



METHODOLOGY

First Home Buyer Award

2018

What is the Canstar *First Home Buyer Award*?

Canstar's *First Home Buyer Award* uses a sophisticated and unique methodology and is awarded to the financial institution that provides the strongest combination of products and services across the first home market in New Zealand. The award aims to give recognition to institutions offering outstanding value home loans as well as additional services that benefit first home buyers in making an informed decision when purchasing a home for a first time.

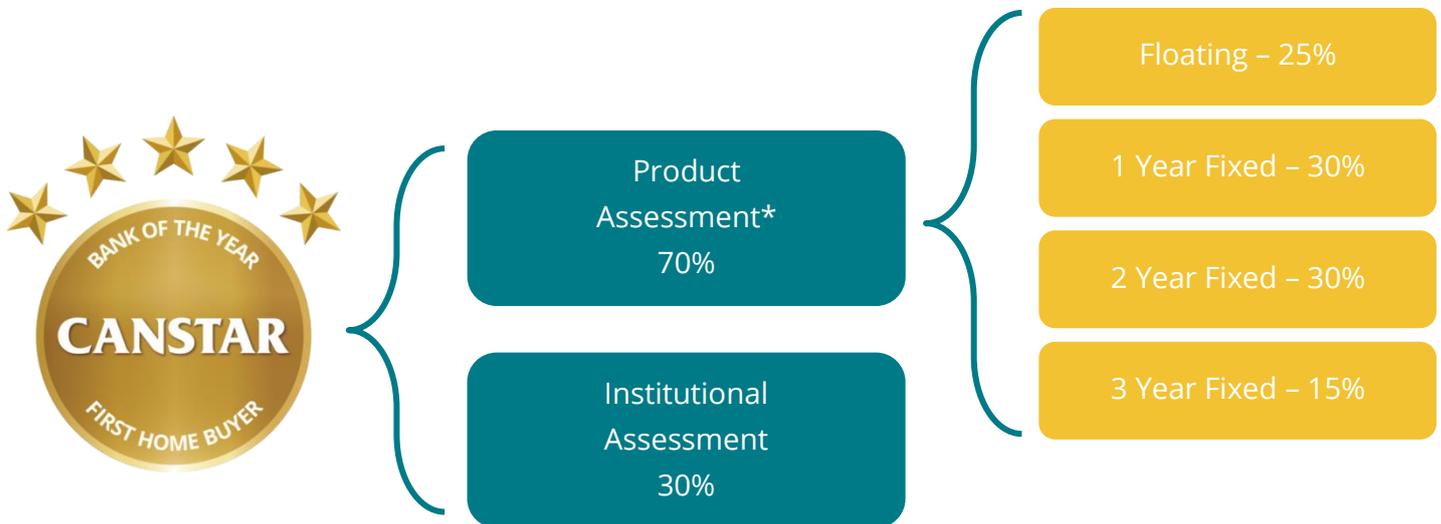
The institution who cumulatively receives the highest score across the areas of consideration will be awarded Canstar's Bank of the Year – First Home Buyer award.

What types of products are evaluated for Canstar's *First Home Buyer Award*?

To be included in the Canstar First Home Buyer Award, financial institutions have to provide mortgage products that cover floating, 1-, 2- and 3-year fixed rate products. For this award, the institutions must also offer the full range of banking products and have face-to-face staff available, whether in branches or working as mobile lenders across both islands.

How is the Canstar *First Home Buyer Award* calculated?

To arrive at the total score that makes up the award, Canstar considers both a product and institutional assessment.



*Each Institution is represented by their strongest performing product within each of the Product Assessment categories.



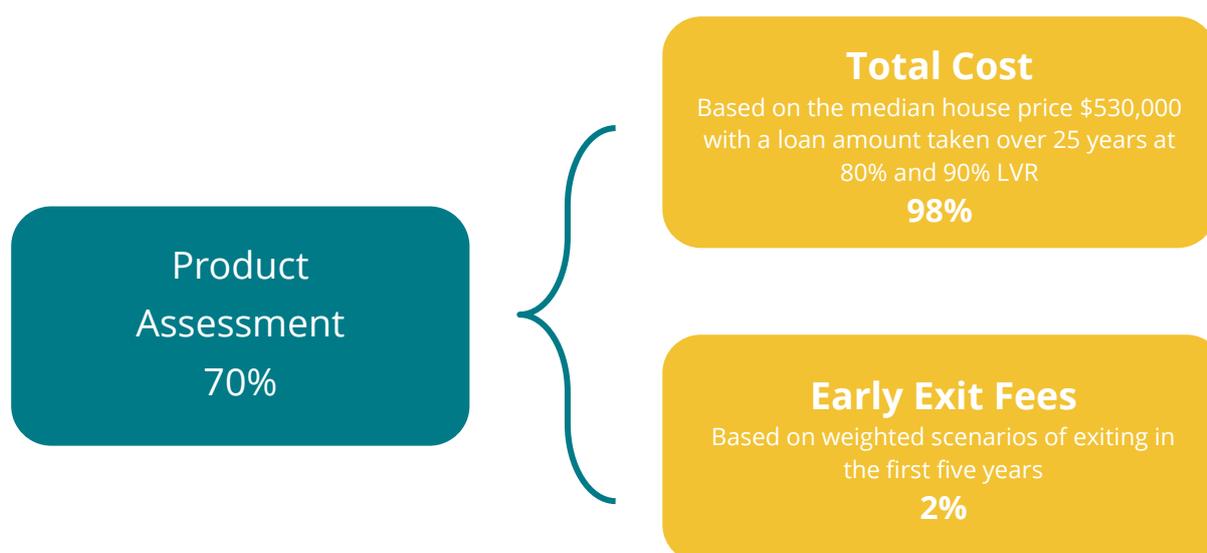
Product Assessment

Product Assessment is based on mortgage Star Ratings Methodology, with weightings adjusted to reflect the needs of First Home Buyers. Product Assessment assesses both pricing and features of mortgage products.

| | Price Weight | Feature Weight |
|-----------------------|--------------|----------------|
| Variable Rate Product | 80% | 20% |
| Fixed Rate Product | 80% | 20% |

Pricing Score

To calculate the price score for each of the home loan products, Canstar accounts for the total cost of the loan and any applicable early exit fees in the first five years of the loan life across two loan-to-value ratios (LVR) 80% and 90%.



The breakdown between LVRs applied by Canstar is as follows:

| Loan to Value Ratio | Weight |
|---------------------|--------|
| 80% LVR | 85% |
| 90% LVR | 10% |
| 95% LVR | 5% |

Total Cost Calculation

Canstar accounts for both current and historical interest rates in the calculation of the pricing component of each product's overall score. Each of the six months is weighted equally to arrive at the average total cost.

In addition to the interest cost, the total cost calculation includes upfront fees, ongoing fees, rollover fees and end-of-term fees. For fixed rate loans there are at least two rollovers of the fixed rate.

| Fixed Term | Loan Term | Number of rollovers |
|------------|-----------|---------------------|
| 1 Year | 5 years | 4 |
| 2 Years | 6 years | 2 |
| 3 Years | 9 years | 2 |

Early Exit Fees

Exit fee scores are calculated separately, with the fees applicable at each year-end for the first five years indexed and then weighted to provide an Early Exit Fee score, which is then built into the Pricing Score.

| Exit year | Costs over 12 months |
|-----------|----------------------|
| Year 1 | 5% |
| Year 2 | 5% |
| Year 3 | 20% |
| Year 4 | 30% |
| Year 5 | 40% |

Feature Score

The features component takes into account more than 200 product features, with positive features being allocated points. These product features are grouped into 4 different categories with weights given to each relevant area. The following table outlines the weightings of each of the feature categories per profile:

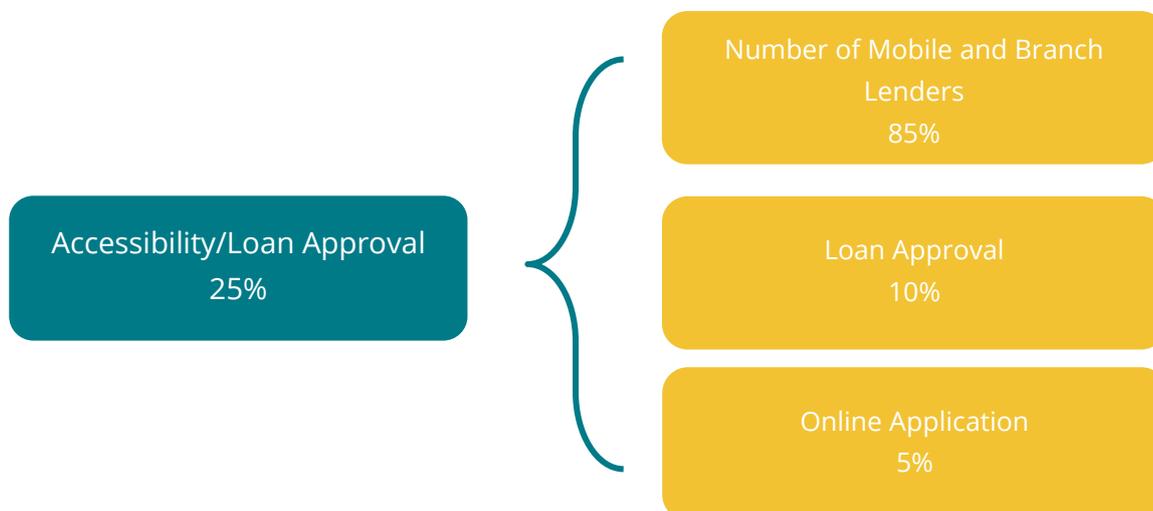
| Feature Categories | Variable Rate | Fixed Rate |
|--------------------------------|---------------|------------|
| Loan Terms | 50% | 45% |
| Lending Terms | 80% | 80% |
| Security Requirements | 15% | 15% |
| Construction Loan | 5% | 5% |
| Product Functionality | 40% | 30% |
| Additional Repayments | 20% | 35% |
| Redraw/Transactional Home Loan | 25% | - |
| Offset Facility | 25% | - |
| Split Facility | 15% | 35% |
| Top-up Facility | 10% | 15% |
| Portability | 5% | 15% |
| Fixed Rate | - | 10% |
| Loan Fees | 10% | 15% |
| Switch Fees | 55% | 55% |
| Mortgage Fees | 45% | 45% |

Institutional Assessment

Institutional Assessment is made up of six categories reflecting additional services institutions provide to benefit first home buyers:

| Category | Weight | Description |
|-------------------------------|--------|--|
| Deposit Requirements | 30% | Max LVR; Guarantee Options; Financial Gifts |
| Accessibility/Loan Approval** | 25% | Awards the institution with the highest number of branches and mobile lenders. Methods, by which you can apply for loans – online, branch, broker. Approval time is also considered. |
| Education | 25% | Educational materials such as info on overall process involved in buying a house, explanation of different loan features and also property buying checklists. |
| Tools/Calculators | 10% | Tools available to assist in making an informed decision when purchasing a property. Included are budget planners, home loan calculators, total borrowing costs. |
| Additional Services | 10% | Includes savings plans, loan incentives and availability of KiwiSaver. |

Accessibility and/or Loan Approval are made up of three categories with the following weights assigned between each category:



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

The First Home Buyer Award is recalculated every 12 months based on the latest rates and features offered by each institution. Canstar also monitors rate changes on an ongoing basis.

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 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.co.nz if you would like to view the latest star ratings reports of interest.



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