

2015 STAR RATINGS REPORT



Personal Loans



Personal Loans

December 2015

Foreword

A personal loan can allow you to pay for something now, long before you could save up your pennies for it ... as long you can afford to pay that debt off in monthly instalments. Kiwis commonly use a personal loan to buy their first car – or their next car – or pay to go on an overseas holiday.

Another type of personal loan used in New Zealand is the student loan. According to Statistics New Zealand, the average student borrows \$8,440 every year under the Student Loan Scheme, and graduates with \$16,900 to repay. Phew!

If we've spent our way into debt, or need to buy something (such as a car) before we have the cash handy to pay for it, one answer can be a personal loan. A personal loan gives you a set amount of debt and a set timeframe in which to pay it off – which can be a great exercise in discipline. The [Reserve Bank of New Zealand](#) says that as of September 2015, Kiwis owe \$15.25 billion in consumer credit debt from personal loans and credit cards. Money is easy to spend, but we need to learn the age-old wisdom of only spending what can afford.

With the cash rate back down to a low of 2.75%, we hope to see the interest rates on consumer credit getting lower as well. When it comes to finding a competitive interest rate, P2P lending is quickly becoming a valid option for borrowers as more lenders enter the market.

In this Personal Loans Star Ratings report, you will see that the favourable interest rate landscape at the moment translates to some well-priced loans on the market. We've separated these into secured and unsecured personal loans so it will be that much easier for you to find what you're after.



Mitchell Watson
Research Manager

TRENDS IN PERSONAL LOANS

Personal loans can be a very useful way of paying off consumer debt – whether for a car, a holiday, an university course or previous spending problem. It is certainly worth shopping around for a competitive deal though, as Canstar’s research has found a significant difference between the minimum, maximum and average personal loan interest rates on offer.



What are current interest rates?

Current Personal Loan Stats

	Average Rate (%)	Minimum Rate (%)	Maximum Rate (%)
Unsecured	17.39	9.99	24.66
Secured	13.66	9.90	13.95

Source: www.canstar.co.nz Based on a loan amount of \$20,000 over 3 years. and products listed on Canstar database.

? Did you know?

You can work out how different interest rates would affect how long your loan takes to repay, and how large the monthly repayments would need to be. Try using our Australian [Personal Loan Repayment](#) or [Car Loan Repayment](#) calculators, or the Sorted.org.nz [Debt Calculator](#). Let’s look at an example:

	Interest rate 17%	Interest rate 12%
Debt	\$10,000	\$10,000
Monthly repayment over 5 years	\$249	\$222
Total cost over 5 years	\$14,912	\$13,347

Source: www.canstar.co.nz

What application fee can you expect to pay?

While the interest rate will probably be your main concern, it’s worth checking the application fee as well, as Canstar’s research has found that it does vary, as below.

Unsecured Personal Loans

Date	Average	Minimum	Maximum
Application	\$259	\$150	\$300

Secured Personal Loans

Date	Average	Minimum	Maximum
Application	\$229	\$200	\$250

Source: www.canstar.co.nz Based on a loan amount of \$20,000 over 3 years.

Is there increased competition in the market?

Our world is evolving into a more digital banking space, and new lenders are taking advantage of this. Streamlining the application process is becoming a new trend that is popular with the public, as it saves time and also saves us time. Gone are the days when we would spend hours printing off forms, filling them out, scanning them, and finally driving to a branch to submit them along with all your documents.

Peer-to-peer lenders in particular are taking advantage of the shift to a digital banking world. They offer a wide range of interest rates, with highly competitive low rates for eligible borrowers. Just as with other lenders, the rates on offer are generally dependent on your credit score and income details.

With a slowly increasing list of peer-to-peer lenders, the pressure is on banks in New Zealand to invest in the technology to allow for full online applications with ID checks.



TYPES OF PERSONAL LOANS

When it comes to a loan for personal reasons, consumers have a number of options. You should always be objective when it comes to debt – what do you need, and how much can you afford to repay?

You could potentially choose from:

- **Personal loan** (secured or unsecured)
- **Credit cards**
- **Line of credit** (secured against home) or **redraw facility**
- **Payday loans**

There are many things you need to consider for each of these options, so we'll give you a brief rundown.



PERSONAL LOAN

Pros:

- Able to borrow any amount up to \$100,000.
- Option to repay over any length of time up to 7 years for unsecured loans and longer for secured loans.
- Because the debt amount is fixed, you can't add to it with impulse purchases.
- Average interest rate is lower for a personal loan than for a credit card.
- By the end of the loan term, your debt should be fully paid off.

Cons:

- You can't usually add to the debt amount if you need to.
- You must meet your repayment obligations regularly.



CREDIT CARD

Pros:

- A convenient source of unsecured credit – you can make purchases at any time.
- Pay no interest if you repay in full during the card's set timeframe.
- Option to repay only the minimum amount if you choose.
- You can use them anywhere in the world. (Almost.)
- Provides financial assistance in case of emergencies.
- Some cards offer discounts at stores and offer rewards for certain cards.

Cons:

- Constantly presents you with the temptation to spend more.
- Because there is no set time to repay the card, you can create a never-ending debt.
- Interest is charged if you don't pay the outstanding balance in full each month.



OVERDRAFT FACILITY

Pros:

- A helpful emergency measure, for months when you need just a bit more cash to meet a bunch of bills at once. Allows you to overdraw your account up to an agreed amount.
- Interest rate tends to be similar to personal loans.
- No application fees, and the facility is free when you are not using it.
- Great for cash flow especially if you have an unstable income such as a small business owner.

Cons:

- Only available to those with a good credit rating.
- Generally not suitable for larger amounts of money.
- Interest rates may be higher than other types of credit, e.g. a home loan line of credit.



HOME LOAN LINE OF CREDIT

Pros:

- One of the cheapest ongoing interest rates out of all these borrowing options.
- Attractive for larger projects such as home renovations.
- Able to consolidate debt into one monthly repayment.
- Good for emergencies as it ensures that the borrower has access to these funds.
- Borrower only pays interest on the funds withdrawn.

Cons:

- Not everyone owns their own home to secure a line of credit against.
- Most home loans have a long lifespan (typically 25 or 30 years), so you can end up paying a lot of interest over that timeframe if you don't pay off the additional debt within a reasonable timeframe.
- Lines of credit require good budgeting skills and restraint so that they do not go beyond their credit limit and avoid unnecessarily withdrawing funds.



PAYDAY LOAN

Cons:

- High interest rates (with no cap currently in New Zealand).
- Other fees and brokerage can apply on top of interest charges.
- Risk getting caught in a debt spiral.
- It may affect your credit rating if your credit history shows you've taken out a payday loan in the past.

THE RISE OF P2P LENDING



Peer-to-peer lenders have arrived on our shores in New Zealand in 2014, with the introduction of the *Financial Markets Conduct Act 2013 (FMC Act)*. P2P lending has a decade-long history in the USA and the UK, so it's not a new concept.

P2P lending involves borrowers taking out an unsecured loan with investors directly through the P2P platform, instead of going through a bank or other financial institution. Borrowers can get competitive interest rates thanks to not going through a big bank.

If you're in need of an unsecured personal loan but you don't want to give your money to a big bank, P2P could be an affordable alternative. Just be aware that they generally only offer small loans; Harmoney now offers unsecured loans of up to \$35,000. Borrowers and Investors both pay a platform fee per loan.

There aren't any huge risks for borrowers in P2P lending. Harmoney reports there are currently more borrowers than investors using P2P platforms in New Zealand; however, 75% of loans are still being funded by institutions such as Heartland Bank. So if a borrower's application is approved (and only 20% are), they are likely to find an investor for their loan.

There are some risks for investors, such as borrowers repaying their loans before the investor earns much interest. However, the returns for investors in general are better than the interest they would receive from investing their money in a bank term deposit or savings account. On their one-year anniversary, Harmoney reported they had seen a consistent default rate of just 4.5%. Investors "fractionalise" their investment by apportioning their chosen number of \$25 units into different loans, so that their eggs don't end up in one basket.

The Financial Markets Authority of New Zealand (FMA) have licensed four peer-to-peer lenders at the time of writing, which you can find on their online register: <https://fma.govt.nz/compliance/lists-and-registers/licensed-peer-to-peer-lending-services/>

- Harmoney (NZ's first P2P lender, launched here in September 2014)
- Squirrel Money (licensed, yet to launch)
- LendMe (licensed, yet to launch)
- Lending Crowd (licensed, yet to launch, plans to offer larger loans of \$2,000 to \$200,000 designed for businesses)

HAVE INTEREST RATES DROPPED IN RECENT TIMES?

The Reserve Bank has dropped our official cash rate (OCR) three times since our 2014 report, finishing at 2.75% in September 2015. As you can see from the below tables, rates did drop over that 12 month period.

Unsecured Personal Loans

Date	Average Rate (%)	Minimum Rate (%)	Maximum Rate (%)
1-Sep-14	18.33	14.04	22.99
1-Sep-15	17.46	10.73	23.39

Source: www.canstar.co.nz Based on a loan amount of \$20,000 over 3 years.

Secured Personal Loans

Date	Average Rate (%)	Minimum Rate (%)	Maximum Rate (%)
1-Sep-14	14.62	11.73	16.25
1-Sep-15	14.29	11.54	16.45

Source: www.canstar.co.nz Based on a loan amount of \$20,000 over 3 years.

How P2P lending platforms are regulated

The Financial Markets Authority regulates peer-to-peer lending under the Financial Markets Conduct Act 2013. Under the regulations, P2P lending platforms must:

- Be licensed to provide services
- Only provide a platform for loans for personal, charitable, or small business purposes
- Comply with the Fair Dealing obligations in the FMC Act
- Have a written client agreement with lenders
- Give disclosure statements to retail lenders
- Meet reporting obligations

THE FIVE STAR PRODUCTS

Having crunched the numbers and tested 27 loans from 10 providers, CANSTAR has come up with a comprehensive ratings list to determine which loans offer outstanding value for money. We found:



Personal Loan



**3 × Five Star Rated Personal Loans
- Unsecured**



**2 × Five Star Rated Personal Loans
- Secured**

To find out the methodology we used in our star ratings, read on.



METHODOLOGY

Personal Loans

What are the CANSTAR *Personal Loans Star Ratings*?

CANSTAR *Personal Loan Star Ratings* are a sophisticated rating methodology, unique to CANSTAR, which compare unsecured, secured and car loan products in New Zealand 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 types of products are evaluated in CANSTAR *Personal Loan Star Ratings*?

We have compared 27 personal loan products from 10 institutions. For our analysis, two profiles were used based on the security and main uses of personal loans:

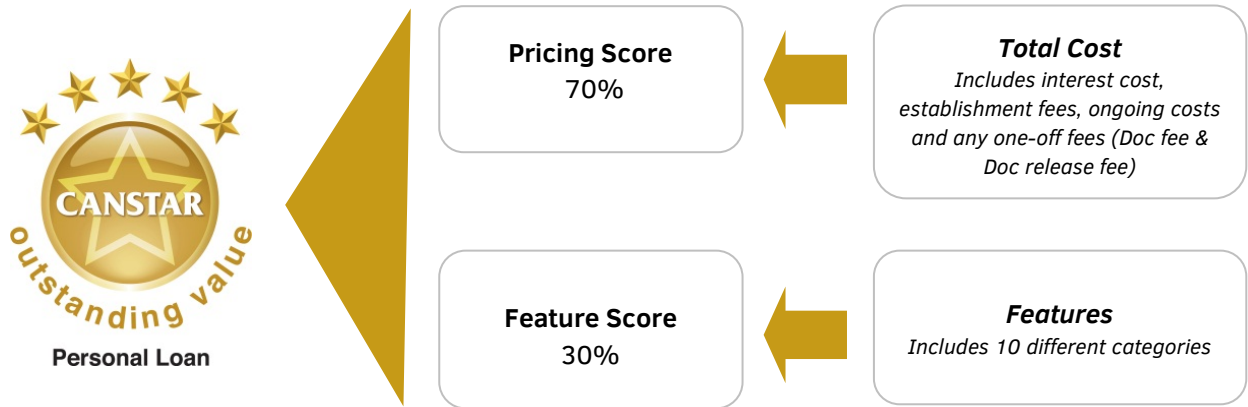
Profile Name	Description
Unsecured Personal Loan	Loans that are available for either debt consolidation (including loans exclusively for debt) or holidays and are available for the loan amount of \$10,000 over a 3 year loan term.
Secured Personal Loan	Loans that are secured and available for the purchase of a car and are available for the loan amount of \$20,000 over a loan term of 5 years.

CANSTAR Star Ratings Methodology

Each personal loan 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. Points are aggregated to achieve a Pricing score and a Feature score.

To arrive at the total score CANSTAR applies a weight against the Pricing and Feature scores. This method can be summarised as:

$$\text{TOTAL SCORE} = w_1 \text{PRICING SCORE} + w_2 \text{FEATURES SCORE}$$



	Price Score	Feature Score
Unsecured Personal Loan	70%	30%
Secured Personal Loan	70%	30%

Pricing Score

The total cost includes the interest rate, upfront fees, ongoing fees and any one off fees where applicable i.e. documentation & documentation release fees for secured loans. These are used to calculate the total cost to repay each loan for the selected scenarios in the table below.

For the products with tiered interest rates based on loan amount and period the appropriate tiers based on the below table are considered. If the product has an advertised rate range, the midpoint between the maximum and minimum rate is considered for calculation. The interest rate is the average interest rate for a six month period equally weighted. The total cost will be then averaged and indexed to arrive at the pricing score.

Total Cost Scenarios

	Loan Amount	Loan Term
Unsecured Personal Loan	\$10,000	3 years
Secured Personal Loan	\$20,000	5 years

Feature Score

Each loan feature is categorised into one of ten different categories (outlined below) and is allocated points. Points are awarded for positive loan traits such as low fees or greater flexibility. The total feature score for each category (e.g. lending terms) is ranked and weighted with each category contributing to the overall feature score.

Category Weightings

Feature Category	Secured	Unsecured	Examples of data captured
Product Flexibility	25%	20%	
Lending Terms	50%	70%	Min/max conditions, income/repayment ratio, approval conditions, rate
Loan Insurance	5%	5%	Loan Insurance Available
Security Requirements	15%		Unsecured/ partial/ bill of sale/ lien over TD/ other
Deposit Requirements	15%		100% loan availability/ min-max deposit requirements/ rate variation for deposit
Loan Purpose	15%	25%	Motorcycles/ new or used cars/ holidays/ debt consolidation/ renovations etc
Product Functionality	40%	45%	
Repayment Capabilities	50%	50%	Minimum repayments requirements, avenues, repayments options
Redraw & Top Up Facility	35%	35%	Availability/ conditions/ fees
Statement Options	15%	15%	Frequency options/ online option
Fees and Charges	10%	10%	
Additional Fees and Charges	100%	100%	Fees for Missing a repayment etc
Application Process	25%	25%	
Application Process	100%	100%	Branch/ internet/ mobile lend/ broker/ phone, Turnaround times

How many products and financial institutions are analysed?

In order to calculate the ratings, CANSTAR analysed 27 personal loans from 10 financial institutions in New Zealand.

How often are all the products reviewed for rating purposes?

All ratings are fully recalculated annually based on the latest features offered by each lender. 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?

CANSTAR ranks personal loans based on value-for-money measures and then awards star ratings according to rank. The number of products awarded each of the 5 to 3 star ratings will ultimately depend on the dispersion of final scores.

Scores are awarded to each product on the basis of price and features. The methodology is revised and parameters are updated on a regular basis to make sure that the products are analysed using the most up-to-date information capturing all industry developments.

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.

Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and 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.co.nz if you would like to view the latest star ratings reports of interest.



- Business deposits
- Credit cards
- Credit card rewards
- Home loans
- KiwiSaver
- Online banking
- Personal loans
- Savings accounts
- Transaction accounts
- Term deposits

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Personal Loan Star Ratings

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Unsecured Personal Loan

Company	Product	Advertised Rate (%)	Loan Fees		Loan Amount (\$)		Early Repayment Fee (\$)	Loan Term	Application via Internet	Loan Pre-Approval Available
			Monthly	Application	Minimum	Maximum				
★★★★★ "Outstanding Value"										
Harmoney NZ	Personal Loan A1-A2 Credit Rating	9.99 to 11.46	\$0	\$300 - 2%	1000	35000	Nil	No min to 5 yrs	✓	✓
Harmoney NZ	Personal Loan A3-A5 Credit Rating	12.03 to 13.25	\$0	\$300 - 3%	1000	35000	Nil	No min to 5 yrs	✓	✓
TSB Bank	Personal Loan Unsecured	13.29	\$0	\$150	500	20000	Nil	1 yr to 5 yrs	✗	✓
★★★★										
BNZ	Advanced Personal Loan	17.85	\$0	\$250	1000	30000	Nil	3 mths to 5 yrs	✓	✓
Harmoney NZ	Personal Loan B1-B2 Credit Rating	13.84 to 14.49	\$0	\$300 - 4%	1000	30000	Nil	No min to 5 yrs	✓	✓
NZCU Baywide	Unsecured Personal Loan	11.90 to 23.90	\$0	\$200	1000	100000000	Nil	1 yr to 10 yrs	✓	✓
Westpac NZ	Personal Loan Unsecured	13.95 to 18.95	\$0	\$250	No Min	100000000	Nil	No min to 10 yrs	✓	✓
★★★										
ANZ Bank NZ	Fixed Personal Loan	17.95 to 18.95	\$0	\$250 - \$250	3000	100000000	Nil	6 mths to 7 yrs	✓	✓
ASB Bank NZ	Debt Consolidation	15.95	\$0	\$250	2000	100000000	Nil	1 yr to 7 yrs	✓	✓
ASB Bank NZ	Personal Loan Unsecured	17.95	\$0	\$250	2000	100000000	Nil	1 yr to 7 yrs	✓	✓
Harmoney NZ	Personal Loan B3-B5 Credit Rating	15.16 to 16.48	\$0	\$300 - 5%	1000	30000	Nil	No min to 5 yrs	✓	✓
Harmoney NZ	Personal Loan C1-C5 Credit Rating	17.15 to 20.03	\$0	\$300 - 5%	1000	25000	Nil	No min to 5 yrs	✓	✓
Kiwibank NZ	Personal Loan	16.95 to 18.95	\$0	\$240 - \$240	3000	100000	10.00	6 mths to 7 yrs	✓	✓
The Co-operative Bank	Personal Loan Unsecured	14.50 to 19.50	\$0	\$200	2000	30000	Nil	1 mth to 5 yrs	✓	✓
★★										
GE Money NZ	Debt Consolidation Loan	15.99 to 29.99	\$0	\$240	3000	100000	10	6 mths to 7 yrs	✓	✓
GE Money NZ	Personal Loan Unsecured	15.99 to 29.99	\$0	\$240	3000	100000	10	6 mths to 7 yrs	✓	✓



Personal Loan Star Ratings

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Unsecured Personal Loan

Company	Product	Advertised Rate (%)	Loan Fees		Loan Amount (\$)		Early Repayment Fee (\$)	Loan Term	Application via Internet	Loan Pre-Approval Available
			Monthly	Application	Minimum	Maximum				
★★										
Harmoney NZ	Personal Loan D1-D3 Credit Rating	20.59 to 22.14	\$0	\$300 - 5%	1000	20000	Nil	No min to 5 yrs	✓	✓
Harmoney NZ	Personal Loan D4-D5 Credit Rating	22.96 to 23.81	\$0	\$300 - 5.5%	1000	20000	Nil	No min to 5 yrs	✓	✓
★										
Harmoney NZ	Personal Loan E1-E5 Credit Rating	24.66 to 30.36	\$0	\$300 - 6%	1000	10000	Nil	No min to 5 yrs	✓	✓



Personal Loan Star Ratings

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Secured Personal Loan

Company	Product	Advertised Rate (%)	Loan Fees		Loan Amount (\$)		Early Repayment Fee (\$)	Loan Term	Application via Internet	Loan Pre-Approval Available
			Monthly	Application	Minimum	Maximum				
★★★★★ "Outstanding Value"										
The Co-operative Bank	Personal Loan Secured	10.50 to 12.95	\$0	\$200	3000	100000000	Nil	1 mth to 5 yrs	✓	✓
TSB Bank	Personal Loan Secured	11.29	\$0	\$250	500	20000	Nil	1 yr to 5 yrs	✗	✓
★★★★										
ASB Bank NZ	Personal Loan Secured	12.95	\$0	\$250	20000	100000000	Nil	1 yr to 7 yrs	✓	✓
NZCU Baywide	Secured Personal Loan	9.90 to 21.90	\$0	\$200	1000	100000000	Nil	1 yr to 10 yrs	✓	✓
Westpac NZ	Personal Loan Secured	13.95 to 18.95	\$0	\$250	No Min	100000000	Nil	No min to 10 yrs	✓	✓
★★★										
GE Money NZ	Car Loan Secured	12.99 to 29.99	\$0	\$240	5000	100000000	10	6 mths to 7 yrs	✓	✓
Kiwibank NZ	Vehicle Loan	12.99 to 18.99	\$0	\$240	3000	100000	10.00	6 mths to 7 yrs	✓	✓
The Co-operative Bank	Vehicle Loan	12.95 to 17.95	\$0	\$200	3000	100000000	Nil	1 mth to 5 yrs	✓	✓