



# METHODOLOGY

# Home Loans Star Ratings

## August 2017

### What is the CANSTAR Home Loan Star Rating?

CANSTAR Home Loan Star Ratings uses 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 ratings, one individual and two overall profile. The Individual Profile Star Ratings analyse performance of home loans based on different loan amounts, product types and consumer profiles. The Overall Profile Star Rating analyses home loans that perform well across the Individual Profile Star Ratings and takes the weighted average of different loan amounts, profiles and product types to determine the outstanding value home loans. The rating process for these two star ratings employs a separate star ratings methodology consistent with the pricing and features model of the CANSTAR star ratings.

### Individual Profile Star Rating

CANSTAR recognises that consumers have different needs and wants when it comes to Home Loans that they need. Hence CANSTAR's individual Profile 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 Individual Profile 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 <sup>1</sup>	1 Year Fixed	\$350,000
Established Home Owner	2 Year Fixed	\$500,000
Constructor	3 Year Fixed	\$750,000
Line of Credit <sup>2</sup>	5 Year Fixed	-

1. Investor Profile is broken out into two payment options types - Interest Only (IO) and Principal and Interest (P&I) across all product types and loan amounts
2. Line of Credit only considers variable rates 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.

## Loan to Value Ratio

Canstar assesses all individual profiles (and the products included) for star rating purposes at a loan to value ratio (LVR) of 80%. A home loan purchased at an LVR greater than 80% may incur additional costs. These additional costs could include a higher interest rate and/or lenders mortgage insurance.

## 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

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



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	70%	30%	75%	25%
Investor	75%	25%	80%	20%
Established Home Owner	75%	25%	80%	20%
Constructor	75%	25%	80%	20%
Line of Credit	60%	40%	-	-

## 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 interest rate at the loan to value ratio (LVR) of 80% for both Owner Occupied and Investor loans. For principal and interest (P&I) loans the total cost calculation is based on a loan term of 25 years. For interest only (IO) loans, interest only payments are based on a 5 year interest only period for variable loans and the appropriate period for fixed rate loans.

Total Cost is based on the following:

- Six months' interest rate historical information
- Interest cost plus upfront, ongoing & discharge fees
- For introductory products the revert rate (interest rate to which the product reverts to after introductory period) is also considered

### 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% for both Owner Occupied and Investor loans. Total Cost Calculation will include the following:

- Six months' interest rate historical information
- Interest 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	2	3 years
2 Year Fixed	1	4 years
3 Year Fixed	1	6 years
5 Year Fixed	1	10 years

## Feature Score

The Feature Score is comprised of two elements, the Product Features and an Institutional Assessment which are weighted accordingly:

Feature Category	Weight
Institutional Assessment	15%
Product Features	85%

### Institutional Assessment

The Institutional Assessment recognises the following service elements offered by institutions to their customers:

Feature Category	Weight
Market Information/Education	40%
Educational Material, Property Reports/Market Statistics	70%
Tools & Calculators	30%
Accessibility	40%
Call Centre	50%
Branches	25%
Online Live Chat	25%
Online Self Service	20%

## 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
	Variable/Fixed	Variable/Fixed	Variable/Fixed	Variable/Fixed	Variable
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%



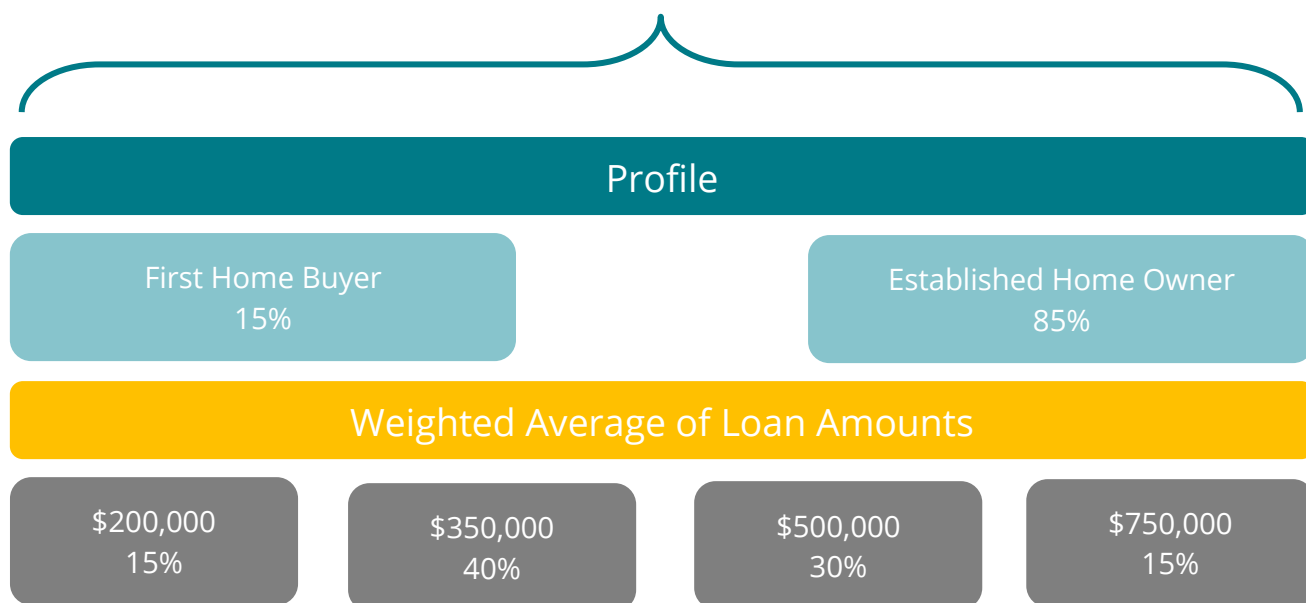
## Overall Profile Star Rating

The Overall Profile Star Rating recognises products that perform strongly across different profiles, product types and loan amounts when compared to their peers. Overall Profile Star Rating Methodology is product-based and considers the weighted average of different loan amounts and profiles (First Home Buyer, Investor and Established Home Owner). In addition to different loan amounts and profiles, the Fixed Rate Home Loan Award considers weighted average of all fixed rate terms.

### How is the *Overall Profile Star Rating* calculated?

#### **Outstanding Value - Variable Home Loan- Owner Occupied**

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



## Outstanding Value - Variable Home Loan- Investment

Outstanding Value - Home Loan - Investment considers the following:



### Weighted Average of Repayment Options

Principal and Interest  
50%

Interest Only  
50%

### Weighted Average of Loan Amounts

\$200,000  
10%

\$350,000  
40%

\$500,000  
35%

\$750,000  
15%

### Outstanding Value - Variable Home Loan- Construction

Outstanding Value - Home Loan - Construction considers the following:



#### Weighted Average of Loan Amounts

\$200,000  
15%

\$350,000  
45%

\$500,000  
35%

\$750,000  
5%

### Outstanding Value - Variable 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%

## Outstanding Value - Fixed Home Loan- Owner Occupied

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



### Weighted Average of Fixed Rates

1 Year Fixed  
15%

2 Year Fixed  
30%

3 Year Fixed  
35%

5 Year Fixed  
20%

### Profile

First Home Buyer  
15%

Established Home Owner  
85%

### Weighted Average of Loan Amounts

\$200,000  
15%

\$350,000  
40%

\$500,000  
30%

\$750,000  
15%



## Outstanding Value - Fixed Home Loan- Investment

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



### Weighted Average of Fixed Rates

1 Year Fixed  
15%

2 Year Fixed  
30%

3 Year Fixed  
40%

5 Year Fixed  
15%

### Weighted Average of Repayment Options

Principal and Interest  
50%

Interest Only  
50%

### Weighted Average of Loan Amounts

\$200,000  
10%

\$350,000  
40%

\$500,000  
35%

\$750,000  
15%

## Outstanding Value - Fixed Home Loan- Construction

Outstanding Value - Fixed Home Loan - Construction considers the following:



### Weighted Average of Fixed Rates

1 Year Fixed  
15%

2 Year Fixed  
30%

3 Year Fixed  
35%

5 Year Fixed  
20%

### Weighted Average of Loan Amounts

\$200,000  
15%

\$350,000  
45%

\$500,000  
35%

\$750,000  
5%

## Overlay on the Overall Profile 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 Overall Profile 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 be available for at least three loan amounts considered in the Overall Star Rating Methodology. For a Fixed Rate Product to be eligible for an overlay, it must achieve a five star rating across all 4 fixed rate terms and 5 star rating across at least 3 loan amounts.

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

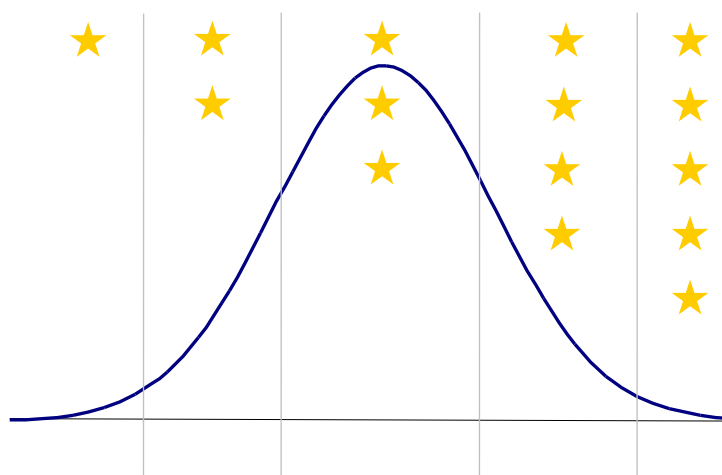
We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However complete coverage is not always possible and it may be that not every product in the market is included in the rating nor every feature compared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

## 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 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
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- Credit cards
- First home buyer
- Home loans
- Managed investments
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- Pet insurance
- Term deposits
- Youth banking

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