

### What are the CANSTAR Fixed Rate Home Loans Awards?

CANSTAR's *Fixed Rate Home Loans Awards* use a sophisticated and unique award methodology that compares both cost and features across a lender's fixed rate home loan offering. This is a transparent analysis comparing the various offerings available in the Australian home loan market.

The CANSTAR *Fixed Rate Home Loans Awards* recognise the lenders across three segments (banks, customer-owned and non-banks) who are offering both competitive prices on their fixed rate loans and product flexibility. Along with the interest rates, product flexibility is very important to allow those who choose to fix their loan the ability to make additional repayments, split their loan and access redraw and/or offset facilities.

### What types of lenders are considered?

The following lender groups are considered, with the top ranking lender receiving the CANSTAR Fixed Home Loan Award for that segment:

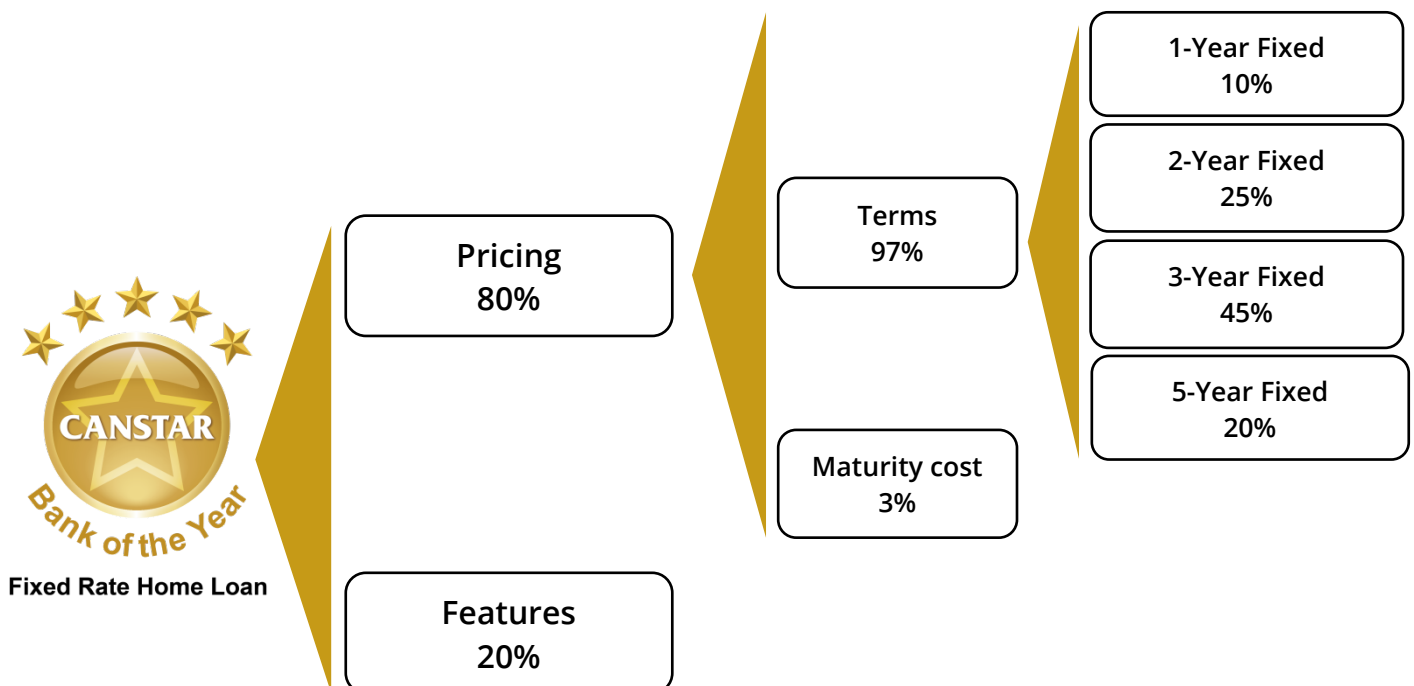
- Banks (Bank of the Year – Fixed Rate Home Loans)
- Customer-owned includes mutual banks, credit unions and building societies (Customer Owned Institution of the Year – Fixed Rate Home Loans)
- Non-banks (Non-Bank of the Year – Fixed Rate Home Loans)

### How are the 'awards' calculated?

Each lender reviewed for the CANSTAR *Fixed Rate Home Loans Awards* is awarded points for its comparative Pricing and for the array of positive Features attached to its offering. Points are aggregated to achieve a Pricing score and a Feature score.

To arrive at the total score, CANSTAR applies a weight (w) against the Pricing and Feature scores. This method can be summarised as:

$$\text{TOTAL SCORE} = \text{PRICING} + \text{FEATURES SCORE}$$



## Price score

The pricing score is broken into two sections – (1) Terms and (2) Maturity cost.

### *Terms*

The terms component of the pricing score considers the interest rates and fee structures of each lender's fixed rate home loan offering across four fixed terms. The calculation is a total cost scenario on each of the four terms. The period of each scenario runs for the duration of the fixed period. Any applicable fees are applied to the calculation, including upfront and ongoing fees.

This calculation is applied against interest rates available for the past six months. Each month is weighted equally. The scenario loan is based on a \$300,000 loan taken over 25 years at an LVR of 80%.

### *Maturity cost*

The maturity cost component of the pricing score considers the costs at the end of the fixed period. The costs included are the cost to refix (i.e. fee to rollover into another fixed period) and discharge (cost to discharge the loan from the institution). Both of the fees are worth 50% of the maturity cost component.

## Feature score

The feature component takes into account more than 200 product features and allocated points. These product features are grouped into seven different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories:

| Category                      | Weight     |
|-------------------------------|------------|
| <b>Product functionality</b>  | <b>38%</b> |
| Additional repayments         | 35%        |
| Redraw facility               | 25%        |
| Offset facility               | 20%        |
| Split facility                | 10%        |
| Top up facility               | 5%         |
| Portability                   | 5%         |
| <b>Loan terms</b>             | <b>35%</b> |
| Lending terms                 | 80%        |
| Security requirements         | 5%         |
| Guarantee options             | 5%         |
| Construction loan             | 10%        |
| <b>Fixed interest details</b> | <b>10%</b> |
| <b>Interest in advance</b>    | <b>5%</b>  |
| <b>Loan fees</b>              | <b>5%</b>  |
| <b>Loan approval</b>          | <b>5%</b>  |
| <b>Lending areas</b>          | <b>2%</b>  |



## Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

## How often is the calculation for this award undertaken?

This award is fully recalculated every 12 months, based on the latest features offered by each institution. CANSTAR also monitors rate changes on an ongoing basis. The CANSTAR *Fixed Rate Home Loans Awards* will be decided once a year.

## 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
- Landlord insurance
- Life insurance
- Managed investments
- Margin lending
- Online share trading
- Package banking
- Personal loans
- Pet insurance
- Reward programs
- SMSF loans
- Superannuation
- Term deposits
- Travel insurance
- Travel money cards



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