



METHODOLOGY

Personal Loan

What are the CANSTAR *personal loan star ratings*?

CANSTAR *Personal Loan Star Ratings* are a sophisticated rating methodology, unique to CANSTAR, which compare the dominant personal and car loan products in Australia and present the results in a simple, user-friendly format.

Our rating methodology is transparent and extensive. The methodology compares all types of secured and unsecured personal and car loans in Australia and accounts for an array of characteristics such as;

- Loan Purpose
- Pre-Approval Availability
- Security Requirements
- Deposit Requirements
- Repayment Capabilities
- Channels of Availability

The results are reflected in a consumer-friendly 5-star concept, with 5 stars denoting a product that offers outstanding value. Only the products that obtain a score in the top 5% - 10% of the score distribution receive a 5 star rating.

What are the categories used by CANSTAR personal loan star ratings?

CANSTAR appreciates the clear distinction of personal loan users as two separate groups. One group of borrowers uses personal loans mainly to purchase cars while the other group uses personal loans to finance other interests such as debt consolidation or holidays. The latter group may either require a secured or an unsecured loan. In recognition of these differences, the CANSTAR *personal loan star ratings* methodology has been modified to reflect the distinction between the above mentioned groups.

- ***Car Loan - \$25,000 repaid over 5 years*** - to be eligible for this category, loans must be available for car purchase and be available for the loan amount and loan term used in the car loan scenario.
- ***Unsecured Personal Loan - \$15,000 repaid over 3 years*** - to be eligible for this category, loans must be available for either debt consolidation or holidays and be available for the loan amount and loan term used in that unsecured personal loan scenario.
- ***Secured Personal Loan - \$20,000 repaid over 5 years*** - to be eligible for this category, loans must be available for either debt consolidation or holidays and be available for the loan amount and loan term used in that secured personal loan scenario.

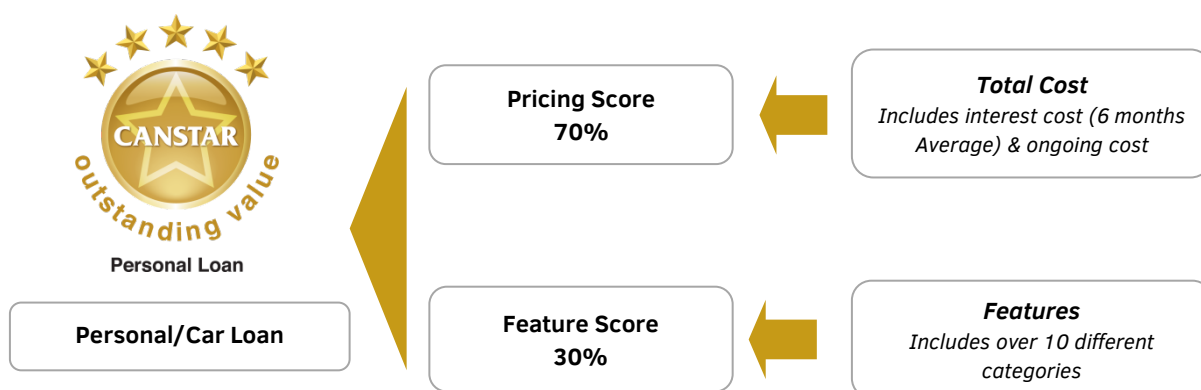
How does it work?

How are the '*stars*' calculated?

Each loan reviewed for the CANSTAR *Personal Loan Star Ratings* is awarded points for its comparative Cost and for the array of positive Features attached to the loan.

All products are assessed against these measures with the competitiveness of each product being highlighted by the star rating allocation after comparison to its peer products.

$$\text{PRICING SCORE (C) + FEATURES SCORE (F) = TOTAL SCORE (T)}$$



Weightings

The Costs (C) plus Features (F) point scores are indexed and totaled to provide the Total Index Points. Together they form the basis of the CANSTAR personal loan star ratings.

- The Costs and Features weights are equal in each loan profile. The weights applied to each features sub-category is subtly adjusted to account for the differences between the loan categories. The process considers each category separately and assigns weights representative of the relative importance of each group of features to each group (see table below). For both the Car Loan and Personal Loan categories, the total calculated cost of a loan accounts for a maximum 70% of each loan's total score and the features account for the remaining 30%.

The Costs (C) plus Features (F) point scores are indexed and totaled to provide the Total Index Points. Together they form the basis of the CANSTAR personal loan star ratings.

CANSTAR Personal Loan Star Ratings	WEIGHTINGS		
	COST (C)*	FEATURES (F)**	TOTAL (C+F)
Car Loan	70%	30%	100%
Unsecured Personal Loan	70%	30%	100%
Secured Personal Loan	70%	30%	100%

* Cost calculations consider 6 months average interest rates as well as ongoing fees associated with the loans

** Features calculations consider product functionality and flexibility, fees and charges and application process

Costs (C)

CANSTAR compares the current loan pricing data to calculate the COST (C) component of each product's overall score. The interest rate, upfront fees and ongoing fees are used to calculate the total cost to repay each loan by the borrower for the loan scenario used for each category (scenarios below). For secured loans we also take into consideration one-off documentation & documentation release fee.

Category	Loan Amount	Loan Period
Car Loan	\$25,000	5 Years
Unsecured Personal Loan	\$15,000	3 Years
Secured Personal Loan	\$20,000	5 Years

For the products with tiered interest rates based on loan amount and period the appropriate tiers based on the above table is considered. If the product has a rate range, the midpoint rate is considered for calculation. The interest rate is the average interest rate for the six months period equally weighted.

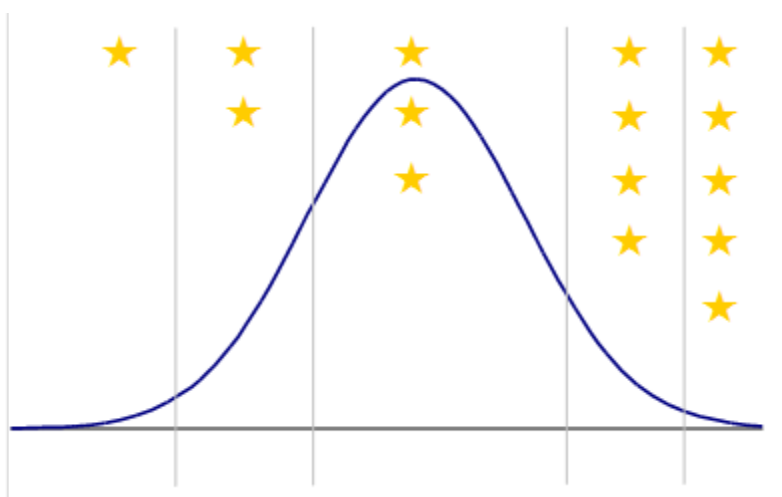
Features (F)

Each loan Feature (F) is allocated points. Points are awarded for positive loan traits such as less fees or greater flexibility. The total features score for each category of information (eg repayment capabilities) is ranked and weighted with each category contributing to the overall Features Score (F).

Feature Category	Car Loan	Secured	Unsecured	Examples of data captured
Product Flexibility	30%	30%	25%	
Lending Terms	50%	50%	70%	Loan Pre approval, Life of pre-approval,
Loan Insurance	5%	5%	5%	Loan Insurance available
Security Requirements	25%	20%	0%	Unsecured/ partial/ bill of sale/ lien over TD/ other
Deposit Requirements	20%	20%	0%	100% loan availability, min-max deposit requirements, rate variation for deposit
Loan Purpose	0%	5%	25%	Motorcycles/ new or used cars/ holidays/ debt consolidation/ renovations etc
Product Functionality	35%	35%	35%	
Repayment Capabilities	50%	50%	50%	Minimum repayments requirements, repayments options
Switching Facility	10%	10%	10%	Variable – fixed switch allowed, fees
Redraw & Top Up Facility	35%	35%	35%	Availability, conditions ,fees
Statement Options	5%	5%	5%	Frequency options/ online option
Fees and Charges	20%	20%	20%	
Additional Fees and Charges	20%	20%	20%	Missed payment fees, Partial repayment fees
Early Repayment Fees	80%	80%	80%	Early repayment fees
Application Process	15%	15%	20%	
Application Process	100%	100%	100%	Branch/ internet/ mobile lend/ broker/ phone

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 5-star rating.



The results are reflected in a consumer-friendly CANSTAR star rating concept, with five stars denoting outstanding value.

How many products and financial institutions are analysed?

In order to calculate the ratings, CANSTAR analyses 250 Personal and Car Loans from 70 financial institutions in Australia. In addition, over 100 parts of a product are analysed which includes product parameters, flexibility and operating terms and conditions.

How often are CANSTAR *personal loan star ratings* re-rated?

All ratings are fully recalculated every twelve months based on the latest features offered by each institution. CANSTAR also monitors rate changes on an ongoing basis.

Does CANSTAR rate other product areas?

CANSTAR also rates the banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website www.canstar.com.au if you would like to view the latest CANSTAR star ratings reports of interest.



- Account based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Landlord insurance
- Margin lending
- Package banking
- Reward programs
- Travel insurance
- Agribusiness
- Car insurance
- Direct life insurance
- Home & contents
- Life insurance
- Online banking
- Personal loans
- Superannuation
- Travel money cards
- Business banking
- Credit cards
- First home buyer
- Home loans
- Managed investments
- Online share trading
- Pet insurance
- Term deposits
- Youth banking

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