Home Loans Star Ratings

What is the Canstar *Home Loan Star Rating*?

Canstar *Home Loan Star Ratings* uses a sophisticated and unique ratings methodology that compares both Price 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, individual and overall profile star ratings. The Individual Profile Star Ratings analyse performance of home loans based on different loan amounts, product types and consumer profiles. The overall profile star ratings represent the cumulative performance of an institution (within certain categories) using the individual profile outcomes for the best performing product. The process for these two star ratings employs a separate methodology consistent with the price 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. Canstar's Individual Profile Star Rating has identified particular consumer groups where products are analysed based on different loan amounts and product types so a consumer is able to identify a shortlist of products that are suited to their individual needs.

Borrower profiles that are assessed in the Individual Profile Star Rating are as follows:

Profile	Product Type
Owner Occupier	An individual who is either refinancing an existing property, purchasing a new property or constructing a new property.
Investor	An individual who is either refinancing an existing investment property or purchasing an investment property

Profile	Product Type	Loan Amount
Owner Occupier	Variable Rate	$200,000
Investor[1]	1 Year Fixed	$350,000
Line of Credit[2]	2 Year Fixed	$500,000
	3 Year Fixed	$750,000
	5 Year Fixed	

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

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

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 Price and for the array of positive Features attached to the product. Points are aggregated to achieve a Price score and a Feature score.

To arrive at the total score, Canstar applies a weight against the Price and Feature scores. This weight will vary from profile to profile and will reflect the relative significance of either price or features in determining outstanding value home loan products. This method can be summarised as

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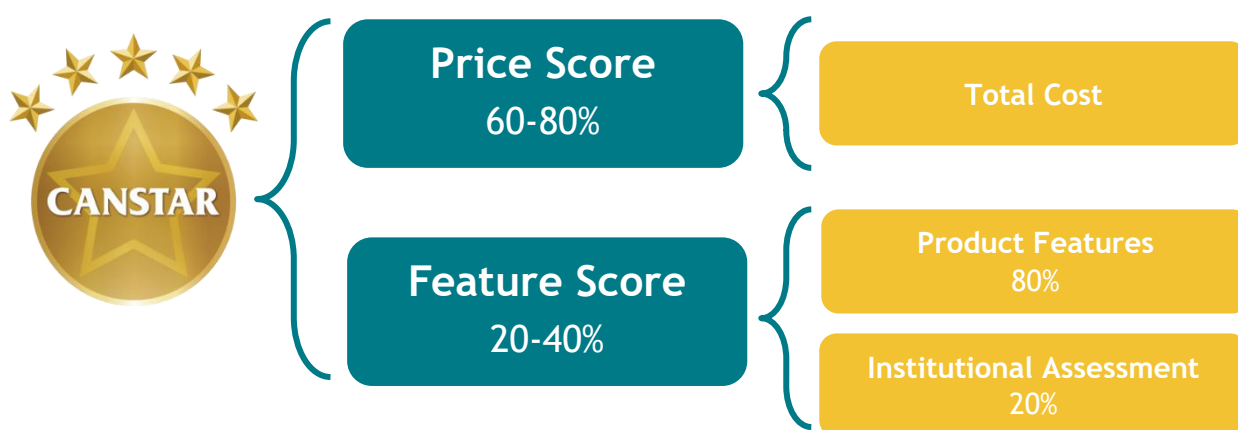
The weights for the borrowing profiles are as follows:

Profile	Variable Rate		Fixed Rate	
	Price Weight	Feature Weight	Price Weight	Feature Weight
Owner Occupier	75%	25%	80%	20%
Investor	75%	25%	80%	20%
Line of Credit	60%	40%	-	-

Price Score

Variable Rate Total Cost Scenario

Canstar accounts for both current and historical interest rate in the calculation of the Price 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 Investment 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 Total 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 Investment 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 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:

Profile	Product Features	Institutional Assessment
Owner Occupier	80%	20%
Investor	80%	20%
Line of Credit	80%	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	Owner Occupier Variable/Fixed	Investor Variable/Fixed	Line of Credit Variable
Loan Terms	40%	45%	40%
Lending Terms	65%	65%	40%
Security Requirements	15%	15%	10%
Guarantee Options	15%	15%	10%
Line of Credit Details	-	-	40%
Construction Loan	5%	5%	-
Product Functionality	45% / 35%	40% / 30%	45%
Additional Repayments	20%	15%	-
Redraw Facility/Transactional	20%	15%	60%
Offset Facility	25%	25%	-
Split Facility	20%	25%	30%
Top Up Facility	10%	10%	-
Portability	5%	10%	10%
Fixed Rate	0% / 10%	0% / 10%	-
Rate Details	100%	80%	-
Interest in Advance	-	20%	-
Loan Fees	10%	10%	10%
Switch Fees	75%	75%	65%
Mortgage Fees	25%	25%	35%
Loan Application	5%	5%	5%

Institutional Assessment

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

Feature Category	Weight
Accessibility	45%
Call Centre	50%
Branches	25%
Online Live Chat	25%
Market Information/Education	35%
Educational Material, Property Reports/Market Statistics	80%
Tools & Calculators	20%
Online Self Service	20%

Overall Profile Star Rating

The Overall Profile Star Ratings represents the cumulative performance of an institution (within certain categories) using the individual profile outcomes for the best performing product.

The rating is institution based and considers the weighted average of different loan amounts and profiles. For the Fixed Home Lender and Investment Fixed Home Lender, weighted averages of all fixed terms are considered as well.

How are the *Overall Profile Star Ratings* calculated?

	Variable Home Lender	Investment Variable Home Lender	Fixed Home Lender	Investment Fixed Home Lender	Line of Credit
Weighted Average of Fixed Rates					
Fixed 1 year			15%	15%	
Fixed 2 year			30%	30%	
Fixed 3 year			35%	40%	
Fixed 5 year			20%	15%	
Weighted Average of Repayment Options					
P&I		50%		50%	
IO		50%		50%	
Weighted Average of Loan Amounts					
$200,000	15%	10%	15%	10%	20%
$350,000	40%	40%	40%	40%	40%
$500,000	30%	35%	30%	35%	25%
$750,000	15%	15%	15%	15%	15%

	Investment Home Lender	Home Lender
Variable Home Lender		70%
Investment Variable Home Lender	60%	
Fixed Home Lender		30%
Investment Fixed Home Lender	40%	

Overlay on the Overall Profile Star Ratings for Fixed Rate

There are instances when an institution may be disadvantaged as it is not offered for one fixed rate term. To overcome these disadvantages and award institutions that consistently offer an outstanding value to consumers, Canstar applies an overlay to the Overall Profile Star Ratings. An overlay on the Overall Profile Star Rating will only apply to institutions that:

1. Offer three out of the four Fixed Rate loan terms
2. Within each loan term, the institution performs in the top 5% of the Fixed Rate loan term

If an institution meets the above criteria, an overlay on the Overall Profile Star Rating for Fixed Home Lender or Investment Fixed Home Lender will be awarded.

## 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 5-Star Rating.
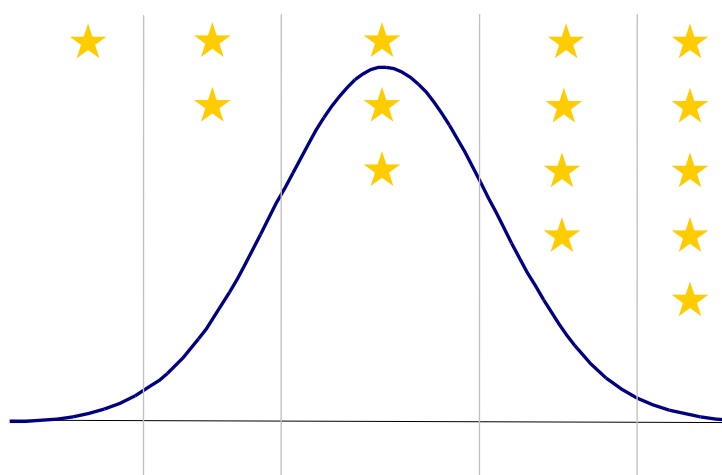
Does Canstar rate other product areas?

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 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