2015

STAR RATINGS
REPORT

CANSTAR

Home Loans

Home Loans

September 2015

Foreword

There's no doubt that getting into the property market is still the Great Australian Dream, but the average housing in our capital cities have stabilised at high prices. No matter how low interest rates on a home loan are, the fact is that we're paying more for longer.

The latest CANSTAR research, based on visitors to our website, has shown that the most common Aussie hunting out a home loan is looking for a fixed rate loan for $350k-$499k, with an offset account and the ability to repay it sooner with additional payments. But 41% of us are just looking for a loan to refinance our existing debt.

Irrespective of why you're in the market, it's important to find a great value home loan with a low rate and features that suit your lifestyle. There are a wide range of options on the market when it comes to loans, so in addition to carefully choosing a property to buy, you should carefully choose the loan that funds it.

CANSTAR is here to help; our Home Loan Star Ratings Report rates 1,945 home loans from 101 lenders, to determine which providers and products offer outstanding value for borrowers across fixed-rate, variable, and line-of-credit home loans for residential and investment purposes.

Mitchell Watson
Research Manager

THE INTERESTING COST OF LOANS

The [2014 Global Wealth Report](#) by Swiss bank Credit Suisse showed Australians are the wealthiest people in the world according to median wealth per adult, thanks to the high market value of our housing, which makes us rich in "real assets". (The second wealthiest people were the Belgians, followed by the Italians, the French and the British.) So it's no surprise that Australians keep a sharp eye on the mortgage interest rates for our homes.

On the first Tuesday of the month, the Reserve Bank of Australia (RBA) decides what to do with the official cash rate (OCR), whether to raise or lower it or just leave it alone. Usually, the amount of media speculation about what they'll decide is unjustified because the rate stays the same. However the past 12 months have changed our complacency.

After staying at 2.50% throughout 2014, the cash rate dropped in February 2015 to a historic low of 2.25%. In May, that rate dropped again, to just 2.00%. Overall, 50 basis points has been cut from the official cash rate so far in 2015.

What does that mean for borrowers?

The historically low interest rates might not be great for building our savings, but they do lower the cost of our monthly mortgage repayments a little.

At time of writing (Monday 21st September), the minimum, maximum and average interest rates across CANSTAR's database are as follows:

Home loan interest rates on CANSTAR database

|	Standard Variable	Package Variable	1 Year Fixed	2 Year Fixed	3 Year Fixed	5 Year Fixed
Average	4.83%	4.55%	4.47%	4.48%	4.54%	4.83%
Min	3.94%	4.09%	3.50%	3.69%	3.89%	4.24%
Max	6.12%	5.12%	5.84%	5.74%	5.74%	6.04%

Source: [Canstar.com.au](#). Based on rates on the CANSTAR database for a $300,000 home loan.

In terms of how our financial institutions have responded to the 50 basis point reduction in the official cash rate this year, the difference between the equivalent home loan interest rates at the start of January this year (prior to the two rate cuts) and the current rates are as follows:

	Standard Variable	Package Variable	1 Year Fixed	2 Year Fixed	3 Year Fixed	5 Year Fixed
Average	-0.53%	-0.46%	-0.31%	-0.39%	-0.41%	-0.36%
Min	-0.53%	-0.53%	-0.46%	-0.60%	-0.65%	-0.45%
Max	-0.26%	-0.43%	+0.05%	-0.10%	-0.15%	-0.30%

Source: [Canstar.com.au](#). Based on rates on the CANSTAR database for a $300,000 home loan.

As can be seen from the above, and perhaps not surprisingly, the average variable rates have been the most responsive to the 50 basis point drop in official cash rates while the average fixed term loans, which had already priced a cash rate reduction into their offerings, were less responsive. Interestingly though, sharp competition in the two and three year fixed rate home loan space has seen rates reduce by more than the official cash rate.
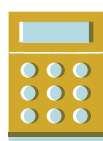
What do those rates mean for mortgage repayments?

Based on the current average standard variable home loan rate above and a loan over 25 years, borrowers could expect their home loan debt to cost the following amount:

Size of loan	Interest rate	Monthly repayment	Cost over 25 years
$200,000	4.83%	$1,149	$344,837
$300,000	4.83%	$1,724	$517,255
$400,000	4.83%	$2,299	$659,674
$500,000	4.83%	$2,874	$862,092
$600,000	4.83%	$3,448	$1,034,511

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

HOUSE PRICES

According to the Australian Bureau of Statistics, the average price of residential properties in Australia is rising, and rising quickly. In March 2015, the mean price was up to $576,100, rising 6.9% from $571,500 in December 2014 and leaving December 2013's prices of $539,000 in the dust. Overall, prices rose 6.9% from December 2014 to March 2015.

In terms of current prices, CoreLogic advises that the median sale price, state by state, is as follows:

State	House Median sale price	Price increase over 12 months to June	Unit Median sale price	Price increase over 12 months to June
NSW	$557,000	9.20%	$545,000	7.80%
VIC	$465,000	2.20%	$435,000	0.00%
QLD	$445,000	3.50%	$365,000	-0.70%
SA	$380,000	3.40%	$325,000	4.00%
WA	$515,000	0.50%	$426,000	-1.40%
TAS	$280,000	2.80%	$245,000	-2.00%
ACT	$572,000	5.10%	$415,000	-0.20%
NT	$540,000	1.50%	$435,000	3.00%

Source: propertyvalue.com.au

Why do houses cost so much in Australia?

Everyone wants to live in the city

According to the Australian Bureau of Statistics (ABS), more than 65% of our population was living in a capital city in 2013/14 (the most recent statistics). This can cause prices to be pushed higher as demand outgrows supply. Many of our capital cities have more than one million residents, with Greater Sydney at approximately 4.84 million and Greater Melbourne at 4.44 million. Grater Brisbane and Greater Perth are both also over the two million mark (2.27 and 2.02 million respectively).

We could live elsewhere, where it's cheaper – but not many of us want to. Technically, we might be a land of sweeping plains, but in reality, we'd rather sweep the front steps of a townhouse than a desert ranch.

The Reserve Bank's Head of Financial Stability, Dr Luci Ellis, spoke on 8th September at a Sydney real estate conference, where she said prices will increase regardless of how much land is released for housing because people generally want to live in certain areas.

Everyone wants to work in the city

Australian cities are comparably larger than other developed countries when it comes to how spread apart we are and how much land each home sits on – but the majority of our jobs remain in the CBD area. With public transport and road infrastructure making life problematic for commuters coming from most outer suburbs, it's no wonder that Aussies are willing to pay top dollar to live in the inner-city hub.

Government support

Both investors (via negative gearing) and owner-occupiers (via capital gains tax exemption) receive significant tax breaks for owning property. Our government also provides a number of property affordability measures such as grants for first home buyers and stamp duty relief. We are currently waiting to see whether the government will decide to allow first home buyers to use their superannuation savings to put down a deposit on a home.

WHAT LOANS ARE WE CHOOSING?

Our CANSTAR database has shown us a number of interesting trends in the type of home loans that people have been searching for in 2015 (current at 15th September). The following figures are based on the more than 126,672 CANSTAR visitors that used the online home loan selector between January and August this year. Percentages quoted are based on visitor in January compared to visitors in August. Please note that figures will not necessarily equal 100% as some visitors may choose more than one option and some options may not receive a statistically significant number.

Who's buying?

When it comes to why people are looking for a home loan, refinancing an existing loan is the single most popular reason.

Reason	January 2015	August 2015
Refinancing	43.91%	34.11%
First Home Buyers	28.66%	29.79%
Investors	14.32%	18.73%
Next Home buyers	11.35%	12.72%
Building a home	1.75%	3.85%

Type of home loan

Perhaps due to the two cash rate cuts this year, more people are now looking to lock in a fixed rate for their loan while rates are so low. In January this year, 45% of visitors were shopping for a variable rate loan, with that percentage dropping to 39% in August.

Type	January 2015	August 2015
Variable	45.13%	39.14%
Fixed 5 year	21.47%	22.22%
Fixed 3 year	17.25%	20.36%
Fixed 2 year	9.08%	11.19%
Fixed 1 year	7.07%	7.09%

Amount of loan

Loans are being sought for larger amounts, in light of the way housing prices have plateaued at high levels:

Type	January 2015	August 2015
Up to $249K	16.93%	15.69%
$250k - $349K	21.37%	15.48%
$350K - $499K	33.85%	40.57%
$500k - $749K	20.94%	18.86%
$750k - $999K	2.90%	4.38%
Over $1 mil	4.01%	5.02%

Features of home loan

What are Australians looking for in a loan? An offset account or another redraw facility, and the ability to eliminate their mortgages faster with additional payments. As features are relatively consistent over time, the percentages below are based on all home loan selector visitors between January and August inclusive.

- 26% want an offset account.
- 20% want to make additional payments.
- 15% want a redraw facility.
- 12% want an interest-only loan.
- 9% want to make lump sum repayments.
- 6% want a split loan option to make the most of fixed and variable rates.
- Only 4% want to get pre-approval for their loan.

HOW MANY HOME LOANS PROVIDE OUTSTANDING VALUE?

CANSTAR has crunched the numbers on 101 lenders and 1,945 products to determine which providers and products offer outstanding value for borrowers across variable, fixed-rate and line-of-credit loans for both residential and investment purposes.

Our star ratings are easy to use and give you the ability to narrow down products worth investigating further. For full listings and details, see the ratings tables below.

Loan Category	Number of 5 star products	
Residential variable	32 out of 329	★★★★★
Line of credit	12 out of 128	★★★★★
Investment variable	28 out of 307	★★★★★
Investment fixed-rate 5-year	12 out of 128	★★★★★
Investment fixed-rate 3-year	15 out of 158	★★★★★
Investment fixed-rate 2-year	18 out of 152	★★★★★
Investment fixed-rate 1-year	16 out of 154	★★★★★
Residential fixed-rate 5-year	14 out of 127	★★★★★
Residential fixed-rate 3-year	15 out of 157	★★★★★
Residential fixed-rate 2-year	15 out of 153	★★★★★
Residential fixed-rate 1-year	16 out of 152	★★★★★

CANSTAR congratulates all outstanding value five star winners.

What is the CANSTAR Home Loan Star Rating?

CANSTAR *Home Loan Star Ratings* use a sophisticated and unique ratings methodology that compares both Cost and Features across home loan products. CANSTAR star ratings represent a shortlist of financial products, enabling consumers to narrow their search to products. CANSTAR Home Loan Star Ratings are a transparent analysis comparing all types of home loan products.

Ratings range from five- to one-star. Five-star rated products have been assessed as offering outstanding value to consumers. Rising Stars are products that would be rated five-star but have not been in the market for six months; these products will be formally rated in the next report once more historical data is available.

How is the CANSTAR Home Loans Star Rating structured?

CANSTAR *Home Loan Star Ratings* consists of two separate star rating levels, low and high. The rating process for these two levels employs a separate star ratings methodology consistent with the pricing and features model of the CANSTAR star ratings.

Low Level Star Rating

CANSTAR recognises that consumers have different needs and wants when it comes to Home Loans that they need. Hence CANSTAR's Low Level Star Rating is aimed to provide consumers with results that suit their borrowing profile. It analyses products based on different loan amounts, product types and profiles so a consumer is able to identify a shortlist of products that are suited to their individual needs. The rating in each borrower profile recognised specific needs and features relevant for that particular consumer group.

Borrower profiles that are assessed in the Low Level Star Rating are as follows:

Profile	Product Type
First Home Buyer	An individual who is purchasing a property for a very first time
Investor	An individual who is either refinancing an existing investment property or purchasing an investment property
Established Home Owner	An individual who is either refinancing an existing property or purchasing a new property
Constructor	An individual who is constructing a new property

Profile	Product Type	Loan Amount
First Home Buyer	Variable Rate	$200,000
Investor	1 Year Fixed	$350,000
Established Home Owner	2 Year Fixed	$500,000
Constructor	3 Year Fixed	$750,000
Line of Credit*	5 Year Fixed	

*Line of Credit will only consider Variable Rate and different loan amounts

Products specific to certain groups or with restrictions on eligibility are not included in the ratings. Home loans that do not conform to the pricing scenario are also not included so as to ensure like-for-like comparison.

How is the Star Rating calculated?

Each home loan reviewed for the CANSTAR *Home Loan Star Ratings Report* is awarded points for its comparative Pricing and for the array of positive Features attached to the product. 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 weight will vary from profile to profile and will reflect the relative significance of either costs or features in determining the best-value home loan product. This method can be summarised as

.TOTAL SCORE = PRICING + FEATURES SCORE
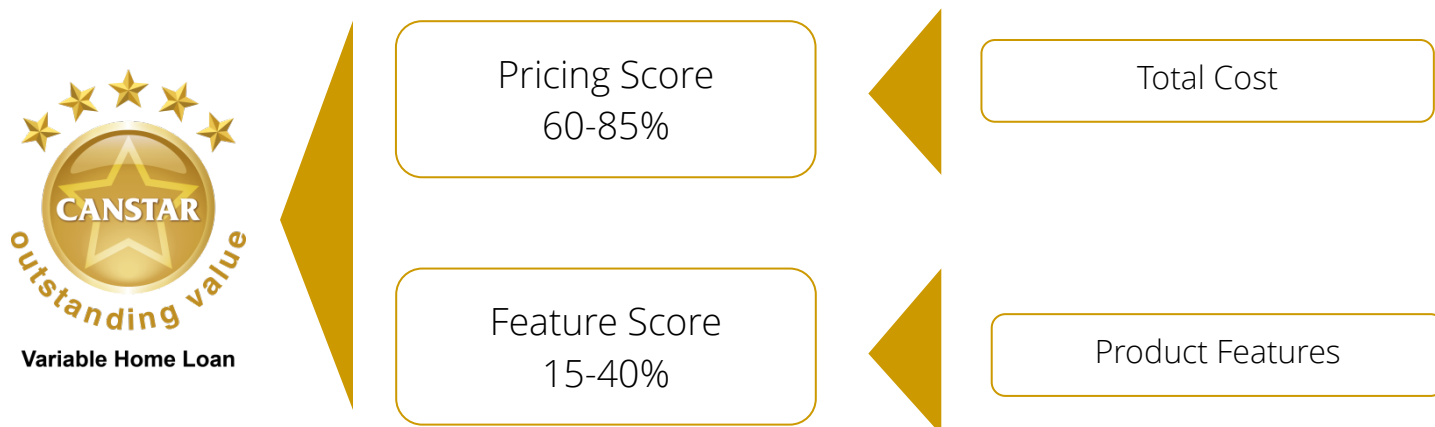
The weights for the borrowing profiles are as follows:

Profile	Variable Rate		Fixed Rate	
	Price Weight	Feature Weight	Price Weight	Feature Weight
First Home Buyer	75%	25%	80%	20%
Investor	80%	20%	85%	15%
Established Home Owner	80%	20%	80%	20%
Constructor	80%	20%	85%	15%
Line of Credit	60%	40%	-	-

YOUR GUIDE TO PRODUCT EXCELLENCE

Pricing Score

Variable Rate Cost Scenario

CANSTAR accounts for both current and historical interest rate in the calculation of the Pricing component of each product's overall score. Total Cost will be determined by the size of the loan amount, and the Loan to Value Ratio (LVR) of 80%.

Pricing Score
60-85%

Total Cost
Based on the different loan amounts over 25 years at 80% LVR
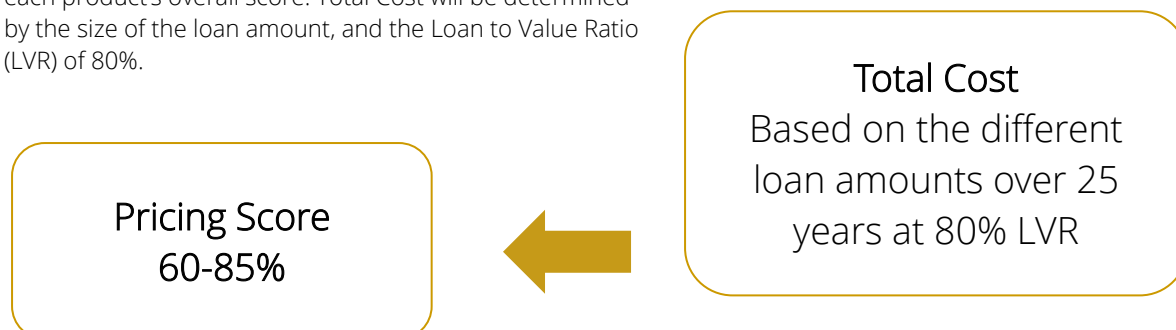
Total Cost is based on the following:
- Six Months' historical data
- Interest rate cost plus upfront, ongoing & discharge fees
- For Introductory products the revert rate (interest rate to which the product reverts to after introductory period) is taken into total cost calculation

Fixed Rate Cost Scenario

Fixed Rate Total Cost Calculation accounts for both current and historical interest rate. Different loan amounts are considered in the total cost calculation at Loan to Value Ratio (LVR) of 80%. Total Cost Calculation will include the following:
- Six Months historical data
- Interest rate cost plus upfront, ongoing & discharge fees
- At Least one rollover of the fixed rate
- 60 Day period where a product reverts to a standard variable product interest rate (revert rate)

Product Category	Number of Rollovers	Loan Term
1 Year Fixed	1	2 years
2 Year Fixed	1	4 years
3 Year Fixed	1	6 years
5 Year Fixed	1	10 years

Feature Score

Feature Score
15-40% ◀ Product Features
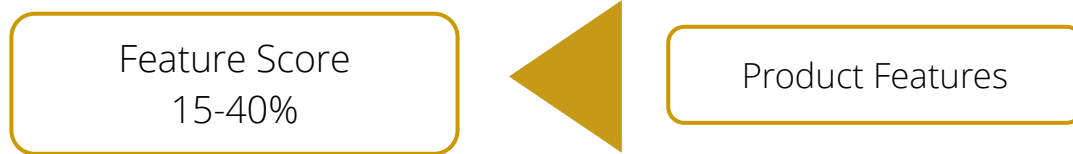
The features component takes into account more than 200 product features and allocated points. These product features are grouped into 5 different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:

Category	First Home Buyer	Investor	Established Home Owner	Constructor	Line of Credit
Loan Terms	50%	45%	40%	45%	40%
Lending Terms	65%	65%	65%	60%	40%
Security Requirements	10%	15%	15%	10%	10%
Guarantee Options	20%	15%	15%	10%	10%
Line of Credit Details	-	-	-	-	40%
Construction Loan	5%	5%	5%	20%	-
Product Functionality	40% (30%)	40% (30%)	45% (35%)	40% (30%)	45%
Additional Repayments	20%	15%	20%	20%	-
Redraw Facility/Transactional	20%	15%	20%	20%	60%
Offset Facility	25%	25%	25%	20%	-
Split Facility	25%	25%	20%	20%	30%
Top Up Facility	5%	10%	10%	10%	-
Portability	5%	10%	5%	10%	10%
Fixed Rate	0% (10%)	0% (10%)	0% (10%)	0% (10%)	-
Rate Details	100%	80%	100%	100%	-
Interest in Advance	-	20%	-	-	-
Loan Fees	5%	10%	10%	10%	10%
Switch Fees	75%	75%	75%	75%	65%
Mortgage Fees	25%	25%	25%	25%	35%
Loan Application	5%	5%	5%	5%	5%

High Level Star Rating

Low Level Star Rating is used to feed the High Level, which then gives recognition to institutions that provide Outstanding Value products across multiple profiles to consumers.

The High Level Star Rating aims to recognise products that perform well across different profiles, product types and loan amounts when compared to their peers. High Level Methodology is product based and considers the weighted average of different loan amounts and profiles (First Home Buyer, Investor and Established Home Owner). For the Fixed Rate Home Loan, weighted average of all fixed terms is considered as well.

How is the High Level Star Rating calculated?

Outstanding Value – Variable Home Loan- Owner Occupied

**Variable Home Loan
Owner Occupied**

Outstanding Value – Variable Home Loan – Owner Occupied considers the following:

Profile	
First Home Buyer 15%	Established Home Owner 85%

Weighted Average of Loan Amounts			
$200,000 20%	$350,000 40%	$500,000 25%	$750,000+ 15%
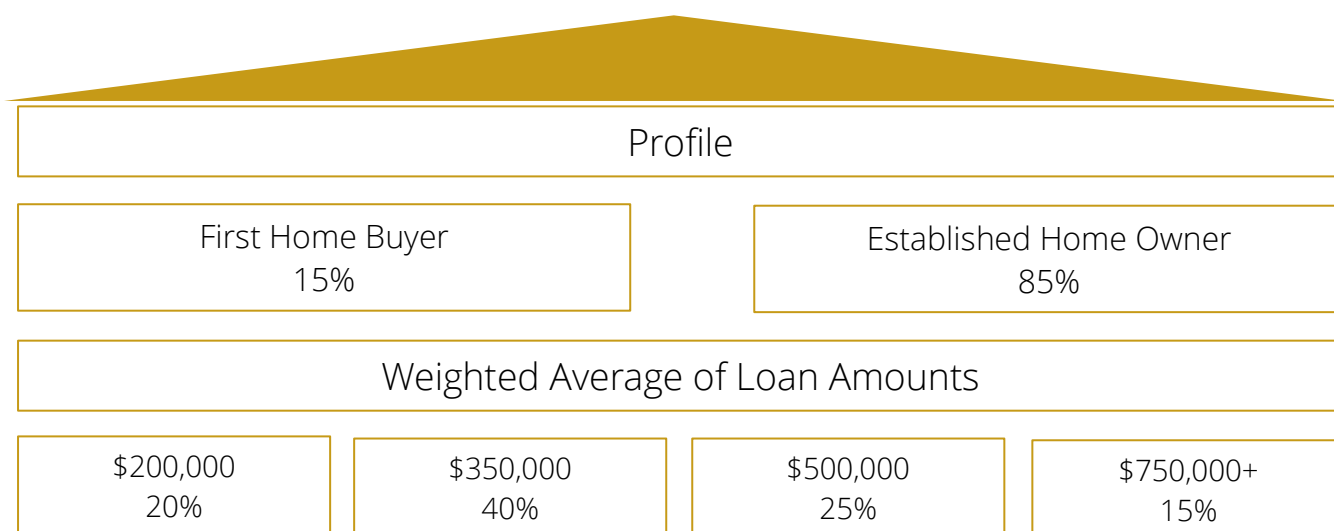
Outstanding Value – Variable Home Loan- Investment

**Variable Home Loan
Investment**

Outstanding Value – Home Loan - Investment considers the following:

Weighted Average of Loan Amounts

$200,000 20%	$350,000 40%	$500,000 25%	$750,000+ 15%

Outstanding Value – Variable Home Loan- Line of Credit

**Home Loan
Line of Credit**

Outstanding Value – Line of Credit considers the following:

Weighted Average of Loan Amounts

$200,000 20%	$350,000 40%	$500,000 25%	$750,000+ 15%

YOUR GUIDE TO PRODUCT EXCELLENCE

Outstanding Value – Fixed Home Loan- Investment

Fixed Home Loan
Investment

Outstanding Value – Fixed Home Loan - Investment considers the following:

Weighted Average of Fixed Rates

1 Year Fixed 20%	2 Year Fixed 20%	3 Year Fixed 35%	5 Year Fixed 25%

Weighted Average of Loan Amounts

$200,000 20%	$350,000 40%	$500,000 25%	$750,000+ 15%

Outstanding Value – Fixed Home Loan- Owner Occupied

**Fixed Home Loan
Owner Occupied**

Outstanding Value – Fixed Rate Home Loan - Owner Occupied considers the following:

Weighted Average of Fixed Rates

| 1 Year Fixed 20% | 2 Year Fixed 20% | 3 Year Fixed 35% | 5 Year Fixed 25% |

Profiles

| First Home Buyer 15% | Established Home Owner 85% |

Weighted Average of Loan Amounts

| $200,000 20% | $350,000 40% | $500,000 25% | $750,000+ 15% |

Overlay on the Final High Level Star Ratings

There are instances when a product may be disadvantaged as it is not offered for one of the loan amounts or fixed rate terms. To overcome these disadvantages and award institutions that consistently offer an outstanding value product to consumers, CANSTAR applies an overlay to the High Level Star Ratings.

For a Variable Product to be eligible for an overlay and achieve a five star rating overall, it must receive five stars across all eligible profiles and at least three loan amounts considered in the High Level Methodology. For a Fixed Rate Product to be eligible for an overlay, it must achieve a five star rating either across all loan amounts and profiles and have limited fixed rate terms or have all of the fixed rate terms and achieve a five star across all profiles considered and at least 3 loan amounts.

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 complete coverage 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.

YOUR GUIDE TO PRODUCT EXCELLENCE

How often are products reviewed for awards or star ratings purposes?

All ratings are fully recalculated every six months based on the latest features offered by each provider. CANSTAR also monitors changes on an ongoing basis. The results are published in a variety of mediums (newspapers, magazines, television, websites, etc.)

How are the stars awarded?

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores with the objective to award the top 5-10% of products with the CANSTAR five-star rating.
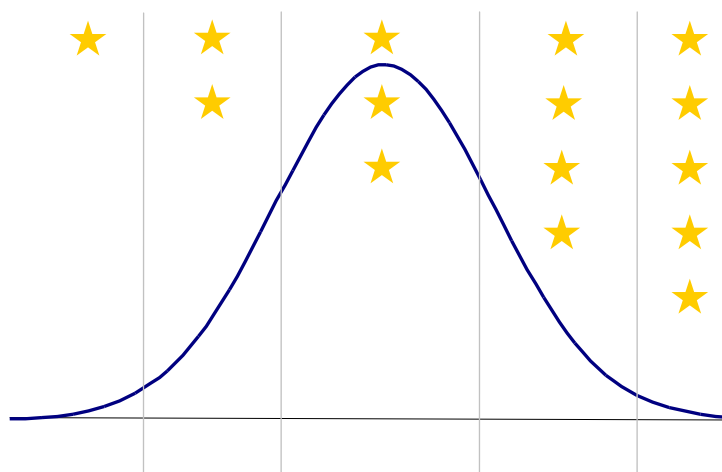
Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings and awards 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. Access the CANSTAR website at www.canstar.com.au if you would like to view the latest star ratings and awards reports of interest.

- Account-based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Life insurance
- Online banking
- Personal loans
- Term deposits
- Youth banking

- Agribusiness
- Car insurance
- Direct life insurance
- Home & Contents
- Managed investments
- Online share trading
- Reward programs
- Travel insurance

- Business banking
- Credit cards
- First home buyer
- Home loans
- Margin lending
- Package banking
- Superannuation
- Travel money cards