



# Business Loans

## What is the CANSTAR Business Loans Star Rating?

CANSTAR Business Loans Star Ratings uses a sophisticated and unique ratings methodology that compares both Cost and Features across business loan products. CANSTAR star ratings represent a shortlist of financial products, enabling consumers to narrow their search to 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.

## What types of products are evaluated by CANSTAR Business Loans Star Rating?

CANSTAR recognises that consumers have different needs and wants when it comes to Business Loans that they need. Hence CANSTAR's Business Loan Star Rating is aimed to provide consumers with results that suit their borrowing profile. Business Loans included in the Star Rating are assessed across the following product types:

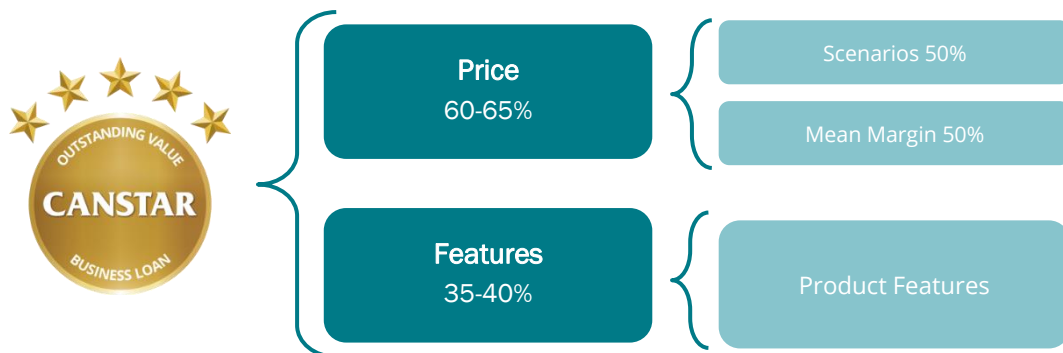


- Term Loan - Residentially Secured
- Term Loan - Commercially Secured
- Overdraft - Residentially Secured
- Overdraft - Commercially Secured

## How is the Star Rating calculated?

Each business loan reviewed for the CANSTAR Business Loans 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 business loan product. This method can be summarised as



TOTAL SCORE = PRICING + FEATURES SCORE

## Profile Weights

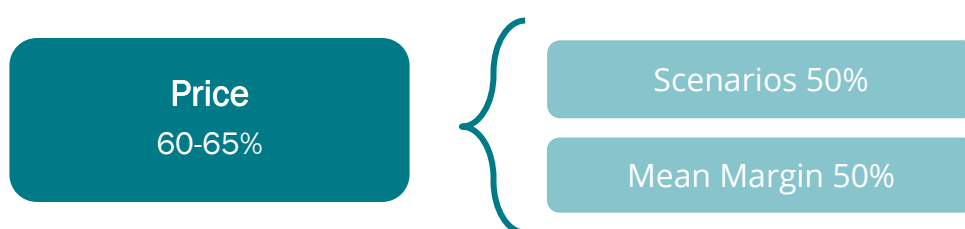
The weights for the borrowing profiles are as follows:

Product Category	Price Weight	Feature Weight
Term Loan - Residentially Secured	65%	35%
Term Loan - Commercially Secured	65%	35%
Overdraft - Residentially Secured	60%	40%
Overdraft - Commercially Secured	60%	40%

## Pricing Score

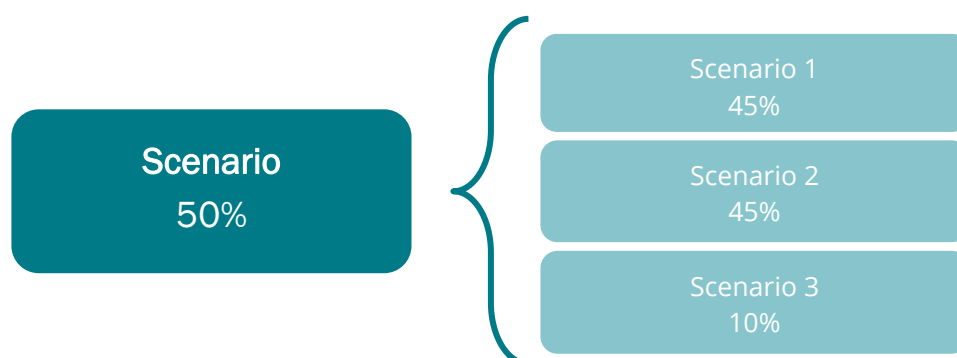
The Pricing score is made up of two components, Mean Margin Calculation and Scenarios.

The Scenario calculation is based on 3 different scenarios. The Scenarios used, evaluate each institution's pricing responses to different businesses with different levels of risk.



Description	
Scenarios	Based on 3 different scenarios. The Scenarios used, evaluate each institution's pricing responses to different businesses with different levels of risk. The margins derived from the scenario are then applied to the six month average base/reference rate.
Mean Margin Calculation	<p>Mean margin calculation compares the cost of loans written over a six month period for each institution. Mean margin is based on the total customer margin and total number of loans settled over the six month period</p> $\text{Mean Margin} = \frac{\text{Total Customer Margin}}{\text{Total Number of Loans}}$ <p>The margins derived from the mean margin are then applied to the six month average base/reference rate.</p>

## Scenarios



The Scenario calculation is based on 3 different scenarios. The Scenarios used, evaluate each institution's pricing responses to different businesses with different levels of risk. The margins derived from the scenario are then applied to the six month average base/reference rate.

The Scenarios have been developed by CANSTAR and reflect three businesses in different industries and financial capacity.

Scenario	Risk	Description
Scenario 1	Low	Strong Balance Sheet, good growth and profitability. Positive servicing on actual and sensitised basis- exceeds benchmarks on both.
Scenario 2	Medium	Business is profitable, however sales are decreasing. Positive servicing on actual and sensitised basis - just meets benchmarks on both.
Scenario 3	Medium-High	Nominal profits. Servicing is on actual basis and not sensitised basis - meets benchmark on one but not both

## Mean Margin Calculation

The Mean Margin Calculation considers pricing over different loan amounts and security.

Calculation is based on the following

- Interest rate cost - Base/reference with negative/positive margins applied
- Total cost - Interest rate cost, plus upfront, ongoing and discharge fees

The above calculation is undertaken for each month of the six month period and the relevant customer margin will be applied to the base/reference rate applicable at that time.

## Loan Terms & Amounts

Canstar takes into account two different loan amounts across one term for both term loans and overdrafts. Overdrafts are assumed to be only 50% utilised - all the fees will be based on the total facility but the interest rate will be calculated on the 50% utilisation of the facility.

The following table shows the loan term and amounts for the relevant profiles:

Profile	Term Loan - Res	Term Loan - Com	Overdraft - Res	Overdraft - Com
Loan Amount 1	\$250,000	\$250,000	\$50,000	\$50,000
Loan Amount 2	\$500,000	\$500,000	\$125,000	\$125,000
Loan Term	10 Years	5 Years	10 Years	5 Years

## Feature Score

**Features**  
35-40%

The features component takes into account more than 100 product features and allocated points. These product features are grouped into 3 different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:

Category	Secured		Examples of Data
	Term Loans	Overdrafts	
<b>Loan Terms</b>	<b>55%</b>	<b>45%</b>	
Lending Terms	65%	55%	Min loan amount, repay frequency, PI or IO
Security Requirements	10%	5%	Unsecured, commercial, residential, lien over assets
Loan Purpose Availability	25%	10%	Borrowing entity, purpose such as franchise, development finance, property, bridging
Overdraft Terms	-	30%	Interest capitalisation, interest payment when in credit, loan review periods
<b>Product Functionality</b>	<b>45%</b>	<b>55%</b>	
Redraw Facility	35%	-	Redraw facility available, Min redraw, No per period, Offset account linked
Portability	25%	10%	Transfer to another security
Repayment Capabilities	20%	-	Lump sum allowed, min lump sum, repay holiday if pmt in advance, balloon payments
Split Facility	10%	-	Split option available, split fee, min amount, max no. of splits allowed
Switch Facility	10%	-	Switching allowed from variable to fixed
Overdraft Functionality**	-	90%	Access channels, o/d service fee, credit interest, no. of free transactions

\*\* For the overdraft terms feature category, the business transaction account methodology is taken into account with a weighting of 50% High and 50% Low Transactor. This looks at the overall costs of the accounts and the features of each transaction account.



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

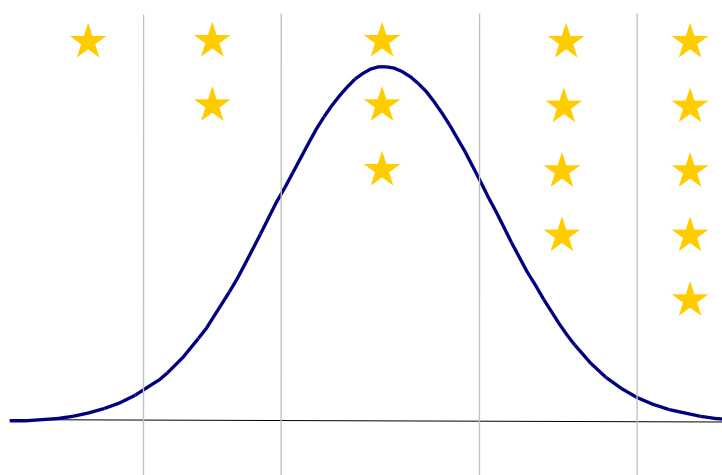
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However complete coverage is not always possible and it may be that not every product in the market is included in the rating nor every feature compared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

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

All ratings are fully recalculated every twelve 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 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
- 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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