



PERSONAL AND CAR LOAN STAR RATINGS

METHODOLOGY

October 2018

What are the Canstar *Personal and Car Loan Star Ratings*?

Canstar's Personal and Car Loans Star Ratings use a sophisticated rating methodology, unique to Canstar, which compares both cost and features across personal loan products available to Australian consumers. Canstar's Personal and Car Loan Star Ratings represent a shortlist of products, enabling consumers to narrow their search to products that have been assessed and ranked.

Ratings range from five to one star. Five-star rated products have been assessed as offering outstanding value to consumers.

Eligibility Requirements

To be eligible for a star rating, products must have been available within the market for at least six months. Those products with less than six months of historical information can only achieve a Rising Star. Rising stars are those products that would have received a five-star rating but have not been in the market for more than six months. Rising Star products will be allocated a Star Rating in the next rating period once at least six months of historical data is available.

Borrower Profiles

Canstar appreciates the clear distinction of borrowers seeking personal loans as two separate groups. One group uses personal loans for financing motor vehicle purchases while the other group uses personal loans to finance or refinance other scenarios including debt consolidation or holidays. Borrowers seeking a personal loan for non-automotive intentions may seek either a secured or unsecured loan product depending on their individual needs and circumstances. In recognition of these differences, the Canstar *Personal and Car Loan Star Ratings* methodology has been tailored to reflect the distinction between these groups.

| Consumer Profile | Description |
|--------------------------------|---|
| New Car Loan | Loans must be available for the purchase of a motor vehicle, of at least \$25,000 in value over loan terms up to 5 years. |
| Used Car Loan | Loans must be available for the purchase of a motor vehicle, of at least \$15,000 in value over loan terms up to 5 years. |
| Unsecured Personal Loan | Loans must be available for either debt consolidation or holidays, of at least \$15,000 in value over a 3-year term. |
| Secured Personal Loan | Loans must be available for either debt consolidation or holidays, of at least \$20,000 in value over a 5-year term. |

Tiered Products

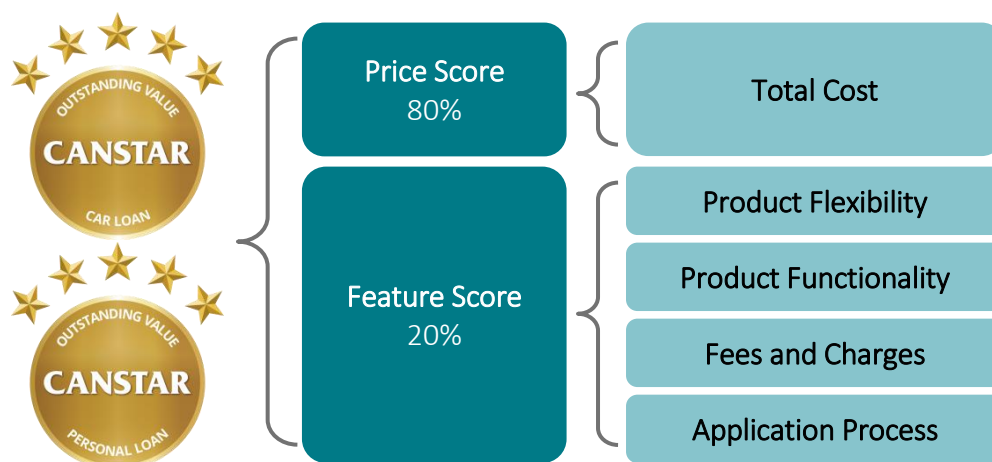
Tiered products, including those with varying fees, principle amounts, terms and rates depending on the applicant's individual circumstances or credit rating are assessed on their individual tiers. To ensure products are rated on a like-for-like basis, tiered products are additionally assessed at a product level. This assessment is conducted using weighted average interest rates and fees where applicable based on the proportion of each lender's book sitting within each tier. This offers a representation of what a cross section of consumers would receive when applying for these loans. Where lender specific book weights are not available, the product is assessed using the midpoint rates and fees across all tiers considered.

Star Ratings Methodology

Each product reviewed for the Canstar Personal Loan Star Ratings is awarded points for its comparative pricing and for the array of positive features attached to the product. These features include product functionality, flexibility, additional fees & charges and the application process. Points are aggregated to achieve a Price Score and a Feature Score.

To arrive at the Total Score, Canstar applies a weight against both the Price and Feature Scores. This weight reflects the relative importance of either costs or features in determining the best product. This method can be summarised as:

$$\text{TOTAL SCORE} = \text{PRICE SCORE} + \text{FEATURE SCORE}$$



Price Score

Canstar compares both current and historical loan pricing data to calculate the total cost component of each product's price score.

Included in the total cost is; the interest rate, upfront fees and ongoing fees, which 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 fees.

Products with interest rates tiered based on loan principal and term are considered. Where a product has a rate range, the midpoint rate is taken into consideration during calculations. The interest rate incorporated into the calculation of each products total cost is the equal weighted average interest rate for the applicable six month period.

| Category | Loan Amount | Term |
|-------------------------|-------------|---------|
| New Car Loan | \$25,000 | 5 Years |
| Used Car Loan | \$15,000 | 5 Years |
| Secured Personal Loan | \$20,000 | 5 Years |
| Unsecured Personal Loan | \$15,000 | 3 Years |

Feature Score

The feature score takes into account a number of features across four different categories, with individual features allocated points and each category, and subcategory, assigned a weighting. The product with the highest feature score is allocated the maximum score, with all remaining products indexed against it.

| Feature Category | Car Loans | Secured | Unsecured | Description |
|------------------------------|------------|------------|------------|---|
| Product Flexibility | 30% | 30% | 25% | |
| Lending Terms | 50% | 50% | 70% | Loan pre-approval, life of pre-approval |
| Loan Insurance | 5% | 5% | 5% | Loan insurance is available |
| Security Requirements | 15% | 20% | - | Unsecured/partial/bill of sale/lien over TD/other |
| Deposit Requirements | 30% | 20% | - | 100% loan, min/max deposit, rate variations |
| Loan Purpose | - | 5% | 25% | Motocycles/new or used cars/holidays/debt/etc |
| Product Functionality | 35% | 35% | 40% | |
| Repayment Capabilities | 50% | 50% | 50% | Repayment requirements, repayment options |
| Switching Facility | 10% | 10% | 10% | Variable – fixed witch allowed, fees |
| Redraw, Offset & Top Up | 35% | 35% | 35% | Availability, conditions, fees |
| Statement Options | 5% | 5% | 5% | Frequency options/online options |
| Fees and Charges | 20% | 20% | 20% | |
| Additional Fees and Charges | 20% | 20% | 20% | Missed payment fees, partial prepayment fees |
| Early Repayment Fees | 80% | 80% | 80% | Early repayment fees |
| Application Process | 15% | 15% | 15% | |
| Application Process | 100% | 100% | 100% | Branch/internet/mobile lend/broke/phone |

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, this process 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 if you would like to view the latest star ratings reports of interest.



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

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